



New South Wales  
TREASURY

**PERFORMANCE OF  
NSW GOVERNMENT BUSINESSES 2003-04**

Office of Financial Management

Research &  
Information Paper

## PREFACE

This is the fifteenth edition of the *Performance of NSW Government Businesses*.

The NSW Government remains the only Australian Government to provide a comprehensive annual report of this type.



John Pierce  
Secretary  
NSW Treasury  
September 2005

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Written by Brendan Leary, Luke Hall and Gareth Aird.

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# 1. AGGREGATE PERFORMANCE OF MAJOR NSW GOVERNMENT BUSINESSES

As of the start of the 2003-04 financial year, NSW Government businesses in the electricity, transport and water sectors account for around 84% of NSW Government business employment. The electricity and water sectors also contributed approximately 80% of Financial Distributions (dividends and tax equivalent payments) from all NSW Government businesses. Labour productivity improvements in these areas have had a significant impact on the overall performance of NSW Government businesses.

The sectors comprise the following Government businesses:

## Electricity:

Generation: Delta Electricity, Eraring Energy and Macquarie Generation;

Distribution/Retail: Australian Inland, Country Energy, EnergyAustralia and Integral Energy; and

Transmission: Transgrid<sup>1</sup>.

**Transport:** RailCorp, State Transit Authority and Rail Infrastructure Corporation<sup>1</sup>.

**Water** Hunter Water Corporation, Sydney Water Corporation, Sydney Catchment Authority<sup>1</sup> and State Water<sup>1</sup>.

## 1.1 Labour Productivity Improvements

Reforms in the electricity, water and transport sectors have resulted in considerable labour productivity improvements. **Table 1** overleaf shows that the major Government businesses have achieved a weighted labour productivity improvement of 80% between 1994-95 and 2003-04<sup>2</sup>.

The most notable areas of labour productivity improvement since 1994-95 are:

- Electricity Generators by 269%;
- Electricity Distributors by 77%;
- Sydney Water by 97%; and
- Hunter Water by 56%.

**Figure 1** overleaf charts output weighted labour productivity for the ten years 30 June 1994 to 30 June 2004.

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<sup>1</sup> Denoted businesses do not contribute to the productivity calculations overleaf.

<sup>2</sup> NSW Treasury has adjusted its methodology for calculating labour productivity. Where final year employment was previously used as the basis for weighting the improvements of the businesses and sectors, base year employment is now used. The problem with weighting by final year employment is that the weights tend to diminish over time for the businesses with the biggest productivity improvements. This change means the calculation now better reflects the significance of the improvements over the period.

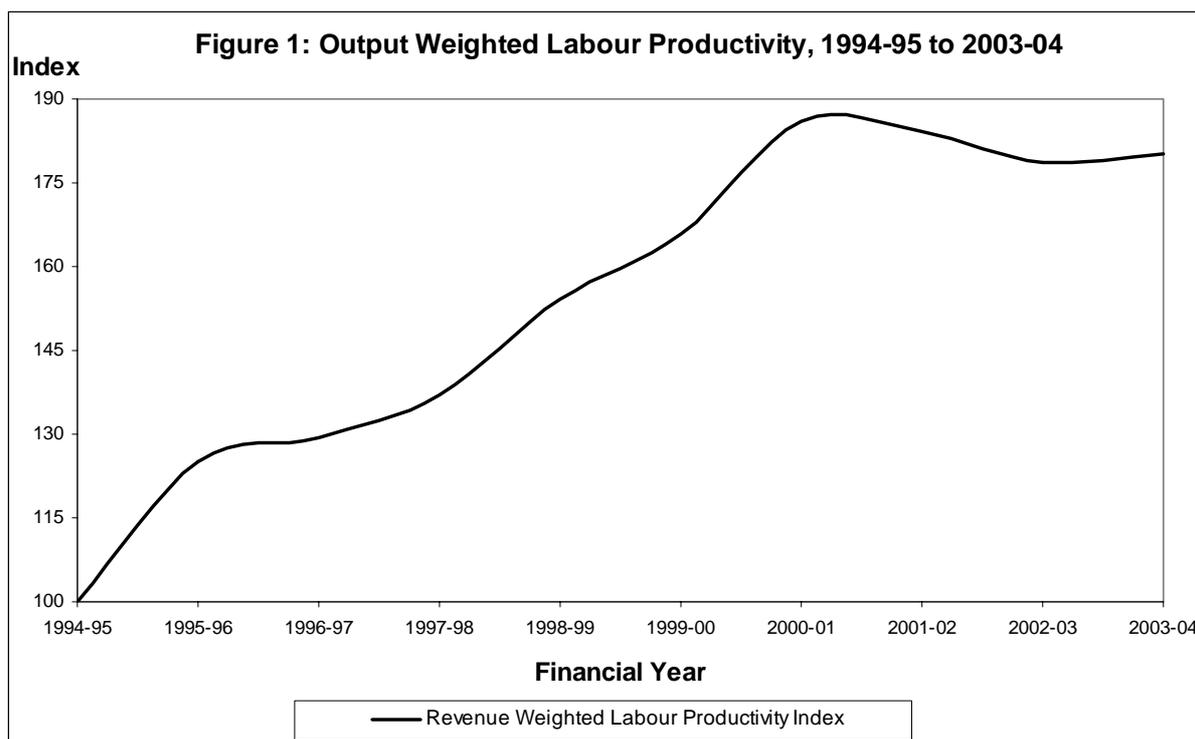
Applying final year employment weights, the weighted labour productivity improvement on a comparable basis to the estimates in previous editions of this publication is 46%.

**Table 1: Employment, Efficiency and Output Performance of Major NSW Government Businesses, 1994-95 to 2003-04**

|  | Note | 1994-95       | 1995-96       | 1996-97       | 1997-98       | 1998-99       | 1999-00       | 2000-01       | 2001-02       | 2002-03       | 2003-04       |
|--|------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Employment</b>                                  |      |               |               |               |               |               |               |               |               |               |               |
|  | 1    |               |               |               |               |               |               |               |               |               |               |
| Electricity Generators                             |      | 5,595         | 3,503         | 3,328         | 3,019         | 2,531         | 2,376         | 1,761         | 1,735         | 1,723         | 1,705         |
| Electricity Distributors                           |      | 11,396        | 8,746         | 7,972         | 7,552         | 7,417         | 7,450         | 7,705         | 8,161         | 8,762         | 9,323         |
| Sydney Water Corporation                           |      | 5,965         | 5,099         | 4,763         | 4,629         | 4,470         | 3,766         | 3,676         | 3,428         | 3,518         | 3,435         |
| Hunter Water Corporation                           |      | 740           | 715           | 620           | 554           | 545           | 541           | 533           | 526           | 536           | 548           |
| State Rail Authority                               |      | 8,334         | 8,278         | 9,370         | 9,317         | 8,508         | 8,660         | 9,017         | 9,121         | 9,733         | 10,027        |
| State Transit Authority                            |      | 3,818         | 4,101         | 4,303         | 4,305         | 4,369         | 4,690         | 4,754         | 4,851         | 4,901         | 5,015         |
|  |      | <b>35,848</b> | <b>30,442</b> | <b>30,356</b> | <b>29,376</b> | <b>27,840</b> | <b>27,483</b> | <b>27,446</b> | <b>27,822</b> | <b>29,173</b> | <b>30,053</b> |
| <b>Index of Output</b>                             |      |               |               |               |               |               |               |               |               |               |               |
|  | 2    |               |               |               |               |               |               |               |               |               |               |
| Electricity Generators (Gwh)                       |      | 100           | 105           | 101           | 103           | 105           | 108           | 112           | 110           | 106           | 113           |
| Electricity Distributors (Gwh)                     |      | 100           | 103           | 103           | 103           | 115           | 123           | 133           | 138           | 143           | 145           |
| Sydney Water Corporation (properties served)       |      | 100           | 101           | 103           | 106           | 107           | 109           | 108           | 110           | 112           | 114           |
| Hunter Water Corporation (properties served)       |      | 100           | 101           | 102           | 104           | 106           | 108           | 109           | 111           | 113           | 115           |
| State Rail Authority (passengers carried)          |      | 100           | 103           | 106           | 107           | 108           | 112           | 121           | 111           | 109           | 109           |
| State Transit Authority (passengers carried)       |      | 100           | 105           | 107           | 109           | 109           | 113           | 115           | 110           | 110           | 111           |
| <b>Productivity (Output relative to Employees)</b> |      |               |               |               |               |               |               |               |               |               |               |
| Electricity Generators                             |      | 9.6           | 16.1          | 16.2          | 18.2          | 22.2          | 24.2          | 34.0          | 33.8          | 33.0          | 35.3          |
| Electricity Distributors                           |      | 3.6           | 4.8           | 5.3           | 5.6           | 6.4           | 6.8           | 7.1           | 7.0           | 6.7           | 6.4           |
| Sydney Water Corporation                           |      | 244.8         | 290.3         | 314.9         | 334.8         | 349.0         | 422.2         | 429.8         | 469.7         | 466.2         | 483.3         |
| Hunter Water Corporation                           |      | 245.9         | 256.5         | 300.5         | 341.9         | 353.6         | 361.8         | 372.7         | 383.2         | 382.5         | 380.5         |
| State Rail Authority                               |      | 30.2          | 31.3          | 28.5          | 28.9          | 32.1          | 32.5          | 33.8          | 30.5          | 28.3          | 27.4          |
| State Transit Authority                            |      | 50.7          | 49.5          | 48.2          | 48.8          | 48.5          | 46.4          | 46.8          | 43.9          | 43.3          | 42.8          |
| <b>Percentage Changes (1994-95 Base Year)</b>      |      |               |               |               |               |               |               |               |               |               |               |
| Weighted Total Output Change (%)                   |      |               | 28%           |               |               |               |               |               |               |               |               |
| Weighted Productivity Change (%)                   | 3,4  |               | 80%           |               |               |               |               |               |               |               |               |

Notes:

1. Employment measured as full time equivalent persons employed at 30 June.
2. Alternative output measures may be equally valid.
3. Average productivity of each agency weighted by base year employment.
4. Alternative output and employment indicators will affect the productivity result.



## 1.2 The Government Charges Index

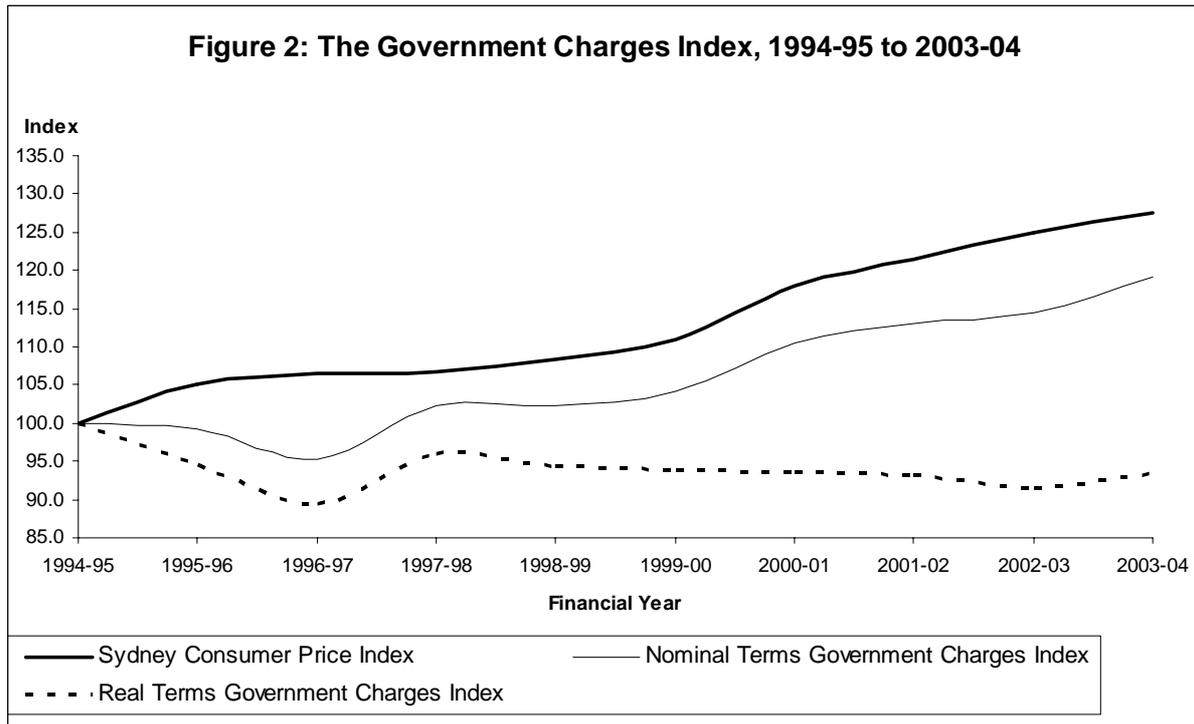
Many of the reforms to NSW Government businesses over the last decade have had the basic aim of introducing competitive pressures to areas traditionally serviced by a monopoly. Reforms include:

- introducing a ‘Commercial Policy Framework’ for certain NSW Government businesses;
- corporatising significant NSW Government businesses;
- implementing a National Electricity Market, making all customers contestable; and
- regulating prices and operating conditions for remaining monopoly service providers through the Independent Pricing and Regulatory Tribunal.

These measures have contributed to improvements in Government business efficiency, increased real incomes and enhanced economic growth. Households and private businesses in NSW have been the main beneficiaries of these reform processes through real terms reductions in prices. The Government Charges Index (GCI) is an aggregate assessment of the extent of the price benefits consumers now enjoy as a result of those competition enhancing reforms.

In compiling the GCI, a revenue weight is applied to the relative annual average price level recorded for each NSW Government business comprising the GCI. The revenue weight seeks to capture each NSW Government business’ relative contribution to total revenue. These revenue weighted prices are then added together to establish an annual aggregate price level for each financial year. Movements in the GCI are then calculated by comparing the aggregate price level of a given financial year with that of previous financial years.

In 2003-04, the GCI increased by around 1.8% in real terms. Despite this increase, **Figure 2** shows the significant real terms price reductions enjoyed by the consumers of the services of NSW Government businesses over the nine years since 1994-95:



In real terms, prices for significant NSW Government services are around 6.6% lower than they were in 1994-95.

## **2. PERFORMANCE OF NSW GOVERNMENT BUSINESSES 2003-04**

The information in the following tables and graphs is consistent with annual reports and has been audited.

The preceding commentary on 2003-04 performance was prepared and authenticated by the businesses.

NSW Treasury is not in a position to fully validate the statements made in the commentary.



# **ELECTRICITY GENERATION**

Delta Electricity

Eraring Energy

Macquarie Generation





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## DELTA ELECTRICITY

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**Delta Electricity operates a diversified portfolio of generation assets. The majority of Delta Electricity's generation capability is derived from coal fired power stations located near Lithgow and on the Central Coast with a total generating capacity of 4,240MW. Delta Electricity also operates three mini-hydro generators and undertakes biomass co-firing activities at three power stations.**

Delta Electricity successfully met a number of challenges during 2003-04 to deliver a Net Profit Before Tax result of \$111.0 million – an improvement of \$7 million in real terms on the result for 2002-03. Lower average prices, market reviews and competitive pressures combined to provide a testing environment. Although there was a small increase in total revenue, electricity sales revenue was down slightly on 2002-03 despite a 954GWh increase in output. Competitive pressures and mild weather conditions combined to produce a low level of prices in the first half of the financial year with a small number of significant price spikes increasing the average prices in the second half of the financial year. One particular price spike on 9 March 2004 delivered a record average daily spot price in NSW. The average spot price for the full year was slightly less than the level achieved in 2002-03.

During the year, Delta Electricity actively applied cash reserves in excess of short term requirements to prepay external debt resulting in a decline in financing charges. Overall, debt reduced to \$643 million by the end of 2003-04. Delta Electricity also provided for a dividend of \$74.2 million related to 2003-04 activities which will be paid in the first half of 2004-05.

Delta Electricity's asset management strategy is directed at ensuring long term plant reliability consistent with market affordability. During 2003-04, generation assets continued to deliver acceptable levels of availability, reliability and efficiency. This continues the trend of recent years.

All of Delta Electricity's operational sites maintained their certification to the international environmental standard, ISO14001. Maintaining this certification requires sites to establish and maintain environmental systems and practices including management plans, risk analysis and employee education. Improvements to power station efficiency has resulted in each of Delta Electricity's four power stations achieving greenhouse emission rates at the lower (best efficiency) end of the range for plants of their age and design. Delta Electricity continued cofiring biomass with coal during 2003-04 to further reduce greenhouse emissions from the production of electricity.

The organisation continued to encourage innovation as part of normal business. During 2003-04, significant savings were realised from innovation projects initiated by staff. Output per employee showed a positive increase of 2GWh per employee during the year. A number of strategies were also put in place to raise awareness and improve the level of safety and security across the organisation. One particular strategy was the implementation of a behavioural based safety program titled D-Zip (Delta Zero Incident Process).

Delta Electricity expects the future years to be characterised by continued high levels of competitiveness. The focus will be on achieving cost savings while maintaining plant reliability to meet the challenges of the National Electricity Market. The implementation of Australian Equivalents to International Financial Reporting Standards (AEIFRS) is likely to impact on the composition of the organisation's Statement of Financial Position and increase the volatility of earnings. Delta Electricity has an AEIFRS project in place to ensure the effective implementation of the new standards across the organisation.

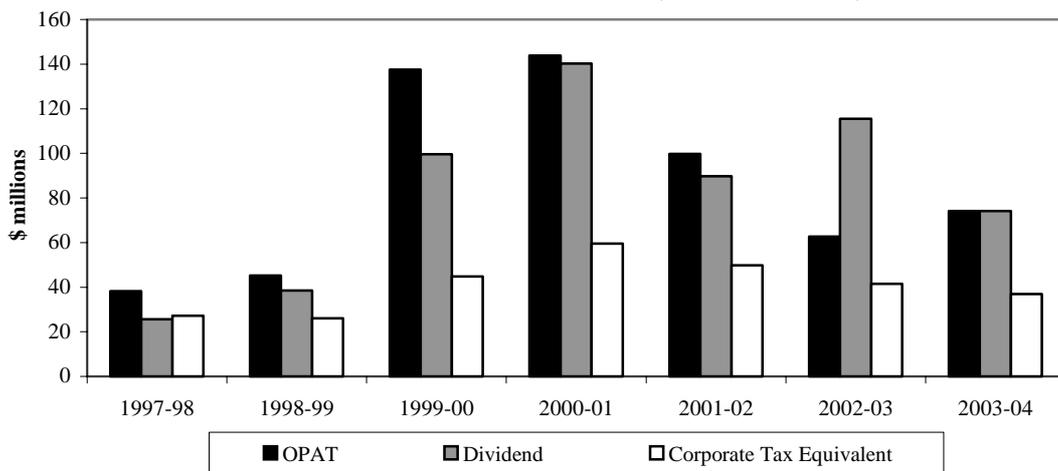
## DELTA ELECTRICITY

|                                 | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---------------------------------|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>               |       |                |                |                |                |                |                |                |
|                                 | 1     |                |                |                |                |                |                |                |
| Employment                      |       | 1,032          | 822            | 797            | 782            | 754            | 751            | 735            |
| Output per Employee (GWh)       |       | 18.6           | 24.3           | 25.7           | 27.1           | 27.6           | 27.1           | 29.0           |
| Lost Time Injury Frequency Rate |       | 14.6           | 5.7            | 11.8           | 7.0            | 4.7            | 8.7            | 8.8            |
| <b>Service</b>                  |       |                |                |                |                |                |                |                |
| Output (GWh)                    |       | 19,222         | 20,006         | 20,481         | 21,163         | 20,843         | 20,354         | 21,308         |
| <b>Finances (\$M)</b>           |       |                |                |                |                |                |                |                |
|                                 | 1,2   |                |                |                |                |                |                |                |
| EBIT                            |       | 115.9          | 113.4          | 192.0          | 243.5          | 210.7          | 176.9          | 177.3          |
| Operating Profit After Tax      |       | 38.1           | 45.3           | 137.6          | 143.9          | 99.8           | 62.7           | 74.2           |
| Net Profit Before Tax           |       | 65.3           | 71.4           | 182.4          | 203.5          | 149.6          | 104.2          | 111.0          |
| Significant Items               |       | n/a            | n/a            | 29.5           | -10.3          | -14.9          | -16.0          | 7.9            |
| Revenue                         |       | 687.6          | 674.7          | 746.6          | 818.6          | 772.3          | 754.2          | 740.9          |
| Return on Assets (%)            |       | 7.1            | 7.0            | 11.2           | 14.5           | 12.6           | 8.6            | 9.4            |
| Return on Equity (%)            |       | 4.4            | 5.3            | 13.4           | 34.6           | 24.1           | 7.7            | 9.3            |
| Asset Base                      |       | 1,624.2        | 1,618.7        | 1,714.4        | 1,681.8        | 1,678.1        | 2,048.3        | 1,877.0        |
| Asset Sales                     |       | 1.7            | 1.9            | 1.0            | 1.4            | 1.6            | 1.3            | 1.4            |
| Dividend                        | 3     | 25.6           | 38.5           | 99.6           | 140.3          | 89.8           | 115.5          | 74.2           |
| Corporate Tax Equivalent        | 4     | 27.1           | 26.1           | 44.8           | 59.5           | 49.8           | 41.6           | 36.9           |
| Gross External Debt             |       | 507.8          | 495.1          | 403.8          | 790.7          | 765.2          | 801.0          | 642.8          |
| Debt to Equity Ratio (%)        |       | 37.0           | 36.6           | 31.6           | 65.6           | 64.9           | 49.5           | 44.5           |
| Gearing Ratio (Debt/Assets) (%) |       | 31.3           | 30.6           | 23.6           | 47.0           | 45.6           | 39.1           | 34.2           |
| Times Interest Earned           |       | 2.3            | 2.7            | 4.9            | 6.1            | 3.4            | 2.4            | 2.7            |

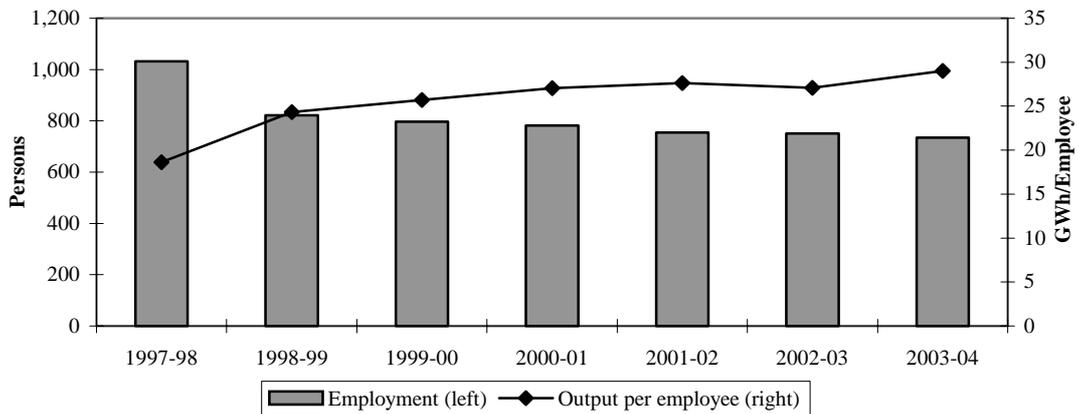
Notes:

- 1) All dollar amounts reported in 2003-04 dollars.
- 2) All relevant items include the impact of superannuation adjustments categorised as Significant Items for 1999-00 to 2003-04.
- 3) Dividend accrued in the respective financial year.
- 4) Tax Expense incurred in the respective financial year.

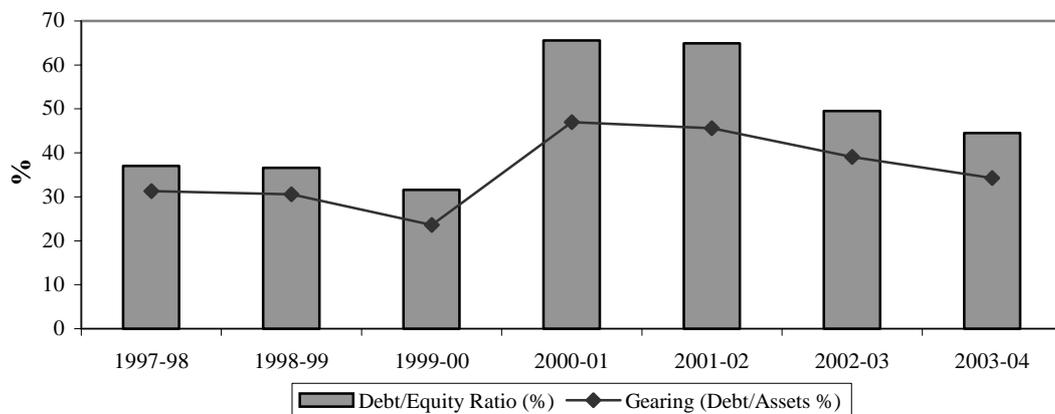
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency**



**Debt and Leverage**





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## **ERARING ENERGY**

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**Eraring Energy operates as a generator and wholesale electricity trader in the National Electricity Market. Eraring Energy aims to extract the maximum value from its existing assets and to attain commercial success in the National Electricity Market**

The Eraring Energy Group comprised the following businesses during 2003-04:

- Eraring Parent Entity – produces and competitively trades electricity in the National Electricity Market (NEM) from a portfolio of coal fired, hydro and wind generation; and
- Pacific Western Pty Ltd – a wholly owned subsidiary company providing operating and maintenance services on Collie Power Station for Western Power.

### **Financial Outcomes**

The Eraring Energy Group performed strongly over 2003-04 exceeding budget with a Consolidated Net Profit After Tax of \$68.8 million being achieved. Dividends of \$60.1 million exceeded expectations.

### **Asset Maintenance**

Eraring adopts a robust asset maintenance methodology to ensure its assets can meet production targets and contract commitments in the NEM. Eraring has commenced replacement of the Integrated Controls and Monitoring Systems at Eraring Power.

### **Plant Reliability and Safety**

Eraring Energy's generation assets delivered high levels of availability, reliability and efficiency. The Eraring Power Station site also maintained its 5-star safety rating over the year under the National Safety Council of Australia 5-Star Program.

### **Fuel Supplies**

A key achievement this year was the completion of a process undertaken to lower the fuel cost at Eraring Power Station. This process sought the supply of additional coal from both new and existing suppliers and involved negotiations with several parties.

A new Commercial Agreement between Eraring and an existing supplier was signed in April 2004 varying existing Coal Supply Agreements and creating an additional one. Coal price reductions across all these contracts will improve the competitiveness of Eraring Power Station.

### **Environment**

Eraring Power Station utilises world class technology to minimise emissions, recycle wastes (e.g. ash and effluent) to reduce costs and provide environmental benefits. The environmental protection systems at hydro stations ensure that these sites are some of the best protected facilities of their type in Australia.

In addition, Eraring Energy has the ability to supply renewable energy, as defined by the *Renewable Energy (Electricity) Act (Cth) 2000*.

### **The Future**

Eraring Energy aims to continue efficient production and competitive trading of electricity in the National Electricity Market from its portfolio of generation assets. As part of the ongoing capital restructure, Eraring made a further capital repayment of \$16 million to NSW Treasury in August 2004.

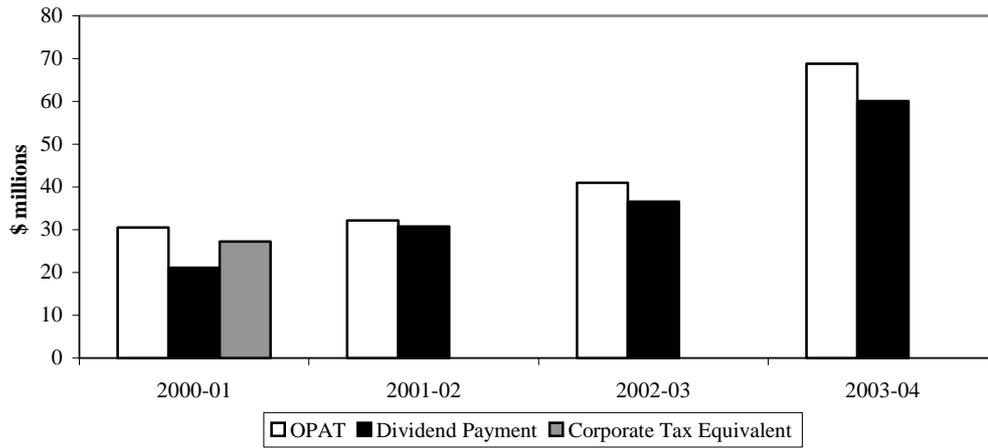
## ERARING ENERGY

|                                 | Notes | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---------------------------------|-------|---------|---------|---------|---------|
| <b>Efficiency</b>               |       |         |         |         |         |
|                                 | 1     |         |         |         |         |
| Employment                      |       | 367     | 369     | 364     | 363     |
| Output per Employee (GWh)       |       | 35.6    | 34.9    | 37.6    | 37.3    |
| Lost Time Injury Frequency Rate | 2     | 15.2    | 14.0    | 8.0     | 11.0    |
| <b>Service</b>                  |       |         |         |         |         |
| Output (GWh exported at RRN)    |       | 13,059  | 12,863  | 13,678  | 13,528  |
| <b>Finances (\$M)</b>           |       |         |         |         |         |
|                                 | 1     |         |         |         |         |
| EBIT                            |       | 90.0    | 62.1    | 66.7    | 110.5   |
| Operating Profit After Tax      |       | 30.5    | 32.1    | 41.0    | 68.8    |
| Significant Items               |       | 6.5     | 4.9     | 4.4     | 0.7     |
| Revenue                         |       | 511.1   | 562.6   | 565.5   | 571.5   |
| Return on Assets (%)            |       | 630.0   | 450.0   | 4.7     | 7.4     |
| Return on Equity (%)            |       | 320.0   | 290.0   | 3.7     | 6.1     |
| Asset Base                      |       | 1,424.0 | 1,392.9 | 1,413.8 | 1,488.8 |
| Financial Distribution          |       |         |         |         |         |
| Dividend                        |       | 21.1    | 30.8    | 36.6    | 60.1    |
| Corporate Tax Equivalent        |       | 7.7     | 6.7     | 12.8    | 27.3    |
| Gross External Debt             |       | 269.3   | 137.2   | 92.6    | 162.0   |
| Debt to Equity Ratio (%)        |       | 28.0    | 12.6    | 8.3     | 14.4    |
| Gearing Ratio (%) (Debt/Assets) |       | 18.9    | 9.3     | 6.6     | 10.9    |
| Times Interest Earned           |       | 1.9     | 5.6     | 9.1     | 8.9     |

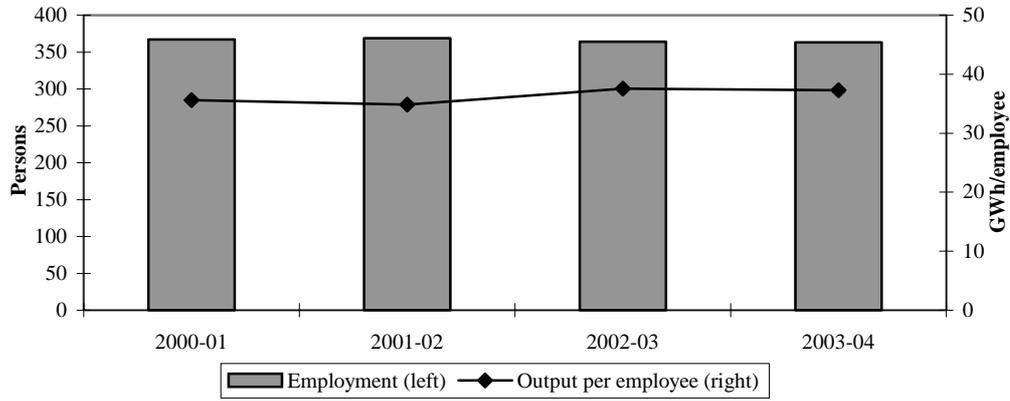
Notes:

- 1) All dollar amounts reported in 2003-04 dollars.
- 2) Includes contractors.

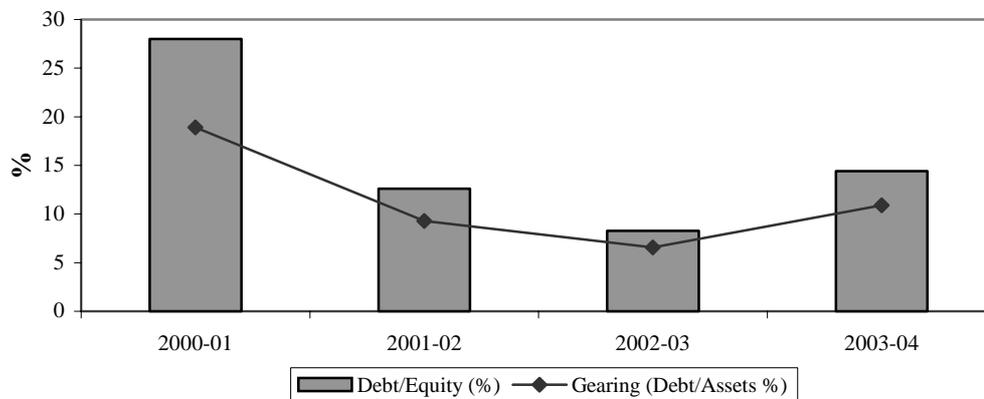
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency**



**Debt and Leverage**



# Macquarie *Generation*

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## MACQUARIE GENERATION

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**Macquarie Generation owns and operates the Bayswater and Liddell Power Stations, near Muswellbrook in the Upper Hunter Valley. Coal is the primary fuel, obtained from plentiful high grade coal reserves of regional mines. Macquarie Generation also operates biomass co-firing activities. The stations have a combined capacity of 4,640 MW, making Macquarie Generation the largest capacity electricity generator in the National Electricity Market.**

### Financial Outcomes

Total revenue nominally increased by 7% to \$813.6 million as a result of steady average electricity sales prices and an increase in electricity sales volume. The increase in revenue exceeded budget expectations.

Macquarie continued to maintain costs. There was a modest 3% or \$15 million increase in expenses from ordinary activities. This included a 5% increase in fuel expenses directly related to an 11% increase in production.

As a result Macquarie's EBIT increased by 17% to \$252 million.

Borrowing costs expense decreased by 18% due to a Board approved debt restructure in December 2002, which resulted in a reduction in borrowing costs of approximately \$6 million per annum, combined with reduced debt levels in 2003-04.

Macquarie increased equity by 9% or \$106 million, consisting of an asset revaluation increment of \$105 million resulting from a revaluation of physical non-current assets carried out at 30 June 2004.

Macquarie decreased debt by \$109 million in 2003-04 due to debt prepayments as part of the Corporation's on-going debt repayment strategy.

Macquarie's OPAT increased by 79% to \$101.2 million due mainly to the increase in sales revenue and decrease in borrowing costs. After-tax ROE increased to 8% (5% in 2002-03) due to the increase in OPAT and a 9% increase in equity.

Dividends provided in 2003-04 increased 79% to \$100 million. Dividends exceeded expectations and will be paid during the 2004-05 year.

### Operational Outcomes

Bayswater and Liddell power stations maintained high levels of efficiency, availability, reliability and safety in 2003-04.

### Future Strategies

Macquarie Generation has formulated strategic objectives, which recognise the evolving regulatory, environmental, social and technological factors impacting upon the electricity supply industry. The Corporation's 2004-05 Business Plan reflects its pursuit of value-adding operating and growth strategies.

Planned upgrades to the power stations will improve capacity and efficiency while reducing greenhouse gas emissions. The second of four planned upgrades to the Liddell Low Pressure turbine units was completed during 2003-04 and the third unit upgrade will be completed during 2004-05. The three completed units are expected to save approximately 350,000 tonnes of carbon dioxide in the 2004-05 year.

