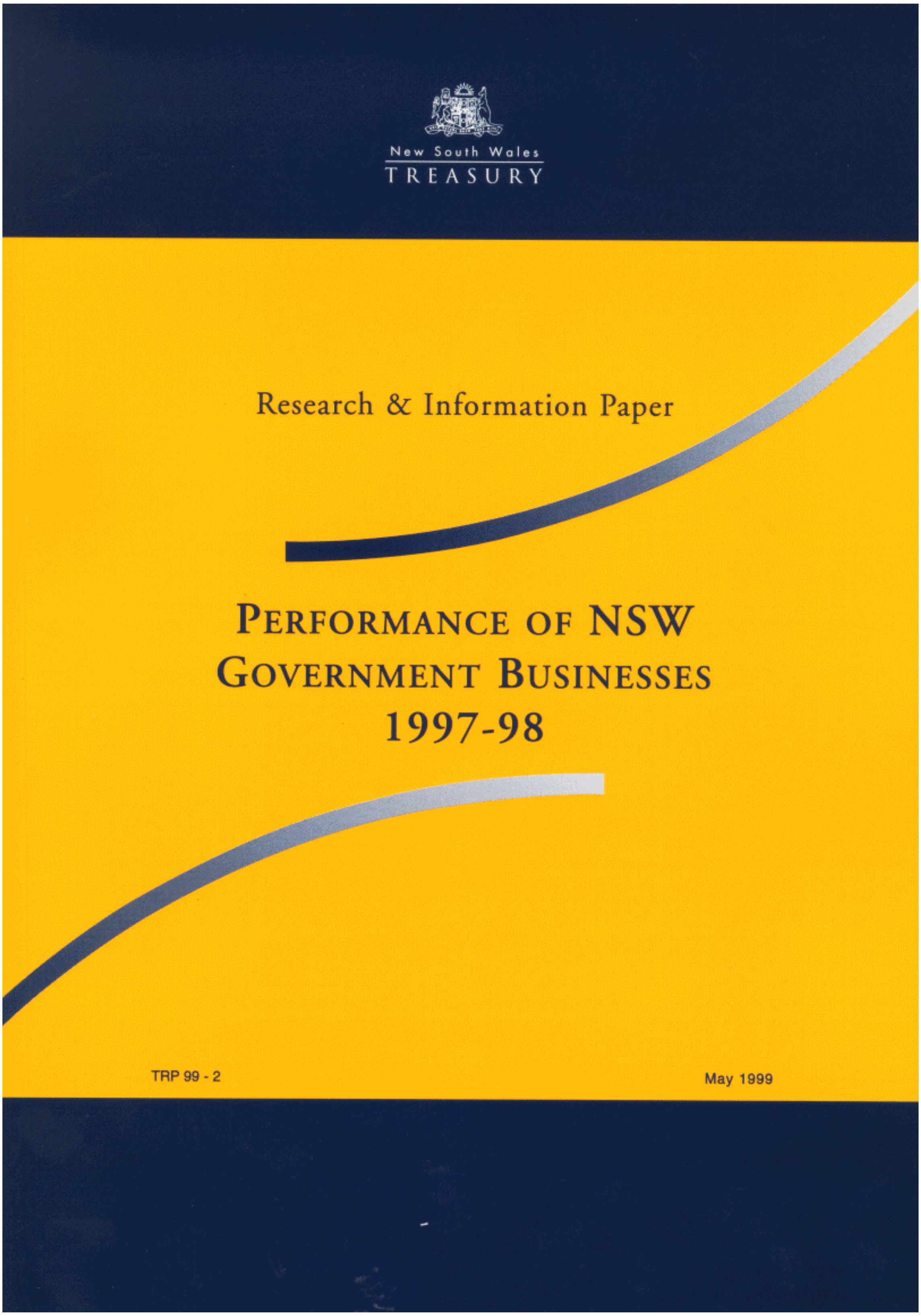
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PERFORMANCE OF NSW GOVERNMENT BUSINESSES 1997-98
TRP 99 - 2
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CONTENTS

PREFACE

This is the ninth edition of the *Performance of NSW Government Businesses*. New South Wales remains the only State which reports globally on the performance of its businesses in this way.

The publication reports on the performance of 27 agencies. As a result of the privatisation of the TAB in June 1998, this will be the last edition to contain a report on the TAB.

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Secretary
NSW Treasury

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EXECUTIVE SUMMARY

New South Wales has been actively implementing economic reform for over a decade. Since 1995 much of the reform process has taken place under the auspices of National Competition Policy, which has helped to coordinate and implement reforms across jurisdictional borders.

The benefits of economic reform are manifested in a number of ways. They include lower input costs, increased output using the same amount of inputs, greater real incomes and greater employment growth across the economy. The NSW Government's principal reform initiatives during the three years to June 1998 saved business an estimated $390 million in real terms each year.

State Governments dominate public infrastructure, owning about two-thirds, and are responsible for providing the greatest range of infrastructure services such as:

- transport and communications;
- housing and community services;
- health and education; and
- energy services.

During 1997-98 the focus of reform initiatives included the gas and electricity industries, as well as the TAB privatisation and the implementation of a competitive neutrality pricing regime for State and local government businesses.

The level of competition between entities in the electricity supply industry, both within New South Wales and in the interim market, including New South Wales, Victoria and the Australian Capital Territory, is increasing. A national electricity market commenced on 13 December 1998. Reforms have resulted in all customers who consume more than 160 MWh of electricity per year now being able to choose their supplier. It is envisaged that by 1 January 2001 all electricity customers will be able to choose their supplier.

New South Wales played a key role in the establishment of the National Gas Access Code, which came into effect in August 1998. The Code provides third party access to gas pipelines and therefore helps ensure the free and fair trade of gas in Australia.

The TAB was privatised on 22 June 1998 by means of a public float on the Sydney Stock Exchange. Over 750,000 shareholders invested in the TAB allowing the Government to reduce State debt by almost $1 billion.

The benefits of economic reform are evident across the spectrum of Government Business Enterprises (GBEs). Between 1991-92 and 1997-98 the Government Charges Index fell by almost 20 per cent in real terms. Dividends remitted by GBEs to the Government have almost doubled in real terms since 1991-92 to over $1.4 billion in 1997-98.

Productivity in the six largest GBE ares has continued to grow with better labour and capital usage. These GBEs were almost twice as productive in 1997-98 as they were in 1991-92.

Economic reforms in New South Wales continue to deliver lower prices for consumers and higher dividends to the Government. These returns demonstrate the benefits of continuing a sensible approach to economic reform.

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1. OVERVIEW OF ECONOMIC REFORM

THE RATIONALE FOR ECONOMIC REFORM

The main objective of government is to improve the living standards of its citizens. Improved living standards are generally characterised by a welfare gain as a result of increased real incomes and/or increased leisure time. The policies which achieve this result rely on improved productivity, and increasingly on international trade as a means of leveraging specialisation and division of labour on a global scale.

Fiscal policy and monetary policy are able to influence the performance of our industries at an aggregate level. Economic policy focuses on increasing productivity at the firm, industry and government business enterprise (GBE) level, typically by improving the way markets function.

Economic policies include reforms of labour markets, prices, structural monopolies, tariffs and legislation, among others.

Over the past 30 years productivity growth has been responsible for roughly one half of the expansion in Australia's GDP. Growth in capital, the workforce and other resources explain the remainder. Productivity growth is estimated to have accounted for around two thirds of the 80 per cent growth in per capita incomes over that period (see IC, 1997).

Reforms in New South Wales have spillovers into other States and vice-versa. There are benefits to all States from broadly coordinating the economic reform process so that reforms are synchronised and are able to spread across State borders. One contribution of the National Competition Policy (NCP) package has been to coordinate the timing of reforms across jurisdictions, thus helping to standardise the operating climate for business and helping put pressure on jurisdictions lagging on reform.

Economic reform drives productivity improvements in the economy and is the reason why governments continue to focus on it.

THE BENEFITS OF ECONOMIC REFORM

The benefits of economic reform are manifested in a number of ways. They include lower input costs, increased output using the same amount of inputs, greater real incomes, increased leisure time and greater employment growth.

The benefits of implementing the reforms outlined in the Hilmer Report were estimated by the Industry Commission (IC) on behalf of the Council of Australian Governments (COAG). The IC quantified the most significant reforms as being in the transport, communications and utilities sectors, in statutory marketing arrangements, government services, unincorporated enterprises and tempering of anti-competitive legislation.

The report estimated that the economy-wide benefits of the reforms would amount to a:

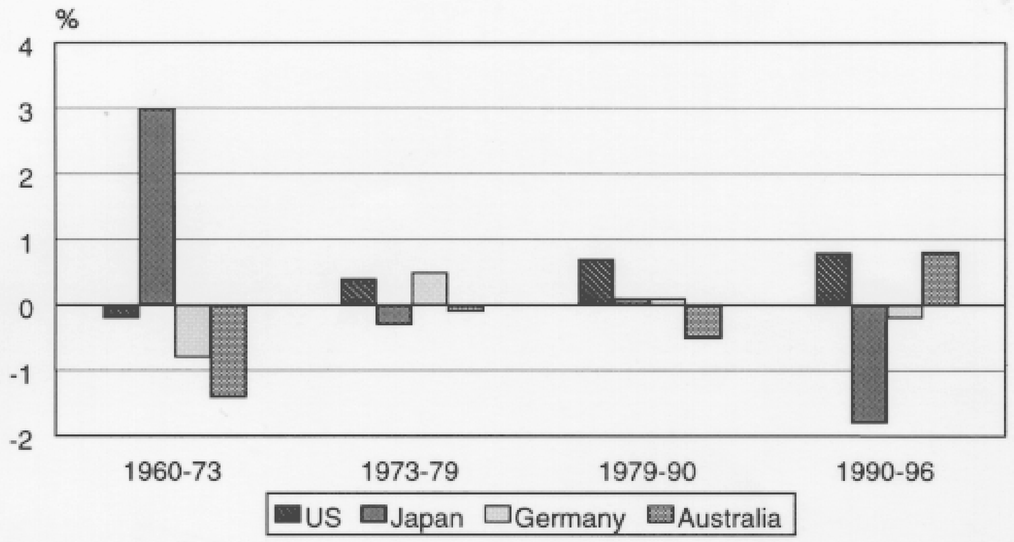
- $23 billion (5.5 per cent) real increase in GDP, with around half the benefits attributable to improved government business performance. Major contributors to the increase in GDP included the electricity, gas, telecommunications and rail sectors; and
- $9 billion gain to customers, equivalent to $1,500 for each Australian household; an increase of in real wages of 3 per cent; and 30,000 extra jobs.

The report estimated that State and Territory reforms would contribute $19 billion (4.5 per cent of GDP) in increased output and would be far more important than Commonwealth reforms, which would contribute $4 billion (1 per cent of GDP).

Approaching reform through a national mechanism such as National Competition Policy compels all States and Territories to embark on reforms at the same time. This ensures spillovers from reform benefit the whole of Australia.

A number of recent studies on productivity have shown that productivity growth in Australia has been stronger and more sustained than in the past (see IC 1997, Dowling and Summers, 1998 and Dowrick 1998). The IC estimated that the annual growth in multi-factor productivity in trend terms has increased from less than 1 per cent in 1989-90 to 2.3 per cent in 1995-96. As the figure following shows, Australia's productivity growth in the 1990s appears to be domestically generated rather than rely on a world-wide increase in productivity or technology transfer.

Figure 1: Multi-factor Productivity Growth in the US, Japan, Germany and Australia since 1960[1]



There is generally some delay between implementing reforms and realising the benefits. Considering that many economic reform initiatives take considerable time to implement, this is hardly surprising. It is partly for this reason that the benefits of economic reform are only now beginning to emerge. These benefits, however, can be expected to continue for some time.

By removing protective barriers, economic reform fosters openness in the economy. It is therefore more likely that foreign direct investment will take place and utilise new technology developed overseas in the process. The relative calm with which Australia has endured the current economic turmoil in Asia is testament in part to the flexibility and diversity of the economy. This flexibility is due in part to the pursuit of a economic reform agenda.

However, gain usually involves some pain. Some commentators have criticised the pursuit of economic reform, arguing that the purported benefits are overstated and as a result do not justify the costs associated. Other common criticisms of economic reform are that the gains are diminishing, that they are non-linear and that technology rather than reform has driven growth. Often detractors of economic reform argue that unemployment is still high and therefore economic reform has not worked.

Structural adjustment may take place in certain sectors of the economy as a result of specific economic reform initiatives and for longer term reasons such as technological change. The relative growth in demand for services may adversely impact on incumbent industries. It is important for government to have in place programs to ease transition as a result of such changes. That is, part of the benefits derived from reforms can be used to assist in the transition.

The NSW Government has a number of transition schemes for both affected areas and industries. The Regional Economic Transition Scheme is designed to assist regional towns which experience sharp economic shocks from structural change. An example of an industry specific adjustment is the Commonwealth/State funded Forestry Industry Structural Adjustment Package that seeks to offset the economic effects of reducing the log allocation from public forests to ensure their sustainability.

2. AGGREGATE PERFORMANCE OF NSW GOVERNMENT BUSINESSES

NSW Government businesses supplying electricity, transport and water contribute 80 per cent of all revenue collected by GBEs. They also account for 78 per cent of total GBE employment. Improvements in labour productivity in these areas have a relatively large impact on the overall performance of GBEs. The following GBEs comprise the three sectors outlined above:

- Pacific Power, Macquarie Generation and Delta Electricity;
- Advance Energy, Australian Inland Energy, EnergyAustralia, Integral Energy, Great Southern Energy and NorthPower;
- State Rail Authority, State Transit Authority, Rail Access Corporation, Rail Services Authority and FreightCorp; and
- Hunter Water Corporation and Sydney Water Corporation.

Figure 2: Labour Productivity for Major NSW Government Businesses

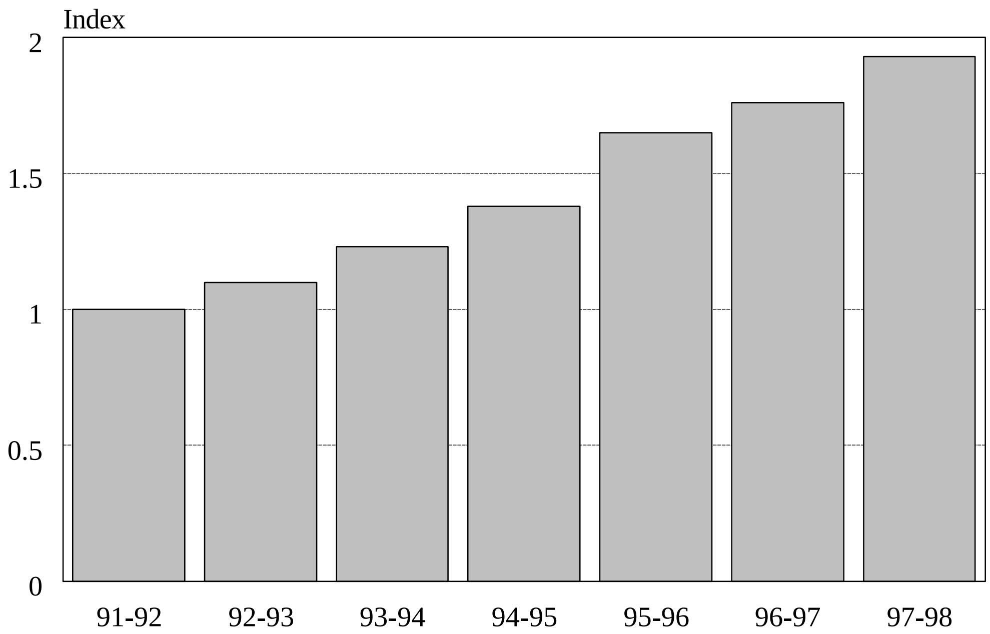


Figure 2 shows that, since 1991-92, NSW GBEs have significantly improved their labour productivity. This has resulted in a weighted improvement in productivity of 94 per cent.

Figure 3: Dividend and Tax Equivalent Payments from Non-Budget Sector Enterprises (1997-98 Dollars)

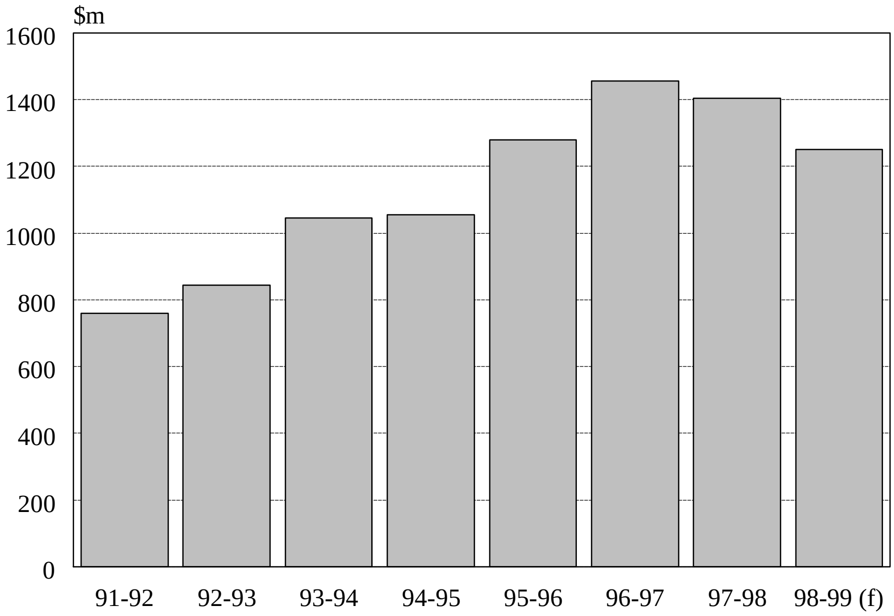


Figure 3 shows that these input cost savings have largely been passed on to consumers (rather than being paid as dividends to government). The savings have led to more appropriate rates of return for government businesses.

Figure 4:Government Charges Index

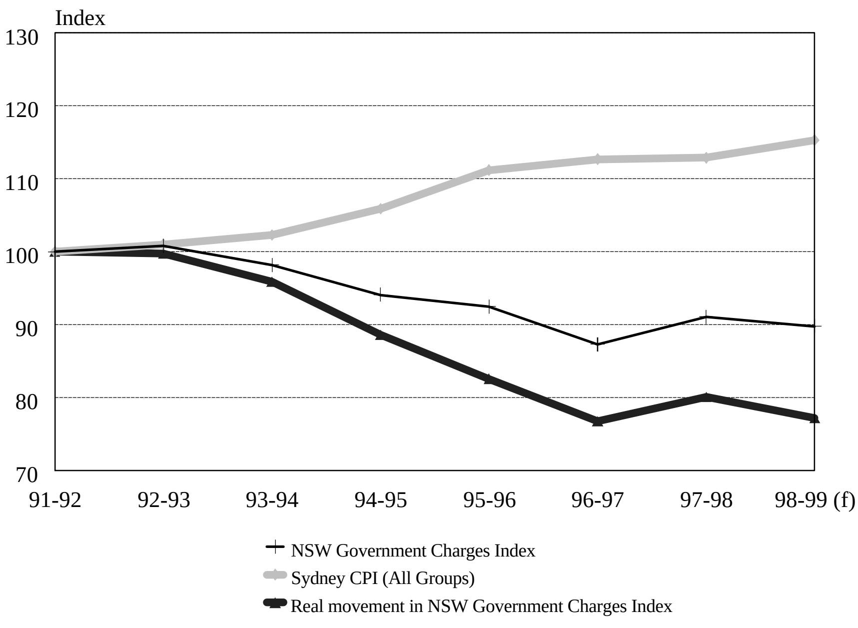


Figure 4 shows that, in real terms, the NSW Government Charges Index (GCI) rose by 4.3 per cent in 1997-98. Since 1995 the GCI has fallen by 3.1 per cent in real terms.

To a certain degree, the GCI understates the fall in government charges since it primarily reflects charges for household consumers. Business charges, which in some cases are agreed to in long term contracts, have recently fallen dramatically. These charges are not included in the GCI.

For example, businesses holding contracts with electricity suppliers have, to date, enjoyed large reductions in electricity prices. Such individual contracts, which account for over a quarter of electricity revenue, do not fall within the scope of the GCI.

Table 1 summarises the output, employment and productivity performance of the six largest GBE areas between 1991-92 and 1997-98.

Table 1: Employment, Productivity and Output Performance of the 'Big Six' New South Wales GBEs

	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	% Change 1991-92 to 1997-98
Employment									
Electricity Generators	(2)	6,482	5,870	5,757	5,595	3,503	3,328	3,019	-53%
Electricity Distributors		13,661	12,752	11,666	11,396	8,746	7,972	7,552	-45%
Hunter Water Corporation		995	934	799	740	715	620	554	-44%
State Rail Authority	(3)	24,467	22,803	21,270	20,186	19,742	9,370	9,317	-62%
State Transit Authority		4,423	3,897	3,740	3,795	4,101	4,303	4,305	-3%
Sydney Water Corporation		9,142	8,629	7,326	5,965	5,099	4,763	4,629	-49%
		59,170	54,885	50,558	47,677	41,906	30,356	29,376	
Index of Output									
Electricity Generators (Gwh)		100	105	106	109	115	110	112	12%
Electricity Distributors (Gwh)		100	102	105	108	111	112	111	11%
Hunter Water Corporation (properties served)		100	102	104	107	103	105	107	7%
State Rail Authority (aggregate measure)		100	95	97	103	106	107	109	9%
State Transit Authority (passengers carried)		100	99	99	95	99	103	103	3%
Sydney Water Corporation (properties served)		100	101	103	105	106	108	112	12%
Productivity (Output relative to Employees)									
Electricity Generators		7.6	8.8	9.0	9.6	16.1	16.2	18.2	140%
Electricity Distributors		2.8	3.1	3.4	3.6	4.8	5.3	5.6	101%
Hunter Water Corporation		170.9	185.2	221.5	245.9	245.6	287.9	327.8	92%
State Rail Authority - CityRail		23.0	22.5	23.4	29.9	31.0	32.0	34.3	49%
State Rail Authority - CountryLink		2,176.0	2,125.6	2,341.1	2,058.0	2,228.4	2,323.4	2,958.6	36%
FreightCorp		1,220.0	1,472.0	1,777.0	2,074.0	2,335.0	3,302.0	4,194.0	244%
State Transit Authority		46.2	52.0	54.4	51.4	49.6	48.8	48.8	6%
Sydney Water Corporation		152.0	163.4	195.2	244.8	290.3	314.9	334.8	120%
Weighted Total Output Change (%)	(4)								**9%**
Total Employment Change (%)									**-49%**
Weighted Productivity Change (%)	(5)								**94%**

Notes

(1) Employment measured as equivalent full time persons as at 30 June.
(2) TransGrid staff included in 1994-95 employment number.
(3) The change in employment from 1995-96 onwards reflects the creation of FreightCorp, Rail Access Corporation and Rail Services Authority.
(4) Output weighted by the 1992-93 dollar value of output from each agency.
(5) Average productivity of each agency weighted by final year employment.

3. PERFORMANCE MEASUREMENT OF NSW GOVERNMENT BUSINESSES

The Steering Committee for the Review of Commonwealth/State Service Provision defines performance as "how well a service meets its objectives, given the external constraints placed on it" (see p 1, Steering Committee Report, 1998). Measuring the performance of government businesses and services is important for various reasons. For example, performance measures may be used:

- to monitor policy implementation and success and to promote accountability;
- as a powerful internal management tool, providing managers with an indication of the efficiency of agencies and reasons for this performance;
- to inform on potential productivity improvements and to guide structural change; and
- to assist in resource allocation between competing needs based on performance and need.

However, because many government services are provided in markets where the price mechanism is not relevant or is very weak and the pressures of competition are minimal, analysis of performance is not straightforward.

Performance measures, which take into account these conditions, need to be constructed to measure the effectiveness of government business and service outputs and the efficiency with which they are being met. Such tools provide a better indication of performance improvements and a more reliable guide for resource allocation decisions.

Several government exercises are being undertaken to develop consistent indicators for the performance of government agencies. For example, the Productivity Commission's International Benchmarking Program, the Steering Committee on National Performance Monitoring of Government Trading Enterprises, the Steering Committee for the Review of Commonwealth/State Service Provision and this publication *The Performance of NSW Government Businesses*. These initiatives provide useful information for the comparison of the performances of similar agencies in New South Wales, Australia and overseas.

The publications provide some technical and economic efficiency measures. The main indicators of efficiency, however, are usually unit cost per unit of service or partial productivity measures, such as service per employee.

Partial indicators can vary for reasons other than efficiency; for example, government agencies may deliver services in different environments, have a different mix of clients or use different input mixes. Focusing on partial measures such as output per employee, for example, can be misleading because it only tells part of the story - how labour is moving with production. How capital is performing is not considered by this measure.

To overcome these shortcomings, governments have focussed on more comprehensive approaches to performance measurement. The NSW Government has been using techniques such as Data Envelopment Analysis (DEA), Total Factor Productivity (TFP), and Shareholder Value Added (SVA) for a number of years. The techniques combine information on major services (outputs) and inputs of government agencies to provide better measures of performance. The main features of these techniques are outlined in Table 2 following.

NSW Treasury's development of a comprehensive agency performance measurement and appraisal system, with the cooperation of numerous government agencies, will ensure improved public sector accountability and performance. The aim is to establish clear links between an agency's productivity and funding. The availability of these techniques has enabled the Treasury to begin analysing productivity for both public trading enterprises and the general government sector.

Table 2: Outline of SVA, TFP and DEA

	Measures	**Features**
SVA	Economic profit — operating profit after tax and a charge for debt and equity (also known as Economic Value Added)	— financial analysis tool — separates a firm's operations from its financing — deducts the opportunity cost of capital (debt and equity) from operating profit — uses a cash flow format where possible
TFP	Productivity — ratio of outputs (weighted by revenue shares) to inputs (weighted by cost shares)	— index number technique — handles multiple inputs and outputs — requires prices of inputs and outputs
DEA	Technical efficiency — identifies best practice within the sample and measures efficiency relative to best practice units	— linear programming technique — handles multiple inputs and outputs — does not need prices (useful for non trading Budget Sector agencies)

For example, a comprehensive SVA framework has been developed jointly by NSW Treasury and NSW government businesses. This framework is being implemented in two phases and is being phased in over three years for 37 government businesses. Final implementation will be complete by June 1999.

Profit Composition Analysis (PCA)

The latest performance measurement tool developed by NSW Treasury is PCA. It evaluates the relationship of technical efficiency, pricing and sales volume strategies to profit. PCA provides a framework that is both robust in theory and clear in methodology for policy makers and business managers alike.

PCA is a performance measurement tool for analysing economic causes of changes in Shareholder Value Added[1] (SVA). It establishes a way of evaluating the results of productivity, pricing and sales strategies in terms of their dollar impact on company economic profit. Figure 5 on the following page sets out the main elements of the PCA framework.

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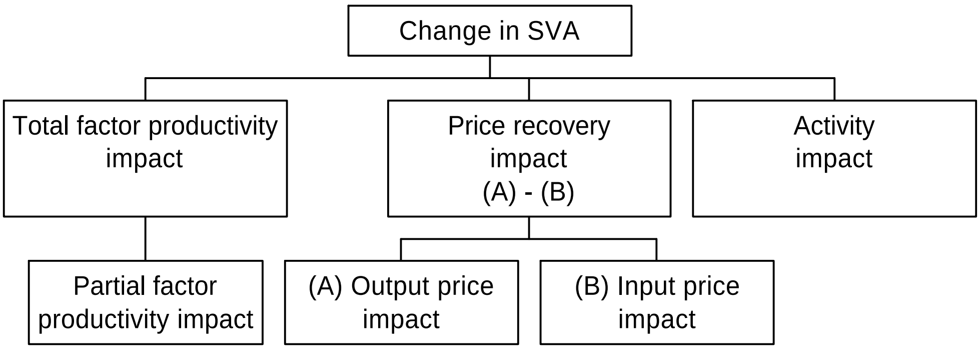
[1] SVA is defined as net operating profit *after* corporate income tax and capital charge.

Figure 5: Composition of an SVA Change



PCA decomposes an SVA profit change between two periods into three major sources: (a) a total factor productivity impact, (b) a price recovery impact, and (c) an activity impact.

The *total factor productivity (TFP) impact* measures the change in overall productivity between two periods in terms of the value of input quantity savings for a unit of output. An improvement in TFP, assuming no other changes, will increase a firm's profit. The TFP impact can be decomposed into *partial factor productivity impacts* for each individual input.

The *price recovery impact* measures whether a firm's output prices are recovering input prices and contributing to increases in profit. It is equal to the output price impact *less* the input price impact. An overall increase in output prices, assuming no other changes, will increase a firm's profit. In contrast, an overall increase in input prices, assuming no other changes, will reduce a firm's profit.

The *activity impact* values the contribution to profit from a change in sales, assuming no change in productivity and price recovery. It is driven by changes in the level of sales for a firm's products weighted by a constant-price profit margin. The activity impact reflects a number of macro and micro factors, including the state of the general business cycle, industry growth trends and firm-specific marketing strategies. An overall increase in sales volumes with a positive value of the profit margin, assuming no other changes, will increase a firm's profit between two periods.

PCA complements the SVA framework as it provides unique information about enterprise performance for both managers of government businesses and public policy makers.

Managers can use PCA:

- to evaluate the results of productivity improvement strategies in terms of their impact on profit (it may also have a possible application to productivity-based remuneration);
- to analyse a pricing strategy by quantifying whether output prices are recovering input prices and contributing to profit;
- to assess the profitability of sales volume strategies; and
- to argue a case for an output or product price increase before an economic regulator (for a regulated monopoly business).

Public policy makers can use PCA:

- to ascertain a possible abuse of market power; and
- to determine regulated prices for a monopoly business.

PCA provides a framework for analysing the nature of profits earned by private and public monopolies. A good economic principle is that a monopoly should not earn more than a 'normal' rate of return[2]. Where a monopoly is earning a 'super-normal' rate of return[3] through consistently high price recovery there is evidence of an abuse of market power.

The distribution of productivity gains generated by monopolies is a key issue in determining regulated prices for a monopoly business. Productivity gains can be distributed among consumers (in the form of lower prices), employees (as higher wages) and owners (as higher profits). Where a regulated monopoly is consistently enjoying super-normal profits there are strong policy grounds for policy makers to lower the regulated product price to reduce its profit. Alternatively, if a regulated monopoly is not earning a normal profit *and* its productivity performance is sound, there is a case for the firm to argue a case for an increase in product prices to improve its profitability before the regulator.

A pilot study is under way with a NSW government business to test the feasibility of the framework. A technical report incorporating selected results from the pilot study is planned in the near future.

[2] Economic profit is equal to total revenues less total economic costs. Total economic costs include the opportunity cost of investors' capital. The opportunity cost of capital is the rate of return that investors could make by investing their capital in other securities with the same risk. A firm earns a 'normal' rate of return when its economic profit is zero. A firm earns a 'supernormal' rate of return when it earns a positive economic profit.

[3] Refer to Footnote 3 for a definition of 'super-normal' rate of return.

4. NATIONAL COMPETITION POLICY

In 1995, the Council of Australian Governments (COAG) embarked on a national approach to economic reform, by signing the National Competition Policy (NCP) agreements. This national approach ensures that the States and the Commonwealth focus on similar reforms at the same time, to maximise the benefits of economic reform across the whole of Australia.

NCP consists of three inter-governmental agreements: the Conduct Code Agreement (CCA), the Competition Principles Agreement (CPA) and the Agreement to Implement National Competition Policy and Related Reforms (RRA). These agreements are discussed below.

The purpose of NCP is to deliver benefits to consumers and businesses through the creation of competitive markets wherever practicable.

Continued implementation of economic reform by the NSW Government under the auspices of NCP is important for a number of reasons. Firstly, implementation of these reforms leads to increased consumer choice and the more efficient allocation of resources. Secondly, the competition payments from the Commonwealth Government hinge on the effective implementation of reforms, as assessed by the National Competition Council (NCC).

In the longer term reform should enhance the Budget position by extracting better value from the expenditure side while also boosting the revenue side through economic growth.

CONDUCT CODE AGREEMENT (CCA)

The CCA determines the landscape on which the reforms will occur. It requires that the Competition Code, a schedule of the *Trade Practices Act 1974* (TPA), is applied by all Australian governments through enacting legislation. In particular, the Competition Code requires the application of Part IV of the TPA, which relates to restrictive trade practices and unconscionable conduct.

The NSW Government complied with this agreement by enacting the *Competition Policy Reform (NSW) Act 1995*, which has applied to all persons, unincorporated associations, corporations and professional and government agencies since 21 July 1996. Since 1 July 1997, government businesses have also come under this Act.

There are two important aspects in relation to the Competition Code and the application of the TPA:

- New South Wales must notify the Australian Consumer and Competition Council (ACCC) within 30 days of any legislation or provision in legislation which is reliant on s51 of the TPA; and
- New South Wales may, under s51 of the TPA, exempt conduct that would usually be subject to Part IV of the Act. However, the Commonwealth Minister may table regulations under s51 (1C)(f) of the TPA which in effect remove the exemption. In general, the NCC will advise the Minister to approve an exemption if there are net benefits to the community and the objectives of the legislation or regulation can only be achieved by restricting legislation.

The NSW Dairy Corporation and the Sydney Organising Committee for the Olympic Games (SOCOG) have been exempted for certain activities since the introduction of the Competition Code.

COMPETITION PRINCIPLES AGREEMENT (CPA)

The Competition Principles Agreement (CPA) lists six principles applying to government businesses designed to enhance competition in markets for goods and services. The principles stipulate:

- independent prices surveillance of monopoly and near monopoly activities;
- introduction of competitively neutral pricing by government businesses competing with each other or the private sector;
- structural reform of government businesses by separating regulatory from core operating activities, and for the latter, separating competitive, or potentially competitive activities, from monopoly activities;
- review and, where appropriate, reform of all existing legislation wich restricts competition;
- third party access to significant infrastructure facilities; and
- application of the above principles to local government businesses.

New South Wales' achievements in the application of these principles is summarised below.

Independent Prices Oversight

As far back as 1992, the NSW Government established an independent pricing tribunal, the Government Pricing Tribunal (GPT). The GPT was reformed and renamed the Independent Pricing and Regulatory Tribunal (IPART) in 1996. The functions of IPART are to:

- set maximum prices and review pricing of scheduled NSW Government monopoly services including electricity, gas, water and public transport;
- undertake general reviews of industry, pricing or competition issues as required by the Premier; and
- register agreements for access to public infrastructure assets and arbitrate disputes about such agreements.

In 1997-98 IPART undertook the following activities:

1. Price Regulation:

- electricity prices from 1997;
- public transport fares for CityRail and State Transit Authority services;
- bulk water prices from July 1997;
- prices of water supply, sewerage and drainage services for Sydney Water Corporation (SWC) for 1998-99 and for Hunter Water Corporation up to 2000; and
- pricing of backlog sewerage service for SWC and Gosford City Council.

2. Advice to the Government on industry issues:

- final report on benchmarking local government performance in New South Wales; and
- regulation and licensing of air services in New South Wales

3. Access to public utility infrastructure services:

- determination of conditions of access for third parties to AGL's gas distribution networks; and
- review of the delivered price of natural gas to tariff customers served from AGL's gas network.

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4. Discussion Papers:

- streetlighting review 1998-99; and
- review of fees for development and control services.

