New South Wales
TREASURY

PERFORMANCE OF NSW GOVERNMENT BUSINESSES 2001-02

Office of Financial Management

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CORRIGENDA

Chapter 5

- **Dividends** There are a number of discrepancies between the dividend amounts cited in agency commentaries and the figures presented in the accompanying financial indicator tables. These differences arise from the fact that the dividend figures in the indicator tables are prepared on a cash accounting basis (i.e. dividends paid in the 2001-02 financial year) whereas in some instances agency reports make reference to accrual accounting dividend figures (dividends declared in relation to the 2001-02 financial year).

While both the cash and accrual figures are correct, the discrepancy may be confusing. An accrual accounting concept of dividends is employed in the agency commentary in the following instances:
  - Delta Electricity (p55 $85.5 million);
  - Macquarie Generation (p71, $125 million); and
  - Port Kembla Port Corporation (p113, $8.2 million).

An accrual accounting concept of dividends will be used consistently throughout Chapter 5 in future editions of this publication.

- **Unlisted Indicators** In some instances, agency commentaries refer to performance indicators that are not listed in the corresponding indicator tables. While the quoted figures are correct, this may be confusing where an unlisted indicator is substantially similar (yet subtly different) to an indicator listed in the table. Instances of unlisted indicators include:
  - Eraring Energy Consolidated Net Profit of $48.6 million (p63);
  - Macquarie Generation Sales Revenue of $812 million (p71);
  - Hunter Water Corporation Operating Result Before Capital Contributions of $19.5 million (p85);
  - Port Kembla Port Corporation Net Profit Before Tax and Significant Items of $10.5 million (113); and
  - Department of Public Works and Services Operating Loss before Tax and After Significant Items of $66.7 million (p135).

- **Country Energy:** p51 - the text refers to more than 750,000 customers, while the table refers to 727,847 customers; the difference in these two figures is the chosen definition of “customer”.

- **Macquarie Generation:** p71 - the 20% increase in EBIT was measured on a nominal basis.

- **Department of Housing:** p123 - the 2000-01 figure for the Operating Result is reported in nominal terms in the text.

PREFACE

This is the thirteenth edition of the *Performance of NSW Government Businesses*. It reports on microeconomic reform and the performance of the 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
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CONTENTS

ABBREVIATIONS

ABL	Australian Business Limited
ACCC	Australian Competition and Consumer Commission
AIEW	Australian Inland Energy and Water
AGL	Australian Gas Light Company
ATC	Advanced Technology Centre
AWT	Australian Water Technologies
CCI	Current competitiveness index
COAG	Council of Australian Governments
CN	Competitive Neutrality
CPI	Consumer Price Index
CPA	Competition Principles Agreement
CSHA	Commonwealth-State Housing Agreement
CSO	Community Service Obligation
DITM	Department of Information Technology & Management
DLWC	Department of Land & Water Conservation
DPWS	Department of Public Works and Services
EBIT	Earnings before interest and tax
ETEF	Electricity Tariff Equalisation Fund
FRC	Full retail contestability
FreightCorp	Freight Rail Corporation
GBE	Government business enterprise
GCI	Government Charges Index
GRCI	Growth competitiveness index
GRMCo	Gas Retail Market Company
GST	Goods and Services Tax
GWh	Gigawatt-hour
HBWI	Home Builder's Warranty Insurance
HWC	Hunter Water Corporation
IPART	Independent Pricing and Regulatory Tribunal
LPI	Land and Property Information
LTIFR	Long Term Injury Frequency Rate
MPB	Multi Purpose Berth
MWh	Megawatt-hour
NCC	National Competition Council
NCP	National Competition Policy
NECA	National Electricity Code Administrator
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NRC	National Rail Consortium Pty Ltd

Abbreviations (Continued)

OECD	Organisation for Economic Co-operation and Development
OPAT	Operating Profit After Tax
PFE	Public Financial Enterprise
PFP	Privately financed projects
PPP	Public Private Partnerships
PJ	Petajoule
PSC	Public Sector Comparator
PTE	Public Trading Enterprise
RAC	Rail Access Corporation
RBA	Reserve Bank of Australia
RIC	Rail Infrastructure Corporation
RSA	Rail Services Australia
RTBU	Rail, Tram and Bus Union
SCI	Statement of Corporate Intent
SFP	Statement of Financial Performance
SISP	State Infrastructure Strategic Plan
SOC	State Owned Corporation
SVA	Shareholder Value Added
SWMOP	State Water Management Outcomes Plan
TAM	Total Asset Management
TBL	Triple Bottom Line
TCorp	Treasury Corporation
TEU	Twenty foot equivalent unit
TPA	*Trade Practices Act 1974*
WACC	Weighted Average Cost of Capital

EXECUTIVE SUMMARY

The *Performance of NSW Government Businesses* has been published annually since 1989-90. It documents the NSW Government's progress in implementing microeconomic reform.

Microeconomic reform aims to improve the efficient management of the use of the economy's scarce resources to produce goods and services. Successful reform has two major benefits:

- it increases productive efficiency, so that more goods and services are produced for a given level of resources; and/or
- it improves allocative efficiency, so that resources are directed to those sectors that generate the greatest benefit.

This year's publication provides updates for the financial year 2001-02 on:

- NSW Government achievements on National Competition Policy (NCP) obligations;
- productivity gains by NSW Government businesses in electricity, transport, water and other sectors;
- aggregate movements in the prices charged by major NSW Government businesses;
- performance indicators on finance, efficiency and service for 23 NSW Government businesses; and
- other microeconomic reform initiatives.

The NSW Government has continued to achieve reform progress, especially in the electricity, gas and water sectors.

In the electricity sector, full retail contestability commenced 1 January 2002. The operation of the Electricity Tariff Equalisation Fund (ETEF) and its future role as a risk management mechanism is under review.

In the natural gas sector, full retail contestability was introduced on 1 January 2002. Small consumers were given the default option of electing to remain in the tariff regime regulated by the Independent Pricing and Regulatory Tribunal (IPART).

In the water sector, the 2002 National Competition Council assessment found that NSW had made sufficient progress to enable it to receive its 2002-03 National Competition Policy payments. It assessed that Hunter Water Corporation's pricing structure was consumption-based, and that Sydney Water Corporation's reduced use of property values to determine pricing satisfied NCP commitments. In relation to bulk water, NSW is developing a register that will provide clearly specified property rights that will give greater certainty to entitlement holders, prospective purchasers and financiers. The NCC plans to undertake a supplementary assessment in December 2002, on the adequacy of progress in defining and implementing water property rights regimes and water trading.

In the six years to 2001-02, NSW Government businesses in the electricity, transport and water sectors achieved a 25% improvement in labour productivity. A gradual decline in financial distributions (dividends and tax equivalent payments) from these businesses over this period is indicative of these input cost savings being largely passed on to consumers.

The price benefits of competition are evidenced by continuing reductions in the Government Charges Index. Downwards pressure in a variety of sectors contributing to the Government Charges Index (GCI) saw the Index fall overall by 0.4 % in real terms over 2001/02. Over the seven years from 1994/95, the GCI fell by 7.1 % in real terms.

Recent microeconomic reform of NSW Government businesses has also resulted in:

- the corporate restructure of Australian Gas and Light Company (AGL), when the NSW Parliament passed the *AGL Corporate Conversion Act 2002* in May 2002. This Act repeals the old AGL Act and converts AGL into a body corporate governed by the *Corporations Act 2001*;

- the sale of Powercoal to Centennial Coal Proprietary Limited for $331 million, from which the NSW Government received net sale proceeds of $139 million;

- the sale of FreightCorp and National Rail Corporation on February 2002. The sale was preceded by extensive consultations between the Commonwealth, NSW and Victorian Governments. It was determined that selling the operations jointly to a single purchaser would bring about the greatest benefits. The total transaction value was $1.73 billion; and

- reforms aimed at addressing developments in the insurance market relating to civil liability and home builders warranty insurance.

1. OVERVIEW OF COMPETITION REFORM

1.1. THE RATIONALE FOR COMPETITION REFORM

The core objective underlying the economic policies of all Australian governments is the pursuit of increased living standards for their citizens[1]. Typically, the aggregate success or failure of such policies is determined by the extent to which they induce gains in real incomes.

Governments have both macroeconomic and microeconomic arms of economic policy available to pursue improvements in community welfare. However, contemporary governments have tended to use macroeconomic tools to maintain economic stability and provide a more certain operating environment[2]. Recent attempts to enhance economic growth have emphasised microeconomic policy.

Simply put, microeconomic reform is an approach to reaping greater outputs by improving the efficient utilisation of factors of production. There is strong evidence to suggest that microeconomic reforms have a significantly positive effect upon productivity in the long term[3].

Microeconomic reforms have become the primary means for enhancing the living standards of citizens. They have done so by removing impediments that have previously hampered the responsiveness of both individuals and the economy as a whole. Major microeconomic reforms undertaken over the past 25 years include:

- financial deregulation;
- tariff reduction;
- labour market reforms;
- corporatisation of Government businesses; and
- pro-competitive industry and legislative reforms.

Such reforms aim to improve the competitiveness of markets. The underlying rationale is that competition will deliver technical, dynamic and allocative efficiencies for the benefit of all Australians. In particular, competition reforms tend to result in:

- output aligning with demand;
- investment flowing to its highest and best use; and
- improvements in society's overall welfare.

[1] For instance, NSW Treasury's corporate mission is to promote "the allocation of resources that increases the economic welfare of the community".
[2] For instance, note the 1996 Memorandum of Understanding between the Reserve Bank of Australia and Commonwealth Government or the NSW Government Fiscal Strategy.
[3] Salgado, R, *(*2002).

Competitive markets also help distribute improvements in overall welfare throughout society. Rather than merely delivering windfall gains to producers, rivalry between firms creates price competition. The price mechanism is the means by which welfare improvements are passed onto consumers. As a side effect, the increased demand stimulated by the lower prices increases the demand for labour.

1.2. THE RESULTS OF MICROECONOMIC REFORM

Improvements in dynamic efficiency heighten the flexibility of the economy as a whole. Such responsiveness promotes favourable employment and output results. Improved flexibility increases the likelihood of sustained economic growth, as it enhances the ability of the economy to withstand external shocks. Australia's recent robust economic performance has been attributed to the ongoing reform agenda that has been in place since the 1980s[4].

The *Global Competitiveness Report 2001-02* observed continued improvements in Australia's competitiveness. The Report provides:

- a Current Competitiveness Index (CCI), that ranks the current productive potential of 75 countries; and
- a Growth Competitiveness Index (GRCI), that ranks the growth prospects of 75 countries for the coming five years.

The 2001-02 Report ranks Australia ninth on the CCI and fifth on the GRCI, improving from tenth and eleventh places respectively in 2000-01.

1.2.1. Resource Efficiencies

Reform processes are in part aimed at enhancing the allocative efficiency of markets (whereby resources gravitate toward their highest value use).

It is often difficult to observe improvements in allocative efficiency due to the nature of the resource distribution process. However, evidence of allocative gains as a result of microeconomic reform includes:

- improvement of cross-price subsidies in the water, telecommunications and banking sectors;
- more choice in electricity retail supply;
- the increase in the use of transparent, efficiently costed Community Service Obligation (CSO) payments to Government businesses for non-commercial activities; and
- the diversity of price and service alternatives offered by domestic airlines.

[4] Forsyth, P., (2002).

1.2.2. Productivity Gains

The removal of unwarranted impediments was expected to increase the flexibility and responsiveness of market participants. Accordingly, productivity improvements were anticipated as one of the chief benefits of micro reform, with output gains likely to follow suit.

These expectations appear to have been fulfilled. Among OECD countries, Australia enjoyed the second largest increase in trend multifactor productivity growth in the ten years to 1999 (behind Finland)[5]. Output per person grew at around 2.5 % throughout the 1990s compared to around 1.4 % over the 1970s and 1980s – with faster productivity growth accounting for 90 % of that acceleration[6].

Labour productivity growth between 1988-89 and 1997-98 was most pronounced in those industries that underwent significant capital deepening. This included the utilities, communications, mining and finance sectors[7]. However, most industries made considerable productivity gains over this period.

1.2.3. Outcomes for Consumers

Research suggests that consumers have enjoyed the majority of the gains from competition reform to date (the remaining benefits have been distributed evenly between employees and producers)[8].

Consumers of the production of NSW Government businesses have continued to benefit from reform. Downwards pressure in a variety of sectors contributing to the GCI saw the Index fall by 0.4 % in real terms over 2001/02. Over the seven years from 1994/95, the GCI has fallen by 7.1 % in real terms.

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[5] Banks, G. (2002).
[6] Parham, *et al* (2000).
[7] Productivity Commission (1999a).
[8] Parham, *et al op cit.*

2. NATIONAL COMPETITION POLICY

2.1. OVERVIEW

Microeconomic reform has been prominent on the agendas of many governments in Australia since the 1980s. In light of this widespread sentiment, in 1995 the Council of Australian Governments (COAG) committed all Australian jurisdictions to a package of reforms known as 'National Competition Policy' (NCP).

A co-ordinated approach to reform provides a number of significant benefits. Firstly, it provides an increasingly standardised, single operating environment for business across the jurisdictions. Secondly, it enables each Government to consider the experiences of its counterparts in implementing reform, thereby avoiding unnecessary errors and/or duplication. Thirdly, laggard jurisdictions have their relative inactivity highlighted.

NCP is made up of three agreements:

- the *Conduct Code Agreement*;
- the *Competition Principles Agreement* (CPA); and
- the *Agreement to Implement the National Competition Policy and Related Reforms*.

Each agreement is discussed below (sections 2.4 to 2.6).

The primary objectives of the agreements are to:

- prevent either an abuse of market power or a substantial lessening of competition;
- establish price oversight of government monopolies;
- create a level playing field for competition between government and privately owned businesses;
- reform the structure of public monopolies to facilitate competition;
- remove unjustified impediments to competition; and
- provide third party access to significant infrastructure, where economically desirable.

Much of the benefit from reform accrues to the Commonwealth Government via higher taxation receipts as a result greater economic growth. However, it is the States and Territories who bear the majority of the responsibility for implementing reform processes. Transfers by the Commonwealth to other jurisdictions to reflect this fact have been agreed, subject to satisfactory progress with the agreed schedule of reforms. NSW is eligible for competition payments of $246 million in 2002-03, $252 million in 2003-04, $258 million in 2004-05 and $262 million in 2005-06.

2.2. MISCONCEPTIONS OF NATIONAL COMPETITION POLICY

NCP has been misunderstood and misrepresented by significant sections of the community. Sales of government assets, population decline in rural areas, bank branch closures, reductions in welfare and government services and compulsory competitive tendering have each been wrongly attributed to NCP[9].

In fact, the difficulties faced by many regional communities have their origins in a variety of pressures. The Productivity Commission Report *Impact of Competition Policy Reforms on Rural and Regional Australia* identified several broad economic forces driving change in non-metropolitan Australia:

- the relative decline in the weight of mining, manufacturing and agriculture in the national economy;
- productivity improvements in broadacre agricultural, dairy and mining industries;
- transport improvements encouraging the "sponge-like" growth of regional cities at the expense of smaller towns and villages nearby;
- declining terms of trade for agricultural and mining commodities;
- regional infrastructure policies; and
- changes in the level and composition of government spending.

Competition reform has had a relatively minor impact relative to these long-term forces. Further, all regions of NSW have been forecast to reap output gains in excess on 1.7% from NCP processes[10].

Much of the animosity toward NCP would seem to come from the beneficiaries of the status quo. Vested interests are often centralised and well organised, whereas the price mechanism means that the primary beneficiaries of competition are typically numerous and diffuse. Additionally, it may be the case that misattribution reflects the desire of decision makers to obscure the decision making process, or simply that the reform process is becoming more difficult[11].

[9] Productivity Commission (1999b).
[10] Productivity Commission (1999b).
[11] Productivity Commission (1999b).

2.3. THE PUBLIC INTEREST TEST

As noted above, the beneficiaries of restrictive provisions are often centred upon a particular region or industry. The assessment processes agreed to under the CPA are designed to allow for due consideration of localised effects in determining the interests of the community *as a whole*. In particular, the CPA requires that matters like regional employment and investment, ecologically sustainable development and social welfare and equity considerations be regarded as part of determining the public interest.

However, NCP has reversed the traditional onus of proof for policy reform by requiring justification for **retaining** impediments to competition. The premise underlying this requirement is the assumption that competition is generally in the public interest[12]; a notion strongly supported by the price reductions, improvements in the rate and robustness of economic growth and associated increases in employment enjoyed to date.

Hess and Adams (1999) note that some commentators have criticised NCP assessment processes for focusing too heavily upon cost outcomes[13]. Assessing tradeoffs between qualitative and quantitative benefits is clearly a difficult process. The nature of these competing interests requires that decisions be made on a political basis – and that as such, judgments should not aim to be robust and incontrovertible, but merely to be within a range of reasonable outcomes[14].

2.4. CONDUCT CODE AGREEMENT

All Australian Governments have agreed to implement legislation to apply the Competition Code in their respective jurisdictions in accordance with the *Conduct Code Agreement*. The Code replicates various pro-competitive provisions of the *Trade Practices Act 1974* (TPA), applying them to unincorporated and state-government owned businesses. The most prominent TPA provisions reproduced in the Code are those preventing a substantial lessening of competition or a misuse of market power.

The Competition Code also allows NSW and other States to exempt conduct that would otherwise be subject to the provisions of Part IV of the TPA. States utilising this provision must notify the ACCC of the establishment of any such exemption within 30 days.

Notwithstanding this power, the Commonwealth Minister may effectively negate such exemptions by regulation. However, such action must be accompanied by an NCC assessment that addresses whether the objectives of the exemption can only be met by restricting competition and whether the exemption produces a net public benefit.

In its 2002 Assessment, the NCC noted that NSW continues to meet its obligations under the Code[15].

[12] Banks (2001).
[13] Hess and Adams (1999).
[14] Banks (2001).
[15] NCC (2002).

2.5. COMPETITION PRINCIPLES AGREEMENT

The *Competition Principles Agreement* lists six principles agreed to by all Australian Governments in the interests of creating constant and complementary competition laws and policies applicable to all businesses throughout Australia. The Agreement requires:

i) prices oversight of government business enterprises;

ii) competitive neutrality policy and principles;

iii) structural reform of public monopolies;
iv) review of anti-competitive legislation;

v) third party access to significant infrastructure activities; and

vi) application of the above principles to local government.

Recent developments in NSW in relation to the principles are outlined below.

2.5.1. Independent Prices Oversight

Clause 2 of the *Competition Principles Agreement* commits signatory Governments to consider establishing a source of independent prices oversight where such a body is not already in place.

The commitment of the NSW Government to independent price oversight predates the *Competition Principles Agreement.* Since 1992, IPART has provided pricing determinations and performed other related functions for significant monopoly or near monopoly services. The Tribunal:

- sets maximum prices for scheduled monopoly services (including electricity, gas, water and public transport);

- registers agreements for access to public infrastructure assets and arbitrates disputes about these agreements; and

- conducts investigations into and reports on any pricing, industry or competition matter referred to it by the Premier.

IPART also assumed responsibility for hearing non-tendering competitive neutrality complaints and administering utility licences as of 1 November 2000. In particular, IPART provides advice and recommendations to the portfolio Minister in relation to:

- the issue, transfer and cancellation of licences;

- audits of utility licence compliance; and

- remedial actions and sanctions following contraventions of licence conditions.

IPART completed a number of significant activities during 2001-02:

Determinations

- Department of Land and Water Conservation Bulk Water Prices from 1 October 2001;
- Capital Contributions and Repayments for Connections to Electricity Distribution Networks in New South Wales – Final Report;
- CityRail and STA Buses and Ferries – Public Transport Fares from 1 July 2001; and
- Midterm review of regulated retail prices for electricity to 2004 – Report and Determination to the Minister for Energy.

Review Reports

- Inquiry into the Role of Demand Management and Other Options in the Provision of Energy Services – Interim Report.

Discussion and Issue Papers

- Review of Operating Licence for Hunter Water Corporation;
- Mid-Term Reviews of Sydney Water Corporation and Sydney Catchment Authority's Operating Licences;
- Form of Economic Regulation for NSW Electricity Network Charges – Discussion Paper;
- Distributed Generation – Discussion Paper;
- Review of Fares for Taxis, Private Buses and Private Ferries in NSW – Issues Paper;
- Review of Prices for Metropolitan Water, Sewerage and Drainage Services – Issues Paper; and
- Weighted Average Cost of Capital – Discussion Paper.

Other Publications

- Price and Service Report – NSW Electricity Distribution Businesses 1999/2000; and
- Recovery of Full Retail Contestability Costs by New South Wales Energy Businesses.

2.5.2. Competitive Neutrality

The underlying objective of competitive neutrality (CN) policy is to eradicate any net competitive advantages that accrue to Government businesses by virtue of their public ownership. This “level playing field” approach aims to eliminate allocative distortions with a view to achieving an efficient resource distribution between public and private enterprises.

Two of the core areas in which Government businesses are advantaged relative to their private sector rivals are:

- tax exemptions; and
- a lesser cost of capital.

The NSW Government is committed to providing policy that improves the effects of these advantages. The *NSW Government Policy Statement on the Application of Competitive Neutrality* was first published in 1996 in line with *Competition Principles Agreement* obligations. The NSW Government released a revised Policy Statement in January 2002 to reflect updated information for:

- costing and pricing guidelines for NSW Government businesses;
- CN complaints handling processes; and
- the Commercial Policy framework applying to NSW Government Businesses.

Competitive neutrality does not require the privatisation of government businesses. Rather, it subjects government enterprises to commercial rigours typically faced by their private sector counterparts. The primary instruments for effecting a commercial environment are the State Owned Corporations (SOC) Model, the Commercial Policy Framework and the *Guidelines for Pricing of User Charges.* Each of these measures is outlined below.

State Owned Corporations Model

Corporatisation processes aim to develop legal, regulatory, market and institutional frameworks appropriate to a commercial enterprise. The *State Owned Corporations Act 1989* is the primary means for implementing these arrangements. The Act provides for the establishment of an entity as a SOC and outlines the commercial disciplines applicable to such bodies.

Waste Service NSW was corporatised on 1 September 2001. Landcom and the Snowy Mountains Hydro Electric Authority were also corporatised on 1 January 2002 and 28 June 2002 respectively.

Commercial Policy Framework

The Commercial Policy Framework is applicable to all SOCs, Public Trading Enterprises (PTEs), Public Financial Enterprises (PFEs) and selected General Government businesses. The Framework implements:

- commercially appropriate capital structures, dividends and interest payments;
- a National Tax Equivalent Regime administered by the Australian Taxation Office;
- explicit compensation when directed to undertake non-commercial activities;
- guidelines for the financial appraisal of proposed projects and management of financial risk; and
- a framework for financial monitoring by NSW Treasury, including proxies for change in shareholder wealth.

Pricing of User Charges

NSW Treasury released *Guidelines for the Pricing of User Charges* in June 2001. The guidelines provide competitively neutral pricing principles applicable to all significant Government business activities.

"User charges" can be distinguished from taxes, fees and fines by the degree of compulsion they impose upon the purchaser. Where purchasers voluntarily participate in a transaction on commercial terms, the price they pay for obtaining a service should reflect the cost. As such, the Guidelines recommend that prices at least recover the avoidable costs of the producer ("avoidable costs" being those which would be avoided if the good or service were not produced).

Competitive Neutrality Complaints Mechanism

All parties to the *Competition Principles Agreement* were required to establish a competitive neutrality complaints hearing mechanism. In the NSW model, if the complainant and relevant Government business are unable to resolve the matter, the complainant should write to the Premier who may then refer it to one of two independent assessment bodies:

- the Independent Pricing and Regulatory Tribunal (in the instance of generic CN complaints); or
- the State Contracts Control Board (for complaints relating to tendering processes).

As the central tenet of competitive neutrality policy is to remove competitive advantages, the principles are only relevant in relation to government business activities that are either contestable or potentially contestable significant government business activities. For the purposes of applying the principles in NSW, this encompasses PTE, SOC and General Government businesses. However, some government businesses are not subject to executive control (eg universities). COAG agreed in November 2000 that Governments need to apply a "best endeavours" approach in applying competitive neutrality to such entities. The NSW Government has continued to provide a transparent statement of CN obligations to such businesses in the interests of efficient resource distribution.

2.5.3. Structural Reform of Public Monopolies

The NSW Government has undertaken significant structural reforms in the years prior to 2001-02. Details of these reforms can be found in previous editions of this publication.

The NSW Government formed Country Energy via the merger of the Advance Energy, Great Southern Energy and NorthPower distribution agencies on 1 July 2001. The merger provides Country Energy with scale comparable to the other two NSW distribution businesses, Energy Australia and Integral Energy and enhances the viability of energy retailing activities in country NSW.

Three entities in NSW Government ownership were corporatised in 2001-02:

- Waste Service NSW, on 1 September 2001;
- Landcom, on 1 January 2002; and
- the Snowy Mountains Hydro Electric Authority, on 28 June 2002.

2.5.4. Legislative Review and Reform

All Governments have agreed to review and, where appropriate, reform all anti-competitive legislation under Clause 5 of the *Competition Principles Agreement*. The principle underlying such reviews is that legislation (including regulations and amendments) should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

Review processes have delivered significant improvements to the operating environment for business in NSW – reductions in anti-competitive conduct, diminished compliance costs and streamlined administrative practices.

Under the terms of the *Competition Principles Agreement*, legislative reviews were to be completed by the end of 2000. The deadline was extended to 30 June 2002 at the COAG meeting of 3 November 2000[16]. While none of the jurisdictions had completed their legislative review and reform obligations as at the 30 June deadline, substantial progress had been made[17]. For the purposes of the 2002 Assessment, the National Competition Council regarded a government as failing its obligations under Clause 5 where:

- completed reviews and/or reforms did not satisfy NCP principles; and/or
- inadequate progress was made against significant legislation review and reform matters (ie. where review and reform progress on significant issues was demonstrably inconsistent with the COAG deadline)[18].

In its 2002 Assessment, the NCC indicated that any legislative reform activity incomplete at the time of next June's 2003 Assessment would be considered to be non-compliant with NCP obligations. Further, the NCC advised that in instances of significant non-compliance they would be likely to make adverse recommendations in relation to tranche payments.

NSW is well on the way to satisfying the June 2003 deadline, with around 80% of reviews completed[19]. Progress in areas that have encountered conflict is detailed below:

<u>Grain Marketing</u>

The *Grain Marketing Act 1991* constitutes the NSW Grains Board and grants it vesting rights in relation to grain and oilseed crops produced in NSW.

The NCP review of the Act was completed in July 1999. The vesting rights of the NSW Grains Board in relation to oats, linseed, soybean, sunflower and safflower were revoked effective 14 December 2001. While the vesting rights for barley, canola and sorghum crops were retained, the Act was amended to ensure these rights cease as of 1 October 2005.

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[16] COAG (2000).
[17] NCC (2002).
[18] NCC (2002).
[19] NCC (2002).

Rice

The *Marketing of Primary Products Act 1983* constitutes the Rice Marketing Board and vests in it rice crops produced in NSW. The NCP review of the Act was completed in December 1995.

The review established that Australian consumers would benefit from deregulation of the Board's monopoly over domestic rice marketing arrangements. However, the NSW Government opted to retain existing rice marketing arrangements through to January 2004. This decision was taken on the basis that no way could be seen of unbundling domestic marketing arrangements without doing harm to the single export desk, for which a net public benefit had been demonstrated.

Notwithstanding, in April 1999 the NSW Government gave in principle agreement to domestic deregulation and consultation with the other States on a proposed Commonwealth single desk rice exporting arrangement. The NSW Government requested that the consultative model:

- be of three to five years duration; and
- be a transitional measure, with a right of veto for the Ricegrower's Co-operative Limited in relation to rice exports.

The NCC indicated for the 2002 assessment that removal of the existing State regulation following Commonwealth establishment of a rice exporting monopoly would satisfy the NSW Government's NCP obligations. The NSW Government is currently awaiting the outcome of the Commonwealth's consultations with other jurisdictions prior to reforming State legislation[20].

Poultry Meat

The *Poultry Meat Industry Act 1986* constitutes the Poultry Meat Industry Committee and regulates the poultry growing industry. The NCP review of the Act was completed in November 1999. The review group could not reach a consensus, with the positions of poultry growers and processors remaining unreconciled.

The NSW Government commissioned a second assessment of the net public benefit of the Act in March 2001. While the review established that the Act imposed a net public cost, it concluded that the benefits of deregulation would be minimal: even if all benefits were passed onto consumers, the price reduction would be less than one percent of existing retail prices.

The NSW Government opted to retain the present system of price determination on November 12 1999.

Professional Services

The NSW Government has retained restrictions that allow only registered dentists and optometrists to own dentistry and optometry practices respectively. Prospective non-professional owners may apply for permission to operate dental practices on public interest grounds.

[20] NSW Government (2002).

Racing and Betting

The *Racing Administration Act 1998* regulates the conduct of licensed bookmakers in relation to gambling on racing. The objectives of the Act are to ensure the integrity of the racing industry, minimise the adverse social effects of gambling and protect a source of State revenue derived from lawful gambling on racing.

NSW has opted to retain legislative provisions that impose a minimum $200 bet threshold in relation to telephone betting with bookmakers and restrict advertising by bookmakers. These provisions have been retained on harm minimisation grounds. While removing these provisions would increase competition, the NSW Government is of the opinion that removal would be likely to increase the general level of gambling and impose a cost on society greater than the associated benefits. The NCC has accepted that the impact of retaining these restrictions is likely to be limited[21].

Taxi and Hire Car Services

Taxi and hire car services in New South Wales are governed by the *Passenger Transport Act 1990*. IPART conducted the NCP review of the Act, releasing the Final Report in November 1999. The core finding of the review was that while regulation provided an important quality assurance function, restricting the number of taxi licences benefited no-one other than existing licence holders. The review recommended that:

- the number of taxi licences in Sydney should be increased by five per cent per year for the next five years;
- maximum taxi fares should continue to be regulated;
- the Department of Transport should investigate the possibility of delegating regulatory responsibility for rural and regional areas to local councils; and
- the hire car industry be partially deregulated, with quality assurance provisions maintained.

The NSW Government supports of IPART's recommendation that the number of taxi licences be increased by five per cent each year. Negotiations with the taxi industry over the staged release of the licences are continuing[22]. Regulatory responsibility uniformly remains at a State level due to unanimous opposition from local Government and the taxi industry. Partial deregulation for hire cars has delivered significant reductions in licence fees and appropriate relaxations in requirements. Further review will occur in 2003.

2.5.5. Third Party Rights to Negotiate Access

Third party access arrangements provide prospective service providers with the opportunity to utilise important infrastructure assets without requiring that they take on ownership and/or control or incur a significant outlay in duplicating the assets. Access regulation is desirable where significant infrastructure facilities hold natural monopoly characteristics and there are efficiency advantages in providing access by regulation.

[21] NCC (2002).
[22] NSW Government (2002).

Clause 6 of the *Competition Principles Agreement* requires that the Commonwealth Government establish a third party access regime for infrastructure facilities where:

- it would not be economically feasible to duplicate the facility;
- access is necessary in order to permit effective competition in an upstream or downstream market;
- the facility is of national significance by virtue of its size or commercial or economic importance; and
- the safe use of the facility by external parties can be ensured at an economically feasible cost.

An exception exists where a State or Territory establishes an effective access regime for infrastructure facilities within their own jurisdiction. Subject to certification by the Commonwealth, the access arrangements for that infrastructure are then immune from challenge under Part IIIA of the *Trade Practices Act 1974* and constitute the exclusive means for providing associated services (details of the NSW Gas and Rail Access Regimes can be found below).

The National Access Regime was established in 1995. The Productivity Commission released the *Review of the National Access Regime* in September 2001. The Review investigated existing access arrangements for significant infrastructure facilities and recommended ways to improve them.

The Review concluded that some amendment to the current regime was desirable. In particular, the Review stressed the need to be wary of overregulation deterring efficient investment. To this end, two major recommendations were made:

- the inclusion of an overarching objectives clause referring to the need to promote the economically efficient use of, and investment in, essential infrastructure. This would also discourage unwanted divergence in industry specific access regimes; and
- the establishment of pricing principles that ensure that returns to service providers are sufficient to encourage investment in infrastructure.

In addition, the Review recommended:

- that facilities only be declared where access provisions would *substantially* increase competition;
- introducing mandatory information disclosure requirements and the revision of the Australian Competition and Consumer Commission's (ACCC) involvement in arbitrations;
- aligning the principles for assessing the effectiveness of State and Territory access regimes with the national regime;
- offering incentives for investment by reducing the potential for regulatory removal of upside returns;
- Commonwealth initiation of a new process to help ensure new investments are not deterred by exposure to access regulation; and
- change to some of the institutional and administrative arrangements.

The Commonwealth Government endorsed the majority of the Commission's recommendations in its interim response of September 2002. However, it also suggested some modifications. In particular, the Commonwealth Government considered that the Commission's recommended pricing principles would require a complex and intrusive assessment of each service's costs and revenues. It suggested setting prices so revenues would cover efficient costs.

The Commonwealth Government has indicated its intention to release a final response consequent to consultations with the States and Territories about prospective changes to Clause 6 of the Competition Principles Agreement.

Rail

The NSW Government submitted the NSW Rail Access Regime for assessment in June 1997. The Commonwealth Government subsequently certified the Regime until 31 December 2000 in the belief that national rail access arrangements would be finalised by the end of 2000.

The certification has now expired. IPART completed an evaluation of the Rail Infrastructure Corporation's (RIC) Hunter Valley network assets for the purposes of the NSW Regime in June 2001. The evaluation considered the views of key stakeholders such as FreightCorp, the Minerals Council and RIC.

The ACCC accepted the undertaking of the Australian Rail Track Corporation in May 2002. It is anticipated that the NSW Regime will be submitted to the NCC in the near future.

Gas

The NSW Government agreed to the National Gas Pipelines Access Agreement in November 1997. Under this agreement the NSW Government undertook to implement the *National Third Party Access Code for Natural Gas Pipeline Systems* (the National Gas Code) within an agreed deadline.

The NSW Access Regime was established under the *Gas Pipelines Access (NSW) Act 1998* effective as of 14 August 1998. The Commonwealth Minister for Financial Services and Regulation certified the Regime for 15 years in March 2001.

2.6. AGREEMENT TO IMPLEMENT THE NATIONAL COMPETITION POLICY AND RELATED REFORMS

The Agreement to Implement the National Competition Policy and Related Reforms ('the Related Reforms Agreement') outlines the requirements that jurisdictions must satisfy in order to qualify for each tranche of competition payments.

In addition, the Related Reforms Agreement requires the implementation of specific reform packages for the electricity, gas, water and road transport sectors. The NSW Government satisfied its road transport reform obligations as of 1 March 1999 (the details of these reform efforts can be found in previous editions of the Performance Book). Details on recent progress in implementing electricity, gas and water reforms can be found below.

2.6.1. Electricity

The NCP Agreements require the reform of structural and regulatory arrangements for the electricity sector, with a view to forming a National Electricity Market (NEM). These requirements do not apply to Western Australia or the Northern Territory as their geographic separation would make their participation uneconomic.

Clause 4 of the *Competition Principles Agreement* requires that before a government introduces competition to a sector traditionally supplied by a public monopoly, it remove from the monopoly any industry regulation responsibilities. Governments must similarly review commercial, structural and competitive arrangements of a public monopoly prior to introducing competition.

National Electricity Market

The National Electricity Market (NEM) is the forum for the wholesale trade of electricity production from New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. The National Electricity Market Management Company (NEMMCO) provides the trading platform for generators and retailers.

The conduct of market participants is governed by the market rules outlined in the National Electricity Code. The National Electricity Code Administrator (NECA) supervises, administers and enforces the Code with a view to promoting the efficiency, equity and effectiveness of the NEM and developing increasingly competitive, market oriented outcomes.

Retail Contestability

The NSW Government has been establishing freedom of choice for electricity customers via the phased introduction of contestability on the basis of annual consumption. Contestability has been available to:

- consumers of more than 40 gigawatt hours (GWh) per year since October 1996;
- consumers of more than 4 GWh per year since April 1997;
- consumers of more than 750 megawatt hours (MWh) per year since July 1997;
- consumers of more than 160 MWh per year since July 1998;
- consumers of more than 100 MWh per year since January 2001;
- consumers of more than 40 MWh per year since July 2001; and
- all other customers as of 1 January 2002.

The successful introduction of full retail contestability follows upon the commencement of the *Electricity Supply (General) Regulation 2001*, which distinguishes between service providers and suppliers of electricity and thereby enables the introduction of full retail competition. The Regulation also provides for the protection of the rights of small customers.

Price Regulation

Despite the introduction of full retail competition, small retail customers may still opt to be supplied at regulated tariffs determined by the Independent Pricing and Regulatory Tribunal.

The NSW Government established the Electricity Tariff Equalisation Fund (ETEF) in order to offer regulatory price protection to retail customers without undermining competition in the electricity market or exposing retailers or the Government to unacceptable financial risk[23]. Retailers pay into the ETEF when pool prices are lower than the energy cost component of the regulated tariff, whereas payments are made to the retailers when pool prices exceed the energy cost component of the tariff.