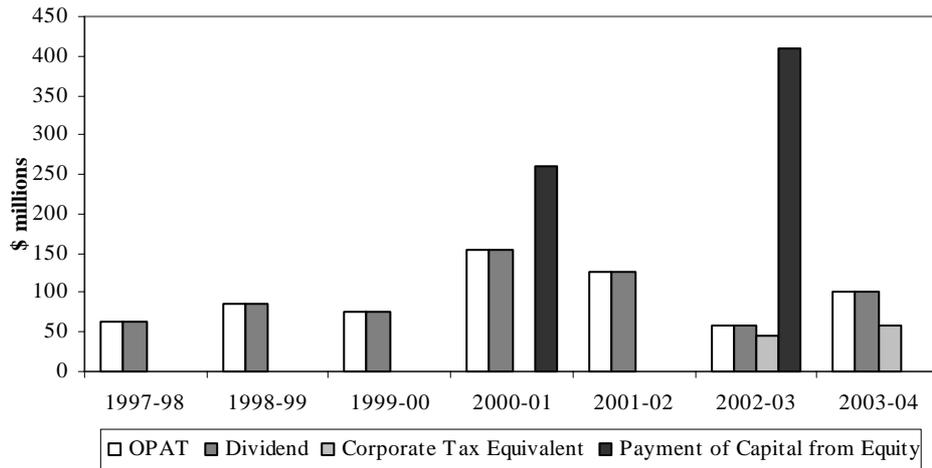
## MACQUARIE GENERATION

|   | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                                     |       |                |                |                |                |                |                |                |
|   | 1     |                |                |                |                |                |                |                |
| Employment  |       | 688            | 630            | 624            | 612            | 612            | 608            | 607            |
| Output per Employee (GWh)                             |       | 30.4           | 34.0           | 37.4           | 39.5           | 40.1           | 37.6           | 41.9           |
| Lost Time Injury Frequency Rate                       |       | 10.1           | 4.6            | 14.2           | 4.6            | 0.8            | 7.3            | 6.6            |
| <b>Service</b>  |       |                |                |                |                |                |                |                |
| Output (GWh)  |       | 22,738         | 22,764         | 23,447         | 24,405         | 24,527         | 22,863         | 25,426         |
| <b>Finances (\$m)</b>                                 |       |                |                |                |                |                |                |                |
|   | 1     |                |                |                |                |                |                |                |
| EBIT  |       | 173.3          | 194.1          | 161.2          | 230.0          | 267.4          | 219.5          | 252.1          |
| Operating Profit After Tax                            |       | 64.3           | 86.0           | 74.8           | 154.9          | 127.4          | 57.8           | 101.2          |
| Significant Items (included in EBIT)                  |       | 0.0            | 0.0            | -39.5          | 13.3           | 0.0            | 0.0            | 0.0            |
| Revenue   |       | 835.4          | 848.7          | 863.7          | 880.8          | 858.7          | 777.7          | 813.6          |
| Return (EBIT) on Assets (%)                           |       | 6.6            | 7.7            | 6.5            | 10.3           | 12.0           | 7.6            | 8.7            |
| Pre Tax Return on Net Assets (%)                      |       | 5.8            | 7.9            | 6.9            | 20.6           | 26.3           | 8.7            | 12.5           |
| Return on Equity (%)                                  |       | 3.8            | 5.0            | 6.3            | 14.9           | 17.6           | 4.9            | 8.0            |
| Asset Base  |       | 2639.1         | 2525.5         | 2479.8         | 2233.7         | 2232.8         | 2888.0         | 2904.5         |
| <b>Financial Distribution</b>                         |       |                |                |                |                |                |                |                |
| Dividend  |       | 41.9           | 47.1           | 46.0           | 63.8           | 105.0          | 57.2           | 100.0          |
| Corporate Tax Equivalent                              | 2     | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 45.0           | 57.3           |
| Payment of Capital from Equity                        |       | 0.0            | 0.0            | 0.0            | 259.6          | 0.0            | 408.5          | 0.0            |
| <b>Gross External Debt including Accrued Interest</b> |       |                |                |                |                |                |                |                |
| Interest  |       | 1229.0         | 1100.5         | 954.5          | 1028.6         | 957.5          | 1210.6         | 1073.0         |
| Debt to Equity Ratio (%)                              |       | 52.6           | 50.1           | 46.9           | 57.8           | 56.9           | 50.5           | 45.8           |
| Gearing Ratio (Debt/Assets) %                         |       | 46.6           | 43.6           | 38.5           | 46.0           | 42.9           | 41.9           | 36.9           |
| Times Interest Earned                                 | 3     | 1.6            | 2.0            | 2.3            | 3.1            | 3.5            | 1.9            | 2.7            |
| Total Assets  |       | 2639.1         | 2525.5         | 2479.8         | 2233.8         | 2232.8         | 2888.0         | 2904.5         |
| Net Assets  |       | 1105.7         | 1095.4         | 1080.6         | 751.5          | 725.8          | 1186.9         | 1268.6         |
| Shareholders Funds                                    |       | 1105.7         | 1095.4         | 1080.6         | 751.5          | 725.8          | 1186.9         | 1268.6         |
| Total Debt including Acc Interest                     |       | 1229.0         | 1100.5         | 954.5          | 1028.6         | 957.5          | 1210.6         | 1073.0         |
| Total Debt plus Equity                                |       | 2334.7         | 2195.8         | 2035.2         | 1780.1         | 1683.3         | 2397.5         | 2341.6         |
| Net Financing Expense                                 |       | 108.9          | 108.1          | 86.4           | 75.1           | 76.7           | 116.6          | 93.6           |

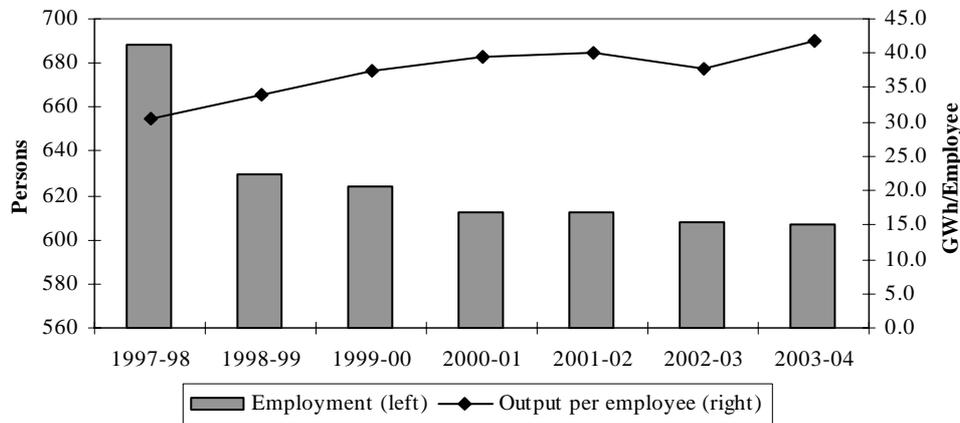
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Represents no tax payable as the Corporation is in a tax loss position.
- 3) EBIT/Net Financing.

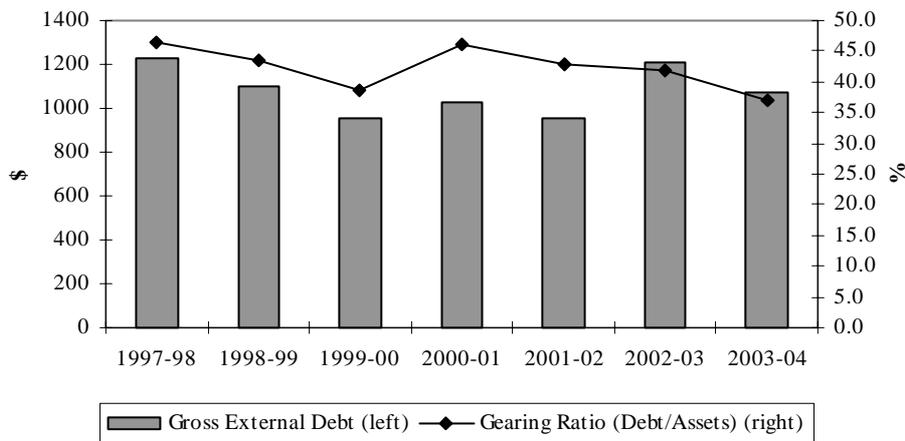
**OPAT and Financial Distributions (2003-04 dollars)**



**Employment and Efficiency**



**Debt and Leverage**



# **ELECTRICITY DISTRIBUTION/RETAIL**

Australian Inland

Country Energy

Energy Australia

Integral Energy





Colin Cowdrey  
Acting Chief Financial Officer  
AUSTRALIAN INLAND  
PO Box 800  
BROKEN HILL NSW 2880  
(08) 8082 5306

**Australian Inland is a multi-utility company, providing electricity, water, gas and internet services to customers in the Far West region of New South Wales.**

Electricity services are provided to a supply area of around 155,000 square kilometres from Tibooburra near the Queensland border to the north, Wentworth near the Victorian border to the south and Silverton near the SA border to the west. Headquartered in Broken Hill, the customer base of close to 19,000 is comprised predominantly of urban domestic, small rural and small commercial users.

Water operations are centred around Broken Hill and include Silverton, Menindee and Sunset Strip, Umberumberka and Stephens Creek reservoirs, and the Menindee to Stephens Creek pipeline. Around 10,000 properties and a population of around 24,000 are served by Australian Inland's water reticulation system. In Broken Hill, sewerage services are available to 9,830 premises, representing most of properties connected to the water supply system.

Australian Inland plays a vital role in the Far West region of NSW, delivering utility services, providing employment and developing regional infrastructures. As well as delivering essential services, Australian Inland aspires to be a company that is an integral and active member of the community. Australian Inland also supports actions and activities that make a positive contribution to protecting the environment, for example by offering renewable energy to customers and water conservation, recycling and waste reduction initiatives.

Australian Inland introduced a water restrictions program in response to the continuing drought. This resulted in a significant reduction in water use. Australian Inland invested \$4 million in the construction of a Reverse Osmosis plant as an additional drought response and emergency water treatment measure. Construction work was also conducted at the Stephen's Creek reservoir, which resulted in a significant reduction in evaporation rates at the storage.

The successful implementation of a new billing system allows Australian Inland to provide 'user friendly' water and electricity bills to customers using leading edge technology. Outstanding non-compliances associated with the former billing system were addressed as a result of the commissioning of the new system. Australian Inland continued the implementation of a new asset management system to streamline and better manage the value, use and performance of our assets. The system is both flexible and comprehensive and will be populated with asset information over the next two years.

Other highlights include strong community support activities and program sponsorship, continued high representation at industry meetings and compliance with industry regulators. Australian Inland achieved effective public participation through Customer Consultative Committees for both electricity and water and the water roundtables as part of the consultative process of the Water 2023 program.

Australian Inland also implemented a revised strategic and business plan, which included updated business objectives and key performance indicators. The new business plan provides a roadmap for the company for the next 12 months and is approved annually by Australian Inland's Shareholders.

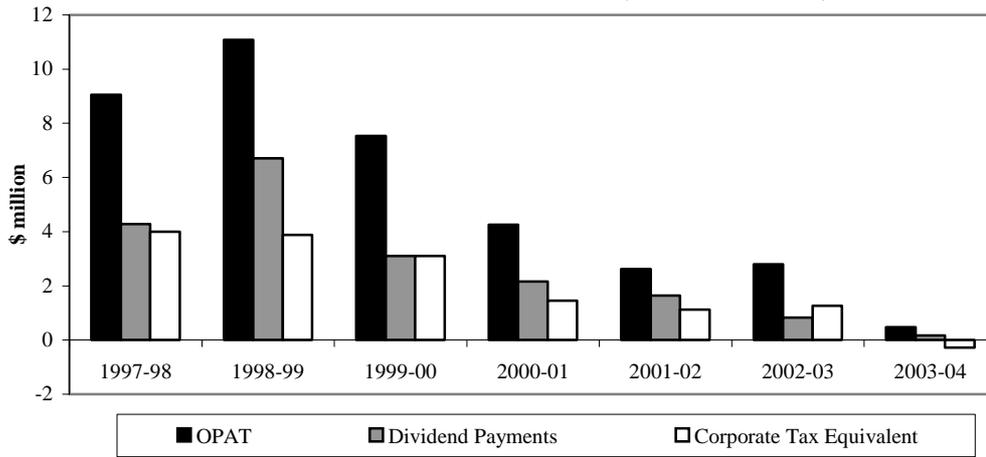
## AUSTRALIAN INLAND

|                                       | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---------------------------------------|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                     |       |                |                |                |                |                |                |                |
|                                       | 1,2   |                |                |                |                |                |                |                |
| Employment                            |       | 105            | 107            | 108            | 118            | 131            | 130            | 118            |
| Output per Employee (GWh)             |       | 3.7            | 3.5            | 3.1            | 3.7            | 4.4            | 4.3            | 3.4            |
| Customers per Employee                |       | 181.5          | 177.2          | 175.2          | 160.2          | 144.4          | 145.4          | 160.4          |
| Operating Cost Per Unit Sold (\$/MWh) |       | 34.3           | 36.6           | 42.8           | 35.1           | 24.1           | 26.5           | 42.0           |
| Operating Cost Per Customer (\$)      |       | 691.7          | 731.1          | 769.8          | 808.0          | 727.0          | 784.6          | 908.7          |
| System Loss Index (%)                 |       | 3.8            | 11.7           | 17.5           | 15.4           | 7.8            | 6.7            | 7.6            |
| Average Lost Time (days)              |       | 10.4           | 12.3           | 10.0           | 14.9           | 5.8            | 13.1           | 1.2            |
| Lost Time Injury Frequency Rate       |       | 32.4           | 31.5           | 38.1           | 20.0           | 30.3           | 10.1           | 2.4            |
| <b>Service</b>                        |       |                |                |                |                |                |                |                |
| No. of Customers                      |       | 18,981         | 18,944         | 18,896         | 18,902         | 18,929         | 18,902         | 18,997         |
| Output (GWh)                          |       | 383.9          | 378.8          | 340.0          | 435.0          | 570.0          | 559.0          | 402.0          |
| Supply Reliability (Min)              | 3     | 319.0          | 221.0          | 212.0          | 364.0          | 394.0          | 320.0          | 507.0          |
| Real Price Index                      |       | 93.0           | 87.1           | 93.1           | 94.5           | 83.4           | 80.9           | 88.2           |
| <b>Finances (\$M)</b>                 |       |                |                |                |                |                |                |                |
|                                       | 1     |                |                |                |                |                |                |                |
| EBIT                                  |       | 13.0           | 15.0           | 10.6           | 5.7            | 3.7            | 4.1            | 0.2            |
| Operating Profit After Tax            |       | 9.1            | 11.1           | 7.5            | 4.3            | 2.6            | 2.8            | 0.5            |
| Revenue                               |       | 35.6           | 32.9           | 31.6           | 41.0           | 47.5           | 45.2           | 35.9           |
| Return on Assets (%)                  |       | 18.7           | 20.1           | 13.8           | 7.6            | 4.9            | 5.8            | 0.3            |
| Return on Equity (%)                  |       | 17.0           | 19.5           | 12.6           | 7.3            | 4.6            | 4.8            | 0.8            |
| <b>Financial Distribution</b>         |       |                |                |                |                |                |                |                |
| Dividend                              | 4     | 4.3            | 6.7            | 3.1            | 2.2            | 1.6            | 0.8            | 0.2            |
| Corporate Tax Equivalent              |       | 4.0            | 3.9            | 3.1            | 1.4            | 1.1            | 1.3            | -0.3           |

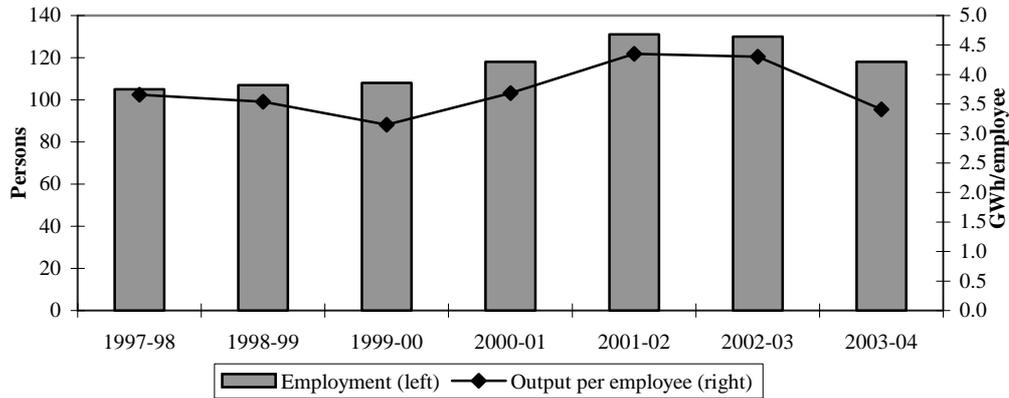
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Figures from 2000-01 onwards refer to electricity operations only.
- 3) Minutes with no supply per customer.
- 4) Social Program Dividend.

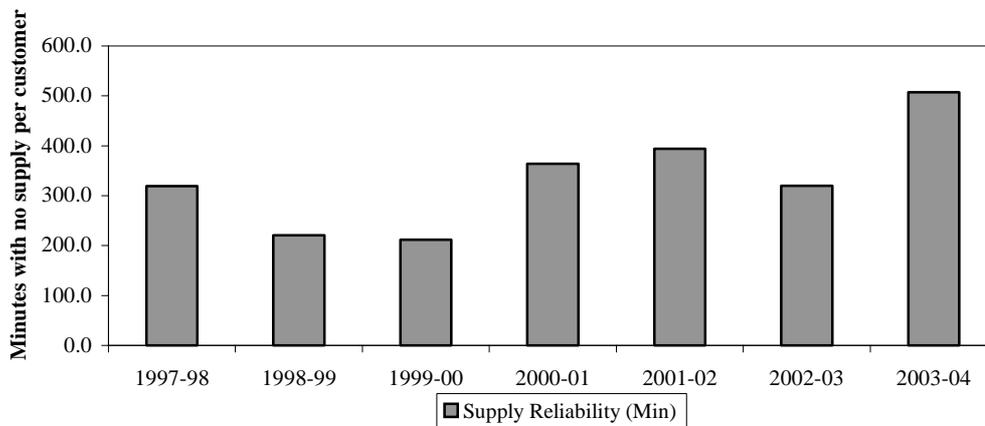
OPAT and Financial Distribution (2003-04 dollars)



Employment and Efficiency



Supply reliability





Mr Justin De Lorenzo  
Group General Manager, Finance and Business Development  
COUNTRY ENERGY  
PO Box 172  
BATHURST NSW 2795  
132 356

## COUNTRY ENERGY

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**Country Energy was created in July 2001 and operates the world's second largest power supply network, serving 1,500 town, country and coastal communities across three quarters of New South Wales – from Bega north to Tweed Heads, west to Bourke and south to the River Murray. Country Energy is also one of Australia's largest electricity retailers, with more than 750,000 customers in five states and territories.**

Country Energy generates annual revenues of around \$1.6 billion and employs around 3,000 people, making it one of Australia's largest regionally based companies.

The business delivers safe and reliable electricity to around 700,000 sites in New South Wales, and border areas of Queensland and Victoria, through a vast network of 185,000 kilometres of powerlines, more than 300 major substations and 1,330,000 power poles. Country Energy operates a decentralised management structure across eight regions, ensuring that decision-making reflects local needs.

Country Energy also competes in the national electricity market, providing energy and other services to customers in New South Wales, the Australian Capital Territory, South Australia, Victoria and Queensland, with a product range including natural and bottled gas, internet and energy efficiency services.

Now in its third year of operation, Country Energy continues to build on a platform of success. The business achieved a 2003-04 earnings before interest and tax (EBIT) result of \$245.6 million – a result above the target agreed with our shareholders – and an improvement of \$73.7 million on the previous year's EBIT result.

Likewise, Country Energy's 2003-04 operating profit after tax (OPAT) result of \$78.3 million is \$41.4 million above the 2002-03 result, reflecting a combination of careful expenditure management and growth in operating revenue.

At the same time Country Energy is expanding its network capital investment program. In its first three years Country Energy spent \$500 million on network capital investment. In the next five years Country Energy will invest \$1.2 billion on network infrastructure – a significant increase on an already substantial investment base.

Country Energy took a conscious business decision to renew both its network and its workforce in tandem. Cost increases on a per unit basis reflect these important investment decisions. The creation of more than 230 new apprenticeships since July 2001 is securing long-term, skilled employment, and is strengthening communities that the business serves. Country Energy's indigenous apprentice employment program has also been commended by governments and indigenous bodies.

The business is also restoring customer service levels, with 23 new customer and field service centres established since July 2001, including seven centres opened in 2003-04. An industry leading hardship program, *Country Support*, has assisted around 4,000 customers affected by circumstances including drought and illness, and drastically reduced the number of disconnections for non-payment of accounts.

Country Energy's significant sponsorship program supports hundreds of local groups, events and initiatives each year. A *Touring Partnership* with Sydney Opera House is bringing orchestral performances to children in smaller communities, and the \$35,000 *Country Energy Art Prize for Landscape Painting* is promoting artistic talent in country areas.

Most importantly, in 2003-04 Country Energy embarked on a major program aimed at improving safety outcomes, with the assistance of internationally acclaimed safety advisers, Du Pont.

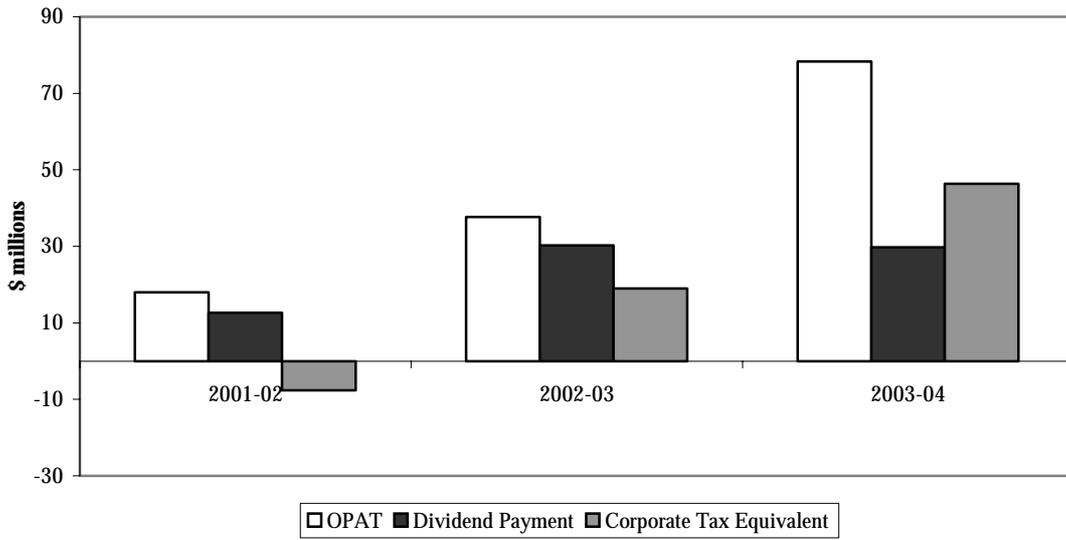
## COUNTRY ENERGY

|                                       | Notes | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---------------------------------------|-------|----------------|----------------|----------------|
| <b>Efficiency</b>                     | 1,2   |                |                |                |
| Employment                            |       | 2,559          | 2,937          | 3,053          |
| Output per Employee (GWh)             |       | 6.3            | 5.6            | 5.4            |
| Customers per Employee                |       | 279.2          | 244.5          | 246.1          |
| Operating Cost Per Unit Sold (\$/MWh) |       | 20.9           | 22.1           | 24.1           |
| Operating Cost Per Customer (\$)      |       | 468.8          | 503.8          | 527.7          |
| System Loss Index (%)                 |       | 0.0            | 0.0            | 0.1            |
| Average Lost Time (days)              |       | 10.8           | 10.3           | 11.7           |
| Lost Time Injury Frequency Rate       |       | 8.9            | 8.2            | 10.5           |
| <b>Service</b>                        |       |                |                |                |
| No. of Customers                      |       | 714,411        | 717,897        | 751,284        |
| Output (GWh)                          |       | 16,027         | 16,387         | 16,442         |
| Supply Reliability (Min) - SAIDI      |       | 136.0          | 230.0          | 248.0          |
| Customer Satisfaction Index           | 3     |                |                |                |
| Domestic                              |       | 80.2           | 82.4           | 84.4           |
| Business                              |       | n/a            | n/a            | 71.4           |
| <b>Finances (\$M)</b>                 | 1     |                |                |                |
| EBIT                                  |       | 152.6          | 175.6          | 245.6          |
| Operating Profit After Tax            |       | 18.0           | 37.7           | 78.3           |
| Significant Items                     |       | 0.0            | 0.0            | 0.0            |
| Revenue                               |       | 1,362.6        | 1,535.9        | 1,643.8        |
| Return on Assets (%)                  |       | 0.1            | 0.1            | 0.1            |
| Pre Tax Return on Net Assets (%)      |       | 0.0            | 0.1            | 0.2            |
| Return on Equity (%)                  |       | 0.2            | 0.2            | 0.3            |
| Asset Base                            |       | 2,570.1        | 2,694.7        | 2,865.7        |
| Financial Distribution                |       |                |                |                |
| Dividend Payment                      |       | 12.6           | 30.2           | 29.8           |
| Corporate Tax Equivalent              |       | -7.7           | 19.0           | 46.3           |
| Payment of Capital from Equity        |       | 0.0            | 0.0            | 0.0            |
| Gross External Debt                   |       | 1,407.3        | 1,488.0        | 1,515.1        |
| Debt to Equity Ratio (%)              |       | 2.0            | 2.2            | 2.1            |
| Times Interest Earned                 |       | 1.6            | 1.6            | 2.3            |
| Gearing Ratio (Debt/Assets) %         |       | 0.5            | 0.6            | 0.5            |
| Community Service Obligations         |       | 22.1           | 22.5           | 22.7           |

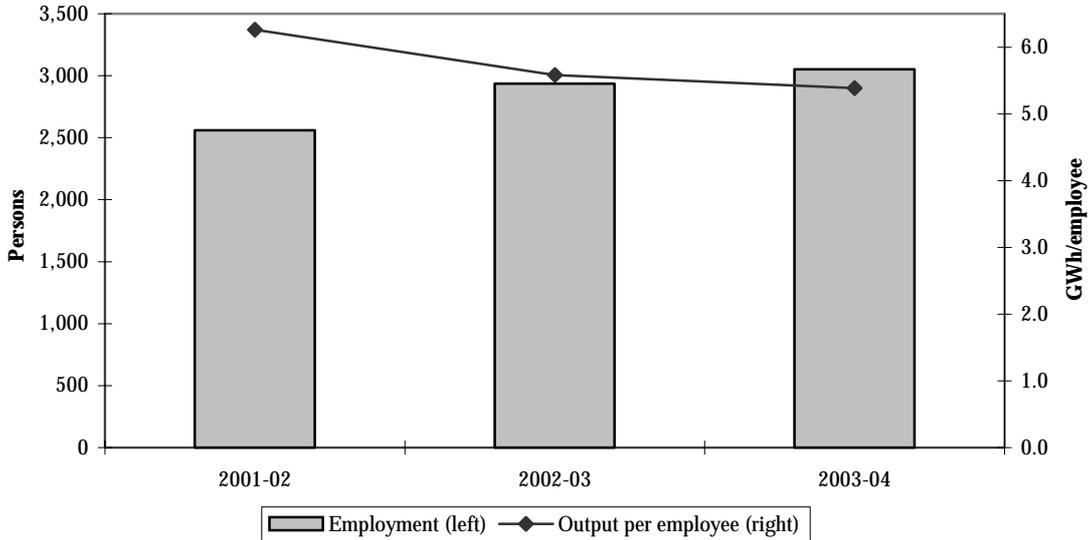
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Figures for the years prior to 2001-02 are not available in a reliable form. Country Energy was created in July 2001 through the merger of Great Southern Energy, Advance Energy and NorthPower. In 2001-02, Country Energy attempted to report combined data for these predecessor entities, however, inconsistent reporting policies and incomplete or incomparable data sets, particularly around non-financial data, have been found to result in unreliable figures. Hence, comparisons between the combined figures for predecessor entities and Country Energy's figures would be misleading.
- 3) Figures are expressed as a percentage with 100% representing maximum satisfaction.

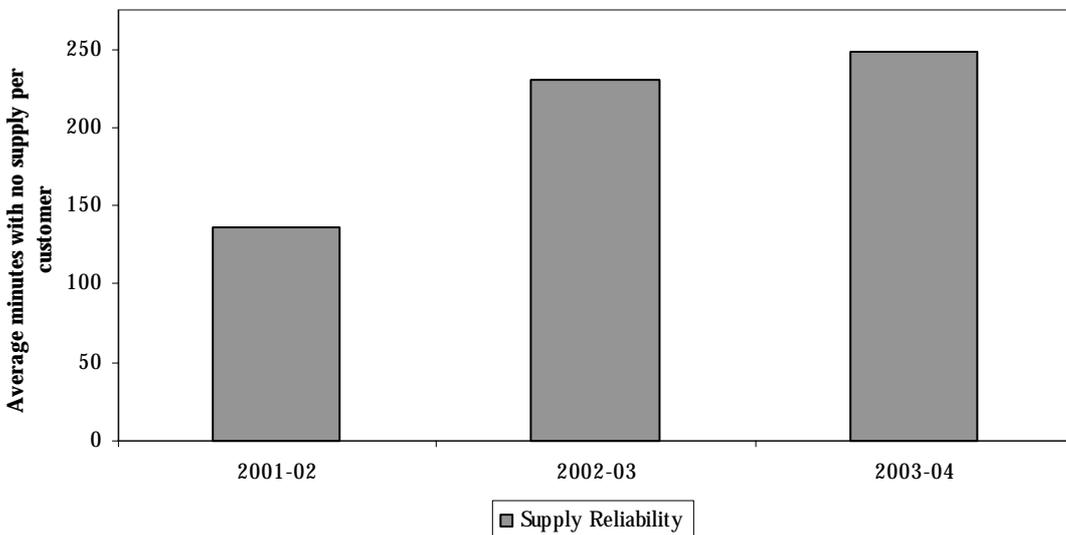
**OPAT and Financial Distribution (2003-04 dollars)**

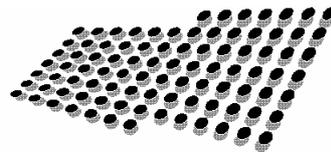


**Employment and Efficiency**



**Supply Reliability**





***EnergyAustralia***<sup>TM</sup>

Mr David Cash  
Manager, Finance & Commercial Services  
ENERGYAUSTRALIA  
GPO Box 4009  
SYDNEY NSW 2001  
(02) 9269 2936

**EnergyAustralia is one of Australia's largest energy services companies. Its vision is to maximise the value of the business by providing the best energy solutions for its customers and for the community. EnergyAustralia delivers safe, reliable electricity and gas services to over 1.5 million customers and operates an electricity distribution franchise network over a diverse area covering 22,275 square kilometres.**

EnergyAustralia is a strong competitor in the national retail energy market. EnergyAustralia ranks as one of Australia's largest 100 companies with assets of over \$5 billion and annual revenue in excess of \$2 billion. In 2003-04, the company had a successful year, achieving an increase in profitability while at the same time positioning itself to meet future market and environmental challenges.

EnergyAustralia continues to deliver sound financial results in the competitive market. In 2003-04 the company achieved a \$49 million improvement in EBIT (Earnings Before Interest and Tax) to \$426 million and an increase in post-tax profit of \$52 million to \$178 million, resulting in a 7.8% return on assets. Revenue grew by \$127 million to \$2,559 million. A key driver of profitability has been the retail business performance. Entry into new markets including Victoria and South Australia contributed to these results. Total distributions to Government were \$242 million in line with agreed targets.

The past year's reliability score of 107 mins was impacted by an increased level of storm activity over previous years and particularly by the major storm experienced in August 2003 which caused widespread damage across the network. The company is committed to maintaining system reliability and invested \$287 million in the past financial year in expanding and upgrading the network and supporting assets. EnergyAustralia will invest a record \$2 billion in new infrastructure over the next five years 2004 to 2009. EnergyAustralia has also recruited its largest intake of apprentices for more than 20 years reflecting its commitment to developing the skills needed to maintain and improve the distribution network.

EnergyAustralia continued its commitment to safety this year with several programs aimed at educating employees and the community about safe behaviour around its assets. This was reflected in workplace safety outcomes with the Lost Time Injury Frequency Rate reduced to an all time low, nearly 25% lower than last year's result. Safety initiatives included continuing a primary school education program and the successful FitWell Program which provides health and fitness assessments for staff. Substation safety and security continued to be a high priority with fencing, security, and perimeter doors and locks all upgraded at major substations across the network.

Customer satisfaction levels were steady with 95% of customers satisfied with the services provided by EnergyAustralia. A key focus in 2003-04 was encouraging customers to choose renewable energy sources and promoting efficient energy consumption to help reduce greenhouse gas emissions. Introducing new "green" products with affordable prices has allowed more customers to take up the option of an environmentally friendly product. An energy efficient light bulb giveaway to all residential customers was part of a major campaign to raise awareness.

EnergyAustralia achieved full compliance with its greenhouse obligations under Federal and NSW legislation. The company also continued with many of its long term sponsorships and developed a number of new ones – all aimed at supporting the "grass roots" community, helping youth, improving opportunities for disadvantaged and encouraging an active and positive lifestyle.

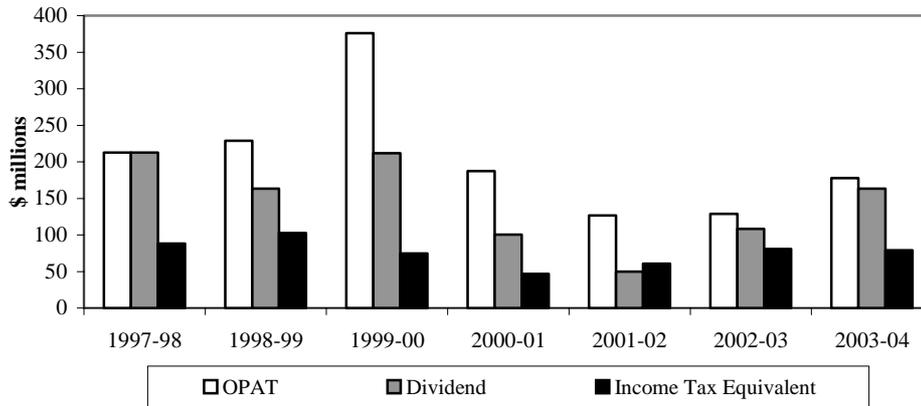
# ENERGYAUSTRALIA

|                                   | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|-----------------------------------|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                 |       |         |         |         |         |         |         |         |
|                                   | 1     |         |         |         |         |         |         |         |
| Employment                        | 2     | 3,017   | 3,089   | 3,282   | 3,384   | 3,527   | 3,645   | 3,976   |
| Output / Employee (GWh)           |       | 7.3     | 7.4     | 7.4     | 7.5     | 7.2     | 7.0     | 6.6     |
| Customer per Employee             | 3     | 453.0   | 448.0   | 428.0   | 422.0   | 415.0   | 407.5   | 380.0   |
| Operating Cost per MWh            | 4,5   | 30.7    | 30.6    | 29.3    | 27.7    | 27.7    | 30.1    | 23.8    |
| Operating Costs / Customer        | 4,6   | 446.1   | 459.9   | 457.4   | 492.2   | 468.9   | 520.3   | 412.9   |
| System Loss Index (%)             | 7     | 5.0     | 5.0     | 4.5     | 4.5     | 4.5     | 4.7     | 5.0     |
| Days Sick Leave/Employee          |       | 6.7     | 5.8     | 6.0     | 6.8     | 6.2     | 6.3     | 6.8     |
| Lost Time Injury Frequency Rate   | 8     | 10.2    | 8.0     | 6.4     | 8.2     | 8.3     | 6.9     | 5.2     |
| <b>Effectiveness</b>              |       |         |         |         |         |         |         |         |
| Output (GWh)                      | 9     | 22,067  | 22,978  | 24,364  | 25,275  | 25,402  | 25,639  | 26,216  |
| Reliability Index (Minutes)       | 10    | 101     | 97      | 87      | 101     | 102     | 96      | 107     |
| Real Price Index (89-90=100)      | 11    | 70.8    | 63.6    | 65.2    | 63.1    | 67.0    | 65.5    | 67.8    |
| Customer Satisfaction Index       | 12    |         |         |         |         |         |         |         |
| Domestic                          |       | 97      | 97      | 97      | 97      | 96      | 98      | 95      |
| Business                          |       | 89      | 92      | 87      | 87      | 96      | 95      | 95      |
| <b>Financial Indicators (\$M)</b> |       |         |         |         |         |         |         |         |
|                                   | 1     |         |         |         |         |         |         |         |
| EBIT                              | 13    | 500.9   | 444.8   | 449.3   | 347.6   | 338.0   | 385.0   | 426.1   |
| Operating Profit After Tax        |       | 212.7   | 229.0   | 376.1   | 187.2   | 126.7   | 128.7   | 177.6   |
| Significant Items                 | 14    | 64.9    | -15.6   | 1.8     | -20.2   | -11.1   | 47.1    | 79.2    |
| Revenue                           | 15    | 2250.7  | 2199.7  | 2426.9  | 2383.5  | 2450.6  | 2483.7  | 2558.7  |
| Sales Revenue                     |       | 1876.4  | 1782.0  | 1979.9  | 1930.9  | 1951.0  | 2020.3  | 2138.1  |
| Return on Assets                  |       | 13.4    | 11.7    | 12.0    | 6.7     | 6.5     | 7.3     | 7.8     |
| Return on Equity                  |       | 11.3    | 12.0    | 18.5    | 8.6     | 5.4     | 5.8     | 8.2     |
| Asset Base                        | 16    | 4479.8  | 4456.3  | 4288.6  | 5619.5  | 5532.7  | 5454.6  | 5634.4  |
| Asset Sales                       |       | 37.9    | 7.1     | 11.5    | 13.0    | 19.2    | 26.7    | 19.1    |
| Distribution to Government        |       |         |         |         |         |         |         |         |
| Income Tax Equivalent             |       | 88.0    | 102.6   | 74.5    | 46.8    | 60.6    | 80.7    | 78.9    |
| Dividend                          |       | 212.7   | 163.3   | 211.8   | 100.4   | 49.9    | 108.3   | 163.5   |
| Special Dividend                  |       | 0.0     | 0.0     | 0.0     | 1222.5  | 0.0     | 0.0     | 0.0     |
| Gross External Debt               | 17    | 1550.3  | 1525.0  | 1201.4  | 2404.4  | 2406.0  | 2324.4  | 2401.2  |
| Debt / Equity (%)                 |       | 73.4    | 73.4    | 59.2    | 110.7   | 110.7   | 105.7   | 110.7   |
| Gearing Ratio (%) (Debt/Assets)   |       | 34.6    | 34.2    | 28.0    | 42.8    | 43.5    | 42.6    | 42.5    |
| Times Interest Earned             |       | 3.4     | 3.7     | 5.3     | 2.3     | 3.1     | 3.5     | 3.9     |
| Social Programs (\$M)             | 18    | 30.9    | 33.5    | 30.3    | 28.2    | 30.8    | 36.3    | 35.1    |

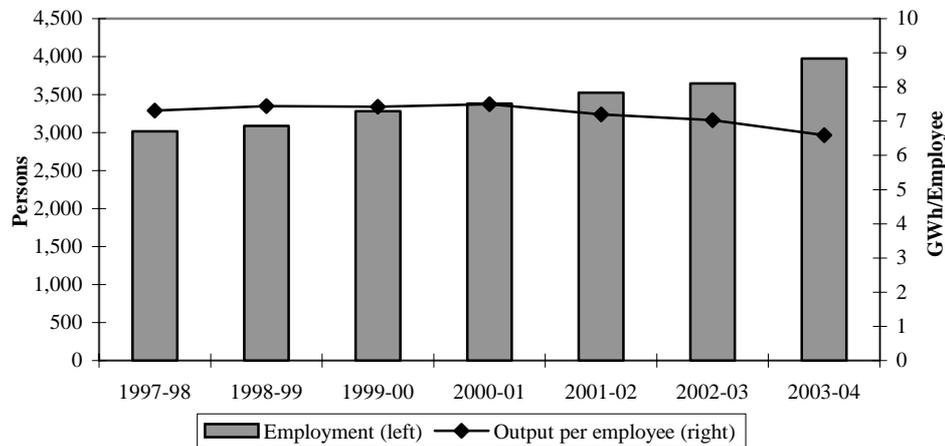
## Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Full Time Equivalent Staff (FTE) as at end of the financial year.
- 3) Number of customers divided by FTE's at financial year end.
- 4) Total Operating Costs for 2003-04 exclude External Business costs.
- 5) Total Operating Costs (including depreciation, excluding interest) divided by megawatt hours (MWh) delivered
- 6) Total Operating Costs (including depreciation, excluding interest) divided by customers at financial year end
- 7) Estimate
- 8) Number of new Lost Time Injuries per million hours worked
- 9) Gigawatt hours supplied to customers (excluding Hydro Aluminium & BHP Billiton).
- 10) Standard SAIDI figure (average minutes without supply per year per network customer). Includes planned and unplanned outages. It excludes Major Natural Events i.e. storms, momentary and interruptions caused by TransGrid, directed load shedding and momentary events from system operations
- 11) Treasury to provide.
- 12) Results reflect customers who are satisfied or above.
- 13) From 2002-03 EBIT includes Capital Contributions.
- 14) Significant items includes revenue recognised but not collected being a decrease in the over-recovery provision (\$64.0 million) and an increase in the prepaid superannuation for defined benefits (\$15.2 million).
- 15) Non-sales revenue includes external network charges, capital contributions, external business sales, fixed asset sales and investment income.
- 16) Asset Re-living of IT systems has occurred during 2003-04.
- 17) Includes loans and bank overdraft.
- 18) The social program figure does not include any Traffic Route Lighting Subsidies.