The determination on AGL's operating terms and conditions provides for:

- a substantial reduction in its charges for transporting gas. Average gas charges, per giga joule (GJ), will fall from $2.26 to $1.05 by 1999-2000. This represents a fall in real terms of almost 60 per cent; and
- elimination over three years of the cross-subsidy from business customers to households, while keeping price increases to households capped well below increases in the CPI.

Competitive Neutrality

The objective of this principle is to ensure government businesses do not distort the efficient use of the economy’s resources through any competitive advantages as a result of being government owned. Government signatories to the CPA are required to ensure their businesses adopt:

- a corporatisation model;
- full Commonwealth, State and Territory taxes or tax equivalents;
- debt guarantee fees (which in effect restore the true cost of debt); and
- regulations to which private sector businesses are normally subject.

The above requirements may only be exempted where it can be shown that there is a net public benefit from not implementing competitive neutrality principles. In addition, while corporatisation is a key aspect of the CPA, the agreement offers discretion on ownership and does not require privatisation of government businesses. Indeed, the NSW Government has chosen to keep the vast majority of its businesses in public hands.

In June 1996, the NSW Government published its *Policy Statement on the Application of Competitive Neutrality*. While this was a requirement under the CPA, each jurisdiction is free to determine its own timetable for the implementation of competitive neutrality principles. In the NSW case there was an undertaking to commit its businesses to a competitive neutrality regime commencing from 1 July 1998.

New South Wales recognises the possibility of competition between general government enterprises from different States and Territories, and supports the development of nationally consistent guidelines for pricing and costing.

A State Owned Corporation (SOC) model has been adopted within New South Wales. It requires certain Government agencies to adhere to commercial disciplines and function on the basis that government, and more broadly the community, are shareholders. It is embedded in a Financial Policy Framework under which government businesses are subject to:

- the application of an SVA framework;
- regular performance monitoring;
- the payment of State and Commonwealth tax equivalents;
- the payment of risk related borrowing fees; and
- explicitly funded Community Service Obligations (CSOs).

The *State Owned Corporations (NSW) Act 1989* creates two SOC structures - a company SOC and a statutory SOC structure. Both have a board of directors, share capital and a memorandum and articles of association similar to a public company limited by shares. The full extent of *Corporations Law* applies to company SOCs, whereas statutory SOCs are only required to observe the aspects of the *Law* relating to officers' duties and liabilities.

To date, corporatisations have occurred in the electricity generation and distribution sectors, ports, transport, water and waste services. During 1997-98 the following government businesses were corporatised:

- Totalizator Agency Board (prior to privatisation in June 1998);
- Coleambally Region Irrigation Areas & Districts; and
- Murrumbidgee Region Irrigation Areas & Districts.

Budget agencies with business activities which are not corporatised and which do not have commercial disciplines imposed on them have been required to introduce charges which reflect costs since 1 July 1998. To assist these agencies in this process, the Treasury released a working paper, *Pricing Principles for User Charges*, in October 1997 and conducted workshops to assist agencies in their preparations. The principles apply to government businesses not already under the Financial Policy Framework or not currently subject to IPART price regulation.

Competitive Neutrality Complaints Mechanism

As part of the competitive neutrality obligations, the States were required to develop arrangements receiving and responding to complaints. The arrangements outlined in the *Policy Statement on the Application of Competitive Neutrality* consisted of two stages:

- Stage 1: the party lodging the complaint to approach the relevant government agency to clarify and attempt to resolve the matter (this first step also acts as a mechanism to eliminate trivial complaints or misunderstandings); and
- Stage 2: (only if necessary) the matter is then referred for independent assessment by a third party complaints mechanism wherever the complainant is not satisfied with the response of the agency involved. The necessary arrangements for IPART dealing with generic complaints and the State Contracts Control Board dealing with tendering complaints are in the course of being implemented.

Structural Reform of Public Monopolies

Under this CPA principle the operating activities of a government business have to be separated out from the regulatory functions before the business is subjected to competition. The operating activities then have to be separated into monopoly and near monopoly activities on the one side, and competitive or potentially competitive on the other. This process ensures that the monopoly rents of competitive activities are removed through competition, while IPART's independent price oversight of monopoly elements optimises community benefits.

There has already been substantial structural reform of the electricity and rail industries in New South Wales.

The passage of the *Electricity Supply (NSW) Act 1995* established a single legislative framework for the industry, separated out the transmission and distribution (natural monopoly) and the generation and retail (potentially competitive) sectors of the industry, as a precursor to competitive retail electricity supply. This Act sets out the regulatory framework for the wholesale electricity market.

The separation of the operation of rail services from the ownership, provision of access and the maintenance components of the State Rail Authority, as outlined in the *Transport Administration Amendment (Rail Corporatisation and Restructuring) Act 1996*, has led to the formation of four transport entities. They are the:

- State Rail Authority - provides customer services;
- Rail Services Authority - responsible for track maintenance;
- Rail Access Corporation - manages the rail network and administers access by public and private operators; and
- FreightCorp - runs freight services.

The NCC concluded in its report on the first tranche payments that New South Wales had met its commitment to reform monopolies under Clause 4 of the CPA.

Legislative Review and Reform

New South Wales has prepared a comprehensive program of legislative reviews, encompassing some 200 pieces of legislation identified as restricting or potentially restricting competition. Each of these pieces of legislation is due to be reviewed before the year 2000.

Some 59 reviews were scheduled for 1996-97. As at 31 December 1997, 10 had been completed and a further 37 were under way. From the 1997-98 program, two reviews have been completed, 11 were in progress and 17 were yet to commence. Two pieces of legislation are under consideration for national review.

The government has abolished 850 pieces of unnecessary or obsolete legislation to reduce the administrative burden on business. These include laws affecting the coal industry, finance, real estate and shipping. All together the number of laws in NSW has shrunk by 295, with the government passing 585 new acts and abolishing 850.

These reviews have benefited New South Wales by streamlining administrative arrangements, reducing compliance costs and repealing unnecessary legislation.

In its 1997 report on legislative review program compliance under the conditions set down for the first tranche of competition policy payments, the NCC expressed concern regarding the *Casino Control Act 1992* and the TAB privatisation and the NSW Government decision on rice industry marketing.

In its supplementary assessment of first tranche progress the NCC concluded that the gambling issues were best dealt with outside the first tranche payments. The rationale behind this decision was that the work undertaken by New South Wales in examining the laws supporting the TAB monopoly and the casino legislation and by other governments had highlighted the complexities and sensitivities associated with the economic and social impacts of gambling and wagering. Also, the commencement of a Productivity Commission (PC) review of the Gambling industry warranted some delay in consideration.

On the NSW Government decision to maintain existing vesting arrangements for the domestic marketing of rice, the NCC was more critical. It concluded that $10 million of the $73.4 million of first tranche payments New South Wales was due to receive in 1998-99 should be withheld.

In the NCC's view the NSW Government had not offered an adequate justification for its decision in discussions in the course of 1997-98. The NCC has proposed the establishment of a working group involving the NSW Government, the NSW rice industry and itself to examine the 1995 review and to attempt to achieve an outcome consistent with the findings of the Review Group. The one-off $10 million deduction from the 1998-99 NSW component of the NCP payments will not take effect until 31 January 1999, the date the 1995 Review Group recommended for the deregulation of domestic rice marketing arrangements (see NCC 1998, p 7).

The NSW Government considers the NCC's approach fails to take account of the major reforms in the big ticket areas of electricity, rail, water and gas where there has been progress well beyond requirements.

National Regulatory Action and Legislative Review

On 19 May 1998 the Prime Minister released a memorandum outlining the amendments to the *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies* as amended by COAG in November 1997.

There were a number of reasons behind the amendments to the *Principles and Guidelines.* Under the Mutual Recognition Agreement, Ministerial Councils may be required to make a standard on any product or develop nationally uniform criteria for the registration of any occupation. The amended *Principles and Guidelines* are designed to ensure that Ministerial Councils do not impose unnecessary regulations.

The *Principles and Guidelines* also emphasise a move away from prescriptive standards to performance based regulation where possible. The desire to avoid duplication in impact assessment procedures in different jurisdictions where national standards are set was another guiding principle.

The regulatory impact statement (RIS) forms the basis of the *Principles and Guidelines*. The purpose of the RIS is to firstly determine whether there is a need for government regulation. Where it is deemed that regulation is necessary, then a quantitative analysis to determine the most appropriate regulatory regime must take place.

The three methods for quantifying the impact of proposed regulations outlined in the *Principles and Guidelines* are:

- risk analysis;
- cost benefit analysis; and
- cost effectiveness analysis.

Five broad regulatory principles are also outlined in the paper:

- simplicity;
- equity;
- efficiency;
- flexibility; and

- the need for periodic reviews of the relevance and performance of the regulation.

Governments also have to ensure that the Principles and Guidelines are consistent with their obligations under the Competition Principles Agreement (CPA). To ensure that this occurs, the proposed terms of reference and the review arrangements for all national legislation reviews must be referred to the COAG Committee for Regulatory Reform prior to the commencement of a national review.

TAB Privatisation

The TAB was privatised on 22 June 1998 by way of a public float on the Sydney Stock Exchange, where it was registered as TAB Limited. Approximately, 750,000 shareholders invested in TAB Limited and in the process allowed the Government to retire $1 billion of debt.

Prior to privatisation the TAB was corporatised on 1 March 1998 and the effective wagering tax rate lowered from 51.9 per cent to 28.2 per cent, the same tax rate as applies in Victoria.

The privatisation has vested exclusive licences with TAB Limited to undertake the following activities:

- provision of off-course totalisator wagering in New South Wales;
- operation of a State-wide linked jackpot system on certain gaming machines in registered clubs; and
- provision of a centralised monitoring system for gaming machines in registered clubs and hotels.

In late 1997, the NSW Parliament passed the *Totalizator Legislation Amendment Bill*, which amended a range of statutes necessary to enable the proposed privatisation. These amendments included exemptions from the TPA for the exclusive licence arrangements outlined above. As part of the process of notifying the ACCC of the exemptions, an advance copy of the net public benefit report was forwarded to both the ACCC and the NCC in accordance with Clause 2 of the Conduct Code Agreement.

In April 1998, in accordance with competition policy requirements, the Treasury and Cabinet Office completed a review of the TAB privatisation proposals, which concluded that the privatisation would confer a net public benefit to the community.

Progress in Implementing Financial System Inquiry (FSI) Reforms

The Federal Treasurer presented a *"Statement on the Reform of the Australian Financial System"* to the Commonwealth Parliament on 2 September, 1997 as the Commonwealth Government's formal response to the FSI.

A key proposed reform in the Statement related to the transfer of prudential and corporate regulatory responsibility for building societies, credit unions and friendly societies from the States/Territories to the Commonwealth. This would be facilitated through establishment of two major national regulatory bodies, namely:

- the Australian Prudential Regulatory Authority (APRA); and
- the Australian Securities and Investments Commission (ASIC).

The Prime Minister wrote to Premiers seeking co-operation and support and the acting Premier of New South Wales responded on 9 January, 1998 indicating in-principle support, subject to resolution of a number of issues, including the need for APRA’s headquarters to be located in Sydney. The Prime Minister’s response of 17 March, 1998 included agreement to APRA’s headquarters being located in Sydney.

The new regulators would retain a presence in the other major capital cities and possibilities for decentralising activities to regional offices would be fully explored.

The Prime Minister further proposed:

- early introduction of legislation to provide for the first stage of reforms to be in place from 1 July 1998, including establishment of APRA (this Stage 1 legislation was passed in June, 1998);
- interim arrangements for the establishment of ASIC, because of the need for changes to the *Australian Securities Commission Act* and agreement of the Ministerial Council for Corporations (MINCO);
- retention of arrangements for the national corporate regulation scheme as set out in the Corporations Agreement; and
- negotiation of arrangements to transfer all staff from State/Territory bodies to the new bodies, as appropriate, with no lessening of current terms and conditions.

It was agreed that the necessary administrative and legislative requirements to facilitate the transfer of prudential regulatory responsibilities from the States to the Commonwealth would be developed by officials in a Commonwealth/State Working Party under the direction of the Commonwealth Treasurer. Proposals emanating from the Working Party could then be considered by the respective jurisdictions as part of the process of determining whether to proceed with the ‘in principle’ support given in early 1998. The NSW Government was represented on the Working Party by officers from the Treasury, FINCOM and The Cabinet Office.

At its first meeting in April 1998, the Working Party agreed on a target date of 1 December 1998 for the transfer subject to final endorsement by the respective jurisdictions. As part of this process it was agreed that a Framework Agreement be developed to enable ‘in principle’ endorsement of the key legislative and administrative (including staff transfer) proposals by around July 1998.

In parallel with the Working Party process the Commonwealth held discussions with the peak industry bodies representing building societies, credit unions and friendly societies on the options and proposed approach for the transfer of prudential supervision responsibilities to the Commonwealth. While the proposed approach has received general support from these groups, some matters of detail have required further consideration.

At the time of writing this report the Commonwealth had yet to finalise the Framework Agreement. The delay was further extended as a result of the calling of a Federal election held on 3 October 1998. As the framework Agreement is integral to the process of gaining State Government endorsement of the necessary legislative and administrative actions required, achievement of the target transfer date of 1 December 1998 was not achievable.

Subject to the NSW Government’s endorsement of the final package of legislative and administrative proposals, every endeavour will be made to execute the transfer of regulatory responsibilities to the Commonwealth as soon as is feasible in 1999.

Third Party Rights to Negotiate Access

Clause 6 of the CPA stipulates that jurisdictions provide third party access to significant infrastructure facilities to enhance upstream and downstream competition to the net benefit of the economy. Duplicating this type of capital investment is not in the public interest as more often than not the current infrastructure has the capacity to cater for more customers and service providers. Therefore, it is necessary to remove the monopoly control of the infrastructure from the incumbent and permit access to third parties.

Access is to be provided where:

- it would not be economically feasible to duplicate the facility;
- the facility is of national significance; and
- safe use by a third party can be assured at an economically feasible cost.

The essential features of the NSW Government framework for the establishment of State access regimes, released in August 1995, include the following:

- the NSW third party access regime will apply to infrastructure of less than national significance, but considered of State significance to New South Wales;
- third party requests for access should in the first instance, be resolved by voluntary negotiations between the access seeker and the entity owning or managing the infrastructure, according to Government protocols which ensure compliance with the principles set out in Clause 6 of the CPA;
- in all areas where such regimes are established, IPART will handle dispute resolution matters and will advise where necessary on pricing and related access issues; and
- there will be a right of appeal on an IPART decision to a court, but only on matters of law and not on the grounds of deficient economic analysis.

Electricity

Third party access provisions were incorporated in the State Electricity Market Code, which came into effect in May 1996. They apply equally to the high voltage transmission network operated by TransGrid and the various distribution networks in New South Wales. The Code, which governs the operation of the interim State wholesale market, provides for IPART to arbitrate on any disputes arising from third party access negotiations. It has received interim authorisation from the NCC and will eventually be replaced by the National Code.

Rail

The NSW rail access regime covers the former SRA's rail network. The track and other fixed infrastructure are vested in the Rail Access Corporation (RAC), which sets the terms for access to private and public operators. This arrangement is well in advance of any requirements at the national level. Third party access provisions permit new rail operators to enter the market and compete with public operators in such areas as coal and grain haulage. During 1997-98, four privately owned operators were granted access to the NSW rail network. As a direct result, interstate freight rates fell around 10 per cent in 1997-98.

Agreement between the NSW Government and the NSW Minerals Council to phase-out the monopoly rent component in Hunter Valley rail freight charges for coal and on transparent charging arrangements in the future have already seen freight charges fall by as much as 17 per cent in 1997-98.

As with the gas regime, the third party access regime introduced in New South Wales in August 1996 will require NCC approval for accreditation as an effective State regime. Discussions between the NSW Government and the NCC on the effectiveness of the regime are continuing. On 9 April 1998 the NCC issued its draft recommendation on the Regime for public comment (see NSW Government, 1998, p 35).

The separation is designed to drive efficiencies in network asset management and represents a first step towards an open access policy for private train operators.

Gas

The National Gas Access Code commenced in August 1998, two months later than planned. The failure of the Commonwealth to enact legislative amendments necessary for the Code to become operational and the failure of Western Australia to pass the necessary legislation enabling the commencement of the National Gas Access Code were behind the delay.

The NSW access regime for gas distribution services, in place since 1996 as an interim measure, was replaced by the National Code. The National Code establishes a framework for third party access to gas pipelines, one of the aspects of competition reform being implemented in Australia.

Application of Competition Principles to Local Government

New South Wales has made significant progress in applying the competition principles to local government, especially in developing guidelines for implementation.

In 1997-98, NSW Department of Local Government issued various guidelines to local councils on competitive neutrality, including *Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality*. This publication included a timetable for applying competitive neutrality to significant business activities.

Under these guidelines for Category 1 (turnover of $2 million and over per annum) local government business activities Councils are required to:

- implement separate internal reporting for the business activity as of July 1997;
- apply full cost attribution from July 1998; and
- make subsidies an explicit transaction from July 1998.

For Category 2 (turnover of less than $2 million per annum) local government business activities Councils have had to:

- do an accounting separation for internal reporting for the activity since July 1997;
- adopt full cost attribution, where practicable, since July 1998; and
- make subsidies an explicit transaction since July 1998.

In March 1998 a survey of local councils revealed that 90 Category 1 activities had been identified;

71 had established separate internal reporting structures. Full cost attribution and the identification of subsidies were already in place to varying degrees for these activities.

318 Category 2 activities have been identified. 107 of these activities have adopted partial or full cost attribution. Subsidies, where any exist, have been made explicit for 151 of these activities.

AGREEMENT TO IMPLEMENT THE NATIONAL COMPETITION POLICY AND RELATED REFORMS ACT (RRA)

The Agreement to implement the National Competition Policy and Related Reforms Act (RRA) includes specific industry reforms, which have been subject to separate agreements. These reforms are crucial to securing the full benefits of national economic reform and were accordingly brought into the national competition policy package.

The RRA also sets out the conditions under which the Commonwealth Government will provide financial assistance to the States, subject to their being no major deterioration in Australia's economic circumstances.

Commonwealth assistance is provided by way of:

- maintaining the real per capita guarantee of the Financial Assistance Grants pool on a rolling basis; and
- making $4.2 billion (1994-95 dollars) of Competition Policy Payments over nine years to the States and Territories in three tranches, allocated on a quarterly per capita basis and in a way that is independent of the Commonwealth Grants Commission process.

Based on the NCC assessment of NSW compliance, New South Wales is expected to receive $1.4 billion (1994-95 dollars) in financial assistance (around 34 per cent of total Competition Policy Payments). In 1998-99, $73.4 million was to be received following the NCC's recommendation to the Commonwealth. A $10 million penalty for not satisfying the NCC on Rice Marketing Arrangements is due to be deducted in January 1999, although New South Wales and the NCC are holding discussions on this matter at present (see NCC 1998, p 7).

RELATED REFORMS

Electricity

Since the Heads of Government meeting in May 1992, New South Wales has been formally committed to reforming the electricity supply industry and establishing a competitive market along the eastern seaboard.

New South Wales has been one of the leaders in reforming the electricity industry, operating a competitive market for trade in wholesale electricity since May 1996. The NSW retail market is now open to participation by any licensed electricity retailer, and the ability of customers to purchase electricity is gradually being extended.

New South Wales has also been at the forefront of moves to establish a fully competitive electricity market in Australia. Since 4 May 1997, New South Wales, Victoria and the Australian Capital

Territory have been operating an interim national market in advance of the fully competitive market. This was achieved through the harmonisation of the arrangements in NSW and Victorian electricity markets to enable electricity generators to compete to supply power to retailers in the three jurisdictions and indirectly to South Australia.

In addition, New South Wales has subscribed to the National Electricity Management Company and the National Electricity Code Administrator, thereby satisfying its requirements for the first tranche payment in respect of electricity under the RRA.

The case for privatisation of the electricity supply industry was examined by the Hogg Committee in 1997. Regardless of whether the industry is publicly owned or not, the Committee stressed the importance of regulatory change.

The NSW electricity industry has been restructured to separate the regulatory components from the operating components. Generation, transmission, distribution and retail comprise the operating components. The distribution and transmission network components exhibit natural monopoly characteristics, however, generation and retail components are seen as contestable.

The *Electricity Supply (NSW) Act 1995* was introduced in 1995-96 and provided the legislative framework for the establishment of the wholesale electricity market, competitive retail supply and transmission and distribution network service provision. The restructure of these arrangements is designed to encourage greater competition in electricity supply.

New South Wales has progressively introduced competition to large retail customers. Since April 1997 users of 4 giga watt hours (GWh) of electricity per year have been able to choose their electricity supplier. Three months later this was extended to anyone using more than 750 mega watt hours (MWh) (generally energy intensive businesses). Since July 1998 customers using more than 160 MWh of electricity per year have been selecting their electricity supplier. The intention in late 1998 was that all remaining customers should be made contestable from 1 January 2001 onwards.

The full National Electricity Market commenced operation on 13 December 1998, when Queensland, South Australia and Tasmania joined the Australian Capital Territory, Victoria and New South Wales. All parties are subject to:

- the National Electricity Code; and
- National Electricity Law.

Gas

New South Wales has taken a leading role in achieving free and fair trade in gas in Australia. New South Wales implemented an effective framework for providing third party access for natural gas distribution within its boundaries in 1996 and had been a prime mover in establishing the National Gas Access Code, which came into effect in August 1998 replacing the 1996 regime.

A key outcome of the NSW reforms will be a significant reduction in the price of gas. This will flow from AGL’s proposal for providing third party access established in accordance with the superseded NSW regime. The proposal sets out the Company’s undertaking on the terms and conditions for access to its gas distribution system. The determination on AGL’s terms and conditions, released by IPART on 17 July 1997, provides for:

- a substantial reduction in the cost of transporting gas. Average charges per GJ will fall from $2.26 to $1.05 by 1999-2000 (a fall of almost 60 per cent in real terms); and
- elimination over three years of the cross-subsidy from business customers to households, while keeping price increases to households capped to well below increases in the CPI.

Other benefits from reforms are also visible. For example, natural gas usage in New South Wales rose by 4.0 per cent in 1997-98. AGL has also laid another 623 kilometres of gas mains in New South Wales during the year and a 146 kilometre pipeline interconnecting NSW and Victorian gas pipelines was also completed in 1997-98, enabling interstate trade in natural gas between the two States for the first time.

Water

Water reform will continue to be a main focus of the second tranche payments.

Water reform objectives are based on the February 1994 COAG Strategic Framework for Water Reform. They emphasise pricing reform on the principles of linking charges to consumption, full cost recovery and the reduction or elimination of cross-subsidies. Where subsidies remain, they must be made transparent. Apart from pricing, the framework involves the clarification of property rights, the allocation of water, institutional reform and public consultation and participation.

Once the reforms are in place, water tariffs should be restructured and cross-subsidies removed in large areas of the State and greatly reduced in others. Any potential impact on water users will be offset by cost reductions through more efficient, customer driven service provision.

As far as rural water is concerned, there is a requirement under the Framework to generate the financial resources to maintain supply systems and through a system of tradeable entitlements to allow water to flow to higher value uses bearing in mind social, physical and environmental constraints.

Major Urban Authorities

Hunter Water Corporation has eliminated price differences for all customers with the exception of sewerage charges. Sydney Water Corporation’s remaining non-residential property value-based charges are being phased out. It is intended that 85 per cent of all property value-based charges will be eliminated by 1999-00, removing a major source of cross-subsidy. Current projections indicate that all property charges will be eliminated and a common charging system achieved by 2002.

Bulk Water Charging

Rural New South Wales consumes roughly 80 per cent of the State’s water. Until 1994-95, users on regulated streams paid water charges that covered up to 70 per cent of the costs of ‘running the river’.

Capital costs of water storage and major works were regarded as sunk costs and maintenance costs were met by the Government.

Since 1995 bulk water pricing has been in IPART's domain. The latest bulk water report was released by IPART in July 1998 and the prices set out in it will apply from 1 July 1998 until 30 June 2000. The 2 year price path is intended to provide stakeholders with greater certainty at a time when the Department of Land and Water Conservation (DLWC) is separating its resource manager and resource operator functions.

In 1997-98 rural water charges were increased by around 10 per cent on average based on IPART's determination. There still remains a substantial gap between revenues from rural water charges and full cost recovery in a number of regions. IPART's latest determination proposes that prices should increase to reduce the revenue deficiency, and estimates that full cost recovery revenue of $44 million on a region by region basis is required to achieve this aim.

IPART has capped the increase in prices to roughly 20 per cent per annum for 1998-99 and 1999-00. Where a region reaches full cost recovery prior to 2000, prices will not rise any further.

In order to link prices more explicitly with consumption, IPART has introduced a region-specific two-part tariff for regulated rivers. Revenue from regulated rivers will increase by up to 11 per cent in 1998-99 and 15 per cent in 1999-00, while prices for unregulated rivers have been restructured to make them fairer. Revenues from unregulated rivers will increase by 5 per cent in 1998-99 and 8 per cent in 1999-00.

This latest IPART determination is designed to set targets for full cost recovery by region by the year 2001 as required under the COAG agreement. Where this cannot be achieved a clear statement of the remaining cost gap to achieve full cost recovery will be published.

Road Transport

Road transport has in the past been a source of regulatory inefficiencies. In particular, charges have not been reflective of road network usage across jurisdictions and safety standards have varied.

The National Road Transport Commission was established to develop and implement reforms in six agreed areas:

- uniform heavy vehicle charges;
- uniform arrangements for transportation by road of dangerous goods;
- national driver licensing for all drivers;
- a national heavy vehicle registration scheme;
- uniform vehicle operations standards; and
- consistent compliance and enforcement arrangements.

New South Wales implemented the heavy vehicle charges and the associated permit reforms by State legislation on 1 July 1996 and is progressing with the required reforms under the timetable agreed at the November 1997 meeting of the Ministerial Road Council on Road Transport. The NCC determined that NSW had complied with its first tranche road transport reform commitments.

5. OTHER RELATED REFORMS

Infrastructure

The infrastructure programs of the NSW Government play a key role in the growth and development of the NSW economy by providing the basic infrastructure required by the business sector and households.

State Governments dominate public infrastructure, owning about two-thirds, and are responsible for providing the greatest range of infrastructure services such as:

- transport and communications;
- housing and community services;
- health and education; and
- energy services.

The direct responsibility for provision and management of the majority of State infrastructure assets has mainly rested with Government businesses. The significance of private sector investment in infrastructure is gradually increasing. This is reflected in the fact that the private sector's share of new gross infrastructure investment is higher than its share of the stock of infrastructure. Private sector involvement, generally, reduces the funding burden for the State and improves the efficiency of infrastructure investment and operation through:

- equitable sharing of risks between private sector and Government;
- a market-based approach to investment decisions;
- cost reflective pricing;
- greater response to consumer preferences; and
- a commercial culture with strong pressures for efficiency gain.

Much of the increased private sector involvement in New South Wales has involved Build, Own, Operate and Transfer (BOOT) type arrangements. BOOT type arrangements are schemes where the private sector builds, owns, operates and then transfers the infrastructure, usually after 20 to 30 years, to the public sector. They are a form of structured financing with many complex contractual relations based on equitable risk sharing. In New South Wales thus far, they have been used to provide transport, electricity, water and sewerage infrastructure. A BOOT usually involves the interaction of the following parties:

- the Government, through an agency such as the Roads and Traffic Authority;
- the ownership vehicle comprising a concession company and a trust;
- debt financiers, usually a major trading bank; and
- equity investors in shares in a concession company and units in a trust (in the case of the M2 Motorway).

The private sector ownership vehicle usually obtains its revenue stream directly through charges to the users of those facilities. The main examples are the toll road contracts. The private sector in these cases has come to assume the full market risk as well as all the construction and operational risks. Generally the toll road company is issued with a franchise to levy tolls on traffic using the road for a period of about 30 years. The normal commercial default conditions apply to these contracts. That is, there is no Government obligation to step-in if the company encounters financial difficulties.

As has been the case for 15 years or more, the Government has continued to work with the private sector to assist in the provision of infrastructure. In 1996 the Government issued *Guidelines for Private Sector Participation in the Provision of Public Infrastructure*. The broad policy in this regard is that:

- the involvement of the private sector in the provision of infrastructure must show a net benefit to the community;
- privately financed infrastructure will be subject to competitive bidding;
- risks and returns must be appropriately shared between the Government and the private sector;
- preference will be given to projects which are financially free-standing without any Government capital contributions; and
- the extent of any Government financial support for the project needs to be clearly defined.

Under the *Public Authorities (Financial Arrangements) Act 1987* (*PAFA*) the Treasurer has responsibility for approving agencies entering into joint financing arrangements. NSW Treasury advises the Treasurer on the joint financing obligations proposed by the sponsoring agency and agrees the terms and conditions for contract negotiations.

New South Wales has contracted nearly $5 billion of BOOTs up to 30 June 1998, in 20 large projects.

In 1997-98 contracts were signed for two items of privately financed public infrastructure. These were:

Table 3: Privately Financed Public Infrastructure Contracts (1997-98)

Project	Total Cost ($ million)	Government Contribution
Eastern Distributor Road	699.7	20.0
Olympic Multi-Use Indoor Arena	277.2	232.8
Total	**976.9**	**243.8**

Proposal to Introduce Load Based Licensing

In late 1997 the NSW Government gave approval for the Environment Protection Authority (EPA) to prepare a Regulatory Impact Statement (RIS) for public release as part of a final round of consultation prior to a decision to approve the introduction of a Load Based Licensing (LBL) Scheme in New South Wales.

LBL is a performance based pollution regulatory regime. It contrasts with the current regulatory approach in two main areas by:

- limiting the overall load of pollutants released to the environment (the current scheme focuses

on concentration levels). A concentration focus fails to effectively regulate overall pollution loads, which have cumulative effects ultimately leading to environmental degradation. The LBL regime will retain concentration limits where required to prevent acute localised impacts; and
- applying a fee structure which appropriately adopts the "polluter pays" principle. LBL rewards licensees who emit less than their maximum loads thereby encouraging industries to engage in operating practices which reduce environmental harm. The Scheme also allows for fee rebates to be applied where licensees make specific commitments to reduce emissions by a future date (eg. within 3 years and subject to meeting appropriate criteria and penalties for non-compliance) or where they adopt effluent re-use practices.

Other advantages of the LBL approach include licensees being afforded maximum flexibility to implement least-cost pollution control measures and polluters bearing the administrative costs of regulating emissions. In proposing the introduction of a new LBL Scheme, special consideration has been given to the need to phase in the new arrangements to allow licensed activities time to adjust. Accordingly, provision is made for the new fee structure to be gradually implemented over a 4 year period.

It is proposed that the LBL Scheme will initially apply to the more significant pollution activities covering 80 classes of economic activity and 3,500 licences. It is anticipated that only thirty industries will be subject to pollution load fees at the commencement of the Scheme. The remaining industries will only be subject to the administrative fee component.

At the time of drafting this Report the Government was still considering a range of supplementary submissions from licence holders with respect to requests for additional adjustments to the proposed Scheme following release of the RIS. In the event that these can be successfully resolved it is expected that the LBL Scheme will be approved for commencement in July 1999.

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ADVANCE ENERGY

Advance Energy (AE) is a dynamic State Owned Corporation that provides energy solutions to customers in New South Wales and Victoria. Its mission is to be the service provider of choice in the Australian energy industry.

AE provides electricity and other energy services and is based in the central western area of New South Wales. AE provides these services to 117,500 franchise customers over an area of 167,000 square kilometres. Electricity is distributed to an area stretching 725 kilometres from east of Bathurst and Mudgee to west of Cobar and 450 kilometres from north of Coonamble to south of Lake Cargelligo and Cowra. AE is also an active participant in the deregulated Australian energy industry.

AE has total assets of $367 million and annual sales revenue above $225 million. A focus on customers, business success, safety, team work, community responsibility and continuous improvement has seen AE develop a dynamic commercial culture.

AE responded successfully to the challenges of the competitive national electricity market. It was the first energy company in New South Wales to secure a major contestable customer outside its franchise area. Since this time AE has gained more than 115 sites outside its franchise area.

AE actively encourages the use of renewable energy and is an approved Sustainable Energy Development Authority (SEDA) retailer. AE promotes the use of environmentally responsible energy use to all customers, including promotion of solar energy and the use of renewable energy sources.

AE's franchise domestic customers have enjoyed a 13 per cent price reduction in real terms and commercial customers have enjoyed a reduction of 12 per cent between 1994 to 1998. Contestable customers have benefited from the deregulated environment with price reductions of between 20 and 40 per cent. This reflects the Company's intention to pass on the benefits of electricity reform to its customers.

AE has increased its electricity load since the commencement of contestability by 20 per cent while at the same time exceeding its agreed financial targets with the Government. In a challenging business environment, AE's return on assets of 11.6 per cent and return on equity of 16.0 per cent (before abnormal items) exceeded the Corporation's financial targets for the 1997-98 year. This resulted in a record profit of $43 million before tax for the 1997-98 year.