The NCC has noted concerns that the ETEF may be affecting NEM operations by influencing pricing or hedging arrangements and has expressed a desire to see that the ETEF is a transitional measure only[24].

The Electricity Tariff Equalisation Ministerial Corporation assumed administrative responsibility for the ETEF on 1 January 2001.

Structural Reform

As described in Section 2.5.3, the NSW Government formed Country Energy via the merger of the Advance Energy, Great Southern Energy and NorthPower distribution agencies on 1 July 2001.

2.6.2. Gas

The gas reform program agreed by COAG contains three core elements:

- the structural segregation of the transmission, distribution, production and retail sectors of the gas industry;
- the introduction of third party access regulation; and
- the introduction of full retail contestability for all gas consumers.

The NSW Government satisfied the ring fencing and access regulation requirements prior to 2001-02. The NSW Access Regime has been effective since August 1998 (greater detail can be found in Section 2.5.5).

Retail contestability in gas has been progressively introduced in New South Wales. This process was completed with the introduction of full retail contestability on 1 January 2002. The NSW Government has acted to protect the interests of small consumers, by providing customers using less than one terajoule of gas per annum with the default option of tariffs regulated by IPART. In this fashion, IPART will moderate any price shocks while continuing to advance tariffs toward full cost recovery.

The NCC noted that the only outstanding matter for New South Wales in gas reform relates to a derogation from the National Gas Access Code effectively treating some transmission pipelines as distribution pipelines for the purposes of the Code. New South Wales did not obtain the agreement of the Commonwealth Government prior to continuation of the derogation. Discussion between the Commonwealth and NSW Governments about this issue is continuing[25].

[23] NSW Treasury (2000).
[24] NCC (2002).
[25] NCC (2002).

2.6.3. Water

In 1994, COAG agreed to a reform framework for Australia's water industry. The reforms concerned the efficiency and effectiveness of water service providers and the implementation of water management planning that took into account the impacts of all water usage (by agriculture, industry, households and the environment)[26]. This framework was subsequently incorporated into the NCP agreements in 1995.

In its 2002 assessment, the NCC found that NSW had made sufficient progress to receive its 2002-03 NCP payments. The Council noted that the State's progress was slower than expected, but its efforts were generally satisfactory given the extensive consultation conducted on environmental issues and that NSW had many stressed and over-allocated river systems. Developments in the metropolitan, rural and bulk water sectors are outlined below.

Metropolitan Sector

Metropolitan water providers operate within the Commercial Policy Framework described in Section 2.5.2 and have their prices determined by IPART. The NCC recognises the water services of these providers as complying with water reform requirements.

The NCC was also satisfied that the next IPART determination for Sydney Water Corporation would reduce the use of property values for pricing and would therefore satisfy the NCP commitment.

Rural Sector

Similarly, non-metropolitan local council service providers are progressively moving toward IPART determined pricing principles and a Department of Land and Water Conservation (DLWC) Strategic Business Plan, compliance with which is recognised by the NCC as meeting COAG requirements.

Full Cost Recovery – Rural Price Paths

IPART announced new caps on annual price rises for bulk water supplied by State Water in December 2001. Under the determination, State Water's cost recovery will rise from 61 % in 2000-01 to 74 % in 2003-04. Within this, regulated rivers will recover 94 % of costs by 2003-04. Overall, unregulated and groundwater sources will recover 31 % and 32 % of costs respectively in 2003-04.

The Council found that New South Wales' progress in adopting cost-reflective rural water pricing was satisfactory, although still lacking a date for achieving full cost recovery. The Council was satisfied that NSW was adopting a transparent and independent process to ensure water prices reflected the costs of supply, including environmental costs. The Council concluded that the NSW approach to addressing environmental costs was more robust than in other jurisdictions.

The Council will reassess all aspects of cost-reflective rural water pricing in 2004.

In its 2003 assessment, the NCC will investigate the institutional reform arrangements between the Department of Land and Water Conservation and State Water. It decided to defer its assessment of whether NSW has met its institutional reform commitments until after the NSW Government had conducted an independent review of the governance structure of State Water.[27]

[26] National Competition Council (2002b).
[27] NCC (2002a).

Bulk Water Sector

For bulk water, the New South Wales Government introduced the *Water Management Act 2000*, that:

- formally provides water for the environment;
- establishes a community-based planning framework; and
- clarifies and strengthens water rights, improves compliance tools, and improves price efficiency.

In its 2001 assessment, the NCC found that NSW had made sufficient progress against its reform commitments to receive its NCP payments. However, the Council expressed concern over the extent of NSW progress on water property rights. The NCC drew particular attention to the need to introduce a formal registry of water licences.

In its 2002 assessment, the NCC was satisfied that the charges for bulk water services provided by Hunter Water Corporation, as determined by IPART, were consumption based and structured as two-part tariffs.[28]

The NCC conducted a supplementary assessment in January 2002 on this issue. The NCC concluded that the register being developed by NSW would provide clearly specified property rights, and greater certainty for entitlement holders, prospective purchasers and financiers.[29]

The Council also announced its intention to conduct a supplementary assessment of the NSW Water Sharing Plans by December 2002. The assessment will examine opportunities for, and the impediments to, better defining and implementing water property rights regimes and water trading.[30]

Water Property Rights

In its 2002 assessment, the NCC was satisfied with the introduction of New South Wales' new water property rights arrangement. This involves a register of water allocation based on the land title register, to be run by Land and Property Information NSW. The Council concluded that NSW was making every effort to comply with its COAG commitments.

However, the NCC announced it would continue to assess progress against the property rights timetable in the 2003 assessment as there was insufficient information to conclude that NSW had complied with all its NCP commitments in this area for the 2002 assessment.[31]

Water Allocations and the Environment

State Water Management Outcomes Plan

In its 2002 assessment, the NCC found that the State Water Management Outcome Plan (SWMOP) targets had not been finalised. Some changes to the SWMOP were expected, with many of the changes designed to clarify the intent of the targets. The NCC noted that it had insufficient information to conclude that the SWMOP targets met the State's NCP commitments.

[28] NCC (2002a)
[29] NCC (2002c). *Developing a Registry System of Water Entitlements in New South Wales*
[30] NCC (2002a).
[31] NCC (2002a).

The NCC will assess the final SWMOP as part of the supplementary assessment to be conducted at the end of 2002. New South Wales will need to provide information to indicate that the final cap target is reasonable given the natural variability in the availability of water and high variability of use.[32]

Water Sharing Plans

In the 2002 assessment, the NCC concluded that water allocations (including for the environment) for most stressed and over-allocated systems would be in place in ten-year Water Sharing Plans by December 2002.

However, the Council found that some draft Water Sharing Plans were likely to change significantly before finalisation, given that they contained some aspects that were inconsistent with the *Water Management Act 2000* and State Government policy and because the targets in the SWMOP were yet to be finalised. In particular, the Namoi and Murrumbidgee river draft Water Sharing Plans were seen as likely to need modifications before the NCC could be satisfied the State had met its NCP obligations.

The NCC also raised concerns about timeframes for achieving sustainable resource use and the lack of transparency in water sharing decisions.

The NCC therefore decided to defer its assessment of progress against the national principles until the final water sharing plans were in place. The NCC will conduct a supplementary assessment of the final plans by the end of 2002. The Council expects to see that the final plans contain environmental allocations that ultimately provide for an improvement in the condition of the rivers.[33]

In its 2003 assessment, the NCC will look at institutional reform, urban pricing reforms, intrastate trading arrangements, and environmental and water quality commitments relating to integrated catchment management and the National Water Quality Management Strategy.[34]

[32] NCC 2002c
[33] NCC 2002c
[34] NCC 2002a

3. OTHER MICROECONOMIC REFORMS

3.1. INFRASTRUCTURE – PUBLIC PRIVATE PARTNERSHIPS

The term Public Private Partnership (PPP) encompasses any contract between the public and private sectors for a service delivery or asset construction project. Such partnerships offer governments the prospect of improved service delivery and better value for money via superior asset deployment and management techniques and the appropriate transfer of risk to the private sector.

The NSW Government released a White Paper entitled *Working with Government – Guidelines for Privately Financed Projects* in November 2001. The Guidelines relate to Privately Financed Projects (PFPs), a subset of PPPs distinguished by the fact they involve the creation of assets through private sector financing and ownership control for a concession period.

The Guidelines mark the introduction of significant changes to NSW Government policy on the financing of infrastructure projects. Major developments include the introduction of:

- risk management procedures that ensure risks are properly assessed and allocated to the party best able to manage them;
- a Public Sector Comparator (PSC). The PSC is a hypothetical, risk-adjusted cost of public sector delivery that enables valid assessment of PFP projects;
- the annual publication of a State Infrastructure Strategic Plan (SISP);
- a NSW Infrastructure Council, comprising key Government Ministers and private sector chief executives involved in the provision of infrastructure;
- a Private Projects Branch in NSW Treasury. The Branch will ensure application of these guidelines and provide economic and financial expertise in assessing PFPs and advising Government;
- an extended range of application to include more social infrastructure; and
- the Government’s intent to consider opportunities to proceed with PFPs in service delivery areas. Approval will be granted where private sector involvement delivers net benefits to the community.

The Guidelines also stress that PFP principles are **not** intended to apply to core NSW Government responsibilities such as clinical services and teaching. However, the private sector may contribute to the efficient delivery of core responsibilities via the provision of facilities or support services.

The Guidelines also outline common risks that face PFPs and present the Government’s associated risk management strategies. Where practicable, the NSW Government will also standardise contractual terms to reduce the considerable transaction costs associated with PFPs.

3.2. SUCCESSOR TO THE JOINT COAL BOARD

In late 1999, the NSW Minister for Industrial Relations advised the NSW Government of the Commonwealth Government's intent to withdraw from its partnership in the Joint Coal Board.

In early 2000, NSW Treasury assisted in the development of a proposal to establish a new coal services corporate entity. Under this proposal, the new body would assume the responsibilities of the Joint Coal Board and provide some other industry related services.

The NSW Government subsequently proposed the establishment of a new statutory corporation that would:

- be jointly owned by representatives of coal employers and employees;
- continue to provide the services previously offered by the Joint Coal Board; and
- absorb the Mines Rescue Board.

This structure held several benefits in prospect. Firstly, the industry would continue to have workers' compensation insurance, health and safety and statistical services previously offered by the Joint Coal Board. Secondly, by placing ownership in the hands of the NSW Minerals Council and the Construction, Forestry, Mining and Energy Union, the above structure proposed to make interested parties responsible for functions relevant to them. Thirdly, it would appropriately consolidate the functions of the Mines Rescue Board. Finally, it would allow functions to be more easily restructured as industry needs change.

NSW Treasury undertook further work during 2001 in response to the feedback of coal employer and employee organisations and made subsequent refinements to the proposed structure in consultation with the Joint Coal Board and other agencies. In late 2001, *The Coal Industry Act 2001* was passed to effect the dissolution of the Joint Coal Board and Mines Rescue Board. The corporate successor, Coal Services Pty Ltd, commenced operations on 1 January 2002.

3.3. CORPORATE RESTRUCTURE OF AGL

Prior to October 2002, the Australian Gas Light Company (AGL) was an unincorporated company of proprietors that was originally established under the *Australian Gas Light Company Act 1837* (AGL Act). Among other provisions, the AGL Act capped shareholdings in the company at five per cent. This legislative framework was designed to constrain the behaviour of a monopoly provider.

Energy market developments in recent years mean that such protection is now unnecessary. The NSW Parliament passed the *AGL Corporate Conversion Act 2002* (AGL Conversion Act) in May 2002. The AGL Conversion Act provides for the repeal of the AGL Act and the conversion of AGL into a body corporate governed by the *Corporations Act 2001*.

The NSW Government strengthened the five per cent holding prohibition prior to the conversion in order to prevent profiteering and/or improper trade. The Commonwealth Government has also committed to legislating against any undue taxation consequences as a result of the conversion[35].

AGL was constituted as a body corporate on 11 October 2002.

This measure puts AGL on equal footing with other energy market participants. In particular, it is anticipated that scrapping the five per cent cap will enable AGL to more efficiently raise capital and enhance the value of shareholdings.

3.4. PROPOSED SALE OF PACIFIC POWER INTERNATIONAL AND DISSOLUTION OF PACIFIC POWER

On 6 March 2002, the Treasurer announced the NSW Government's intention to sell Pacific Power International (PPI). PPI is a wholly owned subsidiary of Pacific Power that provides engineering services to the energy sector.

Over the past six years Pacific Power's electricity assets have been transferred to four publicly-owned businesses: Transgrid, the State's high-voltage transmission business; and three State-owned generation businesses: Macquarie Generation, Delta Electricity and Eraring Energy. The Government is committed to retaining these electricity assets in public ownership along with the four distribution businesses.

The NSW Government has not built a coal-fired power station in NSW since 1993. The Government expects that the next power stations built in NSW will be relatively small, and powered by natural gas. PPI has no unique experience in building such power stations.

Today, Pacific Power only holds subsidiary businesses, including Pacific Power International (PPI). As it no longer operates any electricity assets, the NSW Government intends to wind up the business by the end of the financial year.

PPI now has to work outside NSW in order to maintain employment for as many of its staff as possible. As a result, around 90 % of PPI's revenue is now earned from projects undertaken outside NSW, mainly under contracts for two large coal-fired power stations in Queensland. A significant amount of PPI's revenue is also generated in China and Vietnam.

However, the Government is unwilling to continue to support PPI writing contracts for the design and construction of new power stations outside NSW, because these contracts typically require PPI to assume large financial risks that are ultimately borne by taxpayers.

The Government intends to offer PPI, including the Advanced Technology Centre (ATC) in Newcastle, for sale to the private sector, but only after first offering PPI for sale to its employees or their superannuation funds in the form of a buy-out.

A sale would allow PPI to access new clients and markets, and provide the best possible employment prospects for staff, while limiting taxpayers' exposure to financial risks. This applies to the ATC as much as it does to PPI. At present, the ATC does not cover its own operating costs. The ATC needs new opportunities in related industries and markets to realise its full potential and prosper.

[35] Australian Financial Review, 24 May 2002.

The ATC is an integral part of PPI. Separating the two businesses could threaten the viability of both businesses, and reduce the available employment opportunities for all PPI staff.

The choice of making a transition to a new owner will remain a matter for PPI staff themselves. The NSW Government will not require any employee to transfer to a new owner. The Government intends to discuss transfer conditions and potential redeployment opportunities in close consultation with unions and staff of PPI and Pacific Power.

3.5. SALE OF POWERCOAL

On 24 August 2001, the Treasurer announced the NSW Government's intention to sell Powercoal, the wholly owned subsidiary of Pacific Power. Powercoal owns and operates six underground coal mines in the Central Coast, Lake Macquarie and Lithgow regions. Around 1200 people are employed in Powercoal's operations.

The NSW Government concluded the prospective sale of Powercoal was desirable as it would:

- allow the business to pursue opportunities in high value export markets without exposing the NSW Government to financial risk; and
- provide the best means for introducing the capital investment necessary to create new job opportunities and maintain existing mines.

On 29 July 2002, the NSW Government announced it had agreed to sell Powercoal to Centennial Coal Company Proprietary Limited for $331 million. After retiring debt, making transfer payments to staff and meeting sale costs, the NSW Government received net sale proceeds of around $139 million.

Under the terms of the sale, the jobs of Powercoal staff are protected for the next three years under enterprise agreements certified by the Australian Industrial Relations Commission. Centennial has also undertaken to spend in excess of $220 million in capital expenditure over the next two years.

Around 33% of coal demanded by NSW owned electricity generators is supplied by Powercoal mines. The coal supply for the NSW electricity industry was secured via long term contracts prior to completion of the sale.

3.6. SALE OF FREIGHTCORP AND NATIONAL RAIL CORPORATION

In September 2000, the NSW Government announced its intention to sell FreightCorp, its wholly owned rail freight operator, in parallel with the Commonwealth Government's sale of the National Rail Corporation.

Privatisation of FreightCorp was necessary to protect the jobs of FreightCorp's employees. A comprehensive rail freight industry report prepared for the Rail, Tram and Bus Union (RTBU) predicted a loss of up to 600 FreightCorp jobs within a year if FreightCorp were to remain in NSW Government ownership while National Rail were privatised.

Both the rail freight industry report prepared for the RTBU and the NSW Government's own analysis concluded that the best outcome for FreightCorp staff would be for National Rail and FreightCorp to be combined in some way.

Following extensive consultations, the Commonwealth, NSW and Victorian Governments agreed to sell both FreightCorp and National Rail by competitive tender to a single purchaser. This decision was also supported by the likelihood that integration of the operators would heighten both their productivity and ability to compete with road transport.

On 31 January 2002, the Commonwealth, New South Wales and Victorian Governments announced their agreement to sell the operators to National Rail Consortium Pty Ltd (NRC) for a transaction value of $1.172 billion. NRC is jointly owned by Toll Holdings Limited and Lang Corporation Limited, both of whom will contribute significant large scale transport and logistics experience, in addition to significant financial and managerial capabilities.

The sale was finalised on 22 February 2002.

3.7. INSURANCE

Following significant increases in the number of insurance claims and the magnitude of insurance claim costs, the NSW Government has made a number of reforms with respect to the legal profession, the tort of negligence (civil liability) and home warranty insurance.

In particular, the NSW Government has introduced the *Civil Liability Act 2002*, the *Civil Liability Amendment (Personal Responsibility) Act 2002* and the *Home Warranty Building Amendment (Insurance) Act 2002*. Developments and reforms related to each of these pieces of legislation are detailed below.

<u>Conduct of the Legal Profession</u>

The *Civil Liability Act 2002* provides for two important amendments to the *Legal Profession Act 1987*:

- **cost recovery by legal practitioners on claims of up to $100,000 is restricted as of 7 May 2002.** Solicitors and barristers representing a plaintiff may claim up to 20% of the amount recovered or $10,000, whichever is the greater. Similarly, practitioners representing a defendant may claim up to the greater of 20% of the amount sought by the plaintiff or $10,000. This cap may not apply where the action of other parties has unnecessarily delayed or complicated the determination of a claim; and

- **solicitors and barristers are prohibited from providing legal services in relation to a damages claim unless they reasonably believe the facts offer a reasonable prospect of success.** Providing services without reasonable prospects may amount to professional misconduct and leave a practitioner open to an adverse personal costs order.

Tort (Civil Liability) Reform

The *Civil Liability Act 2002* applies to damages claims for personal injury, other than those that arising from matters like intentional acts, motor accidents, workers' compensation, dust diseases and sporting injuries.

The Act includes a number of significant provisions:

- **a cap on damages for future economic loss, whereby a claimant's gross weekly earnings may not exceed an amount three times the average weekly earnings at the date of the award.** A plaintiff must also satisfy the court that the assumptions in relation to future economic loss are consistent with the claimant's most likely future circumstances;

- **claims for non-economic loss are capped at $350,000;**

- **courts may not award exemplary or aggravated damages where a personal injury is caused by negligence;** and

- **a court may make a consent order for a structured settlement of a personal injury damages claim.**

These provisions are effective in relation to proceedings commenced after 20 March 2002, but not settlements made prior to 18 June 2002.

The *Civil Liability Amendment (Personal Responsibility) Act 2002* took effect on 6 December 2002. The Bill provides three general principles for determining liability under the existing legislation:

- **that a person will not be liable for harm unless they knew, or ought to have known, that the risk of harm was not insignificant and that in the circumstances that person, as a reasonable person, would have taken relevant precautions;**

- **that plaintiffs must establish factual causation and the scope of liability for a court to find that particular harm occurred due to negligence;** and

- **that the existence and extent of liability in tort for breach of a non-delegatable duty is to be determined on the same principles applicable to vicarious liability.**

The Act also contains provisions to the effect that:

- a professional will not incur a liability if the professional acted in a way widely accepted at that time as competent professional practice;

- a person is not owed a duty of care merely because they are intoxicated, and that a person's intoxication is not a relevant consideration in determining whether or not they were owed a duty of care;

- no liability arises in negligence from the materialisation of an inherent risk (inherent risks being those that cannot be avoided by the exercise of reasonable care and skill);

- injured persons are not owed a duty of care to be warned of risks that a reasonable person would consider obvious, unless otherwise required by safety standards (obvious risks being patent matters that the injured party would have been able to avoid had they exercised reasonable care);

- a court intending to award damages for future economic loss exceeding $100,000 must provide an opportunity for a structured settlement to be negotiated;

- persons are not be liable in negligence in relation to the materialisation of an obvious risk of a dangerous recreational activity, unless the person is incapable of receiving or understanding a warning of risk;

- a court must not award damages to persons who have engaged in a serious offence that contributed materially to their risk of injury or damage (serious offences being those punishable by a prison term of six months or more);

- in the event of an emergency, "good Samaritans" do not incur any liability for any acts or omissions when assisting an injured or endangered person;

- volunteers are not liable for acts done in good faith when doing community work organised by a community organisation; and

- evidence of an apology by a defendant is not admissible in court proceedings.

The Act also provides a general limitation on the time period for negligence claims: either three years from the date of discoverability of the negligent act, or 12 years after the event giving rise to the claim, whichever period expires first. In some circumstances, this limitation period will be able to be extended beyond 12 years after the event in question, but not beyond three years after the date of discoverability.

<u>Home Warranty Insurance</u>

The *Home Building Act 1989* prohibits builders from doing residential building work under a contract unless they hold Home Builder's Warranty Insurance (HBWI). Outside Queensland and the Northern Territory, all existing HBWI is provided by private insurers. NSW switched to private insurance in 1997.

There are three insurers in the HBWI market:

- Royal and SunAlliance;

- Allianz Australia Insurance; and

- Reward Insurance.

In early 2002, Allianz threatened to withdraw from underwriting policies as Dexta Corporation (its agent) could not renew its arrangements with several global insurance companies. The NSW and Victorian Governments reinsured a significant share of Dexta's business in their respective States to prevent this eventuality.

In April 2002, the NSW and Victorian Governments agreed to a joint package of measures to ensure the continuation of HBWI on a private competitive basis. These measures included:

- raising the threshold for compulsory home insurance to $12,000;
- reducing the minimum period of cover for structural defects to six years;
- reducing the minimum period for non-structural defects to two years;
- limiting the maximum insurance payout for non-completion claims to 20 % of the original building contract amount;
- restricting homeowner HBWI claims to circumstances where the builder is dead, insolvent or has disappeared;
- specifying that the minimum statutory amount of cover must be $200,000, inclusive of legal and other costs;
- both States committing to using their best endeavours to harmonise their HBWI schemes, and to specify processes to be followed by all parties in the event of a building dispute;
- capping insurers' liability in respect of total claims arising from the death, insolvency or disappearance of a builder at 10 million dollars per builder; and
- committing both States to attempting to harmonise their reporting requirements for HBWI insurers.

The *Home Warranty Building Amendment (Insurance) Act 2002* effects these changes as of 1 July 2002.

Dexta withdrew from the Victorian market in September 2002. In NSW, there are indications that Dexta may withdraw from the market by the end of December 2002.

The Minister for Fair Trading has indicated that both Royal and SunAlliance and Reward are well positioned to support the building industry. Negotiations are continuing with other insurers with a view to expanding the HBWI market.

4. AGGREGATE PERFORMANCE OF NSW GOVERNMENT BUSINESSES

NSW Government businesses in the electricity, transport and water sectors account for around 85% of all NSW Government business employment. In 2001-02, these sectors contributed approximately 75% of Financial Distributions (dividends and tax equivalent payments) from all NSW Government businesses. Accordingly, labour productivity improvements in these areas have had a significant impact on the overall performance of NSW Government businesses.

The sectors mentioned above comprise the following Government businesses:

1. Electricity[36]

i. Generation: Delta Electricity, Eraring Energy and Macquarie Generation;

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

iii. Transmission: Transgrid[37].

2. Transport[38]: State Rail Authority, State Transit Authority and Rail Infrastructure Corporation[39].

3. Water: Hunter Water Corporation and Sydney Water Corporation.

4.1. PRODUCTIVITY AND DIVIDEND/TAX EQUIVALENT PAYMENTS

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 25% between 1995-96 and 2001-02.

[36] Pacific Power is excluded from calculations for the electricity sector as it no longer holds any generation, distribution or transmission assets. Pacific Power in due to be wound up in 2002-03.
[37] While Transgrid is part of the electricity sector, it is not included in the employment, output and productivity figures presented in this Chapter.
[38] FreightCorp was privatised in February 2002 and as such is no longer part of the figures presented in this Chapter.
[39] While RIC is part of the transport sector, their contributions to employment, output and productivity are not reflected in the Table overleaf.

Table 1: Employment, Efficiency and Output Performance of Government Businesses in the Electricity, Transport and Water Sectors between 1995-96 and 2001-02

	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	% Change 1995-96 to 2001-02
Employment	3								
Electricity Generators		3,503	3,328	3,019	2,531	2,376	1,761	1,735	(50%)
Electricity Distributors		8,746	7,972	7,552	7,417	7,450	7,705	8,161	(7%)
Sydney Water Corporation		5,099	4,763	4,629	4,470	3,766	3,676	3,428	(33%)
Hunter Water Corporation		715	620	554	545	541	533	526	(26%)
State Rail Authority		8,278	9,370	9,317	8,508	8,660	9,017	9,121	10%
State Transit Authority		4,101	4,303	4,305	4,369	4,690	4,754	4,851	18%
		30,442	30,356	29,376	27,840	27,483	27,446	27,822	(9%)
Index of Output									
Electricity Generators (Gwh)		100	96	98	100	102	106	104	4%
Electricity Distributors (Gwh)		100	101	100	112	120	130	130	30%
Sydney Water Corporation (properties served)		100	101	105	105	107	107	109	9%
Hunter Water Corporation (properties served)		100	102	103	105	107	108	110	10%
State Rail Authority (passengers carried)		100	103	104	106	110	119	109	9%
State Transit Authority (passengers carried)		100	102	103	104	107	110	105	5%
Productivity (Output relative to Employees)									
Electricity Generators		16.1	16.2	18.2	22.2	24.2	34.0	33.8	110%
Electricity Distributors		4.8	5.3	5.6	6.4	6.8	7.1	6.8	40%
Sydney Water Corporation		290.3	314.9	334.8	349.0	422.2	429.8	469.7	62%
Hunter Water Corporation	1	256.5	300.5	341.9	353.6	361.8	372.7	383.2	49%
State Rail Authority		31.0	28.2	28.6	32.1	32.5	33.8	30.5	(1%)
State Transit Authority		49.5	48.2	48.8	48.5	46.4	46.8	43.9	(11%)
Percentage Changes (1995-96 Base Year)									
Weighted Total Output Change (%)	2,4								**21%**
Total Employment Change (%)	2,3								**(9%)**
Weighted Productivity Change (%)	2,5								**25%**

Notes:

1. Output data for Hunter Water has been revised to provide consistency with other reports.
2. FreightCorp was privatised in February 2002. The 2001-02 figures have been significantly reweighted to account for this fact. As a result, the significant gains made in the freight rail sector prior to privatisation are not captured in the above figures.
3. Employment measured as full time equivalent persons employed at 30 June.
4. Output weighted by the 1992-93 dollar value of output for each sector or agency.
5. Average productivity of each agency weighted by final year employment.

The 2001-02 weighted productivity improvement is less than the 69 % improvement reported for the six years to 2000-01. This reflects the impact of two factors:

- **the rolling six-year productivity reporting period.** In recent years, the returns on reform have diminished as reform has become more challenging. The big gains made in previous years are progressively petering out of the coverage of the productivity calculation; and

- **the privatisation of FreightCorp.** FreightCorp has been removed from the weighted productivity calculation following its privatisation in February 2002. As a result, the previously reported significant benefits of freight rail reform are no longer captured in Table 1. (Rail freight productivity increased by 219 % in the seven years to June 30, 2001, an improvement bettered only by the electricity generators. These gains have delivered considerable benefits – a real reduction of 44 % in average freight rail charges over the period 1 July 1995 to 30 June 2001 has saved the State's businesses $280 million.)

Several areas of solid productivity improvement since 1995-96 emerge from Table 1:

- Electricity Generators by 110 %;
- Electricity Distributors by 40 %;
- Sydney Water by 62 %; and
- Hunter Water by 49 %.

These gains are particularly impressive in light of the fact that each of the above sectors continues to service an increasing number of customers.

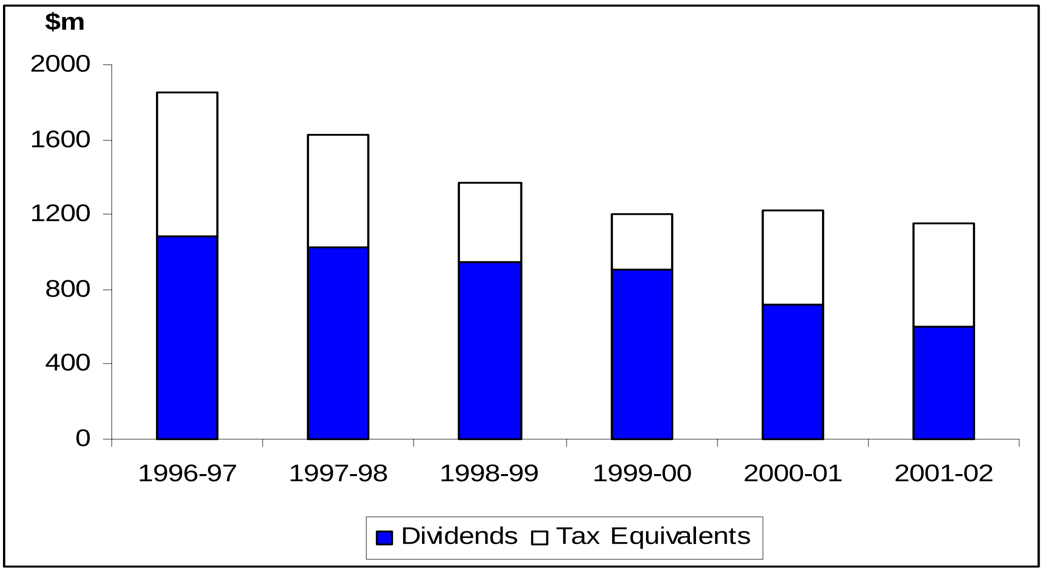
2001-02 productivity performance for the State Rail Authority and State Transit Authority declined relative to 2000-01 levels. In part, this may reflect the impact of abnormally high 2000-01 output levels for these agencies relating to the 2000 Olympic Games.

Figure 1 marks the trend for major NSW Government businesses for the seven years to 30 June 2002.

Figure 1: Labour Productivity for Major NSW Government Businesses from 1995-96 to 2001-02.

Figure 2 demonstrates that the input cost savings shown in Table 1 continue to be largely passed onto consumers rather than paid as dividends to the Government.

Figure 2: Dividends and Tax Equivalent Payments from PTEs and PFEs from 1996-97 to 2001-02



4.2. THE GOVERNMENT CHARGES INDEX

One of the main benefits of the micro-economic reform process has been a significant improvement in the operating efficiency of NSW Government businesses. In particular, the corporatisation of NSW Government businesses and recent deregulation of energy markets have resulted in sustainable reductions in NSW Government business charges, enhanced consumer choice and economic prosperity.

On a broader level, these reform initiatives have contributed to a more dynamic, competitive and productive NSW economy. This has stimulated greater business competitiveness and investment, created new jobs and improved the overall wealth of the people of New South Wales.

The productivity improvements achieved by NSW Government businesses have been largely due to the implementation of more rational and efficient pricing policies. These pricing reforms have led to the unbundling of cross-subsidies between customer groups and a more efficient allocation of resources within key infrastructure industries. In addition, the regulatory oversight provided by IPART continues to generate significant price savings for those Government monopoly services subject to price regulation.

The GCI provides an aggregate assessment of movements in the charges and prices levied by NSW Government businesses.

In compiling the GCI, a revenue weight is applied to the annual price change recorded for each NSW Government business. This revenue weight seeks to capture the relative contribution of revenues of each NSW Government business to total revenue. These revenue weighted prices are then summed across all NSW Government businesses comprising the GCI to arrive at an aggregated price level. Annual movements in the GCI are then calculated by comparing the aggregated price level in the current financial year with that of the previous financial year.

It is necessary to periodically re-weight the GCI to ensure that it captures the structural and dynamic changes occurring throughout the economy. In last year's publication, the GCI was re-weighted to a base year of 1998/99 to align it with the base year that is currently applicable to the Australian Bureau of Statistics' Consumer Price Index (CPI).

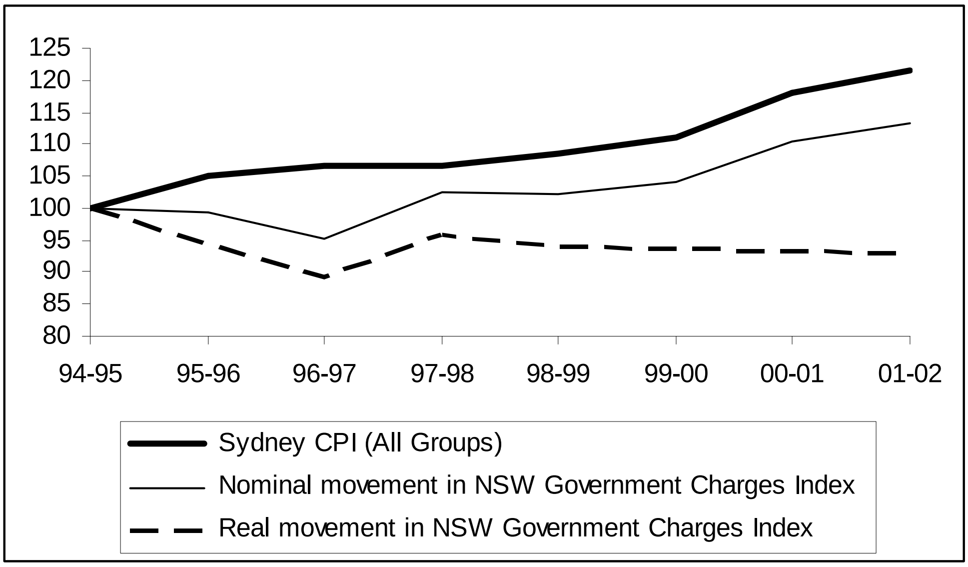
As illustrated in Figure 3, downwards pressure in a variety of sectors contributing to the Index saw the GCI fall overall by 0.4 % in real terms over 2001/02. Over the seven years from 1994/95, the GCI has fallen by 7.1 % in real terms.

A number of significant events that occurred during the 2001-02 financial year may have affected the reported GCI outcomes. The first of these events was the sale of FreightCorp to National Rail Consortium Pty Ltd on 22 February 2002. In view of this sale, the decision was made to remove FreightCorp from the 2001-02 GCI calculations given that financial and price information was not available for the full financial year.

Another major event in 2001-02 was the formation of Country Energy on 1 July 2001 through the amalgamation of three electricity distribution/ retailer businesses: Advance Energy, Great Southern Energy and NorthPower. While this newly formed entity may have experienced some cost savings through amalgamation (due to economies of scale and site and customer aggregation) it is unlikely to have had any material impact on this year's GCI outcomes.

The other main factor was the introduction of Full Retail Contestability (FRC) in the electricity market on 1 January 2002 for residential and small business customers. In terms of the electricity industry, the GCI only captures price changes associated with franchise customers that have remained on standard supply contracts (with regulated terms and conditions). The introduction of FRC means that the GCI will significantly understate the quantum of benefits flowing to those 'contestable' customers that have opted to negotiate their own supply arrangements.

Figure 3: The Government Charges Index from 1994-95 to 2001-02



5. PERFORMANCE OF NSW GOVERNMENT BUSINESSES 2001-02

The information in the following tables and graphs is consistent with annual reports and has been audited. The preceding commentary on 2001-02 performance was prepared and authenticated by the businesses. The Treasury is not in a position to fully validate the statements made in the commentary.

ELECTRICITY

Australian Inland Energy and Water

Country Energy

Delta Electricity

EnergyAustralia

Eraring Energy

Integral Energy

Macquarie Generation

Pacific Power

Transgrid

AUSTRALIAN INLAND ENERGY AND WATER

Henri Mizow
Manager Finance
AUSTRALIAN INLAND ENERGY AND WATER
PO Box 800
BROKEN HILL NSW 2880
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Australian Inland Energy and Water provides energy services to about 19,000 customers in Far West NSW. This supply area covers 155,100 square kilometres, with the main administrative office located in Broken Hill. The customer base is predominantly domestic, small rural and small commercial.

Approximately 10,000 properties and a population of around 24,000 are served by AIEW's water reticulation system. In Broken Hill, sewerage services are available to 9,830 premises, which represents 99% of properties connected to the water supply system.

The NSW Government has sanctioned AIEW's entry into regional development initiatives. Accordingly, Australian Inland Infrastructure has been established to pursue regional development objectives, subject to shareholder approval on a case-by-case basis. The direct involvement of AIEW in the future growth and development of the Far West is a significant move forward for the local community and its workforce in particular.