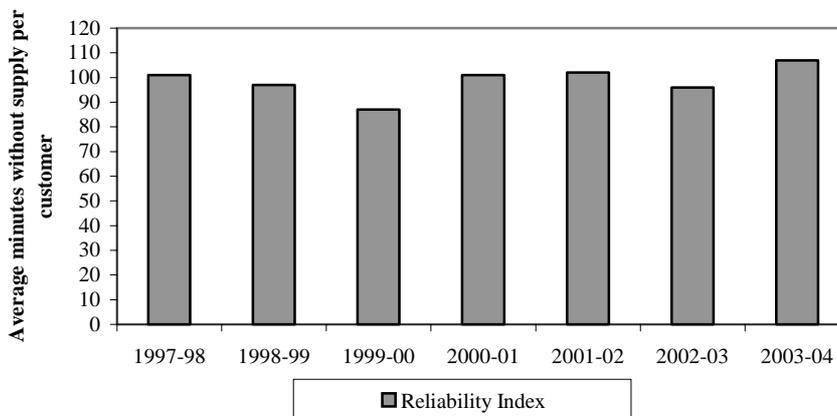
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency**



**Supply Reliability**





Mr Craig James  
General Manager Finance  
INTEGRAL ENERGY  
PO Box 6366  
BLACKTOWN NSW 2148  
(02) 9853 6951

**Integral Energy is one of NSW's largest state-owned energy corporations, incorporated under the *Energy Services Act 1995*. The corporation conducts its business with a sharp commercial and customer focus, operating in the National Electricity Market, retailing energy services and electrical contracting, and providing metering and data services to industrial and commercial customers.**

Integral Energy's electricity network serves more than 2.1 million people across 24,500 square kilometres spanning Greater Western Sydney, the Illawarra, the Southern Highlands, and to retail customers beyond its franchise. Integral Energy's network is the corporation's primary asset management responsibility, and covers some of the fastest growing residential and industrial areas in NSW.

Integral Energy is a forward looking, financially disciplined business, intent on achieving its vision: to be Australia's leading energy business.

In 2003-04 financial year, Integral Energy:

- achieved an EBIT result of \$249.7 million against a budget of \$176.7 million, reflecting a nominal increase of \$87.5 million from the previous year;
- delivered a \$102.3 million distribution to the NSW Government, representing an increase of \$59.4 million on the 2002-03 dividend;
- has seen a considerable increase in delivery capability, with a \$45.3 million increase in capital expenditure on network assets;
- published its fourth annual planning statement – *Network 2014*. The statement sets out Integral Energy's approach to meeting the competing demands on our electricity network over the next decade;
- completed the new Central Logistics Facility at Glendenning to provide a centralised support facility for all depots and consolidate essential spares with the main storage facility.

Integral Energy has delivered strong performance in recent years, achieved through focus on business fundamentals, appropriate discipline and corporate governance.

With the release in 2003-04 of the Independent Pricing and Regulatory Tribunal's Final Retail & Network determinations, Integral has a solid financial platform for the regulatory period 2004 to 2009. Integral will be investing heavily in growth and refurbishment related capital over this period.

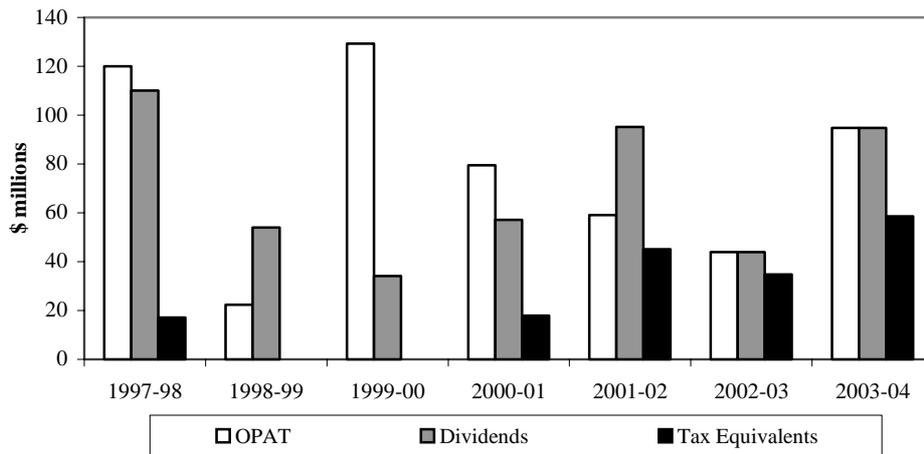
# INTEGRAL ENERGY

|                                    | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|------------------------------------|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                  |       |         |         |         |         |         |         |         |
| Employment                         | 1     | 2,039   | 1,845   | 1,668   | 1,765   | 1,944   | 2,050   | 2,176   |
| Output per Employee (GWh)          |       | 6.0     | 6.9     | 7.9     | 8.8     | 8.1     | 8.2     | 7.9     |
| Customer per Employee Ratio        | 2     | 349.1   | 385.3   | 422.0   | 443.4   | 411.8   | 400.3   | 392.7   |
| Operating Cost per Unit (\$/MWh)   | 3     | 27.0    | 25.8    | 27.4    | 27.7    | 28.5    | 28.3    | 24.8    |
| Operating Cost per Customer        | 4     | 387.5   | 398.2   | 436.3   | 507.5   | 530.9   | 554.0   | 508.5   |
| System Loss Index (%)              | 5     | 4.6     | 5.6     | 5.5     | 5.0     | 5.6     | 5.1     | 5.1     |
| Days Sick Leave per Employee       | 6     | 4.2     | 4.4     | 5.0     | 6.1     | 5.8     | 6.4     | 6.1     |
| Lost Time Injury Frequency Rate    |       | 12.2    | 13.1    | 14.2    | 12.8    | 13.3    | 7.8     | 7.0     |
| <b>Effectiveness</b>               |       |         |         |         |         |         |         |         |
| Number of customers                |       | 711,815 | 755,337 | 760,195 | 773,383 | 789,923 | 808,767 | 819,496 |
| Output (GWh)                       | 7     | 12,579  | 13,346  | 13,896  | 15,100  | 14,975  | 16,318  | 16,717  |
| Supply Reliability (Minutes)       | 8     | 139.4   | 137.7   | 123.7   | 136.3   | 133.7   | 155.1   | 147.0   |
| Nominal Average Price              |       | 81.2    | 80.9    | 72.8    | 67.1    | 67.6    | 66.1    | 69.8    |
| Real Price Index (89-90=1.00)      |       | 83.6    | 81.9    | 71.7    | 61.7    | 60.3    | 57.2    | 59.2    |
| Customer Service Indicator         | 9     |         |         |         |         |         |         |         |
| Target                             |       | n/a     | n/a     | n/a     | n/a     | 45%     | 56%     | 60%     |
| Result                             |       | n/a     | n/a     | n/a     | n/a     | 50%     | 55%     | 56%     |
| <b>Financial Indicators (\$M)</b>  |       |         |         |         |         |         |         |         |
| EBIT                               | 10    | 269.3   | 122.6   | 168.0   | 197.5   | 190.6   | 165.6   | 238.9   |
| Operating Profit After Tax         | 11    | 120.0   | 22.3    | 129.3   | 79.5    | 59.1    | 43.9    | 94.8    |
| Significant Items                  | 12    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Revenue                            | 13    | 1300.5  | 1406.6  | 1335.7  | 1239.1  | 1198.2  | 1245.3  | 1336.4  |
| Return on Net Operating Assets (%) | 14    | 11.5    | 5.5     | 7.8     | 8.2     | 7.0     | 6.1     | 8.8     |
| Return on Equity (%)               | 15    | 14.3    | 2.7     | 15.5    | 7.6     | 5.2     | 4.2     | 9.1     |
| Asset Base                         |       | 2364.4  | 2168.9  | 2187.2  | 2768.2  | 2792.7  | 2731.3  | 2781.4  |
| Asset Sales (\$M)                  |       | 28.9    | 24.2    | 27.7    | 12.3    | 11.1    | 6.5     | 31.0    |
| Financial Distribution             |       | 127.2   | 54.0    | 34.2    | 291.3   | 297.8   | 78.6    | 153.4   |
| Tax Equivalent                     | 16    | 17.1    | 0.0     | 0.0     | 17.9    | 45.1    | 34.7    | 58.6    |
| Dividend                           | 17    | 110.1   | 54.0    | 34.2    | 57.1    | 95.2    | 43.9    | 94.8    |
| Payment of Capital from Equity     | 18    | 0.0     | 0.0     | 0.0     | 216.4   | 157.5   | 0.0     | 0.0     |
| Gross External Debt                |       | 815.3   | 824.8   | 805.7   | 982.6   | 1123.3  | 1101.5  | 1091.0  |
| Gearing Ratio (Debt/Assets)%       | 19    | 41.0    | 37.6    | 36.8    | 35.5    | 40.2    | 40.3    | 39.2    |
| Times Interest Earned              | 20    | 3.6     | 1.6     | 2.3     | 2.5     | 2.4     | 2.0     | 2.9     |
| Social Programs (\$M)              | 21    | 15.5    | 15.4    | 15.4    | 15.4    | 17.9    | 19.8    | 21.2    |

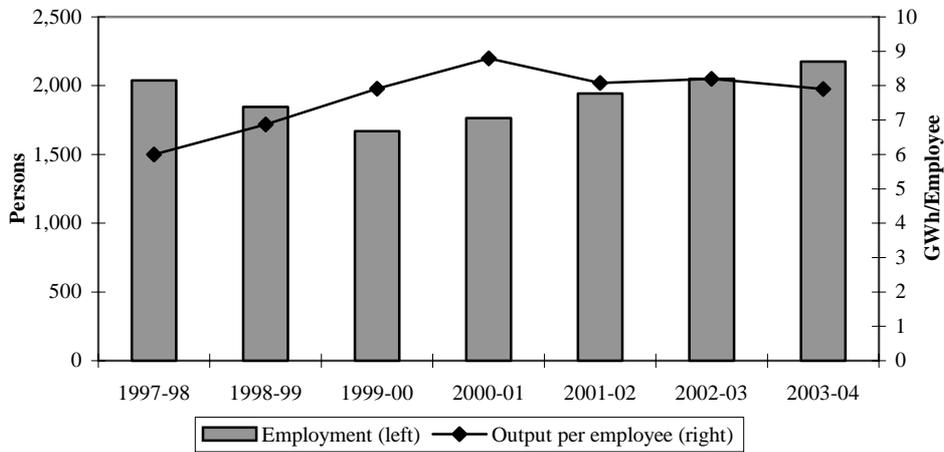
## Notes:

- 1) All dollar amounts are reported in 2003-04 dollars.
- 2) Average customers per average number of employees.
- 3) Operating expenditure including depreciation and amortisation but excluding borrowing expenses, divided by number of units sold.
- 4) Operating expenditure including depreciation and amortisation but excluding borrowing expenses, divided by the average number of customers.
- 5) Energy purchased less energy sold, divided by energy purchased.
- 6) Total sick leave days per average number of electricity employees.
- 7) Electricity sales (GWh), excluding accruals and off peak bulk transfers.
- 8) Average minutes per customer per year without supply, including planned and unplanned outages.
- 9) Factors contributing to the calculation include the number of issues with EWON, the percentage of complaints closed within 30 days and the percentage of customer service guarantee breaches.
- 10) EBIT is defined as profit from ordinary activities before income tax expense (including items previously treated as abnormals and capital contributions), less borrowing expenses.
- 11) Operating profit after tax is defined as profit from ordinary activities after income tax expense (including items previously treated as abnormals and capital contributions).
- 12) For the purposes of consistency, significant items previously subject to separate disclosure have been included within the measures of EBIT, operating profit after tax and revenue.
- 13) Revenue includes revenue from operating activities and revenues from non-operating activities, including capital contributions and any revenue items previously treated as abnormals.
- 14) EBIT (including capital contributions), divided by the average asset base.
- 15) Operating profit after tax (including capital contributions), divided by average equity.
- 16) From 1997-98 onwards, the tax equivalent has been defined as income tax payable (after taking into account deferred income tax and future income tax benefits). From 2002-03 onwards, the tax equivalent has been defined as income tax expense, in line with NSW Treasury's change in the definition of "total distribution".
- 17) Includes special dividends.
- 18) Involves a special payment to the Government.
- 19) Debt divided by the asset base.
- 20) Times interest earned calculated by adding the net interest expense to the profit from ordinary activities before income tax (including abnormals and capital contributions), and dividing by the net interest expense.
- 21) Based on reimbursement of CSO's.

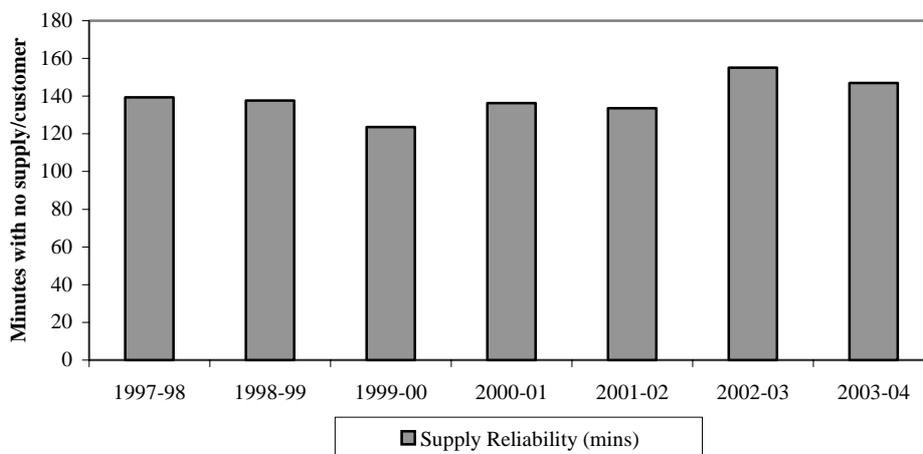
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency**



**Supply Reliability**



# **ELECTRICITY TRANSMISSION**

TransGrid





Mr John Byrne  
General Manager / Commercial  
TRANSGRID  
PO Box A1000  
SYDNEY SOUTH NSW 1235  
(02) 9284 3516

**TransGrid manages the State's high voltage electricity transmission network. Its prime objective is to provide a safe, reliable, environmentally effective and economic bulk electricity network service to its customers and the community.**

TransGrid was established on 1 February 1995 under the *Electricity Transmission Authority Act 1994*. It was established as part of the restructure of the State's electricity supply industry, to promote greater competition.

On 14 December 1998, TransGrid was corporatised under the *Energy Services Corporations Amendment (TransGrid Corporatisation) Act 1998*.

TransGrid is responsible for:

- operating, and maintaining the State's high voltage transmission network;
- planning new transmission network investments; and
- co-ordinating the transmission of electricity between transmission networks.

TransGrid achieved a post-tax profit including significant items of \$83.2 million and EBIT of \$203.5 million for 2003-04, resulting in a 6.6% return on assets. TransGrid manages assets worth \$3.4 billion. As of 30 June 2004, it had debts of \$1.5 billion, 974 staff and an annual turnover of \$438 million. Debt levels and returns fluctuate around these levels depending on the organisation's position in its capital investment cycles.

TransGrid has a significant network enhancement program in progress. The construction of a new substation at Haymarket in the Sydney Central Business District, an associated 3.5km cable tunnel into Haymarket, cable bay works at Sydney South substation and the installation of a 330kV electricity cable from Sydney South substation to Haymarket substation was completed. TransGrid also completed the construction of the Tuggerah – Sterland 330kV double circuit transmission line to meet the increasing demand for electricity in the Central Coast area.

Other capital projects currently underway include the installation of a Static VAR Compensator at Sydney West substation, the establishment of a 330/132kV transformer with associated 132kV equipment at Waratah West switching station, and the development of a new 330/132kV substation to replace the existing substation at Yass. TransGrid's Capital Program over the next five years includes the establishment of new network assets and network augmentation works to reinforce supply to the north coast and western areas of the State.

TransGrid's health and safety performance continues to rate highly within the industry. Occupational Health and Safety risk management provides the major focus in striving for the organisation's goal of zero injuries, occupational illnesses and incidents. Consultation and communication strategies aim at promoting a positive safety culture amongst all employees, contractors and visitors to TransGrid sites.

TransGrid seeks to manage its existing business efficiently by adopting best practice operations and maintenance procedures, identified through participation in international benchmarking studies.

TransGrid's future direction will be defined by:

- a focus on maintaining its high service standards;
- a strong commercial focus;
- seeking opportunities to develop partnerships with customers and suppliers; and
- actively developing its business in a number of arenas, such as telecommunications, contestable network extensions, provision of consultative and training services, and participation in interstate and international engineering projects.

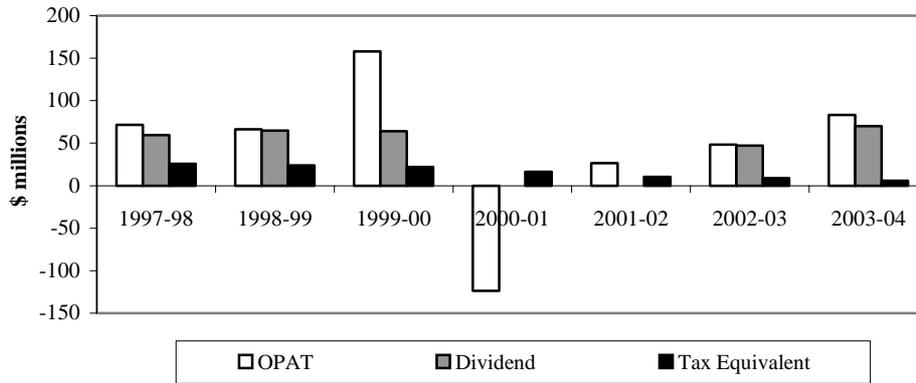
# TRANSGRID

|  | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|--|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                          |       |         |         |         |         |         |         |         |
| Employment                                 |       | 1,043   | 1,023   | 976     | 946     | 954     | 964     | 974     |
| Trans. System Reliability (System minutes) | 1     | 1.21    | 0.96    | 4.23    | 0.67    | 0.44    | 4.40    | 2.22    |
| Trans. Equip Utilisation Factor            | 2     | 0.28    | 0.30    | 0.31    | 0.31    | 0.32    | 0.32    | 0.32    |
| Transmission Losses (%)                    |       | 3       | 3       | 3       | 3       | 3       | 3       | 3       |
| Transmission Circuit (km)                  |       | 11,465  | 11,465  | 11,650  | 12,031  | 12,424  | 12,420  | 12,446  |
| Average Lost Time                          |       | 14.2    | 7.0     | 6.9     | 10.9    | 9.7     | 7.3     | 18.6    |
| Lost Time Injury Frequency Rate            |       | 6.7     | 5.4     | 8.3     | 6.3     | 4.7     | 2.1     | 3.6     |
| <b>Finances (\$M)</b>                      |       |         |         |         |         |         |         |         |
| EBIT                                       | 3     |         |         |         |         |         |         |         |
| Operating Profit After Tax                 | 4     | 225.4   | 212.5   | 267.6   | -11.1   | 142.5   | 173.3   | 203.5   |
| Significant Items                          | 4     | 71.8    | 66.5    | 158.0   | -123.9  | 26.6    | 48.4    | 83.2    |
| Revenue                                    |       | 14.6    | 0.0     | 77.3    | -190.7  | -41.3   | -13.9   | 14.7    |
| Return on Total Assets (%)                 |       | 452.9   | 446.9   | 425.2   | 394.9   | 405.3   | 420.8   | 438.0   |
| Return on Equity (%)                       |       | 8.9     | 8.2     | 9.8     | -0.4    | 5.2     | 6.2     | 6.6     |
| Asset Base                                 |       | 5.5     | 4.7     | 10.4    | -9.6    | 2.3     | 4.3     | 6.3     |
| Financial Distribution                     |       | 2509.6  | 2676.3  | 2813.5  | 2758.5  | 2807.7  | 2867.1  | 3383.4  |
| Dividend                                   |       | 59.4    | 64.7    | 64.2    | 0.0     | 0.0     | 47.2    | 70.0    |
| Corporate Tax Equivalent                   |       | 25.9    | 24.0    | 22.1    | 16.4    | 10.5    | 8.7     | 5.7     |
| Payment of Capital from Equity             |       | 0.0     | 0.0     | 0.0     | 281.3   | 0.0     | 61.3    | 0.0     |
| Dividend to Equity Ratio                   |       | 5.4     | 5.1     | 4.8     | 0.0     | 0.0     | 4.2     | 4.6     |
| Dividend Payout Ratio                      |       | 85.0    | 85.0    | 85.0    | 0.0     | 0.0     | 97.5    | 84.2    |
| Debt to Equity (%)                         |       | 71.4    | 60.8    | 62.4    | 121.1   | 119.6   | 123.6   | 100.5   |
| Gearing Ratio (Debt/Assets) %              |       | 37.6    | 34.1    | 34.9    | 50.4    | 49.6    | 49.4    | 45.0    |
| Gross External Debt                        |       | 944.4   | 912.9   | 980.6   | 1389.1  | 1391.3  | 1418.2  | 1523.6  |
| Times Interest Cover                       |       | 2.0     | 2.0     | 3.0     | -0.1    | 1.6     | 1.9     | 2.3     |

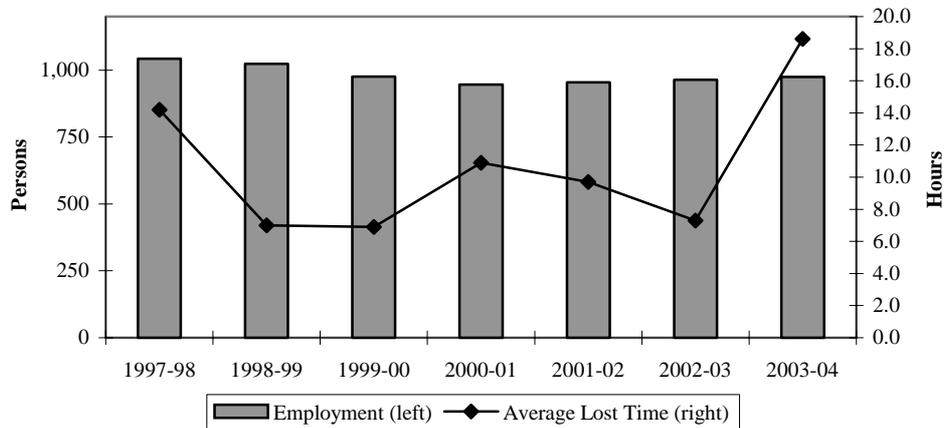
Notes:

- 1) System Minutes provides an overall indicator of Network Reliability encapsulating combined effectiveness of network planning, design, operation and maintenance. Two incidents occurred during 2002-03 that affected system reliability. At Orange Substation on 11th October 2002, an equipment flashover whilst system switching was being performed led to the loss of supply to Country Energy and Integral Energy. At Lismore Substation on 27th December 2002, a fault on the 132kV Koolkhan - Lismore transmission line led to the loss of supply to Country Energy. System reliability during 2003-04 was affected by a transformer failure at Newcastle Substation in June 2004.
- 2) Trans. Equip Utilisation Factor is expressed as the ratio of the total energy delivered (MWh) to the total energy delivering capacity of transmission transformers.
- 3) All dollar amounts reported in terms of 2003-04 dollars.
- 4) Includes significant items.

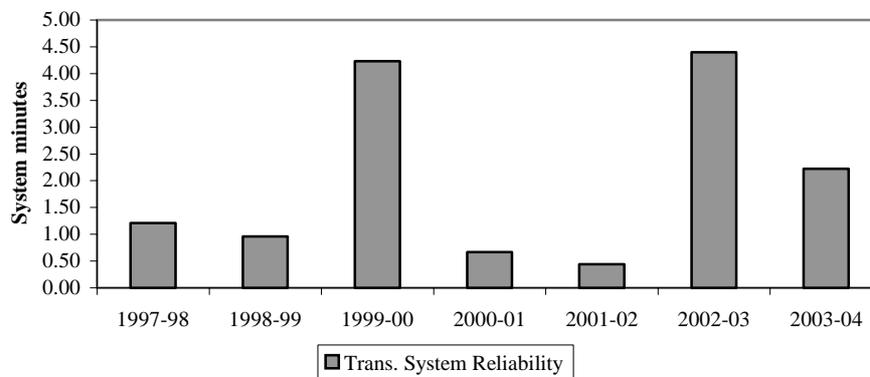
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency**



**Supply Reliability**



# **WATER**

Hunter Water Corporation

State Water

Sydney Catchment Authority

Sydney Water Corporation





Mr Kevin Young  
Managing Director  
HUNTER WATER CORPORATION  
PO Box 5171  
HRMC NSW 2310  
(02) 4979 9799

**Hunter Water Corporation (HWC) is the water and wastewater service provider to the Lower Hunter region. Its service area covers around 5,400 square kilometres and the Local Government areas of Maitland, Cessnock, Port Stephens, Lake Macquarie and Newcastle. The Corporation serves almost half a million people, occupying around 200,000 properties.**

HWC's activities include the collection, storage, treatment and delivery of drinking water, and the collection, transport, treatment and disposal of wastewater.

Two key instruments set the framework for HWC's operations:

1. the Statement of Corporate Intent, which sets out HWC's business objectives; and
2. the regulatory framework, by which the Government regulates HWC to protect consumers and the environment. It includes:
  - an Operating Licence issued by the New South Wales Government, incorporating recommended conditions from the Independent Pricing and Regulatory Tribunal (IPART), which specifies required customer service standards and other environmental commitments;
  - independent auditing of performance against the Operating Licence;
  - a water management licence and approvals under the *Water Management Act* issued by the Department of Infrastructure, Planning and Natural Resources (DIPNR), specifying the terms and conditions under which HWC has access to surface and underground water;
  - wastewater system licences (transport and treatment) issued by the Department of Environment and Conservation under the *Protection of the Environment (Operations) Act 1997*;
  - independent pricing determination by IPART; and
  - a Memorandum of Understanding with the Department of Health.

In 2003-04 HWC's Earnings Before Interest and Tax increased in real terms from \$41.2 million to \$48.8 million. This was primarily the result of a favourable superannuation adjustment of \$2.2 million being recognised for 2003-04 (\$8.4 million unfavourable in 2002-03). The superannuation income represented the change in HWC's estimated liability with respect to defined benefit superannuation funds as a result of improved fund performance during the year.

Improved price performance resulted from HWC's continued pursuit of operational and capital cost savings. The emphasis on usage-based charging is continuing, with two effects:

1. maintaining a strong price signal. This has enabled HWC to achieve a sustained reduction in water consumption over the past 20 years; and
2. the reduction in fixed charges and emphasis on usage charges has meant that businesses have greater scope for controlling the costs they incur.

Since the 'user pays' pricing method was introduced, cross-subsidies have been progressively eliminated. HWC's pricing structure has two components: a fixed charge that reflects service availability; and a usage charge calculated on the amount of water used. In 2003-04, a "typical householder's bill" fell by around \$11 in real terms. Over the last decade, water and sewer charges per customer fell in real terms by around 17% while performance against key customer system standards (eg water quality, service interruption, effluent discharge standards and sewer overflows) has been strong.

In May 2003, IPART published a two-year price determination effective from 1 July 2003 and in force until 30 June 2005. The determination provided for an overall price outcome marginally (about 0.4%) above the rate of inflation. IPART estimated that the bill increase for a typical residential customer in the Hunter will be less than 50 cents per week. This determination was the first time in over a decade the Tribunal had allowed increases greater than the rate of inflation.

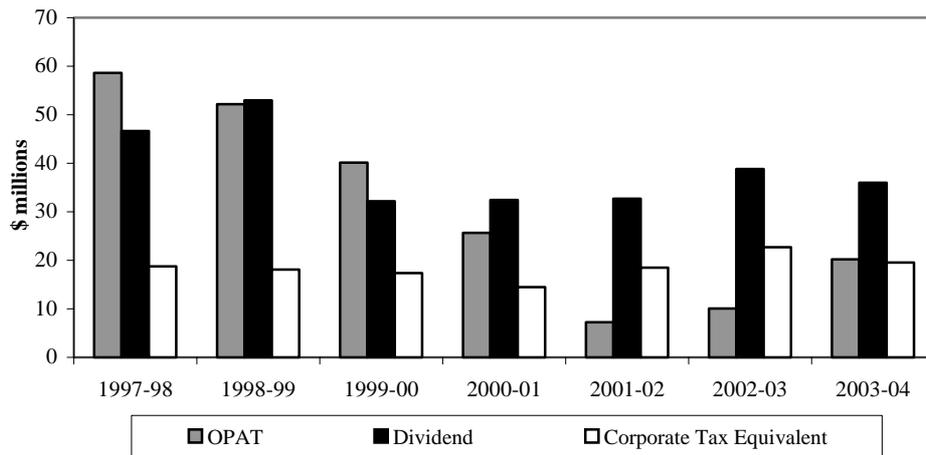
# HUNTER WATER CORPORATION

|   | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                       |       |         |         |         |         |         |         |         |
| Employment                              | 1     |         |         |         |         |         |         |         |
| Employees per '000 Properties           | 2     | 555     | 543     | 541     | 532     | 526     | 536     | 548     |
| Labour Cost per Property Served (\$)    |       | 2.9     | 2.8     | 2.8     | 2.7     | 2.6     | 2.6     | 2.6     |
| Operating Cost / Property (\$)          | 2     | 186.5   | 169.6   | 164.4   | 149.3   | 152.6   | 151.8   | 162.4   |
| Total Cost / Property(\$)               | 2     | 339.3   | 319.4   | 316.0   | 298.9   | 293.6   | 310.9   | 314.4   |
| Average Revenue per Property (\$)       | 3     | 573.7   | 539.6   | 532.7   | 499.4   | 492.3   | 523.0   | 542.4   |
| Outstanding Accounts (\$M)              | 4     | 754.6   | 701.3   | 662.1   | 628.4   | 611.4   | 632.6   | 623.8   |
| Hours Lost Industrial Disputes/Employee |       | 2.4     | 3.2     | 2.5     | 2.3     | 2.4     | 1.9     | 1.8     |
| Lost Time Frequency Rate                |       | 0.0     | 0.0     | 0.0     | 0.0     | 8.0     | 0.0     | 7.8     |
|   |       | 16.8    | 11.6    | 12.9    | 16.0    | 17.6    | 14.0    | 23.6    |
| <b>Effectiveness</b>                    |       |         |         |         |         |         |         |         |
| Number of Properties Connected ('000)   | 5     | 189.4   | 192.7   | 195.7   | 198.6   | 201.6   | 205.0   | 208.5   |
| New Housing Lots Connected              |       | 3115    | 3332    | 3005    | 2904    | 2950    | 3428    | 3530    |
| Megalitres Supplied ('000)              |       | 80.6    | 76.0    | 76.6    | 78.1    | 73.1    | 77.4    | 74.1    |
| Unsewered Lots ('000)                   |       | 14.0    | 14.1    | 13.7    | 13.4    | 13.0    | 12.8    | 12.2    |
| System Reliability:                     |       |         |         |         |         |         |         |         |
| Water Main Breaks per 100kms            |       | 52.1    | 34.7    | 49.2    | 44.1    | 42.8    | 46.6    | 45.9    |
| Sewermain Chokes per 100kms             | 6     | 76.5    | 53.7    | 48.2    | 57.0    | 30.7    | 38.9    | 45.8    |
| Average Response Time (hours)           | 7     |         |         |         |         |         |         |         |
| Watermain Breaks                        |       | 1.1     | 1.1     | 0.9     | 1.2     | 1.1     | 1.3     | 1.1     |
| Sewermain Chokes                        |       | 1.0     | 0.9     | 1.0     | 1.0     | 1.1     | 1.1     | 1.1     |
| Compliance to Operating License         |       |         |         |         |         |         |         |         |
| Microbiological - Faecal (%)            |       | 99.6    | 99.4    | 99.7    | 99.7    | 99.4    | 99.9    | 99.7    |
| Microbiological - Total (%)             |       | 98.7    | 98.4    | 99.2    | 98.6    | 98.5    | 99.3    | 98.9    |
| Physical / Chemical (%)                 |       | 99.0    | 99.3    | 99.6    | 99.5    | 99.7    | 99.9    | 100.0   |
| Waste Water (%)                         | 8     | 100.0   | 100.0   | 100.0   | 99.8    | 99.9    | 98.4    | 97.6    |
| Real Price Index                        |       | 66.9    | 65.6    | 64.3    | 63.3    | 62.4    | 61.4    | 61.7    |
| <b>Financial Indicators (\$M)</b>       |       |         |         |         |         |         |         |         |
| EBIT                                    | 1     |         |         |         |         |         |         |         |
| Operating Profit After Tax              | 9     | 68.9    | 55.5    | 60.5    | 44.0    | 33.3    | 41.2    | 48.8    |
| Significant Items (incl in EBIT & OPAT) |       | 58.6    | 52.2    | 40.1    | 25.7    | 7.2     | 10.0    | 20.2    |
| Revenue (Total Tariff Income)           |       | 20.5    | 10.3    | 20.8    | 5.6     | -5.6    | -0.6    | 10.5    |
| Return on Assets (%)                    | 10    | 142.9   | 135.2   | 129.6   | 124.8   | 123.2   | 129.7   | 130.1   |
| Total                                   |       | 2.81    | 2.27    | 2.67    | 2.02    | 1.51    | 1.85    | 2.17    |
| Core                                    |       | 3.13    | 2.53    | 2.99    | 2.19    | 1.69    | 2.00    | 2.29    |
| Return on Equity (%)                    |       | 2.63    | 2.36    | 1.94    | 1.28    | 0.37    | 0.51    | 1.02    |
| Asset Base (Total)                      |       | 2,448.8 | 2,443.9 | 2,261.9 | 2,185.0 | 2,199.7 | 2,225.9 | 2,248.2 |
| Asset Sales                             |       | 4.3     | 1.5     | 4.0     | 1.3     | 2.1     | 1.8     | 1.4     |
| Financial Distributions                 |       |         |         |         |         |         |         |         |
| Tax Equivalents                         |       | 18.8    | 18.1    | 17.4    | 14.5    | 18.5    | 22.7    | 19.5    |
| Dividend                                |       | 46.6    | 52.9    | 32.2    | 32.5    | 32.7    | 38.8    | 36.0    |
| Gross External Debt                     |       | 100.5   | 98.8    | 96.2    | 90.5    | 137.7   | 132.7   | 124.9   |
| Debt / Equity (%)                       |       | 4.5     | 4.5     | 4.7     | 4.5     | 7.1     | 6.8     | 6.3     |
| Gearing Ratio (Debt/Asset base) (%)     |       | 4.1     | 4.0     | 4.3     | 4.1     | 6.3     | 6.0     | 5.6     |
| Times Interest Earned                   | 11    | 8.0     | 7.3     | 6.3     | 4.6     | 1.8     | 2.1     | 3.2     |
| Community Service Obligations           |       | 9.9     | 9.7     | 9.5     | 9.2     | 9.1     | 8.9     | 9.0     |

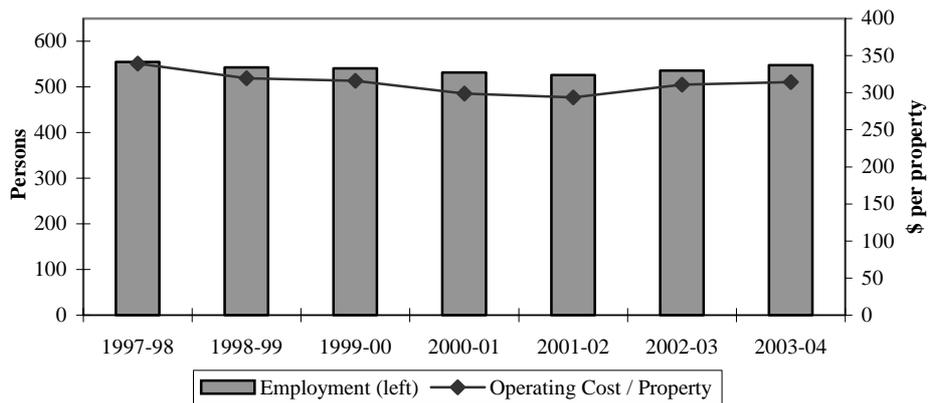
## Notes:

- All dollar amounts reported in terms of 2003-04 dollars.
- The cost of external sales relating to a new subsidiary Regional Land Management Corporation (RLMC) have increased this ratio from 2002-03. The impact of RLMC is evident in employee numbers also.
- In 2002-03, Total Costs were impacted by the level of employee benefits required to be provided as a result of the poor defined benefit superannuation funds performance, as well as the incorporation of the subsidiary RLMC. In 2003-04 Total Costs have been impacted by increased regulatory costs along with higher depreciation charges due to a large number of low-lived assets being added to the fixed asset register.
- Changes in revenue are significantly influenced by the weather. Reductions since 1999 also reflect the staged closure of BHP and some other large users.
- Properties Connected figures exclude unconnected vacant lands.
- Blockages in mains only (i.e. excludes shafts and branches). For 2001-02 and onwards only 'confirmed' blockages are included. This is consistent with the Corporation's new Operating Licence.
- Represents priority 1 and 2 jobs only.
- Proportion of waste receiving secondary or tertiary treatment.
- EBIT represents total earnings before dividend and tax and includes items previously referred to as 'abnormals' and contributions for capital works but excludes net interest. (Refer 'significant items' which impacted profit).
- Rates of return are calculated using EBIT divided by Total Assets or Fixed assets (excl WIP). Consequently ROR will be impacted by, for example, 'significant' items.
- Times Interest Earned represents Total Operating Profit After Tax (including 'significant' items) but before net interest expense divided by net interest expense.