ADVANCE ENERGY

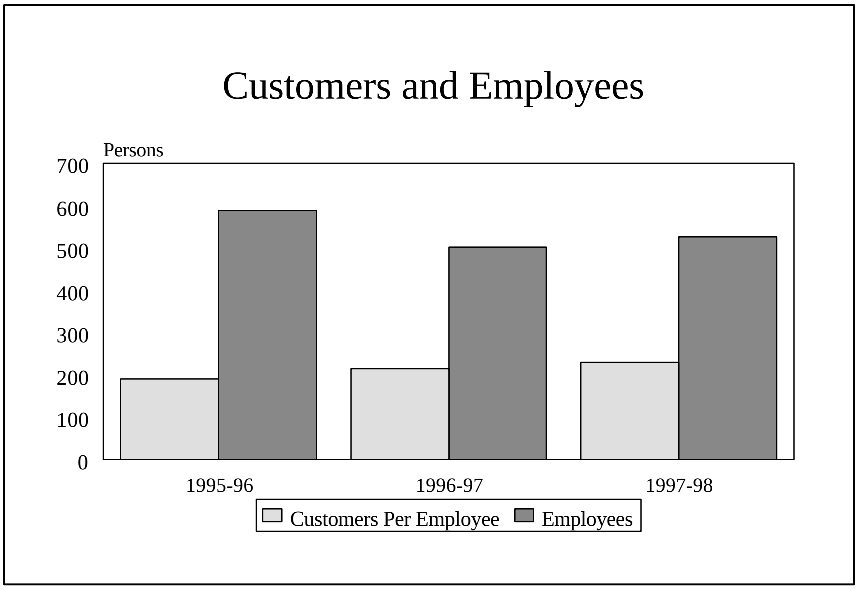
		1994-95 Central West Electricity	1994-95 Ophir Electricity	1994-95 Sthn. Mitchell Electricity	1994-95 Ulan Electricity	1994-95 Western Power	1995-96 Advance Energy	1996-97 Advance Energy	1997-98 Advance Energy
	(1)								
Efficiency									
Employment	*(2)*	156	114	98	76	182	588	501	525
Output per Employee (GWh)	*(3)*	2.1	2.9	3.6	2.6	3.5	3.3	4.3	5.0
Customers per Employee	*(4)*	165.7	187.9	172.0	190.9	174.5	190.0	213.3	228.7
Operating Cost Per Unit Sold ($/MWh)	*(5)*	38.5	26.4	20.5	37.8	29.4	27.5	22.4	22.3
Operating Cost Per Customer ($)	*(6)*	481.3	413.6	426.8	508.2	585.0	474.9	454.5	486.8
System Loss Index (%)	*(7)*	7.6	5.9	4.9	7.0	5.8	6.4	6.4	7.7
Average Lost Time	*(8)*	na	na	na	na	na	10.4	4.9	11.1
Lost Time Injury Frequency Rate	*(9)*	na	na	na	na	na	27.0	28.8	28.9
Service									
No. of Customers		26,573	22,305	17,221	15,355	33,466	115,735	116,538	118,068
Output (GWh)		329	346	352	204	661	1,988	2,361	2,563
Supply Reliability (Min)	*(10)*	280.0	175.0	n/a	392.0	243.0	285.0	218.9	293.0
Real Price Index	*(11)*	nr	nr	nr	nr	nr	100.0	87.8	82.3
Customer Satisfaction Index									
Domestic		75.2	76.3	77.3	77.1	77.2	76.8	78.0	na
Business		72.3	77.3	74.8	71.0	76.2	74.7	77.0	na
Finances	*(12)*								
Operating Result ($m)	*(13)*	3.3	2.1	2.1	0.3	4.4	21.6	31.9	39.8
Return on Assets (%)	*(14)*	3.6	3.5	2.9	0.5	4.3	7.4	10.2	11.6
Pre Tax Return on Net Assets	*(15)*	4.0	4.2	2.3	0.5	4.9	9.4	13.6	17.6
Return on Equity (%)	*(16)*	4.0	4.2	2.3	0.5	4.9	8.6	9.2	16.0
Gross External Debt ($m)		0.6	2.4	4.2	0.9	2.2	28.1	31.1	40.0
Debt to Equity Ratio (%)		0.7	4.9	6.5	1.4	2.5	12.3	13.3	17.7
Times Interest Earned		38.3	23.3	3.2	5.0	23.5	10.3	11.6	16.3
Financial Distribution ($m)									
Dividend Payment		0.0	0.0	0.0	0.0	0.0	1.8	17.3	37.3
Corporate Tax Equivalent		0.0	0.0	0.0	0.0	0.0	1.7	0.0	0.0
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	40.6	10.9	10.6

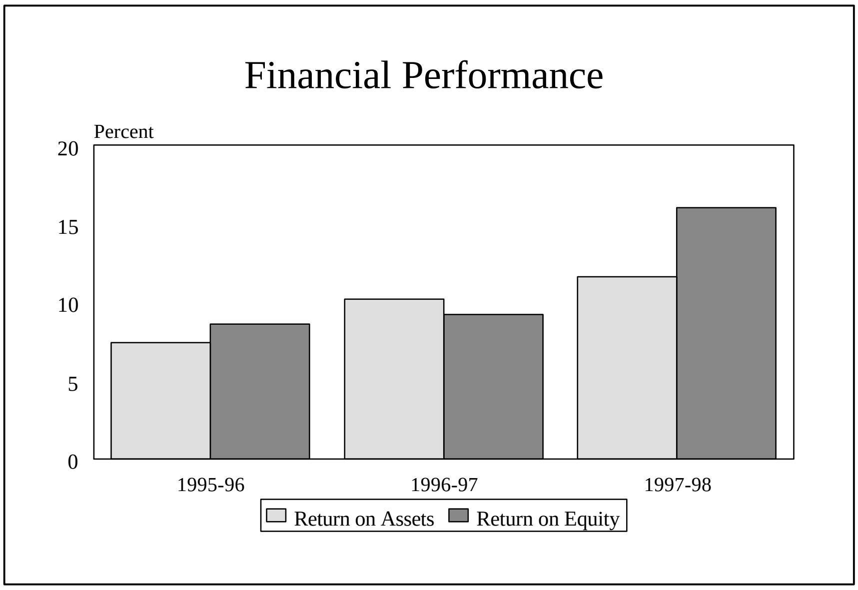
Notes:

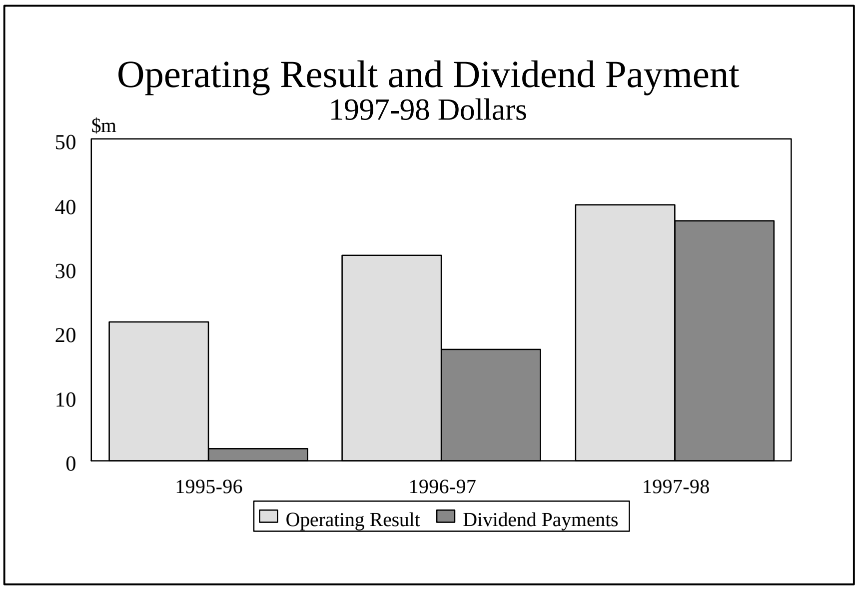
nr *Not reported*
na *Not available*

(1) *All dollar amounts reported in 1997-98 dollars.*
(2) *Average full time equivalent staff over 1997-98.*
(3) *GWh sold per average number of all employees.*
(4) *Average number of customers per average number of all employees.*
(5) *Operating costs including depreciation, excluding financing costs per MWh sold.*
(6) *Operating costs including depreciation, excluding financing costs per average number of customers.*
(7) *Energy purchased less energy sold divided by energy purchased.*
(8) *Average lost hours per employee per year.*
(9) *Number of lost time accidents per million hours worked.*
(10) *Average minutes per customer per year without supply including planned and unplanned outages.*
(11) *Assumes 1995-96 is the base year.*
(12) *All financial indicators are consolidated. The results reflect the electricity supply and non supply energy services businesses.*
The 1995-96 results have been recorded exclusive of an abnormal expense of $19.7 million for restructuring costs as a result of industry reform.
to allow a proper comparison.
(13) *The result reflects profit before tax but does not include abnormal items.*
(14) *Earnings before interest and taxation divided by total assets at 30 June 1998.*
(15) *Operating profit before taxation dividend by net assets at 30 June 1998.*
(16) *After tax profits divided by equity at 30 June 1998.*

ADVANCE ENERGY







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AUSTRALIAN INLAND ENERGY

> ***Australian Inland Energy's (AIE's) primary mission is to satisfy its customers' expectations for quality electricity supply, safely, at competitive prices and to the benefit of the communities within its franchise area. In doing so, AIE reviews the total energy needs of its customers and the communities it serves in order to provide the most effective energy solutions available.***

The main business of AIE is the sale and distribution of electricity. The structure of the network, regional demographics, customer base and human resources issues require that the business be conducted differently to that of other electricity distributors in New South Wales.

AIE provides energy services to about 20,000 customers in the far west of New South Wales in a supply area of 155,100 km^2, bordered by Queensland, South Australia and Victoria. The customer base is predominantly domestic, small rural and small commercial. The main administrative office and works depots are located in Broken Hill. There are administrative offices in Wentworth and Balranald. Works depots are located in these centres and Menindee, Wilcannia, Moulamein and Tooleybuc. The supply area is the most arid in the state and experiences extreme climatic conditions, as well as severe electrical and wind storm activity during summer months which frequently causes significant damage to property.

The supply of electricity to the vast, sparsely populated rural tracts in the distribution area is largely uneconomic. AIE receives an operating subsidy from the NSW Government to offset the losses. The July *1998 Report of the Boundary Review Committee* noted that AIE might seek to reduce its reliance on government subsidies by diversifying operations beyond electricity. Further consideration will be given to opportunities to improve AIE's growth potential.

During the year, AIE entered into a business alliance with Kleenheat Gas to supply bottled gas to customers in the Broken Hill area, utilising the existing administrative infrastructure to facilitate these operations. AIE expects this alliance will be beneficial to both parties, as well as convenient for customers.

Generally, AIE's performance during the period has been pleasing for the Board and management who are able to report to shareholders that the taxation and dividend income stream to the Government has again been maintained.

AUSTRALIAN INLAND ENERGY

		1994-95 Broken Hill Electricity	1995-96 Australian Inland Energy	1996-97 Australian Inland Energy	1997-98 Australian Inland Energy
	(1)				
Efficiency					
Employment	*(2)*	61	94	98	105
Output per Employee (GWh)	*(3)*	4.6	nr	nr	nr
Customers per Employee	*(4)*	187.2	150.6	nr	nr
Operating Cost Per Unit Sold ($/MWh)	*(5)*	17.9	nr	nr	nr
Operating Cost Per Customer ($)	*(6)*	437.5	711.2	nr	nr
System Loss Index (%)	*(7)*	3.0	nr	nr	nr
Average Lost Time	*(8)*	44.3	23.9	17.5	41.8
Lost Time Injury Frequency Rate	*(9)*	72	37	54	57
Service					
No. of Customers		11,671	nr	nr	nr
Output (GWh)		284	nr	nr	nr
Supply Reliability (Min)	*(10)*	nr	nr	nr	nr
Real Price Index	*(11)*	nr	nr	nr	nr
Customer Satisfaction Index					
Domestic		73.2	71.5	na	na
Business		69.1	69.6	na	na
Finances	*(12)*				
Operating Result ($m)		0.1	(9.8)	10.2	10.9
Return on Assets (%)	*(13)*	0.0	0.0	0.0	0.0
Pre Tax Return on Net Assets	*(14)*	0.0	0.0	0.0	0.0
Return on Equity (%)	*(15)*	0.0	0.0	0.0	0.0
Gross External Debt ($m)		-	-	-	-
Debt to Equity Ratio (%)		-	-	-	-
Times Interest Earned		-	-	-	-
Financial Distribution ($m)					
Dividend Payment		-	-	3.1	3.6
Corporate Tax Equivalent		-	-	2.0	2.5
Payment of Capital from Equity		-	-	-	-

Notes:

nr *Not reported*
na *Not available*

(1) *All dollar amounts reported in 1997-98 dollars.*
(2) *Full time equivalent staff at 30 June.*
(3) *GWh sold per average number of all employees.*
(4) *Average number of customers per average number of all employees.*
(5) *Operating costs including depreciation, excluding financing costs per MWh sold.*
(6) *Operating costs including depreciation, excluding financing costs per average number of customers.*
(7) *Energy purchased less energy sold divided by energy purchased.*
(8) *Average lost hours per employee per year.*
(9) *Number of lost time accidents per million hours worked.*
(10) *Average minutes per customer per year without supply including planned and unplanned outages.*
(11) *Assumes 1995-96 is the base year.*
(12) *All financial indicators are consolidated. The results reflect the electricity supply and non supply energy services businesses.*
(13) *Earnings before interest and taxation divided by total assets at 30 June 1998.*
(14) *Operating profit before taxation dividend by net assets at 30 June 1998.*
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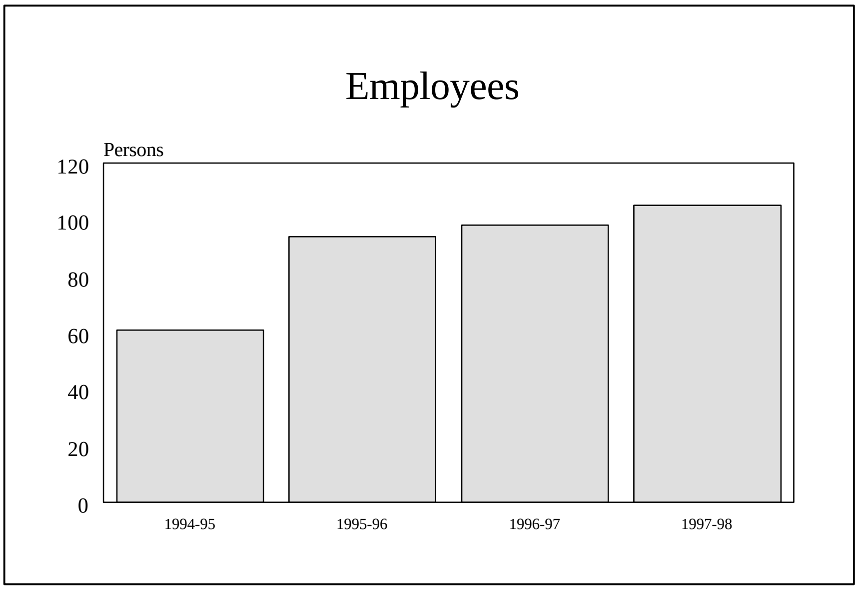
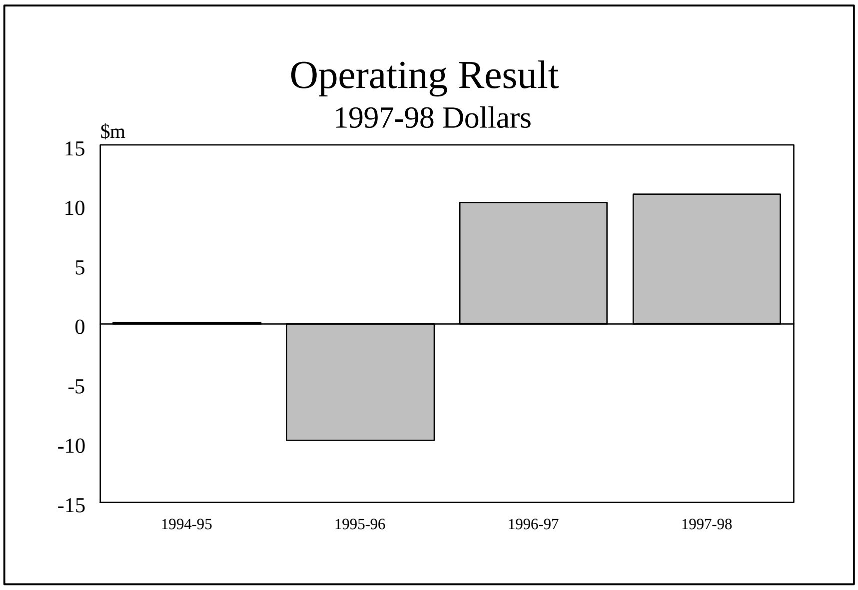
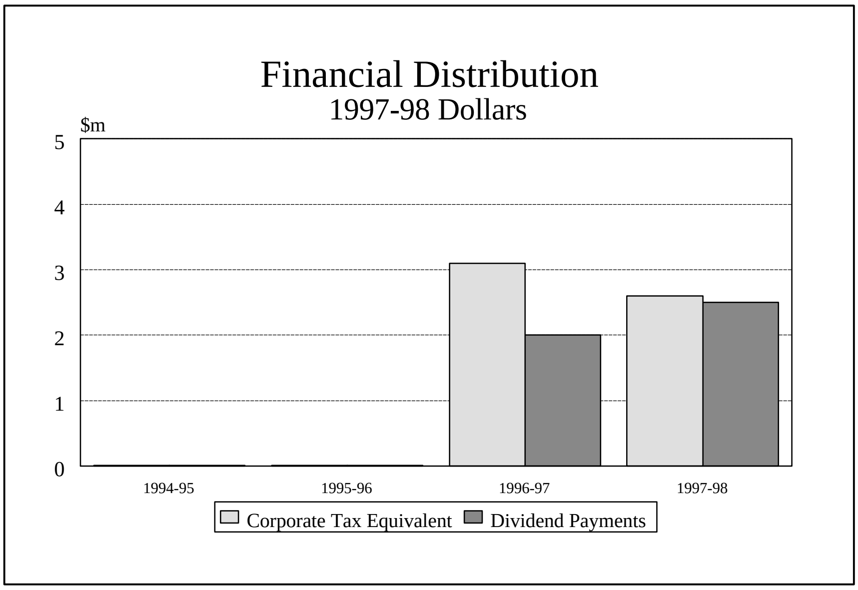
AUSTRALIAN INLAND ENERGY







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DELTA ELECTRICITY

Delta Electricity's total generating capacity is 4,240MW generated from four power stations located in New South Wales: Mt Piper and Wallerawang near Lithgow, and Vales Point and Munmorah on the Central Coast. The corporate office is located in Sydney. Delta Electricity is recognised nationally as supplying electricity safely, efficiently and at a competitive price into the National Electricity Market.

Vision

During the past year Delta Electricity has continued to successfully meet the challenges of the National Electricity Market. Delta's performance in 1997-98 has been built on the creative ideas, energy and teamwork of all the people who work at Delta. Innovation encapsulates the essence of this performance and has resulted in Delta adopting a new Vision: "The Generator of Innovation".

Financial Results:

The development of new initiatives and a continued focus on costs helped Delta Electricity consolidate its position in the electricity market. Low market prices were a common feature throughout 1997-98. Excess capacity and price-based competition for market share placed pressure on the achievement of financial targets. Nevertheless, Delta Electricity was able to report a profit of $54.6 million from a revenue base of $575 million.

Achievements:

The increasing sophistication of the competitive National Electricity Market and its participants requires equally sophisticated technology systems to analyse competitors' strategies and model different scenarios. Delta's Market Trading System has been further enhanced to allow continuous monitoring of contract coverage, production capability, profitability and bid strategies, ensuring Delta remains at the leading edge of technology.

Delta continues to build on current projects and embrace future opportunities to improve environmental performance. One such instance is Delta joining with NSW State Forests as signatories to the first ever "carbon trade" to be brokered in Australia. This initiative will enable Delta to use carbon stored in trees to offset its own greenhouse emissions. The agreement is another aspect of Delta's commitment to continuous environmental improvement.

Delta's march towards best practice in the energy industry was acknowledged at one of industry's prestigious business forums – the Australian Quality Awards. The award at Achievement level recognised outstanding achievement in business excellence with Delta the only company from the Australian electricity industry to win recognition at the 1997 Awards.

Delta's close and constructive links with local communities entered a new phase with the establishment of the Community Access Regional Environment (CARE) Forum on the Central Coast. This Forum is a valuable opportunity for Delta to understand and work with the local community over concerns and issues.

Future

Delta is managing its business in the context of a mature electricity industry, a competitive national energy market and environmental performance pressures as well as seeking opportunities to grow the business. To ensure Delta continues to sustain competitiveness in the market the pursuit of sustainable efficient low cost operations, market based asset management and environmental excellence will remain primary together with the utilisation of our market relationships, people skills, technology systems and existing sites.

Growth in Delta's business will be through new developments in generation activities. A feasibility study in repowering Munmorah has been announced and other opportunities are under investigation.

DELTA ELECTRICITY

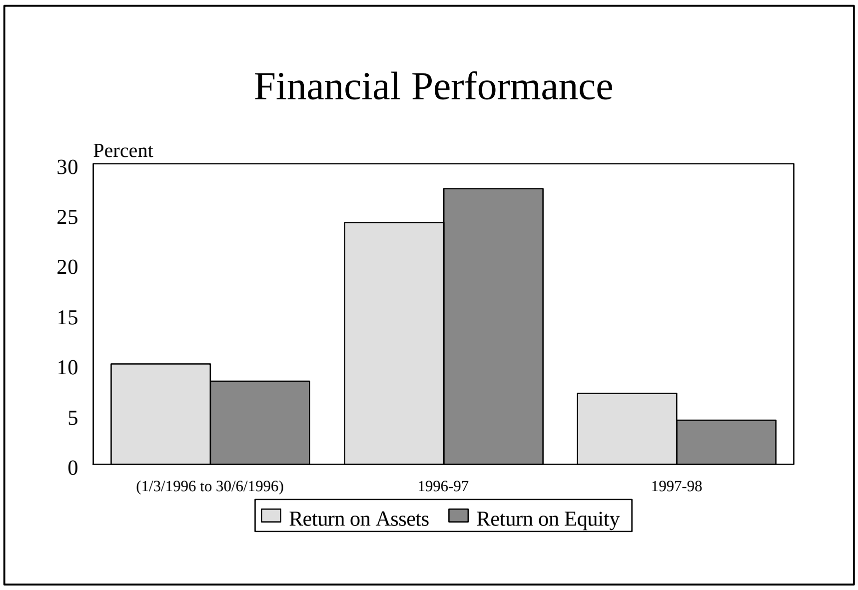
	(1)	(1 March 1996 to 30 June 1996)	**1996-97**	**1997-98**
FINANCES				
Operating result ($m)	*(2)*	29.8	306.1	54.6
Return on assets (%)	*(3)*	10.0	24.1	7.1
Return on operating assets (%)	*(3)*	NA	NA	NA
Return on equity (%)	*(3)*	8.3	27.5	4.4
Shareholder value added ($m)		-122.0	-9.7	-33.6
Asset sales ($m)		0.2	0.7	1.4
Gross external debt ($m)		674.3	522.8	424.6
Leverage (%)		49.6	42.3	37.0
Times interest earned		2.5	6.6	2.3
Dividend payments ($m)		0.0	100.0	89.0
Corporate tax payment ($m)		2.3	82.0	5.6
EFFICIENCY				
Employment		1248	1091	1032
SERVICE				
Sale of electricity ($m)		217.6	674.2	559.8
Availability of plant (%)		89.4	87.8	87.5

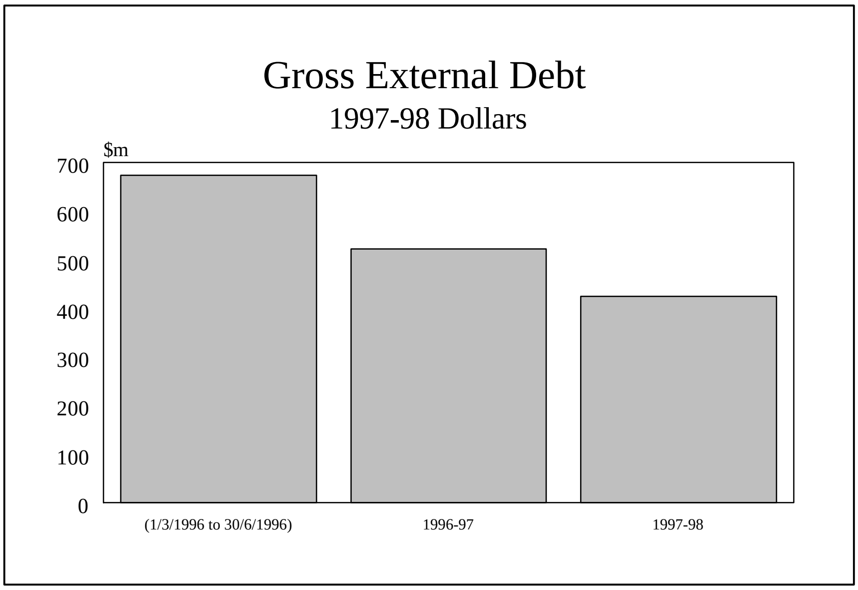
~~NOTES~~

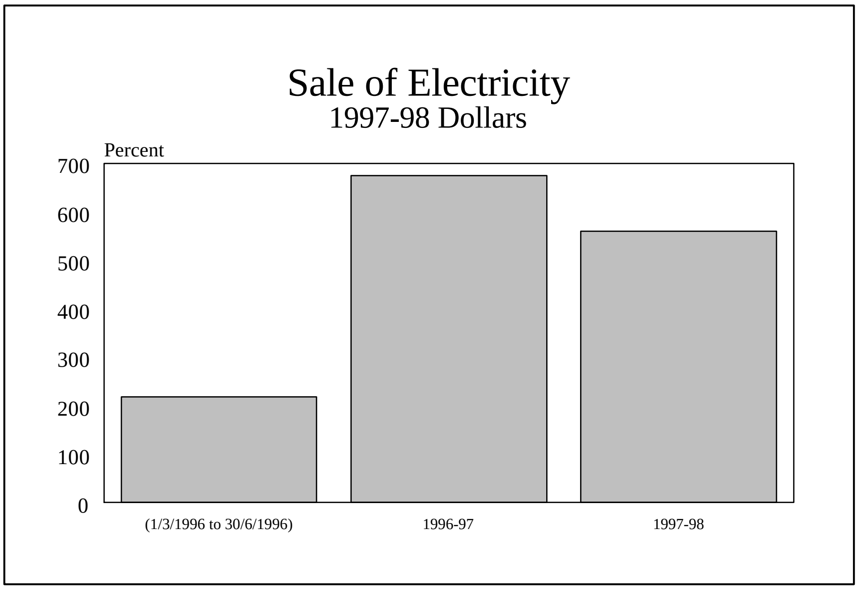
NA Not Available

(1) All dollar amounts reported in 1997-98 prices.
(2) Operating surplus before dividends, corporate income tax payments, and extraordinary items and after abnormals and contributions & subsidies.
(3) Annualised for the period 1 March 1996 to 30 June 1996.
(4) All financial statistics include the proceeds from the Mount Piper Cross Border Lease.

DELTA ELECTRICITY







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ENERGYAUSTRALIA

EnergyAustralia is the largest retailer of electricity in Australia, supplying nearly half of all NSW customers. It is well positioned to become the leading multi-utility company in the Asia-Pacific region.

The past year has seen a continuation of tremendous change in the electricity industry. This has included increasing competition and the entry of many non-traditional competitors, particularly in retailing, energy trading and customer service. These changes and technological advances are opening up exciting opportunities for utilities to both better utilise their existing assets and to provide a greater range of products and services. To meet the challenges and opportunities of its new market place, EnergyAustralia has restructured to a Holding Company and Subsidiary model. Each of the four subsidiaries (Network, Retail, Customer Service and Enerserve) is structured to suit the new environment while satisfying both customers and shareholders.

EnergyAustralia remains Australia's largest energy supplier. It currently supplies electricity and related products to a more than 1.3 million businesses and properties, serving more than 3 million people. Through its network it serves the largest and most diverse customer base in Australia, ranging from rural properties to Australia's largest central business district. EnergyAustralia was incorporated on 1 March 1996, from a merger between Orion and Sydney Electricity, and has over 100 years experience in the electricity business. In line with its vision of becoming a multi-utility service provider, EnergyAustralia has entered into a joint venture called DownTown Utilities. This involves joining forces with the other major power companies covering the central business districts of Melbourne and Brisbane as well as the US Utility giant, Williams, and the Australian telecommunications firm, Spectrum. EnergyAustralia is a participant in the National Electricity Market, and also delivers services to customers in the Asia Pacific area including equipment testing, energy efficiency and engineering consultancy work. Examples include a 66kV line redesign for the Brunei national distributor and exporting innovative sustainable energy products such as the PowerOn 5kV wind turbine manufactured under licence with a Chinese conglomerate.

EnergyAustralia has performed well, and will continue to focus on satisfying its customers by delivering an improving level of customer service while providing a commercial return for its shareholders. Some of the key highlights for 1997-98 were:

- Compliance with its Distribution and Retail licences;
- An operating result of $351 million, an improvement of over $58 million;
- Return on assets improved to 12.8 per cent;
- Return on equity increased to 14.7 per cent;
- PureEnergy scheme customers increased from 1,000 to 7,500;
- Selling more than 25 times more Renewable energy compared to 1996-97;
- Completion of the largest Wind Turbine in Australia at Kooragang Island in October 1997;
- Commisioning of the largest solar power station in the Southern Hemisphere at Singleton in January 1998;
- Winning major external work through through tender including:
- Design, supply and commisioning of the Hadspen Substation in Tasmania;
- Supply and installation of electrical services for the Sydney SuperDome at Homebush Bay; and
- Construction of substations at the Homebush Bay Olympic site.

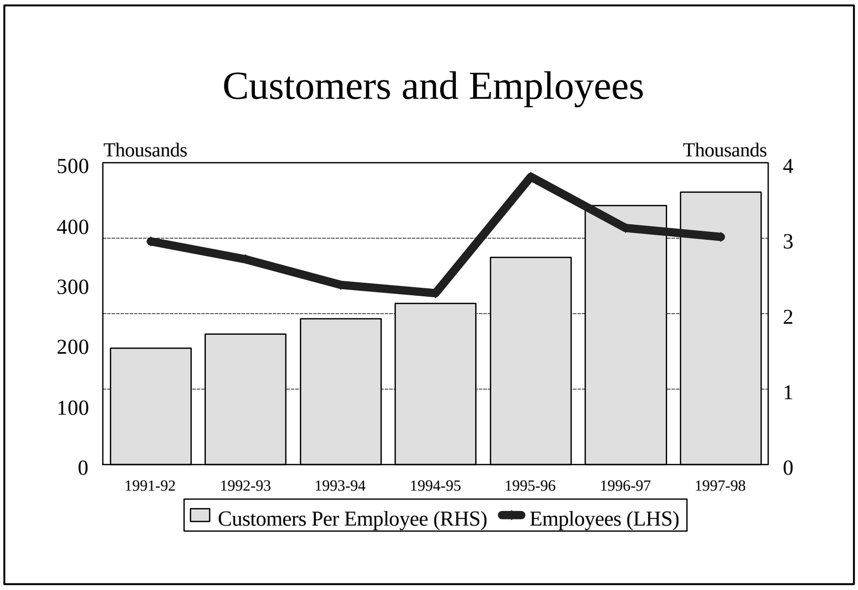
ENERGYAUSTRALIA

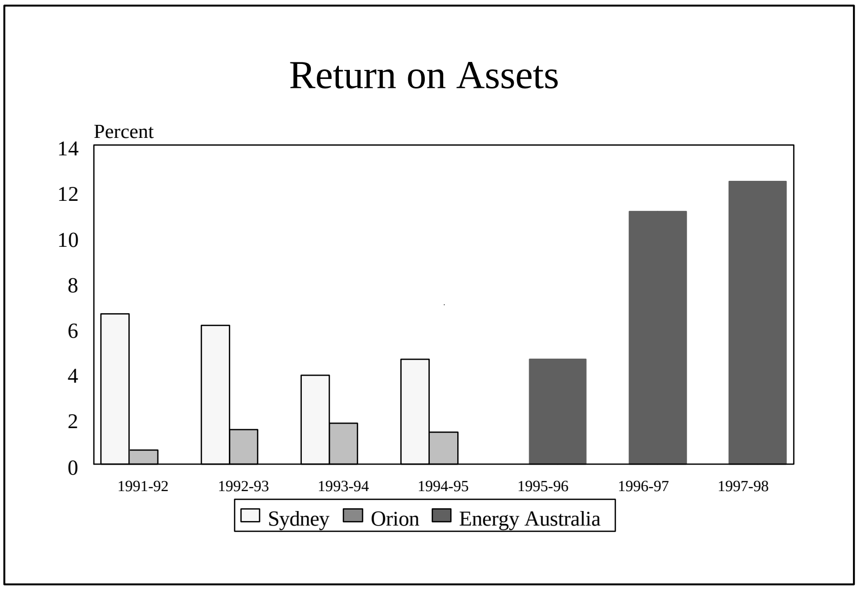
Efficiency	(1)	1991-92 SYDNEY EL	1991-92 ORION	1992-93 SYDNEY EL	1992-93 ORION	1993-94 SYDNEY EL	1993-94 ORION	1994-95 SYDNEY EL	1994-95 ORION	1995-96 ENERGYAUS	1996-97 ENERGYAUS	1997-98 ENERGYAUS
Employment	*(2)*	4,742	1,171	4,331	1,121	3,705	1,054	3,509	1,040	3,817	3,136	3,017
Output (GWh) per employee	*(3)*	3.0	1.2	3.5	1.3	4.1	1.5	4.7	1.7	5.5	6.8	7.3
Customers per employee	*(4)*	207.0	180.0	238.0	195.4	272.0	210.9	310.0	224.3	343.0	429.6	451.2
Operating cost per unit sold ($/MWh)	*(5)*	32.0	30.8	29.5	26.6	29.6	25.8	27.6	24.5	25.1	12.3	11.8
Operating cost per customer ($)	*(6)*	268.3	339.3	253.3	309.3	245.1	292.2	225.3	290.1	220.5	198.3	192.9
System loss index (%)	*(7)*	4.2	4.7	4.3	4.3	4.5	5.0	4.7	5.1	4.8	4.7	4.7
Days sick leave per employee		7.8	8.4	6.1	5.0	6.4	5.3	6.0	6.0	6.5	7.3	6.7
Lost time injury frequency rate	*(8)*	47.9	23.7	29.6	20.4	14.7	14.0	10.3	18.6	12.8	11.3	10.2
Total factor productivity	*(9)*	1.5	1.6	1.5	1.7	1.7	1.7	1.9	1.8	1.9	NA	2.2
Service												
Output (GWh)		15,779	3,520	16,078	3,616	16,290	3,667	16,773	3,888	21,184	21,477	22,151
Supply reliability (minutes off supply)	*(10)*	86.0	224.9	81.0	170.9	76.0	123.0	80.0	117.6	83.0	73.0	101.0
Real price index		101.5	94.0	96.1	92.8	96.2	88.3	87.6	78.5	81.2	75.6	60.8
Customer satisfaction index	*(11)*											
domestic		73.4	70.0	75.5	75.1	77.2	74.8	75.9	75.3	76.8	76.0	NA
business		70.5	69.4	73.6	70.5	74.2	72.5	74.8	74.1	74.7	74.0	NA
Finances												
Operating result ($m)	*(12)*	62.3	(2.0)	126.7	11.5	69.5	9.7	80.5	7.8	91.2	293.3	351.0
Return on assets (%)	*(13)*	6.6	0.6	6.1	1.5	3.9	1.8	4.6	1.4	4.6	11.1	12.4
Return on equity (%)	*(13)*	3.9	(0.5)	4.4	1.4	2.0	1.3	2.3	1.0	6.0	13.0	14.7
Gross external debt ($m)	*(14)*	721.1	74.5	640.3	59.3	596.0	48.6	537.8	36.8	1,289.7	1,278.5	1,296.4
Debt to equity ratio (%)	*(13)*	40.7	16.5	26.3	13.5	25.8	9.6	23.3	6.8	84.4	85.0	82.6
Times interest earned		2.2	0.6	2.5	2.8	2.4	5.3	2.1	6.4	2.5	3.2	3.4
Social programs ($m)	*(15)*	50.6	9.8	18.3	10.1	20.4	5.6	20.6	5.7	25.9	24.3	25.8
Financial distribution ($m)												
corporate tax equivalent		20.4	0.0	33.9	0.0	23.0	0.0	28.7	0.0	45.1	111.5	128.2
dividend payment		15.9	0.0	26.5	0.0	26.2	0.0	25.3	0.0	28.6	199.5	177.9
capital repayment		0.0	NA	0.0	NA	0.0	NA	0.0	NA	762.0	0.0	0.0
Net cash from sales of PPE ($m)	*(16)*	24.2	2.0	9.1	2.5	17.7	4.3	22.5	1.9	26.5	13.1	31.7

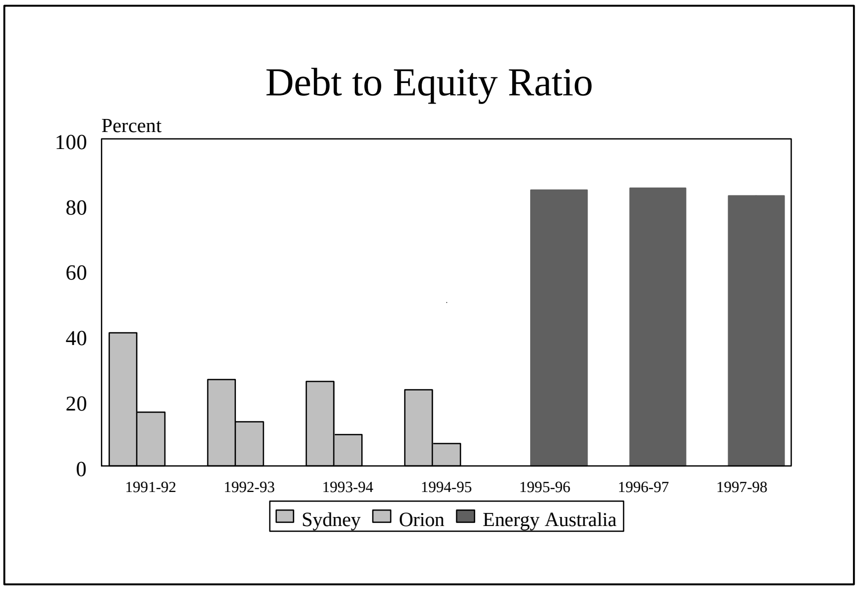
NOTES

NA Not available
(1) All dollar amounts reported in 1997-98 prices.
(2) Full time equivalent staff at 30 June.
(3) GWh sold per average number of electricity employees.
(4) Customers per employee at 30 June
(5) Includes depreciation and interest.
(6) Operating expenditure excluding sales tax, depreciation and interest per average number of customers
(7) Energy purchased less energy sold divided by energy purchased
(8) Number of lost time accidents per million hours worked
(9) Base year 1981-82. These are unilateral TFP results measuring TFP growth (or decline) over time.
The TFP measures do not reflect absolute TFP levels, and therefore cannot be compared to the TFP results of other agencies presented in this publication.
(10) Average minutes per customer per year without supply including planned and unplanned outages
The effects of the January 1994 bushfires are not included
(11) No comparable study was undertaken in 1997-98
(12) Operating surplus calculated before dividends, Electricity Development Fund (EDF) contributions, tax equivalent payments and capital contributions, and after social programs (excluding EDF contributions), abnormal items and financial transfers.
(13) Asset revaluations in 1991-92, 1992-93 and 1993-94 make comparisons of some financial ratios between years misleading.
(14) Includes loans, leases, EDF loans and long term creditors.
(15) Includes Pensioner Rebates, Traffic Route Lighting Subsidies, EDF contributions.
(16) Total proceeds from sales of fixed assets.