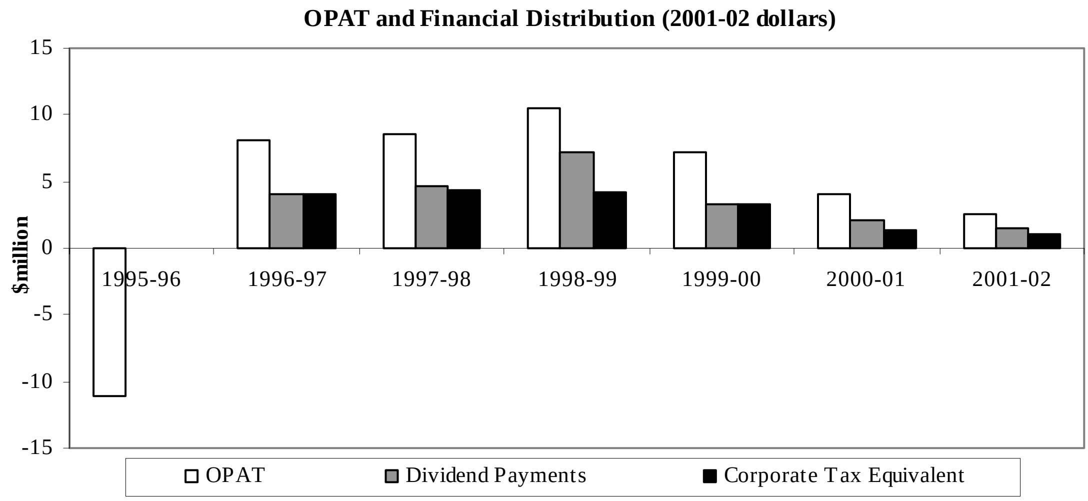
Highlights during 2001 – 02 include:

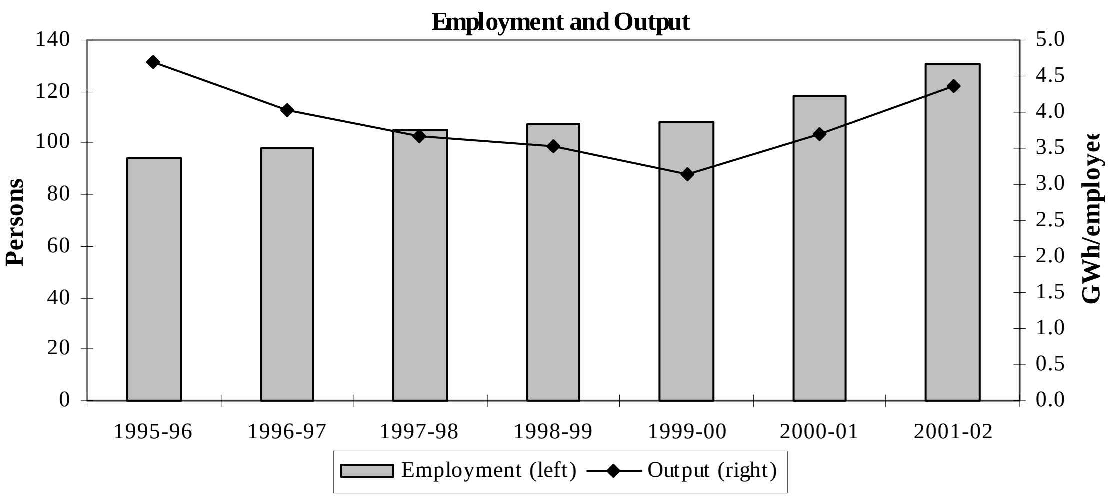
- Completing and commissioning the 220kV/22kV substation at Balranald;
- Appointing Mr Joe Flynn as the new Managing Director. Mr Flynn replaces the retiring Mr Eddie Norris;
- Continuing key community sponsorship;
- Achieving and maintaining full compliance with the industry regulator; and
- Formulating and developing new Strategic and Business Plans, including revised objectives and performance measures.

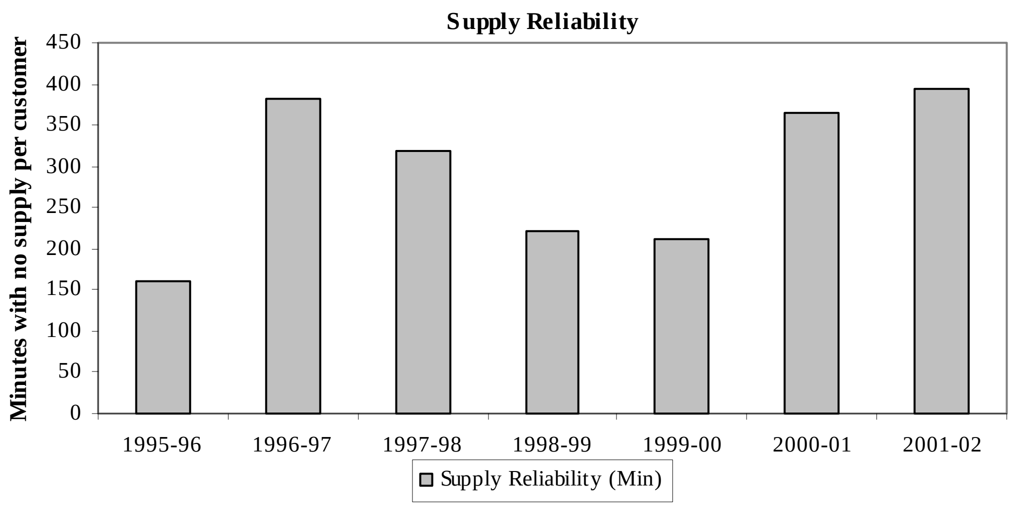
	Notes	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
		Australian Inland Energy	Australian Inland Energy	Australian Inland Energy	Australian Inland Energy	Australian Inland Energy	Australian Inland Energy and Water **Electricity operations only**	Australian Inland Energy and Water **Electricity operations only**
Efficiency	1							
Employment		94	98	105	107	108	118	131
Output per Employee (GWh)		4.7	4.0	3.7	3.5	3.1	3.7	4.4
Customers per Employee		197.4	198.2	181.5	177.2	175.2	160.2	144.4
Operating Cost Per Unit Sold ($/MWh)		30.0	31.9	33.7	35.9	42.0	34.4	23.9
Operating Cost Per Customer ($)		714.7	648.2	678.3	717.0	755.0	792.5	721.3
System Loss Index (%)		12.4	5.3	3.8	11.7	17.5	15.4	7.8
Average Lost Time (min)		23.9	17.5	10.4	12.3	10.0	14.9	5.8
Lost Time Injury Frequency Rate		27.8	37.0	32.4	31.5	38.1	20.0	30.3
Service	1							
No. of Customers		18924	19128	18981	18944	18896	18902	18929
Output (GWh)		363.9	386.3	383.9	378.8	340.0	435.0	570.0
Supply Reliability (Min)		161	382	319	221	212	364	394
Real Price Index		100.0	99.4	93.8	87.9	93.9	95.2	84.3
Finances ($m)	1							
EBIT		-11.2	11.6	12.4	14.2	10.1	5.4	3.6
Operating Profit after Tax		-11.2	8.1	8.6	10.5	7.2	4.1	2.5
Revenue		34.3	36.2	33.9	31.4	30.1	39.0	45.3
Return on Assets (%)		-21.5	19.1	18.7	20.1	13.8	7.6	4.9
Return on Equity (%)		-25.8	17.4	17.0	19.5	12.6	7.3	4.6
Financial Distribution								
Dividend Payment		na	4.0	4.6	7.2	3.2	2.1	1.6
Corporate Tax Equivalent		na	4.1	4.3	4.1	3.2	1.4	1.1

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.


OPAT and Financial Distribution (2001-02 dollars)
$million
15
10
5
0
-5
-10
-15
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend Payments
Corporate Tax Equivalent


Employment and Output
Persons
GWh/employee
140
120
100
80
60
40
20
0
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Output (right)


Supply Reliability
Minutes with no supply per customer
450
400
350
300
250
200
150
100
50
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Supply Reliability (Min)

Ian Brooksbank
Financial Controller – Bathurst
COUNTRY ENERGY
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BATHURST NSW 2795
132 358

Country Energy is a regionally based electricity distribution and retail corporation owned by the New South Wales State Government. It was formed on 1 July 2001 from the merger of three regional energy businesses: Advance Energy, Great Southern Energy and NorthPower.

Country Energy employs over 2,700 people and serves more than 750,000 customers in rural and regional communities across about 72% of NSW. We operate one of Australia's largest electricity networks consisting of more than 180,000 kilometres of powerlines and over 1.33 million power poles. Our natural gas network covers many regional towns in southern NSW. We have over 1,000 kilometres of gas mains and transmission lines. In the past 12 months Country Energy connected natural gas to the towns of Cooma, Gundagai and Tumut.

We aim to facilitate regional industry growth. That growth is driven by a strong commercial focus with decisions based on the needs of customers, employees, stakeholders and shareholders.

Country Energy established a decentralised management structure across eight regions to manage our vast distribution area. We have corporate offices in Bathurst, Port Macquarie and Queanbeyan, eight regional offices and more than 100 service centres throughout country NSW.

Country Energy achieved strong financial performance in its first year of operations. We met our Statement of Corporate Intent distribution and Earnings Before Interest and Tax targets. On a simple aggregation of the prior year results of Advance Energy, NorthPower and Great Southern Energy, Country Energy achieved significant improvement despite having the significant challenge of having to merge three businesses and prepare for the commencement of Full Retail Competition on 1 January 2002.

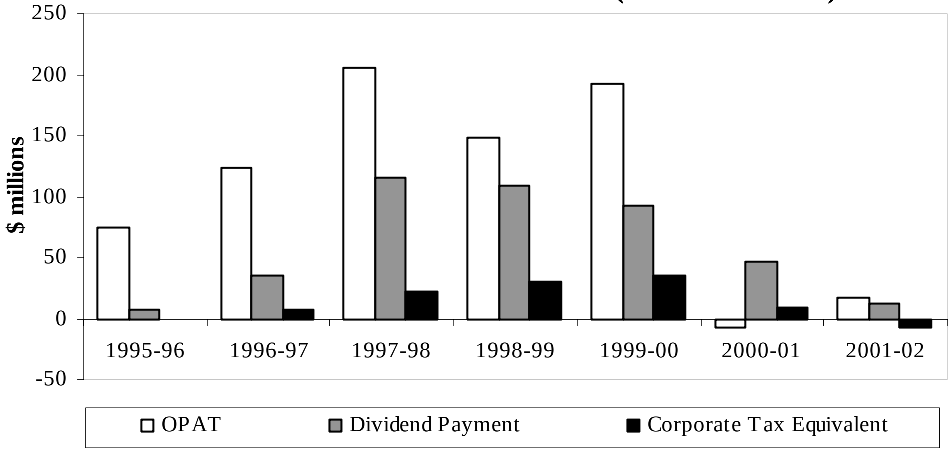
The improvement in Country Energy's efficiency indicators has resulted from a combination of strong operating cost control and business growth. Debt and gearing increased slightly to fund essential capital works across regional New South Wales to improve the quality and reliability of the electricity supply.

Efficiency	Note 1,2	1995-96 combined	1996-97 combined	1997-98 combined	1998-99 combined	1999-00 combined	2000-01 combined	2001-02 Country
Employment		2986.0	2474.6	2379.3	2385.0	2391.8	2451.1	2559.0
Output per Employee (GWh)		2.1	3.5	4.2	4.5	5.1	5.7	5.5
Customers per Employee		n/a	n/a	n/a	n/a	n/a	292.0	284.4
Operating Cost Per Unit Sold ($/MWh)		28.0	25.5	28.9	27.8	27.6	25.1	23.6
Operating Cost Per Customer ($)		n/a	n/a	n/a	n/a	n/a	494.9	460.2
System Loss Index (%)		n/a	n/a	0.06	0.07	0.06	0.06	0.05
Average Lost Time (days)		n/a	n/a	n/a	n/a	n/a	12.9	10.8
Lost Time Injury Frequency Rate		n/a	n/a	18.7	10.4	9.0	7.6	8.9
Service	2							
No. of Customers		n/a	n/a	n/a	n/a	n/a	715645.0	727847.0
Output (GWh)		6396.0	8758.5	9909.0	10629.5	12199.2	14087.0	14177.0
Supply Reliability (Min) - SAIDI		n/a	n/a	n/a	n/a	n/a	n/a	136.0
Customer Satisfaction Index								
Domestic		n/a	n/a	n/a	n/a	n/a	80.0	80.2
Business		n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finances ($m)	1,2							
EBIT		97.4	146.5	227.5	171.1	168.2	81.5	145.3
Operating Profit After Tax		74.5	123.9	205.2	148.5	191.8	-7.3	17.1
Significant Items								
Revenue		668.5	986.2	1028.2	1050.5	1184.8	1274.8	1297.3
Return on Assets (%)		0.06	0.08	0.11	0.07	0.07	0.03	0.06
Pre Tax Return on Net Assets (%)		0.07	0.11	0.16	0.10	0.12	-0.01	0.04
Return on Equity (%)		0.09	0.13	0.18	0.11	0.11	0.12	0.22
Asset Base		1682.9	1807.0	2081.4	2392.2	2511.3	2389.5	2447.0
Financial Distribution ($m)								
Dividend Payment		7.3	34.9	115.6	108.4	93.1	47.4	12.0
Corporate Tax Equivalent		0.0	8.0	21.6	29.8	34.9	9.6	-7.3
Payment of Capital from Equity		109.9	0.0	12.1	0.0	0.0	638.6	0.0
Gross External Debt		272.2	299.0	305.8	335.7	397.3	1242.1	1339.9
Debt to Equity Ratio (%)		0.25	0.26	0.24	0.22	0.25	1.89	2.01
Times Interest Earned		9.9	6.5	10.2	7.7	6.8	1.0	1.6
Gearing Ratio (Debt/Assets) %		0.16	0.17	0.15	0.14	0.16	0.52	0.55
Community Service Obligations ($m)		n/a	n/a	n/a	n/a	n/a	n/a	21.0

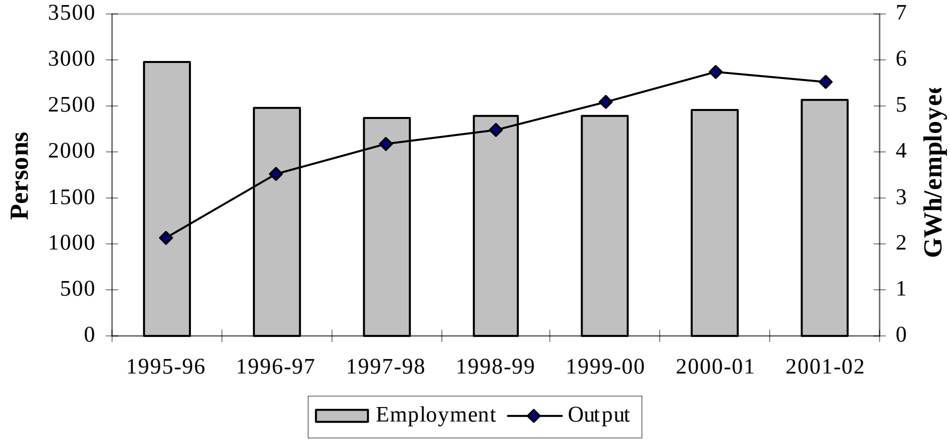
NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) Figures for the years prior to 2001-02 are combined totals for the Great Southern Energy, Advance Energy and NorthPower entities. Comparisons between the 2001-02 performance of Country Energy and the combined totals may be misleading.

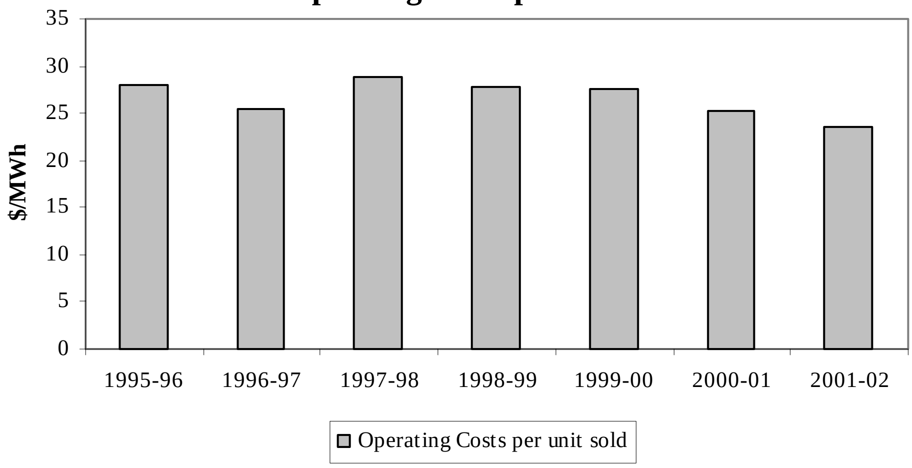
OPAT and Financial Distributions (2001-02 dollars)



Employment and Output



Operating Costs per Unit Sold



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Delta Electricity operates a diversified portfolio of generation assets. The majority of Delta's generation capability is derived from coal fired power stations located near Lithgow and on the Central Coast. Total generating capacity is 4,240MW. The adaptability of Delta's people in developing business solutions to challenges in the external environment enabled Delta to again record a successful year.

Delta Electricity achieved a net profit before tax of $142.4 million in 2001-02 after including a superannuation expense adjustment of $14.2 million. While Delta's total production remained similar to 2000-01, sales revenue declined due to mild weather conditions which dampened electricity demand and market prices. A shareholder dividend of $85.5 million was declared from the 2001-02 results.

Major developments in the electricity market included the introduction of full retail contestability, the commencement of a Frequency Controlled Ancillary Services market and changing ownership and mergers in all parts of the industry. These and other challenges to Delta's marketing capability have been ameliorated by effective management. The exceptional performance of Delta's four coal-fired power stations has allowed the organisation to be flexible in its approach to customer and market demands.

Delta achieved full compliance with environmental licence conditions during the year. Delta became the first NSW-based electricity generator to meet the certification requirements of the International Organisation for Standardisation for its Environmental Management System (EMS). This achievement means that Delta has been officially recognised as having an EMS that meets the acknowledged world standard for environmental management systems.

Delta decreased its greenhouse gas emission level in 2001-02. This reflects the growing contribution of renewable energy to lowering Delta's greenhouse emission intensity and success in implementing the measures outlined in the Generator Efficiency Standard.

Delta expanded its renewable portfolio through the installation of the biomass plant at Wallerawang Power Station for the co-firing of accredited renewable fuel sources. Trials were also conducted at the Vales Point and Mt Piper power stations during the year.

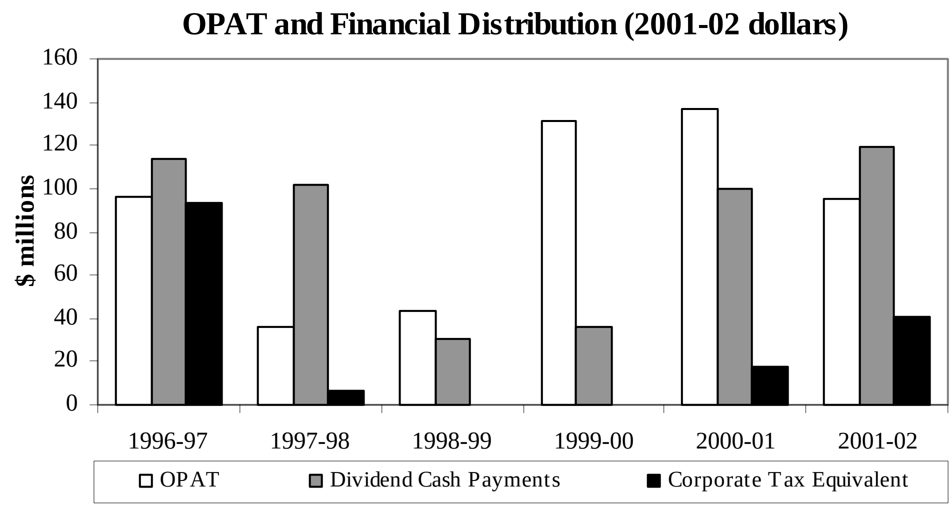
The longer-term success of Delta will be based upon further investment in its people; strengthening customer relationships; and the reliability, availability and cost competitiveness of both existing and new plant. Delta has adopted a controlled and effective approach to its existing operations and future developments, under the umbrella of a greenhouse gas strategy, which provides a sound rationale for decisions and activities.

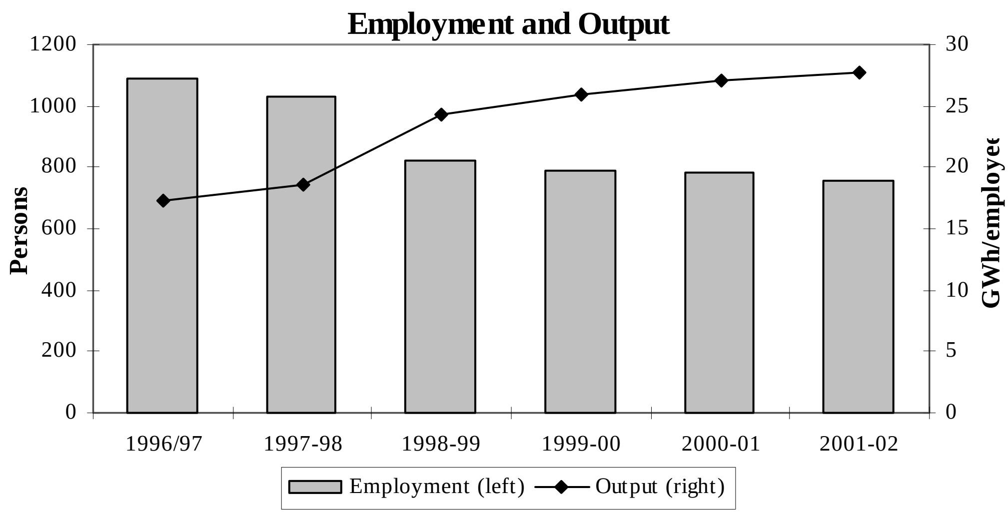
	Note	1995-96*	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
EFFICIENCY								
Employment		1248	1091	1032	822	797	782	754
Output per Employee (GWh)	1	13.6	17.2	18.6	24.3	25.7	27.1	27.6
Lost Time Injury Frequency Rate		n/a	15.9	14.6	5.7	11.8	7.0	5.3
SERVICE								
Output (GWh)	1	16917	18738	19222	20006	20481	21163	20843
FINANCES ($M)	2,4							
EBIT	3	57.0	212.6	110.3	108.0	182.8	231.9	200.6
Operating Profit After Tax	3	21.7	95.8	36.3	43.1	131.0	137.0	95.0
Operating Result (NPBT)	3	33.9	149.7	62.2	68.0	173.6	193.7	142.4
Significant Items		n/a	198.9	n/a	n/a	28.1	-9.8	-14.2
Revenue		254.8	799.2	654.7	642.4	710.8	779.4	735.3
Return on Assets (%)	1,3	10.0%	12.5%	7.1%	7.0%	11.2%	14.5%	12.6%
Return on Equity (%)	1,3	8.32%	11.81%	4.40%	5.29%	13.40%	34.60%	24.10%
Asset Base		1713.8	1705.5	1546.4	1541.2	1632.3	1601.3	1597.7
Asset Sales		0.2	0.8	1.6	1.8	1.0	1.3	1.5
Dividend Cash Payments		0.0	113.8	101.3	30.4	35.8	99.6	119.7
Corporate Tax Cash Payment		2.7	93.5	6.4	0.0	0.0	17.7	40.3
Gross External Debt		767.8	595.2	483.4	471.4	384.5	752.8	728.6
Debt to Equity (Leverage) (%)		98.2	73.4	58.8	57.8	46.2	190.3	185.1
Gearing Ratio (Debt/Assets) (%)		44.8	34.9	31.3	30.6	23.6	47.0	45.6
Times Interest Earned		2.5	3.9	2.3	2.7	4.9	6.1	3.4
Return on Shareholder Value Added		-122.0	31.2	-52.9	-31.5	19.1	34.0	-8.7

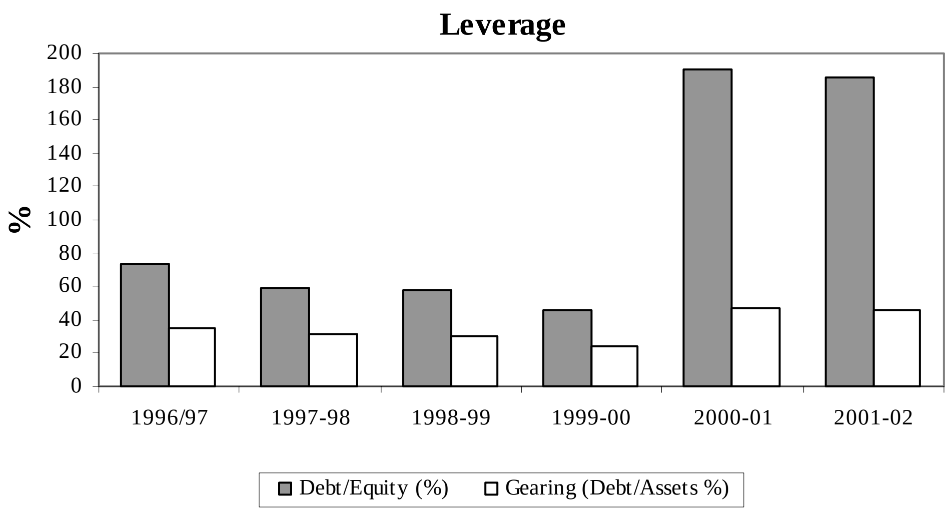
NOTES:

* **Operations for the 1995-96 financial year commenced on 1 March 1996.**

1) Annualised for the period 1 March 1996 to 30 June 1996.
2) All dollar amounts reported in 2001-02 dollars.
3) Excludes Significant Item related to the Mt Piper Cross Border Lease in 1996-97.
4) All relevant items include the impact of superannuation adjustments categorised as Significant Items for 1999-00 to 2001-02.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
160
140
120
100
80
60
40
20
0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend Cash Payments
Corporate Tax Equivalent


Employment and Output
Persons
1200
1000
800
600
400
200
0
30
25
20
15
10
5
0
GWh/employee
1996/97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Output (right)


Leverage
%
200
180
160
140
120
100
80
60
40
20
0
1996/97
1997-98
1998-99
1999-00
2000-01
2001-02
Debt/Equity (%)
Gearing (Debt/Assets %)

EnergyAustralia™

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EnergyAustralia is one of Australia's largest energy services companies. Its vision is to maximise value for customers, the community and shareholders by becoming the leading Australian multi-utility company.

EnergyAustralia delivers safe, reliable electricity and gas services to over 1.4 million customers (or over 3 million people) and a range of other products and services both nationally and internationally. EnergyAustralia owns and operates an electricity distribution franchise network that covers an area of 22,275 square kilometres, one of the most diverse and complex customer bases in Australia and is a strong competitor in the national retail energy market.

With revalued assets of over $5 billion and annual revenue in excess of $2 billion, EnergyAustralia ranks as one of Australia's largest 100 companies. EnergyAustralia achieved sound financial results for 2001-2002 including an EBIT result of $322 million - $24 million higher than the financial target agreed with their shareholders. This sound result was achieved after recognising a loss on EnergyAustralia's investment in the telecommunication carrier PowerTel.

January 2002 was the start of national Full Retail Competition. EnergyAustralia was ready after preparations over the last four years for this major change to meet the requirement of our customers and the National Electricity Market.

Other key events and highlights during 2001-2002 included:

- Major upgrades in the electricity network distribution system, successfully meeting significant demands on the system. This year EnergyAustralia commissioned City Central, the first city zone substation added to the network for 12 years, expanding the capacity of the city system by 20%. The city upgrade is part of the Network Capacity Rebuild Program, which will see EnergyAustralia invest $1.2 billion in new infrastructure to support our growing community. As a result, EnergyAustralia raised $114.3 million new debt last year bringing our gearing to 43.5%;

- Ongoing commitment to customer safety with a number of programs:
    - Children's Electricity Safety Program – aimed at school children;
    - Electrical Hazards Awareness Program – aimed at emergency services personnel; and
    - Safety Awareness Promotions featuring brochures, radio campaigns and tips on home safety included in residential bills;

- Outstanding brand awareness, public confidence and customer satisfaction. EnergyAustralia will stay focused on delivering tangible value to our customers and meeting the community's standards in all our operations. This was based on a strong brand awareness, including the popular "tall man/ short man" television advertisement; moves into gas retailing, becoming a dual fuel supplier with supporting IT systems and energy purchasing. The high number of long term contracts signed highlight the level of customer trust in EnergyAustralia's service;

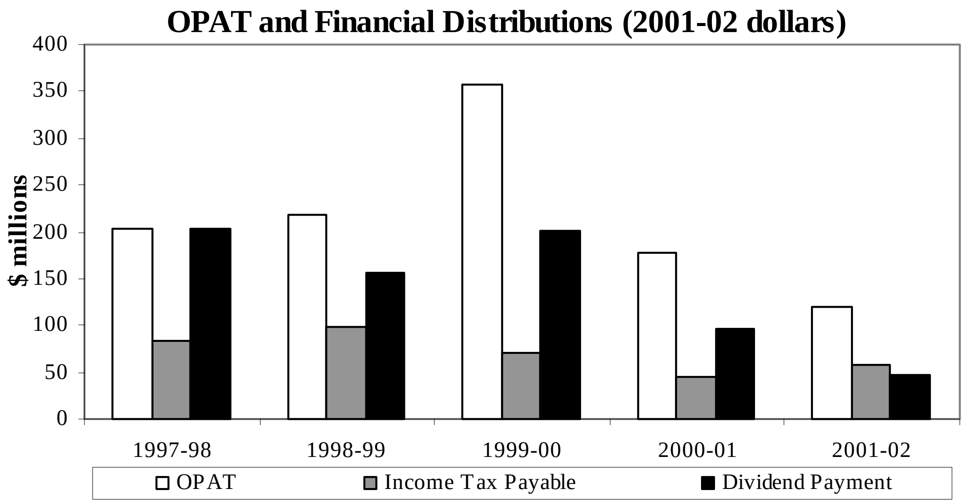
- Sound external business performance including growth in electricity infrastructure provision; increasing markets and share in the provision, installation, maintenance and repair of appliances and energy metering, testing, data capture and reporting; and

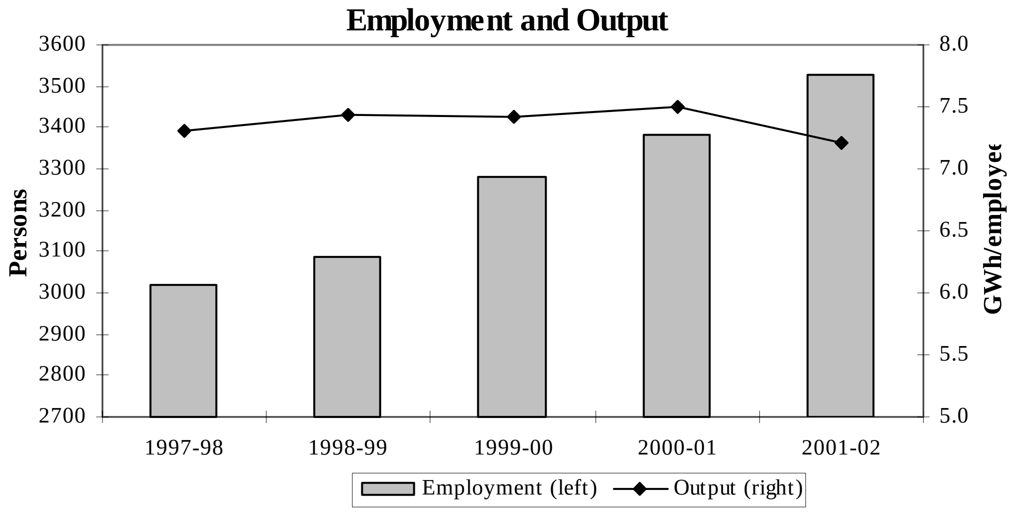
- The operating cost per customer has increased over the last 5 years, reflecting the introduction of full retail contestability and other legislated requirements.

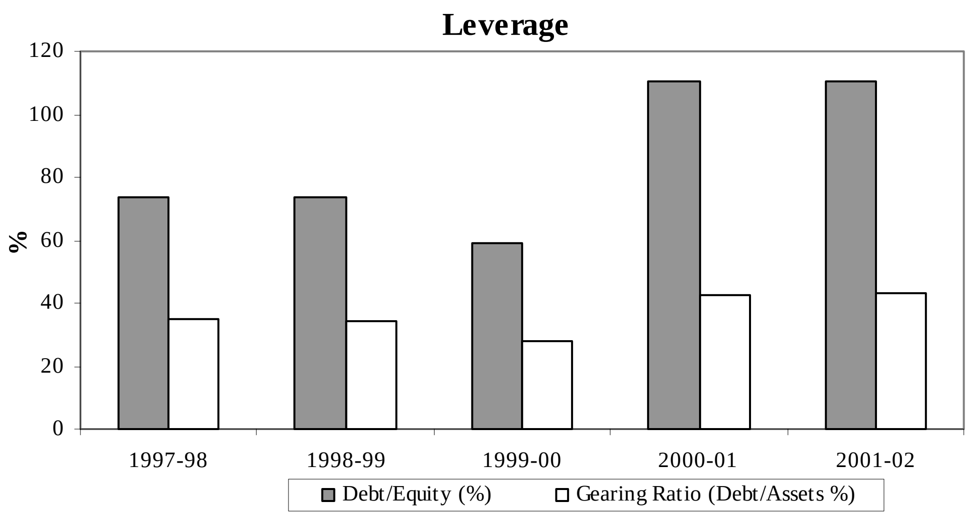
	Note	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1					
Employment	2	3017	3089	3282	3384	3527
Output/Employee (GWh)	3	7.3	7.4	7.4	7.5	7.2
Sales Revenue ($'000)	4	1786.6	1696.6	1885.1	1838.5	1857.6
Customer per Employee	5	453.0	448.0	428.0	422.0	415.0
Operating Costs per MWh	6	29.3	29.1	27.9	26.4	26.4
Operating Costs per Customer	7	424.7	437.9	435.5	468.7	446.4
System Loss index (%)	8	5.0	5.0	4.5	4.5	4.5
Days Sick Leave /Employee		6.7	5.8	6.0	6.8	6.2
Lost Time Injury Frequency Rate	9	10.2	8.0	6.4	8.2	8.3
Effectiveness						
Output (GWh)	3	22067	22978	24364	25275	25402
Reliability Index	10	101	97	87	101	102
Real Price Index (89-90=100)	11	0.76	0.75	0.73	0.67	0.65
Customer Satisfaction Index	12					
Domestic		97	97	97	97	96
Business		89	92	87	87	96
Financial Indicators ($M)	13					
EBIT		477.0	423.5	427.8	330.9	321.8
Operating Profit After Tax		202.6	218.1	358.1	178.2	120.6
Significant Items		61.8	-14.9	1.8	-19.3	-10.6
Revenue	14	2142.9	2094.4	2310.7	2269.4	2333.3
Return on Assets		11.2	10.0	10.5	6.2	6.2
Return on Equity		11.3	12.0	18.5	8.6	5.4
Asset Base		4265.3	4242.9	4083.3	5350.4	5267.8
Asset Sales		36.1	6.7	10.9	12.4	18.3
Distribution to Government		286.4	253.1	272.5	1304.1	105.2
Income Tax Payable		83.8	97.7	70.9	44.6	57.7
Dividend Payment		202.6	155.5	201.6	95.6	47.5
Special Dividend	15	0.0	0.0	0.0	1163.9	0.0
Gross External Debt		1476.1	1452.0	1143.9	2289.2	2290.8
Debt/Equity (%)		73.4	73.4	59.2	110.7	110.7
Gearing Ratio (Debt/Assets)		34.6	34.2	28.0	42.8	43.5
Times Interest Earned		3.4	3.7	5.3	2.3	3.1
Social Programs ($M)		29.4	31.9	28.9	26.9	29.3

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars
2) Full Time Equivalent Staff (FTE) as at the last payroll run of the financial year
3) Gigawatt hours (GWh) are measured at bulk supply points less distribution losses.
4) Electricity sales revenue only.
5) Number of franchise customers divided by FTE's at financial year end.
6) Total Operating Costs (including depreciation, excluding interest) divided by megawatt hours (MWh) delivered
7) Total Operating Costs (including depreciation, excluding interest) divided by franchise customers at financial year end
8) Estimate
9) Number of new Lost Time Injuries per million hours worked
10) Standard SAIDI figure (average minutes without supply per year per network customer). Includes planned and unplanned outages. It excludes Major Natural Events ie storms, momentary and interruptions caused by TransGrid, directed load shedding and momentary events from system operations
11) Based on average price for all accounts
12) Results are based on the top 3 boxes of a 5-point scale.
13) Aligned to NSW Treasury definitions dated 13 August 2002
14) Total Sales Revenue
15) The 2000-01 figure represents an equity restructuring payment made to NSW Treasury on 14 July 2000


OPAT and Financial Distributions (2001-02 dollars)
$ millions
400
350
300
250
200
150
100
50
0
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Income Tax Payable
Dividend Payment


Employment and Output
Persons
3600
3500
3400
3300
3200
3100
3000
2900
2800
2700
8.0
7.5
7.0
6.5
6.0
5.5
5.0
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Output (right)


Leverage
%
120
100
80
60
40
20
0
1997-98
1998-99
1999-00
2000-01
2001-02
Debt/Equity (%)
Gearing Ratio (Debt/Assets %)

Mr Ray Rolph
Management Accountant
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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 2001/02:

- Eraring Parent Entity – produces and competitively trades electricity in the National Electricity Market 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 to Western Power.