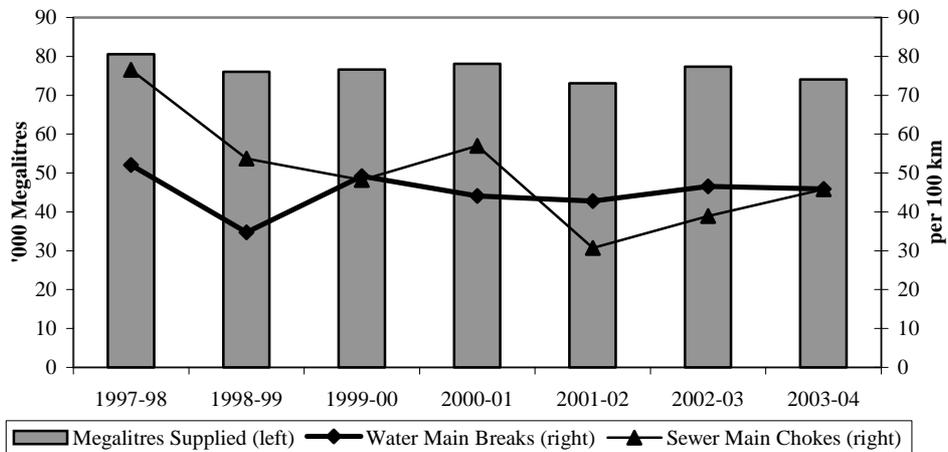
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service**





Russell Simons  
Chief Financial Officer  
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**State Water owns 19 large dams, one small dam, and manages another 11 small dams on behalf of Department of Lands. State Water also owns and manages more than 280 weirs and regulators on rivers.**

In 2003-04, State Water was part of the Department of Energy, Utilities and Sustainability and before that, Department of Land and Water Conservation. The establishment of State Water as the rural bulk water delivery business was an important element of the government's water reforms, in line with the Council of Australian Government's National Competition Policy reforms. State Water was established as a State Owned Corporation (SOC) on 1 July 2004. The Fish River Water Supply Authority became part of State Water on 1 January 2005.

The drought conditions of 2002-03 continued into the 2003-04 year, pushing most of the state into "worst drought on record" conditions. Despite the prolonged drought, State Water delivered 3,400GL of water to its customers, slightly less than the 4,000GL delivered the previous year. Some good rain falling in late 2004 shows promise of the drought breaking.

The recurrent expenditure in 2003-04 was \$24 million while State Water forecasted expenditure of \$29 million was in line with the IPART determination. The lower than expected expenditure was due to staff vacancies not being filled and the management of the capital works program to compensate for the reduced water sales due to the drought.

State Water spent \$22.2 million on capital expenditure against a budget of \$24.4 million. This was due to longer than expected consultation and planning with key stakeholders and the community. An amount of \$800,000 was spent at Chaffey Dam with the completion of interim works to reduce the immediate risk of flood damage at the dam. These interim works enable time for planning and evaluation of the long-term options to bring Chaffey Dam to safety compliance. Other dams which do not meet the requirements of flood and seismic security prescribed by the regulator are being assessed by State Water.

State Water completed 30 safety audits on the dams and reviewed five dam safety emergency plans.

Other major items of capital expenditure were:

- major periodic maintenance of dams (\$3.7 million);
- river structures (\$4.9 million); and
- State Water spent \$1.7 million on Total Asset Management Planning and Implementation (TAMP). This TAMP identifies State Water assets condition assessments, portfolio risk assessment and develops lifecycle management programs.

Cost recovery on regulated rivers is dependent on pricing determined by IPART and the volume of water sold. Council of Australian Governments and the National Competition Council require water delivery agencies such as State Water to move to full cost recovery of costs attributable to users. Based on long-term average water revenue, IPART estimated that regulated water prices would fully recover costs in most valleys by June 2004. Unregulated and groundwater prices are not at full cost recovery levels.

## STATE WATER

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|   | <u>Notes</u> | <u>2002-03</u> | <u>2003-04</u> |
|---|--------------|----------------|----------------|
| <b>Efficiency</b>                           | 1            |                |                |
| Employment                                  |              | 264            | 253            |
| Operating Cost/Licence (\$)                 | 2            | 3,545          | 3,513          |
| Lost Time Frequency Rate (%)                |              | 0.2            | 0.7            |
| Regulated Metering Costs/Licensed Works     |              | 638            | 598            |
| Billing Costs/Invoices Raised (%)           |              | 38.0           | 47.0           |
| Billing Costs/Revenue (%)                   |              | 1.6            | 2.0            |
| Time, Shortfalls in Operational Targets (%) | 3            | 15.0           | 15.0           |
| Water Operation Costs/ML Delivered          |              | 2              | 2              |
| Number of Temporary Transferred Processed   |              | 3,585          | 2,273          |
| Volume of Temporary Transfers (GL)          |              | 555            | 435            |
| <b>Effectiveness</b>                        |              |                |                |
| Number of Licences                          |              |                |                |
| Regulated                                   |              | 6,274          | 6,024          |
| Unregulated                                 |              | 13,142         | 10,910         |
| Groundwater                                 | 4            | 6,600          | 6,838          |
| Major Structures Audited                    |              | 22             | 22             |
| Dam Safety Audits Completed                 |              | 36             | 30             |
| Dam Safety Emergency Plans Completed        |              | 10             | 5              |
| Five Yearly Dam Reviews Completed           |              | 3              | 2              |
| MegaLitres Supplied (000)                   | 3            | 4,080          | 3,400          |
| <b>Financial Indicators (\$)</b>            | 1            |                |                |
| Asset Base (Total)                          |              | 2,025.7        | 2,017.0        |
| Capital Works Expenditure                   |              | 15.7           | 22.2           |
| Cost Recovery Regulated Rivers              | 3            | 88.0           | 89.0           |
| Cost Recovery Unregulated Rivers            | 3            | 46.0           | 50.0           |

Notes:

- 1) All dollar amounts reported in terms of 2002-03 dollars.
- 2) Regulated water only.
- 3) Estimate.
- 4) Number of billed Groundwater customers.





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## **SYDNEY CATCHMENT AUTHORITY**

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**The Sydney Catchment Authority's (SCA) role is to manage and protect the catchments and infrastructure and to supply bulk raw water to the Sydney Water Corporation and other customers.**

The SCA's operations cover 16,000 square kilometres. Its dams and reservoirs supply the bulk raw water requirements of around 60% of New South Wales' population, mainly residing in Sydney, Illawarra and Blue Mountains. The SCA storages have a capacity of approximately 2.4 million megalitres of water, in 21 dams.

The regulatory framework applicable to the SCA includes:

- *Sydney Water Catchment Management Act 1998*;
- water management licence;
- operating licence;
- statement of financial framework;
- various memoranda of understanding; and
- bulk water supply agreement with Sydney Water.

A significant event of 2003-04 for SCA was the deferral of the scheduled review of its operating licence. In September 2002, the Independent Pricing and Regulatory Tribunal (IPART) released its findings relating to the mid-term review of SCA's Operating Licence. IPART recommended that no changes be made to the operating licence. In March 2004, IPART postponed the end of term review of the SCA's operating licence, with a consequent renewal of the existing licence to 31 December 2005.

In September 2000, IPART issued a determination of the SCA's maximum prices for the period 1 October 2000 to 30 June 2005. In May 2003, IPART released a mid-term review of this determination agreeing to a continuation of the existing price path, which provides for CPI increases for prices for water sold to Sydney Water. IPART's next determination of the SCA's prices is due in May 2005 (to apply from 1 July 2005 onwards).

Level 1 mandatory water restrictions were introduced in Sydney, Illawarra and Blue Mountains areas on 1 October 2003. Level 2 restrictions started on 1 June 2004. At the end of June 2004, the volume of water in storage stood at 47.5% of capacity, with Warragamba Dam at 44%. Sales to Sydney Water fell to 556ML in 2003-04 (from 631ML in 2002-03).

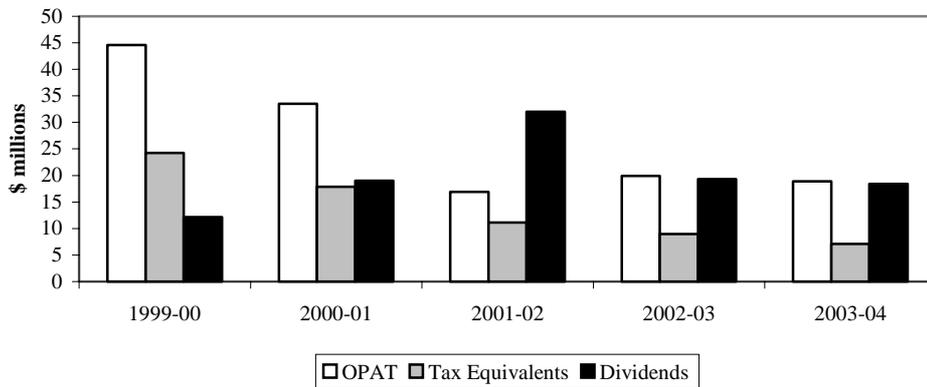
# SYDNEY CATCHMENT AUTHORITY

|   | Notes | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|-------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>   |       |         |         |         |         |         |
|   | 1     |         |         |         |         |         |
| Employment (incl. Contractors)  |       | 160     | 227     | 252     | 264     | 297     |
| Hours Lost to Industrial Disputes per Employee                        |       | 0.9     | 0.0     | 0.0     | 0.0     | 0.0     |
| Lost Time Frequency Rate  | 2     | 6.8     | 17.2    | 17.1    | 9.0     | 15.9    |
| Catchment Management Expenditure/ ML Supplied (\$)                    |       | 25.6    | 30.2    | 40.6    | 35.4    | 35.2    |
| Dam Safety Expenditure/ ML Supplied (\$)                              |       | 4.9     | 2.5     | 2.4     | 3.7     | 4.0     |
| Amount Energy[KWH] / ML of Bulk Water Supplied                        | 3     | 6.8     | 9.2     | 8.6     | 96.6    | 174.3   |
| <b>Effectiveness</b>  |       |         |         |         |         |         |
| Megalitres Supplied (000)   |       | 606.5   | 630.6   | 629.2   | 636.0   | 559.6   |
| Number of Planned Maintenance Shutdowns                               |       | 1       | 3       | 3       | 2       | 1       |
| Number of Unplanned Maintenance Shutdowns                             |       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Environmental Flow Targets Met (%)                                    |       | N/A     | 99.7    | 99.8    | 99.8    | 98.4    |
| Health-related compliance to Australian Drinking Water Guidelines (%) |       | N/A     | 99.7    | 100.0   | 100.0   | 100.0   |
| Presence of Key Contaminants (Number of Times)                        | 4     | 5       | 6       | 25      | 4       | 7       |
| Compliance to Bulk Water Supply Agreement (%)                         |       | N/A     | 96.1    | 97.9    | 98.5    | 94.1    |
| Continuity of Water Supply (%)  |       | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |
| Maintenance of Adequate Reserves of Water:                            |       |         |         |         |         |         |
| Reliability (%)   | 5     | 100.0   | 100.0   | 100.0   | 100.0   | N/A*    |
| Robustness (%)  | 6     | 100.0   | 100.0   | 100.0   | 100.0   | N/A*    |
| Security (%)  | 7     | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |
| Compliance to Dam Safety and ANCOLD Guidelines (%)                    | 8     | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |
| Real Price Index  | 9     | 100.0   | 100.0   | 102.9   | 105.9   | 109.2   |
| <b>Financial Indicators (\$M)</b>                                     |       |         |         |         |         |         |
|   | 1     |         |         |         |         |         |
| EBIT  |       | 78.7    | 61.8    | 39.8    | 41.2    | 37.9    |
| Significant Items:  | 10    | 0.0     | 0.0     | 11.4    | 4.1     | 6.3     |
| Operating Profit after Income Tax                                     |       | 44.6    | 33.5    | 16.9    | 19.9    | 18.9    |
| Revenue (Total Tariff Income)   |       | 134.7   | 130.3   | 129.4   | 129.6   | 122.2   |
| Return on Assets (%)  |       | 9.8     | 7.7     | 5.2     | 5.6     | 5.1     |
| Return on Equity (%)  |       | 7.7     | 5.9     | 3.1     | 3.9     | 3.8     |
| Asset Base (Total)  |       | 845.4   | 807.4   | 746.3   | 751.5   | 745.7   |
| Asset Sales   |       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Financial Distributions:  |       |         |         |         |         |         |
| Tax Equivalents   |       | 24.2    | 17.9    | 11.1    | 9.0     | 7.1     |
| Dividend  |       | 12.2    | 19.0    | 32.0    | 19.3    | 18.4    |
| Gross External Debt   |       | 184.5   | 173.4   | 167.9   | 178.3   | 186.3   |
| Debt/ Equity (%)  |       | 30.9    | 30.1    | 32.0    | 35.0    | 37.3    |
| Gearing Ratio (Debt/Asset Base) (%)                                   |       | 21.8    | 21.5    | 22.5    | 23.7    | 25.0    |
| Funds Flow Interest Coverage  |       | 9.6     | 7.6     | 4.6     | 5.0     | 3.6     |
| Pre-Tax Interest Coverage   |       | 7.9     | 5.9     | 3.4     | 3.4     | 3.2     |
| Funds Flow Net Debt Payback Ratio                                     |       | 2.2     | 2.8     | 5.1     | 3.7     | 6.4     |
| Funds From Operations/ Total Debt Ratio (%)                           |       | 33.0    | 30.0    | 19.0    | 22.0    | 12.9    |

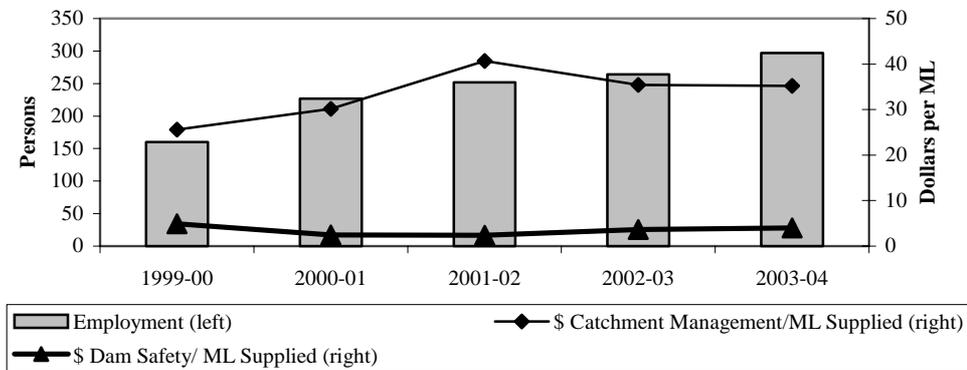
## Notes:

- 1) All dollar amounts reported in terms of 2002-03 dollars.
- 2) Incidents per million hours worked.
- 3) 2002-03 and 2003-04 include Shoalhaven pumping. Approximately 112,500 megalitres were pumped from Tallowa Dam (Shoalhaven River) during the last financial year to augment Sydney's supply. Coupled with the reduction in total ML sold, this resulted in an increase in energy usage to 174.8 kWh/ML in 2003-04 (compared with 96.6 kWh/ML in the previous year when 30,000 ML was pumped).
- 4) Number of positive confirmation of viable Cryptosporidium and Giardia in the bulk delivery system.
- 5) % of months Sydney Water Corporation demand met (i.e. no restrictions).
- 6) % of years SWC demand met (i.e. no restrictions).
- 7) % time average water level > 5%.
- 8) Dam Safety Committee Requirements. Australian National Committee on Large Dams (ANCOLD) Guidelines.
- 9) 99-00 SWC price = 100.
- 10) Included in EBIT & Operating Profit after Tax is Accelerated Sewerage Scheme (\$4 million in 2001-02 and 2002-03), Loss on Transfer of Land (\$6.9 million in 2001-02) and Shoalhaven pumping (\$6.3 million in 2003-04).
- \* Water restrictions commenced in October 2003 and remained in place throughout the quarter. However no robustness figure can be allocated as, according to the Operating Licence, robustness is measured over a long period of time (over 100 years). The Licence describes Robustness in terms of restrictions occurring on an average 10 years in every 100 years.

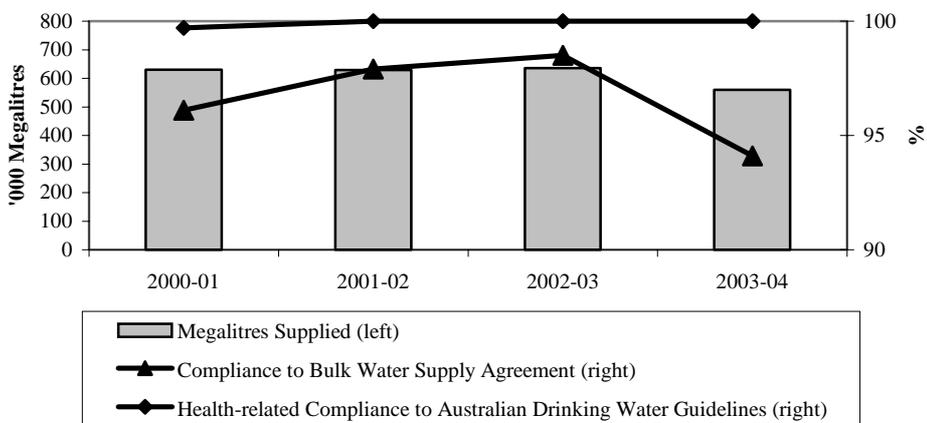
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Effectiveness**



Sydney  
***WATER***

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**Following prolonged dry weather conditions, 2003-04 saw mandatory water restrictions introduced within Sydney Water's area of operations. Level 1 restrictions became effective from 1 October 2003, ramping up to Level 2 restrictions from 1 June 2004. At the end of June 2004, storage levels across Sydney, the Blue Mountains and the Illawarra had fallen below 50%.**

In 2003-04, profit after income tax rose by \$141.1 million in real terms to \$269.5 million compared to the previous year. Profit was positively impacted by a number of factors, including:

- lower superannuation costs owing to improved investment performance by the superannuation fund managers;
- a write-back of general insurance and worker's compensation provisions due to lower than budgeted premiums and reduced claim payments;
- lower depreciation – arising from a reduction in asset values as a consequence of implementing Condition-Based Asset Valuation and Cash Generating Unit Test valuation methods; and
- lower bulk water purchases and treatment costs due to the impact of water restrictions.

This was partially offset by lower water sales revenue, reflecting the impact of ongoing mandatory water restrictions and lower capital contributions due to less-than-expected developer activity.

While the profit target for 2003-04 was exceeded, this is largely due to the impact of several non-recurrent factors that do not improve the underlying profitability and cash position of the Corporation.

In 2003-04, the Corporation invested \$507 million on capital works to ensure that asset performance was not only maintained but also continued to improve.

During the year the Board of Sydney Water approved a downward revaluation of Sydney Water's system assets, as of 1 July 2003, of \$2.5 billion to a balance of \$10.4 billion. This was adjusted against the Asset Revaluation Reserve, lowering its current balance to \$4.4 billion. This action followed the implementation of Condition-Based Asset Valuation and Cash Generating Unit Test valuation methods.

Sydney Water faces a number of key challenges over the next financial year. A new Operating Licence is currently being negotiated. In addition Sydney Water will be making a price submission to the Independent Pricing and Regulatory Tribunal for new prices for its regulated services from 1 July 2005. The current environment of water restrictions, continued urban growth and the need to conserve water will play a major role in the negotiations for the new Operating Licence and the setting of new prices from 1 July 2005.

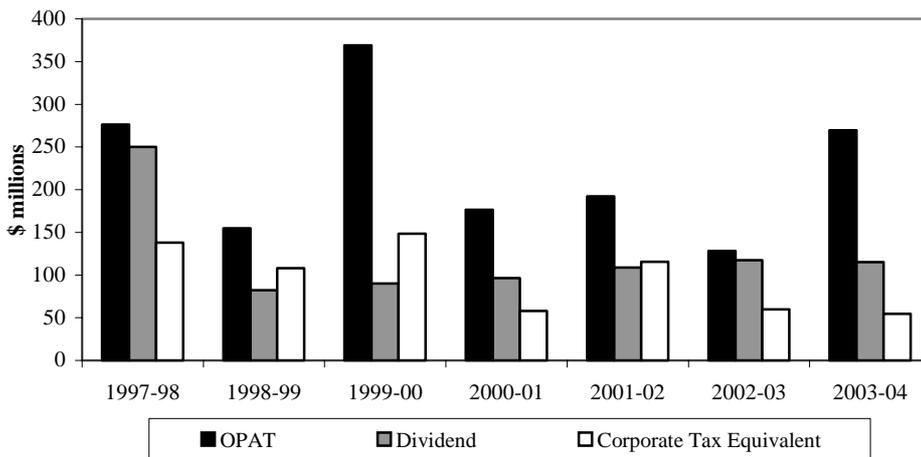
# SYDNEY WATER CORPORATION

|  | Notes | 1997-98  | 1998-99  | 1999-00  | 2000-01  | 2001-02  | 2002-03  | 2003-04  |
|--|-------|----------|----------|----------|----------|----------|----------|----------|
| <b>Efficiency</b>  | 1     |          |          |          |          |          |          |          |
| Employment   |       | 4,629    | 4,470    | 3,766    | 3,676    | 3,556    | 3,518    | 3,435    |
| Operating Cost per Property (\$)                           |       | 512.7    | 538.2    | 571.9    | 515.6    | 476.8    | 460.4    | 434.4    |
| Employees per '000 Properties                              |       | 3.0      | 2.9      | 2.4      | 2.3      | 2.2      | 2.1      | 2.1      |
| Revenue Collection as Percentage of Billed                 |       | 98.5     | 98.3     | 98.2     | 98.2     | 97.9     | 98.2     | 98.4     |
| Capital Works:   |       |          |          |          |          |          |          |          |
| Expenditure/Earned Value (%)                               | 2     | 89.0     | 101.5    | 100.7    | 101.6    | 108.9    | 96.2     | 94.6     |
| Percentage Time Lost to Unplanned Absences                 |       | 2.8      | 2.8      | 3.0      | 2.4      | 2.6      | 2.6      | 3.4      |
| Injury Incidence Rate                                      | 3     | 3.7      | 3.8      | 3.3      | 2.2      | 2.1      | 1.8      | 1.6      |
| Injury Frequency Rate                                      | 4     | 21.4     | 21.8     | 18.2     | 11.9     | 12.3     | 10.3     | 9.7      |
| <b>Service</b>   |       |          |          |          |          |          |          |          |
| Million Properties Served                                  |       | 1.5      | 1.6      | 1.6      | 1.6      | 1.6      | 1.6      | 1.7      |
| New Properties Served ('000)                               |       | 23.1     | 28.1     | 30.5     | 28.5     | 24.7     | 27.5     | 27.8     |
| Megalitres Supplied ('000)                                 |       | 620      | 600      | 602      | 625      | 624      | 635      | 563      |
| Capital Works Contracted Out (%)                           |       | 100      | 100      | 100      | 100      | 100      | 100      | 100      |
| System Reliability   |       |          |          |          |          |          |          |          |
| Mainbreaks per 100 Km                                      |       | 48.5     | 43.2     | 40.7     | 37.9     | 37.3     | 50.5     | 37.6     |
| Sewerchokes per 100 Km                                     |       | 112.0    | 80.9     | 62.5     | 70.1     | 67.6     | 83.0     | 72.9     |
| Water Resource Management                                  |       |          |          |          |          |          |          |          |
| Quality Guidance Compliance (1980)                         |       |          |          |          |          |          |          |          |
| Health (%)   |       | 99.8     | 97.0     | 99.7     | 99.8     | 99.8     | 100.0    | 99.8     |
| Aesthetics (%)   |       | 99.5     | 99.5     | 98.9     | 98.3     | 97.6     | 98.5     | 97.8     |
| Waste Water Management:                                    |       |          |          |          |          |          |          |          |
| Solids Removed (%)   |       | 60       | 60       | 60       | 60       | 55       | 60       | 56       |
| Dry Tonnes of Sludge per Day:                              |       |          |          |          |          |          |          |          |
| Disposed to Ocean  |       | 0.0      | 0.0      | 0.0      | 0.0      | 0.0      | 0.0      | 0.0      |
| Recycled   |       | 102.0    | 108.0    | 99.0     | 111.5    | 115.7    | 139.9    | 125.6    |
| Pollutants Discharged to Nepean/Hawkesbury System (Kg/Day) |       |          |          |          |          |          |          |          |
| Nitrogen   |       | 1,684    | 1,689    | 1,482    | 1,412    | 1,409    | 1,200    | 1,134    |
| Phosphorous  |       | 65.0     | 47.0     | 38.1     | 33.0     | 20.4     | 21.0     | 17.0     |
| Ammonia  |       | 57.0     | 76.0     | 56.7     | 48.0     | 46.0     | 44.0     | 48.0     |
| Real Price Index   |       | 76.4     | 73.1     | 73.2     | 71.3     | 69.8     | 69.0     | 66.1     |
| <b>Financial Indicators (\$M)</b>                          | 1     |          |          |          |          |          |          |          |
| EBIT   |       | 636.8    | 460.8    | 605.8    | 467.9    | 499.2    | 370.2    | 455.3    |
| Operating Profit After Tax                                 |       | 276.1    | 154.8    | 368.9    | 176.6    | 192.3    | 128.4    | 269.5    |
| Significant Items  |       | 49.7     | -65.2    | 60.3     | 100.1    | 106.1    | 135.6    | -24.1    |
| Revenue  |       | 1,624.7  | 1,614.5  | 1,711.2  | 1,572.8  | 1,614.5  | 1,550.6  | 1,428.5  |
| Return on Assets (%):                                      |       |          |          |          |          |          |          |          |
| Total Revalued   |       | 2.6      | 1.8      | 2.1      | 2.4      | 2.2      | 1.9      | 3.1      |
| Core Revalued  |       | 2.6      | 1.8      | 2.1      | 2.4      | 2.2      | 1.9      | 3.1      |
| Return on Shareholders' Funds                              |       |          |          |          |          |          |          |          |
| Revalued (%)   |       | 1.4      | 1.4      | 1.3      | 1.4      | 1.3      | 1.2      | 2.2      |
| Asset Base   | 5     | 16,814.6 | 15,619.5 | 14,999.8 | 14,573.2 | 14,935.6 | 14,132.3 | 11,827.0 |
| Asset Sales  |       | 8.4      | 24.7     | 30.3     | 13.0     | 48.2     | 9.1      | 13.9     |
| Financial Distribution                                     |       | 387.8    | 190.6    | 238.7    | 154.2    | 224.3    | 177.2    | 160.7    |
| Dividend   |       | 249.9    | 82.3     | 90.2     | 96.4     | 108.8    | 117.4    | 115.0    |
| Corporate Tax Equivalent                                   |       | 137.9    | 108.2    | 148.5    | 57.8     | 115.5    | 59.7     | 54.7     |
| Gross External Debt  |       | 2,083.2  | 2,045.6  | 1,989.1  | 2,020.3  | 2,165.7  | 2,302.7  | 2,492.5  |
| Debt/Equity (%)  |       | 16.0     | 16.0     | 18.0     | 18.0     | 19.3     | 21.1     | 27.1     |
| Gearing Ratio (Debt/Assets) (%)                            |       | 13.8     | 13.8     | 15.3     | 15.3     | 16.2     | 17.4     | 21.3     |
| Times Interest Earned                                      |       | 2.1      | 1.4      | 1.9      | 2.0      | 2.0      | 1.9      | 2.3      |
| Community Service Obligations                              |       | 107.3    | 123.7    | 85.6     | 79.3     | 79.2     | 78.9     | 77.7     |

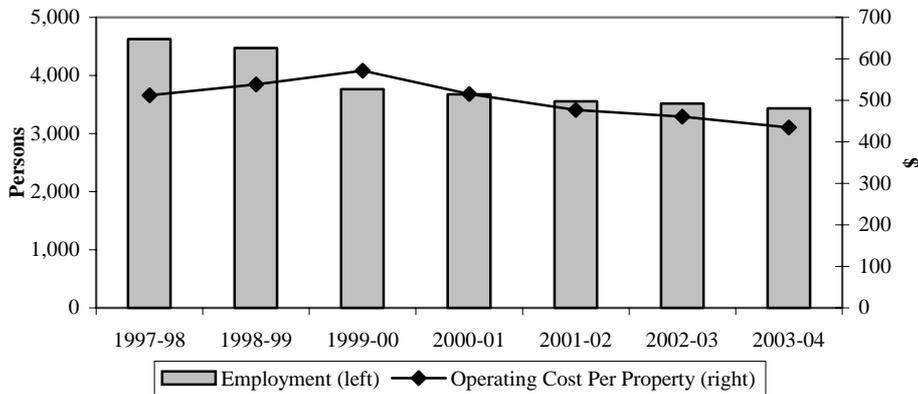
## Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Capital Works - Actual expenditure divided by original estimate for year.
- 3) Injury Incidence Rate - the number of occurrences of injury or disease for each hundred workers employed.
- 4) Injury Frequency Rate - the number of occurrences of injury or disease for each million hours worked.
- 5) The value of Sydney Water Corporation system assets has been revalued down by \$2.576 billion as a result of condition based assessments and changes in asset service lives.

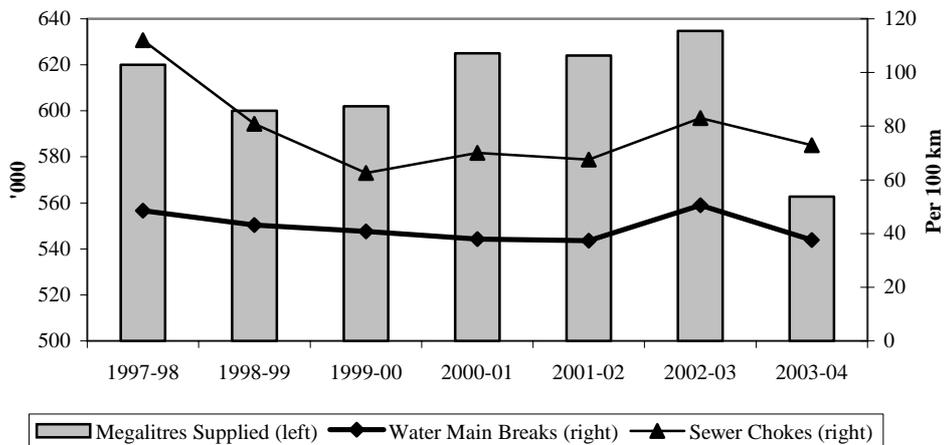
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service**



# TRANSPORT

RailCorp

Rail Infrastructure Corporation

State Transit Authority





Sharyn Gregory  
Group General Manager, Strategy, Performance and Access  
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**Rail Corporation (RailCorp) is the new, integrated NSW rail entity, combining certain functions of the State Rail Authority of NSW and the greater metropolitan functions of the Rail Infrastructure Corporation. The organisation was established on 1 January 2004, with responsibility for the safe operation, crewing and maintenance of passenger trains and stations. It also owns and maintains the metropolitan rail network and provides access to freight operators in the metropolitan area.**

Complex challenges facing RailCorp include a need to improve the level of performance, a need to expeditiously implement the Waterfall Inquiry recommendations and to establish a transparent and accountable RailCorp to efficiently deliver service improvements. The initial focus has been on achieving tangible safety improvements, establishing a transparent and effective corporate governance framework and performance culture and building foundations for service improvements.

CityRail is the metropolitan passenger provider and carried 273.3 million passengers in 2003-04. The rail network managed by RailCorp covers approximately 2,080 kilometres in the greater Sydney metropolitan area.

CountryLink offers rail services to regional and interstate destinations with its coaches linking up with the rail network to regional destinations. In 2003-04, around 1.9 million passenger journeys are made through CountryLink's rail and coach network.

Major achievements and strategic developments over the last six months included the:

- development and implementation of extensive safety reforms covering communications, leadership and management accountabilities, supervision, risk management, management science training and competencies;
- commencement of the Rail Clearway Plan that will increase reliability, capacity and service frequency on the Sydney metropolitan network.
- introduction of a comprehensive testing program for drugs and alcohol in the workplace and a new health assessment program;
- Driver Vigilance Control system was installed and switched on for all outer suburban trains and installation on the suburban fleet has commenced;
- the establishment of a program to have 600 Transit Officers patrolling the CityRail network by 31 December 2004;
- the acceleration of driver training from 26 to 21 months and implementation of a driver recruitment plan; and
- invitation to organisations to register interest in participating in the Public Private Partnership to replace 498 non-air conditioned carriages with modern, safe, reliable air-conditioned carriages and their maintenance.