ENERGYAUSTRALIA







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FREIGHTCORP

FreightCorp became a corporation on 1 July 1996. As Australia's largest standard gauge rail freight operator, FreightCorp is well positioned to pursue profitable national growth and is focusing on operational efficiency, service delivery and competitive prices.

In 1997-98, FreightCorp operated within a business environment driven by the global financial downturn, which impacted commodity prices and demand. Mine closures, combined with the competitive pressures of the Australian transport market, threatened to erode FreightCorp volumes. However, an acceleration of its reform program and a renewed focus on service delivery resulted in a 13 per cent increase in tonnes hauled. FreightCorp customers received an average 9 per cent reduction in freight rates as efficiencies were shared. Despite intense competition in many markets, FreightCorp largely retained its market share and recorded an operating profit before tax and abnormals of over $60 million. The value of all commodities hauled by FreightCorp for export in 1997-98 was estimated at $5 billion.

FreightCorp continues to achieve significant productivity improvements and service efficiencies through a series of initiatives:

- crewing, maintenance and yards and terminals reforms;
- development of innovative systems and facilities;
- overhead review; and
- selected capital investment.

Testimony to FreightCorp's efficiency achievements since corporatisation was its selection by the Productivity Commission as a case-study of successful economic reform.

While this reform program allowed FreightCorp to deliver competitive prices, it also enhanced its delivery of customised transport solutions to its customers. 1997-98 saw the development of FreightCorp's PortLink strategy with the establishment of intermodal terminals at Clyde, Yennora, Tamworth, Griffith, Chullora, Cooks River and Camellia. This strategy has facilitated competition with road by consolidating container freight in Western Sydney from where it is distributed. FreightCorp is developing strong strategic alliances with customers and Stevedores and will further work to achieve port efficiencies.

This is one example of FreightCorp's expansion into "railplus" solutions, providing logistics services that build on its rail operating abilities.

Other examples of FreightCorp's innovative service and its development of strategic alliances are:

- a GrainCorp crewing initiative (involving GrainCorp crewing of FreightCorp services on selected branchlines);
- performance based contracts with customers and co-service providers; and
- a logistics study with the Australian Wheat Board.

FreightCorp also recognises the value of its employees in delivering customised transport solutions and profitably growing the business. Cultural reform in 1997-98 has been centred on:

- a success through service approach;
- quality program; and
- performance based management and remuneration.

This focus on reform, service delivery and strategic alliances has positioned FreightCorp to pursue profitable growth in new and existing markets in New South Wales and nationally.

In 1998-99 FreightCorp will build on its past successes to ensure it is the service provider and employer of first choice within the Australian rail freight market.

FREIGHTCORP

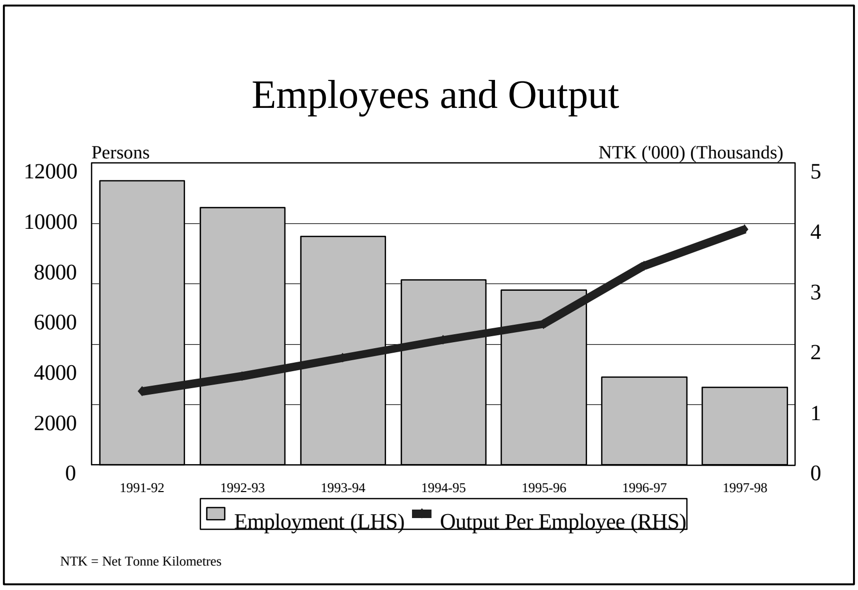
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Efficiency								
Employment	(2)	11,318	10,246	9,110	7,369	6,976	3,525	3,115
Output per employee (000 ntk)	(3)	1,220	1,472	1,777	2,074	2,335	3,302	3,907
Operating expenditure per ntk (cents)	(4)	7.7	6.9	6.2	5.9	8.0	6.3	5.5
Wagon productivity (m ntk per wagon)	(5)	2.0	2.1	2.2	1.7	1.9	2.3	2.3
Loco productivity (m ntk per loco)	(5)	25.9	28.2	32.3	29.0	30.0	37.8	41.6
Total factor productivity	(6)	NA	NA	NA	NA	NA	1.00	1.18
Service								
Net tonne kilometres (billion)	(7)	13.8	15.1	16.2	15.3	16.3	11.6	13.0
Finances								
Operating result ($m)	(8)	21.6	62.5	84.2	43.3	11.0	88.5	60.1
Operating expenditure ($m)	(8)	1056.8	1025.5	1017.6	898.6	826.8	728.8	713.5
Subsidies and social programs ($m)	(9)	161.5	161.0	149.3	142.3	123.0	60.7	90.0

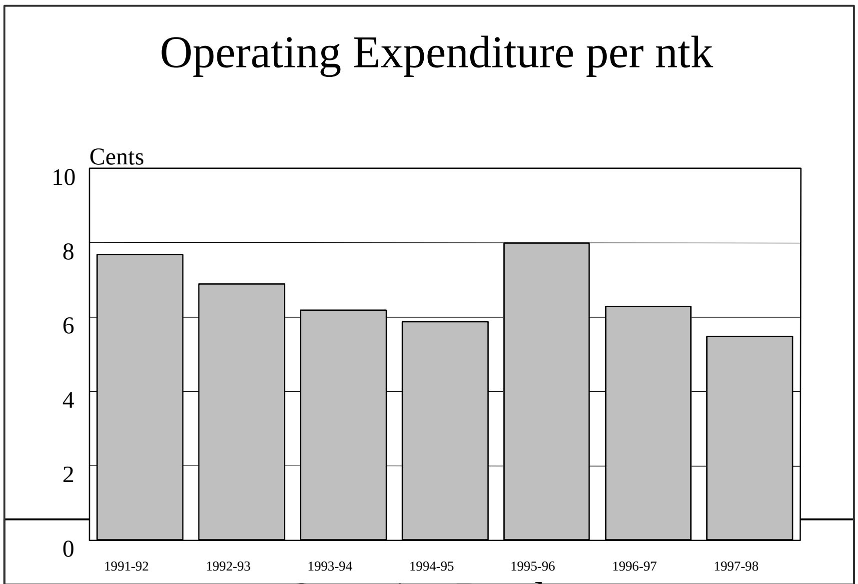
NOTES

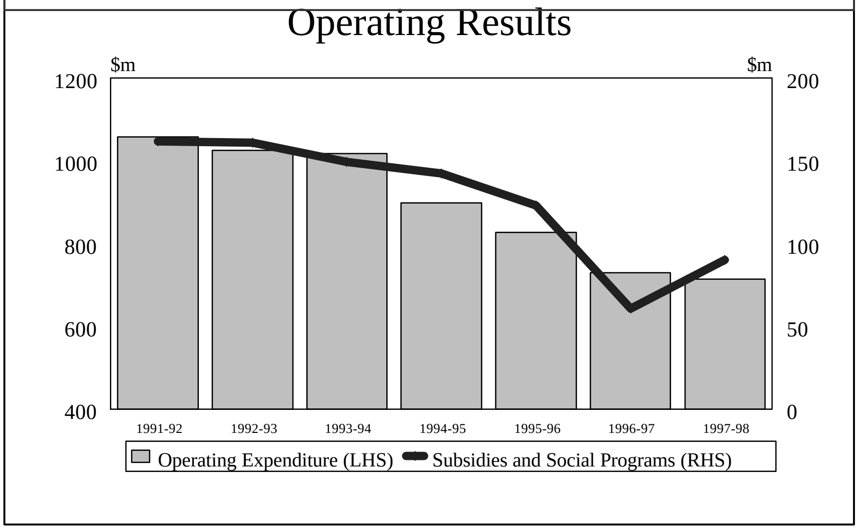
NA Not available
f Forecast

*(1) From 1 July 1996, Freight Rail became a separate business entity from the old SRA.
The figure from 1996-97 onwards are not generally comparable with previous years' figures.
All dollar amounts are reported in 1997-98 prices.*
(2) Staff employment based on end of financial year employment for consistency with Annual Report. The figures up to 1995-96 (inclusive) included infrastructure and train control staff who were transferred to other rail entities in July 1996.
*(3) "Output per employee" from 1996-97 onwards is not directly comparable with previous years' figures due to the organisational change which affects employment as described in (2).
1995-96 and figures from 1996-97 onwards are based on average employees.*
(4) Operating expenditure is measured on a cash basis prior to 1996-97 and on a fully accrued basis from 1996-97 onwards. From 1991-92 Prime User methodology was used to allocate costs of joint structure.
(5) Productivity is defined as the number of Net Tonne Kilometres carried per wagon or locomotive using average fleet size for the year.
*(6) The series does not reflect absolute TFP levels and therefore cannot be compared to the results of other GTEs presented in this publication.
The TFP figure for 1996-97 has been calculated using the 1995-96 base figure of 1.0.*
(7) Prior to 1995-96, the figures included all NRC NTKs. The NTKs from 1995-96 onwards exclude NRC figures.
(8) Operating result is defined as operating profit before abnormals and tax. Operating result and operating expediture are on a cash basis prior to and including 1995-96 and on a fully accrued basis from 1996-97 onwards.
(9) Social programs have been based on changed methodologies and industry structure and may not be comparable between years.

FREIGHTCORP







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GREAT SOUTHERN ENERGY

Great Southern Energy (GSE) was established in March 1996 from the merger of eight rural electricity distributors as part of the Government's strategy to prepare the NSW electricity supply industry for participation in the National Electricity Market.

GSE was established as a State Owned Corporation on 1 March 1996 from the amalgamation of eight distribution authorities: Monaro, Murray River, Murrumbidgee, Northern and Southern Riverina, Southern Tablelands, South-West Slopes and Tumut River. In addition, the southern part of Illawarra Electricity was transferred to Great Southern Energy. Covering an area of 175,840 square kilometres, GSE delivers electricity, gas and energy services in the south of the State to over 225,000 customers.

GSE is structured into six divisions: Corporate Services, Energy Trading, Business Development, Asset Strategy, Field Services, and Organisational Development. The corporation is operating successfully in the emerging competitive electricity market, taking advantage of the synergies created from the amalgamation. GSE has been pursuing business opportunities in both gas and electricity. 1997-98 saw GSE's natural gas business based in Wagga Wagga begin to generate revenues. It services a population of 50,000 people and has over 14,000 reticulated supply customers.

GSE again exceeded its financial targets for the 1997-98 year. Unaudited Operating Profit before Tax, Capital Contributions and Abnormal Items for the 1997-98 year was $75.9 million. This was a substantial increase over the previous year's comparative profit of $38.1 million. The Return on Net Operating Assets of 16.1 per cent was well in excess of the 9.5 per cent target. Similarly, the actual Return on Equity of 18.1 per cent exceeded the target of 10.0 per cent. (Note that the Statement of Corporate Intent uses a slightly different formula for Return on Equity and Net Operating Assets compared to the formula used in this publication). GSE made a financial distribution to the Government of $65.1 million for the year.

GREAT SOUTHERN ENERGY

		1994-95	1994-95	1994-95	1994-95	1994-95	1994-95	1994-95	1994-95	1995-96	1996-97	1997-98
	(1)	Monaro Electricity	Murray River Electricity	Murrum-bidgee Electricity	Northern Riverina Electricity	Southern Riverina Electricity	Southern Tablelands Electricity	South-West Slopes Electricity	Tumut River Electricity	Great Southern Energy	Great Southern Energy	Great Southern Energy
Efficiency												
Employment	*(2)*	84	270	113	78	165	251	61	48	901	nr	720
Output per Employee (GWh)	*(3)*	1.7	4.8	3.7	2.1	2.6	1.7	1.7	2.9	3.5	4.1	4.7
Customers per Employee	*(4)*	162.0	176.3	202.8	186.9	171.7	155.2	155.5	184.5	243.6	304.2	297.9
Operating Cost Per Unit Sold ($/MWh)	*(5)*	29.8	9.5	19.0	30.3	21.6	32.1	33.8	15.9	20.0	18.6	17.5
Operating Cost Per Customer ($)	*(6)*	310.9	258.7	347.4	335.1	329.3	357.2	362.4	251.2	287.3	275.0	274.8
System Loss Index (%)	*(7)*	7.6	4.4	7.9	10.5	4.9	8.2	9.0	6.7	6.8	6.3	4.3
Average Lost Time	*(8)*	41.9	110.0	114.0	105.0	104.0	106.0	114.0	76.0	94.6	85.3	118.7
Lost Time Injury Frequency Rate	*(9)*	3.0	na	na	na	na	na	na	na	47.7	39.2	31.5
Service												
No. of Customers		14,131	48,574	23,228	14,708	29,476	39,553	9,521	9,758	219,512	nr	226,218
Output (GWh)		146	1,313	420	162	447	435	101	153	3,159	nr	3,505
Supply Reliability (Min)	*(10)*	220.0	170.0	236.0	90.0	135.0	286.0	236.0	180.0	186.0	134.6	188.9
Real Price Index	*(11)*	nr	nr	nr	nr	nr	nr	nr	nr	100.0	99.3	95.6
Customer Satisfaction Index	*(12)*											
Domestic		-	73.3	76.2	72.3	77.1	71.4	75.0	76.9	76.6	nr	nr
Business		-	74.3	72.2	72.6	77.5	70.0	72.5	76.4	73.5	nr	nr
Finances	*(13)*											
Operating Result ($m)		2.8	9.1	2.8	0.7	2.4	-0.8	1.1	1.4	21.5	38.0	75.8
Return on Assets (%)	*(14)*	5.2	5.8	3.2	1.2	3.9	-0.6	3.7	5.2	4.6	7.3	13.1
Pre Tax Return on Net Assets	*(15)*	5.7	6.6	3.6	1.2	4.7	-0.7	3.9	5.8	6.0	9.5	20.4
Return on Equity (%)	*(16)*	5.7	6.6	3.6	1.2	4.7	-0.7	3.9	5.8	5.2	10.3	10.7
Gross External Debt ($m)		0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	61.2	92.2	91.0
Debt to Equity Ratio (%)		0.0	0.0	0.0	0.0	0.0	0.0	1.4	0.0	17.2	25.0	24.5
Times Interest Earned		-	-	-	-	-	-	5.4	-	13.3	9.7	13.1
Financial Distribution ($m)												
Dividend Payment		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.5	25.2
Corporate Tax Equivalent		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	22.0
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	55.8	0.0	0.0

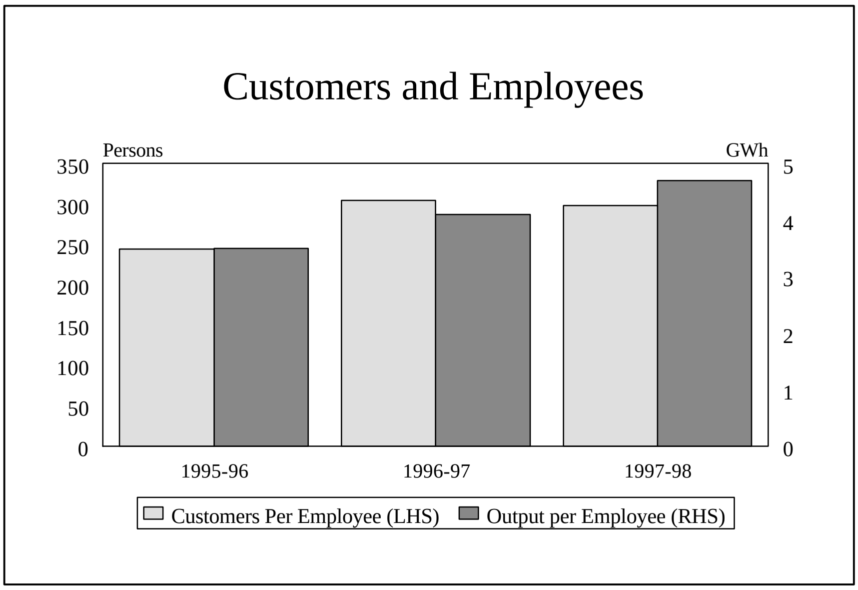
Notes

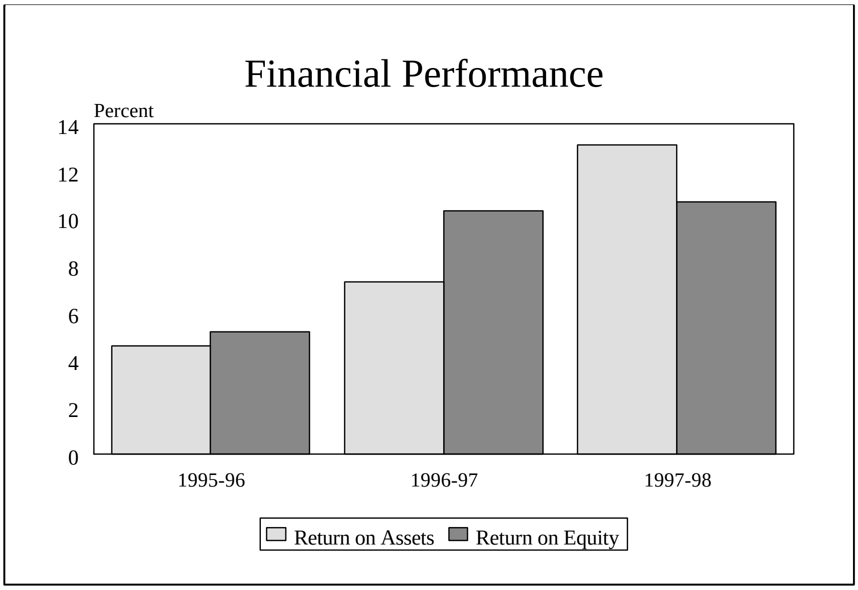
nr *Not reported*
na *Not available*

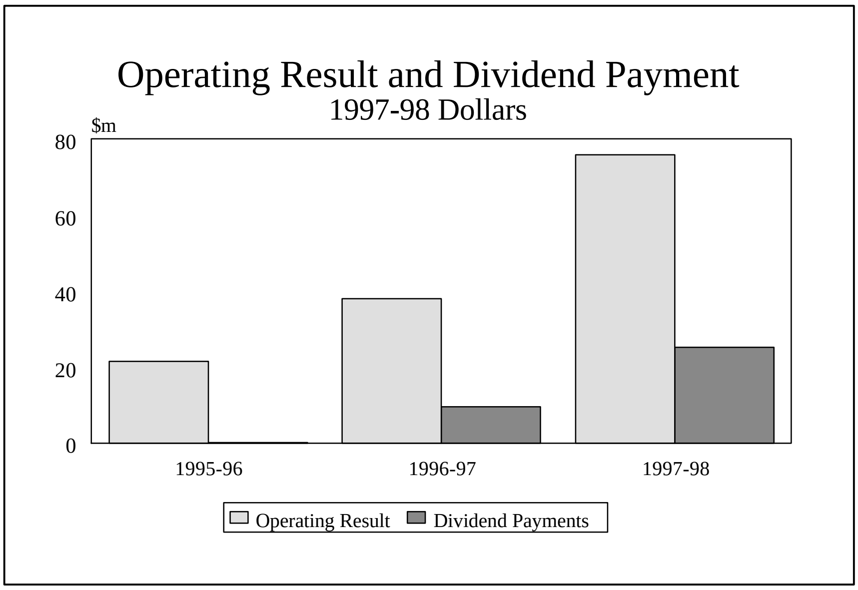
As directed by Treasury, the above financial data includes our Gas operations - care should be taken when looking at the operating costs per MWh and per Customer as these figures will include Gas operating costs.

(1) All dollar amounts reported in 1997-98 dollars
(2) Full time equivalent staff at 30 June.
(3) GWh sold per average number of all employees.
(4) Average number of electricity customers per average number of all employees.
(5) Total operating costs excluding depreciation and financing costs per MWh sold.
(6) Total operating costs excluding depreciation and financing costs per average number of customers.
(7) Energy purchased less energy sold divided by energy purchased.
(8) Average lost hours per employee per year.
(9) Number of lost time accidents per million hours worked.
(10) Average minutes per customer per year without supply including planned and unplanned outages.
(11) Assumes 1995-96 is the base year.
(12) Not Reported - internal committee has been established to review the issue.
(13) All financial indicators are consolidated. The results reflect the electricity supply and non supply energy services businesses.
(14) Profit before taxation, dividends, abnormals, capital contributions and interest expense divided by total assets at 30 June.
(15) Profit before taxation, dividends, abnormals and capital contributions divided by total equity at 30 June.
(16) Treasury SCI formula - Profit before taxation, dividends, abnormals and capital contributions divided by average net operating assets (less tax & dividend Prov. and loans) at 30 June.

GREAT SOUTHERN ENERGY







HOUSING

New South Wales

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DEPARTMENT OF HOUSING

> ***The Department provides public rental housing and rental assistance to meet the needs of people on low to middle incomes.***

The Department manages properties through eight Regional Offices. Rents are set at market level and gross rents for these properties totalled $1 billion in 1997-98. Rebates of $576 million were granted to eligible tenants during the year. About 90 per cent of tenants received a rental rebate on household type and income. The majority of tenants pay 20 per cent of their income as rent. In 1997-98, clients in the private market received rental assistance grants to the value of $15.4 million.

The Department's waiting list increased 2.0 per cent in 1997-98. Housing becomes available through vacancies and new dwellings. In 1997-98, 15,977 vacancies occurred and 1,534 new dwellings were purchased or built. A growing number of existing tenants are re-housed to meet client needs and create opportunities for redevelopment.

Redevelopment of existing housing stock is seen as a cost effective way of meeting the high demand for public housing. Forty-eight per cent of expenditure on all Departmental programs was spent on the redevelopment of existing stock in locations close to current services. In 1997-98, expenditure on maintenance increased to $118 million to bring dwellings to industry standards and redress backlogs. The Department continued its neighbourhood improvement programs with the aim of improving the tenants' living environment, client amenity and private/public tenure mix. Expenditure in 1997-98 was $33.8 million.

A centralised maintenance call centre was phased in between March 1998 and 30 June 1998 with the capacity to handle approximately 2,000 property maintenance calls per day. Tenant satisfaction has improved as a result, while maintenance costs have remained within budget.

The Department's financial performance for 1997-98 was the result of a number of factors. The deterioration in operating result between 1996-97 and 1997-98 was due to the change in the market valuation of assets, which increased depreciation costs by $42.4 million. Also, asset sales in 1997-98 generated a loss of $2.1 million compared to a gain of $52.8 million the previous year.

Major items of expenditure were repairs and maintenance ($118m), salaries and administration ($128m), interest expense ($98m) and, municipal and water rates ($127m).

In line with its strategy to promote financial sustainablity the Department reduced debt by $247.7 million by retiring or transferring debt. By 30 June 1999 all Treasury Corporation debt will be eliminated.

In 1999-00, the Department will introduce team service contracts for all client service teams. These contracts will define the inputs, outputs and outcomes required by each team. In addition, they will give teams an income and expenditure statement that allows them to better manage their funding. This system will create greater transparency and accountability for team operations and should introduce incentives for better performance.

The Commonwealth Government made further cutbacks to the capital grants provided under the Commonwealth/State Housing Agreement. There is uncertainty for future funding beyond 1998-99.

DEPARTMENT OF HOUSING

		1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment	*(1)*	2,029	2,074	1,929	1,768	2,082	2,289	2,129	1,946	1,946	1,946
Work contracted ($m)	*(2)*	603	594	638	588	599	395	415	382	347	321
Dwellings per housing employee	*(3)*	76	76	67	75	64	58	77	83	83	83
Admin expenditure ($m)	*(4)*	145.8	136.5	123.7	125.0	140.8	151.9	159.8	157.0	138.3	132.6
Admin expenditure per employee ($000)		72	66	64	70	68	66	75	80	71	58
Service											
Dwellings completed (000)	*(5)*	3.4	3.6	3.1	2.8	2.7	2.7-3.2	2.7-3.3	2.7-3.4	2.7-3.5	2.7-3.6
Dwellings under management (000)	*(6)*	124.6	127.3	130.0	132.5	132.3	133.7	134.3	134.7	134.7	134.7
Rental rebates ($m)		588	618	620	616	582	565	576	551	523	502
Rental rebates granted to Rental accounts (%)		89	90	90	91	91	90	90	90	90	90
Rental rebates granted to rent raised (%)		57	58	59	59	57	57	57	58	58	58
Public tenant appeals lodged to tenancies (%)	*(7)*	0.49	0.53	0.46	NA	1.10	1.10	1.40	1.40	1.40	1.40
Households on waiting list (000)		71.5	81.8	87.2	88.2	93.2	94.8	96.7	97.5	98.5	88.5
Applicants housed to waiting list (%)		18	16	14	13	13	12	10	11	11	11
Real price index	*(8)*	91.4	87.7	86.0	84.4	86.4	89.6	88.0	84.7	NA	NA
Financial indicators											
Operating result ($m)	*(9)*	227.2	71.6	58.5	(75.6)	(176.2)	1.6	(148.5)	(154.9)	(166.7)	(145.0)
Gross external debt ($m)	*(10)*	2,406.6	2,339.5	2,143.8	2,031.4	2,058.7	2,128.2	1,848.7	1,657.0	1,547.3	1,419.7
Asset sales ($m)	*(11)*	4.5	15.7	17.7	12.0	41.4	50.9	86.3	77.3	77.3	43.0
Return on total assets (%)	*(12)*	6.1	3.4	0.9	0.7	(1.3)	0.8	4.5	4.4	4.1	4.0
Return on equity (%)	*(13)*	6.3	1.8	1.4	(1.8)	(4.1)	0.0	(1.2)	(1.4)	(1.5)	(1.4)
Debt to equity (%)	*(14)*	65.0	57.0	51.0	47.5	47.7	16.5	13.2	13.5	12.2	12.1
Times interest earned	*(15)*	2.5	1.5	1.5	38.6	(100.8)	101.5	(0.5)	(1.4)	(2.1)	(1.9)
Social programs ($m)		23.7	22.4	15.5	21.4	22.1	16.2	10.7	9.1	8.3	7.9

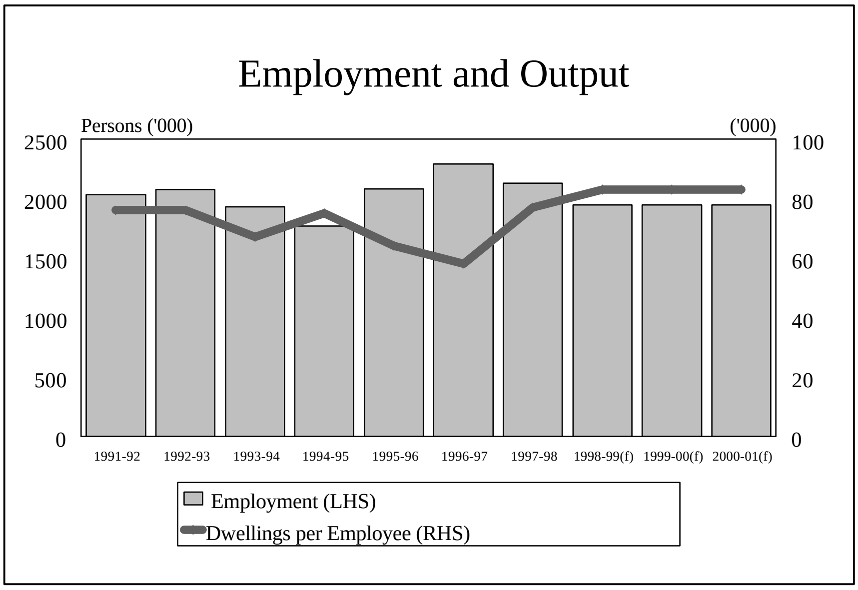
NOTES

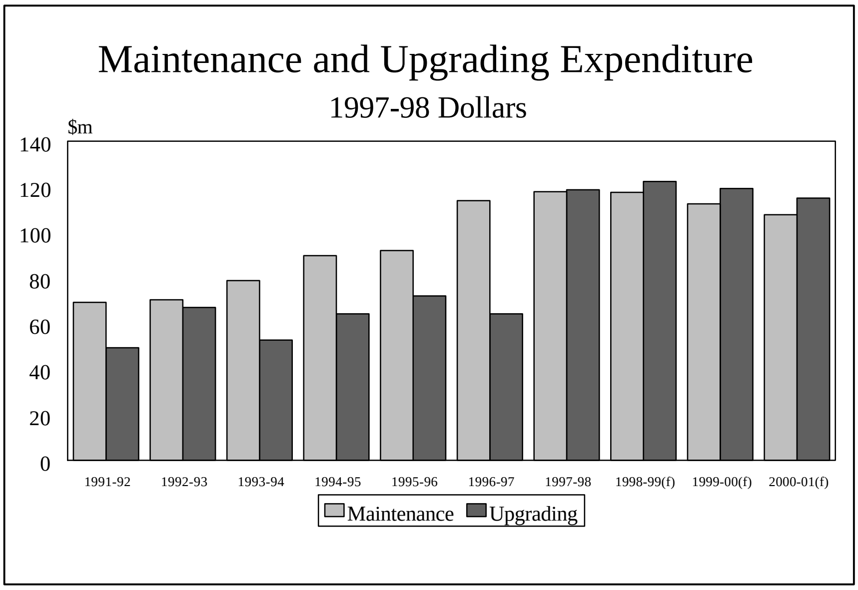
NA Not available
f Forecast

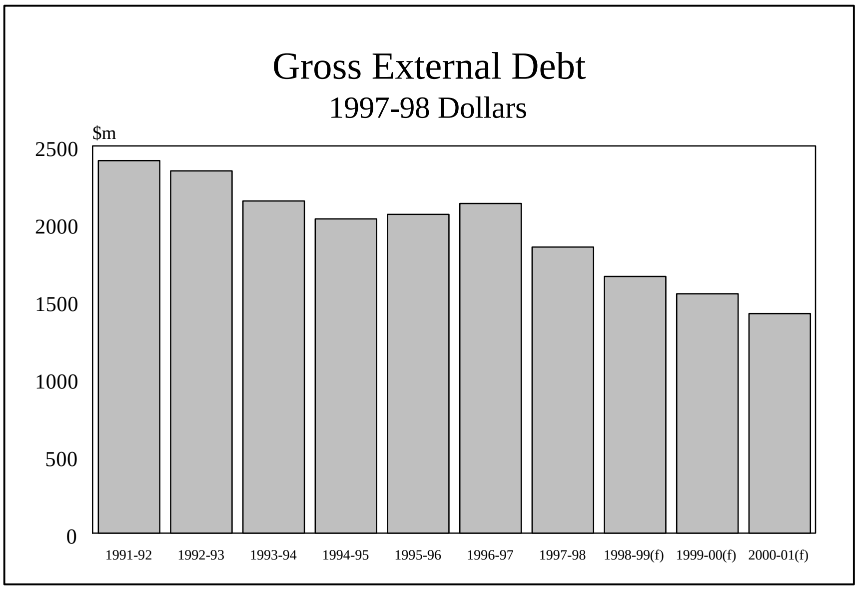
As from 1 July 1993 non-core functions such as Landcom and Home Purchase Authority were separated out from the Department.