Financial Outcomes

The Eraring Energy Group performed strongly over 2001/02 exceeding budget with a consolidated net profit of $48.6 million being achieved. Shareholder returns in the form of tax payable and dividends of $35.7 million exceeded expectations.

Asset Maintenance

The extension and refurbishment of Burrinjuck Power Station was completed during the period. This has contributed to an expansion of Eraring's asset base, along with continuing maintenance efforts.

Plant Reliability and Safety

Eraring Energy's generation assets delivered high levels of availability, reliability and efficiency. In addition, the Eraring Power Station site maintained its five-star safety rating over the year.

Fuel Supplies

New flexible coal supply contract arrangements were entered into with Powercoal. Negotiations over the extension of the Westside contract continue to progress.

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 and gas turbine stations are such that those 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*. Eraring Energy is also considering the expansion of its renewable generation plant.

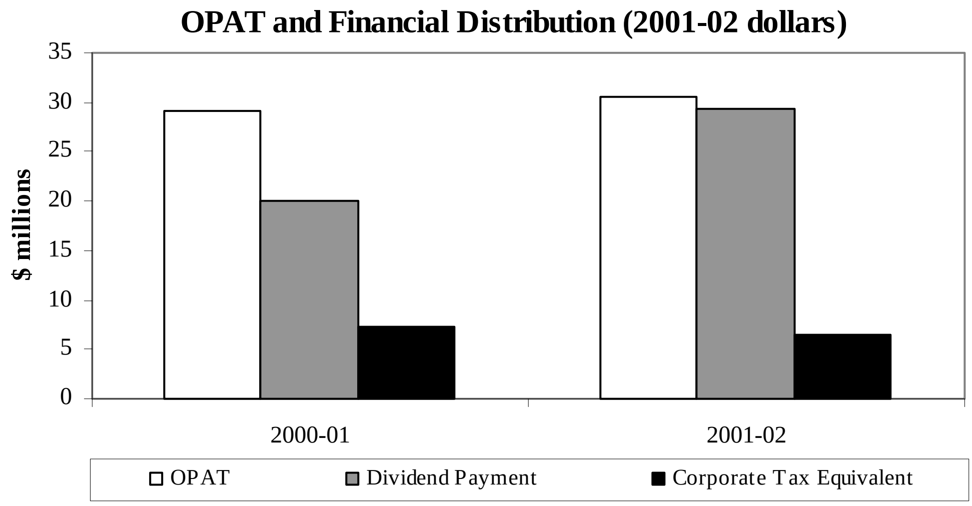
The Future

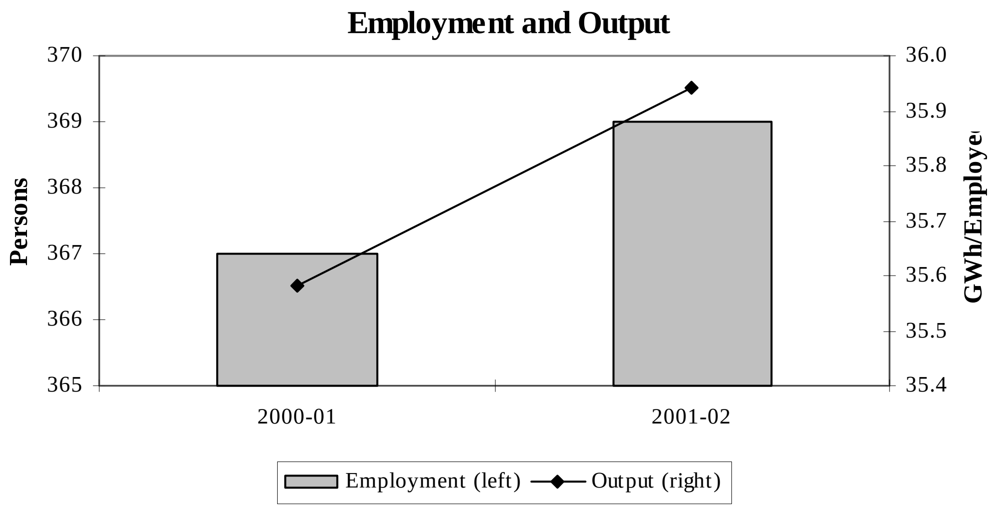
Eraring Energy aims to continue efficient production and competitive trading of electricity in the National Electricity Market from its portfolio of generation assets.

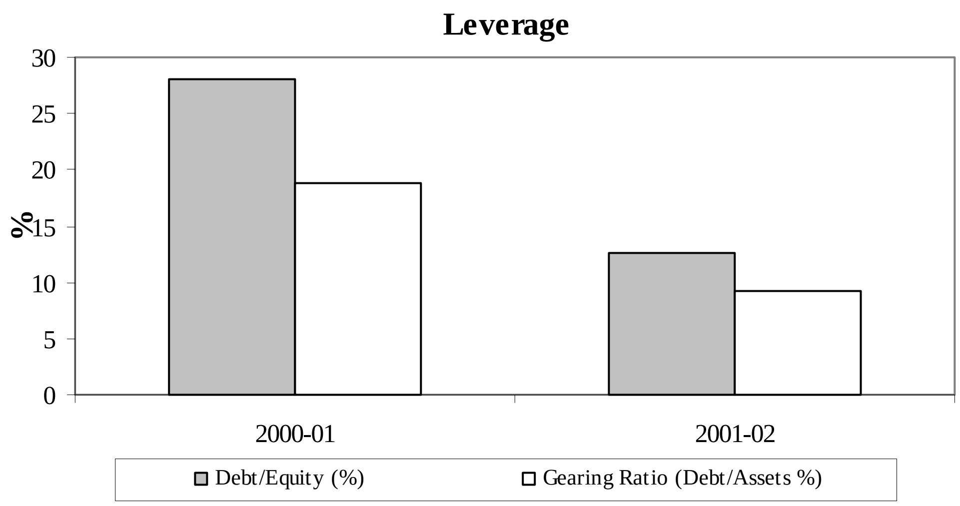
	Notes	2000-01	2001-02
EFFICIENCY	1		
Employment		367	369
Output per Employee (GWh)		35.6	35.9
Lost Time Injury Frequency Rate		6.9	5.5
SERVICE			
Output (GWh exported at RRN)		13059	13262
FINANCES ($m)	2		
EBIT		85.7	59.1
Operating Profit After Tax		29.0	30.6
Significant Items	3	6.2	4.7
Revenue		486.6	535.7
Return on assets (%)		6.3	4.5
Return on equity (%)		3.2	2.9
Asset Base		1277.9	1326.2
Financial distribution			
Dividend payment		20.1	29.3
Corporate tax equivalent	4	7.3	6.4
Gross external debt		256.4	130.6
Debt to equity ratio (%)		28.0	12.6
Gearing Ratio (Debt/Assets)		18.9	9.3
Times interest earned		1.9	5.6

NOTES:

1) Eraring Energy was established on 2 August 2000
2) All dollar amounts reported in terms of 2001-02 dollars.
3) Community Service Obligations incurred and deducted from dividend payments
4) Based on income tax payable


OPAT and Financial Distribution (2001-02 dollars)
$ millions
35
30
25
20
15
10
5
0
2000-01
2001-02
OPAT
Dividend Payment
Corporate Tax Equivalent


Employment and Output
Persons
370
369
368
367
366
365
36.0
35.9
35.8
35.7
35.6
35.5
35.4
GWh/Employe
2000-01
2001-02
Employment (left)
Output (right)


Leverage
%
30
25
20
15
10
5
0
2000-01
2001-02
Debt/Equity (%)
Gearing Ratio (Debt/Assets %)

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

INTEGRAL ENERGY

Integral Energy supplies electricity to 789,923 residential and business customers in the Illawarra and West and South West of Sydney.

Integral Energy is a NSW State-owned corporation, incorporated under the *Energy Services Act 1995*. Integral's formation on 1 October 1996 followed upon the merger of the former Prospect Electricity and the majority of Illawarra Electricity as part of the NSW Government's reforms of the electricity industry. It operates with a targeted customer focus within the terms and conditions of the *Electricity Supply Act 1995*.

The company produced a strong financial performance during 2001-2002, exceeding all of the financial performance outcomes to which it agreed in its Statement of Corporate Intent. Integral Energy recorded a net profit before tax of $99.1m in 2001-2002, compared to a budgeted net profit before tax of $52.9m.

In the 2001-2002 financial year, Integral Energy:

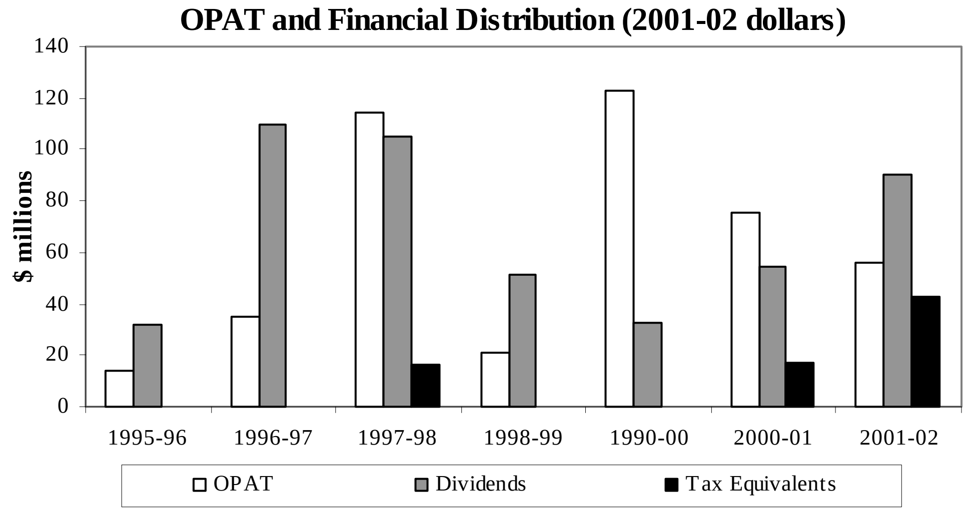
- presented a $133.4m distribution to its shareholder, the NSW Government, including a special dividend of $80m;
- embarked on an ambitious program of capital investment totalling $107m in the supply Network to further improve safety and reliability;
- revitalised its brand and embarked on a new corporate positioning strategy;
- rebuilt its retail business in preparation for Full Retail Contestability;
- achieved new standards for end-to-end billing process;
- led the NSW energy industry in preparations for Full Retail Contestability;
- responded to a record number of natural disasters across the franchise area, including the Christmas bushfires with 500 burnt poles replaced and 100 kilometres of overhead cable re-strung, and the worst storms in ten years;
- hosted the NSW Electricity Supply Industry's safety field days for the second successive year;
- maintained industry environmental leadership with a reduction of 3.9m tonnes of greenhouse gas emissions; and
- published its inaugural annual planning statement – *Network 2010* – and its inaugural sustainability report.

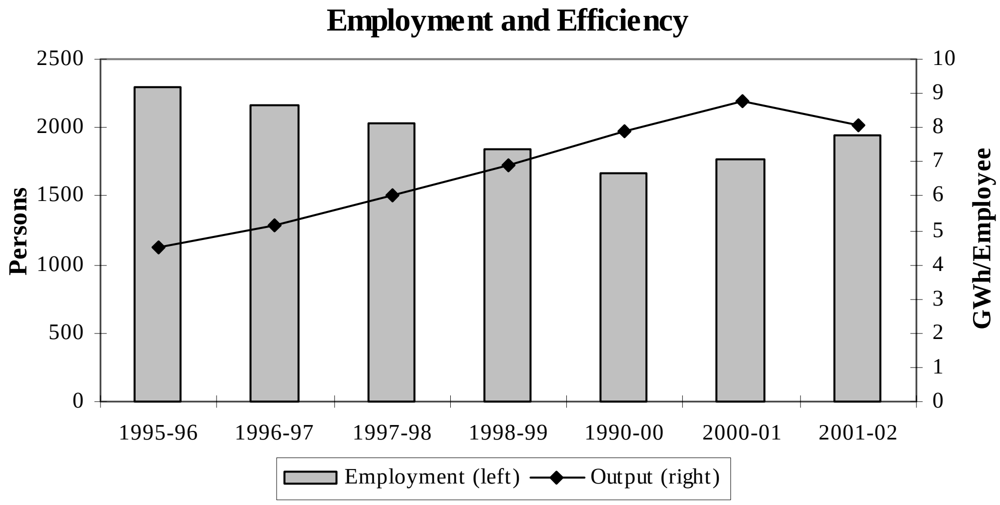
INTEGRAL ENERGY

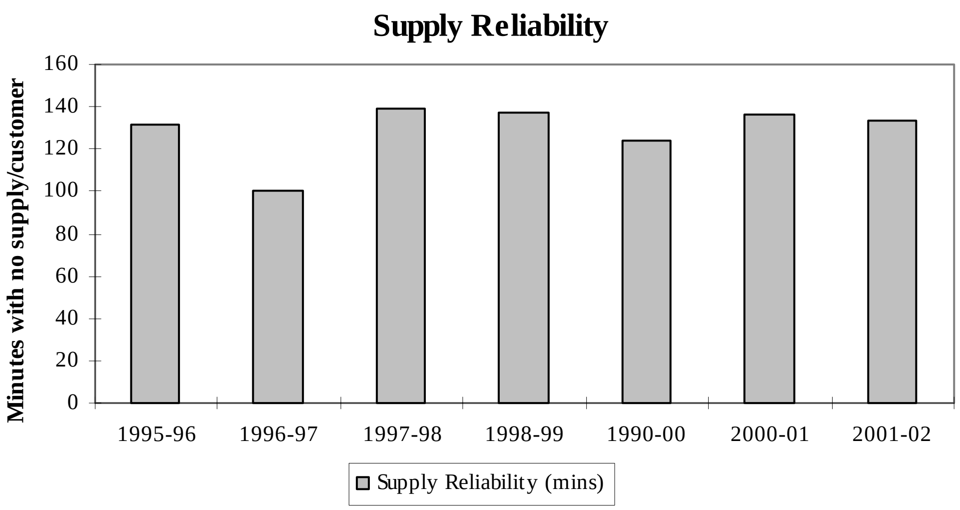
	Note	1995-96	1996-97	1997-98	1998-99	1990-00	2000-01	2001-02
Efficiency	1							
Employment		2294	2157	2039	1845	1668	1765	1944
Output/Employee (GWh)		4.5	5.1	6.0	6.9	7.9	8.8	8.1
Customers per employee	2	263.9	325.2	349.1	385.3	422.0	443.4	411.8
Operating Cost per Unit ($MWh)	3	29.3	28.4	25.7	24.5	26.1	26.3	27.1
Operating Cost per Customer ($m)	4	494.7	448.2	441.2	446.0	477.4	522.7	530.9
System Loss Index (%)		5.0	6.6	4.6	5.6	5.5	5.0	5.6
Days Sick Leave per Employee	5	6.3	6.1	4.2	4.4	5.0	6.1	5.8
Lost Time Injury Frequency Rate		20.8	9.7	12.2	13.1	14.2	12.8	13.3
Service								
Output (GWh)	6	12,092	11,410	12,579	13,346	13,896	15,100	14,975
Supply Reliability (min)		132	100	139	138	124	136	134
Nominal Average Price		89.2	86.8	81.2	80.9	72.8	67.1	67.6
Real Average Price		103.1	99.0	92.5	90.6	79.6	69.1	67.6
Real Price Index (89-90=1.00)		0.863	0.828	0.774	0.758	0.666	0.578	0.565
Customer Service Index – Target	7	n/a	n/a	n/a	n/a	n/a	n/a	45.0%
Customer Service Index – Result	7	n/a	n/a	n/a	n/a	n/a	n/a	50.3%
FINANCIAL INDICATORS ($M)								
EBIT	8	53.1	159.4	256.4	116.7	159.9	188.0	181.5
Operating Profit After Tax	9	14.2	34.6	114.3	21.3	123.1	75.7	56.3
Significant Items	10	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue	11	403.5	1205.7	1238.2	1339.2	1271.7	1179.8	1140.8
Return on Net Operating Assets (%)	12	2.5	7.0	11.5	5.5	7.8	8.2	7.0
Return on Equity (%)	13	5.1	4.1	14.3	2.7	15.5	7.6	5.2
Asset Base		2392.9	2228.3	2251.2	2065.1	2082.5	2635.6	2658.9
Asset Sales		20.9	18.7	27.5	23.0	26.4	11.7	10.6
Financial Distributions		619.6	149.6	121.1	51.4	32.5	277.4	283.5
Tax Equivalents	14	0.0	0.0	16.3	0.0	0.0	17.0	42.9
Dividend Payments	15	31.9	109.5	104.8	51.4	32.5	54.4	90.6
Payment of Capital from Equity	16	587.7	40.0	0.0	0.0	0.0	206.0	150.0
Gearing Ratio (Debt/Assets)		43.1	43.5	41.0	37.6	36.8	35.5	40.2
Times Interest Earned	17	2.0	2.1	3.6	1.6	2.3	2.5	2.4
Social Programs		13.0	12.8	13.0	13.1	13.4	14.2	17.0

NOTES:

1) All dollar amounts reported in terms of 2001-02 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) Total sick leave days per average number of electricity employees.
6) Electricity sales (GWh), excluding accruals and off peak bulk transfers. Output for 1997-98 slightly adjusted.
7) 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.
8) EBIT is defined as profit from ordinary activities before income tax expense (including items previously treated as abnormals and capital contributions), less borrowing expenses. All figures have been restated on the basis of this definition.
9) Operating profit after tax is defined as profit from ordinary activities after income tax expense (including items previously treated as abnormals and capital contributions). All figures have been restated on the basis of this definition.
10) 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.
11) Revenue includes revenue from operating activities and revenues from non-operating activities, including capital contributions and any revenue items previously treated as abnormals. All figures have been restated on the basis of this definition.
12) Redefined as EBIT (including capital contributions), divided by the average asset base. All figures have been restated on the basis of this definition.
13) Redefined as operating profit after tax (including capital contributions), divided by average equity. All figures have been restated on the basis of this definition.
14) From 1995-96 onwards tax equivalent has been based on the income tax payable (after taking into account deferred income tax and future income tax benefits).
15) Includes special dividends.
16) Involves a special payment to the Government.
17) 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. All figures have been restated on the basis of this definition.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
140
120
100
80
60
40
20
0
1995-96
1996-97
1997-98
1998-99
1990-00
2000-01
2001-02
OPAT
Dividends
Tax Equivalents


Employment and Efficiency
Persons
2500
2000
1500
1000
500
0
GWh/Employee
10
9
8
7
6
5
4
3
2
1
0
1995-96
1996-97
1997-98
1998-99
1990-00
2000-01
2001-02
Employment (left)
Output (right)


Supply Reliability
Minutes with no supply/customer
160
140
120
100
80
60
40
20
0
1995-96
1996-97
1997-98
1998-99
1990-00
2000-01
2001-02
Supply Reliability (mins)

Macquarie Generation

Ms Linda Watkins
Financial Accountant
MACQUARIE GENERATION
Corporate Office
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LAMBTON NSW 2299
(02) 4968 7469

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

Macquarie's EBIT increased by 20% to $255 million due to improved average sales prices, steady volume and improved cost control. Macquarie's sales revenue in 2001-02 increased by one per cent to $812 million. The average NSW pool price in 2001-02 decreased by eight per cent to $34.76/MWh.

Efficiency levels showed broad improvements: EBIT/revenue improved by 19%; production volume per employee improved by two per cent; and EBIT/employee improved by 21%.

Macquarie Generation decreased its debt by four per cent ($40 million) as part of the debt repayment program and decreased its equity by 0.5% due to a decrease in retained earnings from $13.6 million to $9.9 million. As a result the debt to equity ratio reduced by two per cent.

Net profit before tax increased by 27% due to:

- increased average sales prices of one per cent;
- steady sales volume;
- increased total revenue of one per cent;
- increased net borrowing costs of five per cent; and
- a reduction in other expenses from ordinary activities of seven per cent (includes nine per cent decrease in fuel costs).

Macquarie's OPAT is $121.3 million, a 17% increase on 2000-01 due directly to the increase in average sales prices and the significant reduction in operating costs outlined above. After-tax ROE was 18%, an 18% increase on 2000-01. The increase on 2000-01 is due to the 17% increase in OPAT and a 0.5% reduction in equity.

Dividends paid increased by 25% to $125 million, exceeding expectations. The increase was due to the 17% increase in OPAT and a $3.7 million or 0.5% reduction in retained earnings.

Operational Outcomes

The Bayswater and Liddell power stations improved levels of efficiency, availability, reliability and safety in 2001-02. There was a 7.5% increase in availability, 37.5% reduction in forced outages and an improvement in safety (Lost Time Injury Frequency Rate, or LTIFR) by a significant 82.6%.

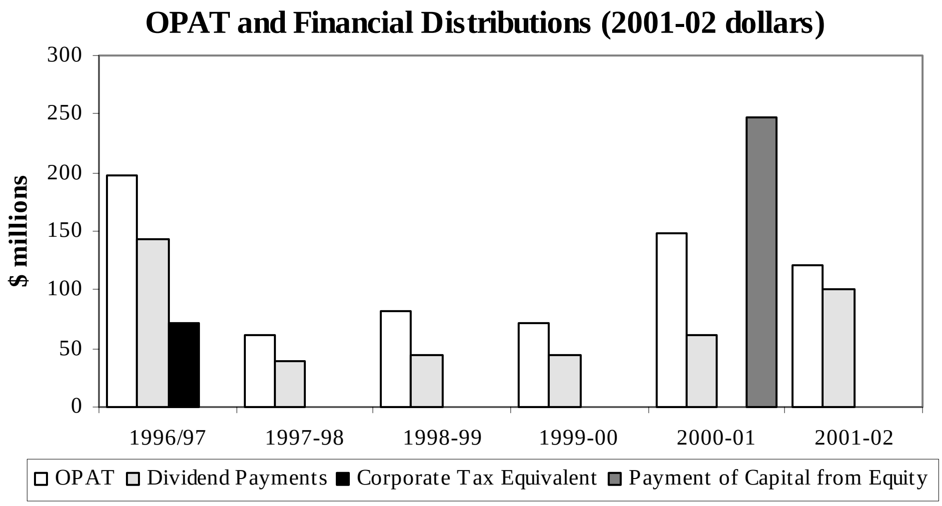
Future Strategies

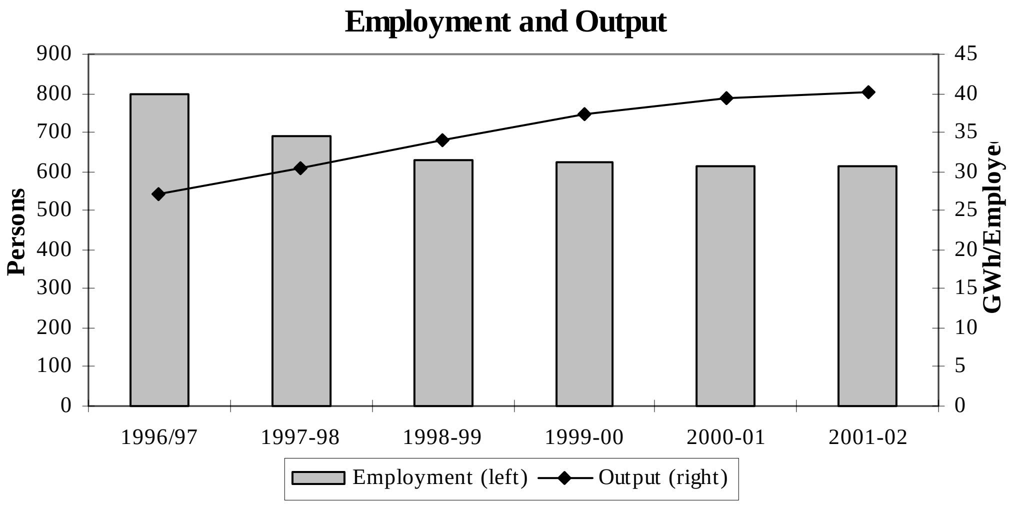
Macquarie Generation has formulated strategic objectives, which recognise the evolving regulatory, environmental, social and technological factors impacting upon the industry. The Corporation's 2002-03 Business Plan reflects its pursuit of value-adding operating and growth strategies. Planned upgrades to the power stations will improve capacity and efficiency whilst reducing greenhouse emissions.

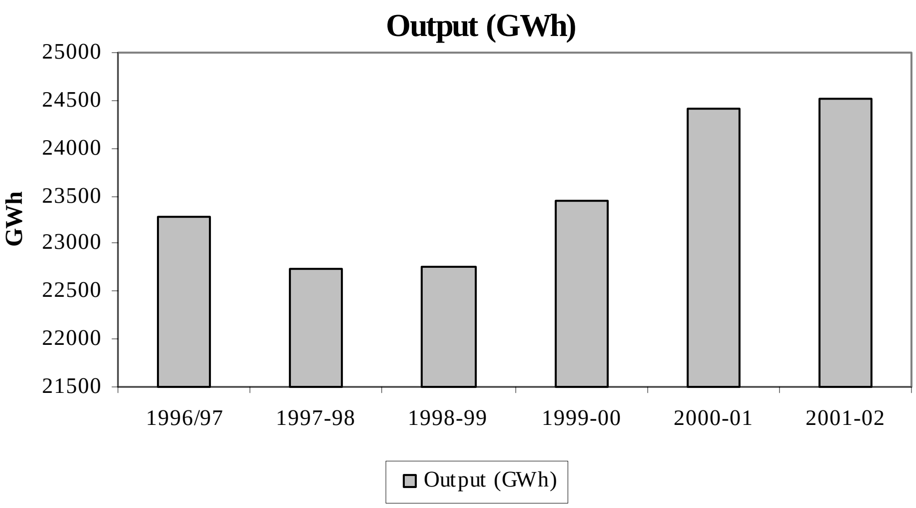
	Note	1996/97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency							
Employment		799.0	688.0	630.0	624.0	612.0	612.0
Output per Employee (GWh)		27.2	30.4	34.0	37.4	39.5	40.1
Lost Time Injury Frequency Rate		12.4	10.1	4.6	13.4	6.5	0.8
Service							
Output (GWh)		23280.0	22738.0	22764.0	23447.0	24405.0	24526.7
Finances ($m)	1						
EBIT		304.3	165.0	184.8	153.5	219.0	254.6
Operating Profit After Tax		198.2	61.3	81.9	71.2	147.5	121.3
Significant Items (included in EBIT)					-37.6	12.7	0.0
Revenue		988.1	795.4	808.1	822.4	838.6	817.6
Return (EBIT) on Assets (%)		11.8	6.6	7.7	6.5	10.3	12.0
Pre Tax return on net assets (%)		18.8	5.8	7.9	6.9	20.6	26.3
Return on Equity (%)		12.0	3.8	5.0	6.3	14.9	17.6
Asset Base		2577.3	2512.7	2404.5	2361.0	2126.8	2125.9
Financial Distribution ($m)							
Dividend payment		142.6	39.9	44.8	43.8	60.8	100.0
Corporate Tax equivalent		71.4	0.0	0.0	0.0	0.0	0.0
Payment of capital from equity		0.0	0.0	0.0	0.0	247.2	0.0
Gross External Debt ($m) including Accrued Interest		1176.0	1170.1	1047.8	908.8	979.3	911.7
Debt to Equity Ratio (%)		52.7	52.6	50.1	46.9	57.8	56.9
Gearing Ratio (Debt/Assets)		0.5	0.5	0.4	0.4	0.5	0.4
Times Interest Earned		2.5	1.4	1.8	2.1	3.0	3.5
EBIT (before abnormal items)					191.1	219.0	254.6
EBIT (after abnormal items)					153.5	219.0	254.6
Profit before tax					71.2	147.5	181.6
Profit after tax					64.8	106.7	121.3
Total Assets					2361.1	2126.8	2125.9
Net Assets					1028.9	715.6	691.0
Shareholders Funds					1028.9	715.6	691.0
Total Debt including Acc Interest					908.8	979.3	911.7
Total Debt plus Equity					1937.7	1694.9	1602.7
Net Financing Expense					82.3	71.5	73.0

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.


OPAT and Financial Distributions (2001-02 dollars)
$ millions
300
250
200
150
100
50
0
1996/97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend Payments
Corporate Tax Equivalent
Payment of Capital from Equity


Employment and Output
Persons
900
800
700
600
500
400
300
200
100
0
45
40
35
30
25
20
15
10
5
0
GWh/Employe
1996/97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Output (right)


Output (GWh)
GWh
25000
24500
24000
23500
23000
22500
22000
21500
1996/97
1997-98
1998-99
1999-00
2000-01
2001-02
Output (GWh)

PACIFIC POWER

Mr Darren Gustard
Acting Executive Manager Finance & Secretary
PACIFIC POWER
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SYDNEY NSW 2001

PACIFIC POWER

The NSW Government has announced its intention to wind-up Pacific Power following the sale of Pacific Power International.

In the 2001-02 financial year, the Pacific Power Group consisted of the following businesses:

- **Pacific Power International –** an engineering business that provides a complete range of solutions to the power generation industry. PPI's primary assets are the staff expertise and intellectual property which enable the business to provide solutions to its customers;
- **Powercoal** – a coal producer participating in both domestic and export markets; and
- **Pacific Solar** – a researcher, developer and commercialisation agent of photovoltaic solar cells.

The Pacific Power entity, including Pacific Power International and Pacific Power Corporate, achieved the following results:

	2000/01	2001/02
	$000	$000
Operating Profit/(Loss) after Tax & Dividend	(68,868)	33,658
Tax Expense	53,007	2,725
Operating Profit/(Loss) before Tax & Dividend	(15,861)	36,383
Mark to Market debt transferred to Eraring	27,477	-
Interest Expense (excl. Mark to Market debt trfd to Eraring)	8,095	1,404
Operating Profit/(Loss) before Interest Tax & Dividend	19,711	37,787
Significant Items		
- Superannuation	42,123	28,091
- Long Service Leave	5,300	3,947
- Mine Restoration Provision	-	(5,934)
- Insurance Provision	-	(1,017)
Total Significant Items (excl. Mark to Market of Debt in 2000/01)	47,423	25,087
Earnings before Interest & Tax excluding Significant Items	**67,134**	**62,875**

Pacific Power Corporate above budget performance was largely due to revenue contribution from the State's shareholding in the Snowy Mountains Hydro Corporation ($81.2 million) and a positive adjustment to the Mine Restoration Provision ($5.9 million).

Pacific Power International's below budget performance can be attributable to below budget consulting revenue, above budget contracting revenue and contracting expenses.

The sale of Powercoal Pty Ltd to Centennial Coal Company Pty Ltd was completed on 6th August 2002 for $305.7 million. The sale of the Pacific Power International consulting business was completed on 7th February, 2003. Following the sale, PPI Pty Ltd has been renamed to Pacific Power (Subsidiary No.1) Pty Ltd and is responsible for the ongoing management of two Engineering, Procurement and Construction (EPC) projects, Tarong North and Callide C.

Pacific Power is expected to be wound up during 2002-03. Prior to the wind-up, Pacific Solar Pty Limited will be separated from Pacific Power and be held by another arm of the NSW Government.

PACIFIC POWER

	Note	2000/01	2001/02
Financial Indicators ($m)	1,2		
EBIT	3	67.1	62.9
Return on Assets		5.6%	18.9%
Return on Equity		29.9%	25.8%
Net Assets		197.5	238.7
Asset Base		337.5	326.6
Gross External Debt		0.0	0.0
Interest Expense (Finance Charges)	4	8.1	1.4
Times Interest Earned		8.3	44.8

NOTES:

1) All dollar amounts reported in 2001-02 dollars.
2) Figures for the years prior to 2000-01 are not comparable to recent results due to the major structural changes in Pacific Power's operations.
3) Excludes significant items totalling $47.4 million and $25.1 million for 2000/01 and 2001/02 respectively.
4) Excludes Mark to Market Debt of $27.5 million transferred to Eraring Energy in 2000/01.

No graphs have been produced for Pacific Power.

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TransGrid manages the State's high voltage electricity transmission network. Its prime objectives are 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
- coordinating the transmission of electricity between transmission networks.

TransGrid achieved a pre-tax profit excluding significant items of $92.4 million and EBIT of $175 million for 2001-02, resulting in a 6.7% return on assets. TransGrid manages assets of $2.7 billion. As of 30 June 2002, it had debts of $1.3 billion, 954 staff and an annual turnover of $386 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. During the year, supply in northern NSW was reinforced by the completion of the Kempsey/Coffs Harbour 132kV transmission line and associated works. In June 2002, Transgrid acquired transmission assets formerly belonging to the Snowy Mountains Hydro Electric Authority.

Supply reinforcement to major areas of the State over the next five years includes the construction of a 330kV cable from Sydney South substation to a new 330/132kV Indoor Substation within the Sydney CBD (MetroGrid), and construction of a 275kV transmission line to connect the high voltage networks of NSW and South Australia.

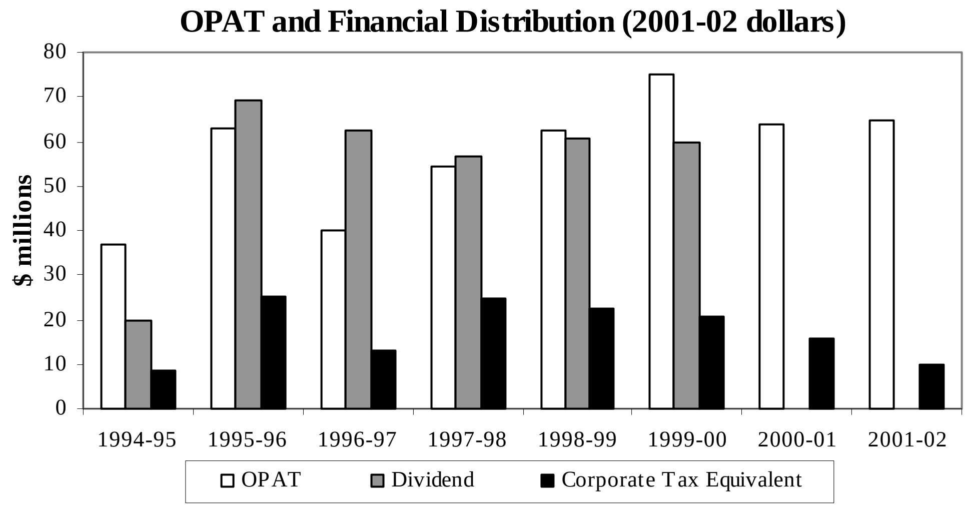
TransGrid maintained its high safety performance standards. For the financial year, TransGrid achieved its lowest lost time accident rate since its inception as a result of a concerted effort all the way through the organisation, focusing on improving TransGrid's safety record.

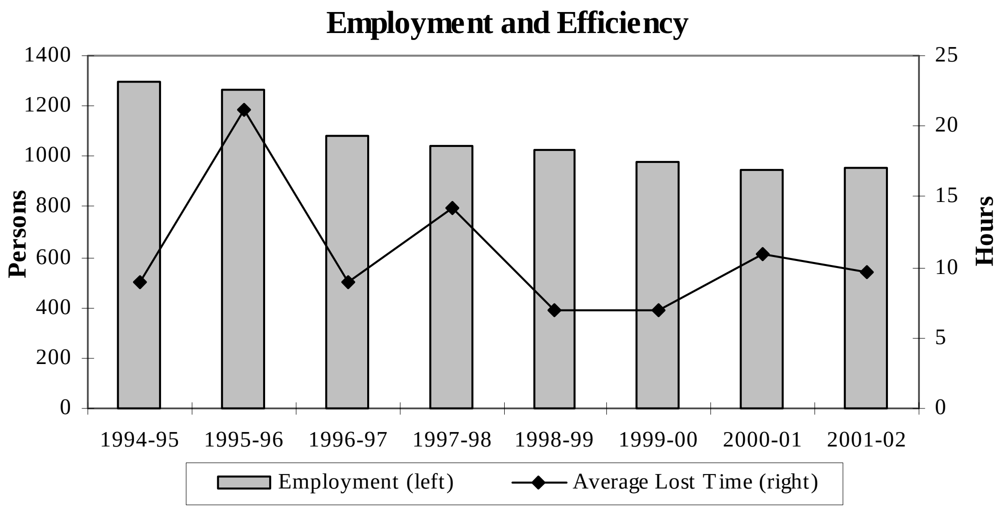
TransGrid seeks to manage its existing business efficiently by adopting best practice operations and maintenance procedures, identified through participation in international benchmarking studies. TransGrid's future direction will be defined by:
- a strong commercial focus;
- seeking opportunities to develop partnerships with customers and suppliers; and
- the active development of its business in a number of new arenas, such as telecommunications, contestable network extensions, provision of metering services, provision of consultative and training services, and participation in interstate and international engineering projects.