## RAILCORP

|   | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                         |       |         |         |         |         |         |         |         |
|   | 1     |         |         |         |         |         |         |         |
| Employment (Average)                      |       | 9331    | 8737    | 8660    | 9245    | 9012    | 9422    | 9842    |
| Employment                                | 2     | 9317    | 8544    | 8966    | 9017    | 9121    | 9733    | 10027   |
| Passenger Revenue per Employee (\$'000)   | 3     | 55.6    | 62.6    | 70.3    | 62.5    | 60.5    | 56.0    | 53.9    |
| Passenger Journeys per Employee ('000)    | 3     | 28.8    | 31.2    | 32.5    | 33.0    | 30.9    | 29.2    | 28.0    |
| Operating Cost per Passenger Journey (\$) |       | 7.12    | 7.02    | 6.46    | 6.30    | 6.50    | 7.21    | 8.20    |
| <b>Industrial Disputes</b>                |       |         |         |         |         |         |         |         |
| Total Hours Lost ('000)                   |       | 0.1     | 3.0     | 15.0    | 0.0     | 0.0     | 0.0     | 12.5    |
| Hours Lost per Employee                   |       | 0.0     | 0.3     | 1.7     | 0.0     | 0.0     | 0.0     | 1.3     |
| CountryLink Load Factor (%)               | 4     | 65.0    | 67.0    | 67.0    | 52.3    | 56.4    | 56.2    | 49.3    |
| <b>Service</b>                            |       |         |         |         |         |         |         |         |
| <b>Passenger Journeys (Millions)</b>      |       |         |         |         |         |         |         |         |
| CityRail                                  |       | 266.5   | 270.5   | 278.7   | 302.6   | 276.4   | 273.4   | 273.3   |
| CountryLink                               |       | 2.5     | 2.4     | 2.4     | 2.1     | 2.2     | 2.1     | 1.9     |
| Total                                     |       | 269.0   | 272.9   | 281.1   | 304.7   | 278.6   | 275.5   | 275.2   |
| <b>On Time Running (%)</b>                |       |         |         |         |         |         |         |         |
| Suburban                                  |       | 91.4    | 92.5    | 85.4    | 89.7    | 91.9    | 90.9    | 71.7    |
| Intercity                                 |       | 94.0    | 93.0    | 90.3    | 91.0    | 91.7    | 91.1    | 77.6    |
| Country                                   |       | 85.0    | 77.3    | 59.2    | 69.3    | 80.4    | 79.3    | 74.6    |
| <b>Finances (\$M)</b>                     |       |         |         |         |         |         |         |         |
| Passenger Revenue                         | 5     | 520.0   | 546.9   | 609.2   | 578.1   | 545.0   | 527.9   | 530.5   |
| <b>Expenses</b>                           |       |         |         |         |         |         |         |         |
| Operating Cost                            |       | 1,915.8 | 1,915.3 | 1,815.0 | 1,920.4 | 1,811.0 | 1,986.7 | 2,261.0 |
| Capital Grants to RIC and TNSW            | 6     | 8.7     | 46.3    | 49.9    | 107.3   | 159.0   | 74.9    | 20.4    |
| Social Program Payments                   | 7     | 593.6   | 578.4   | 563.3   | 641.7   | 666.0   | 785.9   | 815.0   |
| Borrowings                                |       | 226.9   | 226.4   | 233.6   | 212.5   | 204.8   | 195.6   | 189.4   |

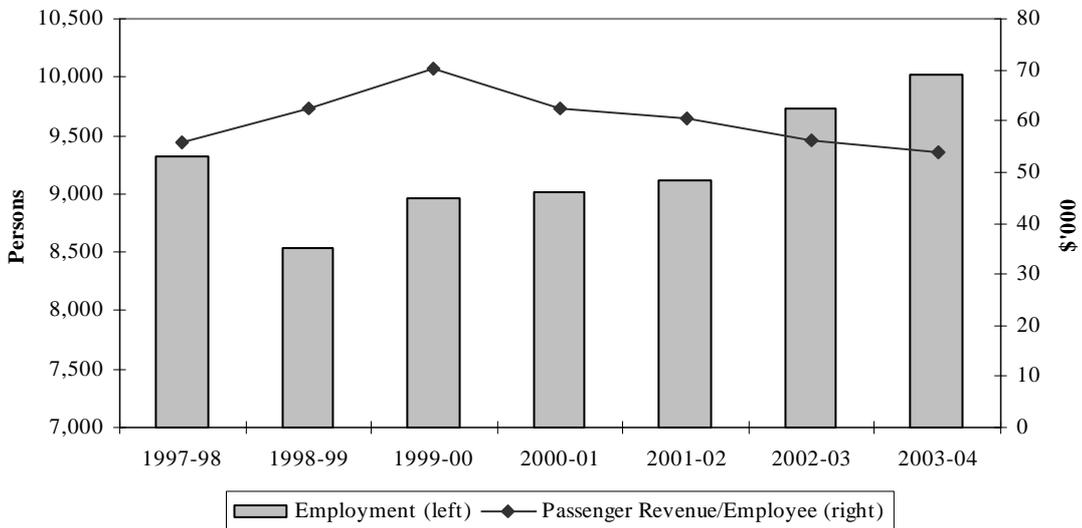
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Employees as at 30 June of each financial year.
- 3) Based on average number of employees for the financial year.
- 4) Passenger Kms divided by Seat Kms including rail, intercity and feeder coaches.
- 5) Includes catering revenue.
- 6) New infrastructure assets, constructed by State Rail, that are transferred to DOT and RIC.
- 7) Passenger services only.

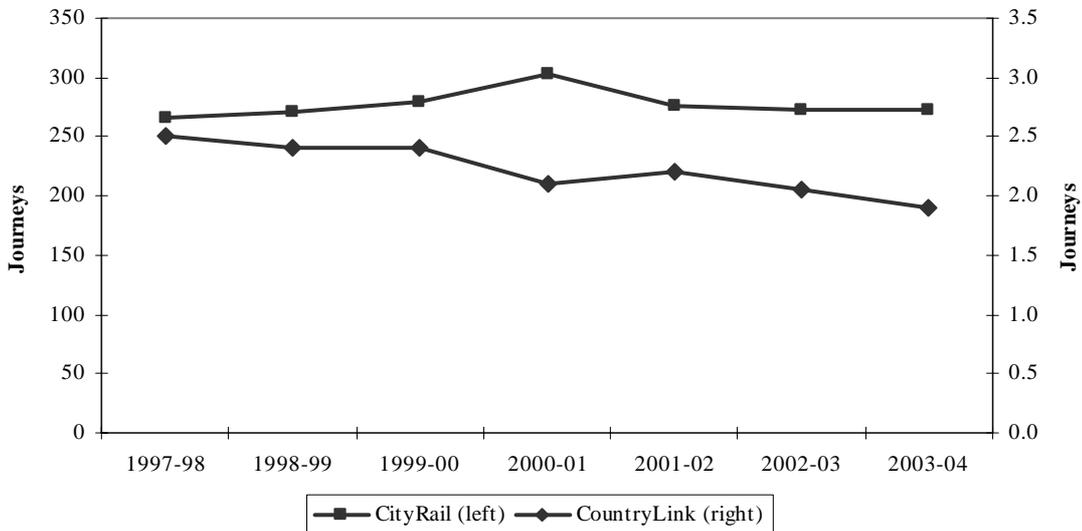
**Passenger Revenue (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Passenger Journeys (millions)**





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Company Secretary  
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## **RAIL INFRASTRUCTURE CORPORATION**

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**Rail Infrastructure Corporation's (RIC's) principal objective is to ensure parts of the NSW rail network under its responsibility enable safe and reliable passenger and freight services to be provided in an efficient, effective and financially responsible manner.**

RIC has undergone significant structural change during 2003-04 as a consequence of reforms to rail in NSW.

In December 2003, the NSW Government reached agreement with the Federal Government and relevant unions for the Australian Rail Track Corporation Limited (ARTC) to enter into a 60-year lease of the NSW interstate and Hunter Valley rail corridors and track. The lease began on 5 September 2004. In January 2004, the metropolitan functions of RIC were subject to structural transfer to the newly formed Rail Corporation New South Wales. RIC continues to own the NSW country rail network and manages the lease and contract arrangements for managing and maintaining country lines with ARTC.

In 2003-04, RIC posted a loss from Ordinary Activities before Income Tax Expense of \$3.20 billion, which included a \$2.96 billion write down of assets leased to ARTC.

RIC-funded infrastructure spend was \$864.5 million in 2003-04, mainly consisting of routine maintenance of \$275.5 million and major periodic maintenance of \$420.1 million. Compliance to routine maintenance schedules in the Metropolitan, Country and Hunter Valley Coal networks (against target) was 94.7% (93%), 87.5% (90%) and 97.7% (90%) respectively.

Major infrastructure activities included 191.9 kilometres of track rerailed; 2618.7 kilometres of track resurfaced; 116.8 kilometres of ballast cleaned; 43.6 kilometres of contact wire renewed; and 25.5 metropolitan network turnouts renewed.

Major projects commenced or continued during 2003-04 include:

- works at Macdonaldtown and Bondi Junction to provide stabling and turnback facilities between the junction of the Illawarra and Main West lines at Macdonaldtown as part of the \$1.0 billion Rail Clearways Plan;
- completion of the interface works at Epping, Chatswood, Parramatta and Eastwood on time, on budget and with no injuries to staff as part of the Parramatta rail link project;
- a new trackwork plan designed to make better use of resources and minimise disruption to passengers and freight operators by using weekend track possessions where trains are excluded from the line and possessions only occurring on one corridor or corridor segment per weekend.

Safety continued as a primary focus of RIC and a significant reduction in the Lost Time Injury Frequency Rate was achieved, down from 17.9 lost time injuries per million hours worked in 2002-03 to 13.8 for 2003-04.

Worksite protection continued to be a high priority with considerable effort being invested in implementing tighter worksite protection guidelines and ensuring safeworking rules used are appropriate to the work being carried out. During the year all staff were briefed on using the No Authority Required protection, audits of worksites were undertaken and new tools introduced.

RIC also continued its focus on its environmental responsibilities, which included:

- a new record for the recovery of material for recycling from spent ballast and spoil from trackwork into products suitable for re-use;
- using ground water from the Eraring Coal Mine for dust suppression during possessions, reducing the need for water from the town of Awaba's water supply;
- removing 524,000 square metres of graffiti along metropolitan rail corridors;
- reducing noise pollution in the metropolitan network by using continuous welded rail; and
- the continuous management of vegetation along rail corridors and the regeneration of sites containing threatened species.

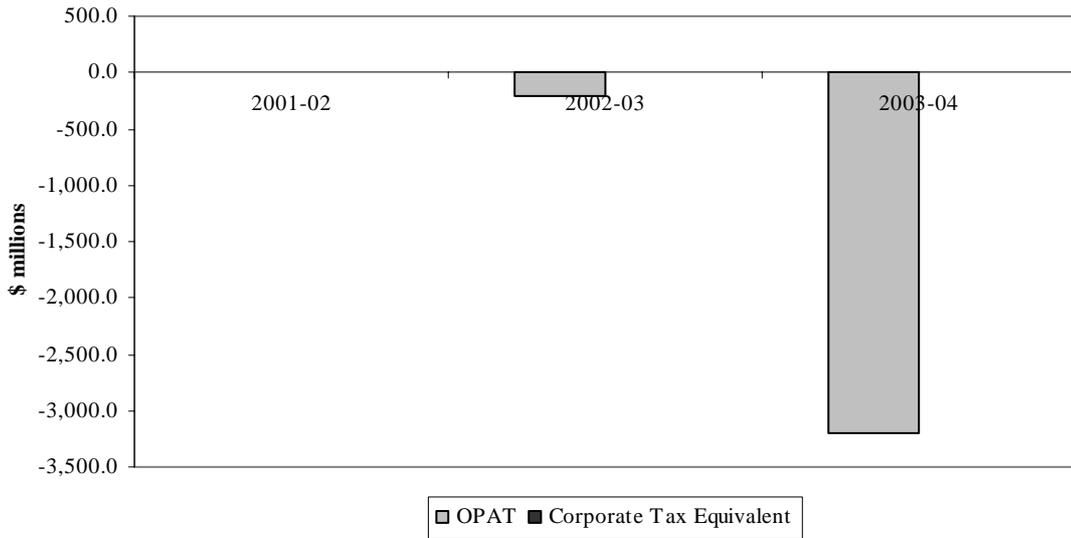
# RAIL INFRASTRUCTURE CORPORATION

|   | Notes | 2001-02 | 2002-03  | 2003-04  |
|---|-------|---------|----------|----------|
| <b>Efficiency</b>                                     | 1, 2  |         |          |          |
| Number of Employees                                   |       | 5701    | 5688     | 5662     |
| Sick Days per Employee                                |       | 8.9     | 8        | 9.7      |
| Lost Time Injury Frequency Rate                       |       | 32.9    | 18.1     | 13.8     |
| Worksite Protection Incidents                         |       | 62      | 71       | 93       |
| Track Geometry Incidents                              |       | 102     | 321      | 151      |
| Level Crossing Incidents                              |       | 59      | 74       | 80       |
| SPADS (Signals Passed at Danger)                      |       | 151     | 112      | 231      |
| RIC Safety Risk (000's units)                         |       | 6.1     | 5.9      | 9.1      |
| <b>Service</b>  |       |         |          |          |
| Number of Major Environmental Incidents               |       | 0       | 1        | 0        |
| Country Mainline Speed Restrictions                   |       | 43      | 36       | 40       |
| RIC Incidents Impacting CityRail Peak On Time Running |       | 398     | 326      | 547      |
| <b>Finance (\$M)</b>                                  | 1     |         |          |          |
| EBIT  |       | 12.9    | -215.7   | -3,204.6 |
| Operating Profit After Tax                            |       | 13.0    | -213.3   | -3,204.8 |
| Significant Items - Superannuation                    |       | 35.1    | -47.8    | 14.1     |
| - Depreciation  |       | 50.5    | -489.0   | -389.3   |
| Revenue   |       | 1,248.2 | 1,179.4  | -2,956.7 |
| Return on Assets (%)                                  |       | 1.1     | -1.9     | 1,235.8  |
| Pre Tax Return on Net Assets (%)                      |       | 1.9     | -2.0     | -96.3    |
| Return on Equity (%)                                  |       | 1.9     | -2.0     | -130.0   |
| Total Assets  |       | 1,183.6 | 11,318.2 | -130.0   |
| <b>Financial Distribution</b>                         |       |         |          |          |
| Dividend  |       | 0.0     | 0.0      | 0.0      |
| Corporate Tax Equivalent                              |       | 3.6     | 0.0      | 0.0      |
| Payment of Capital from Equity                        |       | 0.0     | 0.0      | 0.0      |
| Gross External Debt                                   |       | 86.4    | 179.5    | 374.9    |
| Debt to Equity Ratio (%)                              |       | 11.9    | 1.7      | 15.2     |
| Gearing Ratio (Debt/Assets) (%)                       |       | 7.3     | 1.6      | 11.3     |
| Times Interest Earned                                 |       | 3.5     | -35.5    | -1,394.4 |

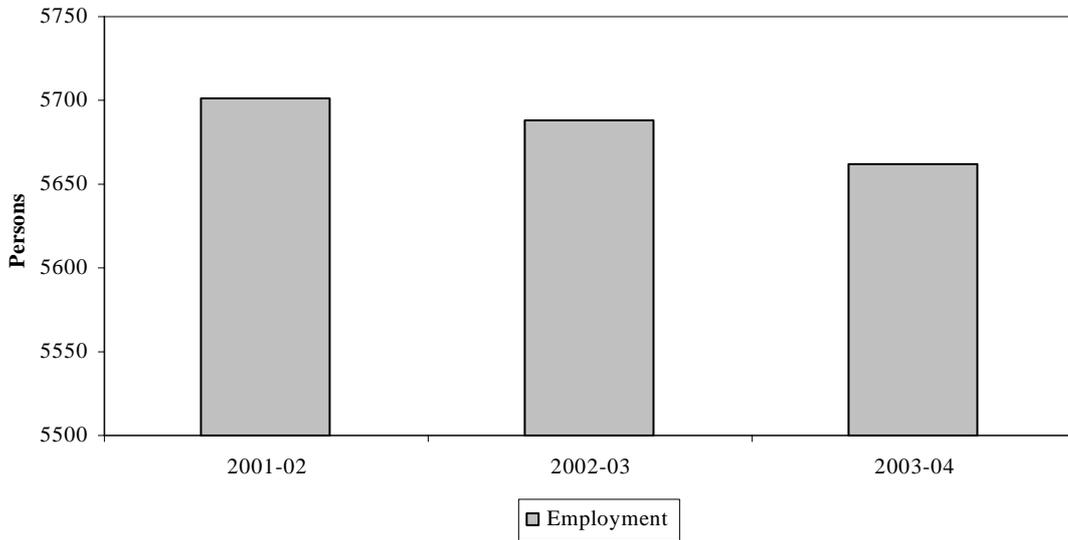
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Reported figure represents the monthly average over the year.

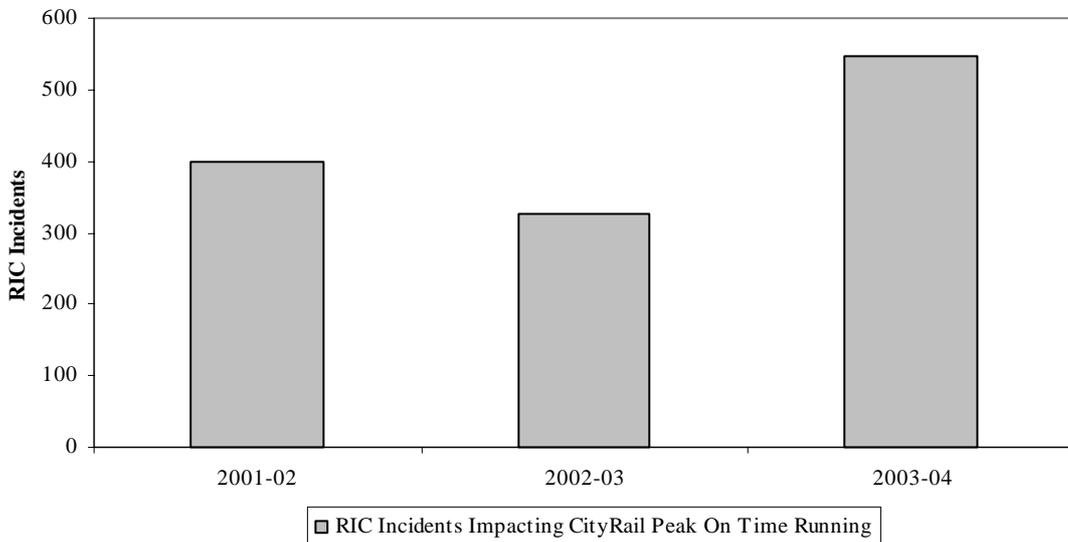
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment**



**Service Levels**





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## STATE TRANSIT AUTHORITY

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**During the reporting year State Transit Authority was Australia's largest operator of buses and ferries with services covering much of metropolitan Sydney and Newcastle.\***

State Transit was established under the *Transport Administration Act 1988*. Like other privately owned bus and ferry operators in New South Wales, it works within the regulatory framework of the *Passenger Transport Act 1990*.

State Transit has six equally important objectives, defined in its enabling legislation. They are to:

- provide safe, efficient, reliable bus and ferry services;
- operate as efficiently as any comparable business;
- maximise the net worth of the State's investment in the business;
- exhibit a sense of social responsibility towards the community in which it operates;
- conform to the principles of ecologically sustainable development; and
- exhibit a sense of responsibility towards regional development and decentralisation.

State Transit's Sydney bus operations extend from Palm Beach in the north, Miranda and Hurstville in the south, to Parramatta in the west. Over 187 million passenger journeys were completed in 2003-04. Sydney Ferries services cover the Inner Harbour, Parramatta River and Manly. In 2003-04, 14.5 million passengers were carried.

The Newcastle services encompass Caves Beach in the south, the Hunter River in the north, Newcastle CBD in the east and Sandgate in the west. The Ferry service links Newcastle CBD and Stockton. In Newcastle, State Transit carried 11.5 million passengers in 2003-04.

Western Sydney Buses, a subsidiary of State Transit commenced operations in February 2003 on the newly built Liverpool to Parramatta Transitway (LPT). There were over 1.3 million passenger journeys completed on the Transitway in 2003-04.

State Transit's consolidated financial result for the year ended 30 June 2004 was a deficit of \$4.6 million on revenue of \$528.4 million. Within this result Sydney Ferries sustained a deficit of \$25.6 million on revenue of \$71.4 million, Newcastle Services a deficit of \$10.3 million on revenue of \$31.3 million and Sydney Buses a surplus of \$30.9 million on revenue of \$417.2 million.

Total patronage for 2003-04 of 214.5 million was 0.9% higher than 2002-03. Patronage for Sydney Buses was in line with 2002-03, while patronage for Sydney Ferries was 7.7% higher and patronage for Newcastle services was 0.1% higher.

Capital expenditure in 2003-04 was \$28.8 million compared with \$44.4 million in 2002-03. \$21.9 million was spent on the bus replacement program for the purchase of low floor, air-conditioned buses for Sydney and Newcastle. \$6.9 million was spent on the renewal or replacement of assets required for bus servicing, ferry maintenance, depot facilities and computing resources.

Sydney Ferries received a capital grant of \$0.3 million under the NSW Government's Action for Transport 2010 program.

\*From 1 July 2004 State Transit's Ferries Division was established as Sydney Ferries Corporation, an independent State owned entity. State Transit now operates bus services in Sydney and Newcastle plus the Stockton ferry service in Newcastle.

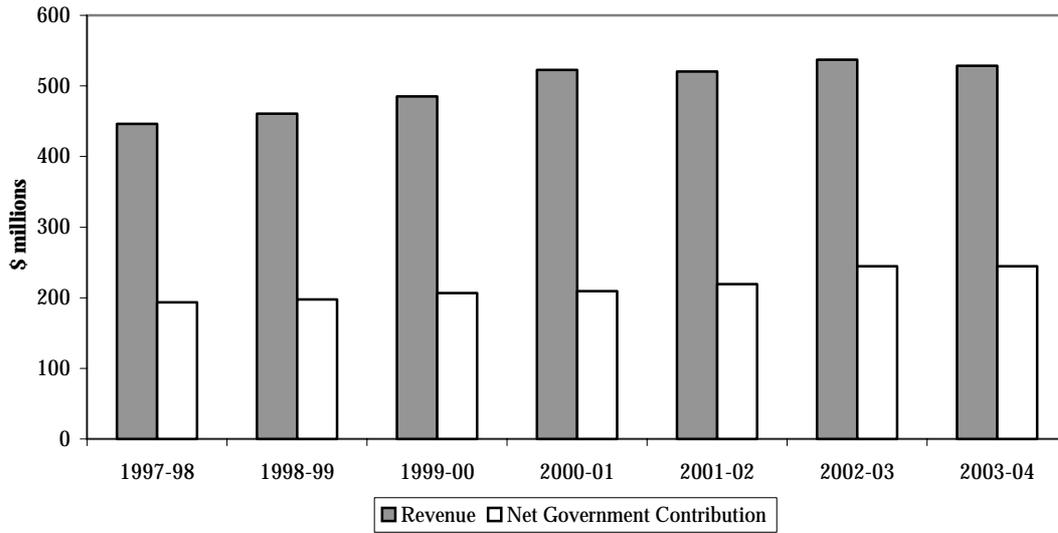
# STATE TRANSIT AUTHORITY

|   | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                         | 1     |                |                |                |                |                |                |                |
| Employment                                |       | 4305           | 4369           | 4690           | 4754           | 4851           | 4901           | 5015           |
| Passenger Trips per Employee ('000)       |       | 48.8           | 48.5           | 46.4           | 46.8           | 43.8           | 43.4           | 42.8           |
| Passenger Revenue per Employee (\$'000)   |       | 81.2           | 83.0           | 83.7           | 90.4           | 85.1           | 86.4           | 90.2           |
| Working Hours Lost to Industrial Disputes |       | 6702           | 3300           | 2665           | 418            | 39754          | 450            | 813            |
| <b>Effectiveness</b>                      |       |                |                |                |                |                |                |                |
| Kilometres Travelled (millions)           |       | 80.4           | 82.0           | 85.4           | 88.7           | 89.4           | 87.7           | 90.1           |
| Passengers Carried '000                   |       | 210.1          | 211.8          | 217.8          | 222.6          | 212.6          | 212.5          | 214.5          |
| <b>Bus Service:</b>                       |       |                |                |                |                |                |                |                |
| Average Age (Years)                       |       | 11.13          | 11.65          | 11.45          | 11.77          | 11.97          | 12.90          | 13.36          |
| Buses in Service                          |       | 1705           | 1719           | 1906           | 1926           | 1935           | 1904           | 1926           |
| Patronage (millions)                      |       | 196.6          | 198.3          | 204.2          | 207.7          | 199.0          | 199.0          | 200.0          |
| On time running - Sydney                  |       | 97.2%          | 97.1%          | 97.4%          | 96.1%          | 96.2%          | 95.9%          | 95.9%          |
| On time running - Newcastle               |       | 99.2%          | 97.9%          | 95.1%          | 95.5%          | 96.6%          | 96.1%          | 97.9%          |
| <b>Ferry Service:</b>                     |       |                |                |                |                |                |                |                |
| Average Age (Years)                       |       | 11.30          | 11.70          | 12.60          | 12.10          | 13.10          | 14.10          | 15.04          |
| Patronage (millions)                      |       | 13.5           | 13.5           | 13.7           | 14.9           | 13.6           | 13.5           | 14.5           |
| On time running - Sydney                  |       | 98.6%          | 98.4%          | 99.5%          | 99.4%          | 99.4%          | 99.1%          | 99.5%          |
| Real Fare Index                           |       | 108.7          | 109.4          | 114.4          | 117.1          | 119.2          | 118.1          | 122.0          |
| <b>Financial Indicators (\$M)</b>         |       |                |                |                |                |                |                |                |
| EBIT                                      |       | -1.7           | -4.6           | 7.4            | 5.8            | -10.3          | -3.7           | 6.0            |
| Operating Profit After Tax                |       | -4.3           | -10.3          | 0.8            | -4.7           | -20.6          | -14.3          | -4.6           |
| Significant Items                         |       | 0              | 5.9            | 3.2            | 0              | 0              | 0              | 0              |
| Revenue                                   |       | 446.4          | 460.7          | 485.1          | 522.5          | 520.3          | 537.2          | 528.4          |
| Return on Assets (%)                      |       | -0.4           | -1.0           | 1.5            | 1.2            | -2.1           | -0.6           | 1.0            |
| Return on Equity (%)                      |       | -2.3           | -6.1           | 0.5            | -3.1           | -16.3          | -5.8           | -1.9           |
| Total Assets                              |       | 460.3          | 436.9          | 498.9          | 474.7          | 488.2          | 611.3          | 585.4          |
| Asset Sales                               |       | 1.0            | 20.3           | 25.5           | 3.6            | 2.3            | 10.2           | 0.7            |
| Dividend                                  |       | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Gross External Debt                       |       | 60.2           | 64.7           | 141.5          | 136.9          | 144.2          | 146.8          | 124.6          |
| Gearing Ratio (Debt/Assets) (%)           |       | 13.07%         | 14.82%         | 28.36%         | 28.84%         | 29.54%         | 24.01%         | 21.29%         |
| <b>Government Contributions</b>           |       |                |                |                |                |                |                |                |
| Travel Concessions                        |       | 142.9          | 144.5          | 148.7          | 148.9          | 150.4          | 147.3          | 154.6          |
| Operating Loss                            |       | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Finance Charges                           |       | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Social Programs                           |       | 50.5           | 53.0           | 57.7           | 60.6           | 69.0           | 97.2           | 90.0           |
| Total                                     |       | 193.3          | 197.4          | 206.4          | 209.5          | 219.4          | 244.5          | 244.6          |
| Net Government Contribution               |       | 193.3          | 197.4          | 206.4          | 209.5          | 219.4          | 244.5          | 244.6          |

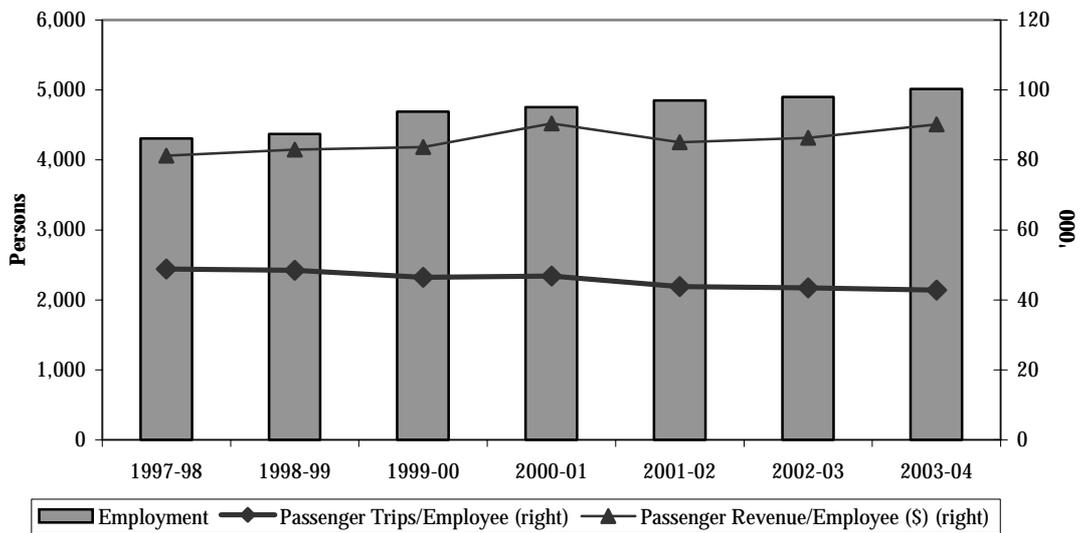
Notes:

1) All dollar amounts reported in terms of 2003-04 dollars.

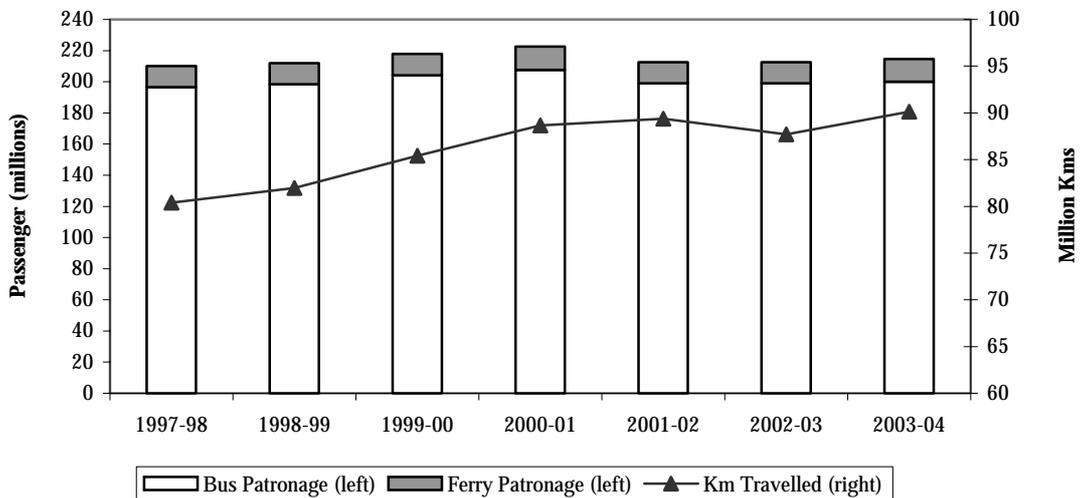
**Financial Results (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service Levels**



# **PORTS**

Newcastle Port Corporation

Port Kembla Port Corporation

Sydney Ports Corporation





Mr David Callaghan  
General Manager Finance and Corporate Services  
NEWCASTLE PORT CORPORATION  
PO Box 663  
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## NEWCASTLE PORT CORPORATION

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**The Newcastle Port Corporation's purpose is to enhance the economic development of the Hunter and New South Wales by providing efficient, effective and environmentally sustainable port operations, port development and by encouraging regional development.**

The Newcastle Port Corporation was established as a NSW Statutory State Owned Corporation in July 1995, under the *Ports Corporatisation and Waterways Management Act*. The Corporation is wholly owned by the people of NSW. The Corporation's primary goals are to:

- provide safe and efficient port operations;
- fulfil our corporate and social responsibilities;
- win more business; and
- look after our people.

The Corporation's operations in 2003-04 have resulted in:

- record coal export of 77.7 million tonnes;
- record tonnage throughput of 82.7 million tonnes with coal exports (77.7 million tonnes), alumina imports (1.2 million tonnes) and grain exports (784,000 tonnes) the major trade items; and
- records in alumina, steel and cement imports and nut coal/coke export.

There was a \$4.4 million real terms improvement in earnings before interest and tax (EBIT).

Despite a significant increase in trade, the average port management charge per tonne of cargo and per vessels visit declined from the previous year. This can be attributed to larger cargo size per vessel and mix of vessel sizes compared to previous year.

The Corporation focused on promoting the development and operation of a Multi Purpose Terminal on the former BHP steelmaking site. This included calling for preliminary proposals. The Premier has announced, as part of the NSW Ports Growth Plan, that Newcastle is the preferred site for container terminal development when Botany Bay reaches capacity.

The Corporation has also been implementing strategies to:

- enhance Port security including developing a Port Security Plan in accordance with the requirements of the International IMO code, Maritime Transport Security Act and Department of Transport and Regional Services (DOTARS);
- diversify and increase trade through the Port;
- facilitate growth of general cargo trade through the Basin area;
- improve customer satisfaction levels through improved communication and introduction of web-based interface with customers and general public;
- enhance safe and efficient movement of vessels including the implementation of a swell and under-keel clearance system;
- conduct a feasibility study into the widening and deepening of the shipping channel; and
- explore the interest in a Marine Precinct within the Port.

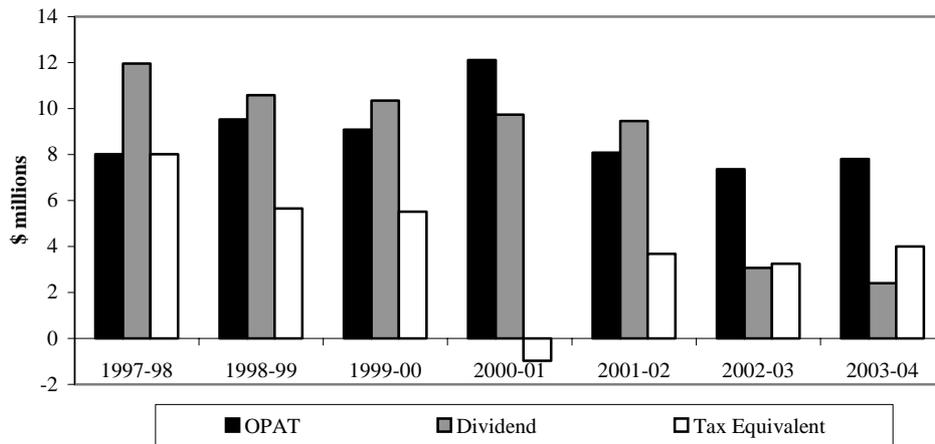
# NEWCASTLE PORT CORPORATION

|                                | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|--------------------------------|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>              | 1     |                |                |                |                |                |                |                |
| Employment                     |       | 122            | 121            | 119            | 95             | 94             | 95             | 99             |
| Revenue per Employee (\$000)   |       | 417.4          | 392.9          | 366.6          | 427.3          | 434.8          | 428.9          | 410.0          |
| <b>Industrial Disputation</b>  |       |                |                |                |                |                |                |                |
| Total Hours Lost               |       | 70.0           | 0.0            | 65.0           | 0.0            | 0.0            | 0.0            | 0.0            |
| Hours Lost per Employee        |       | 0.6            | 0.0            | 0.5            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Service</b>                 |       |                |                |                |                |                |                |                |
| Total Trade (million tonnes)   |       | 77.1           | 78.048         | 72.7           | 73.9           | 75.5           | 76.8           | 82.7           |
| Vessel Arrivals                |       | 1710           | 1649           | 1593           | 1514           | 1473           | 1403           | 1456           |
| Vessel Turnaround Time (hrs)   |       | 51             | 43.3           | 44.5           | 44.1           | 43.6           | 47.6           | 49.3           |
| Berth Occupancy (%)            |       | 52             | 44.1           | 46             | 52.1           | 48.2           | 52.3           | 52.9           |
| Average Time at Berth (hrs)    |       | 39.0           | 37.0           | 40.2           | 37.7           | 40.6           | 41.0           | 38.3           |
| Average Port Management Charge |       |                |                |                |                |                |                |                |
| per Tonne of Cargo (\$)        |       | 0.59           | 0.56           | 0.55           | 0.51           | 0.49           | 0.49           | 0.45           |
| per Vessel (\$)                |       | 26,253         | 26,394         | 25,136         | 24,823         | 25,522         | 27,089         | 25,485         |
| <b>Finances (\$M)</b>          | 1     |                |                |                |                |                |                |                |
| EBIT                           |       | 24.0           | 17.3           | 21.1           | 8.9            | 11.6           | 10.3           | 14.6           |
| Operating Profit After Tax     |       | 8.0            | 9.5            | 9.1            | 12.1           | 8.1            | 7.4            | 7.8            |
| Significant Items              |       | 5.6            | 0.0            | 4.7            | -3.9           | -2.0           | -1.7           | 1.7            |
| Revenue                        |       | 56.4           | 47.1           | 48.3           | 40.7           | 40.6           | 41.2           | 40.6           |
| Return on Total Assets (%)     |       | 16.8           | 10.8           | 13.3           | 6.4            | 8.4            | 8.1            | 10.2           |
| Return on Equity (%)           |       | 27.0           | 15.5           | 19.5           | 7.6            | 11.0           | 9.9            | 12.5           |
| Asset Sales                    |       | 0.4            | 1.1            | 0.9            | 0.3            | 0.3            | 0.3            | 0.4            |
| <b>Financial Distribution</b>  |       |                |                |                |                |                |                |                |
| Tax Equivalent                 |       | 8.0            | 5.6            | 5.5            | -1.0           | 3.7            | 3.2            | 4.0            |
| Dividend                       |       | 12.0           | 10.6           | 10.3           | 9.7            | 9.5            | 3.1            | 2.4            |
| Contribution to Government     |       | 14.7           | 15.3           | 15.4           | 14.3           | 11.6           | 12.6           | 6.3            |
| Gross External Debt            |       | 36.2           | 35.5           | 34.9           | 33.0           | 32.2           | 31.4           | 30.8           |
| Debt to Equity (%)             |       | 47.9           | 43.2           | 42.1           | 42.0           | 48.6           | 47.3           | 37.3           |
| Times Interest Earned          |       | 7.7            | 6.4            | 8.2            | 3.8            | 5.0            | 4.9            | 6.9            |

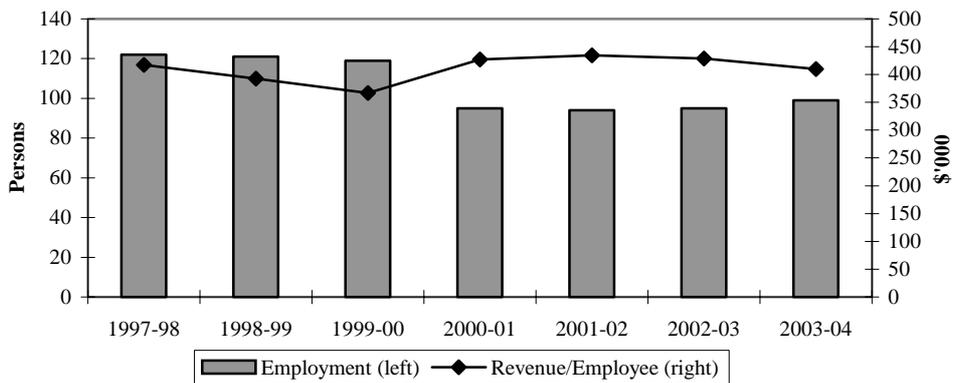
Notes:

1. All dollar terms reported in 2003-04 dollars.

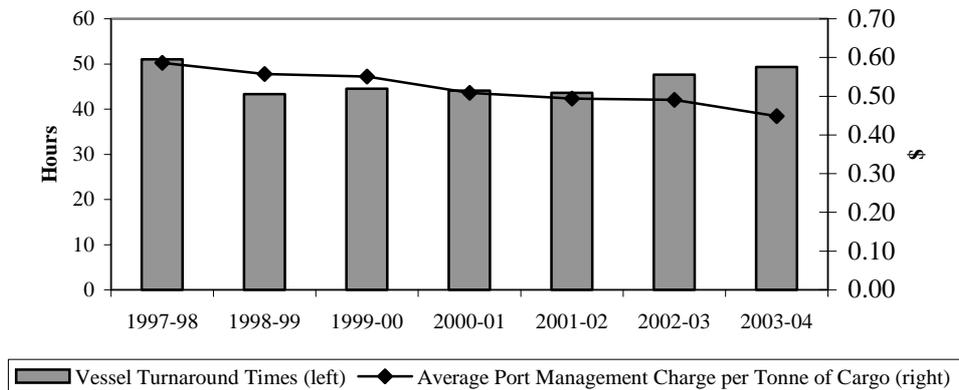
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service**





PORT KEMBLA  
PORT CORPORATION

Mr Brian Ward  
Chief Financial Officer  
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(02) 4275 0105

## **PORT KEMBLA PORT CORPORATION**

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**The Port Kembla Port Corporation was formed on 1 July 1995 to operate as a successful business, promoting and facilitating trade and ensuring port safety functions are carried out properly through the Port of Port Kembla.**

In financial terms the Corporation's results for 2003-04 were above expectations. Net Profit Before Tax and Significant Items of \$7.4 million was a satisfactory result given the impact of drought on grain volumes traded.