(1) Represents equivalent full time basis as at 30 June for staff employed in the Department's mainstream operations. The figures do not include employment within other Statutory Authorities which report to the Minister for Housing through the Department. Figures from 1993-94 onward reflect separation of non-core functions from the Department. The 1994-95 figure is affected by a moratorium on recruitment. 1996-97 figure includes contractors.
(2) Prior to 1993-94 expenditure includes housing procurement, maintenance, upgrading and fees paid to Co-operative Housing Societies. From 1993-94 onwards, expenditure includes capital works, capital improvement and maintenance.
(3) Dwellings under management per equivalent full time employees includes those employees involved in the procurement and ongoing management of dwellings. Includes a notional allocation of corporate staff.
(4) Administrative expenditure prior to capitalisation of oncost to construction projects. 1993-94 excludes Home Purchase Assistance Authority, Rental Tenancy Tribunal and Landcom resulting in reduction in the number of staff and administration expenses.
(5) Range due to uncertainty of funding within some programs.
(6) Includes dwellings across all program areas, some of which are managed by community organisations on the Department's behalf. Durimg 1996-97 2,318 properties were transferred to the Office of Community Housing and 250 properties to community housing growth associations.
(7) Two tiered appeals system introduced in December 1994, no data available for that year.
(8) Derived from information supplied for the Government Charges Index.
(9) A major sales program of surplus operating assets accounted for the significant operating surplus in 1991-92. A declining operating surplus since 1992-93 is indicative of the Department being involved in core activities only. During 1995-96 the Department altered its accounting policy in relation to depreciation to reflect a useful life of 50 years, which resulted in an abnormal expenditure item of $197.2 million. This change brought the Department in line with other State Housing Authorities. Adjustments to the superannuation reserve surplus increased by $47.7 million in 1996-97.
In 1996-97 the accounting policy was changed to reflect recognition of sales income on settlement, and non-current assets were revalued to market value with an Asset Revaluation Reserve established at $7,475 million. A transfer of assets and liabilities to the office of Community Housing resulted in a downward adjustment to equity of $231.2 million.
(10) Includes early retirement of $50 million debt in 1995-96, $23 million in 1996-97 and transfer of $23 million to other agencies in 1996-97. In 1997-98 $178 million debt was retired early and $70 million of debt was transferred. The Department expects to transfer debt of $50 million and early retire debt of $40.2 million in 1998-99.
(11) Includes the net sales of surplus commercial properties (excluding land).
Decrease in 1997-98 onwards due to revaluation of all properties to market value.
(12) Return on Total Assets is calculated as operating result before interest as a percentage of total assets.
(13) Calculated as Net Profit after extraordinary items divided by the shareholders funds or equity.
(14) Calculated as long-term debt divided by equity.
(15) Calculated as net profit plus interest divided by interest.

DEPARTMENT OF HOUSING







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HUNTER WATER CORPORATION

> ***Corporatisation gives the Hunter Water Corporation clear lines of responsibility and empowers the organisation to pursue commercial objectives in the supply of water related services. The Corporation has continued to pursue greater efficiency through various reforms and improved effectiveness through further price restructuring. Real cost savings in supply have been passed on to customers in the form of lower average prices. Cross-subsidies in pricing have been eliminated.***

The HWC supplies water, wastewater and drainage services to nearly half a million people in the Lower Hunter Valley. Corporatisation of the former Hunter Water Board on 1 January 1992 gave the organisation more transparent lines of responsibility and objectives against which performance may be assessed. The Corporation's Operating Licence and Statement of Corporate Intent also developed a framework in which the relationship between the Corporation and Government, its shareholder and regulator, is clearly defined and through which each may be held accountable for its actions.

HWC has pursued reform for well over 15 years. In 1982 "user pays" pricing was introduced and in recent years cross-subsidies have been progressively eliminated. Over this period external debt has fallen in real terms, the organisation has become capital self-financing, and since 1986-87 it has paid dividends to the State Government.

Workplace reform has generated significant productivity improvements with Operating Costs per property falling in real terms by about 30 per cent from 1992 to 1998.

Core services such as civil maintenance are provided through business units which are generally within the Corporation but which compete with external companies, at market rates, for the Corporation's business. Support services are provided in the same way.

Corporatisation has enshrined quality standards for drinking water supply and other aspects of services in the Corporation's Operating Licence, while waste water discharge quality is subject to external regulation by the Environment Protection Authority. The Corporation also introduced a Customer Charter in July 1995 as a means of measuring the level of service provided to customers.

As a result of the extensive pricing reforms implemented by the Corporation in the past, customers have received significant reductions in their bills. Consequently, the Independent Pricing and Regulatory Tribunal has issued a four year pricing determination from 1996-97 to 1999-00 noting: "With Hunter Water having successfully achieved all the major aspects of price reform, the Tribunal believes that it is now appropriate to set a medium term price path for Hunter Water."

The four year determination provided for average prices to be reduced by a further 2 per cent per annum in real terms plus an almost 50 per cent reduction in the Environmental Improvement Charge. Notwithstanding a real reduction of about 23 per cent in Average Revenue per property served over the last 6 years, the Corporation has continued to improve its underlying operating result and has returned a significantly greater dividend to the State Government.

Social Programs carried out by the HWC have been fully costed to enable the organisation to better pursue its commercial objectives. These Social Programs were funded by the Government at a cost of $8.3 million for 1997-98.

Significant developments for 1997-98 included the Corporation's electrical and mechanical maintenance function being put to competitive tender, following evaluation against predetermined selection criteria by five separate assessment teams. The contract was successfully retained by the corporation's in-house business unit.

In addition, the corporation established a trading subsidiary, Hunter Water Australia P/L in March 1998. The subsidiary has been created to provide a commercially structured platform to pursue external sales, where the expertise, skills and experience of HWC people can be sold to the market place on a commercial basis.

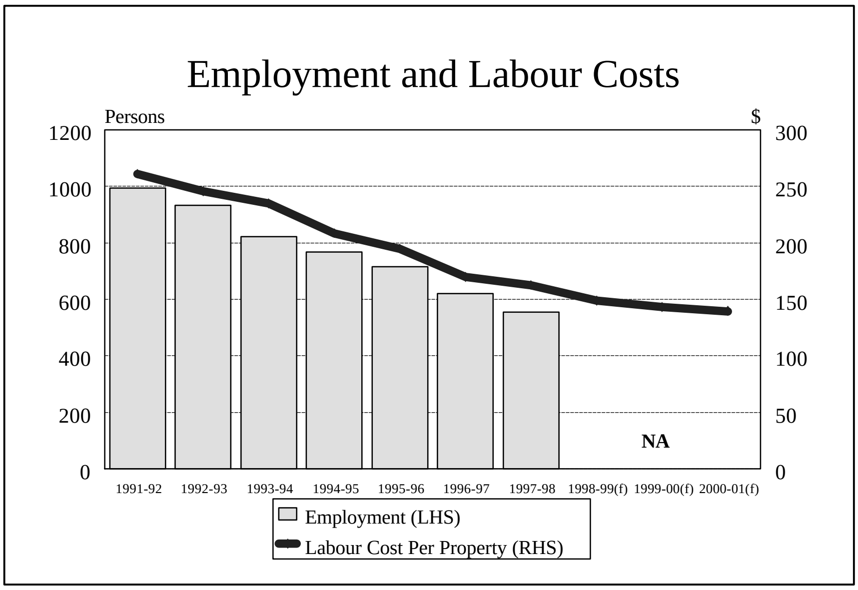
HUNTER WATER CORPORATION

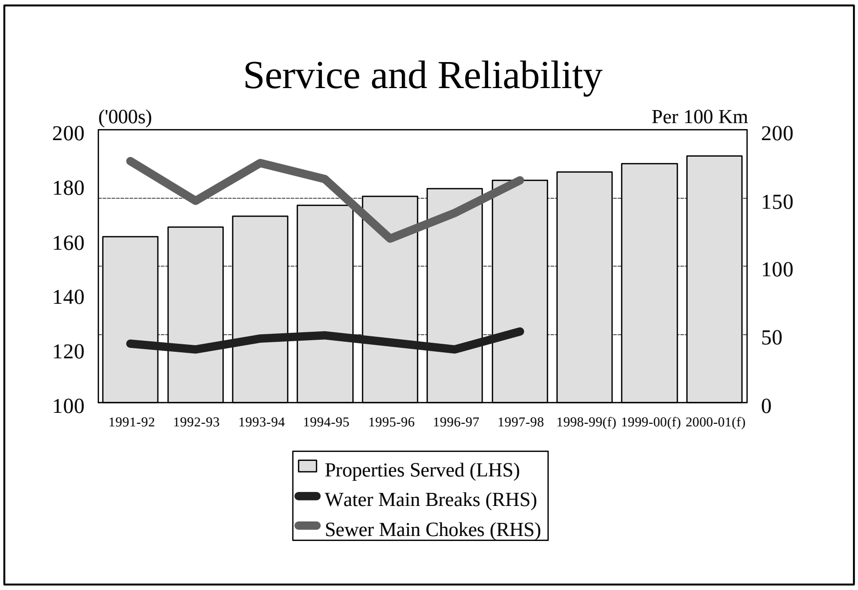
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment	(5), (10)	995	934	822	767	715	620	554	NA	NA	NA
Employees per thousand properties		6.2	5.7	4.9	4.5	4.1	3.5	3.1	NA	NA	NA
Labour cost per property ($)		261.2	245.6	234.9	208.6	195.0	170.0	162.7	145.9	140.5	135.5
Operating cost per property ($)	(2a)	418.0	387.7	382.0	363.3	333.9	345.1	295.9	257.3	248.1	241.7
Total cost per property ($)	(2b)	859.9	808.0	772.8	669.7	532.3	541.0	446.7	403.2	388.6	377.3
Average revenue per property ($)	(13)	851.5	817.5	774.6	690.7	637.6	644.8	658.1	602.2	570.0	549.1
Outstanding accounts ($m)		1.8	1.5	1.3	1.4	1.6	2.2	2.0	2.0	1.9	1.8
Hours lost to industrial											
disputes per employee		10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lost time frequency rate	(3)	20.0	19.0	19.6	18.2	18.3	23.7	16.8	16.0	16.0	16.0
Service											
Properties served (000)	(4)	160.9	164.5	168.3	172.3	175.6	178.5	181.6	184.6	187.6	190.6
New housing lots served		3,265	3,547	3,827	3,986	3,374	2,900	3,115	3,005	3,005	3,005
Megalitres supplied (000)		78.6	74.4	76.0	73.9	74.9	74.2	80.6	77.3	74.6	74.0
Unsewered lots (000)		22.6	20.8	19.7	17.4	15.6	14.3	14.0	13.8	13.7	13.6
System reliability:											
Water main breaks per 100 km	(5)	43.1	39.1	47.0	49.5	44.3	39.3	52.0	NA	NA	NA
Sewer main chokes per 100 km	(5)	177.0	148.0	176.0	164.0	120.5	139.0	163.3	NA	NA	NA
Average response time:											
- water main breaks (hrs)	(6)	NA	NA	NA	NA	1.4	1.3	1.3	NA	NA	NA
- sewer main chokes (hrs)	(6)	1.4	1.3	1.4	1.3	1.4	1.2	1.0	1.3	1.3	1.3
Water resource management:											
Compliance with standards											
1) water quality											
- microbiological (%)		96.2	93.5	96.1	96.9	97.9	98.7	98.7	98.7	98.7	98.7
- physical / chemical (%)		94.8	97.1	98.1	97.7	99.5	99.8	99.0	99.0	99.0	99.0
2) waste water quality (%)	(7)	78.0	98.0	98.0	98.0	100.0	100.0	100.0	100.0	100.0	100.0
Real price index	(8)	103.9	105.1	97.4	87.2	75.3	75.5	76.5	NA	NA	NA
Finances											
Operating result ($m)	(9)	19.7	19.5	19.7	20.8	33.5	54.3	43.8	36.9	33.0	29.8
Dividend payments ($m)		9.8	13.4	13.7	18.6	30.1	35.6	39.0	43.2	47.6	46.9
Asset sales ($m)		2.0	2.5	2.3	6.0	5.0	3.9	3.6	4.0	0.6	0.1
Return on assets:											
- total (revalued) (%)	(11)	3.0	3.2	3.4	3.5	3.1	4.0	3.5	3.2	3.1	3.0
- core (revalued) (%)	(12)	3.4	3.4	3.6	3.6	3.2	4.4	3.9	3.5	3.2	3.1
Return on equity (%)		11.8	12.3	13.1	12.8	23.1	10.3	8.2	7.2	6.4	6.2
Gross external debt ($m)		237.2	192.8	174.8	90.7	87.3	85.6	84.0	82.2	80.0	77.3
Debt to equity (%)		60.6	43.7	36.3	17.4	17.2	16.2	15.6	15.2	15.2	15.5
Times interest earned		1.6	1.7	1.9	2.8	6.0	8.6	7.3	6.5	5.9	5.7
Social programs ($m)		7.0	6.9	7.8	8.2	8.1	8.1	8.3	7.8	7.7	7.5

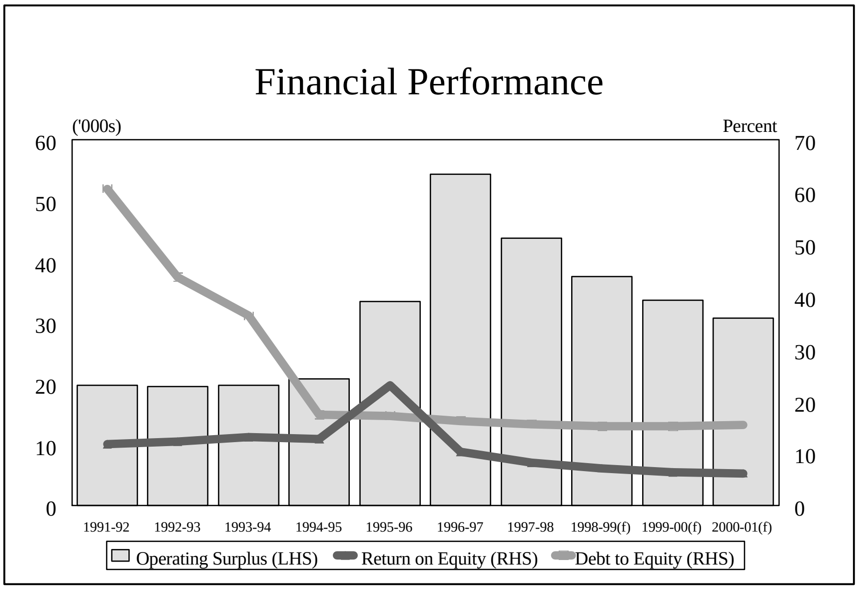
NOTES

NA Not available.
f Forecast
(1) All dollar amounts reported in 1997-98 dollars. All revenue based forecasts include IPART determinations of -2% for 98/99 & 99/00, and an estimated -1% for 00/01.
(2a) For 1997/98 onwards excludes 'cost of external sales' of Hunterwatertech following the sale of Hunter Water's wholly owned subsidiary in March 1997.
(2b) Annual depreciation charges reduced from 1995/96 following a reassessment of average remaining useful lives.
(3) (Lost time injuries x 1,000,000)/no. of hours worked.
(4) Properties connected figures exclude unconnected vacant lands.
(5) Projected figures not available. Employee numbers are Equivalent Full Time at 30 June.
(6) Response time to Category 1 jobs, excluding unconnected vacant lands.
(7) Proportion of waste receiving secondary treatment.
(8) Derived from information supplied for Government Charges Index. Excludes the special Environmental Levy which was reduced by 50% for 1996/97.
(9) Includes abnormal income from unread meters of $10.748M in 1996/97.
(10) Employment numbers in the 1996/97 year and onwards do not include Hunterwatertech employees following its sale in March 1997.
(11) Operating result plus depreciation divided by total assets.
(12) Operating result plus depreciation divided by fixed assets.
(13) 1999/2000 forecast revenue reflects the proposed downsizing of BHP.

HUNTER WATER CORPORATION







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HUNTER WATER CORPORATION

> ***Corporatisation gives the Hunter Water Corporation clear lines of responsibility and empowers the organisation to pursue commercial objectives in the supply of water related services. The Corporation has continued to pursue greater efficiency through various reforms and improved effectiveness through further price restructuring. Real cost savings in supply have been passed on to customers in the form of lower average prices. Cross-subsidies in pricing have been eliminated.***

The HWC supplies water, wastewater and drainage services to nearly half a million people in the Lower Hunter Valley. Corporatisation of the former Hunter Water Board on 1 January 1992 gave the organisation more transparent lines of responsibility and objectives against which performance may be assessed. The Corporation's Operating Licence and Statement of Corporate Intent also developed a framework in which the relationship between the Corporation and Government, its shareholder and regulator, is clearly defined and through which each may be held accountable for its actions.

HWC has pursued reform for well over 15 years. In 1982 "user pays" pricing was introduced and in recent years cross-subsidies have been progressively eliminated. Over this period external debt has fallen in real terms, the organisation has become capital self-financing, and since 1986-87 it has paid dividends to the State Government.

Workplace reform has generated significant productivity improvements with Operating Costs per property falling in real terms by about 30 per cent from 1992 to 1998.

Core services such as civil maintenance are provided through business units which are generally within the Corporation but which compete with external companies, at market rates, for the Corporation's business. Support services are provided in the same way.

Corporatisation has enshrined quality standards for drinking water supply and other aspects of services in the Corporation's Operating Licence, while waste water discharge quality is subject to external regulation by the Environment Protection Authority. The Corporation also introduced a Customer Charter in July 1995 as a means of measuring the level of service provided to customers.

As a result of the extensive pricing reforms implemented by the Corporation in the past, customers have received significant reductions in their bills. Consequently, the Independent Pricing and Regulatory Tribunal has issued a four year pricing determination from 1996-97 to 1999-00 noting: "With Hunter Water having successfully achieved all the major aspects of price reform, the Tribunal believes that it is now appropriate to set a medium term price path for Hunter Water."

The four year determination provided for average prices to be reduced by a further 2 per cent per annum in real terms plus an almost 50 per cent reduction in the Environmental Improvement Charge. Notwithstanding a real reduction of about 23 per cent in Average Revenue per property served over the last 6 years, the Corporation has continued to improve its underlying operating result and has returned a significantly greater dividend to the State Government.

Social Programs carried out by the HWC have been fully costed to enable the organisation to better pursue its commercial objectives. These Social Programs were funded by the Government at a cost of $8.3 million for 1997-98.

Significant developments for 1997-98 included the Corporation's electrical and mechanical maintenance function being put to competitive tender, following evaluation against predetermined selection criteria by five separate assessment teams. The contract was successfully retained by the corporation's in-house business unit.

In addition, the corporation established a trading subsidiary, Hunter Water Australia P/L in March 1998. The subsidiary has been created to provide a commercially structured platform to pursue external sales, where the expertise, skills and experience of HWC people can be sold to the market place on a commercial basis.

HUNTER WATER CORPORATION

	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment	(5), (10)	995	934	822	767	715	620	554	NA	NA	NA
Employees per thousand properties		6.2	5.7	4.9	4.5	4.1	3.5	3.1	NA	NA	NA
Labour cost per property ($)		261.2	245.6	234.9	208.6	195.0	170.0	162.7	145.9	140.5	135.5
Operating cost per property ($)	(2a)	418.0	387.7	382.0	363.3	333.9	345.1	295.9	257.3	248.1	241.7
Total cost per property ($)	(2b)	859.9	808.0	772.8	669.7	532.3	541.0	446.7	403.2	388.6	377.3
Average revenue per property ($)	(13)	851.5	817.5	774.6	690.7	637.6	644.8	658.1	602.2	570.0	549.1
Outstanding accounts ($m)		1.8	1.5	1.3	1.4	1.6	2.2	2.0	2.0	1.9	1.8
Hours lost to industrial disputes per employee		10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lost time frequency rate	(3)	20.0	19.0	19.6	18.2	18.3	23.7	16.8	16.0	16.0	16.0
Service											
Properties served (000)	(4)	160.9	164.5	168.3	172.3	175.6	178.5	181.6	184.6	187.6	190.6
New housing lots served		3,265	3,547	3,827	3,986	3,374	2,900	3,115	3,005	3,005	3,005
Megalitres supplied (000)		78.6	74.4	76.0	73.9	74.9	74.2	80.6	77.3	74.6	74.0
Unsewered lots (000)		22.6	20.8	19.7	17.4	15.6	14.3	14.0	13.8	13.7	13.6
System reliability:											
Water main breaks per 100 km	(5)	43.1	39.1	47.0	49.5	44.3	39.3	52.0	NA	NA	NA
Sewer main chokes per 100 km	(5)	177.0	148.0	176.0	164.0	120.5	139.0	163.3	NA	NA	NA
Average response time:											
- water main breaks (hrs)	(6)	NA	NA	NA	NA	1.4	1.3	1.3	NA	NA	NA
- sewer main chokes (hrs)	(6)	1.4	1.3	1.4	1.3	1.4	1.2	1.0	1.3	1.3	1.3
Water resource management:											
Compliance with standards											
1) water quality											
- microbiological (%)		96.2	93.5	96.1	96.9	97.9	98.7	98.7	98.7	98.7	98.7
- physical / chemical (%)		94.8	97.1	98.1	97.7	99.5	99.8	99.0	99.0	99.0	99.0
2) waste water quality (%)	(7)	78.0	98.0	98.0	98.0	100.0	100.0	100.0	100.0	100.0	100.0
Real price index	(8)	103.9	105.1	97.4	87.2	75.3	75.5	76.5	NA	NA	NA
Finances											
Operating result ($m)	(9)	19.7	19.5	19.7	20.8	33.5	54.3	43.8	36.9	33.0	29.8
Dividend payments ($m)		9.8	13.4	13.7	18.6	30.1	35.6	39.0	43.2	47.6	46.9
Asset sales ($m)		2.0	2.5	2.3	6.0	5.0	3.9	3.6	4.0	0.6	0.1
Return on assets:											
- total (revalued) (%)	(11)	3.0	3.2	3.4	3.5	3.1	4.0	3.5	3.2	3.1	3.0
- core (revalued) (%)	(12)	3.4	3.4	3.6	3.6	3.2	4.4	3.9	3.5	3.2	3.1
Return on equity (%)		11.8	12.3	13.1	12.8	23.1	10.3	8.2	7.2	6.4	6.2
Gross external debt ($m)		237.2	192.8	174.8	90.7	87.3	85.6	84.0	82.2	80.0	77.3
Debt to equity (%)		60.6	43.7	36.3	17.4	17.2	16.2	15.6	15.2	15.2	15.5
Times interest earned		1.6	1.7	1.9	2.8	6.0	8.6	7.3	6.5	5.9	5.7
Social programs ($m)		7.0	6.9	7.8	8.2	8.1	8.1	8.3	7.8	7.7	7.5

NOTES

NA Not available.
f Forecast
(1) All dollar amounts reported in 1997-98 dollars. All revenue based forecasts include IPART determinations of -2% for 98/99 & 99/00, and an estimated -1% for 00/01.
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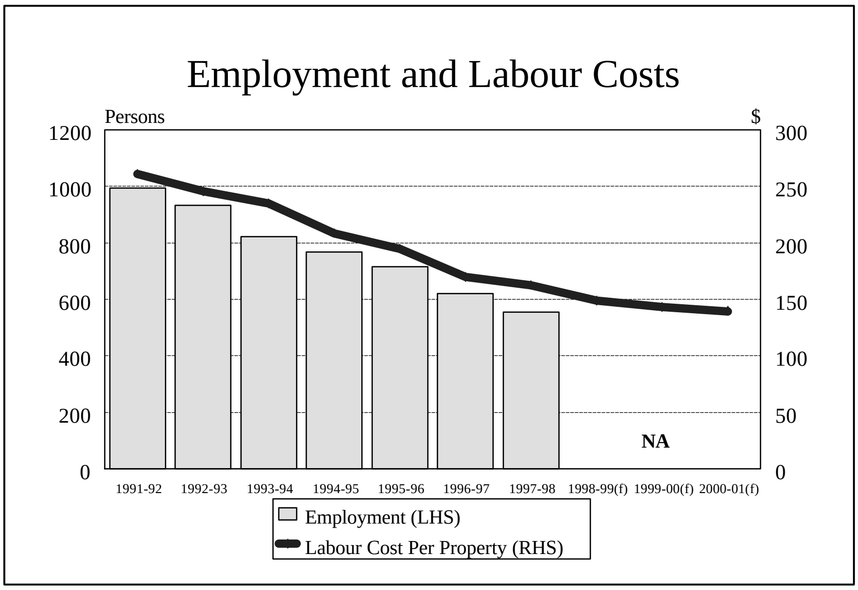
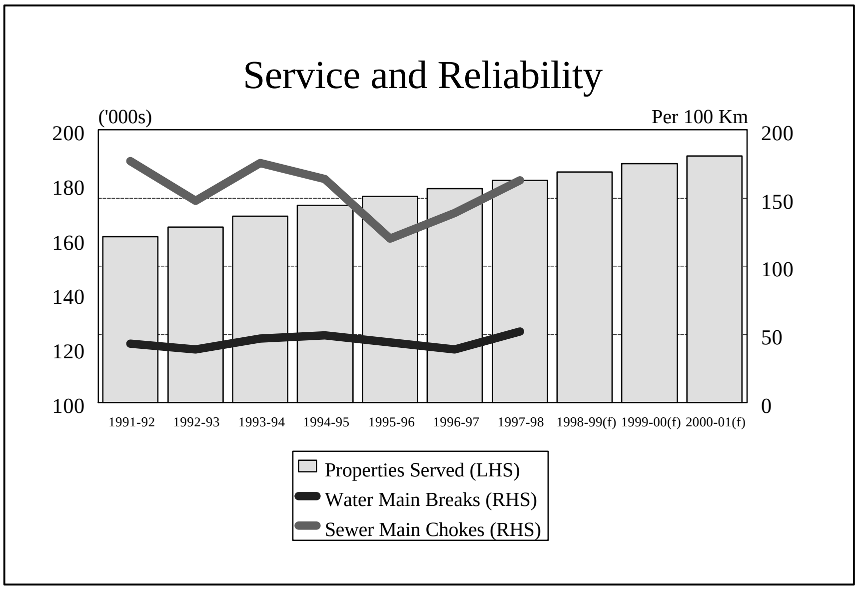
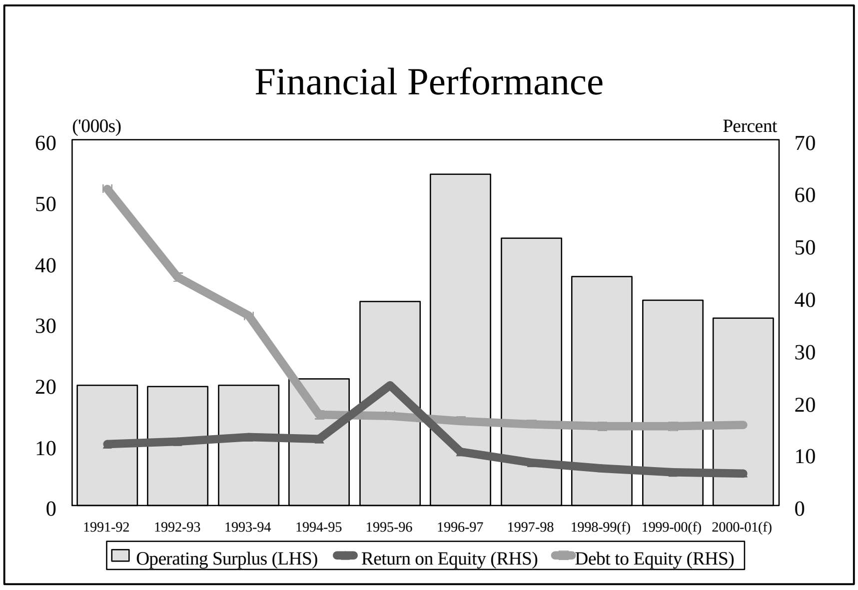
HUNTER WATER CORPORATION







INTEGRAL energy

WE THINK. WE'RE DIFFERENT.

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INTEGRAL ENERGY

Integral Energy is one of Australia's keenest competitors in the national energy services business.

As a NSW State-owned corporation incorporated under the *Energy Services Act 1995*, Integral Energy operates with a sharp customer focus, within the terms and conditions of the *Electricity Supply Act 1995*.

Integral Energy was formed on 1 October 1996, following the merger of the former Prospect Electricity and the major portion of Illawarra Electricity, as part of the NSW Government's reforms of the electricity industry.

Integral Energy has emerged from the pressure of intense competition and substantial industry reform of the past two years to deliver a solid performance for its 732,400 customers and its shareholder, the NSW Government.

Performance highlights in 1997-98 include:

- earnings before interest and taxes of $177.5 million;
- retained leadership in the competitive electricity market through success in the 160-750MWh contestable segment in New South Wales, by increasing the customer base in Victoria, and by winning customers in the ACT market;
- prices were frozen in real terms for residential customers for the seventh successive year;
- the residential customer satisfaction index rose to and all-time high of 87.5, while among business customers it remained steady at 80;
- achieved major improvements in customer telephone call response times in the second half of the year against challenging targets;
- extended the range of bill paying options for customers with the introduction of BPay;
- improved meter reading timeliness, with 94 per cent of domestic meters read in the preferred 57-63 day cycle;
- relaunched the former Shoal Gas business on the South Coast as Integral Energy Gas in November 1997;
- exceeded target for reduction of greenhouse gas emissions, achieving savings of 2.8 million tonnes of carbon dioxide equivalent, 22 per cent above target;
- signed up 9,000 residential customers to the SEDA-endorsed Green Power program;
- launched Integral Energy Metering Australia (IEMA), a wholly owned subsidiary, to supply expert meter provision and meter data agent services primarily in the competitive electricity market. Relaunched on 1 July 1998 as InfoMet;
- demonstrated world's best practice in four out of eight networks operations in an international benchmarking study;
- selected as consultants to the ministerial inquiry into the electricity cable failures in Auckland, New Zealand, ahead of an international field; and
- signed a three-year strategic alliance with MM Cables for supply of electricity cable and related services; and
- for the sixth consecutive year, won an Annual Report Gold in the Annual Report Awards.

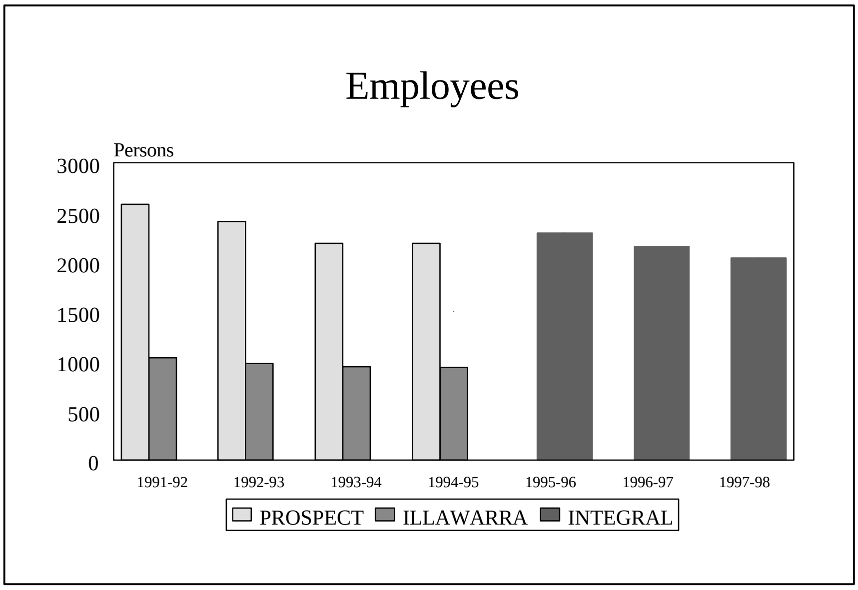
INTEGRAL ENERGY

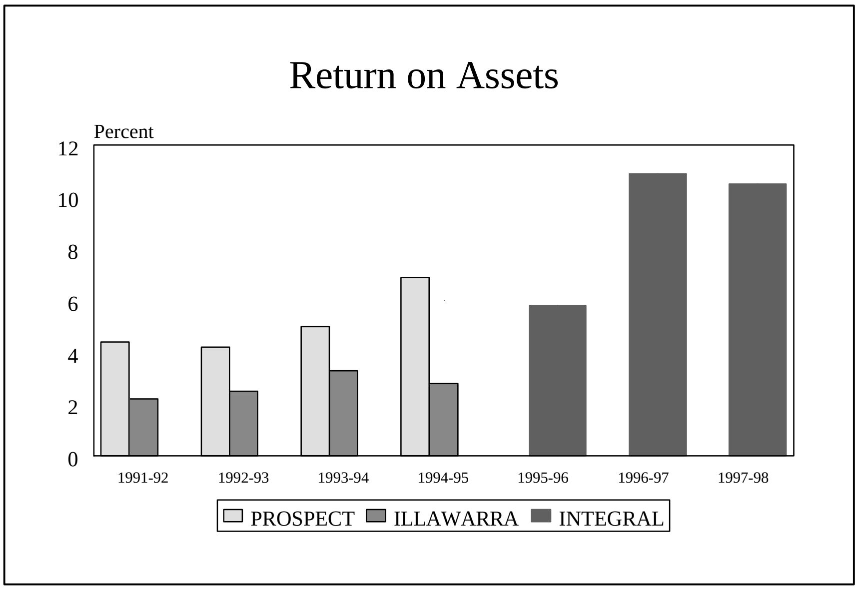
		1991-92		1992-93		1993-94		1994-95		1995-96	1996-97	1997-98
		PROSPECT	ILLAWARRA	PROSPECT	ILLAWARRA	PROSPECT	ILLAWARRA	PROSPECT	ILLAWARRA	INTEGRAL	INTEGRAL	INTEGRAL
Efficiency												
Employment	*(1)*	2,585.0	1,037.0	2,412.0	974.0	2,192.0	945.0	2,188.0	939.0	2,294.0	2,157.0	2,039.0
Output per employee (gwh)	*(2)*	3.2	2.4	3.5	2.5	4.0	2.7	4.3	2.8	4.5	4.8	6.8
Customers per employee	*(3)*	187.6	174.9	203.0	194.2	237.0	302.2	247.0	211.9	311.8	335.6	396.5
Operating cost per unit sold ($/mwh)	*(4)*	24.6	30.9	27.9	34.9	24.1	33.7	23.6	32.4	25.3	31.2	30.7
Operating cost per customer ($)	*(5)*	278.9	308.2	277.5	295.8	258.2	286.6	235.7	277.4	241.6	271.8	274.5
System loss index (%)	*(6)*	4.2	6.3	4.9	6.2	5.2	6.0	4.6	6.5	5.0	6.6	4.6
Days sick leave per employee	*(7)*	5.3	5.9	5.4	4.9	6.0	5.4	5.2	7.2	6.3	6.1	4.2
Lost time injury frequency rate	*(8)*	261.8	34.4	145.9	29.8	181.8	21.0	144.8	18.1	20.8	9.7	12.2
Total factor productivity	*(9)*	1.4	1.1	1.4	1.1	1.4	1.1	1.5	1.2	NA	NA	NA
Service												
Output (gwh)	*(10)*	8,460.0	2,509.0	8,733.0	2,547.0	9,103.0	2,636.0	9,497.0	2,666.0	12,092.0	11,410.0	12,514.0
Supply reliability (min)	*(11)*	122.0	381.0	113.0	300.0	84.0	242.0	85.0	315.0	132.0	100.0	139.4
Real price index		98.3	102.6	98.5	102.0	93.4	98.3	84.7	91.8	NA	NA	NA
Customer satisfaction index												
domestic	*(12)*	68.2	72.0	75.3	70.4	74.1	70.2	75.8	73.3	75.7	80.0	87.5
business	*(13)*	64.7	65.8	72.3	73.2	72.8	73.0	73.2	74.4	74.4	80.0	80.0
Finances												
Operating result ($m)	*(14)*	92.3	17.0	71.4	12.6	85.2	14.3	84.8	15.9	86.6	113.8	110.9
Return on assets (%)	*(15)*	4.4	2.2	4.2	2.5	5.0	3.3	6.9	2.8	5.8	10.9	10.5
Return on equity (%)	*(16)*	4.2	2.3	4.0	2.6	5.3	1.4	6.5	2.9	10.8	11.8	11.2
Gross external debt ($m)	*(17)*	178.3	18.2	164.8	16.0	253.2	13.8	256.3	17.3	752.0	706.1	681.8
Debt to equity ratio (%)	*(18)*	13.3	9.2	9.2	8.0	21.8	4.8	21.7	4.0	94.0	101.3	96.7
Times interest earned	*(19)*	-0.2	33.4	2.0	20.0	12.7	66.5	5.8	34.1	3.4	2.6	4.0
Social programs ($m)	*(20)*	30.5	7.5	61.3	7.8	9.4	4.5	9.8	4.7	13.2	12.8	13.0
Financial distribution ($m)												
corporate tax equivalent		0.0	0.0	0.0	0.0	23.0	2.9	23.5	5.0	0.0	0.0	14.3
dividend payment		0.0	0.0	82.6	0.0	45.6	6.9	23.0	3.3	27.6	98.5	92.1
payment of capital from equity	*(21)*	0.0	NA	0.0	NA	119.3	NA	0.0	NA	509.5	35.1	0.0
Asset sales ($m)	*(22)*	7.1	2.3	6.2	2.2	8.1	6.0	9.3	2.8	18.1	16.4	24.2

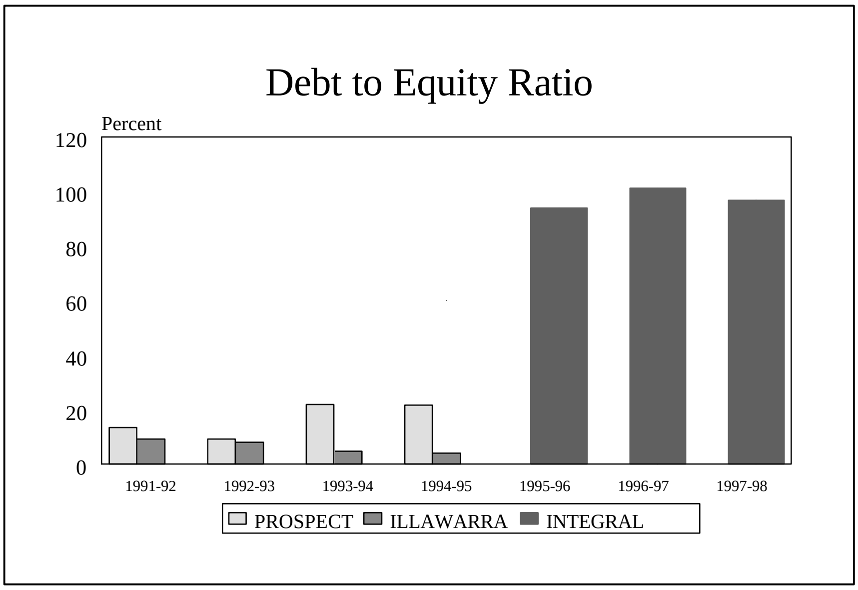
NOTES

(1) Full time equivalent staff as at 30 June
(2) GWh sold peraverage number of electricity employees
(3) Average customers per average number of electricity employees
(4) Operating expenditure excluding depreciation and interest divided by number of units sold
(5) Operating expenditure excluding depreciation and interest per average number of customers
(6) Energy purchased less energy sold divided by energy purchased.
(7) Total sick leave days per average no. of electricity employees
(8) Number of lost time accidents per million hours worked.
(9) Calculated by Treasury.
(10) Electricity Sales (GWh).
(11) Average minutes per customer per year without supply including planned and unplanned outages
(12) & (13) Figures for 1997-98 are from a new customer satisfaction studyspecifically commissioned to meet Integral Energy's business needs. This research was conducted by AGB McNair with results presented in February 1998. The study provides a score out of 100 to indicate the positive perception of customers to the service provided by distributors. Results for 1996-97 are not comparable to previous years.
(14) Operating surplus calculated before dividends, ElectricityDevelopment Fund (EDF) contributions, equivalent payments and capital contributions, and other social programs (excluding EDF contributions), abnormal items and financial transfers
(15) EBIT before CSOs, abnormals and capital contribution divided by Total Assets. Asset revaluations in 1991-92, 1992-93 and 1993-94 make comparisons of some financial ratios between years misleading.
(16) Profit before tax, CSOs, abnormals and capital contribution divided by Total Equity. Asset revaluations in 1991-92, 1992-93 and 1993-94 make comparisons of some financial ratios between years misleading.
(17) Includes loans, leases, EDF loans and long term creditors
(18) Gross external debt-total equity (capital value of debt). Asset revaluations in 1991-92, 1992-93 and 1993-94 make comparisons of some financial ratios between years misleading
(19) EBIT as defined in note 16 divided by total interest expense.
(20) Includes Pensioner rebates, Traffic Route Lighting Subsidies, EDF contributions
(21) Involves a special payment to the Government
(22) Total proceeds from asset sales

INTEGRAL ENERGY







LAND TITLES OFFICE

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LAND TITLES OFFICE

The Land Titles Office's mission is to satisfy community needs and expectations for certainty of title to land, while operating as an efficient government business enterprise.