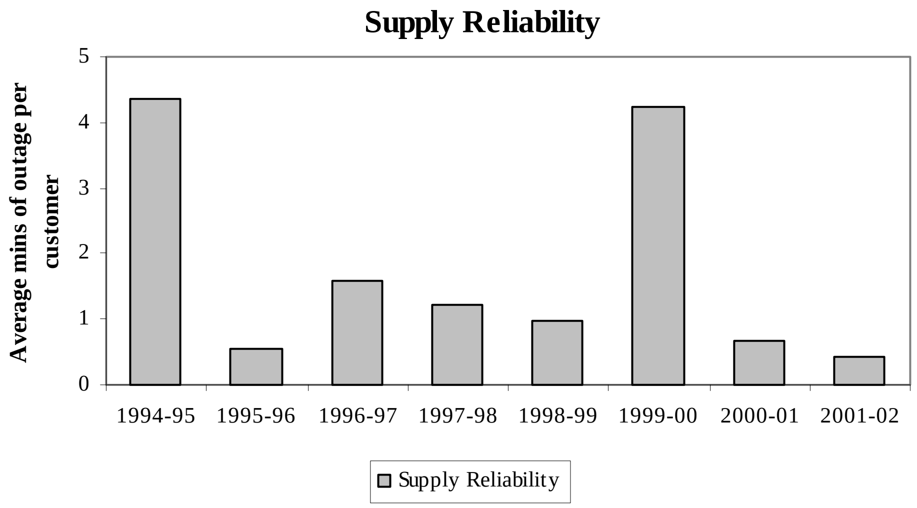
	Notes	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		1265.0	1083.0	1043.0	1023.0	976.0	946.0	954.0
Revenue/Employee ($'000)		362.5	393.9	412.8	409.1	405.2	397.4	404.5
Trans. System Reliability (PPM)		1.8	4.6	4.0	2.8	12.8	1.9	1.3
Trans. Equip Utilisation Factor		0.3	0.3	0.3	0.3	0.3	0.3	0.3
Transmission Losses		2.7	3.0	3.0	3.0	3.0	3.0	3.0
Trans. Circuit (km)		12861.0	11465.0	11465.0	11465.0	11650.0	12031.0	12424.0
Average Lost Time		21.1	8.9	14.2	7.0	6.9	10.9	9.7
Lost Time Injury Frequency Rate		8.0	6.9	6.7	5.4	8.3	6.3	4.7
Service								
System Reliability (mins)		0.6	1.6	1.2	1.0	4.2	0.7	0.4
Finances ($M)	1							
EBIT		225.2	194.6	200.5	199.0	177.1	171.0	175.0
Operating Profit After Tax		62.8	40.1	54.3	62.3	75.2	63.7	64.6
Significant Items		5.9	14.0	13.9	0.0	71.9	-181.6	-39.3
Revenue		458.6	426.5	430.5	418.5	395.5	376.0	385.9
Return on Total Assets (%)		9.5	8.5	8.9	8.2	7.0	6.7	6.7
Return on Equity (%)		8.9	7.3	8.7	6.9	6.5	8.6	8.4
Asset Base		2505.7	2412.1	2385.5	2506.6	2616.9	2626.4	2673.3
Financial Distribution								
- Dividend Payment	2	69.2	62.6	56.5	60.6	59.7	0.0	0.0
- Corporate Tax Equivalent		25.0	13.2	24.6	22.5	20.6	15.7	10.0
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	267.8	0.0
Dividend to Equity Ratio		5.6	5.1	4.5	4.3	4.1	0.0	0.0
Dividend Payout Ratio		85.0	85.0	85.0	85.0	85.0	0.0	0.0
Debt to Equity (%)		83.3	79.8	71.4	60.8	62.4	121.1	119.6
Gearing Ratio (Debt/Assets)		41.2	40.3	37.6	34.1	34.9	50.4	49.6
Gross External Debt		1032.8	972.1	897.7	855.0	912.0	1322.6	1324.7
Interest Cover (times)		1.9	1.7	2.0	2.0	2.2	2.2	2.1

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) An adjustment for debt restructuring arising from significant capital restructure by Transgrid’s shareholders during 2000-01 and reduction in superannuation prepayments in 2000-01 and 2001-02 resulted in no dividend payments being made. In agreement with State Treasury, a $60 million capital distribution to the shareholders will be made in 2002-03.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
80
70
60
50
40
30
20
10
0
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend
Corporate Tax Equivalent


Employment and Efficiency
Persons
1400
1200
1000
800
600
400
200
0
Hours
25
20
15
10
5
0
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Average Lost Time (right)


Supply Reliability
Average mins of outage per customer
5
4
3
2
1
0
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Supply Reliability

WATER

Hunter Water Corporation

Sydney Water Corporation

Mr Kevin Young
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Hunter Water Corporation 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 are the harvest, 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 which specifies required service standards;
   - independent annual auditing of performance against the Operating Licence;
   - wastewater system licences (transport and treatment) issued by the Environment Protection Authority under the *Protection of the Environment (Operations) Act 1997*;
   - a Water Management Licence issued by Department of Land and Water Conservation, specifying the terms and conditions under which HWC has access to surface and underground water;
   - independent pricing oversight by IPART.

In 2001-02, HWC's operating result before Capital Contributions declined from $30.2 million to $19.5 million. This was primarily the result of abnormal increases in superannuation liabilities. The "abnormal" superannuation expense represented the change in HWC's estimated liability with respect to defined benefit superannuation funds as a result of the funds poor performance during the year. Due to this, $13.4 million was included as an expense in 2001-02, whilst an expense of $3.2 million was included in 2000-01, representing a turnaround of $10 million.

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 2001-02 a typical householder's bill fell by around $5 in real terms. Over the last decade, water and sewer charges per customer have fallen in real terms by around 30% while performance against key customer system standards (e.g. water quality, service interruption, effluent discharge standards and sewer overflows) has been maintained or improved.

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. The maintenance of 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 small businesses have greater scope for controlling the costs they incur. HWC's price reforms have boosted the region's economy by reducing charges to the business sector.

In 2000, IPART published a three-year pricing determination, in force until 2002-03. The determination provided for real reductions of 1.5% per year over three years and introduced a new cost-reflective water price for large industrial customers (using over 50,000 kl/yr) that are located close to the Corporation's water sources. These prices (effective from 1 July 2001) passed on the savings from the ability to supply these customers with large volumes of water without using a large share of the distribution system.

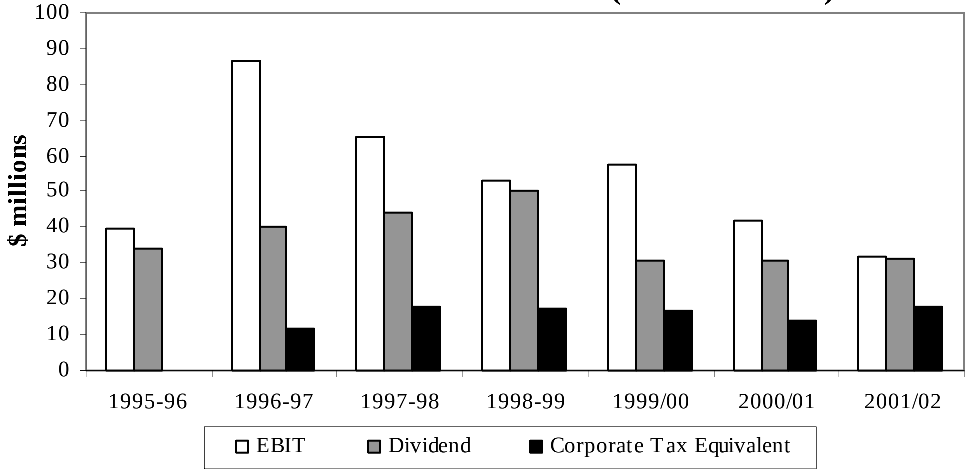
HUNTER WATER CORPORATION

	Note	1995-96	1996-97	1997-98	1998-99	1999/00	2000/01	2001/02
EFFICIENCY	1,12							
Employment		720	620	555	543	541	532	526
Employees per '000 Properties		3.9	3.3	2.9	2.8	2.8	2.7	2.6
Nominal Labour Cost per Property Served ($)		198.7	185.8	177.6	161.5	156.6	142.2	145.3
Operating Costs/Property ($)	2	364.2	376.2	323.1	304.2	300.9	284.6	279.5
Total Costs/Property ($)		601.1	610.3	546.2	513.8	507.2	475.5	468.7
Average Revenue/Property ($)	3	695.5	704.1	718.4	667.9	630.4	598.3	582.1
Outstanding Accounts ($m)		1.9	2.5	2.3	3.1	2.4	2.2	2.3
Hours Lost to Industrial Disputes								
Per Employee		0.0	0.0	0.0	0.0	0.0	0.0	8.0
Lost Time Frequency Rate		18.3	23.7	16.8	11.6	12.9	16.0	17.6
SERVICE	12							
Number of Properties Connected ('000)	4	183.4	186.3	189.4	192.7	195.7	198.6	201.6
New Housing Lots Connected		3374	2900	3115	3332	3005	2904	2950
Megalitres Supplied ('000)		74.9	74.2	80.6	76.0	76.6	78.1	73.1
Unsewered Lots ('000)		15.6	14.3	14.0	14.1	13.1	12.5	13.0
System Reliability:								
Water Main Breaks/100km		43.8	39.2	52.1	34.7	49.2	44.1	42.8
Sewer Main Chokes/100km	5	66.1	73.9	76.5	53.7	48.2	57.0	61.5
Average Response Time (hrs)	6							
Water Main Breaks		1.8	1.3	1.1	1.1	0.9	1.2	1.1
Sewer Main Chokes		1.3	1.4	1.0	0.9	1.0	1. 0	1.1
Water Resource Management:								
Compliance to Quality Standards (%)								
Microbiological Standards		97.9	98.7	98.7	98.4	99.2	98.6	98.5
Physical/Chemical		99.5	99.8	99.0	99.5	99.6	99.5	99.7
Waste Water Quality	7	100.0	100.0	100.0	100.0	100.0	99.8	99.9
Real Price Index		70.7	68.3	66.9	65.6	64.3	63.3	62.4
FINANCIAL INDICATORS ($M)	1,12							
EBIT	8	39.8	86.4	65.6	52.8	57.6	41.9	31.7
Operating Profit After Tax		19.2	72.2	55.8	49.7	38.2	24.5	6.9
Significant Items		4.8	45.0	19.5	9.8	19.8	5.4	-5.3
Superannuation Adjustment		-1.3	8.7	5.7	2.1	12.7	-1.7	-11.9
Profit/(Loss) Sale of Assets		-0.2	0.3	-0.7	-0.1	-0.1	-0.1	0.1
Insurance Claims - HIH		n/a	n/a	n/a	n/a	n/a	-0.9	-0.3
Profit/(Loss) Sale of Bond		n/a	n/a	n/a	n/a	n/a	1.7	n/a
Income from accrual of Unread Meters		n/a	12.3	n/a	n/a	n/a	n/a	n/a
Net Contributions to Capital Works		6.3	23.7	14.4	7.8	7.2	6.4	6.7
Revenue (Total Tariff Income)		127.5	143.4	136.1	128.7	123.4	118.9	117.3
Return on Assets (%)	9							
Total		1.7	3.7	2.8	2.3	2.7	2.0	1.5
Core		1.9	4.2	3.1	2.5	3.0	2.2	1.7
Return on Equity (%)	10	0.9	3.5	2.6	2.4	1.9	1.3	0.4
Asset Base		2281.7	2312.3	2331.5	2327.4	2153.6	2080.4	2094.4
Asset Sales		5.7	4.4	4.1	1.4	3.8	1.2	2.0
Financial Distributions								
Tax Equivalents		0.2	12.0	17.9	17.3	16.5	13.8	17.6
Dividend Payments		34.2	40.5	44.4	50.4	30.6	30.9	31.1
Gross External Debt		99.4	97.5	95.6	94.1	91.5	86.2	131.1
Debt/Equity (%)		4.8	4.7	4.5	4.5	4.7	4.5	7.1
Gearing Ratio (Debt/Assets)		4.4	4.2	4.1	4.0	4.3	4.1	6.3
Times Interest Earned	11	3.5	9.8	8.0	7.4	6.3	4.6	1.8
Community Service Obligations		9.3	9.2	9.4	9.2	9.0	8.7	8.6

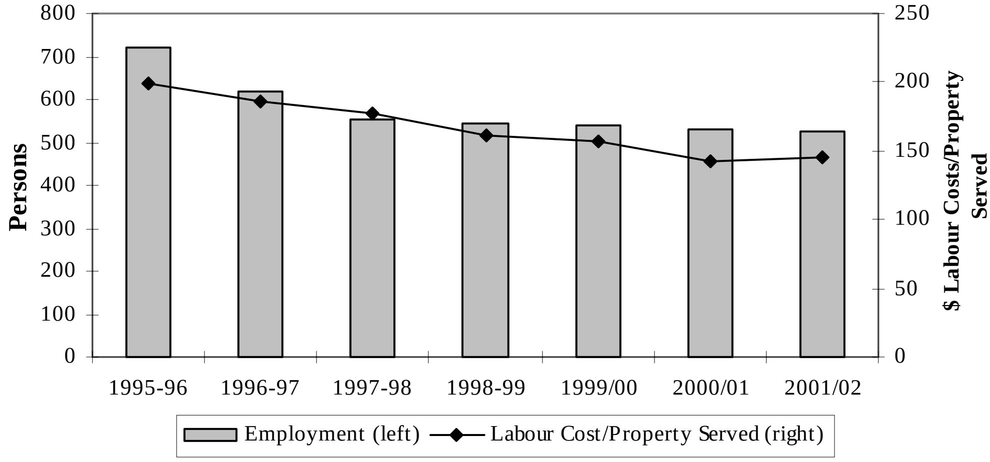
NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) The sale of Hunter Watertech P/L in June 1997, reduced the Cost of External Sales, a fact reflected in this indicator.
3) Changes in revenue are significantly influenced by the weather. Reductions since 1999 also reflect the staged closure of BHP. 1996/97 revenue excludes 'abnormal' unread meter income of $10.748M.
4) Properties Connected figures exclude unconnected vacant lands.
5) Confirmed blockages in mains only (ie excludes shafts and branches).
6) Represents priority 1 and 2 jobs only.
7) Proportion of waste receiving secondary treatment.
8) EBIT represents total earnings before dividend and tax and includes 'abnormals' and contributions for capital works but excludes net interest. (Refer 'significant items' which impacted profit).
9) 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.
10) Rate of Return calculated using Total Operating Profit After Tax (including 'significant items') divided by Total Equity (ie Net Assets).
11) Times Interest Earned represents Total Operating Profit After Tax (including 'significant items') but before net interest expense divided by net interest expense.
12) Some figures may differ from amounts advised in previous years. This would be due to reviews to ensure consistency.

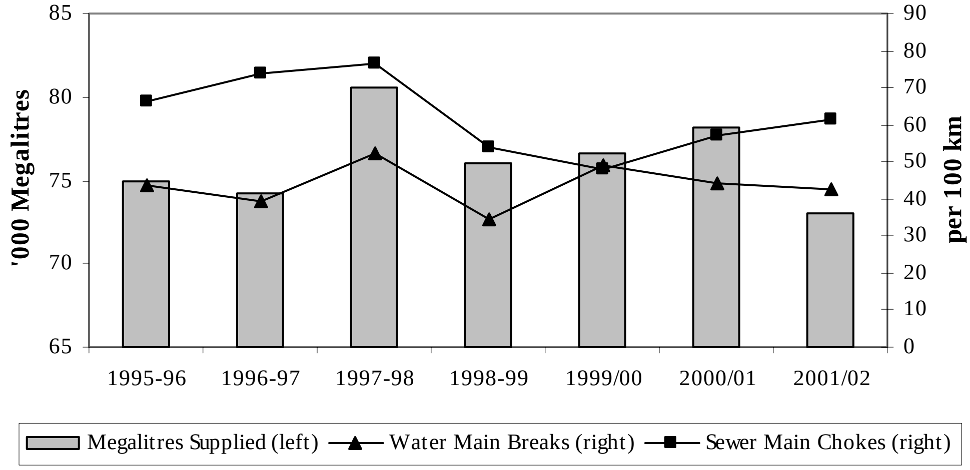
EBIT and Financial Distribution (2001-02 dollars)



Employment and Efficiency



Service



Sydney WATER

Mr Wal Setkiewicz
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The 2001/02 year was significant for Sydney Water. Integration of Australian Water Technologies (AWT) with Sydney Water, regulatory change, a major review of WaterPlan21, delivery of an ambitious capital program and further reductions in controllable operating costs were notable achievements.

In 2001, Australian Water Technologies Pty Ltd (AWT), a subsidiary company, was integrated with Sydney Water to build one organisation to enhance efficiency. AWT is now managed as a division within Sydney Water. This relationship will not only benefit AWT clients but will also contribute to the positive development of Sydney Water staff by exposing them to a diverse range of commercial challenges outside its area of operations.

Sydney Water maintained its sound financial position in 2001–02. Profit before income tax rose by 13% to $320 million.

Operating expenditure per property was targeted to fall by 23% in real terms by the year 2001–02 (from the 1998–99 base year). Sydney Water achieved this target of controllable expenditure by redesigning business processes, implementing better procurement practices and rationalising corporate and internal support services.

In 2001–02, the Corporation invested $556 million on capital works to ensure that asset performance was not only maintained but continued to improve. Implementation of procurement reforms such as the bundling of major projects and relationship based contractual arrangements have contributed to capital efficiency.

The superannuation expense was significantly higher than forecast due to the poor performance of superannuation funds and its effect has been excluded from the achievement of operating costs target reduction.

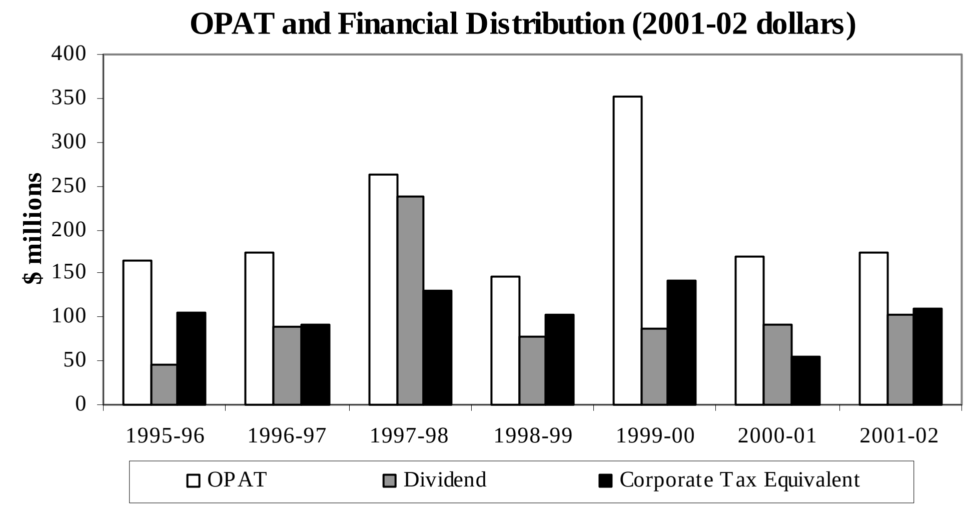
Two significant changes to Operating Licence conditions came into effect this year. Enhanced system performance standards were introduced on 1 July 2001 while a revised Customer Contract commenced on 1 April 2002. The combined impact of these regulatory changes will raise minimum system performance requirements, increase rebates for failure to meet these service levels, improve customer protection and more closely align performance with customer expectations.

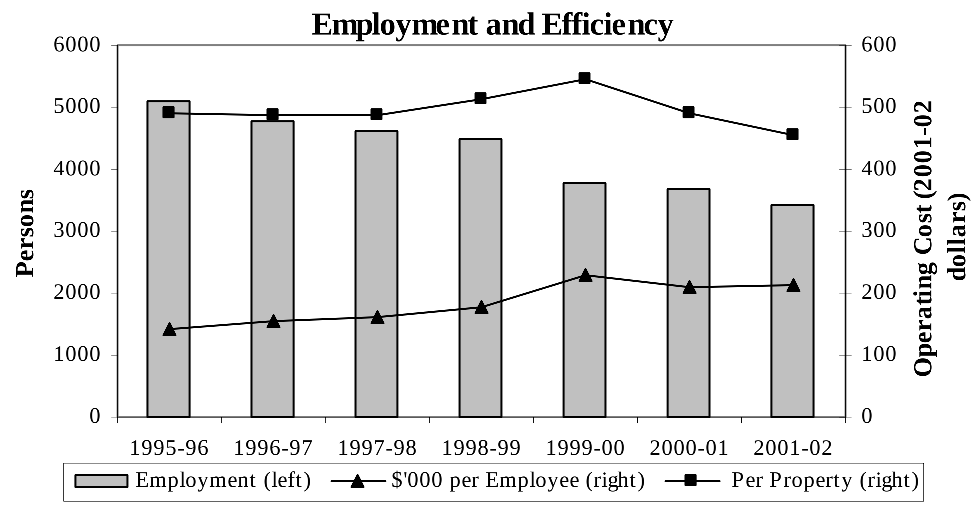
To meet the challenge of sustainability in the water management and emerging environmental and regulatory issues, a review of WaterPlan 21, Sydney Water's 20-year strategic plan, was undertaken. Water is a finite resource. Meeting the water needs of a rapidly growing population and at the same time addressing community expectations presents a significant challenge for Sydney Water.

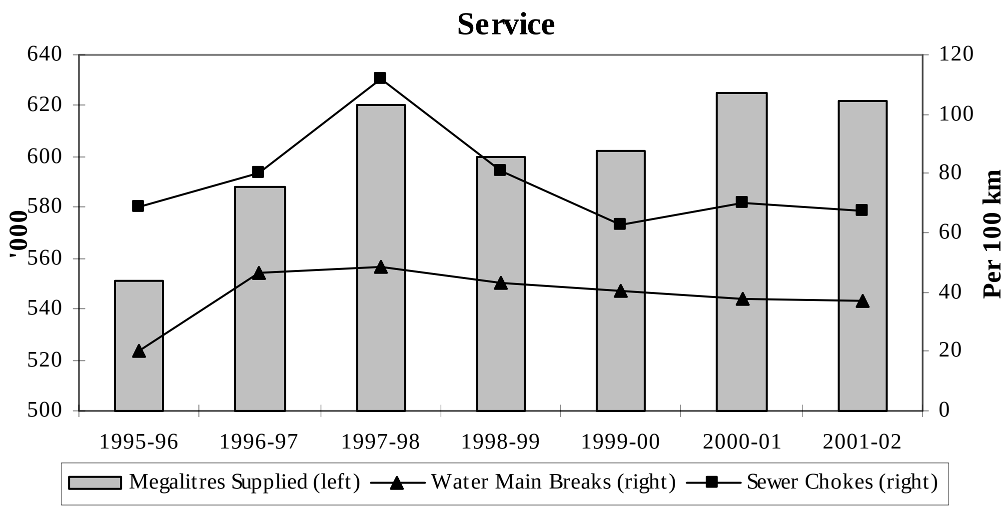
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		5099	4763	4629	4470	3766	3676	3428
Operating Cost/Property ($)		490.8	487.3	488.1	512.4	544.5	490.9	454.0
Employees/'000 Properties		3.4	3.2	3.0	2.9	2.4	2.3	2.1
Revenue Collection as % of Billed		98.0	98.0	98.5	98.3	98.2	98.2	97.9
Actual / Estimated Capital Expenditure		84.3	68.7	89.0	101.5	100.7	101.6	108.9
% Time Lost to Unplanned Absences		3.4	3.2	2.8	2.8	3.0	2.4	2.6
Injury Incidence Rate		4.9	4.4	3.7	3.8	3.3	2.2	2.1
Injury Frequency Rate		28.5	25.5	21.4	21.8	18.2	11.9	12.3
Service								
Millions Property Served		1.48	1.50	1.53	1.56	1.59	1.58	1.61
New Properties Served ('000)		25.0	22.9	23.1	28.1	30.5	28.5	24.7
Megalitres Supplied ('000)		551	588	620	600	602	625	622
Capital Works Contracted Out		100	100	100	100	100	100	100
System Reliability								
Mainbreaks per 100km		20.3	46.5	48.5	43.2	40.7	37.9	37.3
Sewer Chokes per 100km		69.1	80.4	112.0	80.9	62.5	70.1	67.6
Water Resource Management								
Quality Guidance Compliance (1980)								
Health (%)		96.9	99.1	99.8	97.0	99.7	99.8	99.8
Aesthetics (%)		98.8	98.7	99.5	99.5	98.9	98.3	97.6
Waste Water Management								
Solids Removed (%)		55	60	60	60	60	60	55
Dry Tonnes of Sludge per Day:								
Disposed to Ocean		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recycled		104.0	113.0	102.0	108.0	99.0	111.5	115.7
Pollutants Discharged to Nepean/Hawkesbury System (kg/day)								
Nitrogen		1898.0	1708.0	1684.0	1689.0	1481.9	1412.0	1409.0
Phosphorus		93.0	59.0	65.0	47.0	38.1	33.0	20.4
Ammonia		137.0	50.0	57.0	76.0	56.7	48.0	46.0
Real Price Index		75.2	75.3	76.4	73.1	73.2	71.3	69.8
Financial Indicators ($m)	1							
EBIT		472.6	499.8	606.3	438.7	576.8	445.5	461.3
Operating Profit After Tax		164.5	173.1	262.9	147.4	351.2	168.1	173.3
Significant Items		-8.1	36.4	47.4	-62.0	57.4	95.3	101.0
Revenue		1465.0	1560.3	1546.9	1537.2	1629.2	1497.5	1537.2
Return on Total Assets (%):								
Total Revalued		2.0	2.5	2.6	1.8	2.1	2.4	2.2
Core Revalued		2.2	2.5	2.6	1.8	2.1	2.4	2.2
Return on Shareholders Funds		1.1	1.1	1.4	1.4	1.3	1.4	1.3
Asset Base		15378.3	15791.0	16009.5	14871.6	14281.6	13875.4	14220.4
Asset Sales		53.2	33.1	8.0	23.5	28.9	12.4	45.9
Financial Distribution		152.5	179.1	369.2	181.4	227.2	146.8	213.6
Dividend		46.3	88.5	238.0	78.4	85.9	91.8	103.6
Corporate Tax Equivalent		106.2	90.6	131.3	103.0	141.4	55.0	110.0
Gross External Debt		2031.4	1989.0	1983.4	1947.7	1893.9	1923.6	2062.0
Debt/Equity (%)		16.0	16.0	16.0	16.0	18.0	18.0	19.3
Gearing Ratio (Debt/Assets)		0.1	0.1	0.1	0.1	0.2	0.2	0.2
Times Interest Earned		1.8	1.9	2.1	1.4	1.9	2.0	2.0
Community Service Obligations		94.9	107.2	102.1	117.8	81.5	75.5	75.4

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
400
350
300
250
200
150
100
50
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend
Corporate Tax Equivalent


Employment and Efficiency
Persons
6000
5000
4000
3000
2000
1000
0
600
500
400
300
200
100
0
Operating Cost (2001-02 dollars)
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
$'000 per Employee (right)
Per Property (right)


Service
'000
640
620
600
580
560
540
520
500
120
100
80
60
40
20
0
Per 100 km
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Megalitres Supplied (left)
Water Main Breaks (right)
Sewer Chokes (right)

TRANSPORT

Rail Infrastructure Corporation

State Rail Authority

State Transit Authority

owner and maintainer of the nsw rail network

RAILINFRASTRUCTURE

CORPORATION

Sharyn Gregory
RAIL INFRASTRUCTURE CORPORATION
GPO Box 47, SYDNEY 2001
Ph. 9224 3000

The principal objective of Rail Infrastructure Corporation (RIC) is to deliver safe and reliable passenger and freight services in an efficient, effective and financially responsible manner.

RIC owns and maintains the NSW rail network on behalf of the State Government and provides access to passenger and freight operators. RIC is a statutory SOC formed on 1 January 2001 out of the merger of Rail Access Corporation (RAC), previously the owners of the network infrastructure, and Rail Services Australia (RSA), the former maintainers of the network.

Performance in 2001/02

RIC posted an Earnings Before Interest and Tax result of $11.9 million (excluding non-current asset writedowns) for 2001-02, the first full financial year of operation. This compared with a nominal terms loss of $15.2 million for the six months ending 30 June 2001, its first six months of operation.

During 2001/02, organisational restructuring was completed and a new business model launched. This new model focuses on network safety and reliability, and efficient maintenance and capital works. RIC successfully prioritised improvement in the performance of the NSW rail network in terms of fundamental outcomes of safety and reliability and key indicators show solid improvement. RIC focused on building strategic partnerships with key customers and stakeholders.

Improvements in Safety and Reliability

- Safety initiatives were implemented to continuously improve RIC's safety culture and performance. The RIC safety index fell within the control limit of 6,200 with a result of 6,100.
- Stage 1 of the work on Track Rules was successfully implemented on 4 November 2001. Following extensive industry review and consultation, Stages 2 and 3 of the Rules have now been formally endorsed by the Department of Transport.
- RIC successfully implemented the Level Crossing Safety improvement program for 2001/02 with safety upgrades carried out at 28 regional level crossings.
- RIC facilitated the achievement of CityRail On-Time-Running of 91.9%, the highest level in 20 years.
- Country mainline speed restriction was reduced to 43 by end of 2001/02, which is the lowest level in ten years.

Improvements in Infrastructure

- Capital Works Program for the Hunter Valley has been developed, and agreed to by coal operators, to meet the demand for coal freight volumes
- New Sydenham control room was commissioned at the end of the financial year.
- Duplication of Richmond line between Marayong and Quakers Hill was completed below budget.
- East Hills amplification was completed on time.
- Electrification of the Dapto to Kiama line was completed, ahead of schedule and below budget.
- Stage 2 and 3 of the Port Botany freight line duplication and upgrades were completed.

Progress towards building capability within RIC

- RIC’s five-year plant and equipment modernisation program commenced during the year with $53.6 million committed and $8.88 million spent.
- RIC College was established to provide the facility to train and develop employees.

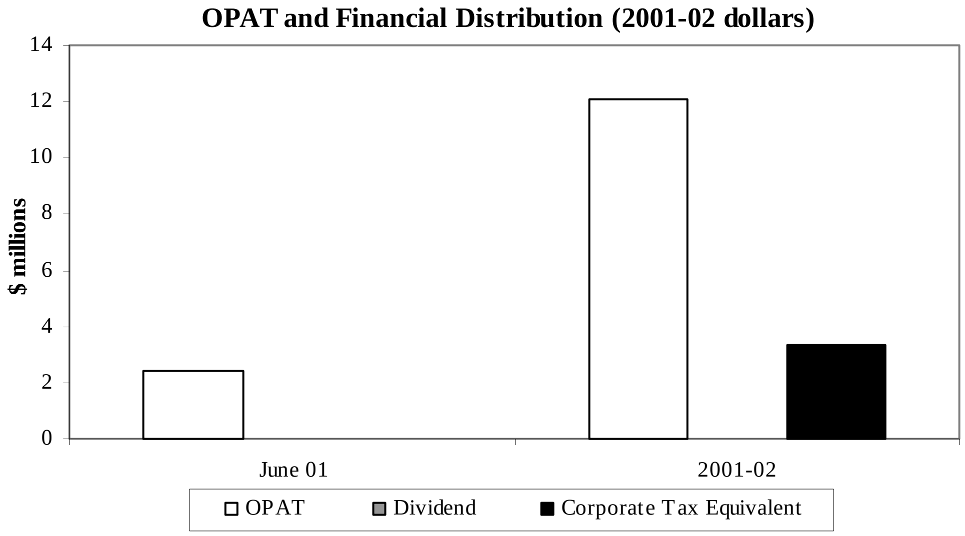
Other

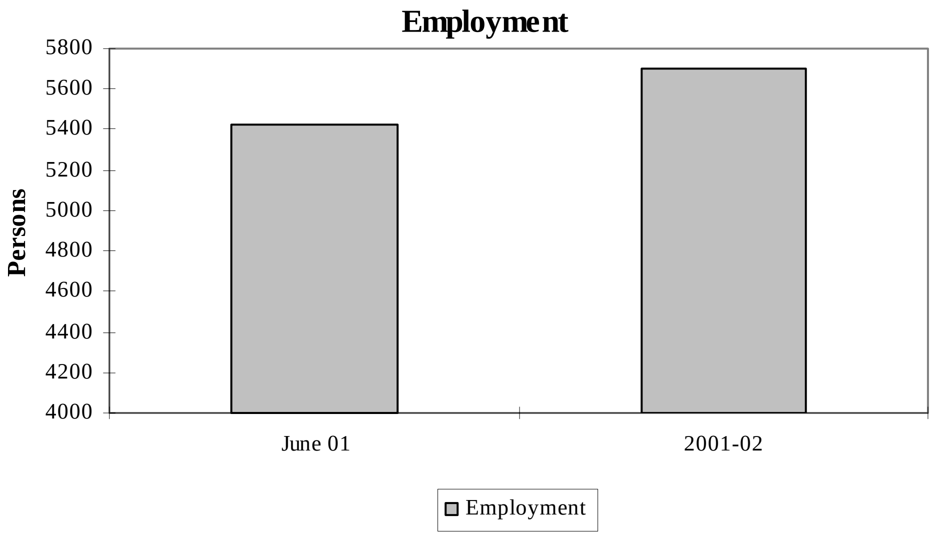
- RIC has renegotiated a five-year Line CSO Funding agreement with NSW Government.

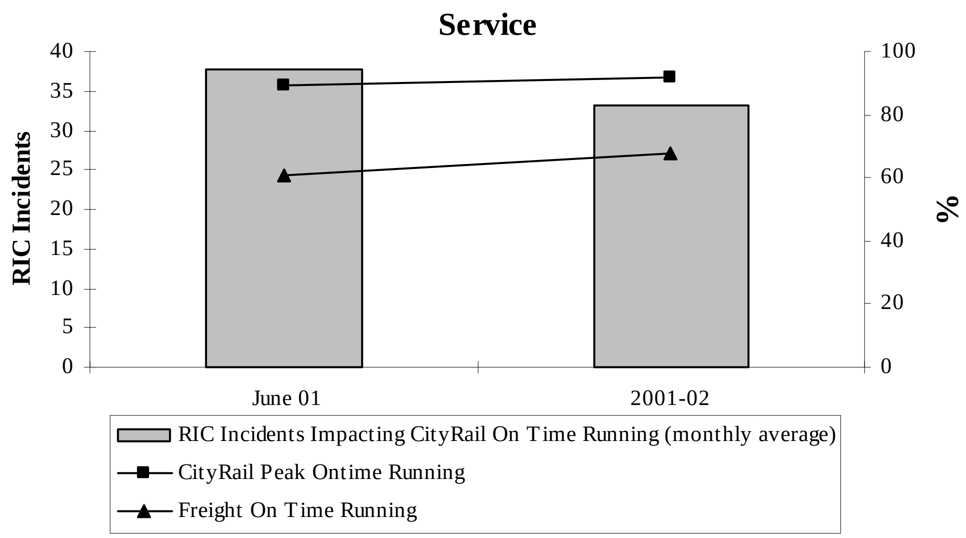
	Note	6 months June 01	Year 2001-02
Efficiency			
Number of Employees	1	5421	5701
Sick Days per Employee		4	9
Lost Time Injury Frequency Rate		28.0	32.9
Worksite Protection Incidents		31	62
Track Geometry Incidents		68	102
Level Crossing Incidents		47	59
Signals Passed at Danger	2	56	151
RIC Safety Risk ('000 units)		6.2	6.1
Service			
Number of Major Environmental Incidents		0	0
Rural Speed Restrictions		96	43
RIC Incidents Impacting CityRail Peak On Time Running		227	398
Average Incidents per Month		37.8	33.2
CityRail Peak On Time Running (%)		89.5	91.9
Freight On Time Running (%)		61.0	67.5
Finances ($m)	3		
EBIT		-15.7	11.9
Operating Profit After Tax		2.4	12.0
Significant Items	4	16.2	-32.5
Revenue		586.4	1155.6
Return on Assets (%)		-1.33	1.10
Pre Tax Return on Assets (%)		-2.00	1.85
Return on Equity (%)		-2.17	1.85
Total Assets		1177.3	1095.8
Financial Distribution			
Dividend		0.0	0.0
Corporate Tax Equivalent		0.0	3.3
Payment of Capital from Equity		0.0	0.0
Gross External Debt		82.4	80.0
Debt/Equity (%)		0.11	0.12
Gearing Ratio (Debt/Assets)		0.07	0.07
Times Interest Earned		1.86	3.34

NOTES:

1) The increase in staff numbers was largely due to the hiring of permanent staff to replace contractors.
2) A significant peak occurred with SPAD incidents in the latter half of 2001. This can be attributed to the opening of the New Southern Railway between Central and Wolli Creek and the introduction of new signalling arrangements in this area.
3) All dollar amounts reported in terms of 2001-02 dollars.
4) Significant items refer to superannuation adjustments which reflect less than expected superannuation investment yields and amortisation of prepaid superannuation expense including the effect of "superannuation holiday".