Trade for 2003-04 reached 22.1 million tonnes which was ahead of expectation but down on 2002-03. Steel and coal remain the major trade commodities although coal exports were down half a million tonnes from 2002-03. Non traditional cargoes have increased nearly 30% above 2002-03 confirming that diversification activities are changing the profile of our cargoes. However, the continuing drought affecting the state meant grain exports remained at lower than average volumes.

Trade diversification remains a key objective and the NSW Premier's announcement of the NSW Ports Growth Strategy reinforces the potential business opportunities for the Port and the Illawarra region. The subsequent announcement of the extension of the Multi Purpose Berth and development of a multi purpose cargo facility demonstrate the realisation of some of these strategies.

Work has commenced on the berth extension project and it is expected that it will be completed early in 2005 enabling two ship operations at that berth. It is anticipated that over 40 jobs will be sustained during the construction stage of the berth. Options for further berth developments are being modelled with a view to improving the prospect of car import trade relocating to Port Kembla in the future.

In broad terms the Corporation's performance on environment, economic and social measures was ahead of expectations and the groundwork established in previous years on triple bottom line initiatives has continued to yield sound results.

A number of sustainability projects have been delivered and progress has been made towards an accredited Environmental Management System. The Corporation has maintained its support of a number of environmental community groups including the Port Kembla Harbour Environment Group and the Tom Thumb Lagoon Restoration Group. The importance of water and soil monitoring is emphasised with major development work to be undertaken in Inner Harbour and close relationships have been established with the University of Wollongong and the University of NSW. The Corporation's sustainability work was recognised when it won the inaugural Illawarra Business "Corporate and Social Responsibility" award.

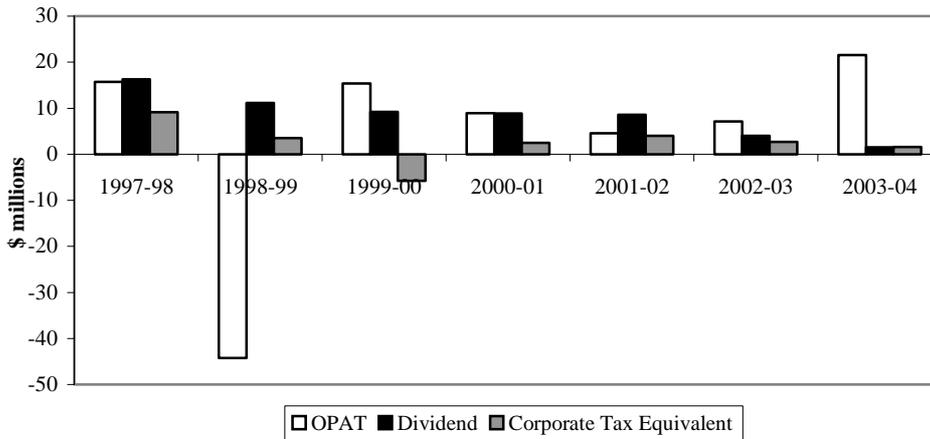
## PORT KEMBLA PORT CORPORATION

|                                       | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---------------------------------------|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                     |       |         |         |         |         |         |         |         |
|                                       | 1     |         |         |         |         |         |         |         |
| Employment                            |       | 45      | 44      | 43      | 43      | 42      | 46      | 46      |
| Revenue per Employee (\$000)          | 2     | 422     | 432     | 429     | 466     | 449     | 311     | 289     |
| <b>Industrial Disputation</b>         |       |         |         |         |         |         |         |         |
| Total Hours Lost                      |       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Hours Lost per Employee               |       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Contract Labour (\$M)                 |       | 1.1     | 1.1     | 1.9     | 1.3     | 2.1     | 2.5     | 1.7     |
| <b>Service</b>                        |       |         |         |         |         |         |         |         |
| Total Trade (million tonnes)          |       | 26.2    | 23.2    | 23.0    | 25.0    | 23.5    | 22.7    | 22.1    |
| Vessel Arrivals                       |       | 642     | 655     | 620     | 659     | 650     | 593     | 567     |
| Vessel Turnaround Time (hrs)          |       | 66      | 59      | 57      | 60      | 59      | 60      | 61      |
| Berth Occupancy (%)                   |       | 36.0    | 32.0    | 29.0    | 24.0    | 32.0    | 30.0    | 29.0    |
| Berth Queuing Time (hrs)              |       | 1,613   | 1,478   | 1,221   | 1,251   | 1,239   | 909     | 960     |
| Average Time at Berth                 |       | 76.0    | 68.0    | 68.0    | 70.0    | 68.0    | 71.1    | 61.0    |
| <b>Average Port Management Charge</b> |       |         |         |         |         |         |         |         |
| Per Tonne of Cargo (\$)               |       | 0.76    | 0.79    | 0.80    | 0.80    | 0.80    | 0.63    | 0.60    |
| Per Vessel (\$)                       |       | 31,159  | 28,075  | 29,731  | 30,409  | 28,982  | 24,131  | 23,466  |
| <b>Finances (\$M)</b>                 |       |         |         |         |         |         |         |         |
|                                       | 1     |         |         |         |         |         |         |         |
| EBIT                                  | 2,3   | 30.6    | 14.4    | 15.1    | 16.7    | 15.7    | 12.4    | 31.1    |
| Operating Profit After Tax            | 2,3   | 15.7    | -44.3   | 15.3    | 9.0     | 4.6     | 7.1     | 21.5    |
| <b>Significant Items</b>              |       |         |         |         |         |         |         |         |
| Revenue                               |       | 46.8    | 32.6    | 33.6    | 35.8    | 34.6    | 30.7    | 49.3    |
| Return on Assets (%)                  |       | 13.8    | 8.9     | 9.7     | 11.1    | 11.8    | 10.6    | 21.4    |
| Return on Equity (%)                  |       | 13.2    | -70.0   | 22.6    | 14.1    | 7.4     | 12.5    | 26.9    |
| Asset Base                            |       | 221.7   | 161.3   | 154.8   | 150.1   | 133.7   | 116.1   | 145.3   |
| Asset Sales                           |       | 0.2     | 0.0     | -0.1    | 0.5     | 0.0     | 0.0     | 0.3     |
| <b>Financial Distributions</b>        |       |         |         |         |         |         |         |         |
| Tax Equivalent                        |       | 9.1     | 3.5     | -5.8    | 2.5     | 4.0     | 2.7     | 1.6     |
| Dividend                              |       | 16.3    | 11.2    | 9.2     | 8.9     | 8.6     | 4.0     | 1.5     |
| Contribution to Government            |       | 7.7     | 14.0    | 7.6     | 8.9     | 12.6    | 6.7     | 3.1     |
| Gross External Debt                   |       | 70.7    | 69.6    | 68.0    | 64.2    | 56.8    | 49.9    | 49.1    |
| Debt to Equity (%)                    |       | 70.5    | 128.1   | 106.6   | 100.7   | 91.1    | 87.8    | 61.3    |
| Gearing Ratio (Debt/Assets) (%)       |       | 31.9    | 43.2    | 44.0    | 42.7    | 42.5    | 42.9    | 33.8    |
| Times Interest Earned                 |       | 5.3     | 2.6     | 3.1     | 2.7     | 2.0     | 2.7     | 6.3     |

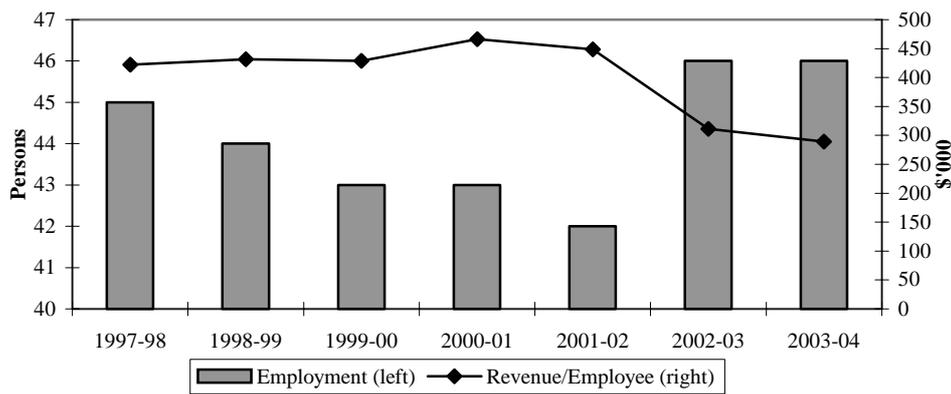
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Port Management Income excludes Port Kembla Coal Terminal Lease income.
- 3) OPAT and EBIT include significant items.

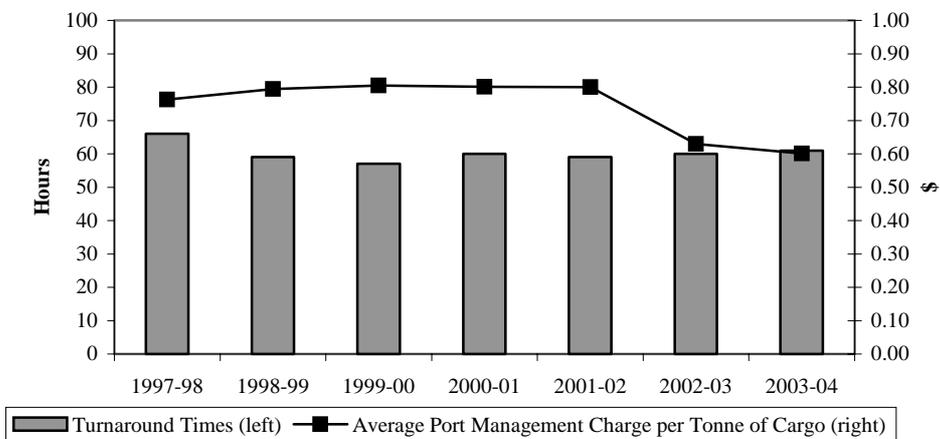
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service (2003-04 dollars)**





Polly Bennett  
General Manager, Corporate Communications and Planning  
SYDNEY PORTS CORPORATION  
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**Sydney Ports' vision is to be an internationally respected commercial port manager in all operational and environmental aspects, and to provide facilities to promote and support trade growth for the benefit of the NSW economy.**

Sydney Ports Corporation (Sydney Ports) owns and manages the commercial ports of Sydney Harbour and Botany Bay on behalf of the NSW Government.

Sydney's ports comprise one of New South Wales major assets and handle around \$50 billion worth of trade each year, providing a valuable contribution to the NSW economy and involving the direct and indirect employment of 17,000 people.

The key strategic issues for Sydney Ports Corporation are provision of capacity for growth, port leadership and efficient port performance. Sydney Ports is addressing these key issues by:

- the proposed expansion of Port Botany for future container and liquid bulk trade;
- establishment of an inland port/s linked by existing dedicated freight rail to Port Botany and Glebe Island/White Bay to facilitate the movement of imports and exports by rail;
- improvements to road and rail links to port facilities in Sydney Harbour and Port Botany;
- retention and continued upgrading of Sydney Harbour facilities for non-containerised trade;
- working with Government and industry bodies to improve the road and rail links to the ports to provide a more efficient land transport system;
- providing positive leadership in port management and development issues; and
- working with all involved, including Commonwealth and State organisations, to ensure that port security issues are properly managed.

In response to trade demands, Sydney Ports has developed a proposal to expand facilities at Port Botany. An Environmental Impact Statement (EIS) for the Port Botany expansion has been lodged and is the subject of a Commission of Inquiry (COI) during late 2004/05.

Sydney Ports enjoyed a successful 2003-04 financial year, with EBIT of \$65 million. Sydney Ports' 2003-04 Operating Profit After Tax of \$35 million was derived from total revenues of \$140 million. Real revenue growth of \$16 million, a 13% nominal increase from 2002-03, was mainly driven by the strong growth in import volumes throughout the year.

Capital expenditure for 2003-04 was \$12 million.

Sydney Ports has achieved another container trade record by handling 1.27 million TEUs over 2002-03. Figures indicate there were 110 thousand more containers moved through Sydney than the 2002-03 financial year. This equates to an increase of 9.4%. When coupled with last year's growth it represents a 26% increase in container trade for the two years.

Total trade for the ports of Sydney reached 25.1 million mass tonnes, an increase of 6.3%. Non-containerised trade grew by 6.2% with significant increases in oil, bulk chemicals and gases, motor vehicles, cement and aggregates trades. More comprehensive trade information can be found on Sydney Ports' website ([www.sydneyports.com.au](http://www.sydneyports.com.au)) in the trade and logistics section.

If approved, SPC's planned investment in port infrastructure will provide a significant contribution to the State's development. By 2024-25, the value added by Sydney's ports to NSW' GSP is estimated to be \$2.5 billion, up from \$1.4 billion in 2001-02, and the direct and indirect impact on employment numbers in 2024-25 is estimated to be 30,000, up from 17,000 in 2001-02 (source: EconSearch Pty Ltd – February 2003).

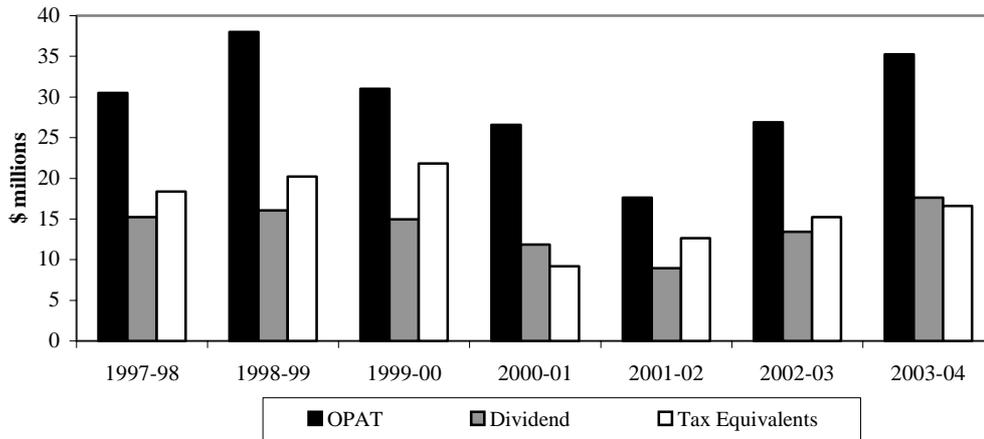
# SYDNEY PORTS CORPORATION

|   | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>   | 1,2   |                |                |                |                |                |                |                |
| Employment  | 3     | 199            | 189            | 188            | 196            | 199            | 237            | 238            |
| Revenue per Employee (\$000)                              | 4     | 599.1          | 677.5          | 658.4          | 599.4          | 561.3          | 537.2          | 590.4          |
| Contract Labour (\$M)                                     |       | 1.0            | 0.5            | 0.9            | 1.0            | 0.7            | 0.7            | 0.7            |
| <b>Service</b>  |       |                |                |                |                |                |                |                |
| Total Trade (million tonnes)                              | 5     | 36.3           | 39.3           | 45.0           | 43.9           | 44.7           | 51.2           | 56.1           |
| Vessel Arrivals   |       | 2,330          | 2,334          | 2,443          | 2,295          | 2,259          | 2,331          | 2,408          |
| Vessel Turnaround Time (hrs)                              |       | 39.6           | 39.4           | 42.3           | 34.4           | 34.3           | 36.0           | 33.4           |
| Average Time at Berth                                     |       | 37.8           | 37.3           | 40.3           | 32.7           | 32.8           | 34.4           | 34.7           |
| Average Port Management Charge<br>per Tonne of Cargo (\$) |       | 2.20           | 2.06           | 1.88           | 1.79           | 1.71           | 1.69           | 2.22           |
| per Vessel (\$)   |       | 34,233.1       | 34,689.0       | 34,561.6       | 34,242.0       | 33,955.7       | 37,247.3       | 51,702.7       |
| Container Volumes (TEU's) ('000)                          | 6     | 801            | 878            | 1,016          | 991            | 1,009          | 1,161          | 1,270          |
| <b>Finances (\$M)</b>                                     | 1     |                |                |                |                |                |                |                |
| EBIT  |       | 65.3           | 72.8           | 66.3           | 49.4           | 43.3           | 56.1           | 65.3           |
| Operating Profit After Tax                                |       | 30.5           | 38.0           | 31.0           | 26.6           | 17.6           | 26.9           | 35.2           |
| Significant Items   |       | 0.0            | 0.0            | -1.1           | 0.0            | 0.0            | 0.0            | 0.0            |
| Revenue   |       | 119.2          | 128.0          | 123.8          | 117.5          | 111.7          | 127.3          | 140.5          |
| Return on Assets (%)                                      | 7     | 10.2           | 11.1           | 9.9            | 7.9            | 6.8            | 6.9            | 8.0            |
| Return on Equity (%)                                      | 7     | 7.5            | 9.0            | 7.3            | 6.4            | 4.3            | 4.6            | 6.0            |
| Asset Base  |       | 639.4          | 655.3          | 667.6          | 624.4          | 635.8          | 808.6          | 815.9          |
| Asset Sales   |       | 0.6            | 0.4            | 0.4            | 0.6            | 0.5            | 0.8            | 0.6            |
| <b>Financial Distribution</b>                             |       |                |                |                |                |                |                |                |
| Tax Equivalent  |       | 18.4           | 20.2           | 21.8           | 9.2            | 12.7           | 15.2           | 16.6           |
| Dividend  |       | 15.2           | 16.0           | 15.0           | 11.8           | 9.0            | 13.4           | 17.6           |
| Contribution to Government                                | 8     | 32.1           | 34.0           | 35.5           | 26.8           | 22.7           | 28.9           | 34.4           |
| Gross External Debt                                       |       | 180.0          | 177.3          | 174.3          | 165.0          | 177.1          | 173.0          | 170.3          |
| Debt to Equity (%)  |       | 44.3           | 42.1           | 40.9           | 39.7           | 42.9           | 29.8           | 29.0           |
| Times Interest Earned                                     |       | 4.0            | 5.0            | 4.6            | 3.6            | 3.3            | 4.0            | 4.8            |
| Gearing Ratio (Debt/Assets) (%)                           |       | 28.1           | 27.1           | 26.1           | 26.4           | 27.9           | 21.4           | 20.9           |

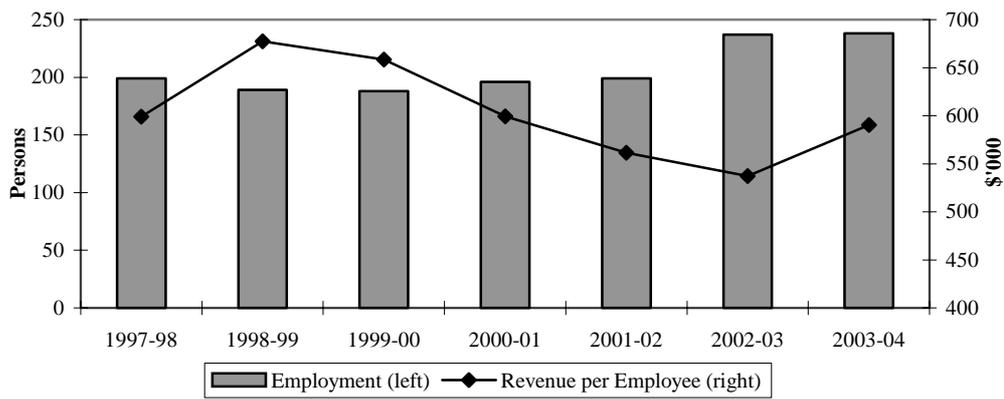
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) On the 26 October 2002, Sydney Pilot Service (SPS) became a 100% wholly owned subsidiary of Sydney Ports Corporation and the results of the consolidated entity are included in the results for 2003-04.
- 3) Excludes labour employed by consultancy.
- 4) 1998-99 Revenue includes \$7 million Capital Grant from Government for construction of Wharf 8 Passenger Terminal.
- 5) Total trade for SPC berths only (excludes cargo at privately owned berths).
- 6) Twenty foot equivalent units.
- 7) Revaluation of assets undertaken in 1997-98 and 2002-03.
- 8) Based on tax and dividend payable.

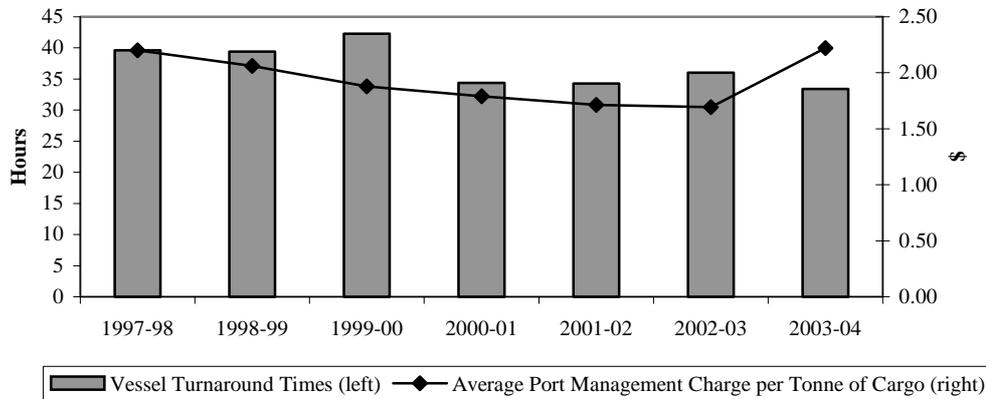
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service**



## **MISCELLANEOUS**

Department of Commerce

Department of Housing

Land and Property Information NSW

NSW Lotteries

State Forests NSW

Waste Service NSW





OFFICE OF GOVERNMENT PROCUREMENT

&

OFFICE OF GOVERNMENT BUSINESS

John Voss  
Chief Financial Officer  
DEPARTMENT OF COMMERCE  
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SYDNEY NSW 2000  
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## **OFFICE OF GOVERNMENT PROCUREMENT AND OFFICE OF GOVERNMENT BUSINESS**

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**The Department of Commerce was created to support a climate that makes doing business in New South Wales simple, accessible and fair for employees, consumers and industry.**

The Office of Government Procurement (OGP) and the Office of Government Business (OGB) operate within the Department of Commerce on a commercial basis without direct budget funding. These Offices provide strategic and professional advice and expertise in business services, procurement, asset management and infrastructure to NSW Government agencies.

OGP and the OGB recorded an Operating Profit After Tax of \$55.1 million in 2003-04 including a positive superannuation prepaid movement of \$30.3 million. Excluding the movement in superannuation balance, the Office of Government Procurement and the Office of Government Business achieved an after tax profit of \$24.8 million. In real terms, this was an improvement of 188% on the previous year. The improvement in operating result is mainly due to an increase in revenue from sale of goods and services partly offset by increased direct costs of goods and services. The Department also achieved significant savings in corporate support costs through the implementation of the Corporate Services Reform Program.

During 2003-04, the Office of Government Procurement and the Office of Government Business delivered significant cost savings to Government through asset management and procurement activities.

### **Managing State Assets**

Asset management activities during 2003-04 delivered savings in the order of \$100 million to Government through:

- cooperative contracting approaches and reduced contract variation costs;
- improved procurement risk management and reduced construction costs on \$600 million worth of Government projects;
- dispute resolution expertise;
- innovative procurement in the development of Walsh Bay, Government Office accommodation in Parramatta, Eastern Creek Dragway and Business Park, and the Perisher Valley Village redevelopment;
- innovative and coordinated asset divestment methods used in its assets disposal program; and
- innovative land acquisition processes for major infrastructure projects, including the Epping-Chatswood Rail Link.

### **Better Procurement**

The services offered by the Department of Commerce include all aspects of the contracting process, from working with client agencies in identifying user requirements through to preparing and releasing tenders, providing expert assistance in the assessment of bids, settlement of the contract documentation and post contract administration. Over 150 period contracts worth approximately \$3.1 billion (volume of sale) per annum were managed in the 2003/2004 financial year. In summary there were: 220 client specific contracts; over 1,360 suppliers; over 12,000 registered client organisations; and over 98,000 catalogue items.

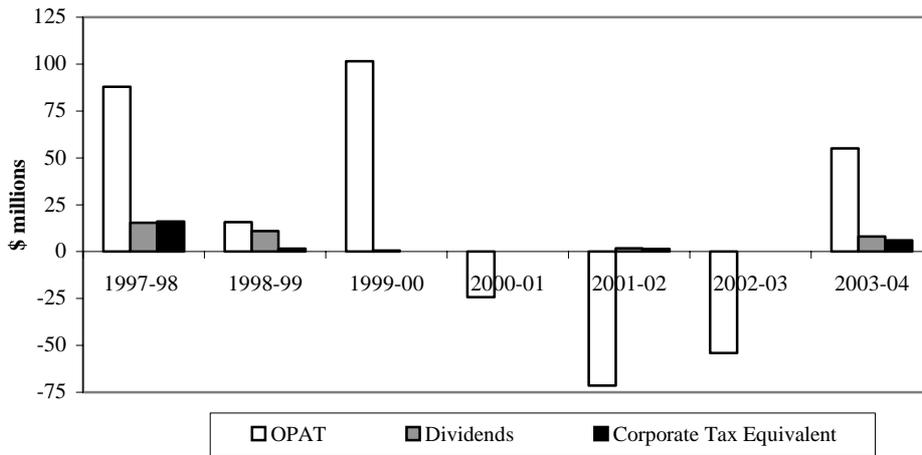
# OFFICE OF GOVERNMENT PROCUREMENT AND OFFICE OF GOVERNMENT BUSINESS

|   | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|---|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                           | 1     |                |                |                |                |                |                |                |
| Employment                                  |       | 2,366          | 2,573          | 2,516          | 2,416          | 2,469          | 2,540          | 2,201          |
| Total Expenditure (\$'000)                  |       | 376.0          | 387.4          | 426.4          | 418.8          | 492.1          | 507.7          | 440.5          |
| Revenue per Employee (\$000)                |       | 167.8          | 152.1          | 169.5          | 163.4          | 170.9          | 178.5          | 225.9          |
| Hours Lost to Industrial Disputes           |       |                |                |                |                |                |                |                |
| Per Employee                                |       | 0.00           | 0.00           | 0.00           | 0.10           | 0.00           | 0.00           | 0.02           |
| Total ('000)                                |       | 0.00           | 0.00           | 0.00           | 2.50           | 0.00           | 0.00           | 0.04           |
| Average Days Sick Leave per Employee        |       | 6.7            | 6.8            | 6.1            | 7.0            | 7.3            | 6.8            | 6.7            |
| <b>Service</b>                              |       |                |                |                |                |                |                |                |
| No. of Construction Contracts Let > \$0.25M |       | 311            | 285            | 297            | 275            | 291            | 302            | 337            |
| Total No. of Construction Contracts Let     |       | 909            | 784            | 810            | 783            | 973            | 985            | 992            |
| Goods and Services Period Contracts (\$M)   |       | 1,528          | 2,470          | 2,586          | 2,477          | 2,639          | 2,956          | 3,116          |
| No. of Goods and Services Period Contracts  |       | 386            | 433            | 400            | 388            | 393            | 337            | 364            |
| No. of Vehicles Leased by Statefleet        |       | 14,952         | 23,166         | 23,425         | 23,879         | 24,681         | 24,727         | 24,810         |
| <b>Financial Performance (\$M)</b>          | 1     |                |                |                |                |                |                |                |
| EBIT  |       | 95.9           | 11.3           | 97.4           | -24.9          | -70.7          | -55.7          | 59.1           |
| Operating Profit After Tax                  |       | 87.9           | 15.6           | 101.6          | -24.2          | -71.4          | -54.0          | 55.1           |
| Significant Items                           |       | 59.1           | 12.9           | 101.4          | -31.0          | -85.0          | -62.6          | 30.3           |
| Revenue                                     |       | 397.0          | 391.5          | 424.4          | 394.5          | 422.0          | 453.6          | 497.3          |
| Return on Assets (%)                        |       | 12.9           | 2.3            | 11.7           | -3.2           | -9.8           | -8.8           | 6.2            |
| Return on Equity (%)                        |       | 24.7           | 4.4            | 22.2           | -6.0           | -22.3          | -20.4          | 18.0           |
| Asset Base                                  | 2     | 682.8          | 675.6          | 864.8          | 756.6          | 728.5          | 616.8          | 893.0          |
| Asset Sales                                 |       | 10.6           | 3.9            | 0.6            | 2.1            | 2.1            | 2.2            | 3.6            |
| Financial Distribution to Government        |       | 31.5           | 12.5           | 0.6            | 0.0            | 3.2            | 0.0            | 14.2           |
| Dividends                                   |       | 15.3           | 10.9           | 0.6            | 0.0            | 1.8            | 0.0            | 8.1            |
| Corporate Tax Equivalent                    |       | 16.1           | 1.5            | 0.0            | 0.0            | 1.4            | 0.0            | 6.1            |
| Gross External Debt                         |       | 327.1          | 320.5          | 408.4          | 351.2          | 408.1          | 352.7          | 587.4          |
| Gearing Ratio (Debt/Assets) (%)             |       | 47.9           | 47.4           | 47.2           | 46.4           | 56.0           | 57.2           | 70.0           |
| Government Funded Services                  |       | 74.1           | 62.8           | 37.3           | 37.1           | 42.6           | 30.8           | 24.7           |

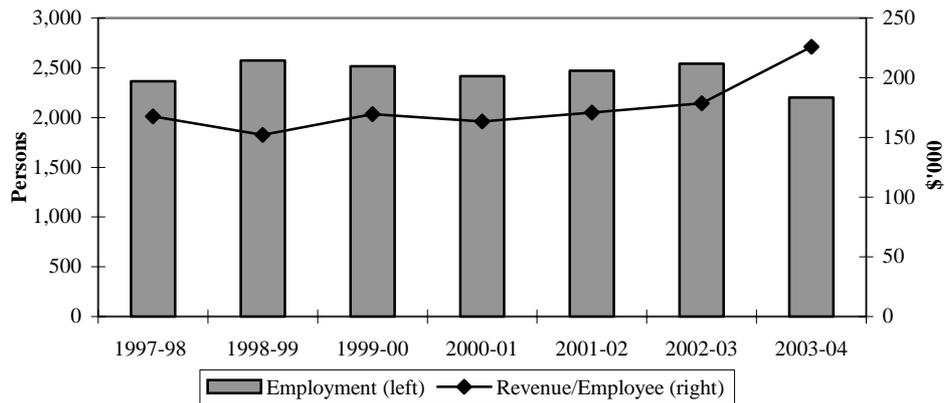
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.

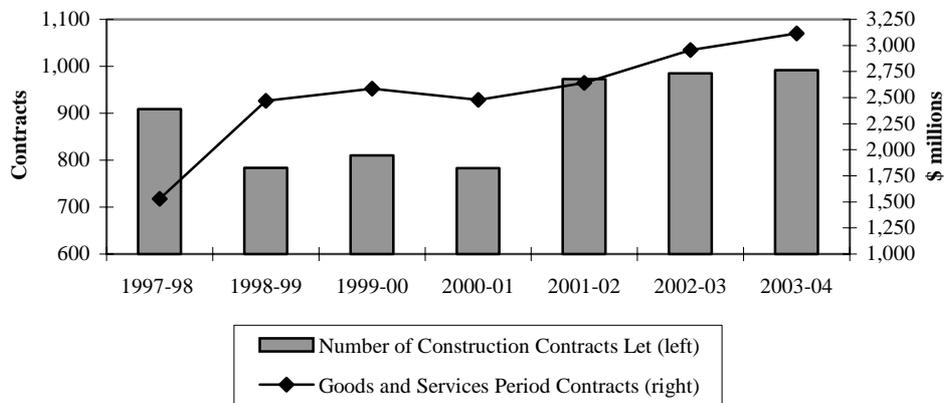
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Efficiency (2003-04 dollars)**



**Service (2003-04 dollars)**





Mr John Stubbs  
Chief Financial Officer  
DEPARTMENT OF HOUSING  
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**The Department of Housing provides housing assistance to people who have difficulty affording a place to live – particularly people with special needs.**

The Department of Housing (Housing) provides housing assistance to both public and community housing clients through the provision of short and long term accommodation. Housing manages over 141,800 rental properties. This includes more than 128,000 public housing properties and 13,000 community housing properties. These properties are let at subsidised rates, with an average annual rebate of \$4,042 per property. Housing also manages more than 4,100 properties on behalf of the Aboriginal Housing Office, on a fee for service basis.

During 2003-04 Housing housed 10,499 new applicants in public housing, with 32% being priority applicants. Housing also rehoused 4,257 existing clients into more appropriate accommodation to suit their needs.

Housing maintains a waiting list for applicants for public housing, although applicants can also choose to nominate for community housing. In 2003-04, the number of households on the list decreased by 8.6%.

As well as the provision of short and long term accommodation, Housing provides rent assistance to eligible low-income clients in the private rental market.

In 2003-04, Housing provided 53,685 grants to assist 34,565 households through the RentStart program, at a cost of \$22.3 million. This program assists people into Temporary Accommodation (TA) as well as assisting them with private rental start-up costs, such as bonds. Housing also supplied 1,555 private rental subsidies to people with either HIV/AIDS or a physical disability, at a cost of \$9.7 million.

Housing funds its operations through rental income and a capital contribution through the Commonwealth-State Housing Agreement (CSHA). A new bilateral CSHA agreement between the Commonwealth and State governments for the period 2003-04 to 2007-08 was signed during the year. Under this agreement, funding will be indexed for the first time.