The New South Wales Land Titles Office (LTO) is the largest centralised land title registry in Australia and meets community and Government needs for a flexible and secure title system for property ownership. The core business of the Office is to provide guaranteed land title registration and related land information services. These services are essential to the community to facilitate conveyancing, surveying, mapping, land development, rating, financial security and historical and private research.

Significant developments during 1997-98 included:

Enhancement of customer service:

- registering a 95.3 per cent score on a customer satisfaction index compared to 93.5 per cent in 1996-97;
- introducing a 1800 phone inquiry service for Notice of Sale clients;
- increased consultation with survey groups and the appointment of 11 Survey Liaison Officers;
- conducting seminars on LTO practices in association with the College of Law;
- an 8.6 percentage point increase productivity for core operations over 1996-97 levels, a 5 per cent decrease in staffing levels and 15 per cent increase in dollar income per equivalent full time employee;
- ongoing programs of customer surveys, client liaison meetings, and customer education such as training personnel from the major banks in procedures for document registration; and
- achieving all service target guarantees.

Technological advances:

- enhancing and expanding remote area network facilities to allow remote access to the Dealings Imaging System and the Central Register of Restrictions;
- establishing an LTO homepage enabling Internet access to information on services provided by the Office;
- commencing projects to examine the feasibility of electronic lodgment and examination of plans;
- fully implementing the Integrated Titling System, stage 4.1, which enables the Office to provide on line dealing registration and immediate issue of certificates of title; and
- publishing the Information Management and Technology Strategic Plan to guide Office technology development over the next three years.

Marketing enterprises:

- providing consultancy services, land law advice and expertise to assist in developing land titling systems in other countries. Revenue raising opportunities were increased by providing land titling consultancies in Bangladesh, Trinidad, Laos, Indonesia and El Salvador.

Office Management initiatives:

- initiating a strategic planning process involving staff, management and consultants, culminating in the launch of the 5 year Strategic Plan for the Office in August 1998;
- establishing a business continuity project group to review and enhance procedures for recovery and continued provision of Office applications and services; and
- developing workplace competencies in a number of areas of the Office in accordance with the National Competencies Standards Model.

The profit levels of the LTO are largely dependent on revenue derived from activity in the property market. An operating surplus of $28.5m was achieved in 1997-98, which was 23 per cent higher than the previous financial year. It was due to increased turnover in the property market and reductions in all areas of operating expenditure. Distributions to the Government comprise a tax equivalent of 36 per cent ($10.3m) and an after tax dividend ($15.5m) representing a total payment of 90.4 per cent of 1997-98 Operating Profit. An additional dividend of $10m was paid during the year from accumulated funds.

LAND TITLES OFFICE

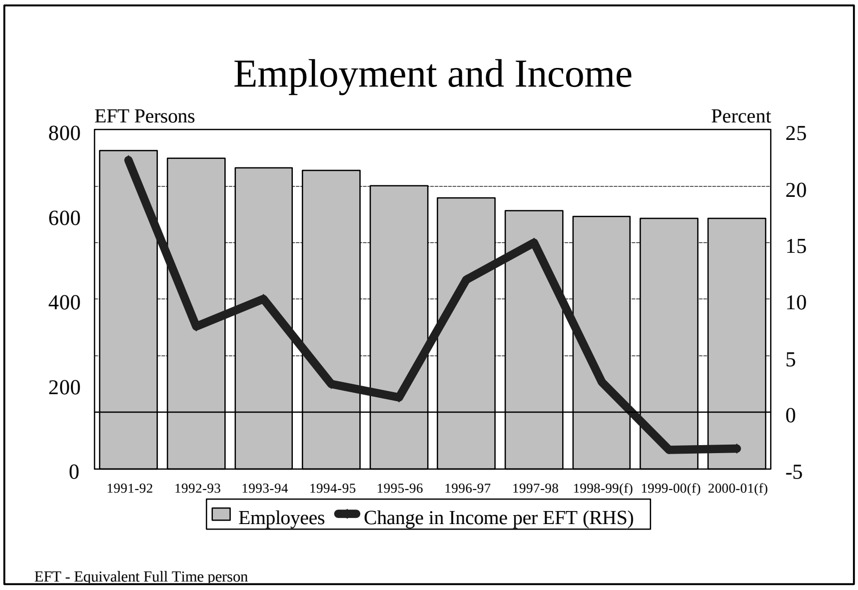
		1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
	(1)										
Efficiency											
Employment	*(2)*										
Total		751.0	732.0	710.0	704.0	668.0	639.0	609.0	595.0	590.0	590.0
employed on "public good" operations (%)		9.6	12.1	12.5	11.4	11.1	10.2	9.4	9.2	9.1	9.1
Productivity											
Increases based on 1990 productivity (%)	*(3)*										
dealing registrations		14.1	16.1	16.9	17.4	18.0	19.9	22.1	24.0	25.0	26.0
old system registrations		11.4	18.5	24.6	25.1	26.4	32.5	32.4	32.6	32.7	32.8
plan registrations		0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
searches		6.5	7.3	7.7	7.9	7.6	8.4	9.4	9.5	9.6	9.7
phs applications		21.4	21.6	26.1	19.3	22.8	30.2	29.8	31.5	31.6	31.7
provision of land information		82.8	79.6	85.0	92.2	93.6	124.5	145.0	155.0	160.0	165.0
total core operations	*(4)*	15.7	27.5	37.2	42.9	42.8	57.8	71.3	83.0	87.6	91.0
total office (incl slis "public good" projects)	*(5)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
change - total office (%)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in income per EFT employee (%)		22.3	7.6	10.0	2.5	1.3	11.7	15.0	2.7	-3.3	-3.2
Effectiveness											
Remote access to alts											
- per total searches (%)		55.0	58.0	62.0	62.6	70.6	75.0	78.0	82.0	85.0	86.0
Change in volume of business (%)		6.1	5.6	6.5	1.1	-5.6	1.7	12.7	-1.9	-4.2	-3.9
Throughput											
dealing registrations (avg no days)											
- manual titles		4.0	3.0	3.0	3.0	2.0	2.0	1.5	1.5	1.0	1.0
- auto titles		3.0	2.0	1.5	1.5	1.5	1.5	1.0	1.0	1.0	<1
Plan registrations (% within 12 days)											
- deposited		63	55	68	86	90	95	84	85	85	85
- auto titles		97	99	97	98	99	99	97	98	98	98
Land information (ave response time)											
- alts title searches (min)		25.0	20.0	15.0	15.0	15.0	15.0	15.0	12.0	10.0	10.0
- plans (min)		180.0	75.0	15.0	15.0	15.0	15.0	15.0	14.0	12.0	12.0
- dealings (min)		120.0	120.0	120.0	120.0	120.0	120.0	30.0	25.0	20.0	20.0
Finances											
Total revenue ($m)		66.3	68.8	72.4	71.1	65.1	68.6	75.2	73.7	68.8	64.3
Revenue per EFT employee ($'000)		88.2	93.9	102.0	101.0	97.5	107.3	123.3	123.8	116.6	109.0
Operating surplus ($m)	*(8)*	31.4 *(6)*	24.2	28.2	15.1 *(8)*	16.7	23.2	28.5	23.9	20.4	16.7
Dividend payment ($m)		25.7	36.6 *(7)*	23.1	12.3	19.8 *(9)*	31.0	35.8	21.6	18.4	15.1

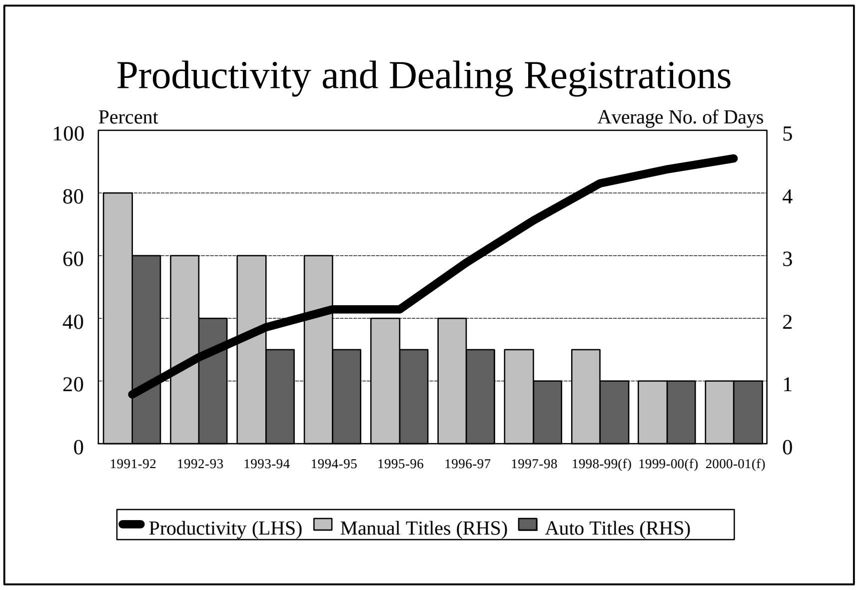
NOTES

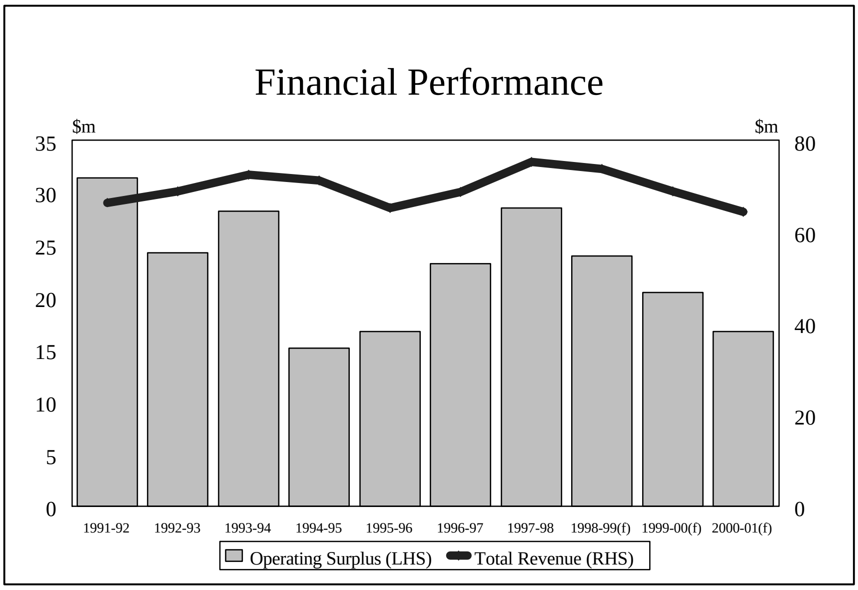
NA Not available/not applicable.
e Estimate
f Forecast.

(1) All dollar amounts are reported in 1997-98 prices.
(2) Average equivalent full time (EFT) staff for year.
(3) Productivity benchmarks established in 1990 for core activities, staff directly and indirectly associated with each core activity included in determining productivity benchmarks.
(4) Total Factor Productivity for operational staff.
(5) Total Factor Productivity based on total staff (including corporate services and SLIS projects) and measurable output of core activities.
(6) Includes abnormal items. Operating surplus was $17.9m if abnormal items were discounted.
(7) Special dividend of $15m paid from accumulated reserves.
(8) Abnormal adjustment for superannuation liability.
(9) Special dividend paid from accumulated reserves.

LAND TITLES OFFICE







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MACQUARIE GENERATION

Macquarie Generation operates power stations in the Upper Hunter Valley and is the largest electricity generator in New South Wales.

Macquarie Generation owns and operates Bayswater and Liddell Power Stations, which are located near Muswellbrook in the Upper Hunter Valley of New South Wales. The stations are coal fired and source their fuel from the plentiful supply of high grade coal reserves of the local Hunter Valley mines. The two stations have a combined capacity of 4,640 MW which positions Macquarie Generation as the largest electricity generator in the competitive first stage of the National Electricity Market.

The irreversible changes brought on by the implementation of the National Electricity Market have impacted on the way Macquarie Generation conducts its business of electricity supply. As foreshadowed last year, cheap Victorian imports of electricity have added to the considerable oversupply in New South Wales, with greatly reduced electricity prices an inevitable consequence.

In this new environment trading conditions have become much more challenging, as demonstrated by falls in both prices and profitability across the industry during 1997-98. Macquarie Generation responded to the conditions by focusing on reducing costs and improving efficiency. During the year it achieved significant savings in fuel, maintenance, labour and fixed costs. As a consequence the corporation has confirmed its position as one of the lowest cost generators in the market.

Operationally the two stations each recorded high levels of efficiency and reliability during 1997-98. Bayswater's world class reliability was confirmed by Unit Four's station record breaking 518 days of continuous operation (as at June 30, 1998). Each of the other three units also set new continuous operating records during the year. Nearing the end of its third decade of operation, Liddell continues to exceed industry reliability and efficiency standards. The combined plant availability for the 12 month period was 96 per cent. The corporation also achieved significant improvements in employee safety at both stations.

Macquarie Generation continues to adopt a value approach to its strategic management and importantly some 95 per cent of strategic goals set out in the Business Plan for 1997-98 were met.

The corporation has total assets exceeding $2 billion and has a workforce of 688 employees. Its operating profit before tax for the year ended June 1998 was $53.8 million.

MACQUARIE GENERATION

FINANCES	(1), (2)	1995/96 [4 months]	1996/97	1997-98
Operating result ($m)		51.4	174.1	53.8
Return on assets (%)		NA	11.8	6.6
Return on operating Assets (%)		NA	12.3	6.8
Return on equity (%)		NA	18.8	5.8
Asset sales ($m)		0.1	2.7	3.1
Gross external debt ($m)		1449.3	1032.8	1027.7
Debt to equity (%)		60.6	52.7	52.6
Times interest earned (times)		2.2	2.8	1.6
Internal funding ratio (%)		100	100	100
Dividend payments ($m)		25.2	125.2	35.0
Corporate tax equivalent ($m)		18.5	62.7	18.8

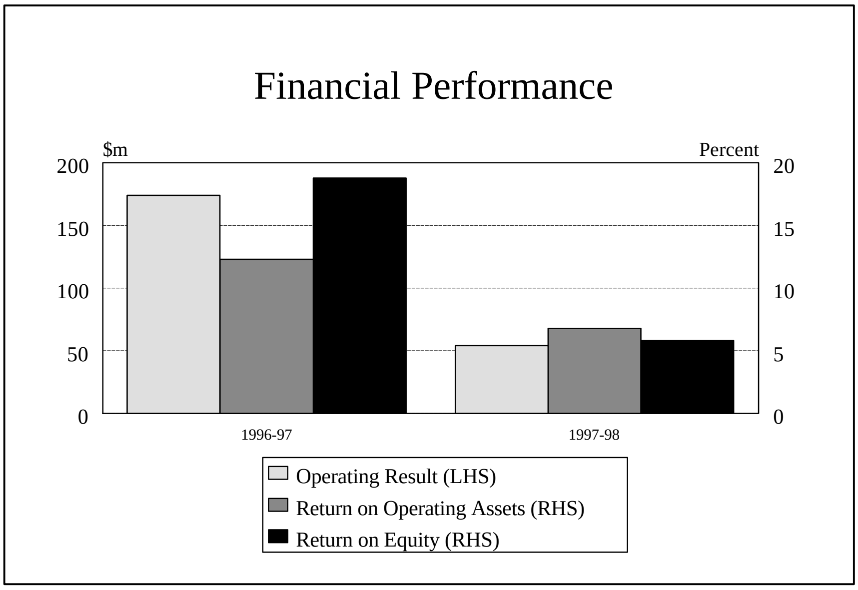
~~*NOTES*~~

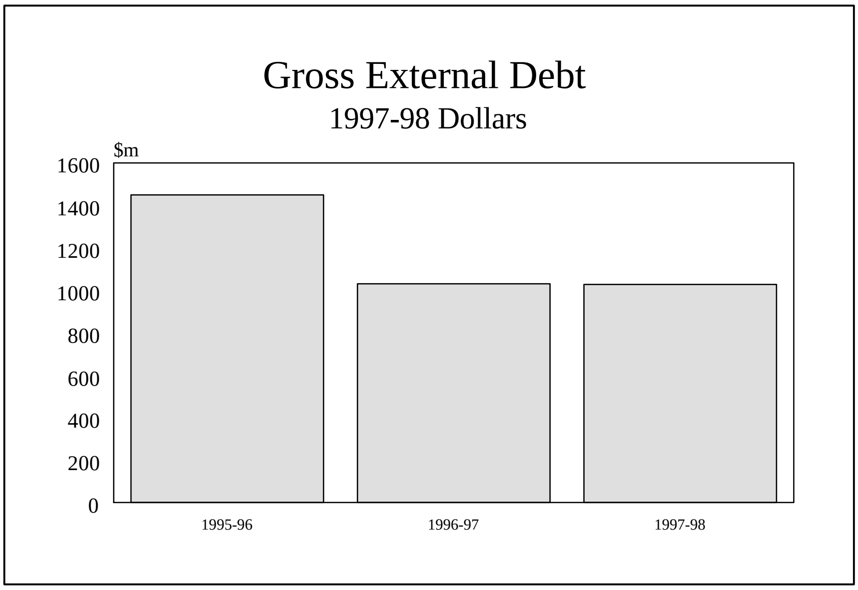
NA Not Available

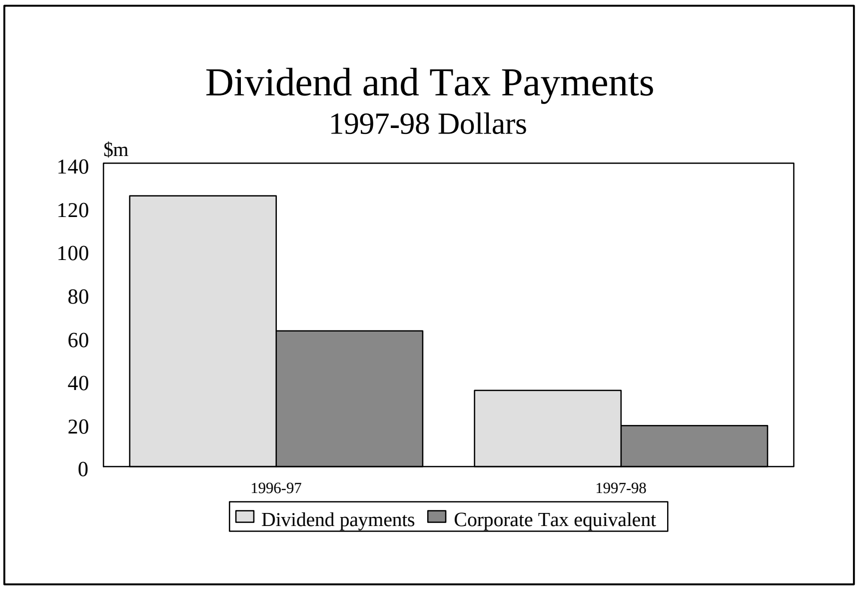
(1) Macquarie Generation was established on 1 March 1996.
Only four months data is applicable for the 1995/96 year return analysis ratios.

(2) All figures are reported in 1997-98 dollars.

MACQUARIE GENERATION







Mr Euan Melville
Corporate Services Manager
NEWCASTLE PORT CORPORATION
PO Box 663
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(02) 4927 2400

NEWCASTLE PORT CORPORATION

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's Mission is to create business growth and development opportunities that provide and promote world class port services to produce sustainable commercial returns.

The Corporation is wholly owned by the people of New South Wales. It is obliged to be a successful business, to promote and facilitate trade through its port facilities and to ensure that port safety functions are carried out properly.

The Corporation's operation in 1997-98 has resulted in:

- record tonnage throughput of 77 million tonnes, an increase of 11 per cent on the previous year;
- a substantial rise in container trade through the port representing a 25 per cent increase on 1996-97; and
- an operating surplus of $12.7 million being achieved, with a $10 million shareholder distribution.

The Corporation has been implementing strategies to:

- diversify trade through the Port;
- increase general cargo trade through strategic partnerships; and
- improve productivity of shipping movements with further enhancements to ship handling guidelines and turnaround of coal vessels.

NEWCASTLE PORT CORPORATION

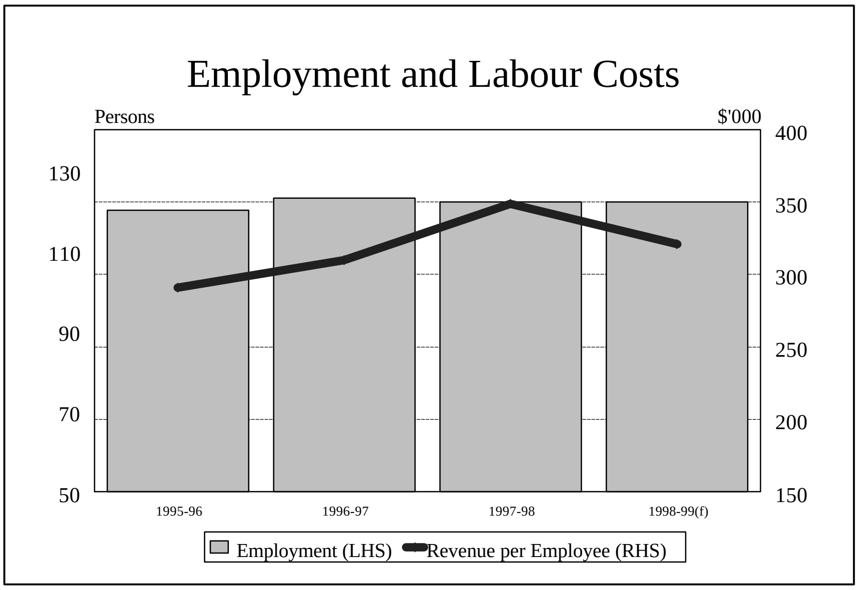
	(1)	1995-96	1996-97	1997-98	1998-99(f)
Efficiency					
Employment	(2)	120	123	122	122
Revenue per employee ($000)		291	310	349	321
Industrial disputation					
- total hours lost		596	335	70	NA
- hours lost per employee		5.0	2.7	0.6	NA
Contract labour ($m)		0.8	NA	NA	NA
Service					
Total trade (million tonnes)	(3)	60.3	67.5	77.1	76.4
Vessel arrivals		1439	1560	1710	1785
Vessel turnaround time (hrs)		62.0	51.0	51.0	NA
Berth occupancy (%)		45.0	51.0	52.0	NA
Berth queueing time (hrs)		NA	NA	NA	NA
Average time at berth (hrs)		51.0	40.0	39.0	NA
Avg port management charge per tonne of cargo ($)	(4)	0.52	0.51	0.49	0.47
Avg port management charge per vessel ($)	(4)	21,640	21,863	21,953	20,299
Finances					
Operating result ($m)	(5)	13.0	12.1	13.4	12.2
Dividend payment ($m)		5.5	9.0	10.0	8.8
Asset sales ($m)		0.3	0.2	0.3	0.3
Return on total assets (%)		12.1	9.5	13.4	13.0
Return on equity (%)		21.7	12.7	20.2	20.2
Gross external debt ($m)		50.8	30.0	30.0	29.3
Debt to equity (%)		92.0	51.0	51.0	55.0
Times interest earned		7.9	5.4	6.2	5.9

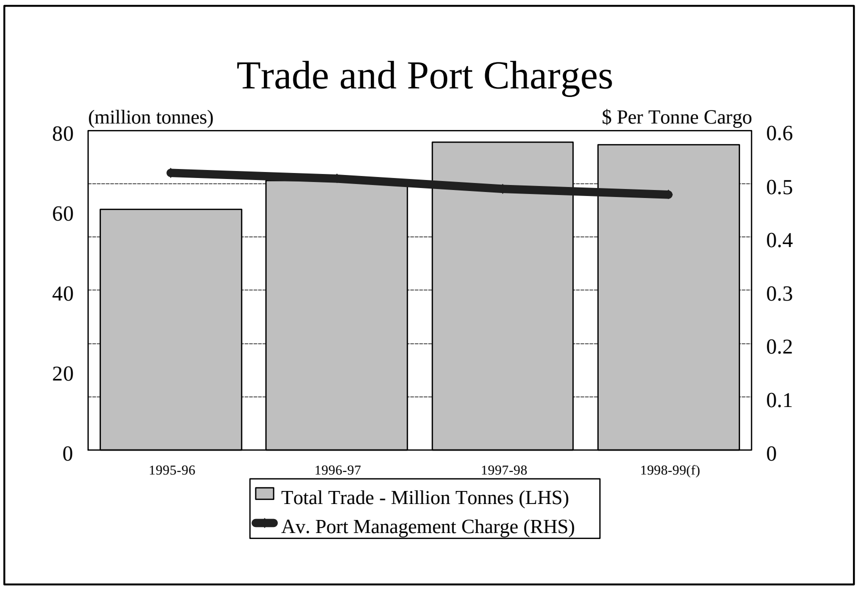
NOTES

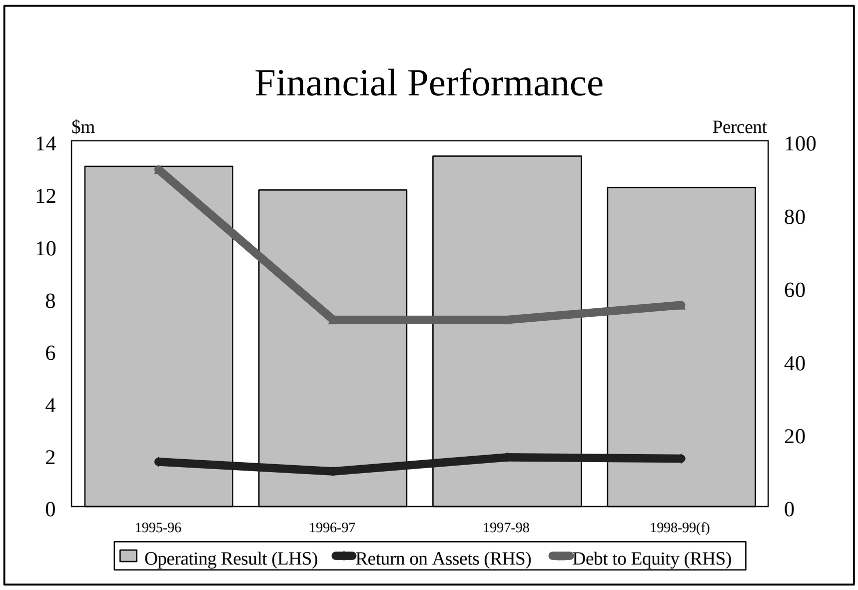
NA Not available
e Estimate
f Forecast

(1) All dollars amounts are in 1997-98 prices.
(2) Excludes labour employed by consultancy.
(3) Total trade expressed in million revenue tonnes.
(4) Excludes coal loader revenue.
(5) Operating surplus before tax.

NEWCASTLE PORT CORPORATION







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NORTHPOWER

> ***NorthPower was established as a State Owned Corporation in March 1996 from the merger of amalgamation of Tenterfield Shire Council (Electricity Department) and six distribution authorities: Northern Rivers, Oxley, Namoi Valley, New England, Peel Cunningham and North West. In addition the northern part of Orion Energy franchise area was transferred to NorthPower. It is the largest distributor in geographic terms.***

The NorthPower franchise has diverse geographic and demographic areas. The coastal fringe covering 15 per cent of the corporation's franchise area has 70 per cent of the customer base and is characterised by high growth. The inland rural areas are generally characterised by lower customer densities and low growth.

NorthPower's present customer base of 340,000 represents about 13 per cent of total customers in the New South Wales energy market and 9 per cent in terms of energy usage. It is the State's third largest distributor.

NorthPower has a core set of values and beliefs which clearly demonstrate its focus on the competitive challenge ahead. Outstanding performance is the key measure by which the company seeks to be judged.

In terms of safety, NorthPower achieved a 90 per cent reduction in lost-time injuries and a substantial improvement in the lost time injury frequency rate. NorthPower improved its system reliability performance. It achieved a 30 per cent improvement in average customer time without supply, leading to a 99.96 per cent reliability factor. There was a 7 per cent improvement in the average time taken to restore supply to 1.9 hours. Moreover, there was a 24 per cent improvement in the average number of outages per customer to 1.6 per year.

By focusing on long-term energy partnerships, customer service and competitive wholesale energy trading, energy business won has outweighed business lost by a factor of 3:1. NorthPower's metering and data services business has achieved preferred provider status with several energy utilities in NSW and interstate, and is growing strongly.

NorthPower's maintenance services business has won contracts with several energy utilities and private companies in NSW and interstate. NorthPower's construction business has won a number of significant contracts within NSW and interstate and has retained a strong market share within its franchise area.