OPAT and Financial Distribution (2001-02 dollars)
$ millions
14
12
10
8
6
4
2
0
June 01
2001-02
OPAT
Dividend
Corporate Tax Equivalent


Employment
Persons
5800
5600
5400
5200
5000
4800
4600
4400
4200
4000
June 01
2001-02
Employment


Service
RIC Incidents
40
35
30
25
20
15
10
5
0
%
100
80
60
40
20
0
June 01
2001-02
RIC Incidents Impacting CityRail On Time Running (monthly average)
CityRail Peak Ontime Running
Freight On Time Running

StateRail

CityRail

CountryLink

Keith Rushbrook
Manager Corporate Finance
STATE RAIL AUTHORITY
Level 5, 18 Lee St
CHIPPENDALE NSW 2008
(02) 8202 2200

State Rail provides passenger rail services in New South Wales through two business groups – CityRail and Countrylink.

CityRail, the metropolitan passenger provider carried 276.4 million passengers across 306 stations (2080 km of track) in 2001/02. Almost 50% of all persons travelling to Sydney's Central Business District in peak hours travel by CityRail. Its network connects Sydney to regional areas as far as Scone and Dungog to the north, Bathurst to the west, Goulburn in the Southern Highlands and Bomaderry on the South Coast. It is one of the most complex passenger rail operations in the world.

Countrylink operates long distance passenger rail services across New South Wales and beyond, carrying 2.2 million passengers in 2001/02. The long distance passenger rail services are supported by an extensive coach network throughout regional NSW. Countrylink services are a direct transport link to the capital cities of the ACT, Queensland and Victoria. Significantly, some Countrylink coach services are the only mode of public transport from town to town in New South Wales' rural areas.

Countrylink also operates 34 Travel Centres and nine Booking Offices across the network which sell and promote point to point travel as well as Countrylink Holiday packages, city and regional day tours and attractions. In addition, there are over 450 accredited travel agents and sales outlets throughout NSW, ACT, Brisbane and Melbourne.

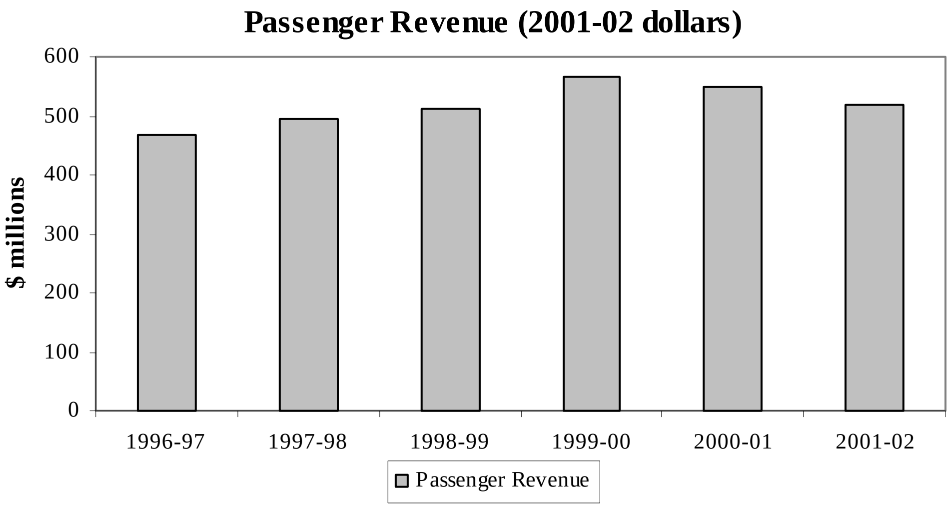
Major achievements and strategic developments during 2001/02 resulted in:

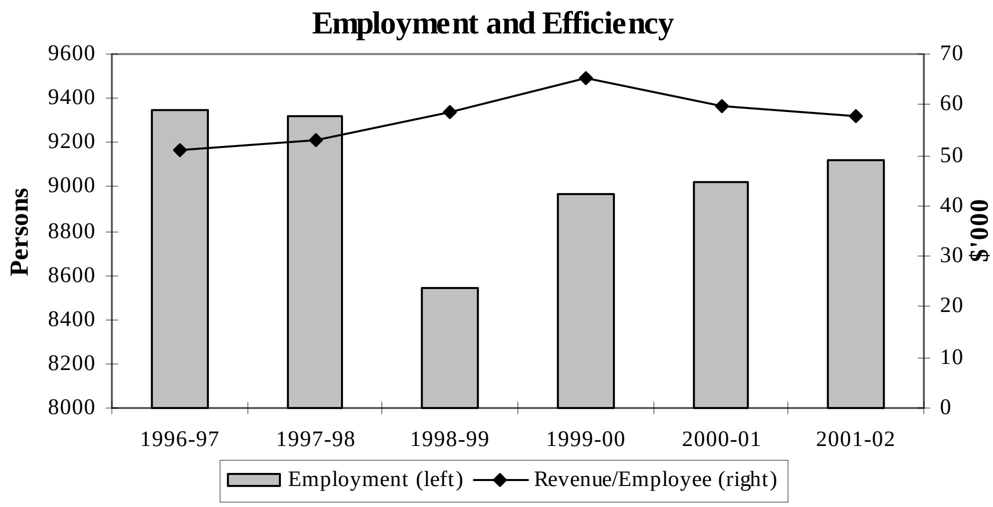
- the completion of the Dapto to Kiama electrification;
- the opening of the East Hills quadruplication;
- meeting our customer service charter obligation to run 92% of peak hour CityRail services within three minutes of the timetable;
- the completion of the rollout of CCTV cameras to all stations in the CityRail network;
- the delivery of the first Millennium train into passenger service;
- the successful launch of the Silver City Express to Broken Hill in June;
- continuing work on the implementation of key recommendations from the Glenbrook Commission of Inquiry.

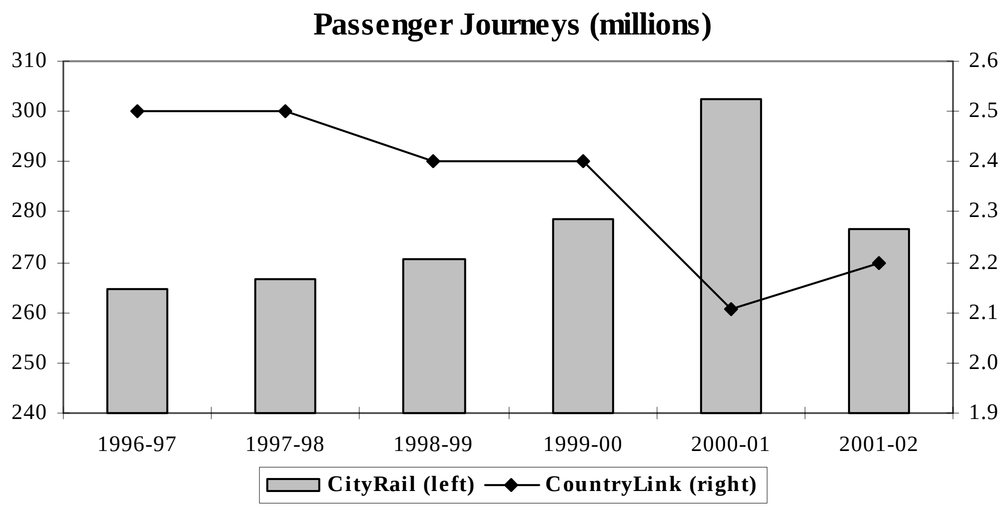
	Note	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1						
Employment	2	9344	9317	8544	8966	9017	9121
Passenger Revenue per Employee ($'000)	3	50.9	52.9	58.6	65.4	59.5	57.6
Passenger Journeys per Employee ('000)	3	29.0	28.8	31.2	32.5	33.0	30.9
Operating costs per Passenger Journey		6.9	6.8	6.6	6.0	6.0	6.2
Industrial Disputes							
- Total Hours Lost ('000)		0.0	0.1	3.0	15.0	0.0	0.0
- Hours Lost per Employee		0.0	0.0	0.3	1.7	0.0	0.0
Countrylink Load Factor	4	64.0	65.0	67.0	67.0	52.3	56.4
Service							
Passenger Journeys (millions)							
- CityRail		264.7	266.5	270.5	278.7	302.6	276.4
- CountryLink		2.5	2.5	2.4	2.4	2.1	2.2
- Total		267.2	269.0	272.9	281.1	304.7	278.6
On Time Running (%)							
- Suburban		86.4	91.4	92.5	85.4	89.7	91.9
- Intercity		90.1	94.0	93.0	90.3	91.0	91.7
- Country		87.0	85.0	77.3	59.2	69.3	80.4
Real Price Index (Fare Based)		115.8	118.6	120.4	133.4	135.7	135.7
Finances ($m)	1						
Passenger Revenue	5,7	468.7	494.3	512.2	566.6	550.4	518.9
Expenses							
Operating costs	7	1837.8	1821.0	1793.8	1688.1	1828.4	1724.3
Capital Grants to RIC and DOT	8	0.0	8.3	43.3	46.4	102.2	151.4
Social Program Payments	6	578.3	564.2	541.7	524.0	610.9	634.1
Borrowings		215.9	215.7	212.0	217.2	202.3	195.0

NOTES:

1) All dollar amounts reported in terms of 2001-02 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) Passenger services only.
7) 1999/00 and 2000/01 include revenue and expenditure associated with the Olympic Games.
8) New infrastructure assets, constructed by State Rail, that are transferred to DOT and RIC.


Passenger Revenue (2001-02 dollars)
$ millions
600
500
400
300
200
100
0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Passenger Revenue


Employment and Efficiency
Persons
$'000
9600
9400
9200
9000
8800
8600
8400
8200
8000
70
60
50
40
30
20
10
0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Revenue/Employee (right)


Passenger Journeys (millions)
310
300
290
280
270
260
250
240
2.6
2.5
2.4
2.3
2.2
2.1
2.0
1.9
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
CityRail (left)
CountryLink (right)

State Transit

Mr Paul Schumann
Acting Manager Business Planning
STATE TRANSIT AUTHORITY
Level 29, Northpoint
100 Miller St
NORTH SYDNEY NSW 2060
(02) 9245 5722

STATE TRANSIT AUTHORITY

The State Transit Authority is the largest operator of buses and ferries in Australia. Its services cover much of metropolitan Sydney and Newcastle. Its vision is a quality urban environment underpinned by an efficient, reliable, safe and secure public transport network.

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

State Transit's Sydney bus operations extend from Palm Beach in the north, Miranda and Hurstville in the south, Parramatta in the west. Over 187 million passenger journeys were completed in 2001-02. State Transit's Sydney Ferries services cover the Inner Harbour, Parramatta River and Manly. In 2001-02, 13.7 million passengers were carried. The Newcastle services encompass Caves Beach in the south, Hunter River in the north and Newcastle CBD in the east to Sandgate in the west. Two ferries operate a link across the Hunter River between Newcastle CBD and Stockton. In Newcastle, State Transit carried 11.7 million passengers in 2001-02.

State Transit operates in a similar commercial environment to private sector transport operators. Its objectives, each of equal importance, are defined in its enabling legislation. They are:

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

State Transit's consolidated financial result for the year ended 30 June 2002 was a deficit of $19.6m on revenue of $495m. Difficult operating conditions resulted from a decline in patronage, particularly for Sydney Ferries. The decline in patronage (post Olympics) was experienced across the board by public and private sector transport providers. Implementing the recommendations of the Waterways (Taylor) Report into the ferries operations added considerably to the cost burden for Sydney Ferries.

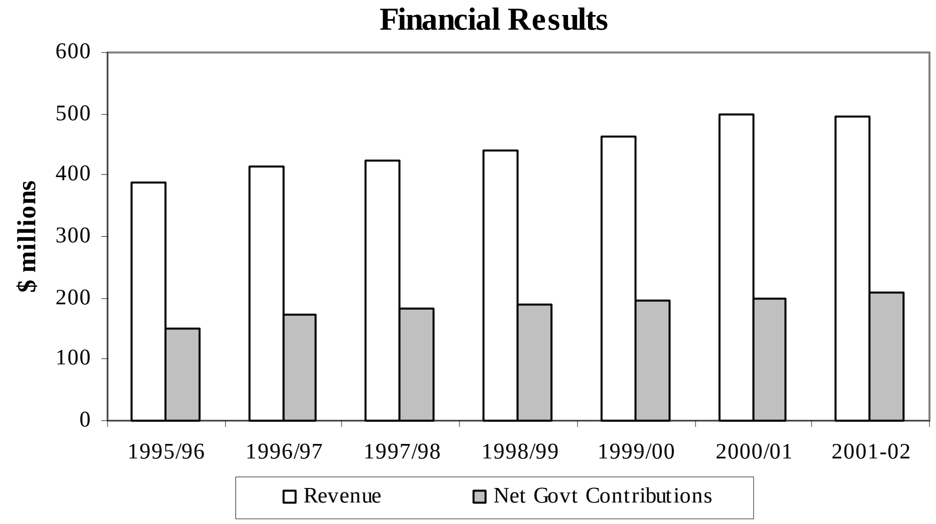
Patronage of 212.8m was 4.4% lower than last year (Sydney Buses 4.1% lower, Sydney Ferries 7.9% lower and Newcastle services 4.6% lower). The decline in patronage was due to a number of factors including the lower cost of car ownership post-GST, better road infrastructure, a decline in the CBD workforce and a slowdown in overseas visitor numbers.

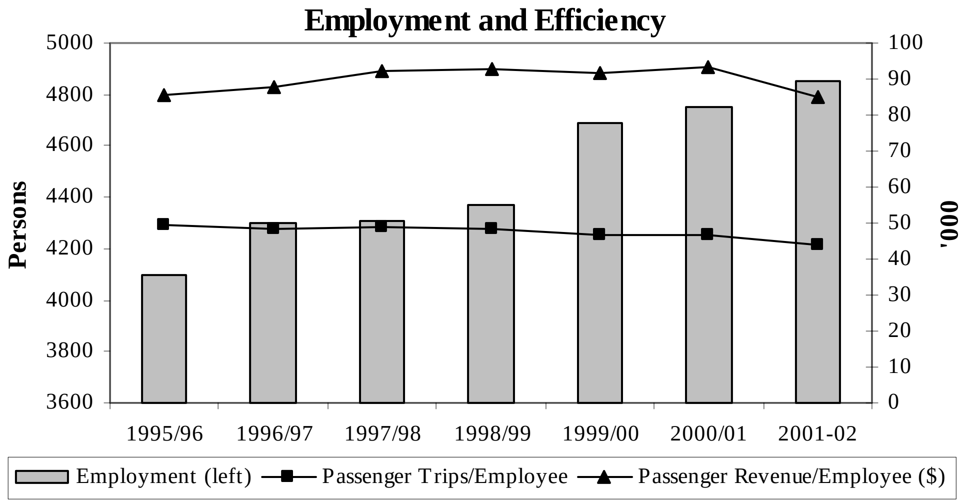
The capital works program totalling $69.1m largely comprised the replacement of older diesel buses and an upgrade to the ferry fleet. $39.5m was spent on the bus replacement program for the purchase of 87 low floor, air conditioned buses powered by natural gas and fitted with CCTV, while $23.4m was spent on the refit of the Manly Ferries, the Lady Class vessels and the re-engining of the JetCats and RiverCats. One million dollars was spent on maintaining wharves. Head office was relocated to Strawberry Hills. The consolidation of three office locations into one provided for a more efficient work environment and has resulted in savings in rent. The capital program was supported by a capital grant of $22.9m received under the NSW Government's Action for Transport 2010 program.

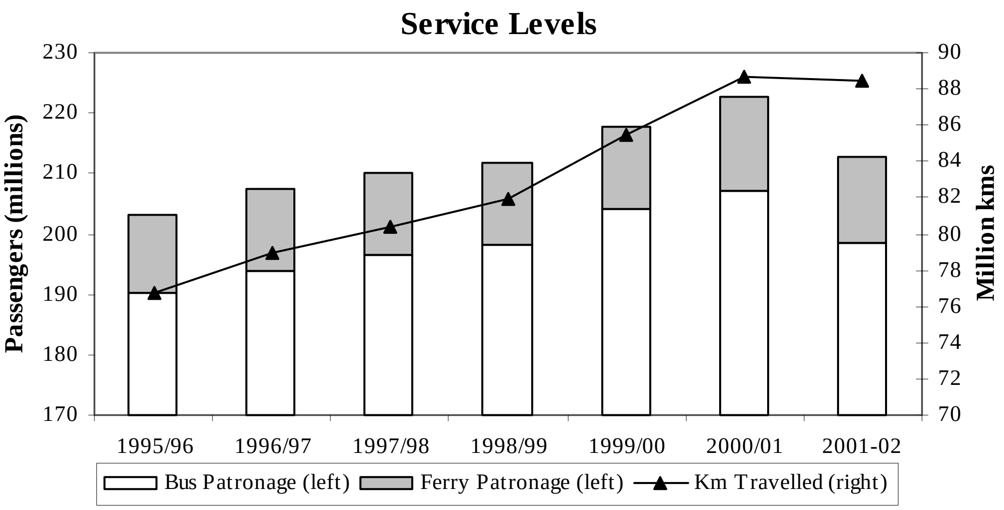
	Note	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001-02
Efficiency	1							
Employment		4101	4303	4305	4369	4690	4754	4851
Passenger Trips per Employee ('000)		49.5	48.2	48.8	48.5	46.4	46.8	43.9
Passenger Revenue per Employee ($'000)		85.3	87.6	92.5	92.9	91.6	93.1	85.1
Working Hours Lost Due to Industrial Disputes		0	62	6702	3300	2665	418	39754
Effectiveness								
Kilometres Travelled (millions)		76.7	79.0	80.4	82.0	85.4	88.7	88.4
Passengers Carried (millions)		203.2	207.3	210.1	211.8	217.8	222.6	212.8
Bus Service Average Age (yrs)		11.2	11.5	11.3	12.0	12.0	12.0	12.0
Buses in Service		1534	1627	1705	1719	1906	1926	1935
Patronage (millions)		190.2	193.9	196.6	198.3	204.2	207.2	198.6
Ferry Service Average Age (yrs)		10.0	10.3	11.3	11.7	12.6	12.1	13.1
Ferry Patronage (millions)		13.0	13.4	13.5	13.5	13.7	15.4	14.1
Real Fare Index		104.3	106.5	108.7	109.4	114.4	117.1	119.2
Financial Indicators ($m)	1							
EBIT		18.1	0.3	-1.6	-4.3	7.0	5.5	-9.8
Operating Profit After Tax		7.8	-1.6	-4.1	-9.8	0.8	-4.4	-19.6
Significant Items		0.0	-5.8	0.0	6.6	3.5	0.0	0.0
Revenue		389.5	415.4	425.0	438.7	461.9	497.5	495.4
Return on Total Assets (%)		3.9	0.1	-0.4	-1.0	1.5	1.2	-2.1
Return on Equity (%)		3.9	-0.9	-2.3	-6.1	0.5	-3.1	-16.3
Total Assets		462.7	431.2	438.3	416.0	475.0	452.0	464.8
Asset Sales		3.4	5.8	1.0	19.3	24.3	3.4	2.2
Dividend Payments		10.3	0.0	0.0	0.0	0.0	0.0	0.0
Gross External Debt		48.3	38.3	57.3	61.6	134.7	130.3	137.3
Gearing Ratio (Debt/Assets)		0.10	0.09	0.13	0.15	0.28	0.29	0.30
Government Contributions								
Travel Concessions		118.7	127.1	136.0	137.5	141.6	141.8	143.2
Social Programs		42.1	44.5	48.0	50.4	54.9	57.7	65.7
Total		160.8	171.6	184.1	188.0	196.5	199.5	208.9
Net Government Contribution		150.5	171.6	184.1	188.0	196.5	199.5	208.9

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.


Financial Results
$ millions
600
500
400
300
200
100
0
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001-02
Revenue
Net Govt Contributions


Employment and Efficiency
Persons
'000
5000
4800
4600
4400
4200
4000
3800
3600
100
90
80
70
60
50
40
30
20
10
0
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001-02
Employment (left)
Passenger Trips/Employee
Passenger Revenue/Employee ($)


Service Levels
Passengers (millions)
Million kms
230
220
210
200
190
180
170
90
88
86
84
82
80
78
76
74
72
70
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001-02
Bus Patronage (left)
Ferry Patronage (left)
Km Travelled (right)

PORTS

Newcastle Port Corporation

Port Kembla Port Corporation

Sydney Port Corporation

Mr Steve Edmonds
General Manager Commercial
NEWCASTLE PORT CORPORATION
PO Box 663
NEWCASTLE NSW 2300
(02) 4985 8207

The Newcastle Port Corporation's purpose is to enhance the economic development of the Hunter Region and New South Wales by providing an efficient, effective and environmentally sustainable maritime gateway.

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 New South Wales.

The Corporation has set a number of top priorities as its objectives. These include:
- the provision of safe and efficient port operations;
- to fulfil our corporate and social responsibilities;
- to win more business; and
- to look after our people.

The Corporation's operations in 2001/02 have resulted in:
- increased tonnage throughput to 75.5 million tonnes;
- record coal exports of 69.3 million tonnes;
- maintenance of a $9 million shareholder distribution; and
- achievement of a record monthly coal loading tonnage of 6.64 million tonnes in January 2002.

The 2001-02 Operating Profit After Tax of $7.7 million was a decrease of $3.5 million in nominal terms on the previous year. This reduction reflects the impact of a $4.4 million increase in income tax expense following a revised tax treatment of superannuation.

Although the average port management charge per tonne of cargo remained unchanged, a change in the mix of vessel size and a reduction in vessel numbers led to an increase in average Port management charge per vessel.

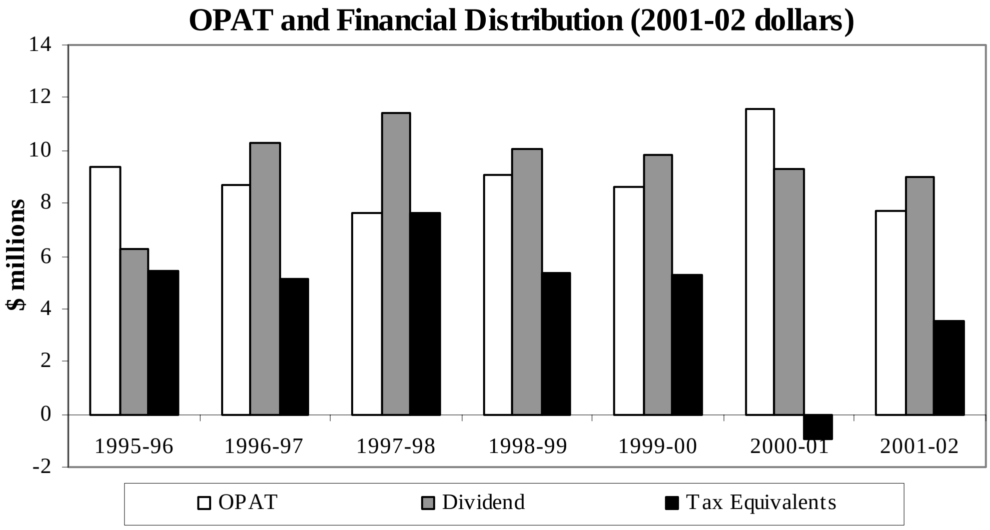
Since the cessation of steel making on the BHP site at Newcastle, the Corporation has been facilitating various proposals for the development of steel making and steel rolling facilities. Long lead times for developments of this magnitude are inevitable, however Protech Steel has now received approval for their development application for a cold rolling mill.

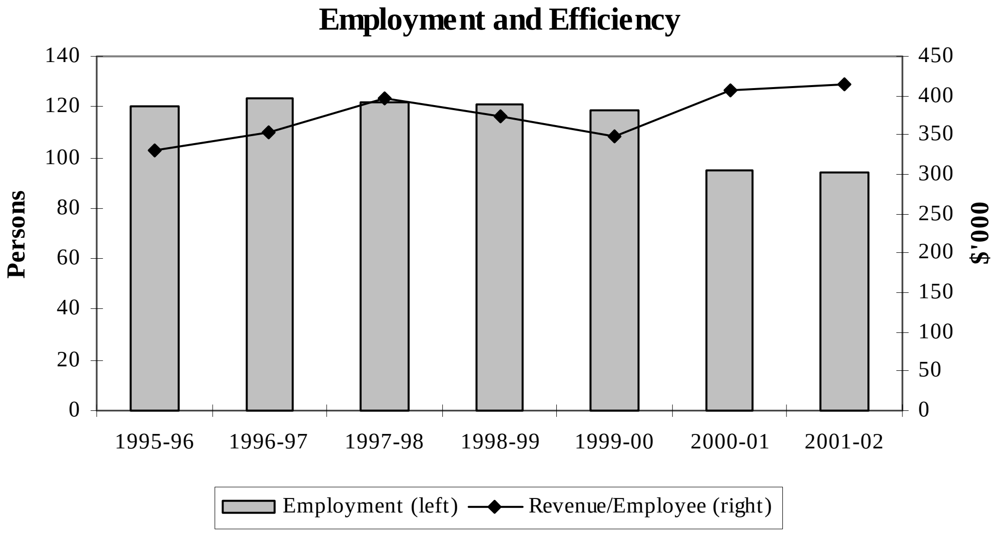
The Corporation has also been implementing strategies to:
- diversify and increase trade through the Port;
- increase general cargo trade through the Basin area;
- promote the development of a Multi Purpose Terminal including a container terminal on the former BHP steel making site; and
- improve the efficiency and volume of grain exports through the Port.

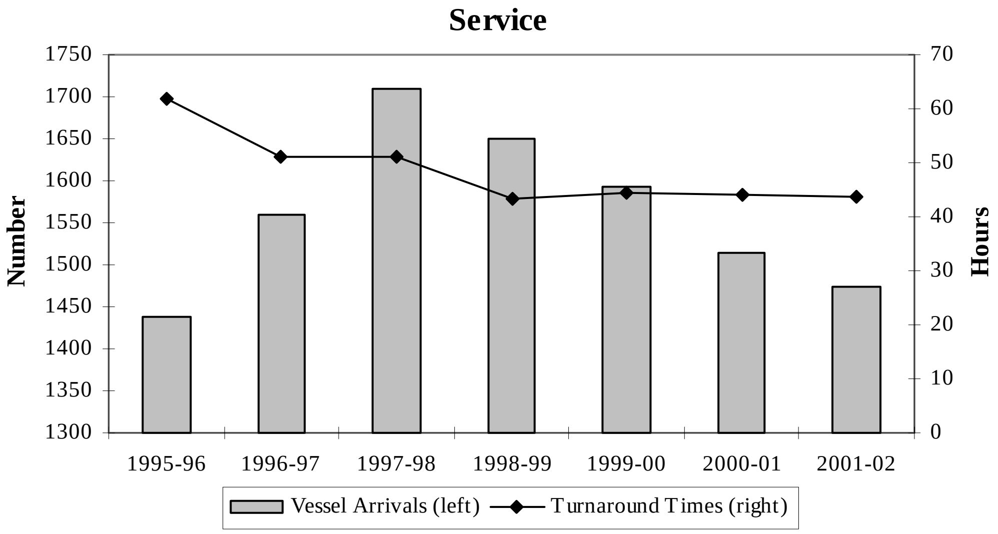
	Notes	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency								
Employment		120	123	122	121	119	95	94
Revenue per Employee ($'000)		330.9	352.4	397.4	374.1	349.0	406.9	414.0
Industrial Disputation								
Total Hours Lost		596	335	70	0	65	0	0
Hours Lost per Employee		5.0	2.7	0.6	0.0	0.5	0.0	0.0
Contract Labour ($m)		0.9	n/a	n/a	n/a	n/a	n/a	n/a
Service								
Total Trade (million tonnes)		60.3	67.5	77.1	78.0	72.7	73.9	75.5
Vessel Arrivals		1439.0	1560.0	1710.0	1649.0	1593.0	1514.0	1473.0
Vessel Turnaround Times (hrs)		62.0	51.0	51.0	43.3	44.5	44.1	43.6
Berth Occupancy (%)		45.0	51.0	52.0	44.1	46.0	52.1	48.2
Average Time at Berth (hrs)		51.0	40.0	39.0	37.0	40.2	37.7	40.6
Average Port Management Charge								
Per Tonne of Cargo ($)		0.59	0.58	0.56	0.53	0.52	0.48	0.47
Per Vessel ($)		24,639	24,893	24,995	25,131	23,932	23,634	24,300
Finances ($M)	1							
EBIT		14.7	17.8	22.9	16.5	20.1	8.4	11.0
Operating Profit After Tax		9.4	8.7	7.6	9.1	8.6	11.5	7.7
Significant Items		0.0	2.2	5.4	0.0	4.5	-3.7	-1.9
Revenue		39.9	46.0	53.7	44.8	46.0	38.7	38.7
Return on Total Assets (%)		11.4	14.5	16.8	10.8	13.3	6.4	8.4
Return on Equity (%)		21.3	21.4	27.0	15.5	19.5	7.6	11.0
Asset Sales		0.3	0.2	0.3	1.0	0.9	0.3	0.3
Financial Distribution								
Tax Equivalent		5.4	5.1	7.6	5.4	5.3	-0.9	3.5
Dividend Payment		6.2	10.3	11.4	10.1	9.8	9.3	9.0
Gross External Debt		57.8	34.3	34.5	33.8	33.3	31.4	30.7
Debt to Equity (%)		95.8	53.6	47.9	43.2	42.1	42.0	48.6
Times Interest Earned		7.9	5.9	7.7	6.4	8.2	3.8	5.0
Gearing Ratio (Debt/Assets)		0.4	0.3	0.2	0.2	0.2	0.2	0.2

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
14
12
10
8
6
4
2
0
-2
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend
Tax Equivalents


Employment and Efficiency
Persons
$'000
140
120
100
80
60
40
20
0
450
400
350
300
250
200
150
100
50
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Revenue/Employee (right)


Service
Number
Hours
1750
1700
1650
1600
1550
1500
1450
1400
1350
1300
70
60
50
40
30
20
10
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Vessel Arrivals (left)
Turnaround Times (right)

PORT KEMBLA
PORT CORPORATION

Mr Brian Ward
Chief Financial Officer
PORT KEMBLA PORT CORPORATION
PO Box 89
PORT KEMBLA NSW 2505
(02) 4275 0105

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. The Corporation is well positioned to capture new market and future trade opportunities.

In financial terms the Corporation's results for 2001/02 have again been very satisfactory. Net Profit Before Tax and Significant Items of $10.5m and a Dividend of $8.2 m reflected an improving margin against a small contraction in trade volume.

Port Kembla's core commodities of coal and steel related cargoes remained strong while grain eased in line with difficulties being experienced on the land. Total trade of 23.5 million tonnes was up six per cent on expectations but down slightly on last year. Non coal/steel/grain trade continued to perform well achieving double-digit growth (15%) for the third consecutive year.

Performance on environmental and social measures also highlighted our commitment to sustainability principles. The Corporation continues to implement a comprehensive Triple Bottom Line (TBL) reporting program that has translated into the creation of a position for a sustainability specialist. Our most prominent community initiative for 2001/02 has been the successful coordination and launch of the Port Kembla Heritage Park. The Heritage Park is centred around the Corporation's Signal Station and the vision for the proposed heritage precinct will provide the community with a significant asset. The Corporation is committed to working with all interested parties in establishing an area that highlight's the Port's marine, military and Aboriginal heritage.

Port Kembla's Multi Purpose Berth (MPB) continues with its rapid growth in non traditional port cargoes. The Corporation has put into service a purpose built storage shed adjacent to the wharf on the MPB and it is the second facility built there in the last three years.

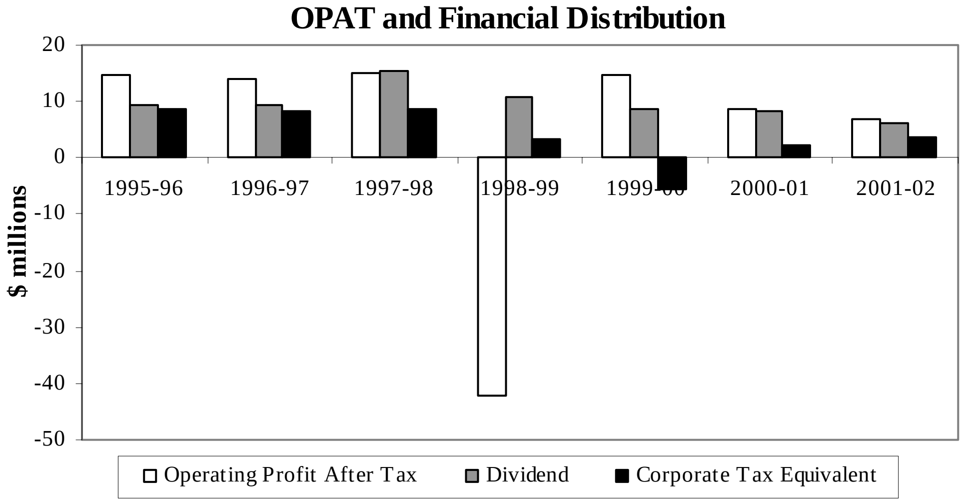
A range of measures have been implemented to benefit customers, environmental protection and port safety. The key infrastructure feature of the new system is the Vessel Traffic Centre created on the back of a million dollar investment in new technology. The Vessel Traffic Centre is now the communication hub for all port operations, port service providers and for initiating emergency response.

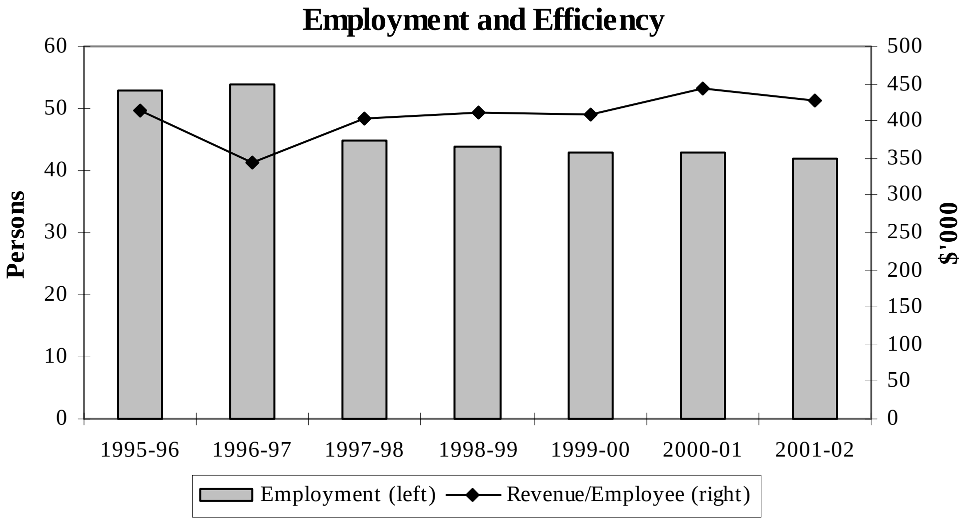
The Corporation was once again recognised for leadership and innovation when presented with the inaugural 2001 NSW Premier's Public Sector Award for Best Practice Business and Management. This was closely followed by another significant achievement in winning the inaugural Australian Business Ltd (ABL) President's Prize for Regional Business of the Year.