In 2003-04, rental income (after rental subsidies) increased by 5.9% in real terms to \$529.5 million. NSW Treasury brought forward \$35 million of future years' funding to assist the Housing's working capital position.

Total expenditure in 2003-04 increased nominally by 6.06% to \$1,129 million. This includes a:

- \$20.9 million increase in property and residential tenancy costs mainly due to a \$14.7 million rise in property insurance premiums and \$8.6 million additional expenditure in planned maintenance reflecting the Housing's strategy to reduce the more costly responsive repairs; and
- \$26.7 million increase in depreciation charges flowing from the revaluation increment in residential properties.

Insurance constitutes a major expenditure for Housing. During the year, consultants were engaged to critically assess Housing's insurance profile and provide advice on risk and premium reduction, including the use of appropriate broker services. This is expected to result in significantly reduced insurance costs in future years. In 2004-05, insurance costs are expected to be at least \$10 million lower than 2003-04.

The net impact in 2003-04 of increased rental income and increased expenditure was a surplus of \$882,000, compared to a nominal loss of \$17 million in 2002-03. Housing is operating in an increasingly challenging financial environment and is continually implementing measures to improve our viability and capacity to supply appropriate housing assistance to people in NSW on low incomes.

*NSW businesslink*, a business unit of Housing, which provides corporate services to three Government agencies, including Housing, commenced operations in 2002-03. As a result, Housing's staff numbers have increased by nearly 600 in two years. From 1 July 2004, *NSW businesslink* ceased to be a business unit of the Department and became a separate reporting entity.

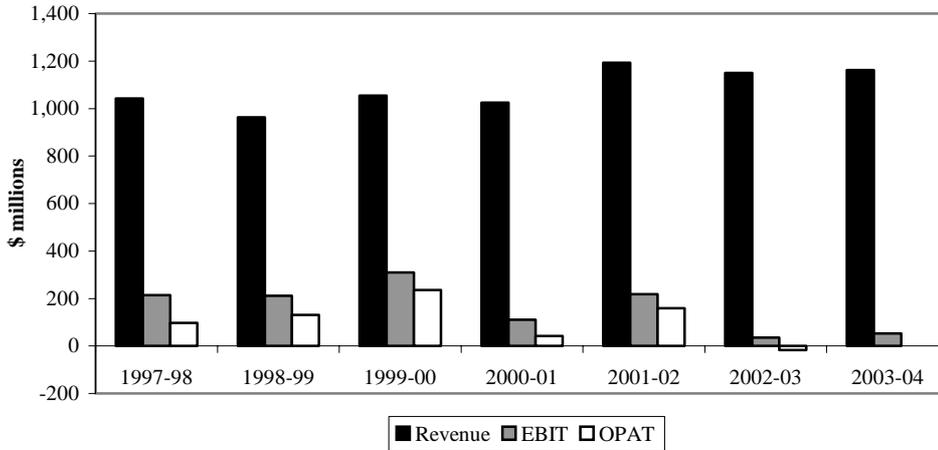
## DEPARTMENT OF HOUSING

|   | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                         | 1     |         |         |         |         |         |         |         |
| Employment                                | 2     | 2,129   | 2,260   | 2,266   | 2,255   | 2,302   | 2,195   | 2,177   |
| Work Contracted (\$M)                     | 3     | 496.2   | 593.7   | 556.2   | 544.2   | 571.8   | 458.2   | 499.2   |
| Dwellings per Housing Employee            | 4     | 63.1    | 59.3    | 61.5    | 62.0    | 60.0    | 64.6    | 65.1    |
| Admin Expenditure (\$M)                   | 5     | 191.1   | 181.2   | 193.1   | 219.0   | 228.9   | 224.3   | 247.2   |
| Admin Exp per Employee (\$'000)           |       | 89.7    | 80.1    | 85.4    | 97.1    | 99.4    | 102.1   | 114.0   |
| <b>Service</b>                            | 1     |         |         |         |         |         |         |         |
| Dwellings Completed                       | 6     | 1,534   | 1,979   | 1,763   | 1,323   | 1,083   | 806     | 662     |
| Dwellings Under Management                | 7     | 134,300 | 133,950 | 139,345 | 139,720 | 141,105 | 141,878 | 141,819 |
| Rental Rebates (\$M)                      | 8     | 784.2   | 774.7   | 726.7   | 621.8   | 657.5   | 620.4   | 573.2   |
| Rental Rebates Granted/Rent Raised (%)    |       | 57.4    | 58.6    | 58.8    | 55.8    | 56.9    | 55.4    | 52.0    |
| Public Tenant Appeal Lodged/Tenancies (%) | 9     | 1.4     | 1.2     | 1.5     | 2.5     | 2.6     | 2.3     | 2.2     |
| Households on Waiting List                |       | 96,707  | 97,037  | 98,337  | 96,075  | 90,926  | 80,188  | 73,289  |
| New Public Housing Tenancies              |       | 10,094  | 9,284   | 10,562  | 12,098  | 11,312  | 10,462  | 10,499  |
| <b>Finances (\$M)</b>                     | 1     |         |         |         |         |         |         |         |
| EBIT                                      | 10    | 214.3   | 211.4   | 309.8   | 110.8   | 217.7   | 35.8    | 52.2    |
| Operating Profit Before Tax               | 10    | 97.5    | 130.7   | 235.5   | 42.4    | 159.5   | -17.4   | 0.9     |
| Significant Items                         | 11    | 7.3     | 15.2    | 78.1    | 0.0     | -38.5   | -39.9   | 28.2    |
| Revenue                                   | 12    | 1042.2  | 963.1   | 1054.7  | 1024.3  | 1192.8  | 1150.0  | 1161.7  |
| Return on Total Assets (%)                | 13    | 4.5     | 3.4     | 1.5     | 0.6     | 1.1     | 0.1     | 0.2     |
| Return on Shareholders' Funds (%)         |       | 0.7     | 0.9     | 1.3     | 0.2     | 0.9     | 0.1     | 0.2     |
| Asset Base                                | 14    | 16,557  | 16,701  | 20,628  | 19,443  | 19,166  | 26,730  | 29,526  |
| Asset Sales                               | 15    | 103.2   | 82.5    | 134.6   | 100.9   | 170.3   | 135.9   | 84.0    |
| Gross External Debt                       | 16    | 2,210.8 | 1,959.6 | 1,826.5 | 1,473.7 | 1,432.0 | 1,331.6 | 1,258.6 |
| Debt/Equity (%)                           | 17    | 13.2    | 12.7    | 9.6     | 7.9     | 7.8     | 5.1     | 4.5     |
| Gearing Ratio (Debt/Assets) (%)           | 18    | 12.1    | 11.8    | 8.9     | 7.6     | 7.5     | 5.0     | 4.3     |

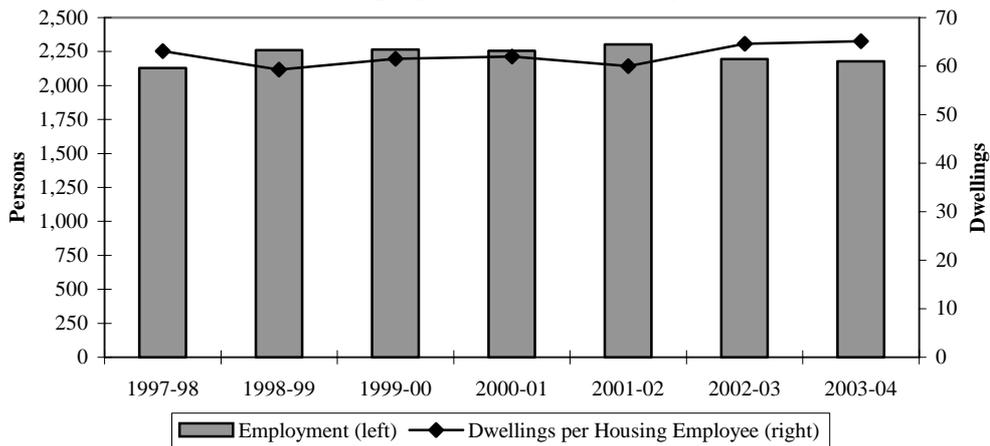
### Notes

- 1) All dollar amounts reported in 2003-04 dollars.
- 2) Represents equivalent full time (EFT) staff - permanent and temporary. The 2003-04 figure excludes 590 *NSW businesslink* staff.
- 3) Represents contractor costs associated with capital works, capital improvements, and repairs and maintenance to residential and commercial properties.
- 4) Represents dwellings managed at 30 June per EFT.
- 5) Represents employee related and administrative expenses. It excludes significant items (See Note 12 below). The 2003-04 figure excludes the relevant expenses attributable to *NSW businesslink*.
- 6) The reduction in the number of dwellings completed is expected to be a continuing trend while the Department invests its capital funding to improve current stock.
- 7) Includes dwellings across all program areas (both owned and head leased in the private sector), some of which are managed by community organisations on behalf of the Department.
- 8) Represents the difference between market rent and rent charged to tenants, which is based on a percentage of the tenants' household income.
- 9) Represents number of first tier appeals received and Public Housing Committee appeals received as a percentage of total tenancies.
- 10) Operating profit before tax represents results from ordinary activities. EBIT represents operating profit before tax, net of \$51.3 million interest expense.
- 11) Relates to the increase in the Department's superannuation funding position of \$28.2 million.
- 12) Represents rent before rental subsidies and management fees from tenancy and project management activities.
- 13) Represents percentage of EBIT to total assets.
- 14) The increase in the asset base in 2003-04 is due to the revaluation of the Department's property portfolio, which increased residential property values by \$3.4 billion.
- 15) Represents net proceeds from sale of residential and commercial properties and vacant land.
- 16) Represents mainly loans payable by the State to the Commonwealth which has been apportioned to the Department, loans payable to the Treasury Corporation under the Commonwealth matching grant arrangements and loans payable to the State.
- 17) Represents non-current interest and non-interest bearing debt as a percentage of total equity.
- 18) Represents total loans payable as a percentage of total assets.

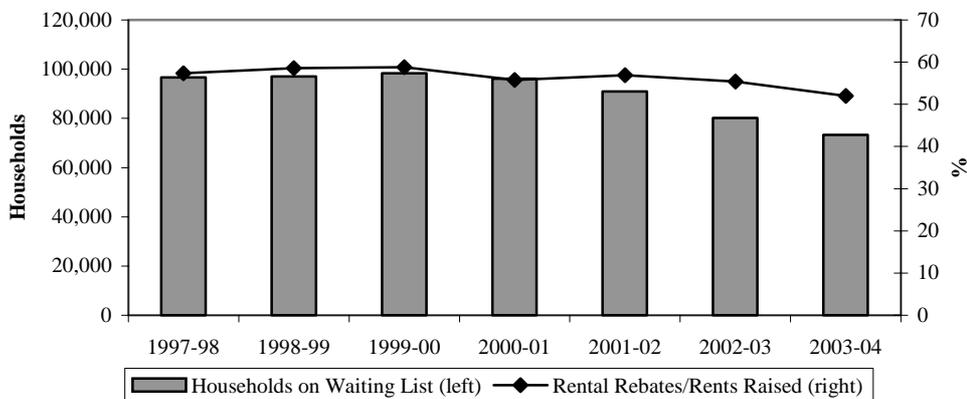
Revenue and Earnings (2003-04 dollars)



Employment and Efficiency



Service Delivery



# Department of Lands



## LAND AND PROPERTY INFORMATION NSW

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**Land and Property Information New South Wales' (LPI) mission is to maintain and provide access to authoritative information on land and property that meets the basic needs and expectations of its customers and provides value to its stakeholders.**

As a Government Business Enterprise, LPI:

- sources information from organisations and individuals to compile maps, databases and registers of land and property information including information on locations, parcel descriptions, values, ownership, restrictions and financial interests;
- provides services to the Registrar General, the Surveyor General and the Valuer General who have responsibilities for administering various Acts of Parliament, including the *Conveyancing Act 1919*, the *Real Property Act 1900*, the *Survey Coordination Act 1949*, the *Surveyors Act 1929* and the *Valuation of Land Act 1916*;
- administers the systems which support the State guarantee of Torrens title;
- makes information available to the public and organisations for conveyancing, historical research, land development, and land management purposes, for state economic and social development and for planning and providing government services to the community; and
- licenses, sells, exchanges and/or gives the data it collects to organisations or individuals, to facilitate the above purposes.

LPI's information datasets are of significant value to a wide range of private sector and Government customers who require information to manage their businesses and plan and deliver services to the community of NSW. LPI's information infrastructure also provides vital assistance for event management and in emergency incidents.

During the year LPI issued 2.3 million valuations to the Office of State Revenue and 832,276 valuations to local councils, responded to 94,116 survey enquiries and searches, prepared 46 new topographic maps, updated 81,338 land parcels in the cadastral database and took 14,803 aerial photographs.

Due to high levels of activity in the property market, LPI handled a record number of land related transactions in 2003-04. LPI registered one million documents and provided 4.7 million copies of title documents in 2003-04. These high volumes resulted in revenue increasing from \$140 million in 2002-03 to \$148 million in 2003-04.

The 2003-04 EBIT was \$39 million compared with the \$14.3 million real terms loss the year before. The improvement in earnings was due to LPI being able to deliver high levels of business volumes, without the need to increase staff levels. Nominal terms total expenses fell from \$154.4 million in 2002-03 to \$109.9 million in 2003-04. Significant items fell dramatically from \$56.9 million in 2002-03 to \$1.8 million in 2003-04. In 2003-04, superannuation was \$1.8 million compared \$30.1 million in 2002-03 and there were no other abnormal items in 2003-04.

As a result of the profit in 2003-04, LPI will contribute \$34.6 million in taxes and dividends to the Government. This dividend was LPI's first since its formation in July 2000.

In 2003-04, LPI received enhancement funding (\$12.4 million) to perform the following activities on behalf of the Government:

- coordinate and maintain the survey mark system;
- maintain the State's topographic and cadastral spatial information;
- provide an improved valuation service;
- maintain a record of the state using aerial photography; and
- maintain a register of place names.

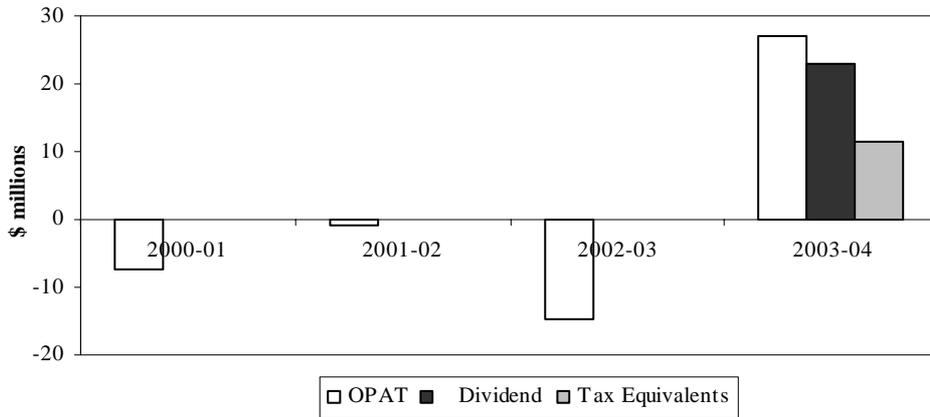
## LAND AND PROPERTY INFORMATION NSW

|  | Notes | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|--|-------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                          | 1     |                |                |                |                |
| Employment                                 | 2     | 955            | 923            | 913            | 911            |
| Output per Employee                        |       |                |                |                |                |
| Document Registrations                     |       | 6,016.5        | 7,821.9        | 7,589.5        | 7,470.6        |
| Plan registrations                         |       | 122.7          | 100.4          | 106.7          | 108.9          |
| Title Copies                               |       | 31,474.2       | 55,481.8       | 61,947.3       | 62,019.4       |
| Valuations                                 |       | 23,133.6       | 23,347.5       | 22,965.3       | 23,782.4       |
| Surveys (enquiries or searches)            |       | 942.2          | 963.3          | 1,049.0        | 1,493.9        |
| Topographic Maps-Presentation              |       | 1.8            | 2.4            | 2.2            | 1.5            |
| Cadastral Map-Parcels Updates              |       | 3,010.0        | 3,078.1        | 2,952.5        | 2,383.2        |
| Aerial Photographs                         |       | 661.7          | 395.2          | 445.6          | 493.4          |
| <b>Service</b>                             |       |                |                |                |                |
| Searches by remote access (%)              |       | 66.8           | 71.2           | 81.6           | 85.0           |
| Dealing Registrations (Ave No Days)        |       |                |                |                |                |
| Manual Titles                              |       | 1.5            | 5.0            | 5.0            | 5.0            |
| Auto Titles                                |       | 1.0            | 3.0            | 3.0            | 3.0            |
| Plan Registrations (% within <=12 Days)    |       |                |                |                |                |
| Deposited Plans                            |       | 79.1           | 87.8           | 55.0           | 52.0           |
| Strata Plans                               |       | 97.8           | 99.3           | 97.0           | 95.0           |
| Land Title information (Ave Response Time) |       |                |                |                |                |
| Plans (min)                                |       | 35             | 40             | 35             | 29             |
| Dealings (min)                             |       | 25             | 30             | 35             | 39             |
| Surveys (new marks stored in SCIMS)        |       | 4,373          | 6,656          | 6,981          | 7,732          |
| No. of Councils using DCDB                 |       | 134            | 137            | 149            | 149            |
| No. of Councils using DTDB                 |       | 101            | 111            | 116            | 120            |
| <b>Finances (\$M)</b>                      | 1     |                |                |                |                |
| EBIT                                       |       | -6.9           | -0.5           | -14.3          | 39.0           |
| Operating Profit After Tax                 |       | -7.4           | -0.9           | -14.6          | 27.1           |
| Significant Items                          | 3     | 20.9           | 34.6           | 58.1           | 1.8            |
| Revenue                                    |       | 116.2          | 130.4          | 143.1          | 148.4          |
| Return on Assets (%)                       |       | -5.5           | -0.5           | -10.3          | 24.9           |
| Return on Equity (%)                       |       | -13.2          | -1.8           | -38.8          | 95.1           |
| Asset Base                                 |       | 126.1          | 125.4          | 138.7          | 156.9          |
| Asset Sales                                |       | 0.0            | 0.0            | 0.0            | 0.1            |
| Financial Distributions                    |       |                |                |                |                |
| Corporate Tax Equivalent                   |       | 0.0            | 0.0            | 0.0            | 11.6           |
| Dividend                                   |       | 0.0            | 0.0            | 0.0            | 23.0           |
| Gross External Debt                        |       | 70.8           | 72.6           | 101.0          | 115.9          |
| Debt to Equity Ratio (%)                   |       | 128.0          | 140.0          | 268.0          | 282.7          |
| Gearing Ratio (Debt/Assets) (%)            |       | 60.0           | 60.0           | 72.8           | 73.9           |
| Times Interest Earned                      |       | -20.2          | -1.8           | -46.7          | 140.3          |
| Social Program                             |       | 1.0            | 0.9            | 10.1           | 12.4           |

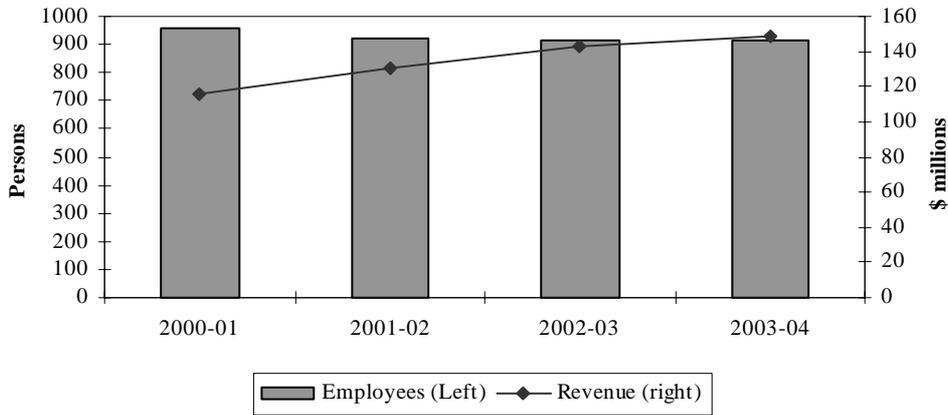
Notes:

- 1) All dollar amounts reported in 2003-04 dollars.
- 2) Average Equivalent Full Time (EFT) Staff.
- 3) Significant Items includes Superannuation, Asset Revaluation and Long Service Leave provisions.

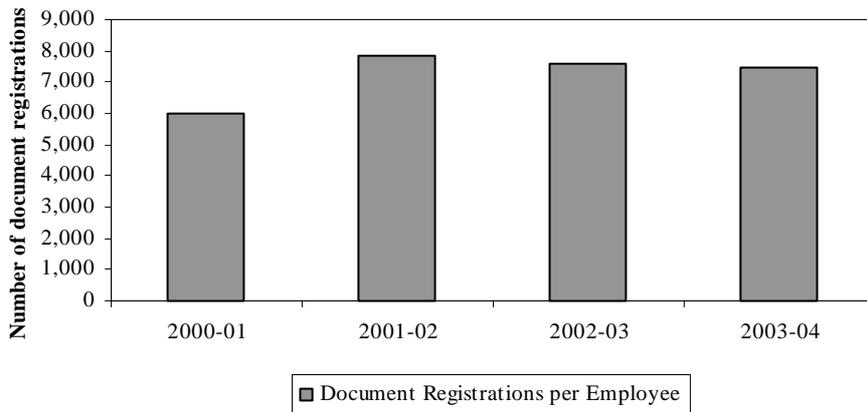
**OPAT and Financial Distribution (2003-04 dollars)**



**Employment and Revenue (2003-04 dollars)**



**Output per Employee**





*We all get a lot out of lotteries*

Mr Brian McIntyre  
Director Finance  
NSW LOTTERIES  
2 Figtree Drive  
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(02) 9752 5500

**NSW Lotteries is the largest operator of lottery games in Australia. Its product portfolio comprises the Lotto-style games of *Lotto, Lotto Strike, OZ Lotto and Powerball* together with *Instant Scratchies, Lucky Lotteries* and *6 From 38 Pools*. The products are sold generally throughout New South Wales and the Australian Capital Territory through a retail distribution network consisting of over 1600 small businesses.**

Fiscal 2004 resulted in another year of record sales for NSW Lotteries – the thirteenth out of the last fourteen financial years. In its 73<sup>rd</sup> year of trading, the Corporation's net sales totalled \$1,062.9 million (excluding GST and retailer commission), a result which ensured that NSW Lotteries remained the largest lottery operator in Australia. In the most recent Business Review Weekly's Top 1000 Australian companies list, the Corporation was ranked 184 among the country's largest public and private sector enterprises.

In 2003-04 NSW Lotteries paid duties of \$279.6 million to the NSW Government. Tax equivalent payments and dividends totalling \$47.6 million were 10.3% above target. As a result, NSW Lotteries' overall contribution to Government totalled \$327.2 million. In addition, the various small businesses comprising the Corporation's selling network earned a record \$74.1 million in retail commission from the sale of NSW Lotteries' products, representing a 2.1% increase in real terms on the commissions of the previous year.

The main factors contributing to the successful result for fiscal 2004 were the sustained growth in Saturday Lotto, a number of extremely favourable jackpot runs in the \$2 Jackpot Lottery, and enhancements to the Monday and Wednesday Lotto game late in the fiscal year. Also, the addition of a Saturday Lotto Strike draw assisted sales growth and a rationalisation of entry forms improved service to customers while also helped reduce costs for the Corporation. A strong calendar of promotions was an integral part of the Corporation's marketing strategy during the year. Numerous short-term promotions were aimed at generating incremental sales and rewarding players in the form of bonus entries.

During the year, the Corporation focused on improving business processes that would have the most impact on the performance of the business. The success of this strategy was clearly reflected in customer surveys, which indicated that 96% of players are satisfied to extremely satisfied with the quality of service delivered by the Corporation and the retail network. In addition, 88% of agents were satisfied to extremely satisfied with the sales support services provided by NSW Lotteries.

In the most competitive market in Australia, NSW Lotteries continues to face challenging conditions due to a range of factors. The most prominent factors continue to be the general maturity of the Corporation's portfolio of games and the maturity of the gaming and wagering market in NSW. Worldwide trends in the lottery industry show that lottery operators are experiencing difficult times in the absence of new products to stimulate growth. Other challenges include the high level of interest in issues associated with the responsible delivery of gaming and wagering products and the social consequences of gambling.

NSW Lotteries performance is largely measured by the ability to achieve financial and other key performance targets agreed with its shareholders. Dividend and tax equivalent payment increases above projections are evidence that NSW Lotteries' performance has been better than expected in 2003-04. Besides increasing product sales, the Corporation's aim is to efficiently manage operating costs and business risks to ensure that shareholder value is optimised, while maximising its contribution to community benefit.

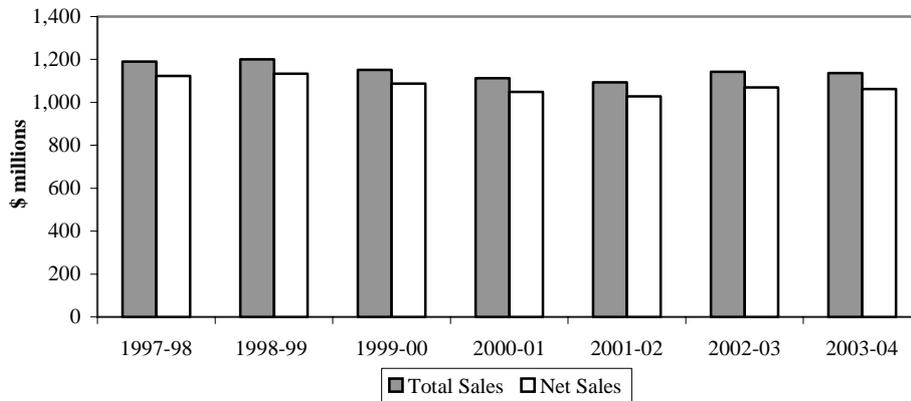
## NSW LOTTERIES

|  | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|--|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                                  | 1     |                |                |                |                |                |                |                |
| Employment   |       | 222            | 209            | 203            | 205            | 201            | 195            | 183            |
| Total Sales per Employee (\$M)                     |       | 5.4            | 5.8            | 5.6            | 5.4            | 5.5            | 5.8            | 6.1            |
| Days Lost for Sick Leave per Employee              |       | 5.3            | 6.4            | 6.1            | 7.2            | 6.1            | 5.5            | 4.9            |
| Days Lost for Workers<br>Compensation for Employee |       | 0.3            | 0.6            | 0.3            | 0.3            | 0.3            | 0.6            | 0.1            |
| <b>Service</b>                                     |       |                |                |                |                |                |                |                |
| Total Sales per Capita                             |       | 250.2          | 249.0          | 239.9          | 229.6          | 223.2          | 233.1          | 230.2          |
| No. of On-Line Agents                              |       | 1,417          | 1,414          | 1,413          | 1,408          | 1,412          | 1,426          | 1,458          |
| No. of Instant Only Agents                         |       | 249            | 229            | 219            | 201            | 191            | 168            | 145            |
| On-Line System Uptime (%)                          |       | 99.99          | 99.99          | 100.00         | 99.96          | 99.99          | 99.99          | 99.99          |
| <b>Financial Indicators (\$M)</b>                  | 1     |                |                |                |                |                |                |                |
| Total Sales  | 2     | 1,190.6        | 1,200.8        | 1,151.4        | 1,113.5        | 1,093.8        | 1,142.0        | 1,137.0        |
| Agent Commissions                                  |       | 67.3           | 67.8           | 64.4           | 64.7           | 65.6           | 72.6           | 74.1           |
| Net Sales  | 2     | 1,123.3        | 1,133.0        | 1,087.1        | 1,048.8        | 1,028.1        | 1,070.0        | 1,062.9        |
| Prize Payments                                     |       | 689.0          | 695.4          | 666.1          | 667.8          | 654.5          | 681.0          | 720.5          |
| Return on Shareholders' Funds (%)                  | 3     | 79.9           | 75.1           | 61.3           | 69.6           | 77.4           | 90.3           | 95.6           |
| Return on Corporate Assets (%)                     | 4     | 41.6           | 39.9           | 36.6           | 35.7           | 38.0           | 43.7           | 46.9           |
| Financial Distributions                            |       |                |                |                |                |                |                |                |
| Dividends  |       | 17.0           | 20.0           | 16.8           | 27.4           | 31.1           | 35.2           | 37.6           |
| Tax Equivalents                                    |       | 17.5           | 16.5           | 14.9           | 14.1           | 16.1           | 18.9           | 10.0           |
| Government Duties                                  | 2     | 325.0          | 325.8          | 320.5          | 274.2          | 270.5          | 282.1          | 279.6          |

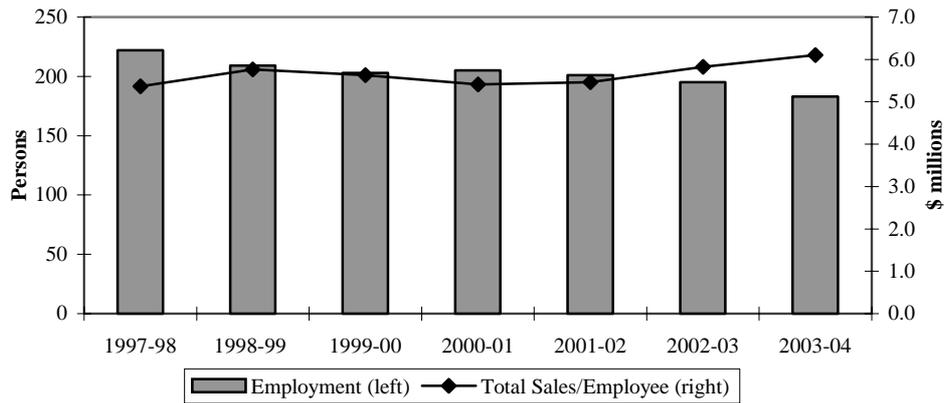
Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Excludes GST.
- 3) Return based on profit before items previously referred to as "abnormal" items and income tax equivalent. Return on shareholder funds is increasing due to: increasing profitability with higher sales and reduced expenses; and static or lower Shareholder funds.
- 4) Relates to assets of the Corporation excluding prize funds.

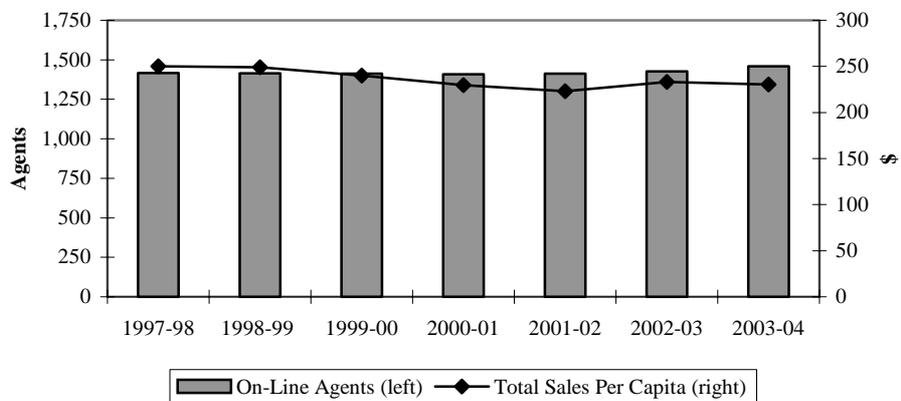
Revenue (2003-04 dollars)

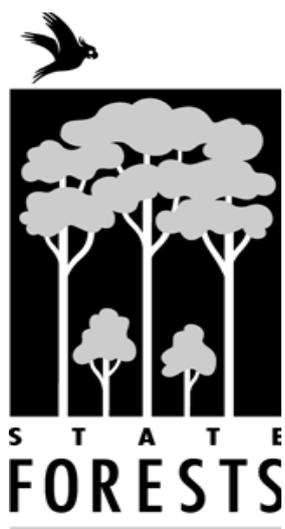


Employment and Efficiency (2003-04 dollars)



Service (2003-04 dollars)





Mr Brad McCartney  
Manager, Corporate Finance  
STATE FORESTS  
Locked Bag 23  
PENNANT HILLS NSW 2120  
(02) 9980 4100

**State Forests is responsible for sustainably managing more than 2 million hectares of public native forests and an expanding estate of hardwood and softwood planted forests. State Forests' goal is to manage the forests under its care to provide the widest range of benefits to present and future generations of people in NSW.**

State Forests' operating performance in 2003-04 improved dramatically over 2002-03 due to the continued demand for softwood structural sawlogs reflecting healthy levels of building activity. In contrast to 2002-03, expenditure on fire fighting was much lower; however the continuing drought required high levels of expenditure on fire prevention.

### **Financial Performance**

The increase in Operating Profit (pre-significant items) to \$35.7 million in 2003-04 was mainly revenue driven by high levels of softwood sales in the first half of 2003-04. Expenditure savings also contributed to the better result as did tight controls over capital expenditure which resulted in decreased levels of debt and subsequent savings in financing costs. Significant items of \$19.5 million related primarily to the revaluation of Self-generating and Regenerating Assets (+\$9.0 million) and gains incurred by superannuation funds (\$6.6 million).

### **Environmental Services**

State Forests has continued to develop its ability to provide environmental services. These services are linked to the community's desire to address environmental issues, including global warming, salinity and declining biodiversity.

For NSW, selling investment opportunities to foreign based companies and the creation of an international market for carbon credits has been severely impacted by Australia's reiteration that it will not ratify the Kyoto Protocol. However, some companies are adopting the position that Australia's failure to ratify is a point-in-time issue and that carbon sink investments in Australia will be advantageous over the longer term. State Forests continues discussions with these companies.

Two parcels of hardwood stands were submitted to IPART for accreditation under the NSW Greenhouse Gas Abatement scheme during the year. The stands will generate around 200,000 (NSW Greenhouse Gas Abatement Certificates or NGAC's) per year with the remainder of the eligible estate, comprising softwood stands to be submitted early in the 2004-05.

### **Future Outlook**

On 1 July 2004, the Department of Primary Industries (DPI) was created by Parliamentary orders combining the operations of NSW Agriculture, NSW Fisheries and the Department of Mineral Resources. State Forests, now renamed Forests NSW, also forms part of DPI, but continues to trade separately on a Public Trading Enterprise (PTE) basis.

The market outlook for building industry activity has begun to soften with softwood sawn timber pricing beginning to level off and in some cases decreasing, reflecting an increasingly competitive market where companies are fighting to maintain a share of sales volume. Late entry into the strong timber market by lower priced imported products (such as low price, high quality European spruce and fir) are also exerting downward pressure on prices.

State Forests is pursuing opportunities for new-planted forests for carbon sinks as a risk management strategy for electricity generators and retailers, including opportunities for links with mine site management and rehabilitation. Investment opportunities in this area are also being explored. The organisation is also working with the Department of Energy, Utilities and Sustainability to pursue opportunities for establishing wind farms on State forest, initially focused on plantation land in the Central Tablelands.