NORTHPOWER

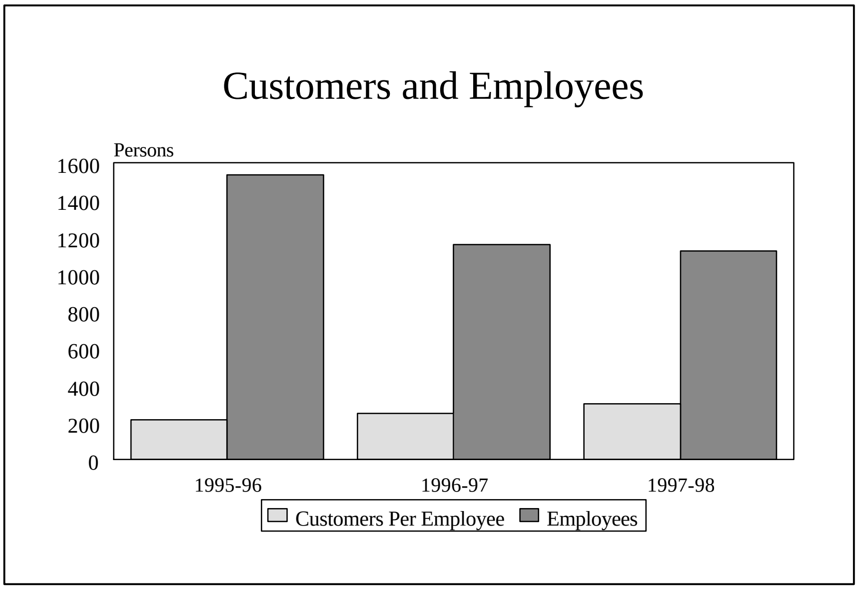
	(1)	1995-96	1996-97	1997-98
Efficiency				
Employment	(2)	1,536	1,160	1,126
Output per Employee (GWh)	(3)	nr	nr	nr
Customers per Employee	(4)	214.8	247.4	301.2
Operating Cost Per Unit Sold ($/MWh)	(5)	nr	nr	nr
Operating Cost Per Customer ($)	(6)	nr	nr	nr
System Loss Index (%)	(7)	nr	nr	nr
Average Lost Time	(8)	11.9	12.1	5.3
Lost Time Injury Frequency Rate	(9)	115.0	47.0	3.5
Service				
No. of Customers		330,000	337,053	351,533
Output (GWh)		nr	nr	nr
Supply Reliability (Min)	(10)	264.0	186.0	225.0
Real Price Index	(11)	nr	nr	nr
Customer Satisfaction Index				
Domestic		na	na	na
Business		na	na	na
Finances	(12)			
Operating Result ($'000)		21,643.3	38,785.4	64,510.0
Return on Assets (%)	(13)	5.8	7.7	9.0
Pre Tax Return on Net Assets	(14)	5.9	9.8	12.6
Return on Equity (%)	(15)	5.9	5.7	6.9
Gross External Debt ($'000)		149,629.3	139,464.5	137350.0
Debt to Equity Ratio (%)		40.9	35.1	26.9
Times Interest Earned		8.2	4.1	7.1
Financial Distribution ($'000)				
Dividend Payment		6,442.6	17,998.9	58,080.0
Corporate Tax Equivalent		0.0	0.0	0.0
Payment of Capital from Equity		0.0	0.0	0.0

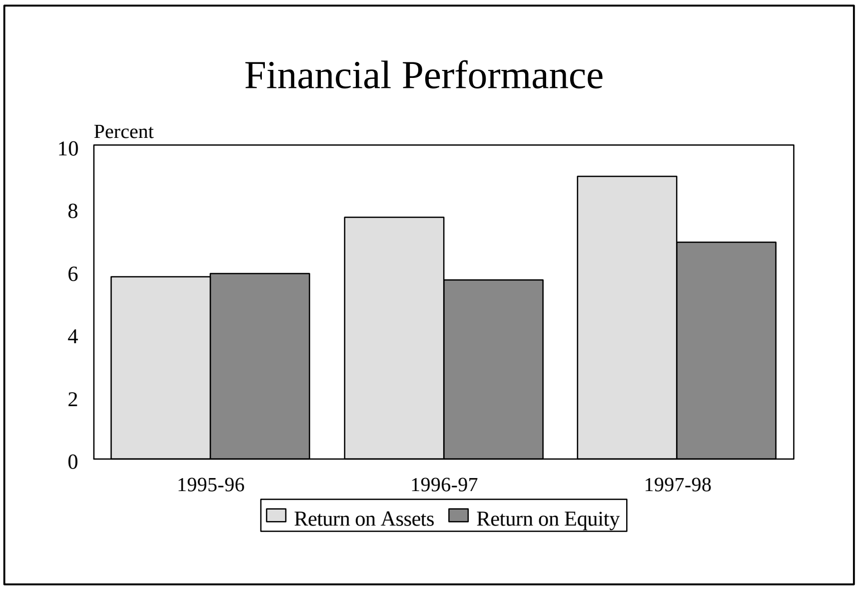
Notes

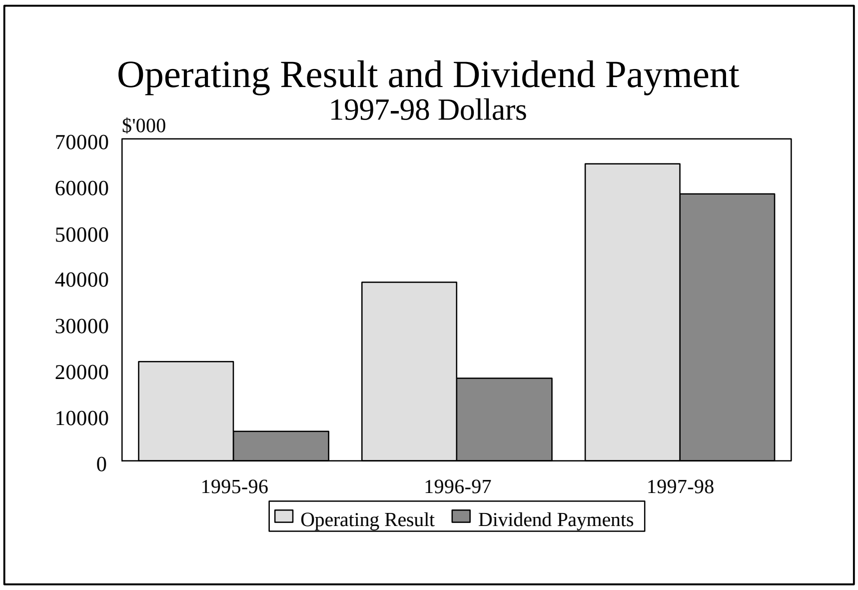
nr *Not reported*
na *Not available*

(1) *All dollar amounts reported in 1997-98 dollars*
(2) *Full time equivalent staff at 30 June.*
(3) *GWh sold per average number of all employees.*
(4) *Average number of customers per average number of all employees.*
(5) *Operating costs including depreciation, excluding financing costs per MWh sold.*
(6) *Operating costs including depreciation, excluding financing costs per average number of customers.*
(7) *Energy purchased less energy sold divided by energy purchased.*
(8) *Average lost hours per employee per year.*
(9) *Number of lost time accidents per million hours worked.*
(10) *Average minutes per customer per year without supply including planned and unplanned outages.*
(11) *Assumes 1995-96 is the base year.*
(12) *All financial indicators are consolidated. The results reflect the electricity supply and non supply energy services businesses.*
(13) *Earnings before interest and taxation divided by total assets at 30 June.*
(14) *Operating profit before taxation dividend by net assets at 30 June.*
(15) *After tax profits divided by equity at 30 June.*

NORTHPOWER


Customers and Employees
Persons
1600
1400
1200
1000
800
600
400
200
0
1995-96
1996-97
1997-98
Customers Per Employee
Employees


Financial Performance
Percent
10
8
6
4
2
0
1995-96
1996-97
1997-98
Return on Assets
Return on Equity


Operating Result and Dividend Payment
1997-98 Dollars
$'000
70000
60000
50000
40000
30000
20000
10000
0
1995-96
1996-97
1997-98
Operating Result
Dividend Payments

NSW Lotterie$

We all get a lot out of lotteries

Mr Brian McIntyre
Director Finance
NSW LOTTERIES
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NSW LOTTERIES

Each year since 1931, Lotteries revenue has made a significant contribution to the provision of Government services, which benefit the entire community.

The 1997-98 fiscal year was a significant year for NSW Lotteries in a number of respects. It was the first full year of trading as a State Owned Corporation and also marked the tenth consecutive year of record turnover. The sales growth achieved was extremely pleasing, given the competitive and expanding nature of the market place, and demonstrated a continuation of the loyal customer support received during the past 67 years. This positive sales performance led to the payment of record returns to Shareholders.

Turnover from all products during the year totalled $939.3 million, a 3.3 per cent increase on the previous year in nominal terms, or a 2.3 per cent real growth rate after allowing for inflation. Duties and dividends paid to Government for community benefit reached $300.6 million compared with $291.3 million in 1996-97. In addition, 1670 (small business) retailer distributors situated throughout the State received more than $56.3 million in commission.

The overall sales increase was driven primarily by growth in turnover of OZ Lotto and Powerball - the most recent additions to the range of Lotto Games. OZ Lotto and Powerball were introduced in 1994 and 1996 respectively and, in contrast with the longer established products, are still in the growth phase of their product cycle. Both games benefited from significant jackpot runs during the year, with OZ Lotto offering a first prize of $10 million on five occasions, while Powerball jackpotted to a peak of $15 million in November 1997. These large jackpots provided the impetus for attracting new customers and also encouraged existing players to increase their normal spend.

Providing products and services, which meet the expectations of two million customers, is critical to business success. To this end, the Corporation has placed considerable emphasis on offering players a high quality customer service in order to retain their patronage and loyalty. This focus was reflected in the results of a customer survey conducted in August 1997, which improved on the high results of an earlier survey in 1996. The most recent survey indicated that 98 per cent of players are satisfied to extremely satisfied with the Corporation's service delivery.

Corporatisation has provided the opportunity to further enhance NSW Lotteries' commercial performance and there is scope for future enhancement of products and services. However, continued growth will be largely dependent upon diversification into new distribution channels and new products. The rapidly changing market conditions also highlight the need for continual repackaging of games to keep them fresh and appealing to lottery players. These business objectives will continue into the new financial year to ensure the strong growth experienced in recent years continues into the future.

NSW LOTTERIES

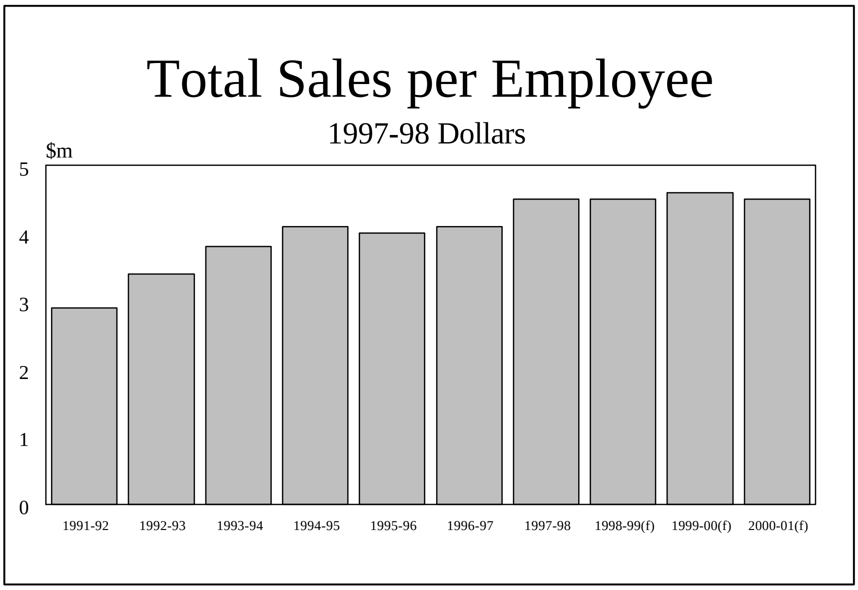
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 (f)	1999-00 (f)	2000-01 (f)
Efficiency											
Employment		282	256	247	240	243	235	222	220	220	220
Total sales per employee ($m)		2.9	3.4	3.8	4.1	4.0	4.1	4.5	4.5	4.6	4.5
Days lost for sick leave per employee		7.3	5.9	5.2	6.3	5.2	6.5	5.3	5	5	5
Days lost for workers compensation per employee		1.1	0.1	0.2	0.5	0.8	0.5	0.3	0.5	0.5	0.5
Effectiveness											
Agent commissions ($m)		48.5	50.6	53.8	55.5	55.3	54.9	56.3	56.0	57.2	56.6
Net sales ($m)		770.9	808.4	888.6	906.6	900.9	910.9	939.3	934.1	952.6	942.8
Total sales ($m)	*(2)*	819.4	858.9	942.4	962.1	956.2	965.8	995.6	990.1	1009.7	999.4
Prize payments ($m)		475.8	499.3	546.6	556.4	553.1	559.0	576.2	573.0	584.3	578.4
Total sales per capita ($)	*(3)*	184.9	191.5	208.9	211.5	208.0	205.4	209.1	205.3	206.6	201.9
Number of on-line agents		1413	1414	1424	1429	1428	1422	1417	1415	1415	1415
Number of instant only agents		326	323	340	329	321	290	249	240	230	220
On-line system uptime (%)		99.93	99.94	99.99	100	99.99	99.97	99.99	99.95	99.95	99.95
Financial indicators											
Government licence duties ($m)		225.7	236.0	259.7	264.9	263.3	266.1	271.8	274.6	277.4	276.0
Return on shareholders funds (%)	*(4)*	39	49	43	47	44	55	67	59	59	55
Return on corporate assets (%)	*(5)*	28	29	30	32	29	37	38	38	37	34
Dividend and tax equivalent payments ($m)	*(6)*	11.3	22.8	18.9	25.5	25.2	25.6	28.8	25.9	26.9	25.6

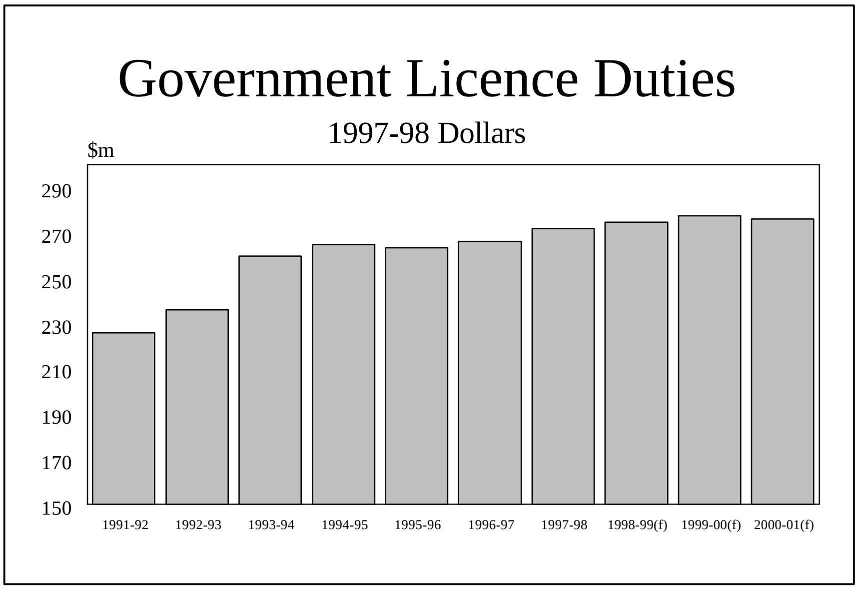
NOTES

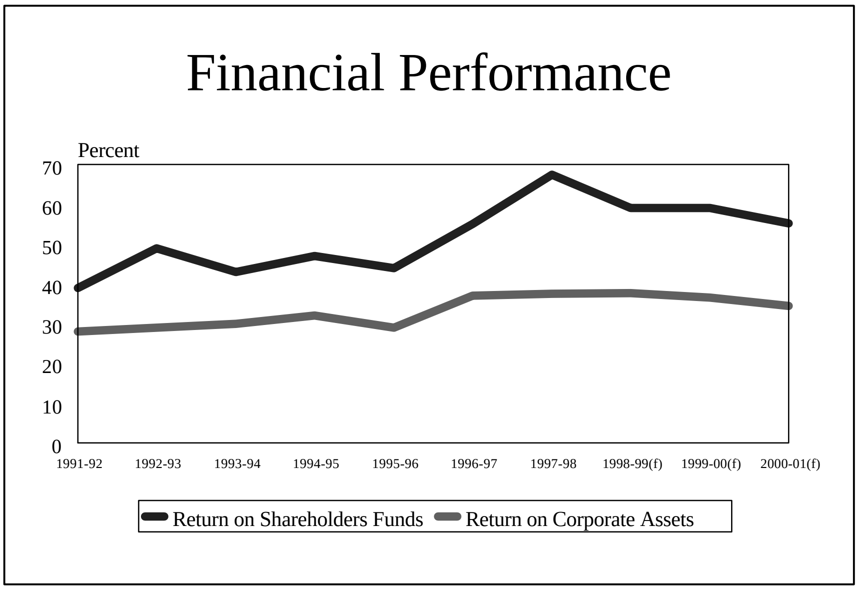
NA Not Applicable
f forecast

(1) All dollar amounts are reported in 1997-98 prices.
(2) Total Sales includes Agent Commission.
(3) Population based on estimate of persons over 18 years. Projections for 1996-97 onwards.
(4) Return based on surplus before abnormal items and tax equivalents.
(5) Relates to assets of the Corporation, excluding prize funds.
(6) For comparison purposes, a one off special equity distribution of $24.5 million as a result of Corporatisation in 1996/97 has not been included .

NSW LOTTERIES







PORT KEMBLA
PORT CORPORATION

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PORT KEMBLA PORT CORPORATION

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. The Port had a successful year recording its fourth highest trade throughput. The Corporation is well positioned to capture new market and future trade opportunities.

Total trade for 1997-98 was just under 26.2 million revenue tonnes. This was 300,000 tonnes below last year but the fourth best on record. There were 642 ship visits with a total gross shipping tonnage (GRT) of 19.7 million tonnes. The Corporation is actively pursuing new trade opportunities in the areas of bulk, break bulk and general cargo.

New trade growth will mainly be concentrated around the inner harbour. A new rail spur line will significantly boost the level of service, which can be provided for non-grain and coal customers and will provide an incentive for new cargoes. Discussions have also continued with Port Kembla Copper for the construction of a bulk liquids berth at No. 4 Jetty to export sulphuric acid with construction due to commence in 1998-99.

The Corporation continues to provide a flexible approach to pricing, which has been used on the Multi Purpose Berth to attract a number significant new trades including steel and pine log exports, the latter trade having considerable potential when the Asian economy improves. The level of new business and trade enquiries during 1997-98 was very high. The Corporation has been actively marketing its services and facilities to targeted market segments including niche shipping lines and bulk and break bulk shippers.

The Corporation's revenue at $39.1 million exceeded last year's result of $38.3 million due to higher throughput from containers, finished steel products and increased interest on investments. During the year, in an effort to assist the coal industry the Corporation continued to provide rental relief to the Port Kembla Coal Terminal. The Corporation's operating expenditure at $18.3 million was below last year's figure of $18.8 million. The revenue per employee (excluding the coal terminal revenue) was $353,000 compared with $302,000 in the previous year.

The Corporation's financial returns on assets and equity were above target and above last year's figures. The Shareholder Value Added (SVA) indicator achieved for the year exceeded the target in the Statement of Corporate Intent. This good result was mainly due to the cost cutting strategies implemented over the year.

The Corporation continued its work on bringing night shipping guidelines closer to those used during daylight hours. For example, the commitment to continually improve ship handling productivity at night was furthered by the introduction of sea trials for the Computer Aid to Piloting System (CAPS) unit.

Negotiations for a successor three year Enterprise Agreement were completed and will help build upon past achievements and focus our staff resources upon achieving the goals within our 1998-99 Corporate Plan. As a result of an organisation restructure, the number of Branches and hence Managers reporting to the Chief Executive Officer was reduced from five to four. Changed accountabilities and responsibilities led to downsizing in the complement of staff from 54 to 45 employees through voluntary redundancy packaging.

A significant move was made in the IT area with the development of an information technology strategic plan with a strong focus on user needs. The development of a strategy on the Year 2000 Millennium problem was also undertaken.

PORT KEMBLA PORT CORPORATION

	(1)	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency							
Employment	*(2)*	53	54	45	45	45	45
Revenue per employee ($000)	*(5)*	363	303	371	299	287	289
Industrial disputation							
- total hours lost		31	117	0	0	0	0
- hours lost per employee		0.6	2.1	0	0	0	0
Contract labour ($m)		0.9	0.9	0.9	1.8	0.7	1.3
Service							
Total trade (million tonnes)	*(3)*	25.7	26.5	26.2	23.9	23.0	23.3
Vessel arrivals		599	643	642	594	606	622
Vessel turnaround time (hrs)	*(4)*	62.0	65.0	66.0	NA	NA	NA
Berth occupancy (%)	*(4)*	25.0	28.0	36.0	NA	NA	NA
Berth queuing time (average hrs per month)	*(4)*	1667.0	2089.0	1613.0	NA	NA	NA
Average time at berth (hrs)	*(4)*	69.0	76.0	76.0	NA	NA	NA
Avg port management charge per tonne of cargo ($)	*(5)*	0.74	0.61	0.64	0.56	0.56	0.56
Avg port management charge per vessel ($)	*(5)*	32029	24024	26056	22679	21317	20906
Finances							
Operating result ($m)	*(6)*	20.4	19.5	20.8	1.8	1.4	1.7
Contribution to govt ($m)	*(7)*	8.1	8.2	6.4	NA	NA	NA
Asset sales ($m)		0.0	0.1	0.2	0.0	0.0	0.0
Return on (net operating) assets (%)		15.1	13.2	13.8	4.0	3.4	4.1
Return on equity (%)		20.9	19.5	20.8	4.5	3.7	4.8
Gross external debt ($m)		75.2	59.2	59.1	4.9	4.8	4.6
Debt to equity (%)		79.3	62.3	59.3	17.0	17.7	18.4
Times interest earned		2.3	3.4	3.7	3.1	2.7	3.1

NOTES

f Forecast

Finance Forecasts from 1998-99 onwards exclude Port Kembla Coal Loader Line of Business

(1) All dollar amounts are in 1997-98 dollars.

(2) Excludes labour employed by contract or consultancy.

(3) Total trade expressed in million revenue tonnes.

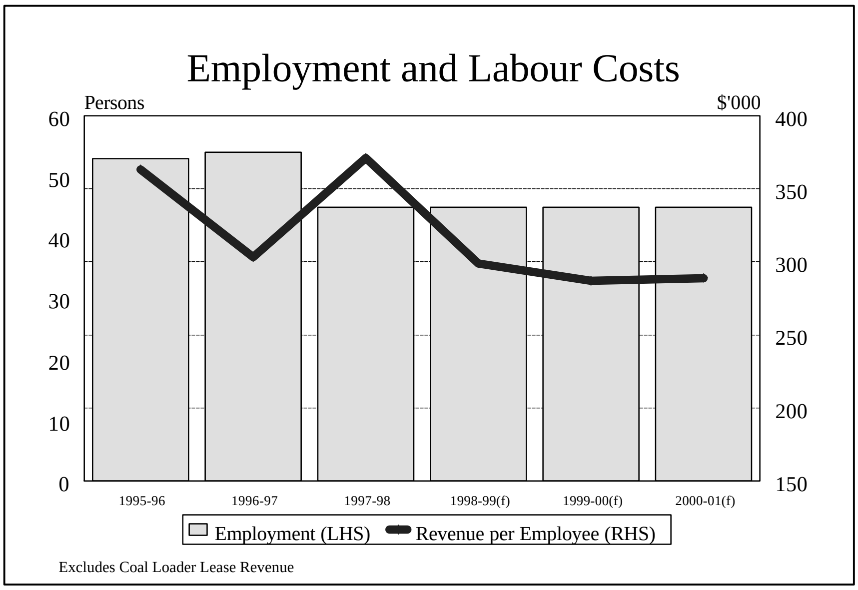
(4) Value given for all berths in Port.

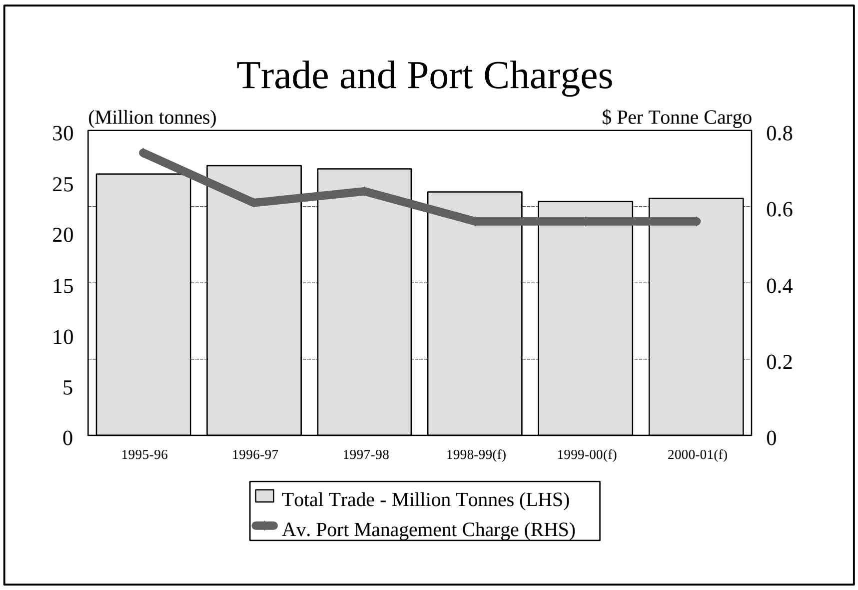
(5) Excludes coal loader lease revenue.

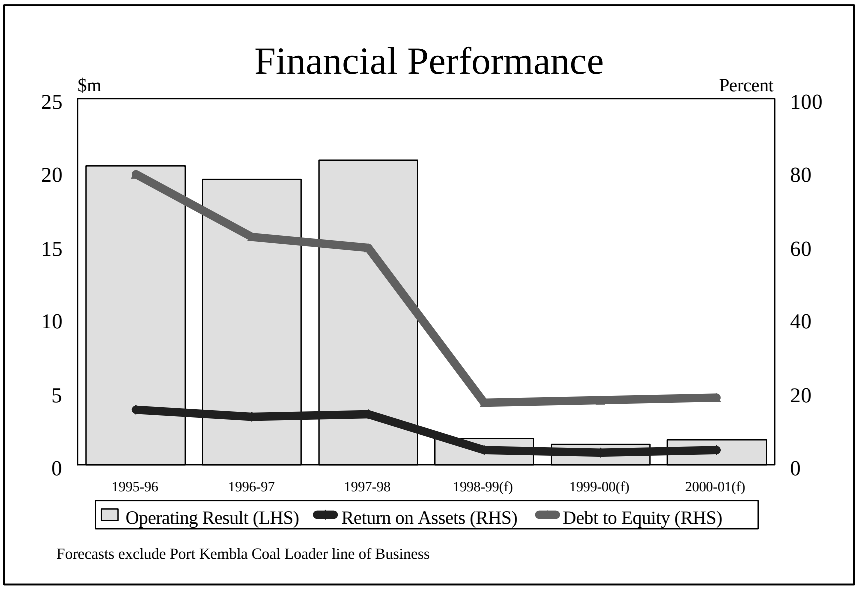
(6) Net profit before tax.

(7) Includes dividend only

PORT KEMBLA PORT CORPORATION







DPWS
NSW DEPARTMENT
OF PUBLIC WORKS
AND SERVICES

Mr Adrian Renouf
Director, Executive Services Division
DEPARTMENT OF PUBLIC WORKS AND SERVICES
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DEPARTMENT OF PUBLIC WORKS AND SERVICES

The Department of Public Works and Services is a shared service centre provider for the NSW Government and its agencies. The department provides a diverse range of policy, technical, business and corporate services to the Government and client agencies which are designed to improve business efficiency and service delivery to the community.

The Department of Public Works and Services (DPWS) delivers maximum benefit to the community by providing exceptional value added services to the NSW Government, its agencies and to local government. The Department also works in close partnership with national and international clients, offering a wide range of technical, managerial and specialist skills. These skills, together with DPWS's intimate knowledge of government, its policies and processes, ensures clients are provided with innovative and practical solutions to their business needs.

The shared services delivered to clients include procurement of goods and services, architectural and engineering, property management, asset management, environmental, property management and corporate services.

Significant achievements during 1997-98 include:

- release of a White Paper, *Construct New South Wales: Seizing Opportunities to Build a Better Construction Industry* - an integrated, whole-of-government approach to assist stakeholders gain a clearer understanding of the industry's future direction;
- implementation of a new government contract form, titled *C21*, for building and engineering contracts valued at over $500,000 - the contract conditions reflect a relationship that is focused, now-adversarial, committed to best practice and geared to drive industry reform;
- in conjunction with the State Contracts Control Board, DPWS developed and released a Green Paper*, NSW Government Procurement and Economic Development*, a draft *Policy Statement for NSW Government Procurement* and a draft *Code of Practice for NSW Government Procurement* - these initiatives will provide greater savings to government by consolidating purchasing power;
- goods and services contracts managed by DPWS realised savings across government in excess of $250 million;
- packaged schools maintenance contracts, valued at $614 million, improved services, increased regional employment and achieved cost reductions to the State's 2,264 public schools;
- over 34,000 government advertisements placed with media at negotiated prices resulted in savings of $34.3 million to government clients;
- annual rental costs on government accommodation were reduced by $1.3 million through improved space utilisation and negotiated leases;
- following the signing of new fleet management contracts, vehicle numbers managed on behalf of clients increased by 15 per cent to 14,950; and
- the delivery of shared corporate services to various government agencies achieved target savings of 15 per cent or $2.2 million.

The 1997-98 outcome reflects a net pre-tax operating surplus of $17.6 million. DPWS achieved the financial targets set in the 1997-98 Statement of Financial Performance and paid a dividend of $12.8 million and a tax equivalent payment of $13.5 million. The increased dividend and tax equivalent payments of $14 million resulted from the abnormal writeback of provision during the year. The 1998-99 budget has been prepared on the basis of expanding the Department's revenue base while minimising costs.

DEPARTMENT OF PUBLIC WORKS AND SERVICES

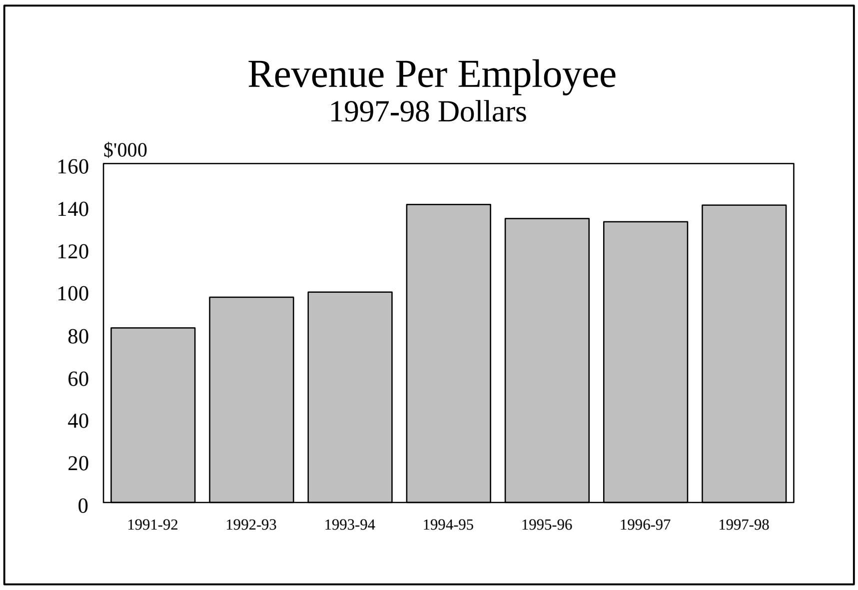
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment		3,276	2,506	2,191	2,632	2,423	2,511	2,366	NA	NA	NA
Total expenditure ($m)		NA	237.9	209.4	330.4	303.1	313.7	314.4	321.4	332.1	336.8
Revenue per employee ($000)		82.2	96.9	99.2	140.7	133.8	132.3	140.3	0.0	0.0	0.0
Hours lost to industrial disputes											
per employee		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
total ('000)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average days sick leave per employee:											
salary staff		4.3	5.5	5.7	5.6	6.0	5.9	7.0	6.5	6.0	5.5
wages staff		7.5	7.3	7.1	6.5	6.6	6.1	5.1	4.6	4.1	4.1
total staff		5.1	6.2	6.1	5.7	6.1	6.0	6.7	6.2	5.7	5.3
Employee safety measure	(2)	0.25	0.28	0.18	0.27	0.21	NA	NA	NA	NA	NA
Effectiveness											
No. of construction contracts let > $0.25m		257	239	386	399	307	275	306	NA	NA	NA
Total no. of construction contracts let		1,719	1,355	2,129	1,857	1,093	1,231	871	NA	NA	NA
Building projects:	(3)										
completed on time (%)		94.7	96	99	96	97	96.2	96	97	97	97
completed on budget (%)		94.7	98	99	100	100	98.1	97	97	97	97
completed on time and on budget (%)		90.35	94.4	99	98	97	96.6	96	97	97	97
Engineering projects:	(4)										
completed on time (%)		92.0	100.0	97.5	98.7	98.4	98.1	98.0	98.5	98.5	98.0
completed on budget (%)		96.5	97.0	99.5	99.0	98.7	99.0	99.0	99.0	99.0	99.0
completed on time and on budget (%)		92.0	94.4	96.2	98.7	97.4	98.2	98.0	98.0	98.0	98.0
Minor works & maintenance projects	(4)										
completed on time (%)		91.9	95	96.3	99	98.02	98.4	98	98	98	98
completed on budget (%)		96.5	97	99.5	99	98.73	99	99	99	99	99
completed on time and on budget (%)		89.4	92	96.2	99	97.41	97.7	98	98	98	98
Value of purchases through											
goods & services period contracts ($m)		1,356	1,371	1,381	1,360	1,295	1,245	1,278	1,320	0	0
No. of goods & services period contracts		550	590	590	590	300	437	386	NA	NA	NA
line items		115,000	120,000	124,000	126,500	155,000	NA	NA	NA	NA	NA
No. of vehicles leased by statefleet		NA	9,840	10,038	10,938	12,004	13,047	14,952	21,000	21,500	23,000
Capital assets under management ($m)		NA	299.9	378.8	409.5	390.2	309.9	453.4	440.1	428.7	413.9
Commercial space under mg'mnt (sqm)		312	312	312	313065	316603	358000	357700	360000	360000	360000
No. of commercial properties/buildings											
under management		125	125	125	125	125	160	168	168	165	165
Crown property sales ($m)		NA	NA	NA	0.9	88.4	127.1	20.5	45.0	4.8	0
Communications carrier discounts ($m)	(5)	NA	NA	NA	31	30	25.3	28.5	0	0	0
Financial indicators											
Government funded services ($m)	(6)	58.8	57.3	51.6	31.2	32.6	32.4	28.3	25.8	24.9	24.0
Asset sales ($m)	(7)	9.3	58.9	1.1	8.4	140.1	8.7	8.9	2.3	0.6	0.7
Operating result ($m)	(8)	-3.6	4.9	8.5	35.7	21.0	18.5	17.6	4.2	5.8	9.0
Return on equity (%)		NA	8.8	10.1	11.7	11.6	7.3	6.4	1.6	2.5	4.0
Financial distribution to govt ($m)	(9)	NA	1.2	5.9	29.6	156.0	13.0	26.3	10.3	4.6	6.3

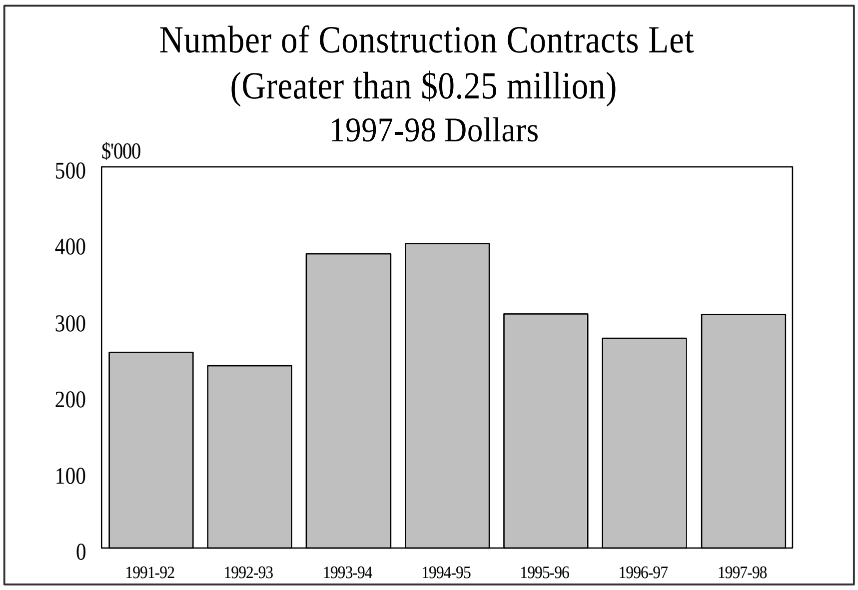
~~Notes~~

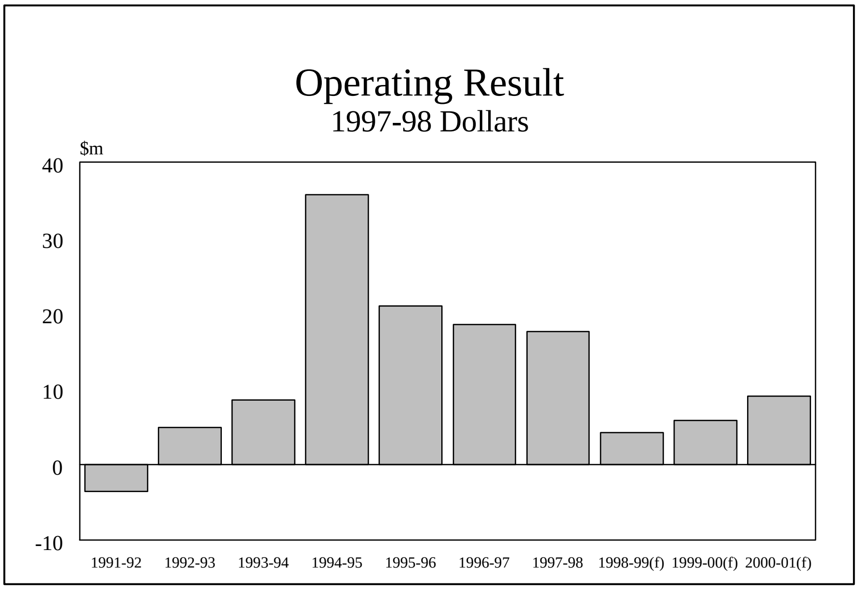
NA Not available
f Forecast

(1) All dollar amounts are reported in 1997-98 prices.
(2) Time lost from work related injuries in hours divided by total time worked, expressed as a percentage.
(3) Relates to all DPWS projects over $500,000.
(4) Relates to all DPWS projects over $100,000.
(5) Transferred to the Office of Information Technology.
(6) Services and activities performed for government which are not funded through fees from clients.
(7) Includes sales of air rights over First Government House site in 1989-90 and sale of Kooragang Island for $48 million in 1992-93. The 1995-96 expenditure includes the written down value of motor vehicles ($127.3 m) from the sale and lease bacck of StateFleet vehicles to the Macquarie Bank.
(8) Operating result before income tax equivalent payment to Office of State Revenue. An amount of $20.9 million was provided by the government to meet redundancy payments in 1992-93 and $12.4 million in 1993-94. Results in 1994-95 reflect the amalgamation of the Department of Public Works and Services. The 1996-97 results reflect a downturn in sales, reduction in asset sales and costs associated with the implementation of the Department's IT Strategic Plan.
(9) Comprises dividend and tax equivalent payments. Results in 1995-96 include a special dividend of $138.9 million from the sale and lease back of vehicles ($102.9 million)and a capital restructure ($36 million).
The large increase in 1994-95 and thereafter is the result of the assimilation of Commercial Services Group.
The 1997-98 distribution includes an additional amount of $14.0M resulting from the writeback of provisions during the year.