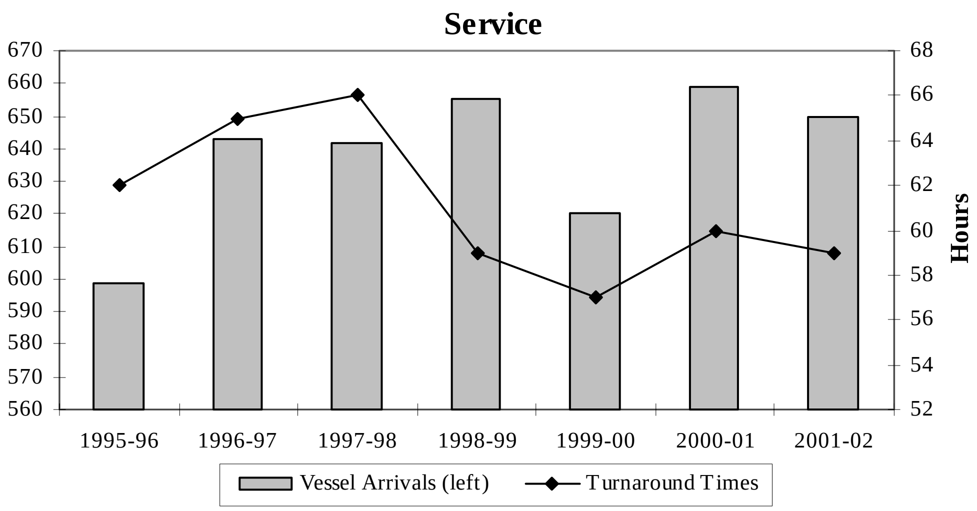
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		53	54	45	44	43	43	42
Revenue per Employee ($'000)		413.0	344.4	401.9	411.0	408.1	443.9	427.0
Industrial Disputation								
Total Hours Lost		31	117	0	0	0	0	0
Hours Lost per Employee		0.6	2.1	0.0	0.0	0.0	0.0	0.0
Contract Labour ($m)		1.0	1.0	1.0	1.0	1.8	1.3	2.0
Service	1							
Total Trade (million tonnes)		25.7	26.5	26.2	23.2	23.0	25.0	23.5
Vessel Arrivals		599	643	642	655	620	659	650
Vessel Turnaround Times (hours)		62	65	66	59	57	60	59
Berth Occupancy (%)		25	28	36	32	29	24	32
Berth Queuing Times (hours)		1667	2089	1613	1478	1221	1251	1239
Average Time at Berth		69	76	76	68	68	70	68
Average Port Management Charge:								
Per Tonne of Cargo ($)		0.84	0.70	0.73	0.76	0.77	0.76	0.76
Per Vessel ($)		36467.9	27353.3	29667.1	26731.0	28307.6	28953.1	27593.8
Finances ($m)	1							
EBIT		34.7	28.2	29.2	13.7	14.4	15.9	14.9
Operating Profit After Tax		14.8	14.1	14.9	-42.1	14.6	8.5	6.8
Significant Items		0.0	0.5	0.8	-47.2	-2.1	-1.4	0.1
Revenue (Net of GST)		50.4	43.7	44.5	31.0	32.0	34.1	32.4
Return on Assets (%)		15.3	13.4	13.8	8.9	9.7	11.1	11.5
Return on Equity (%)		13.3	12.3	13.2	-70.0	22.6	14.1	11.5
Asset Base		226.5	210.8	211.1	153.6	147.4	142.9	130.5
Asset Sales		0.0	0.1	0.2	0.0	-0.1	0.5	0.0
Financial Distributions								
Tax Equivalent		8.5	8.2	8.7	3.4	-5.5	2.4	3.6
Dividend		9.2	9.4	15.5	10.6	8.7	8.4	6.1
Contribution to Government		9.3	9.4	7.3	13.3	7.2	8.4	9.7
Gross External Debt		85.6	67.4	67.3	66.3	64.8	61.1	54.1
Debt to Equity (%)		79.3	62.3	70.5	128.1	106.6	100.7	90.7
Gearing Ratio (Debt/Assets)		37.8	32.0	31.9	43.2	44.0	42.7	41.4
Times Interest Earned		3.0	4.8	5.3	2.6	3.1	2.7	2.5

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.


OPAT and Financial Distribution
$ millions
20
10
0
-10
-20
-30
-40
-50
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Operating Profit After Tax
Dividend
Corporate Tax Equivalent


Employment and Efficiency
Persons
$'000
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Revenue/Employee (right)


Service
Hours
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Vessel Arrivals (left)
Turnaround Times

Mr Simon Barney
General Manager, Commerce and Logistics
SYDNEY PORTS CORPORATION
PO Box 25
MILLERS POINT NSW 2000
(02) 9296 4999

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 Ports is responsible for facilitating efficient trade through those ports for the benefit of the NSW economy and community. To meet these objectives Sydney Ports is continually seeking opportunities to maintain and increase trade growth. This applies particularly in the case of containerised cargo, which represents the most rapidly growing form of cargo handled internationally.

Sydney Ports was established in 1995 and has total assets in excess of $600 million including port lands at Sydney Harbour (comprising Glebe Island/White Bay, Darling Harbour, and the Overseas Passenger Terminal at Sydney Cove) and the container terminals and bulk liquids facilities at Port Botany. Sydney Ports has also purchased a 61 hectare site at Enfield in Sydney's Western Suburbs for the proposed development of an intermodal facility to assist with efficient cargo transfers to and from the wharves.

Sydney Ports presently has three major strategies to advance the organisation:

1. pursuing options to provide sufficient capacity to support continuing trade growth;

2. creating a more efficient environment for the land transport of goods to and from the ports; and

3. making the most productive and ecologically sustainable use of land which is currently held by Sydney Ports.

Sydney Ports enjoyed a successful 2001-02 financial year, with EBIT of $41.2 million. The 2001-02 profit is below that earned in the previous financial year, principally as a result of the combined effect of the negative superannuation fund earnings performance and an actuarial assessment of the Corporation's future liability of the defined benefits fund. In the 2001-02 financial year there was a superannuation cost adjustment of $6.5 million.

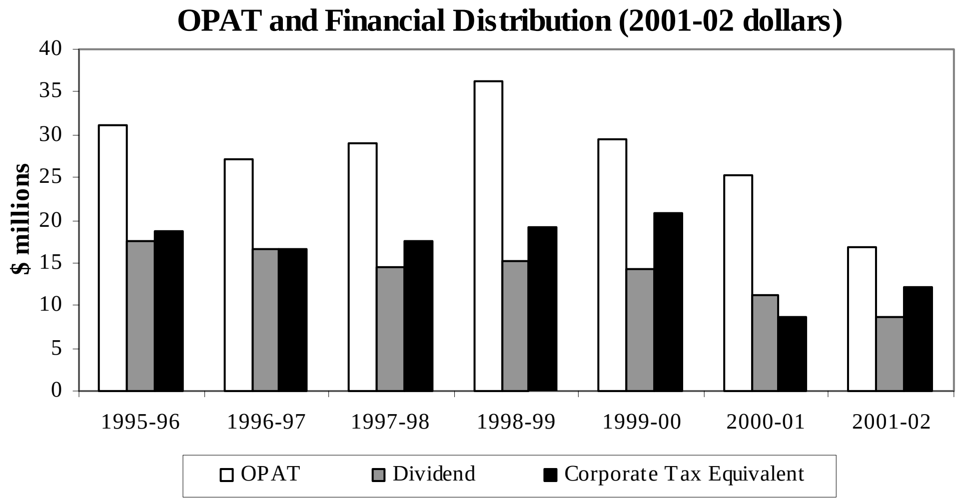
During 2001-02, a total of 2,259 ships visited the ports of Sydney Harbour and Botany. This is a decrease of 1.6% on the previous year as a result of smaller cargo vessels being replaced by vessels with larger carrying capacities allowing a reduction in the number of voyages necessary to transport the cargo to and from Australia. Productivity on the Sydney waterfront continues to improve as demonstrated by the ongoing reductions to the vessel turnaround times and the average times ships are at berth.

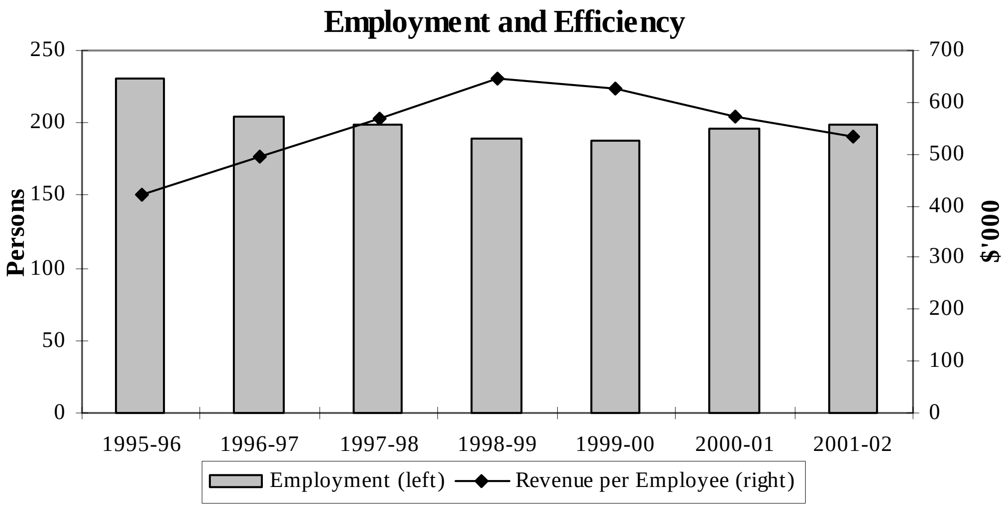
Trade levels at Sydney Ports' berths improved in 2001-02 over the previous year, with volumes in the largest cargo category, containers, increasing by 1.9% to 1.009 million Twenty Foot Equivalent Units.

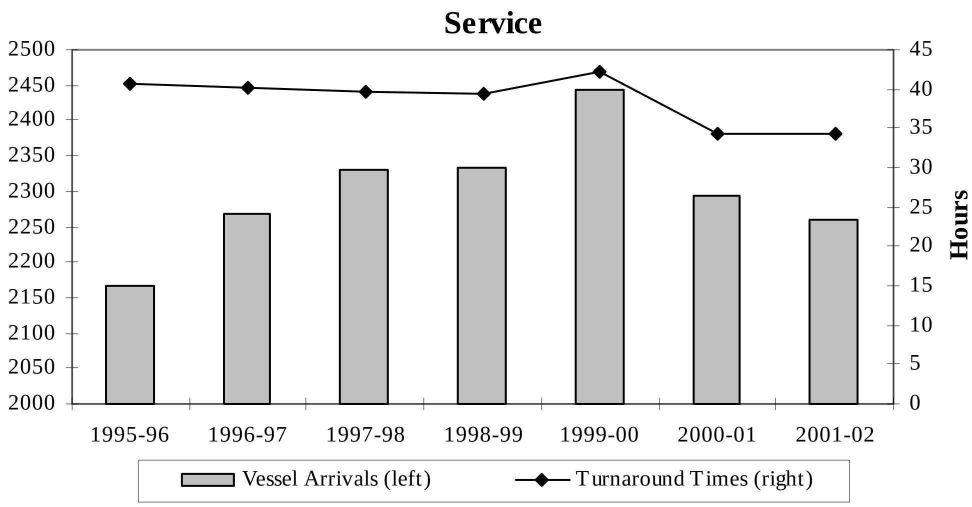
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment	2	231	204	199	189	188	196	199
Revenue per Employee ($'000)	3	421.1	493.8	570.4	645.0	626.9	570.7	534.0
Industrial Disputation								
- Total Hours Lost		0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Hours Lost per Employee		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contract Labour ($M)		1.4	1.1	0.9	0.5	0.9	1.0	0.7
Service	1							
Total trade (million tonnes)	4	31.6	32.8	36.3	39.3	45.0	43.9	44.7
Vessel Arrivals		2166	2267	2330	2334	2443	2295	2259
Vessel Turnaround Times (hours)		40.6	40.2	39.6	39.4	42.3	34.4	34.3
Average Time at Berth		38.6	36.5	37.8	37.3	40.3	32.7	32.8
Average Port Management Charge								
- per Tonne of Cargo ($)		2.3	2.2	2.1	2.0	1.8	1.7	1.6
- per Vessel ($)		33087.6	31143.1	32593.9	33027.7	32907.2	32602.5	32987.0
Container Volumes (TEU's) ('000s)	5	699	730	801	878	1016	991	1009
Finance ($M)	1							
EBIT ($M)		56.8	59.3	62.2	69.3	63.2	47.0	41.2
Operating Profit After Tax ($M)		31.0	27.1	29.0	36.2	29.5	25.3	16.8
Significant Items ($M)						-1.0		
Revenue ($M)		97.4	110.9	113.5	121.9	125.6	111.9	106.4
Return on Total Assets (%)	6	14.7	15.4	10.2	11.1	9.9	7.9	6.8
Return on Equity (%)	6	19.5	16.2	7.5	9.0	7.3	6.4	4.3
Asset Base ($M)		386.2	384.5	608.8	623.9	635.7	594.5	605.3
Asset Sales ($M)		0.7	0.6	0.6	0.4	0.4	0.6	0.5
Financial Distribution								
- Tax Equivalent ($M)		18.6	16.7	17.5	19.2	20.8	8.7	12.0
- Dividend ($M)		17.5	16.7	14.5	15.3	14.3	11.3	8.5
Contribution to Government ($M)	7	34.7	30.7	30.6	32.4	33.8	25.5	21.6
Gross External Debt ($M)		173.5	171.8	171.4	168.8	165.9	157.1	168.6
Debt to Equity (%)		109.3	102.9	44.3	42.1	40.9	39.7	42.9
Times Interest Earned		6.8	3.8	4.0	5.0	4.6	3.6	3.3
Gearing Ratio (Debt/Assets)		0.4	0.4	0.3	0.3	0.3	0.3	0.3

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) Excludes labour employed by consultancy.
3) 1998-99 Revenue includes $7m Capital Grant from Government for construction of Wharf 8 Passenger Terminal.
4) Total trade for SPC berths only (excludes cargo at privately owned berths).
5) TEU: Twenty foot Equivalent Units.
6) Revaluation of assets undertaken in 1997-98.
7) Based on tax and dividend payable.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
40
35
30
25
20
15
10
5
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividend
Corporate Tax Equivalent


Employment and Efficiency
Persons
250
200
150
100
50
0
$'000
700
600
500
400
300
200
100
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Revenue per Employee (right)


Service
2500
2450
2400
2350
2300
2250
2200
2150
2100
2050
2000
Hours
45
40
35
30
25
20
15
10
5
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Vessel Arrivals (left)
Turnaround Times (right)

MISCELLANEOUS

Department of Housing

Land and Property Information NSW

NSW Lotteries

Department of Public Works and Services

State Forests NSW

Waste Service NSW

HOUSING
New South Wales

Ms Jo Devine
Chief Financial Officer
DEPARTMENT OF HOUSING
Level 10, 23-31 Moore Street
LIVERPOOL NSW 2170
(02) 9821 6810

The Department of Housing provides housing assistance to people who have difficulty affording a place to live – particularly people with special needs.

The Department provides housing assistance through Public Housing, the Office of Community Housing, and the Home Purchase Assistance Division. We manage more than 138,800 rental properties through seven public housing regional offices and five community housing regions. These properties are rented at subsidised rates, with an average annual rebate of $4,506 per property.

Financials

The Department receives rental income and a capital contribution through the Commonwealth-State Housing Agreement (CSHA). In 2001-02:

- total rental income (from core and non-core assets) increased 6.8% to $474.6 million, largely from increased Public Housing rents;
- operating result improved from $39 million to $152 million;
- additional revenue of $158 million (including $105 million of enhancements; $25 million of working capital injection received from NSW Treasury; and $18 million of asset sales); and
- additional expenses of $48 million ($37 million for additional superannuation charges, $18 million for additional repairs and maintenance, and a reduction in its borrowing costs of $8 million).

Public Housing

Public Housing provides assistance through 124,872 capital properties and 2,038 properties head leased from the private market. This year we housed 11,312 new applicants in public housing, with 40% being priority applicants. We also rehoused 4,349 existing clients. We maintain a waiting list for public housing applicants, although applicants can also choose to nominate for community housing. In 2001-02, the number of households on the list decreased by 5.4%.

Community Housing

The Office of Community Housing provides housing assistance primarily through the funding of 400 non-profit organisations as direct housing providers. These organisations manage 11,525 properties, comprising 6,381 capital properties and 5,144 properties head leased.

RentStart

The Department provides support to eligible low-income clients in the private rental market (RentStart). In 2001-02, we provided 44,255 households with assistance costing $23.9 million. We also supplied assistance to people with special needs, such as HIV/AIDS or disabilities, at a cost of $11.2 million ($10.6 million in 2000-01).

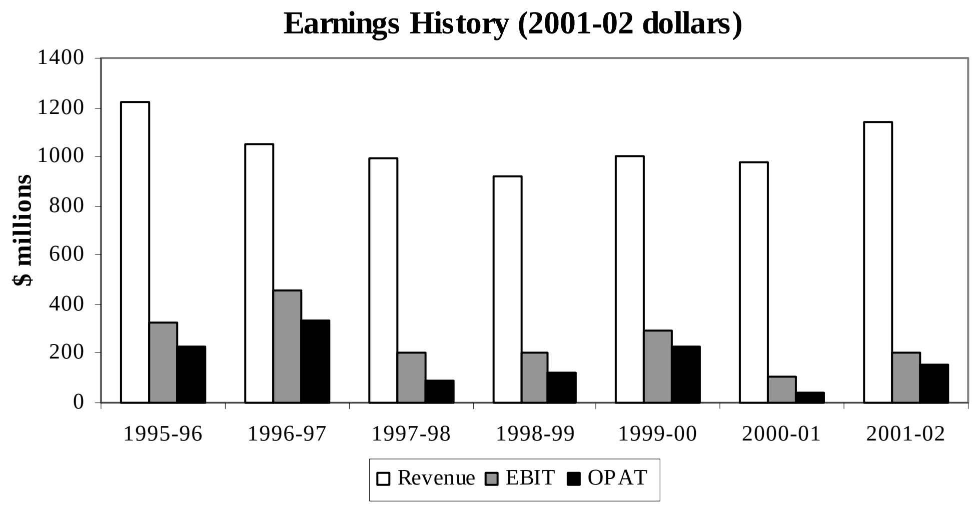
The existing CSHA guarantees Commonwealth funding until 2003, although funding is pegged at the 1998-99 level and diminishes by an efficiency dividend of one per cent per year. The Department is looking at its financial management practices and delivery of products and services to ensure that it can continue supplying appropriate housing assistance to the people of NSW.

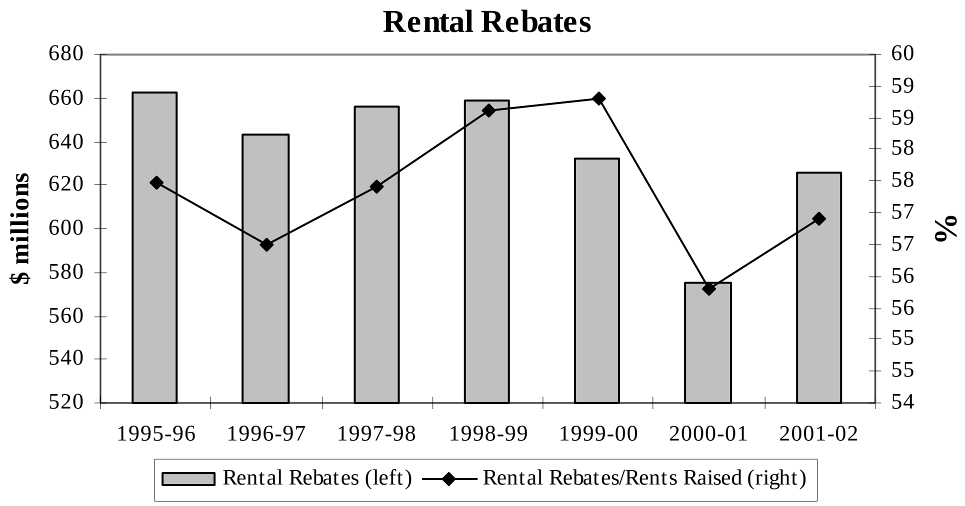
DEPARTMENT OF HOUSING

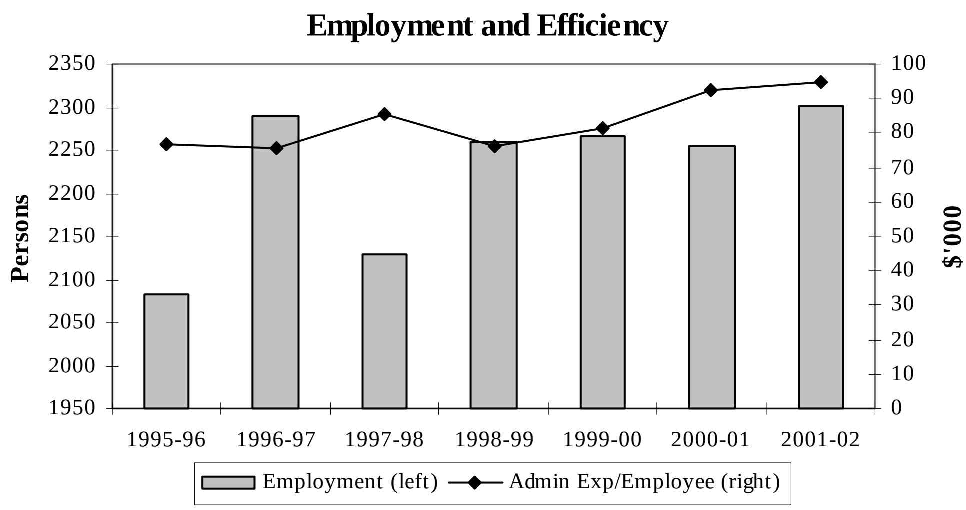
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		2082	2289	2129	2260	2266	2255	2302
Work Conrtacted ($m)	2	681	450	472	565	530	518	544
Dwellings per Housing Employee		63.5	58.4	63.1	59.3	61.6	61.5	60
Admin Expenditure ($m)	3	160.3	172.9	181.9	172.5	183.8	208.5	217.9
Admin Exp per Employee ($'000)		77.0	75.5	85.5	76.3	81.1	92.5	94.7
Service	1							
Dwellings Completed		2726	2045	1534	1979	1300	1292	1083
Dwellings Under Management	4	132275	133714	134300	133950	139612	138600	138898
Rental Rebates ($m)		662.9	643.2	655.8	658.6	632.4	574.8	626.0
Rental Rebates Granted/Rental Accounts (%)		91	90	90	93	90	91	91
Rental Rebates Granted/Rents Raised (%)		57	57	57.4	58.6	58.8	55.8	56.9
Public Tenant Appeal Lodged/Tenancies (%)		1.1	1.1	1.4	1.2	1.5	2.1	2.18
Households on Waiting List		93174	94797	96707	97037	98337	96075	90926
Applicants Housed/Waiting List (%)		12.6	12.2	10.4	15.2	16.5	17.39	17.2
Real Price Index	5	86.3	89.4	87.9	85.0	87.2	88.7	84.7
Finances ($m)	1							
EBIT		324.6	457.4	204.0	201.3	295.0	105.5	207.3
Operating Profit After Tax	6	224.8	336.0	92.8	124.4	224.2	40.3	151.9
Significant Items	8	-210.8	54.4	6.9	14.4	74.4	0.0	-36.7
Revenue		1220.1	1054.0	992.3	916.9	1004.2	975.2	1135.7
Return on Shareholders' Funds (%)		4.8	2.6	0.7	0.9	1.3	0.2	0.9
Asset Base		4917.7	15899.8	15764.5	15901.6	19640.1	18512.3	18248.3
Asset Sales	7	47.1	57.9	98.3	78.5	128.1	96.1	162.2
Gross External Debt	10	2344.0	2423.2	2104.9	1865.8	1739.1	1403.2	1363.4
Debt/Equity (%)	9	47.7	16.5	13.2	12.7	9.6	7.9	7.8
Gearing Ratio (Debt/Assets)		47.7	14.1	12.1	11.8	8.9	7.6	7.5
Times Interest Earned		-100.8	101.5	-0.5	2.6	4.2	1.6	3.7
Social Programs		25.2	18.5	12.2	12.9	9.3	9.0	8.3

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) Contractor costs associated with capital works, capital improvements, and repairs and maintenance to residential properties.
3) Represents employee related and administrative expenses. It excludes a charge to superannuation of $36.7 million that is reported under significant items.
4) Includes dwellings managed by community organisations on behalf of the Department.
5) Derived by Treasury from information supplied for the Government Charges Index.
6) Operating results after capital allocation.
7) Net proceeds from sale of residential and commercial properties.
8) The effect of the increase in the Prepaid Superannuation. Exceptions are 1995-96 when it was netted by an adjustment in the depreciation and 2001-02 that represented the effect of the decrease in prepaid superannuation. The 2000-01 increase in prepaid superannuation was immaterial and was included with the Admin. Expenditure total.
9) Long term interest bearing debt to total equity.
10) Gross External Debt consists of Long Term debt defined as the debt owed by the State to the Commonwealth which is apportioned to the Department and Short Term debt, which refers to commercial borrowing by the Department from the Treasury Corporation to fulfil Commonwealth matching grant arrangements.


Earnings History (2001-02 dollars)
$ millions
1400
1200
1000
800
600
400
200
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Revenue
EBIT
OPAT


Rental Rebates
$ millions
%
680
660
640
620
600
580
560
540
520
60
59
59
58
58
57
57
56
56
55
55
54
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Rental Rebates (left)
Rental Rebates/Rents Raised (right)


Employment and Efficiency
Persons
$'000
2350
2300
2250
2200
2150
2100
2050
2000
1950
100
90
80
70
60
50
40
30
20
10
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Admin Exp/Employee (right)

LAND AND PROPERTY INFORMATION NEW SOUTH WALES

Mr Neville Hind
Senior Business and Financial Analyst
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1 Prince Albert Road
Queens Square
SYDNEY NSW 2000
(02) 9236 7615

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 our customers and provides value to our stakeholders.

Formed in July 2000, LPI provides land valuation, land title and registration and mapping and surveying services which were previously provided by the Valuer General's Office, the Land Titles Office and the Surveyor General's Department (including the Land Information Centre).

LPI builds and maintains property information datasets, which are essential infrastructure for land administration and management. LPI's primary purposes are to:

- provide valuation information for rating and taxation of land;
- title information for property transactions and certainty of title; and
- mapping and spatial products for the economic and social development of the community of NSW.

In addition to these primary 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, plan services and deliver services to the community of NSW. This information infrastructure also provides a vital tool to assist in emergency and event management.

Due to high levels of activity in the property market, LPI handled a record number of land related transactions in 2001/02. LPI registered 981,000 documents and provided 3.7 million copies of title documents in 2001/02, an increase of 23% and 30% respectively on the previous year. These high volumes resulted in revenue increasing from $107 million in 2000/01 to $124 million in 2001/02.

Despite the high levels of activity, LPI's staff levels decreased over the past year with average staff levels falling by 3.5% from 955 in 2000/01 to 923 in 2001/02.

In 2001/02, the loss was $0.9 million, which is an improvement on the $6.8 million loss the year before. The loss in both years is due to the abnormally high superannuation expense.

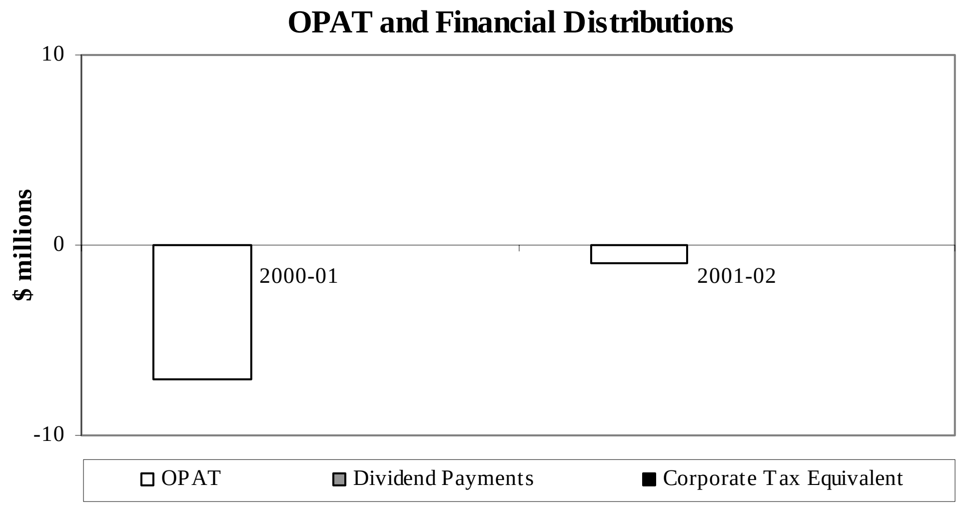
Total expenses rose from $114.1 million in 2000/01 to $125.0 million in 2001/02. The rise was entirely attributable to superannuation expense, which rose from $19.3 million in 2000/01 to $32.9 million. Excluding superannuation, total expenses were $92.1 million in 2001/02 down from $94.8 million in 2000/01. The reduction in expenses is in part due to lower staff levels.

During the year LPI also issued 2.3 million valuations to the Office of State Revenue and 650,000 valuations to local councils, responded to 63,000 survey enquiries and searches, prepared 95 new topographic maps, updated 83,000 land parcels in the cadastral database and took 9,000 aerial photographs.

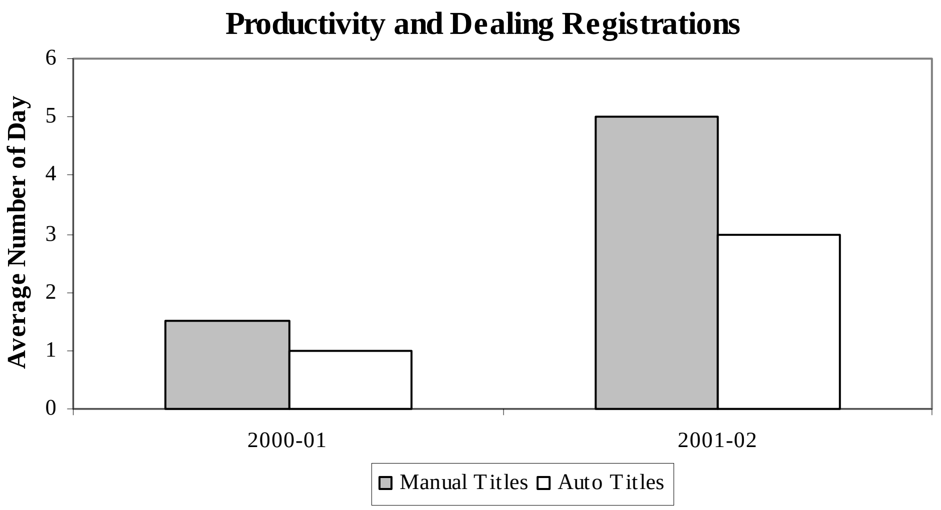
	Notes	2000-01	2001-02
Efficiency			
Employment		955.0	923.0
Output per Employee:			
Document Registrations		6016.5	7821.9
Plan registrations		122.7	100.4
Title Copies		31474.2	55481.8
Valuations		23133.6	23347.5
Surveys (enquiries or searches)		942.2	963.3
Topographic Maps-Presentation		1.8	2.4
Cadastral Map-Parcels Updates		3010.0	3078.1
Aerial Photographs		661.7	395.2
Service			
Searches by remote access (%)		66.8	71.2
Dealing Registrations (Ave No Days)			
Manual Titles		1.5	5.0
Auto Titles		1.0	3.0
Plan Registrations (% within <=12 Days)			
Deposited Plans		79.1	87.8
Strata Plans		97.8	99.3
Land Title information (Ave Response Time)			
Plans (min)		35	40
Dealings (min)		25	30
Surveys (new marks stored in SCIMS)		4373	6656
No. of Councils using DCDB		134	137
No. of Councils using DTDB		101	111
Finances ($m)	1		
EBIT		-6.6	-0.5
Operating Profit After Tax		-7.0	-0.9
Significant Items		19.3	32.9
Revenue		110.6	124.2
Return on Assets (%)		-5.5	-0.5
Return on Equity (%)		-13.2	-1.8
Asset Base		120.1	119.4
Asset Sales		0.0	0.0
Financial Distributions			
Corporate Tax Equivalent		0.0	0.0
Dividend Payment		0.0	0.0
Gross External Debt		67.4	69.1
Debt to Equity Ratio (%)		1.3	1.4
Gearing Ratio (Debt/Assets)		0.6	0.6
Times Interest Earned		-20.2	-1.8
Social Program		0.9	0.9

NOTES:

- All dollar amounts reported in terms of 2001-02 dollars.


OPAT and Financial Distributions
$ millions
10
0
-10
2000-01
2001-02
OPAT
Dividend Payments
Corporate Tax Equivalent


Employees
Persons
960
950
940
930
920
910
900
2000-01
2001-02
Employees


Productivity and Dealing Registrations
Average Number of Day
6
5
4
3
2
1
0
2000-01
2001-02
Manual Titles
Auto Titles

NSW Lotterie$

We all get a lot out of lotteries

Mr Brian McIntyre
Director Finance
NSW LOTTERIES
2 Figtree Drive
HOMEBUSH BAY NSW 2127
(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 1600 small businesses.

In 2001-02, the Corporation confirmed its position as the largest lottery operator in Australia. In its 71st year of trading, another year of record sales was delivered – the 11th out of the last 12 financial years. Sales totalled $978.9 million (excluding GST and retailer commission) which was $9.4 million (or one per cent) above the previous year.

Total duties of $257.5 million were paid to Government. Tax equivalent payments and dividends of $44.9 million were well above expectations. This result was due, in part, to a reduction in operating costs that flowed from a fundamental review of the Corporation's cost structure, which was conducted during the year. As a result, the Corporation's overall contribution to its Shareholders totalled $302.4 million. The various small businesses comprising the Corporation's selling network earned a record $62.5 million in retailer commission from the sale of NSW Lotteries' products. This represented a 4.5% increase on the record commission attained last year.

The main factors contributing to the successful sales result were the continued growth of the relatively new Saturday Lotto game and significant growth in the well-established Instant Lotteries brand. In addition, while no new games were introduced during fiscal 2002, the expected benefits of the previous year's investment in a new computerised gaming system have begun to emerge. The new system enabled the Corporation to introduce a number of strategic enhancements that provided players and retailers more game choices, a number of new features and a range of improved services. The success of this strategy was clearly reflected in the outstanding results achieved 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 retailers were satisfied to extremely satisfied with the sales support services provided by NSW Lotteries.

NSW Lotteries continues to be faced by challenging market conditions due to factors such as:

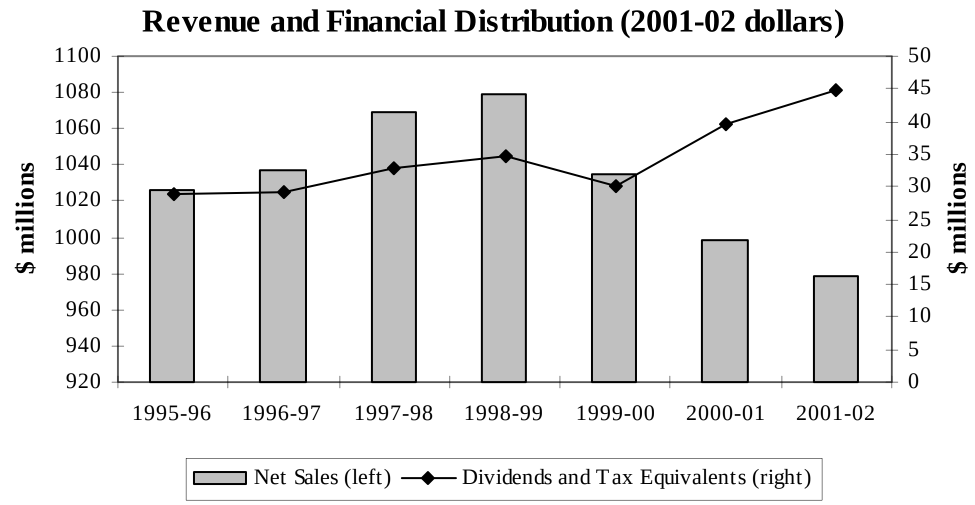
- Increasing regulatory scrutiny combined with a heightened interest in issues associated with the social consequences of gambling;
- Intense competition from the extensive range of gaming and gambling choices on offer in New South Wales; and
- A maturing range of lottery products.

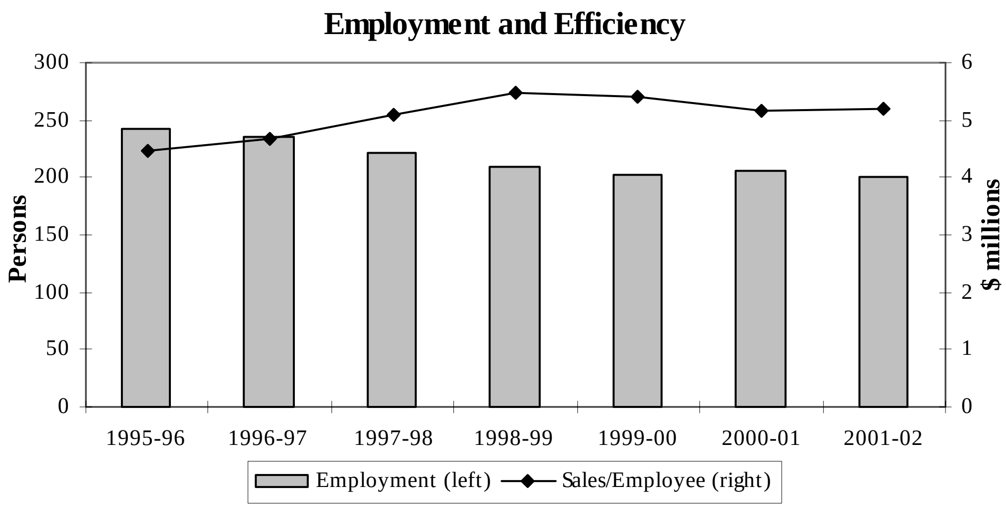
In this environment, the major challenge facing the Corporation is to maintain its financial viability by maximising its sales potential and continuously improving its business efficiency so that an acceptable level of return to Shareholders is achieved. While recognising the obligations associated with marketing and promoting lottery products in a socially responsible fashion, the Corporation will continue to place emphasis on offering players and retailers high quality customer service in order to retain their patronage and loyalty.