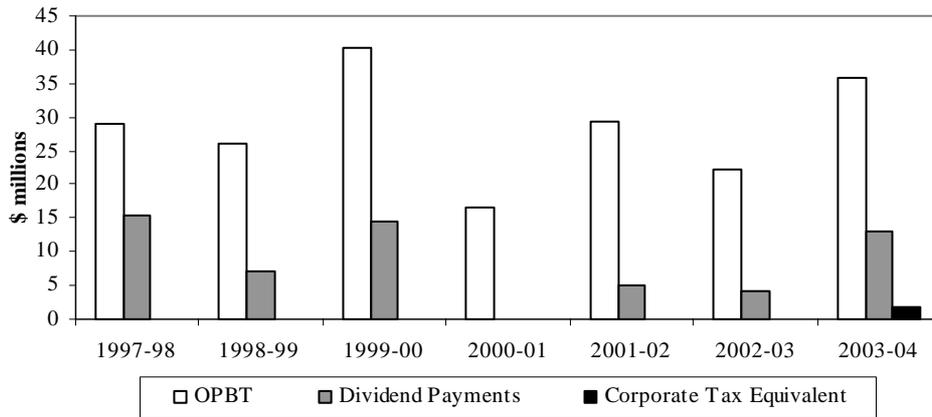
# STATE FORESTS NSW

|   | Notes | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|-------|---------|---------|---------|---------|---------|---------|---------|
| <b>Efficiency</b>                       |       |         |         |         |         |         |         |         |
|   | 1     |         |         |         |         |         |         |         |
| Employment                              |       | 1423    | 1392    | 1196    | 1169    | 1117    | 1146    | 1112    |
| Total Revenue Per Employee (\$'000)     |       | 113.7   | 128.4   | 162.6   | 149.9   | 171.1   | 195.6   | 216.4   |
| Timber Sold Per Employee:               |       |         |         |         |         |         |         |         |
| Sawlogs Including Pine Sawlogs (000 m3) |       | 1.5     | 1.5     | 2.2     | 1.8     | 2.2     | 2.3     | 2.6     |
| Pulp Including Pine Pulp ('000 Tonnes)  |       | 0.8     | 0.8     | 1.0     | 1.1     | 1.3     | 1.3     | 1.4     |
| Forests Managed Per Employee (ha):      |       |         |         |         |         |         |         |         |
| Pine/Hardwood Plantations               |       | 145.5   | 151.6   | 171.4   | 196.6   | 210.6   | 205.0   | 241.9   |
| Other Forests                           |       | 1962.8  | 2003.6  | 2358.7  | 2244.8  | 2331.9  | 2215.3  | 2360.6  |
| Employee Safety:                        |       |         |         |         |         |         |         |         |
| Lost Time Injuries                      | 2     | 44.0    | 33.0    | 31.0    | 42.0    | 36.0    | 40.0    | 31.0    |
| Frequency Rate                          | 3     | 17.4    | 13.9    | 14.2    | 18.6    | 16.4    | 18.1    | 13.9    |
| <b>Service</b>                          |       |         |         |         |         |         |         |         |
| State Forest Managed ('000 ha):         |       |         |         |         |         |         |         |         |
| Pine/Hardwood Plantations               |       | 207     | 211     | 205     | 230     | 235     | 235     | 269     |
| Other Forests                           |       | 2793    | 2789    | 2821    | 2624    | 2605    | 2539    | 2625    |
| Timber Production:                      |       |         |         |         |         |         |         |         |
| Sawlogs ('000 m3)                       |       | 2181    | 2149    | 2593    | 2101    | 2483    | 2611    | 2841    |
| Pulp ('000 Tonnes)                      |       | 1156    | 1129    | 1222    | 1328    | 1460    | 1522    | 1572    |
| Total Pine Plantations Planted (ha)     |       | 6067    | 5693    | 5505    | 5021    | 4183    | 6716    | 6513    |
| Total Hardwood Plantations Planted (ha) |       | 7500    | 4000    | 5300    | 8584    | 3198    | 1641    | 1213    |
| <b>Finances (\$M)</b>                   |       |         |         |         |         |         |         |         |
|   | 1     |         |         |         |         |         |         |         |
| EBIT                                    |       | 28.9    | 26.0    | 40.2    | 16.6    | 29.2    | 22.2    | 35.7    |
| Operating Profit Before Tax             | 4     | 28.9    | 26.0    | 40.2    | 16.6    | 29.2    | 22.2    | 35.7    |
| Operating Surplus Before MVI            |       | 32.5    | 12.1    | 29.0    | 42.8    | 13.4    | -7.6    | 17.5    |
| Significant Items                       | 5     | -53.0   | -10.7   | 87.3    | -91.0   | 31.6    | -9.7    | 19.5    |
| Total Revenue                           |       | 161.8   | 178.8   | 194.4   | 175.3   | 191.2   | 224.2   | 240.6   |
| Return on Total Assets (%)              |       | 1.5     | 1.4     | 2.1     | 0.7     | 1.2     | 0.9     | 1.4     |
| Return on Equity (%)                    |       | 1.9     | 1.8     | 2.6     | 0.8     | 1.4     | 1.1     | 1.7     |
| Financial Distribution                  |       |         |         |         |         |         |         |         |
| Corporate Tax Equivalent                | 6     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 1.8     |
| Dividend                                |       | 15.4    | 7.1     | 14.5    | 0.0     | 4.9     | 4.3     | 13.1    |
| Total Assets                            |       | 1927.1  | 1890.1  | 1935.9  | 2498.1  | 2477.2  | 2410.9  | 2588.2  |
| Total Liabilities                       |       | 389.7   | 418.3   | 384.8   | 430.4   | 429.6   | 466.8   | 460.9   |
| Total Equity                            |       | 1537.4  | 1471.8  | 1551.1  | 2067.7  | 2047.6  | 1944.1  | 2127.3  |
| Interest Bearing Debt                   |       | 136.4   | 148.3   | 144.9   | 149.7   | 140.0   | 138.5   | 121.3   |
| Current Assets                          |       | 94.5    | 98.0    | 87.6    | 62.7    | 43.1    | 50.1    | 44.8    |
| Current Liabilities                     |       | 86.5    | 81.3    | 74.8    | 61.8    | 53.8    | 79.9    | 63.0    |
| Gearing Ratio (Debt/Assets) (%)         |       | 7.1     | 7.8     | 7.5     | 6.0     | 5.7     | 5.7     | 4.7     |
| Debt to Equity (%)                      |       | 8.9     | 10.1    | 9.3     | 7.2     | 6.8     | 7.1     | 5.7     |
| Total Liabilities to Equity (%)         |       | 25.4    | 28.4    | 24.8    | 20.8    | 21.0    | 24.0    | 21.7    |
| Current Ratio                           |       | 1.1     | 1.2     | 1.2     | 1.0     | 0.8     | 0.6     | 0.7     |
| Times Interest Earned                   |       | -2.7    | 1.6     | 3.9     | 1.9     | 3.2     | 2.6     | 4.3     |

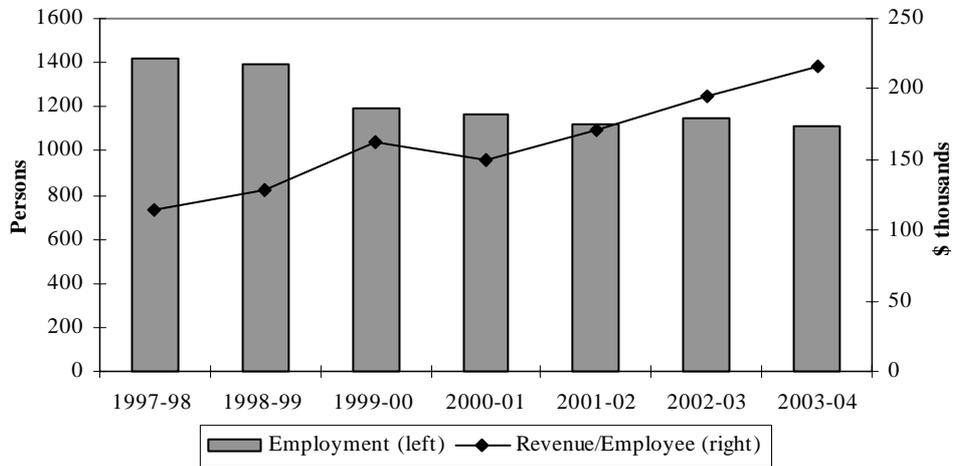
## Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) Number of work injuries which resulted in employees being unable to work for at least one full day (or shift) after the day (or shift) on which the injury occurred.
- 3) An index to illustrate the number of Lost Time Injuries divided by the hours worked in the period times a million.
- 4) Interest expense is capitalised and utilised for the acquisition of land and establishment of plantations.
- 5) Significant items represent: SGARA valuation increments and decrements (+\$9 million in 2003-04), movement in employee superannuation fund accounts (\$6.6 million in 2003-04) and items of a significant nature treated as abnormal prior to amendments in Australian Accounting Standards in the 2000-01 year, including the write down of forest road assets (-\$56.4 million in 2002-03). The introduction of AAS 35 Self-generating and Regenerating Assets requires both native forests and plantations to be valued at input market value each year. The negative significant items in years 1997-98, 1998-99, 2000-01 relates to the downward valuation of the timber resource.
- 6) State Forests' significant expenditure on the establishment of plantation assets has resulted in the creation of deferred tax liabilities. The liability will be reversed as the plantations for which the deductions have been claimed are harvested.

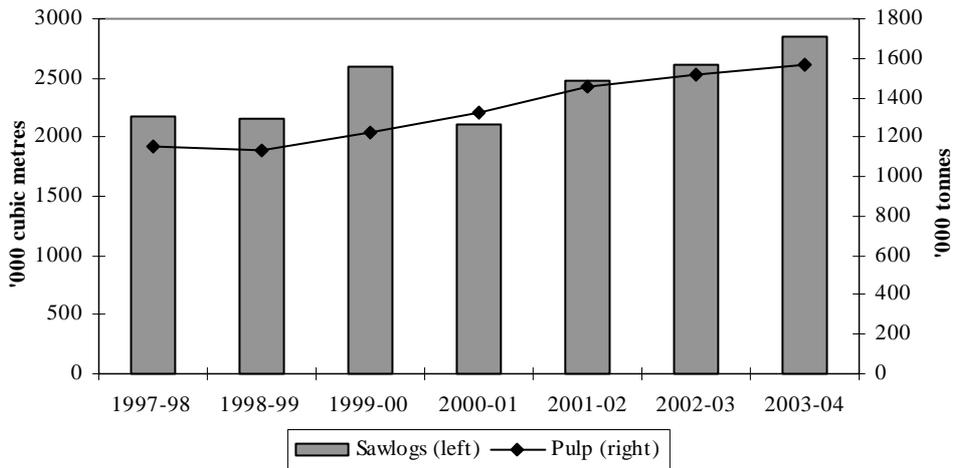
Earnings and Financial Distributions (2003-04 dollars)



Employment and Efficiency



Timber Production





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**The Waste Recycling and Processing Corporation (trading as Waste Service NSW) commenced operation as a statutory State Owned Corporation on 1 September 2001 under the *Waste Recycling and Processing Corporation Act 2001*.**

The principal functions of the Waste Service NSW (WSNSW) are to:

- establish, maintain and operate waste facilities, secondary resource facilities and related facilities;
- conduct business or provide services relating to waste and secondary resource recovery;
- provide waste management services, secondary resource management services and related services;
- research, develop and implement alternative technologies for managing waste; and
- trade in waste and secondary resources.

### **Overview of the year**

Sound financial results were achieved following significant expansion in the dry waste market, improved results in the green waste market and reduced losses in the materials recycling business.

WSNSW reported an operating profit before tax for the 12 months ended 30 June 2004 of \$13.7 million, a small increase on 2002-03. After tax profit of \$9.6 million was \$0.6 million higher than the previous year.

WSNSW continues to build on improvements to profitability, management systems and environmental performance that have been achieved in the past three years since corporatisation. The corporation has transformed itself from being a waste disposer of last resort to an environmental solutions service provider. The corporation moved into new markets, expanded geographically within NSW, reinforced its focus on resource recovery and entered the kerbside collections market for the first time. A highlight was the signing of a landmark 20-year agreement with Fairfield Council to be our foundation partner in Sydney's first Alternative Waste Technology facility for the processing of household waste.

Taking control of the business was a priority for 2003-04. This saw previous contractual arrangements at Jacks Gully, Belrose and Eastern Creek terminated and WSNSW staff now operate these facilities. The corporation also built its first Materials Recycling Facility (MRF) at Jacks Gully.

### **Outlook**

In 2004-05, the corporation looks forward to being a world leader in the move towards new technology solutions to divert putrescible waste from landfills. The new UR-3R Alternative Waste Technology plant at Eastern Creek is due to commence operation in September 2004. This plant, built at a total cost of \$71 million, will initially process 175,000 tonnes (11%) of Sydney's putrescible waste each year and will divert 80% of that waste away from landfill.

The UR-3R plant will also reduce greenhouse gas emissions, increase recovery of recyclable materials, produce green electricity and produce saleable compost and fertiliser products.

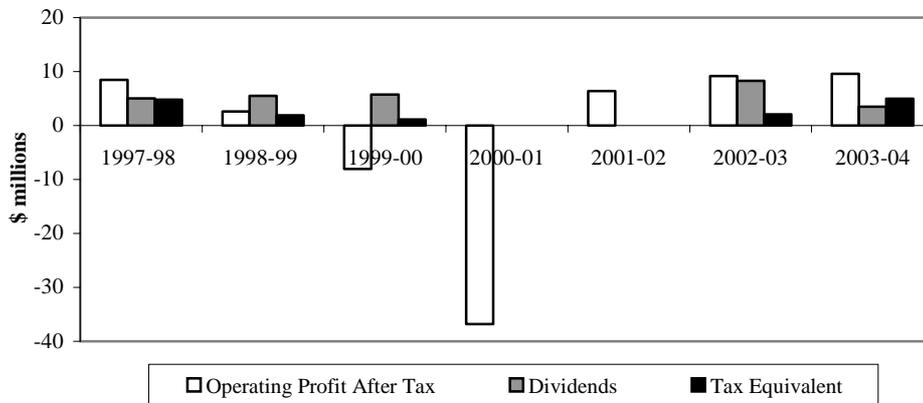
## WASTE SERVICE NSW

|                                      | Notes | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> |
|--------------------------------------|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Efficiency</b>                    | 1     |                |                |                |                |                |                |                |
| Employment                           | 2     | 156            | 154            | 144            | 134            | 127            | 118            | 163            |
| Output / Employee (\$000)            | 3     | 912.4          | 1368.1         | 1270.2         | 1291.1         | 1463.1         | 1505.9         | 1120.6         |
| Landfill Utilisation (m3 per tonne)  | 4     | 1.2            | 1.2            | 1.2            | 1.1            | 1.1            | 1.1            | 1.1            |
| Recycling Tonnes ('000)              |       | 108            | 172            | 195            | 224            | 177            | 320            | 312            |
| Tonnes to Landfill (Mt)              | 5     | 1.8            | 1.9            | 2.1            | 2.3            | 1.9            | 1.7            | 1.8            |
| <b>Effectiveness</b>                 |       |                |                |                |                |                |                |                |
| Availability of Service              |       |                |                |                |                |                |                |                |
| Days Lost at Facilities              |       | 2              | 0              | 2              | 0              | 0              | 1              | 0              |
| Ave Waste Charge Increase            | 6     |                |                |                |                |                |                |                |
| Solid                                |       | 3.8            | 8.4            | 6.5            | 4.7            | 21.1           | 3.9            | 4.6            |
| Liquid                               |       | 3.8            | 4.0            | 4.5            | 5.0            | 7.9            | 2.8            | -4.2           |
| Real Price Index                     | 6     |                |                |                |                |                |                |                |
| Solid Waste                          |       | 162.2          | 173.2          | 180.3          | 190.9          | 226.9          | 228.1          | 232.9          |
| Liquid Waste                         |       | 126.1          | 129.0          | 131.8          | 140.2          | 143.0          | 143.1          | 133.5          |
| <b>Financial Indicators (\$M)</b>    | 1     |                |                |                |                |                |                |                |
| EBIT                                 |       | 19.7           | 15.8           | 7.2            | 1.9            | 12.5           | 16.6           | 16.8           |
| Operating Profit Before Tax          |       | 13.3           | 4.1            | 17.2           | -1.7           | 9.9            | 13.7           | 13.7           |
| Significant Items                    |       | 0.0            | 0.0            | 0.0            | -47.7          | 0.0            | 0.0            | 0.0            |
| Operating Profit After Tax           |       | 8.5            | 2.6            | -8.0           | -36.8          | 6.4            | 9.2            | 9.6            |
| Revenue                              |       | 126.0          | 140.1          | 157.7          | 202.5          | 154.8          | 177.7          | 182.1          |
| Return on Assets (%)                 | 7     | 8.7            | 4.6            | 9.7            | 1.4            | 4.7            | 7.8            | 6.8            |
| Return on Equity (%)                 | 8     | 9.1            | 2.9            | 9.1            | 0.0            | 14.2           | 14.2           | 9.3            |
| Asset Base                           |       | 182.5          | 198.8          | 207.9          | 206.7          | 215.1          | 213.0          | 246.2          |
| Financial Distribution               |       |                |                |                |                |                |                |                |
| Dividend                             |       | 5.0            | 5.5            | 5.7            | 0.0            | 0.0            | 8.3            | 3.5            |
| Tax Payment                          |       | 4.8            | 1.9            | 1.1            | 0.0            | 0.0            | 2.0            | 5.0            |
| Gross External Debt                  | 9     | 40.4           | 53.9           | 52.6           | 49.7           | 48.2           | 47.9           | 45.8           |
| Debt / Equity (%)                    | 10    | 34.0           | 52.5           | 42.5           | 78.8           | 73.6           | 72.3           | 44.0           |
| Gearing Ratio (Debt/Assets) (%)      |       | 22.0           | 27.0           | 26.0           | 24.0           | 22.0           | 22.0           | 18.6           |
| Credit Management - Days Outstanding |       | 33.0           | 34.0           | 35.0           | 39.0           | 35.0           | 37.0           | 36.0           |

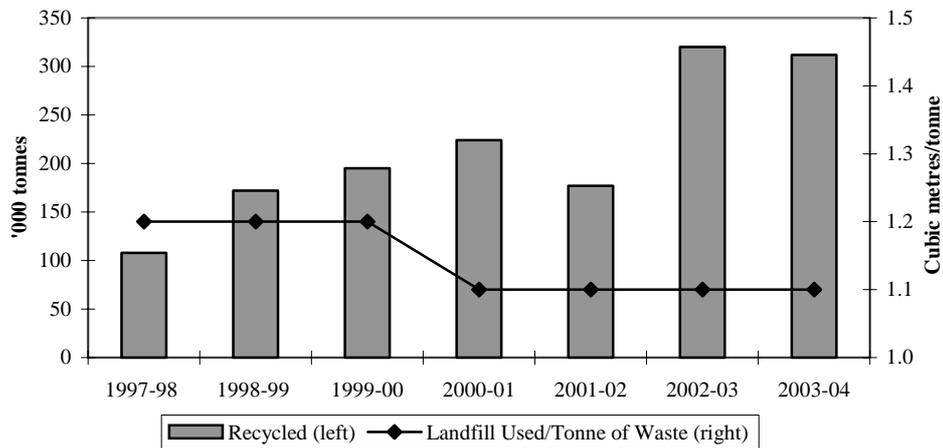
### Notes:

- 1) All dollar amounts reported in terms of 2003-04 dollars.
- 2) The 2003-04 employment increase is due mainly to taking over operations previously performed by contractors.
- 3) Output per employee is based on revenue and staff employed in solid and liquid waste business lines.
- 4) Measures the volume of landfill required to accommodate a tonne of waste.
- 5) Waste Service NSW sites only.
- 6) Reduction owed to increase in processing of lower priced waste streams.
- 7) Average operating assets.
- 8) Average equity.
- 9) The 1996-97 increase in debt reflects the higher than average capital works program, which is funded by borrowing.
- 10) Reduction owed to increase in asset revaluation reserve.

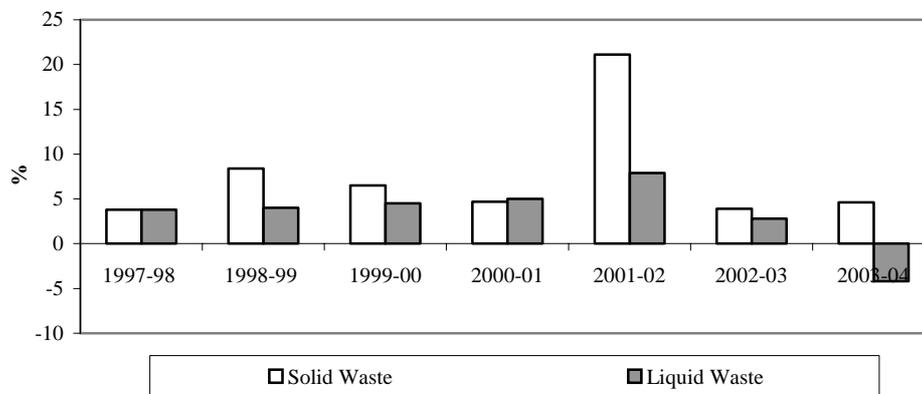
OPAT and Financial Distributions (2003-04 dollars)



Management of Landfill Capacity



Average Charges Increase



## 10. GLOSSARY

### BUSINESS TERMINOLOGY

#### GOVERNMENT BUSINESS

A Government business is a generic term that encompasses:

- Public Trading Enterprises;
- State Owned Corporations; and
- General Government businesses.

#### PUBLIC TRADING ENTERPRISE (PTE)

PTEs are public sector entities that are principally engaged in trading activities that be provided through the private sector without compromising the Government's social and economic objectives. PTEs raise the majority of their income from user charges.

PTEs have undergone "commercialisation" reforms to varying degrees. They have also addressed issues of competitive neutrality in input markets, although they may still operate in an environment that maintains legislative or regulatory barriers to competition, potentially preventing competitive neutrality in output markets.

#### STATE OWNED CORPORATION (SOC)

State Owned Corporations (SOCs) are corporatised Public Trading Enterprises. Corporatisation involves the establishment of a corporate governance structure which mirrors as far as possible that of a public-listed company, essentially creating an "arm's length" relationship between the SOC Board, management and shareholding Government. SOCs are incorporated under the *State Owned Corporations Act 1989*.

#### GENERAL GOVERNMENT BUSINESS

Refers to businesses that are not dependent on funding via taxes, fees or fines or dependent on other agencies that are directly or indirectly funded in this manner. Such agencies may often be self-sufficient due to external user charges forming their main source of revenue.

#### COMMERCIALISATION

Commercialisation refers to the processes undergone in the first stage of reforms that are aimed at increasing the efficiency of a Government business. These processes are essentially alterations to operational and management procedures in nature.

In general terms, these initial reform processes can be categorised as one (or a combination) of the following:

- Objective Clarification (including specification of regulatory or social objectives as distinct from commercial targets);
- Heightened Managerial Authority (ensuring key operational decisions are made by managers rather than imposed by external parties to avoid information asymmetry problems);
- Performance Monitoring (subjecting the business to rigorous financial performance assessment procedures); and
- Instituting Managerial Rewards & Sanctions (alleviating the likelihood of agency costs by more effectively aligning the objectives of shareholders and managers).

### **CORPORATISATION**

Corporatisation refers to the second stage of reform aimed at improving the efficiency of Government businesses. It mainly involves the creation of a corporate structure typical of a publicly listed company, further heightening the independence of management from the Government in its' shareholder capacity for day to day operational decisions. As well as the completion of reforms in the four categories of commercialisation processes, competitive neutrality principles must be applied to remove inherent advantages and disadvantages of Government ownership prior to corporatisation.

State Owned Corporations are established under the *State Owned Corporations Act 1989*.

### **STATEMENT OF CORPORATE INTENT (SCI)**

The Statement of Corporate Intent (SCI) can be likened to an annual contract between the shareholders and management of State Owned Corporations. The purpose is to enhance accountability for performance and provide the business with certainty as to the shareholders' expectations of financial performance.

The Statement contains, among other key matters, financial performance targets and the capital program for a four year period, along with the business plan and projected financial statements over a ten-year period.

SOCs are required to produce an SCI under Section 21 and 22 of the SOC Act and under the Government's Financial Monitoring Policy. NSW Treasury provides SOC's with Guidelines for the Preparation of SCIs and SFPs.

### **STATEMENT OF FINANCIAL PERFORMANCE (SFP)**

The Statement of Financial Performance (SFP) is equivalent to the Statement of Corporate Intent (SCI), but is for non-corporatised businesses rather than State Owned Corporations. For these businesses, the contract is between the Treasurer, Portfolio Minister, Chairperson and Chief Executive Officer.

Non-corporatised Government businesses are required to produce an SFP under the Government's Financial Monitoring Policy. NSW Treasury provides Government businesses with Guidelines for the Preparation of SCIs and SFPs.

### **WEIGHTED AVERAGE COST OF CAPITAL (WACC)**

Both debt holders and equity holders require a minimum rate of return that reflects the risk of the business. These minimum rates of return for debt and equity are weighted according to the amount of debt and equity capital invested, thereby establishing a Weighted Average Cost of Capital (WACC) for the business.

In establishing the WACCs for Government businesses, NSW Treasury has formulated a consistent methodology across all Government agencies. The WACC calculation itself and other input variables have been standardised, although business specific input variables such as the equity beta and target gearing ratio are the subject of negotiation. Further detail is available in the Shareholder Value Added Manual.

### INDICATORS

Each Government business reports on its' performance via a combination of unique in house indicators and generic measures of efficiency, service and financial performance. Important generic measures used in the Performance Book are defined below.

#### *Efficiency Indicators*

##### **ADMINISTRATIVE EXPENDITURE PER EMPLOYEE**

Administrative expenses are 'overheads' – they are not a direct cost of production. In contrast to attaining greater levels of efficiency on direct inputs like labour and materials, this measure reflects an improved control of incidental costs necessitated by the performance of the primary tasks of the production process. Improvements are assessed on a per employee basis because labour is typically the primary driver of administrative expenses.

##### **AVERAGE LOST TIME**

Average hours lost per employee per year. An efficiency indicator and a proxy guide for employee satisfaction.

##### **EMPLOYMENT**

Effective Full Time staff - full time staff plus the equivalent number of positions occupied by part time workers. This figure excludes contractors.

##### **LOST TIME INJURY FREQUENCY RATE**

Total time lost by employees due to injuries, for every one million hours worked. A lower rate is indicative of proper application of occupational health and safety principles.

##### **OPERATING COST PER CUSTOMER/PASSENGER/UNIT SOLD**

All three of these variations reflect costs on a per unit of output basis. Decreases reflect enhanced productive efficiencies of the relevant businesses, typically attributable to greater utilization of inputs, improved technology or a combination of both.

##### **OUTPUT PER EMPLOYEE**

Physical Output divided by Employment. Growth in this measure is indicative of increased labour productivity.

##### **OUTSTANDING ACCOUNTS**

This measure refers to the value of accounts unpaid at the end of financial year. Collection of debts on time as billed is of obvious importance to businesses extending credit to customers. Decreases in the proportion of this figure to total sales may be taken to indicate an enhanced debt collection ability of the agency.

##### **REVENUE PER EMPLOYEE**

Where measurement of Output levels is problematic or inappropriate, businesses report real Revenue divided by Employment as a proxy for output levels. Increases are similarly indicative of increased labour utilisation on a per employee basis.

##### **STAFF HOURS LOST TO INDUSTRIAL DISPUTES**

An aggregate figure for the number of hours lost to stop work meetings, strikes, etc.

### *Service Indicators*

#### **AVERAGE PORT MANAGEMENT CHARGE PER TONNE OF CARGO/VESSEL**

Both variants effectively convey price changes on a per unit of output basis. This can be considered to be the mirror image of Operating Cost per Passenger, in that it reflects price (from the perspective of the demand side of the market) as opposed to cost (the supply side). Real reductions in this figure are indicative of greater input utilisation and/or improvements in technology. In efficient, competitive markets there should be a strong positive correlation between changes in cost per unit and price per unit as the improvements are passed onto consumers.

#### **BERTH OCCUPANCY**

Total time, in hours, that ships are occupying berths, as a percentage of total available berth hours. A higher percentage indicates close to full use of berth capacity.

#### **BERTH TIME QUEING RATE**

Length of time that vessels wait to berth without loading or unloading cargo. A lower time indicates more efficient management of port space for vessels.

#### **CUSTOMER SATISFACTION INDEX**

Surveys conducted by AC Nielsen that provide a score out of 100 that is indicative of the positive perception of customers regarding the service provided by the distributors.

#### **EMPLOYEE UTILISATION**

Employment is a central driver of both direct and administrative costs. Consequently, there is considerable scope to extract efficiency gains via increased employee utilisation. It may reasonably be anticipated that improved utilisation will feed through to lower per unit costs and prices, all else being equal.

#### **MARKET SHARE**

Percentage of total industry sales attributable to a particular business. This figure is commonly used for assessing which firm is the market leader, as it represents the proportion of customers who have been 'claimed' by a business. Examination of year-on-year figures may reveal trends attributable to customer loyalty or shifts in market power. The impact of market deregulations may also become apparent.

#### **REAL PRICE INDEX (RPI)**

An index constructed for each business to identify how customer charges have moved in relation to the Sydney Consumer Price Index. The Indices commenced at 100 in 1989-90 (agencies that have subsequently come into existence have had their base year appropriately adjusted).

Change in the RPI reflects change in the real level of charges (i.e. change in charges relative to general price level movements). An increase in the index represents an increase in the real level of charges levied by a business, and vice-versa.

In 1994-95, a new method of reporting on the Real Price Index was introduced. Data collated for the Government Charges Index (GCI) is used to construct series for agencies appearing in both the Chapters 4 & 6 of this publication, ensuring consistency between the two.

The GCI does not contain separate price movements for each of the electricity businesses. Consequently, the indices supplied by each business are used.

#### **SEWER MAIN CHOKES**

Blockages in sewer pipes resulting in sewerage being discharged to the environment.

## GLOSSARY

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### **SUPPLY RELIABILITY**

Average minutes per customer per year without electricity supply, including planned and unplanned outages. Lower times indicate ability to minimise supply failures, and contributes to greater customer satisfaction.

### **SYSTEM LOSS INDEX**

Energy purchased minus energy sold, as a proportion of energy purchased. This is an indicator of how the electricity distributor manages its supply.

### **VESSEL TURNAROUND TIME**

The time during which vessels are confined to ports for loading and unloading of cargo. Lower times indicate more efficient transfer of goods to and from vessels.

### **WATER MAIN BREAKS**

Breaks that occur along the water main pipes.

## ***Financial Indicators***

### **ASSET BASE**

Total assets (current and non-current) net of depreciation and amortisation.

### **ASSET SALES**

Gains (losses) from sale of assets during the financial year.

### **CONVERSION FACTOR**

The number which, when multiplied to the dollar amount in the non-base year, will convert that dollar amount to the equivalent base year dollar amount.

### **DEBT TO EQUITY RATIO**

The ratio of an agency's Gross External Debt to the Equity holding of the Government in the business. This ratio is representative of capital structure financing decisions. These decisions aim to minimise the Weighted Average Cost of Capital (WACC) of the business (this concept is further explained in the Financial Terminology Section). Determination of the appropriate ratio requires that the operating conditions in an industry sector, any agency specific risk factors and regulatory risk be factored into the returns required on debt and equity funds. NSW Treasury's *Capital Structure Policy* discusses these issues more expansively.

### **FINANCIAL DISTRIBUTIONS**

Financial Distributions are contributions by businesses to the Consolidated Fund. Distributions take one of the following three forms:

#### Corporate Tax Equivalent:

Section 3 (4)(b)(i) of the *Competition Policy Agreements* identifies that Government businesses need to pay full Commonwealth, State and Territory taxes to satisfy competitive neutrality principles. The rationale behind these principles is to place government controlled businesses on a similar footing with any private sector competitors.

In practice, these forms of taxation can be paid either directly to the relevant collection agency or as part of a tax equivalent payment to the shareholding or controlling Government. Under NSW' Tax Equivalent Regime for Government Businesses as modified mid 2003 (see NSW Treasury Policy and Guidelines Paper TPP03-4) some businesses fall within the National Tax Equivalents Regime administered by the Australian Tax Office. Others fall under the Tax Equivalents Regime administered by the NSW Office of State Revenue. The payment of tax or tax equivalents delivers

potential efficiency gains by shaping an enterprise's behaviour toward tax minimisation, the amount of before tax profit retained by the business. The payment of tax equivalents is also an imperative in creating an efficient capital structure as the cost of debt ( interest) is tax deductible, while the cost of equity funds is not.

### Dividend Payment:

Dividends are a return to shareholders for the funds invested in the business. They can only be paid out of profit, either that of the current financial year or out of profits retained in previous years. Dividends are paid on a per share basis to shareholders and are negotiated annually between the shareholders and the Board.

Typically, dividends are one of two forms of return on the equity funds of shareholders, the other being share price growth. Due to the absence of a share price regularly determined in a liquid market, the second form of return is not readily observable for Government businesses (the same problem exists for unlisted companies). The preference of shareholders must be adequately considered.

The sum of these two forms of return should be commensurate with the opportunity cost of investing in the Government business – the cost of equity. For the Government, this should not only consider the rate of return expected on an equally risky investment but also reflect the cost incurred by not employing those funds on other potential projects.

### Payment of Capital from Equity:

A special form of return to the Government. Unlike Tax Equivalents or Dividends, it is extracted from forms of equity other than Profit or Retained Earnings.

Such payments may be necessary so that a business can attain an appropriate capital structure as required by Treasury's Capital Structure Policy.

## **GEARING RATIO (DEBT/ASSETS)**

Debt with maturities beyond 12 months, as a percentage of the total assets of the entity. High gearing ratio is indicative of high reliance on debt to finance operations.

## **GROSS EXTERNAL DEBT**

The gross amount owed to parties external to the business, including those amounts owed to the financing arm of the NSW Government, TCorp.

External debt levels are indicative of the extent of a business' exposure to potential changes in interest rates.

## **NET SALES LESS AGENCY COMMISSIONS**

This measure is exclusively employed by NSW Lotteries. Sales are reported on a net basis because to the unique manner of distribution for the products of that business – agency costs must necessarily be incurred because it is unsustainable to maintain outlets solely for the purpose of selling NSW Lotteries' products. Although not a cost of production, commissions need to be reflected as a cost incurred by the business as part of getting their product to the market.

## **NOMINAL AVERAGE PRICE**

The average price expressed in unindexed (not adjusted for inflation) form.

## **OPERATING COST**

Operating expenditures, including depreciation, but excluding interest expenses (which are a financing rather than operating, cost).

### **OPERATING RESULT**

Unless otherwise stated, this figure is quoted on a pre-tax basis. It consists of operating income derived in the ordinary course of business (net of extraordinary items) less operating expenses (i.e. operating costs plus interest expense).

### **RETURN ON ASSETS**

Earnings before interest and tax as a percentage of the asset base. This measure is often employed as a headline indicator of the results of capital deployment and management decisions. As a result, Return on Assets is a primary tool in assessing performance between different industries and agencies of different sizes.

Some caution must be exercised in comparing figures as the degree of regulation, the magnitude of non-commercial objectives and issues in valuation of the asset base may vary significantly between industries and businesses. In assessing performance the degree of control and direction management can exercise over the asset base must also be considered.

### **RETURN ON EQUITY**

Operating Result (after tax) as a percentage of equity. This indicator represents the return on the capital funds invested in an agency. Interpreters of this figure should be wary of the impact of capital restructures that involve increases or decreases in equity.

### **SIGNIFICANT ITEMS**

Significantly sized financial events that are either:

- part of normal business operations, but unusual in size; or
- not a normal part of business operations at all.

### **SOCIAL PROGRAMS**

Value of payments to an agency made by the Government to meet social objectives. Also known as Community Service Obligations (CSOs), these objectives may often interrupt or conflict with a business' pursuit of commercial objectives. The magnitude of compensation due to a business for performing non-commercial activities is explicitly identified to heighten accountability and enable raw performance figures to be adjusted if necessary. Competitive disadvantages attributable to Government ownership can be controlled as part of performance assessment processes.

### **TOTAL REVENUE**

Total monies owed to the business for services tended during that period. Note that this is not equivalent to cash received: revenue is an accrual concept and may differ from cash receipts due to timing differences. However, revenue is a valuable estimate of the approximate annual cash flow of a business for the purposes of projecting future earnings.

### **TIMES INTEREST EARNED**

Earnings before interest and tax (EBIT) divided by total interest charges. This ratio reflects the ability of the business to meet the costs of their debt as they fall due. The importance of this figure lies in the fact that payments to debtholders are compulsory whereas payments to shareholders are residual payments made out of operating surpluses. Inability to meet debt payments as they fall due constitutes insolvency and risks liquidation of the business. What constitutes an appropriate ratio for a particular business is dependent on the volatility of earnings, industry risk factors, the exposure of the business to interest rate movements, sensitivities to changes in growth forecasts and other risk factors with the potential to influence company earnings.

## 11. ABBREVIATIONS

|        |  |
|--------|--|
| ANCOLD | Australian National Committee on Large Dams    |
| CBD    | Central Business District                      |
| CCTV   | Closed Circuit Television                      |
| CPI    | Consumer Price Index                           |
| CSHA   | Commonwealth-State Housing Agreement           |
| DLWC   | Department of Land and Water Conservation      |
| EBIT   | Earnings Before Interest and Tax               |
| EFT    | Equivalent Full-Time, also (FTE)               |
| ETEF   | Electricity Tariff Equalisation Fund           |
| FY     | Financial Year                                 |
| GCI    | Government Charges Index                       |
| GST    | Goods and Services Tax                         |
| GBE    | Government Business Enterprise                 |
| GL     | Gigalitre                                      |
| GWh    | Gigawatt Hours                                 |
| HWC    | Hunter Water Corporation                       |
| IPART  | Independent Pricing and Regulatory Tribunal    |
| kV     | Kilovolt                                       |
| LPI    | Land and Property Information                  |
| LPT    | Liverpool to Parramatta Transit Way            |
| MFP    | Multifactor Productivity                       |
| ML     | Megalitre                                      |
| MVI    | Market Value Increment                         |
| MW     | Megawatt                                       |
| MWh    | Megawatt Hours                                 |
| NCP    | National Competition Policy                    |
| NECA   | National Electricity Code Administrator        |
| NEM    | National Electricity Market                    |
| NEMMCO | National Electricity Market Management Company |
| NTER   | National Tax Equivalent Regime                 |
| OPAT   | Operating Profit After Tax                     |
| PRL    | Parramatta Rail Link                           |
| PTE    | Public Trading Enterprise                      |
| RIC    | Rail Infrastructure Corporation                |
| RLMC   | Regional Land Management Corporation           |
| RMC    | Rail Management Centre                         |
| ROE    | Return on Equity                               |
| RPI    | Real Price Index                               |
| RRN    | Regional Reference Node                        |
| SOC    | State Owned Corporation                        |
| SCA    | Sydney Catchment Authority                     |
| SGARA  | Self-Generating and Regenerating Assets        |
| SCI    | Statement of Corporate Intent                  |
| SFP    | Statement of Financial Performance             |
| SNI    | South Australia-NSW Interconnector             |
| TAMP   | Total Asset Plan                               |
| TPA    | <i>Trade Practices Act 1974 (Cth)</i>          |
| TEU    | Twenty-foot Equivalent Units                   |
| TNSW   | Transport NSW                                  |
| WACC   | Weighted Average Cost of Capital               |