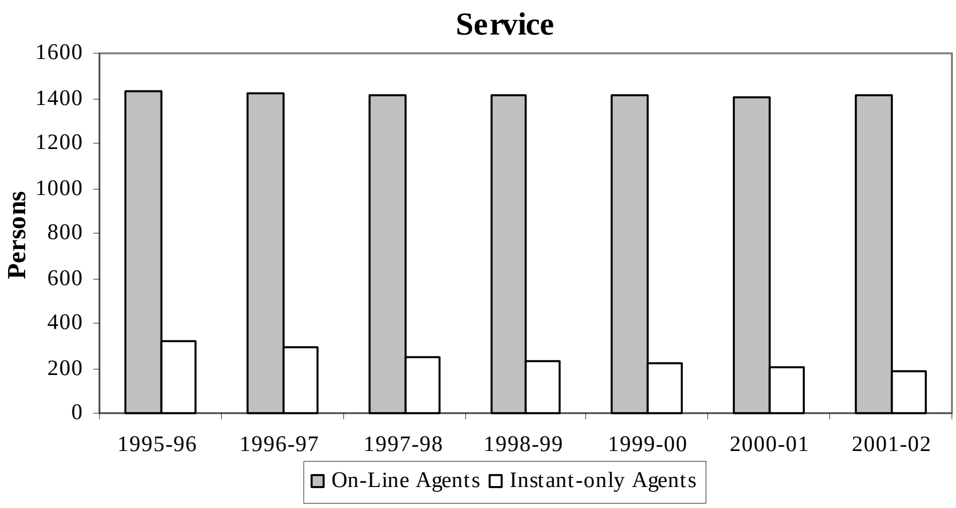
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		243	235	222	209	203	205	201
Total Sales per Employee ($m)		4.5	4.7	5.1	5.5	5.4	5.2	5.2
Days Lost for Sick Leave per Employee		5.2	6.5	5.3	6.4	6.1	7.2	6.1
Days Lost for Workers Compensation per Employee		0.8	0.5	0.3	0.6	0.3	0.3	0.3
Service	1							
Total Sales per Capita ($)		234.7	233.9	238.2	237.1	228.4	218.6	212.5
number of On-Line Agents		1428	1422	1417	1414	1413	1408	1412
Number of Instant-Only Agents		321	290	249	229	219	201	191
On-Line System Uptime (%)		100.0	100.0	100.0	100.0	100.0	100.0	100.0
Financial Indicators ($m)	1							
Total Sales	2	1088.7	1099.7	1133.6	1143.3	1096.3	1060.2	1041.4
Prize Payments		629.8	636.5	656.1	662.1	634.2	635.8	623.2
Agent Commission		62.9	62.5	64.1	64.5	61.3	61.6	62.5
Net Sales		1025.8	1037.2	1069.5	1078.8	1035.0	998.6	978.9
Return on Shareholders funds (%)	3	48.6	60.8	79.9	75.1	61.3	69.6	77.4
Return on Corporate Assets (%)	4	30.2	39.5	41.6	39.9	36.6	35.7	38.0
Financial Distribution								
Dividends and Tax Equivalents		28.7	29.2	32.8	34.7	30.2	39.5	44.9
Dividends		28.7	22.8	16.2	19.0	16.0	26.1	29.6
Tax Equivalents		0.0	6.4	16.6	15.7	14.2	13.4	15.3
Government Duties	5	299.7	303.0	309.5	310.2	305.1	261.1	257.5

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) Total Sales includes Agent Commission
3) Return based on surplus before abnormal items and tax equivalents
4) Relates to assets of the Corporation excluding prize funds
5) Duties in 2000-01 and 2001-02 exclude GST


Revenue and Financial Distribution (2001-02 dollars)
$ millions
1100
1080
1060
1040
1020
1000
980
960
940
920
50
45
40
35
30
25
20
15
10
5
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Net Sales (left)
Dividends and Tax Equivalents (right)


Employment and Efficiency
Persons
$ millions
300
250
200
150
100
50
0
6
5
4
3
2
1
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Sales/Employee (right)


Service
Persons
1600
1400
1200
1000
800
600
400
200
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
On-Line Agents
Instant-only Agents

DPWS
NSW DEPARTMENT
OF PUBLIC WORKS
AND SERVICES

Stephen Mudge
Chief Financial Officer
DEPARTMENT OF PUBLIC WORKS AND SERVICES
Level 7, McKell Building
2-24 Rawson Place
SYDNEY NSW 2000
(02) 9372 7150

The Department of Public Works and Services (DPWS) provides strategic and professional advice and expertise in business services, procurement, asset management and infrastructure to NSW Government agencies.

Services delivered to clients include procurement of goods and services; architectural and engineering services; property, asset and project management; environmental and business services; and corporate services.

The Department recorded an operating loss before tax of $66.7 million in 2001/02 after significant items. The financial performance of the Department was adversely affected by an $80.9 million reduction in prepaid superannuation balances. Excluding the movements in superannuation balances, the Department's financial performance improved to $14.2 million, an increase of $7.9 million over 2000/01.

During 2001-02, DPWS delivered significant cost savings to Government through its asset management and procurement activities.

Managing State Assets

Asset management activities during 2001-02 delivered savings in the order of $80m 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; and
- dispute resolution expertise;
- innovative procurement in the development of Walsh Bay, King Street Wharf and Parramatta Hospital site; and
- innovative and coordinated disposal methods used in its asset disposal program.

Better Procurement

DPWS' purchasing power delivered overall savings in the order of $500 million to Government through:

- centralised procurement arrangements for the State Contracts Control Board achieved price reductions of up to 50% compared to market price, together with savings in staffing;
- the leasing facility and fleet management of the State's vehicle fleet;
- bulk purchase of media contracts; and
- savings in administration costs for Government agencies through centralised, shared services.

Supporting Government Reform

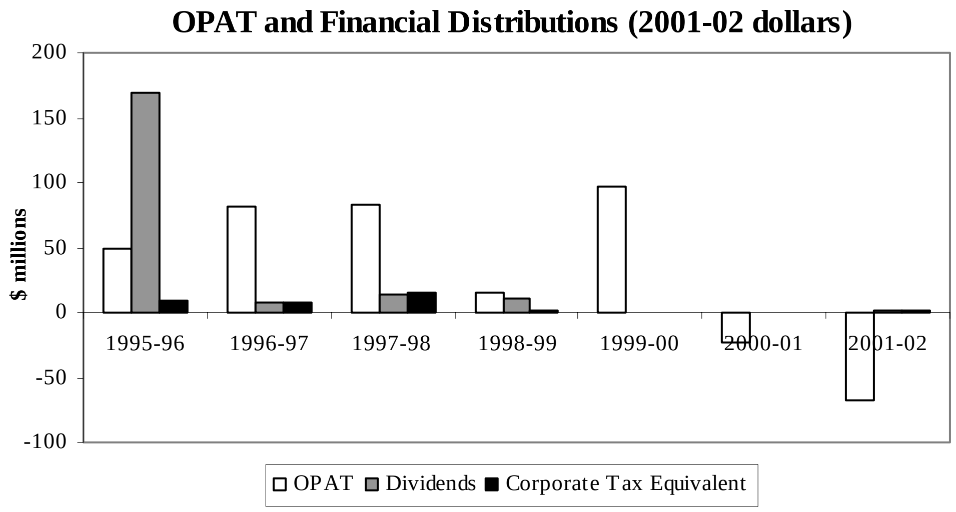
DPWS delivers annual cost savings in excess of $100m to Government in areas such as:

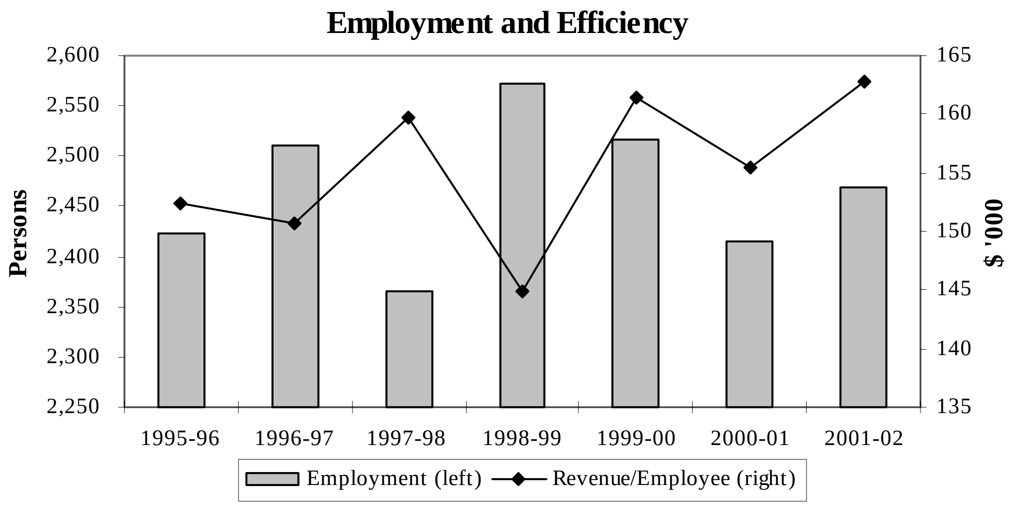
- Total Asset Management (TAM);
- Construction Industry Development; and
- the Government Office Accommodation Reform Program.

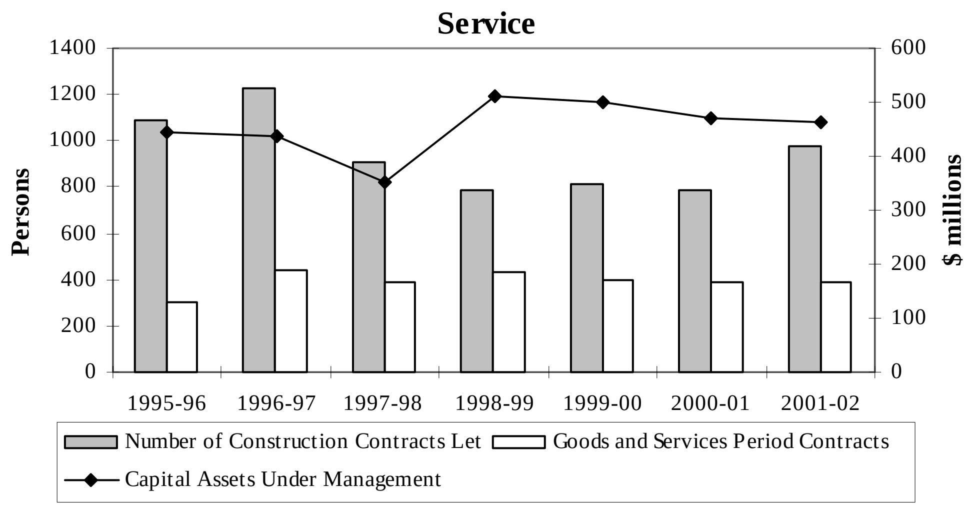
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		2,423	2,511	2,366	2,573	2,516	2,416	2,469
Total Expenditure ($m)	2	345.1	357.2	358.0	368.8	406.0	398.7	468.5
Revenue per Employee ($'000)		152.4	150.7	159.7	144.8	161.4	155.5	162.7
Hours Lost to Industrial Disputes								
Per Employee		0.0	0.0	0.0	0.0	0.0	0.1	0.0
Total ($'000)		0.0	0.0	0.0	0.0	0.0	2.5	0.0
Average Sick Days per Employee		6.1	6.0	6.7	6.8	6.1	7.0	7.3
Service	1							
Total Number of Construction Contracts Let		1088	1231	909	784	810	783	973
Construction Contracts Let >$0.25m		307	335	311	285	297	275	291
Goods and Services Period Contracts ($m)		1,475	1,418	1,455	2,352	2,462	2,359	2,513
Number of Goods and Services Goods Contracts		300	437	386	433	400	388	393
Vehicles Leased by State Fleet		12004	13,047	14,952	23,166	23,425	23,879	24,681
Capital Assets Under Management ($m)		444.2	437.9	352.3	511.3	499.5	471.4	463.0
Commercial Space Under Management ('000 m^3)		313	317	358	319	352	339	341
Number of Commercial Properties/Buildings		125	125	160	165	146	144	164
Crown Property Sales		0.9	99.2	144.5	0.0	0.6	9.6	4.0
Financial Performance ($m)	1							
EBIT		45.0	80.1	91.3	10.8	92.8	-23.7	-67.3
Operating Profit After Tax	2	48.8	82.1	83.7	14.9	96.7	-23.1	-68.0
Significant Items		26.5	64.4	56.2	12.3	96.5	-29.6	-80.9
Revenue		368.2	378.4	378.0	372.7	404.1	375.7	401.8
Return on Assets (%)		9.8	14.2	12.9	2.3	11.7	-3.2	-9.8
Return on Equity (%)		23.3	28.6	24.7	4.4	22.2	-6	-22.3
Asset Base		499.9	577.9	650.1	643.2	823.4	720.4	693.6
Asset Sales		159.5	9.9	10.1	3.7	0.5	2.0	2.0
Financial Distribution to Government		177.6	14.8	29.9	11.9	0.5	0.0	3.0
Dividends		168.9	7.2	14.6	10.4	0.5	0.0	1.7
Corporate Tax Equivalent		8.7	7.6	15.4	1.5	0.0	0.0	1.3
Gross External Debts		290.9	290.1	311.4	305.2	388.8	334.3	388.6
Gearing Ratio (Debt/Assets)		0.6	0.5	0.5	0.5	0.5	0.5	0.6
Government Funded Services		55.8	44.6	70.6	59.8	35.6	35.3	40.6

NOTES:

1) All dollar amounts reported in 2001-02 dollars.
2) Total expenditure for 2001-02 includes $80.9 million reduction in the prepaid superannuation balance. AAS 1 requires that this amount be included in total expenditure. Excluding this item, the Department made a profit of $12.9 million for 2001-02 (equivalent to a Return on Equity of 4.2%).


OPAT and Financial Distributions (2001-02 dollars)
$ millions
200
150
100
50
0
-50
-100
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividends
Corporate Tax Equivalent


Employment and Efficiency
Persons
2,600
2,550
2,500
2,450
2,400
2,350
2,300
2,250
165
160
155
150
145
140
135
$ '000
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Revenue/Employee (right)


Service
Persons
1400
1200
1000
800
600
400
200
0
600
500
400
300
200
100
0
$ millions
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Number of Construction Contracts Let
Goods and Services Period Contracts
Capital Assets Under Management

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 two 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 the present and future generations of people in NSW.

State Forests operating performance improved markedly over the previous year due to the strong links to the domestic building markets that are currently in a recovery phase. A combination of low interest rates and the temporary boost from the First Home Owners Grants Scheme has accentuated the recovery from the post-GST slump in demand for new housing. Meanwhile State Forests has continued to develop the provision of environmental services. These services are linked to the community's desire to address environmental issues, including global warming, salinity and declining biodiversity.

Financial Performance

The strong recovery in operating profit to $27.8 million in 2001/02 reflected the increased sales of timber due to a rebound in demand for new dwellings with softwood sales in particular benefiting from the increased demand for framing timber. Operating expenditure was generally contained with the major exception associated with managing severe bushfires in October 2001 and over the Christmas/New Year fire emergency period.

Environmental Services

The slow progress of the attempts to ratify the Kyoto Protocol has resulted in the slower than expected emergence of carbon trading markets. However, State Forests continued to move ahead in developing new business opportunities focussing on emerging markets for new business opportunities. Negotiations were well advanced at year-end with two international corporations interested in investing in new Kyoto compatible planted forests.

State Forests has also been actively involved in a broader range of government initiatives including the delivery of the NSW Salinity Strategy and the Environmental Services Scheme.

Future Outlook

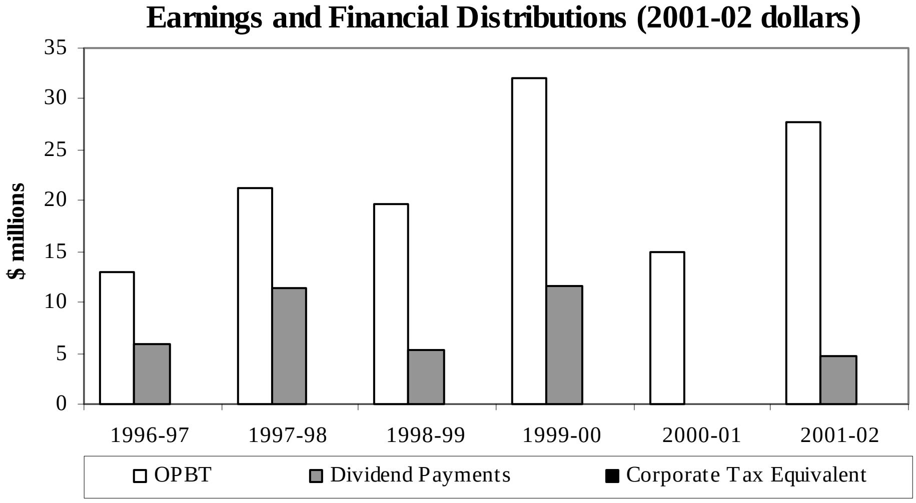
After the very strong growth in timber demand during 2001/02 demand is expected to moderate during the current year. The uncertain market environment faced will provide challenges for both softwood and hardwood timber operations to maintain revenue levels while continuing to improve efficiency and contain operating expenditure.

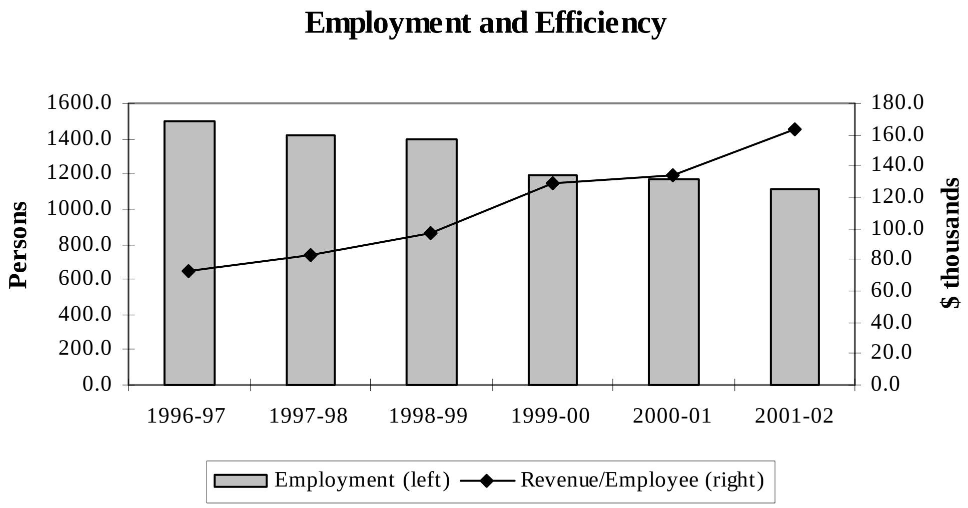
Despite uncertainty over the Kyoto Protocol, leading corporations are maintaining the commitment to measuring business performance in terms of environmental and social outcomes in addition to financial results. This will generate opportunities for State Forests in terms of reforestation projects capable of generating environmental services such as carbon sequestration and salinity control in addition to the traditional returns from timber products.

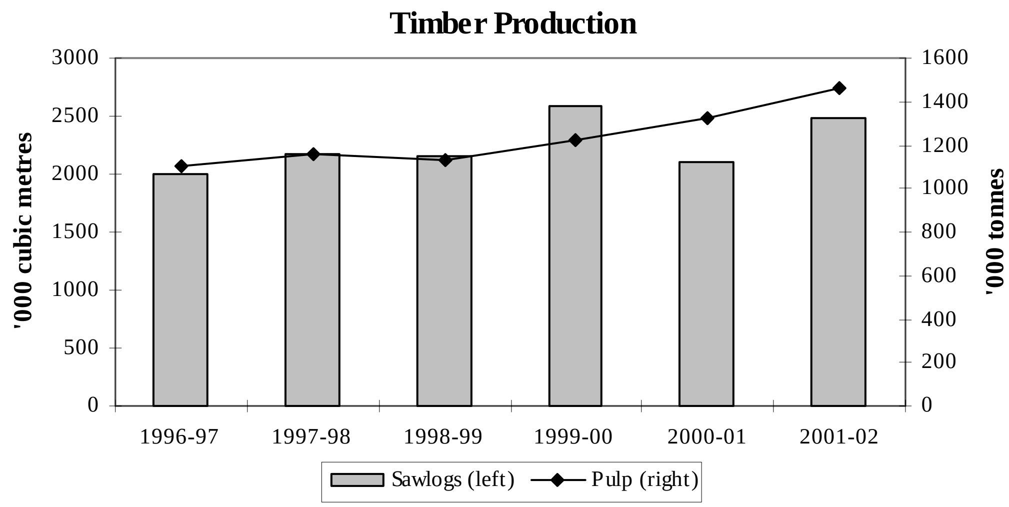
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Efficiency	1							
Employment		1552	1495	1423	1392	1196	1169	1117
Total Revenue per Employee ($'000)		123.4	94.1	94.9	106.5	119.5	145.7	138.6
Timber Sold per Employee								
- Sawlogs incl. Pine Sawlogs ('000 m^3)		1.3	1.3	1.5	1.5	2.2	1.8	2.2
- Pulp incl. Pine Pulp ('000 tonnes)		0.8	0.7	0.8	0.8	1.0	1.1	1.3
Forests Managed per Employee (ha)								
- Pine/Hardwood Plantations		130.8	139.1	145.5	151.6	171.4	196.6	210.6
- Other Forests		1802.2	1867.6	1962.8	2003.6	2358.7	2244.8	2331.9
Employee Safety								
- Lost Time Injuries		44.0	47.0	44.0	33.0	31.0	42.0	36.0
- Frequency Rate		15.7	19.0	17.4	13.9	14.2	18.6	16.4
Service								
State Forest Managed ('000 hectares)								
- Pine/Hardwood Plantations		203	208	207	211	205	230	235
- Other Forests		2797	2792	2793	2789	2821	2624	2605
Timber Production								
- Sawlogs ('000 cubic metres)		2054	1993	2181	2149	2593	2101	2483
- Pulp ('000 tonnes)		1269	1107	1156	1129	1222	1328	1460
Total Pine Plantations Planted (ha)		6415	6200	6067	5693	5505	5021	4183
Total Hardwoods Planted (ha)		2077	5000	7500	4000	5300	8584	3198
Finances ($M)	1							
EBIT		20.8	16.8	27.6	24.8	38.3	15.8	27.8
Operating Profit Before Tax		20.8	16.8	27.6	24.8	38.3	15.8	27.8
Operating Surplus Before MVI		23.5	-37.1	31.0	11.5	27.6	40.8	12.8
Significant Items		-27.9	117.4	-50.4	-10.2	83.2	-86.6	30.1
Total Revenue		148.2	142.0	154.1	170.2	185.1	166.9	182.0
Return on Total Assets (%)		1.2	0.9	1.5	1.4	2.1	0.7	1.2
Return on Equity (%)		1.5	1.1	1.9	1.8	2.6	0.8	1.4
Financial Distribution								
- Corporate Tax Equivalent		0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Dividend Payment		6.9	7.6	14.7	6.7	13.8	0.0	4.7
Total Assets		1672.4	1823.5	1834.8	1799.6	1843.2	2378.4	2358.6
Total Liabilities		266.6	342.3	371.1	398.3	366.4	409.7	409.0
Total Equity		1416.9	1481.1	1463.8	1401.3	1476.8	1968.7	1949.6
Interest Bearing Debt		98.4	111.0	129.9	141.2	138.0	142.6	133.3
Current Assets		112.4	128.5	89.9	93.3	83.4	59.7	41.0
Current Liabilities		108.3	71.6	82.3	77.4	71.2	58.8	51.2
Gearing Ratio (Debt/Assets)		0.06	0.06	0.07	0.08	0.07	0.06	0.06
Debt to Equity (%)		6.95	7.49	8.88	10.08	9.34	7.24	6.84
Total Liabilities to Equity (%)		18.82	23.11	25.35	28.42	24.81	20.81	20.98
Current Ratio		1.04	1.79	1.09	1.21	1.17	1.02	0.80
Times Interest Earned		-0.6	13.9	-2.7	1.6	3.9	1.9	3.2

NOTES:

1) All dollar amounts reported in terms of 2001-02 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) Significant items represent: SGARA valuation increments and decrements (Market Value Increment [MVI]), movement in employee superannuation fund accounts and items of a significant nature treated as abnormal prior to amendments in Australian Accounting Standards in the 2000-01 year. 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 1995-96, 1997-98, 1998-99, 2000-01 relates to the downward valuation of the timber resource.
5) State Forests significant expenditure on the establishment of the 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 (2001-02 dollars)
$ millions
35
30
25
20
15
10
5
0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPBT
Dividend Payments
Corporate Tax Equivalent


Employment and Efficiency
Persons
$ thousands
1600.0
1400.0
1200.0
1000.0
800.0
600.0
400.0
200.0
0.0
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Employment (left)
Revenue/Employee (right)


Timber Production
'000 cubic metres
'000 tonnes
3000
2500
2000
1500
1000
500
0
1600
1400
1200
1000
800
600
400
200
0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Sawlogs (left)
Pulp (right)

Ms Kerri Burgess
Acting Manager Finance
Waste Service NSW
Zenith Centre Level 4
821 Pacific Highway
Chatswood NSW 2067
Ph: 9934 7000

The Waste Recycling & Processing Corporation of New South Wales (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 Corporation are:

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

Overview of the year

Following corporatisation on 1 September 2001 and the appointment of a new Chief Executive Officer on 28 September 2001, the Corporation's internal structure was realigned to support its new objectives.

The changes have delivered improved commercial and competitive expertise, a focus on developing marketable services, increased accountability for business line and facility profitability, more active management of operating contracts and stronger relationship management with key customers and stakeholders.

During the year, Waste Service NSW set a new strategic direction that comprised:

- incorporating environmentally sustainable waste processing into its existing network of waste management facilities;
- reforming its operations to be more flexible;
- developing new resource recovery business opportunities; and
- moving its focus from facility owner and manager to solutions provider and operator.

During the reporting period, 744 customer feedback reports were received from a total of 1,371,821 million transactions. Some 80% were pollution complaints. The remainder comprised positive and negative feedback on customer service, pricing and procedures for waste acceptance.

Five minor environmental licence breaches occurred during the year. In all cases, controls have been improved to prevent recurrences.

Waste Service NSW reported on a ten-month period, from the date of corporatisation on 1 September 2001 to 30 June 2002. For this period, Waste Service NSW reported an operating profit of $9.4 million.

Outlook

In 2002-03, the corporation looks forward to continuing reform of the organisation and advancing a range of new business development opportunities that have been identified. Challenges in 2002-03 will include:

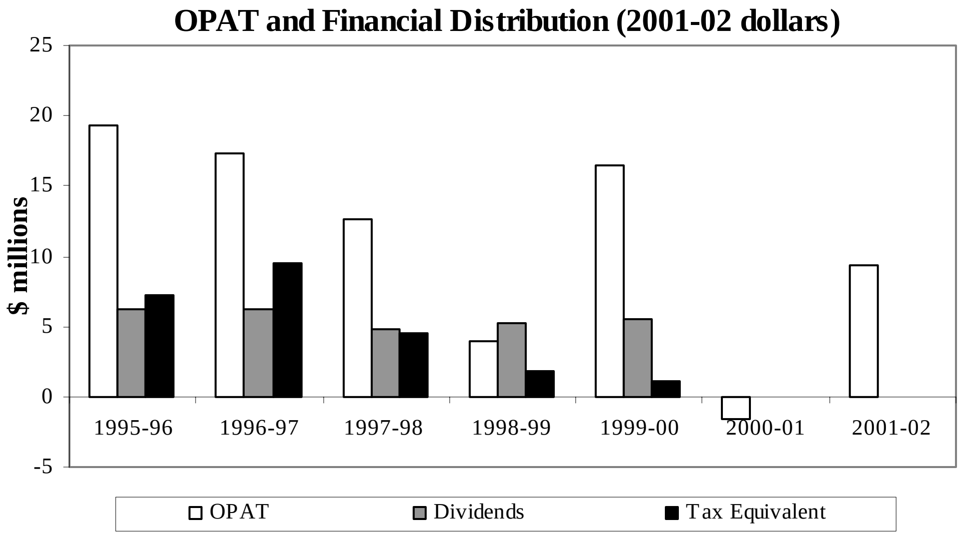
- competing in the putrescible waste market;
- commencing construction of the first alternative waste processing facility and marketing its services;
- implementing identified business development opportunities in resource recovery; and
- focusing on the needs of our host communities.

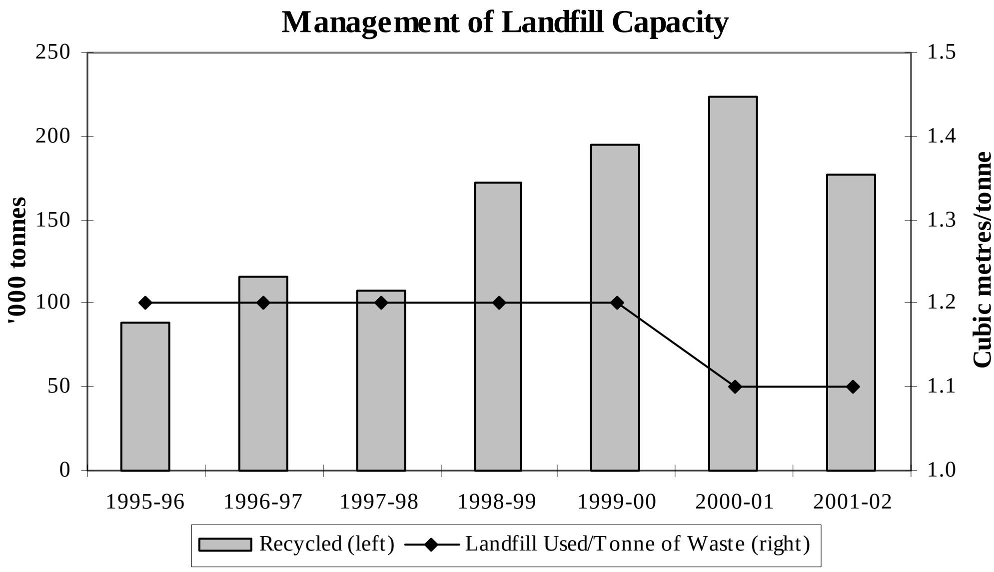
WASTE SERVICE NSW

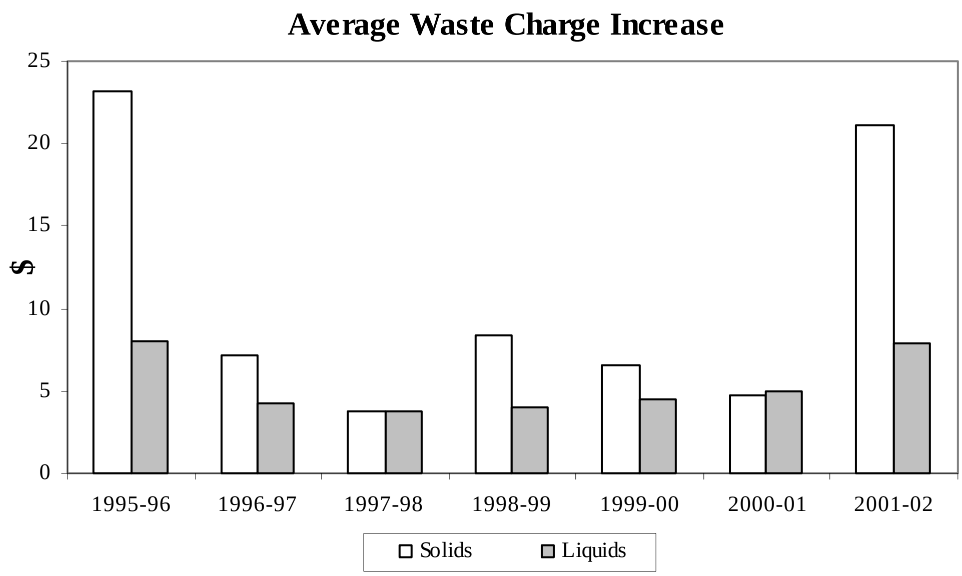
	Note	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
EFFICIENCY								
Employment		129	139	156	154	144	134	127
Output per Employee	2	729.0	803.0	763.0	1163.0	1105.4	1193.4	1393.0
Landfill Utilisation (m^3 per tonne)	3	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Recycling Tonnes ('000)	4	89	116	108	172	195	224	177
Tonnes to Landfill (Mt)	5	1.7	1.7	1.8	1.9	2.1	2.3	1.9
EFFECTIVENESS								
Availability of Service								
Days Lost at Facilities		0	0	2	0	2	0	0
Ave Waste Charge Increase								
Solid	6	23.2	7.2	3.8	8.4	6.5	4.7	21.1
Liquid		8.0	4.2	3.8	4.0	4.5	5.0	7.9
Real Price Index								
Solid	7	147.9	156.5	162.2	173.2	180.3	177.6	226.9
Liquid	7	118.3	121.6	126.1	129.0	131.8	130.2	143.0
FINANCIAL INDICATORS ($M)	1							
EBIT		11.6	20.4	18.8	15.1	6.8	1.9	11.9
Operating Profit After Tax	8	19.3	17.3	12.6	3.9	16.4	-1.6	9.4
Significant Items		5.3	0.0	0.0	0.0	0.0	-45.4	0.0
Revenue		83.2	103.9	120.0	133.4	150.1	192.8	147.4
Return on Assets (%)	9	16.3	15.2	8.7	4.6	9.7	1.4	4.7
Return on Equity (%)	10	17.6	16.8	9.1	2.9	9.1	0.0	14.2
Asset Base		143.3	154.5	173.7	189.3	197.9	196.8	204.8
Financial Distributions								
Dividend Payment		6.2	6.3	4.8	5.3	5.5	0.0	0.0
Tax Payment		7.3	9.5	4.6	1.8	1.1	0.0	0.0
Gross External Debt	11	16.3	26.2	38.5	51.3	50.1	47.3	45.9
Debt/Equity (%)		18	22.4	34	52.5	42.5	78.8	73.6
Gearing Ratio (Debt/Assets)		8.8	5.9	4.5	3.7	3.9	4.2	4.5
Credit Management - Days Outstanding		28	33	33	34	35	39	35

NOTES:

1) All dollar amounts reported in terms of 2001-02 dollars.
2) Output per employee is based on revenue and staff employed in solid and liquid waste business lines.
3) Measures the volume of landfill required to accommodate a tonne of waste.
4) In addition to tonnes recycled, Waste Service introduced a Council Recycling Rebate Scheme in January 1991 and Differential Pricing Policies to encourage source separation and diversion of recyclable material in January 1992.
5) Waste Service NSW sites only.
6) Increase for 1995-96 determined by the Minister to discourage wasteful disposal and use of scarce landfill resources and funding of Government's waste initiatives.
7) Derived from information supplied for the Government Charges Index.
8) The 1995-96 increase in profit is mainly attributable to increased input of solid waste and lower interest expense due to timing of capital works projects, coupled with improved cashflow from trading.
9) Average operating assets.
10) Average equity.
11) The 1996-97 increase in debt reflects the higher than average capital works program, which is funded by borrowing.


OPAT and Financial Distribution (2001-02 dollars)
$ millions
25
20
15
10
5
0
-5
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
OPAT
Dividends
Tax Equivalent


Management of Landfill Capacity
'000 tonnes
Cubic metres/tonne
250
200
150
100
50
0
1.5
1.4
1.3
1.2
1.1
1.0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Recycled (left)
Landfill Used/Tonne of Waste (right)


Average Waste Charge Increase
$
25
20
15
10
5
0
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
Solids
Liquids

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 primarily involves the creation of a corporate structure typical of a publicly listed company, thereby further heightening the independence of management from the Government in its' shareholder capacity for day to day operational decisions. In addition to 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, amongst 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. Treasury provides SOCs 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. 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, 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 and 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 Queuing Time

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

The percentage of total industry sales attributable to a particular business. This figure is commonly a 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.

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. 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, as is the case for NSW Government businesses. The payment of tax or tax equivalents delivers potential efficiency gains by shaping an enterprise’s behaviour toward tax minimisation, thereby maximising 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 due to the fact that the cost of debt, interest, is tax deductible, whereas 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 on the recommendation of the Board of Directors.

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). In the absence of the Government proposing to realise the value of the equity holdings via privatisation, there may be a tendency for managers to emphasise increased dividend returns above increasing the value of shareholdings due to the relatively high visibility of the dividend payment.

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.

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 thus be controlled for 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 debt holders 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 or 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.

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