DEPARTMENT OF PUBLIC WORKS AND SERVICES







RAIL ACCESS CORPORATION

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RAIL ACCESS CORPORATION

Rail Access Corporation (RAC), through the sale of access to rail infrastructure, fosters competition in the rail network. RAC has continued to operate successfully since its corporatisation on 1 July 1996.

RAC's aim was to reduce costs over a five year period by 30 per cent. RAC is now expected to reach this target by 2001 - one year ahead of that originally forecast. The key driver in this achievement has been competition or the threat of potential competition.

The cost savings achieved by the Corporation have resulted in lower rail access charges to operators and a dividend back to the NSW Government.

A multi-user environment is emerging. New, privately-owned entrants to the industry are competing directly with government-owned services for the first time. Four new operators were granted access to the NSW network during 1997-98.

Competition is focussing the industry on quality, customer needs and cost efficiencies. As a direct result interstate freight rates fell around 10 per cent in 1997-98, and combined with the phasing out of monopoly rent in the Hunter Valley, export coal haulage rates have been reduced by as much as 17 per cent.

A significant development for 1997-98 was the implementation of the first year of a seven year, $1.25 billion community services obligation contract between RAC and the NSW Government. The contract provides certainty of funding for non-commercial interstate and rural rail lines thereby providing medium term certainty for rail operators and a guarantee of continuity of service for regional New South Wales.

The State's network is in its best condition for over a decade, with all major safety categories reporting improvements of up to 67 per cent since 1995.

The number of serious accidents on the NSW network has dropped significantly under RAC's management. From a high of 496 serious incidents in 1994-95, there has been a drop of almost 50 percent to approximately 250 in 1997-98.

Since RAC was established on 1 July 1996, incidents attributable to infrastructure adversely affecting metropolitan trains running on-time have declined by 25.8 per cent.

In accordance with the requirements of our Shareholders, RAC is a significant investor in the network. It is responsibly managing its asset base to ensure it meets the requirements not only of network users, but just as importantly, the people of New South Wales. It is this investment which is drawing more business to rail, leading to greater competition and lower costs. Linked with RAC's continued responsiveness to customer requirements, there is some confidence of a substantial increase in rail's modal share of the transport task.

RAC has concluded its second year of operation with a very strong financial performance.

RAIL ACCESS CORPORATION

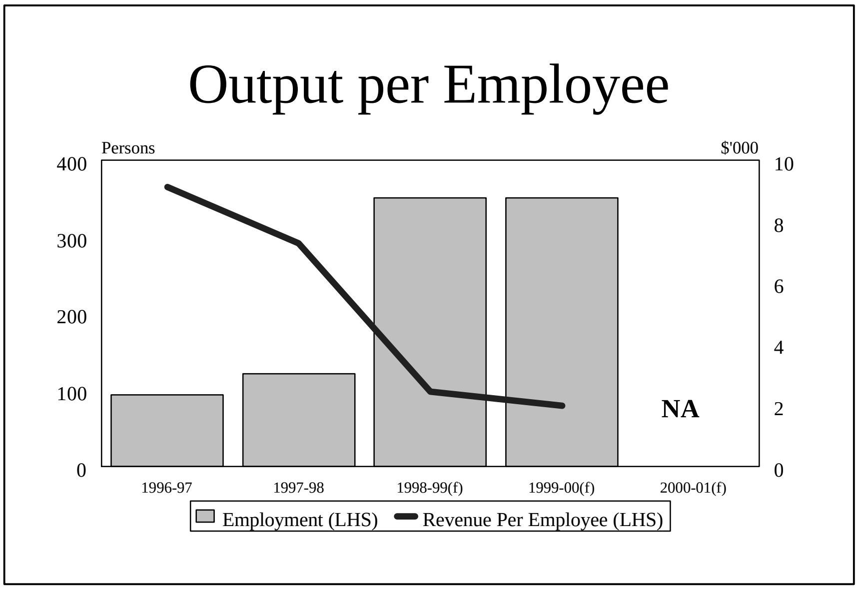
	(1)	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency						
Employment		94	115	351	351	NA
Revenue per employee ($000)		9,123	7,291	2,441	1,988	NA
Average days sick leave per employee	(2)	NA	5	8	7	NA
Industrial disputes						
- total hours lost (000)		0	0	0	0	NA
- hours lost per employee		0	0	0	0	0
Service						
Total gtk (billion)		46.5	46.7	41.7	43.7	44.9
Total gtk per route km (million)	(3)	5.24	5.26	4.70	4.92	5.06
Number of new customers (cum.)		0	5	9	12	12
Number of passenger train-km sales in electrified area (million)	(4)	32.9	32.7	NA	NA	NA
Number of train path sales in capacity constrained areas (cum.)	(5)	0	NA	9	13	16
Reliability -- % paths on time	(6)	92	94	92	93	94
Safety compliance -- number of major incidents attributable to infrastructure / network control		103	81	104	103	102
Environmental compliance -- number of level 2 severity incidents	(7)	0	0	0	0	0
Finances						
Operating expenditure ($m)	(8)	823.0	727.9	764.5	600.2	580.9
Total revenue ($m)		857.5	838.5	856.6	697.9	661.0
Shareholder value added ($m)		(6.3)	66.5	17.3	19.2	4.4

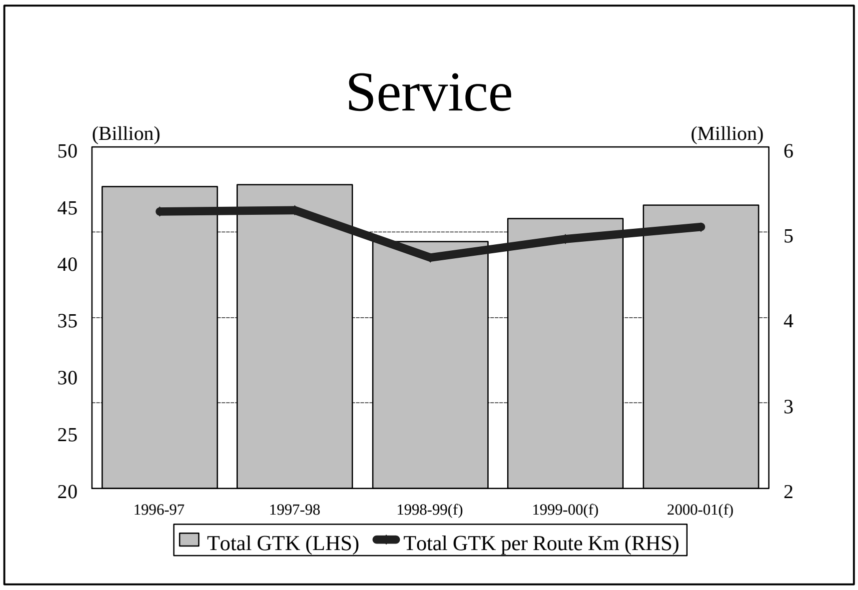
~~NOTES~~

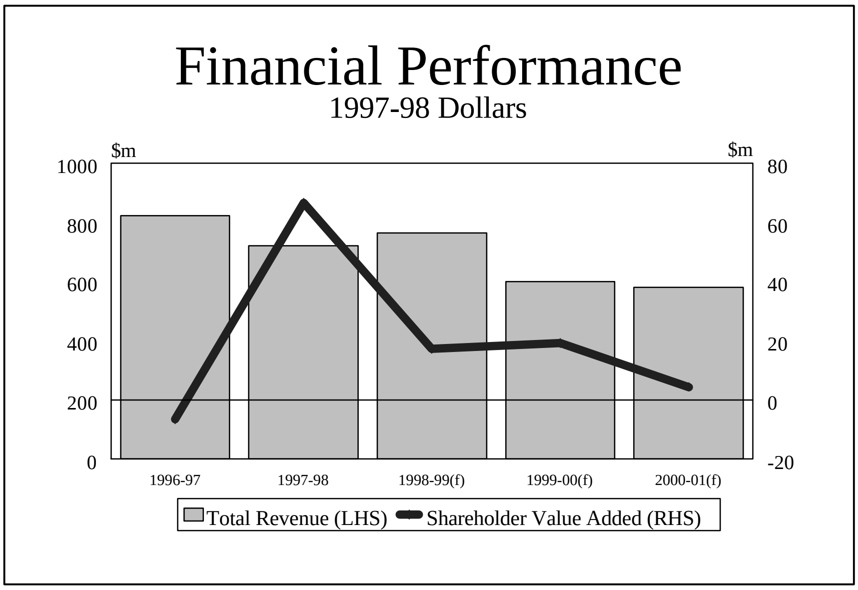
NA Not Available
f Forecast

(1) All dollar amounts reported in 1997-98 dollars.
Financial forecasts are those agreed with shareholder Ministers in 1997/98 Statement of Corporate Intent adjusted for inflation.
(2) Average sick leave for 1996-97 is not meaningful as the Corporation was not properly staffed until the end of the year.
(3) Route kilometres 9712 kms in total with 7450 kms of active track.
(4) Electrified area of CityRail network.
(5) Capacity constrained areas are where there is or is likely to be a constraint on meeting the needs of rail operators for train paths. Includes the inner west line between Redfern and Homebush, the North Coast line, lines to Sydney's south west (Campbelltown / Macarthur) west of Liverpool, South Creek Valley and the Moorebank area, and freight lines through metropolitan Sydney and the Hunter Valley.
(6) Reliability is the percentage of the timetabled train paths that are provided on time to the rail operator.
(7) Level 2 severity incident is where there are at least some significant environmental effects.
(8) Operating costs excluding commercial capital expenditure.

RAIL ACCESS CORPORATION







RAIL SERVICES AUSTRALIA

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RAIL SERVICES AUSTRALIA

> ***Rail Services Australia (RSA) is one of the largest providers of rail infrastructure, construction and maintenance services in Australia, currently employing approximately 5,200 staff. RSA is, in response to increased contestability, undertaking comprehensive changes, which will enable it to compete successfully with private sector entities. In its first two years as a government business enterprise, RSA worked closely with its major client, Rail Access Corporation, to deliver recurrent rail infrastructure maintenance savings in excess of $150 million. RSA won $200 million of new work via competitive tenders.***

Established as a statutory body representing the Crown on 1 July 1996 as part of the NSW Government's rail reform agenda, RSA continued, during the year, to deliver the cost savings and improved management efficiencies that are needed for that agenda to be met. In addition, it prepared for transformation from being a statutory authority to a broad-based state owned corporation which it became on 1 July 1998.

Financial year 1997-98 presented a challenge for RSA as it attempted to service its existing customers, while preparing itself for competition. To drive the reform process, an improvement program covering some 10 initiatives was implemented. These initiatives are based around team work and organisational learning concepts and include the implementation of an integrated management information system and underlying new commercial practices. They are intended to place RSA in a position to compete successfully with large private sector maintenance corporations.

Achieving RSA's vision to be Australia's leading asset management contractor, will also involve retaining, expanding and diversifying its customer base and skills base. RSA aims to continue to serve its existing clients' needs while expanding participation across markets and industries in Australia and internationally.

In 1997-98 RSA achieved the following:

- an $80 million per year sustainable reduction in NSW Government infrastructure budget in conjunction with our major client, Rail Access Corporation with no reduction in maintenance or safety levels;
- won over $100 million in contestable work;
- established several commercial ventures with compatible parties to improve competitiveness and extend core competencies;
- commenced a large and complex restructuring program, which will enable better utilisation and allocation of staff and resources;
- has contracts and operations in all mainland Australian States; and
- won and completed profitably its first international rail infrastructure contract.

Although RSA is a new organisation, the business units it acquired from the State Rail Authority have been providing engineering, construction, maintenance and related services for over 100 years. Being a large organisation with unmatched experience and economies of scale, RSA is well placed to provide its customers with high quality services and solutions at competitive cost.

RAIL SERVICES AUSTRALIA

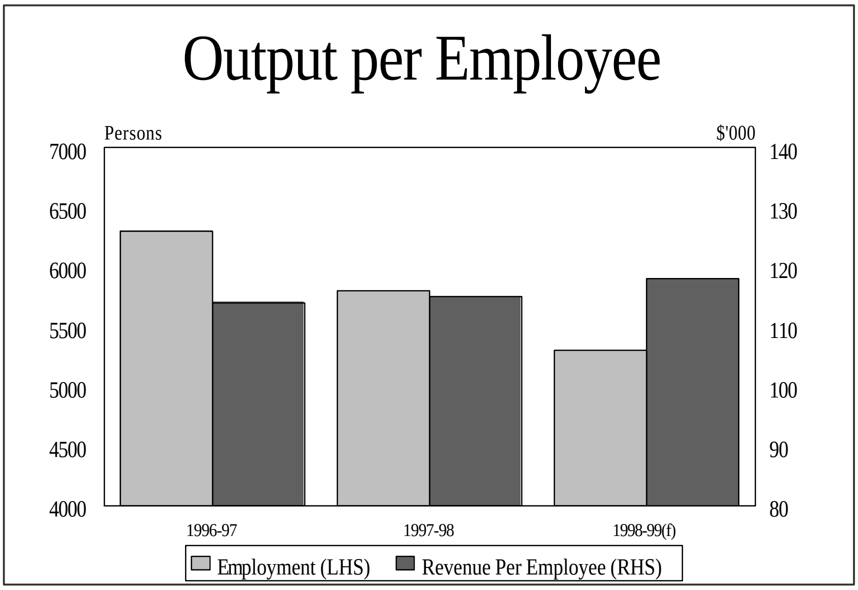
	(1)	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency						
Employment	(2)	6,300	5,800	5,300	NA	NA
Revenue per employee ($000)	(3)	114	115	118	121	122
Average days sick leave per Employee	(4)	12	11	8	6	6
Service						
Projects completed (%)						
- on time		85	95	98	98	98
- on budget		85	95	98	98	98
- on time and on budget		85	95	98	98	98
Disruptions attributed to infrastructure failure (%)	(5)	20	18	17	15	14
Finances						
Operating result ($m)	(6)	2.0	(1.6)	16.0	15.0	9.0
Return on total assets (%)	(7)	0.4	(0.2)	3.2	3.0	1.9
Return on equity (%)	(8)	0.9	(0.7)	6.2	5.6	3.3
Total assets ($m)	(9)	473	471	496	487	459

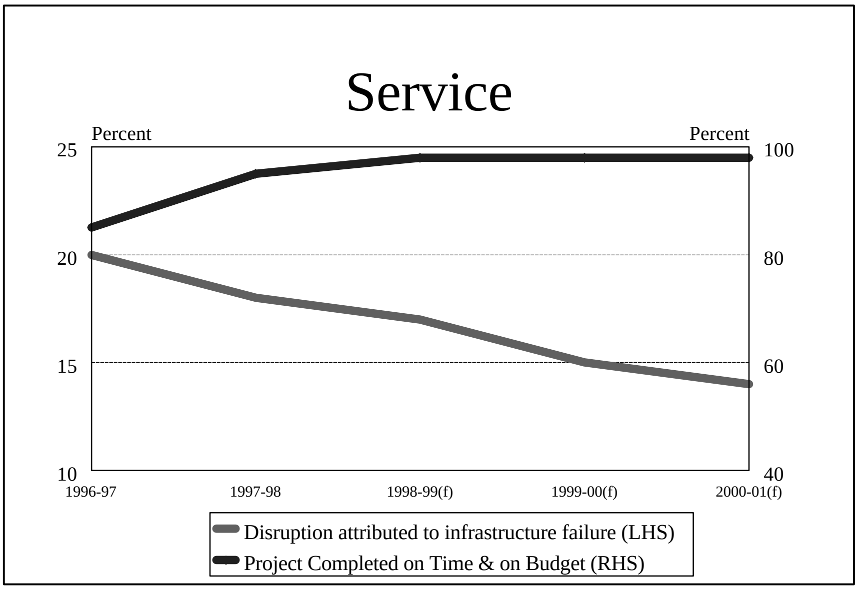
NOTES

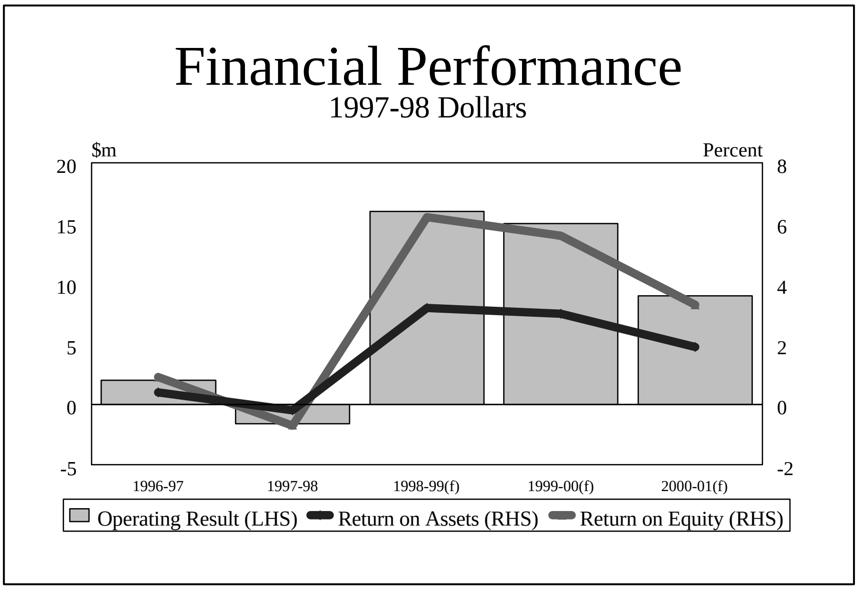
NA Not available
f Forecast

(1) All dollar amounts reported in 1997-98 dollars.
(2) Staff employment based on average for financial year. The figures exclude contractors or subcontractors.
(3) Revenue is defined as operating revenue on an accrual basis, excluding interest income.
(4) Calculated as total days sick leave divided by number of employees.
(5) Disruptions are defined as delays in timetable attributed to infrastructure problems.
(6) Operating result on accrual basis, calculated as profit after interest and before tax.
(7) Calculated using profit before interest and tax (EBIT).
(8) Calculated using profit after interest and before tax.
(9) Total assets at book value net of depreciation.

RAIL SERVICES AUSTRALIA







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STATE FORESTS

State Forests Corporate Plan for 1998-99 to 2002-3 defines its vision as "more people benefiting from the diversity of State Forests' products and services more often." State Forests is committed managing native and plantation forests for the widest possible range of benefits to current and future generations of people in New South Wales.

State Forests is responsible for the management of approximately 3.7 million hectares of forest in New South Wales. These are spread throughout the State with the main concentrations on the coast and coastal escarpment. They include the moist subtropical rainforest on the far north coast, the dry cypress pine forests of the Pilliga Scrub, the alpine forests of the Snowy Mountains and the river red gum forests along the Murray River.

Financial year 1997-98 was a significant year for State Forests with the implementation of a new organisation structure based on the three key business units - Native Forests, Softwoods Plantations and Hardwoods Plantations. Also, work continued on the implementation of the Government's forestry reform initiatives including significant progress on the Comprehensive Regional Assessment (CRA) process.

Native Forests Division is responsible for the management of more than 3 million hectares of publicly owned native forest using the principles of sustainable forest management. Its goal is to optimise the combination of forest values from biodiversity and timber production through to recreational use and environmental enhancement.

Softwoods Plantations Division is responsible for the management of over 200,000 hectares of softwood. The Division has been actively diversifying and expanding its customer base through developing export markets and markets for high value clearwood product. As part of its objective of optimising sales, the Division has commenced contract harvest management to refine product segregation and improve product mix and yields.

Hardwood Plantation Division was established as a vehicle to implement the Government's plantation strategy. In a short period, it has increased its capacity for the establishment of Hardwood Plantations to the target rate of 10,000 hectares per annum.

State Forests' 1997–98 operating surplus before market value increment (MVI) increased by $9.3 million to $19.7 million. This represents an increase of 90 per cent on the previous year. Strengthening timber markets resulted in higher revenues from the sale of timber products whilst strict control was maintained over operating expenditure. It is expected that this level of profitability can be maintained and improved upon in the coming years.

During the year State Forests continued its investment in softwood and hardwood plantations with a view to increasing the yield from plantations to preserve old growth forests. A total of $48.2 million was invested in plantation related projects for the year. It is intended that the existing Government funded Hardwood Plantation program will be supplemented by private investment. State Forests will be actively seeking external investment funds after 1998-99.

Of great significance to State Forests was the negotiation of the first Australian trades in Carbon Credits. State Forests is actively pursuing future business opportunities in this area. The Credits are seen as an exciting development for the forestry industry and State Forests is determined to remain at the forefront of developments.

State Forests is also holding discussions with major electricity generators on the feasibility of establishing biomass electricity generation pilot facilities.

STATE FORESTS

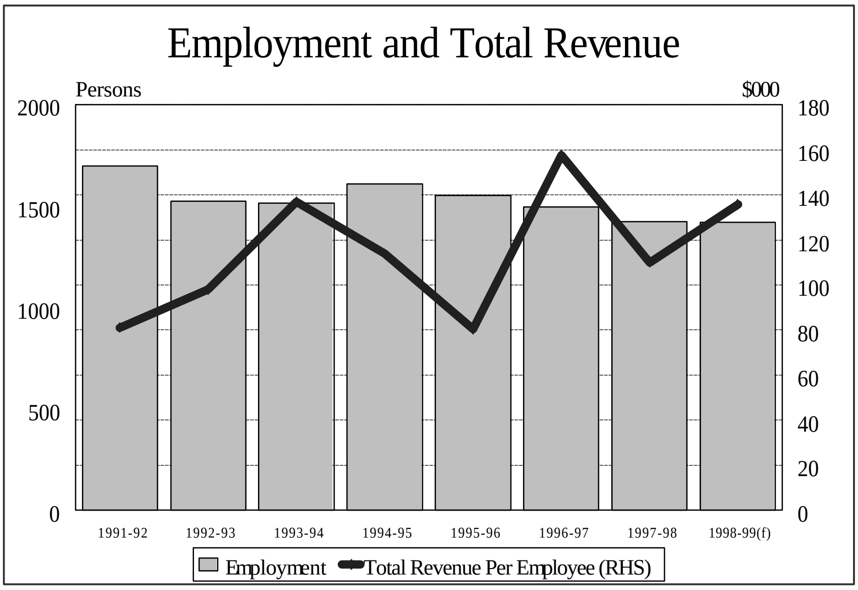
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 (f)	1999-00 (f)	2000-01 (f)
Efficiency											
Employment		1,698	1,525	1,513	1,609	1,552	1,495	1,423	1,419	NA	NA
Total revenue per employee ($000)		81.1	98.0	137.0	113.8	80.3	157.6	110.0	135.7	144.9	146.0
Timber sold per employee											
- sawlogs including pine sawlogs (000 cubic metres)		0.91	1.25	1.40	1.40	1.30	1.30	1.50	1.70	1.80	1.80
- pulp including pine pulp (000 tonnes)		0.78	0.82	0.90	0.90	0.80	0.70	0.80	1.00	1.10	1.30
Forests managed per employee (hectares)											
- pine plantations		120	130	133	126	131	139	145	150	155	158
- other forests		2,048	2,208	2,303	2,086	2,197	2,169	2,241	2,114	2,134	2,149
Employee safety -											
- lost time injuries	(2)	60	48	49	47	44	47	44	40	37	35
- frequency rate	(3)	19.3	15.0	17.6	16.4	15.7	19.0	17.4	16.0	14.7	13.5
Service											
State forest managed (000 hectares)											
- pine plantations		203	200	201	202	203	208	207	213	218	221
- other forests		3,478	3,478	3,478	3,356	3,410	3,242	3,189	3,000	3,000	3,000
Timber production											
- sawlogs including pine sawlogs (000 cubic metres)		1,537	1,967	2,116	2,212	2,006	1,995	2,181	2,417	2,463	2,515
- pulp including pine pulp (000 tonnes)		1,317	1,297	1,355	1,437	1,211	1,111	1,156	1,406	1,582	1,759
Pine plantations planted (hectares per year)		4,863	2,366	2,440	3,996	6,415	6,200	6,067	4,844	7,193	7,087
Hardwood plantations planted (hectares per year)	(4)	114	283	274	1,747	2,077	5,000	7,500	5,000	0	0
Roads built (kilometres)		NA	256	381	359	313	350	802	856	820	862
Finances											
Total revenue ($m)	(5,7)	137.6	149.4	207.5	183.0	124.7	235.6	89.0	192.5	203.7	203.7
Operating surplus ($m)	(5,6,7)	12.1	36.3	102.4	133.7	(6.2)	117.7	(20.0)	62.4	59.8	60.8
Operating surplus before MVI ($m)	(7)	(4.5)	8.9	29.6	27.8	14.4	10.4	19.6	23.3	21.7	24.0
Total assets ($m)	(8)	1,150.7	1,152.0	1,218.9	1,325.9	1,468.9	1,601.6	1,611.5	1,658.0	1,635.2	1,602.2
Total liabilities ($m)	(9)	127.0	109.7	107.0	203.4	234.2	300.6	325.9	332.7	347.7	361.4
Total equity ($m)		1,023.7	1,042.3	1,111.9	1,122.6	1,244.4	1,300.9	1,285.6	1,325.3	1,287.5	1,240.8
Interest bearing debt ($m)	(10)	55.9	48.8	38.2	51.3	86.5	97.5	114.1	124.3	136.3	145.4
Return on assets (%)	(5,8)	1.6	3.7	8.8	10.5	0.0	7.3	(1.2)	3.8	3.7	3.8
Return on equity (%)		1.2	3.5	9.2	11.9	(0.5)	9.0	(1.6)	4.7	4.6	4.9
Debt to equity (%)		5.5	4.7	3.5	4.6	6.9	7.5	8.9	9.4	10.6	11.7
Total liabilities to equity (%)		12.4	10.5	9.6	18.1	18.8	23.1	25.4	25.1	27.0	29.1
Current ratio		1.6	1.8	1.7	1.2	1.0	1.8	1.1	0.9	0.7	0.6
Times interest earned	(12)	2.9	6.4	21.9	27.9	(0.6)	13.9	(2.7)	7.1	5.8	5.5

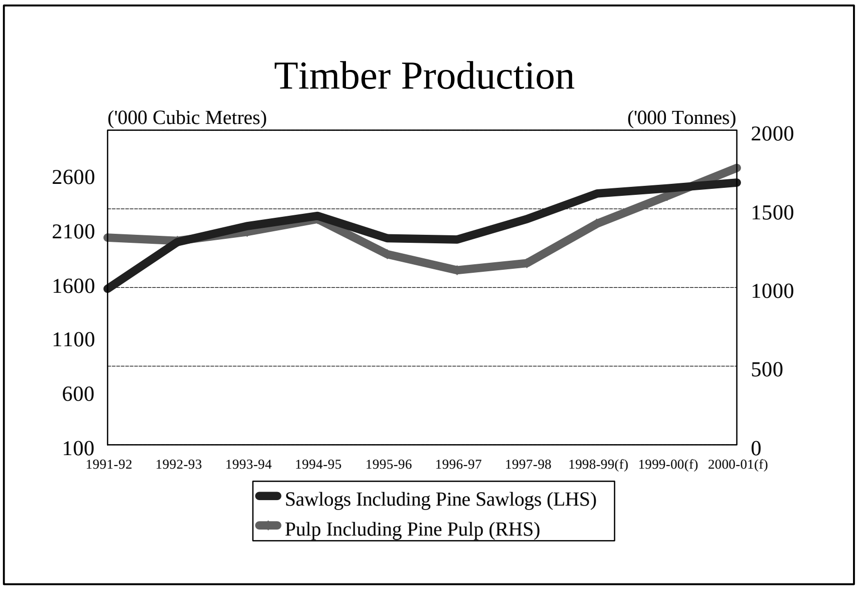
NOTES

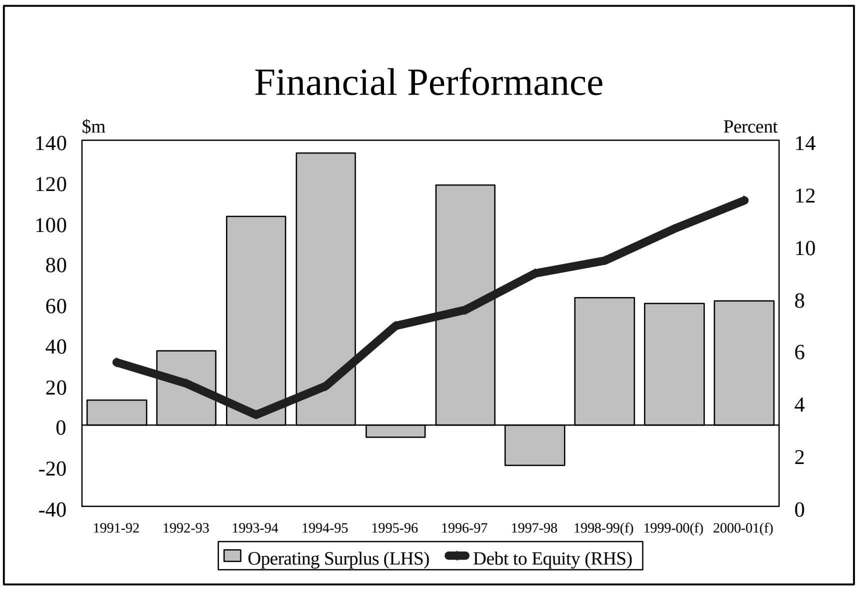
NA Not available
f Forecast

(1) All dollar amounts are reported in 1997-98 prices.
(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 workplace injuries expressed in terms of a million work hour units.
(4) Hardwood hectares planted after 1992-93 relate to structured plantation partnerships and Government funded program. Funding has not been approved beyond 1998/99.
(5) Includes the increase in the imputed market value of pine plantations from 1991-92.
(6) Operating surplus in 1991-92 fell due to effects of the recession on log prices and additional costs incurred due to restructuring.
(7) Market value increment (MVI) represents increase in imputed market value of pine plantations. Rises in revenue and profits for 1993-94, 1994-95 and 1996-97are related to increases in MVI. Large drop in revenue and profit for 1995-96 is primarily due to a MVI decrement caused by falling timber prices and revised inventory techniques,exacerbated by a downturn in the housing industry. Similarly, 1997/98 experienced a decrement causing an operating loss despite strong improvement in timber revenue.
(8) Does not incorporate a valuation of native forest.
(9) Increase in liabilities for 1995-96 is due to increased borrowings and increased deferred tax position.
(10) Increases in debt levels from 1995-96 are to support the capital investment program into plantation establishment.
(11) No dividend was declared for 1991-92 due to a net operating loss before market value increment. The figure for 1994-95 includes a special dividend of $8.5 which will be returned to State Forests in 1995-96 to develop hardwood plantations.
(12) Times interest earned in 1993-94 and 1994-95 are large due to the increased revenues and profits from MVI effects. Negative ratios in 1995/96 and 1997/98 are due to the decrements in MVI.

STATE FORESTS







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STATE RAIL AUTHORITY

The State Rail Authority (SRA) operates passenger rail services in New South Wales. Its aim is to be regarded as a responsible, innovative, customer-orientated passenger rail organisation.

With around 2300 services each weekday carrying approximately 900,000 passengers, SRA's CityRail operation is the principal urban public transport provider in Sydney and the surrounding region, delivering suburban, outer suburban and regional train services in the Sydney, Hunter Valley, Central Coast, Blue Mountains, Southern Highlands, Illawarra and South Coast areas.

The CountryLink operation delivers long distance passenger rail services, supported by a bus network, to over 334 destinations in New South Wales, the Australian Capital Territory, Queensland and Victoria.

The SRA was restructured in February 1998 to improve the focus on key issues for the organisation. The structure is centred around four operating divisions: CityRail-Stations, Countrylink, Passenger Fleet Maintenance and Operations. These divisions are supported by corporate units responsible for policy and planning: Corporate Services, Employee Relations, Organisational Development and Rail Development. Executive corporate support is provided by the Corporate Secretariat and Management Review and Audit.

Overall responsibility for the organisation's strategic direction and performance lies with the Board.

Major achievements and strategic developments during 1997-98 included:

- transporting 923,000 people to the first Easter Show at Homebush - 69 per cent of total Easter Show Patrons;
- improved on-time running from 86.4 per cent to 91.4 per cent - the highest level since 1993-94;
- an increase in patronage from 267.2 million to 269 million, while complaints fell by 19 per cent.
- reducing the lost time injury frequency rate by 16 per cent;
- announcing an enhanced security program to improve passenger and staff safety on stations and trains.
- carrying out all operations within Government funding targets;
- implementing a fraud and corruption prevention plan; and
- for the first time recruiting women for half of all Guard training positions.

STATE RAIL AUTHORITY

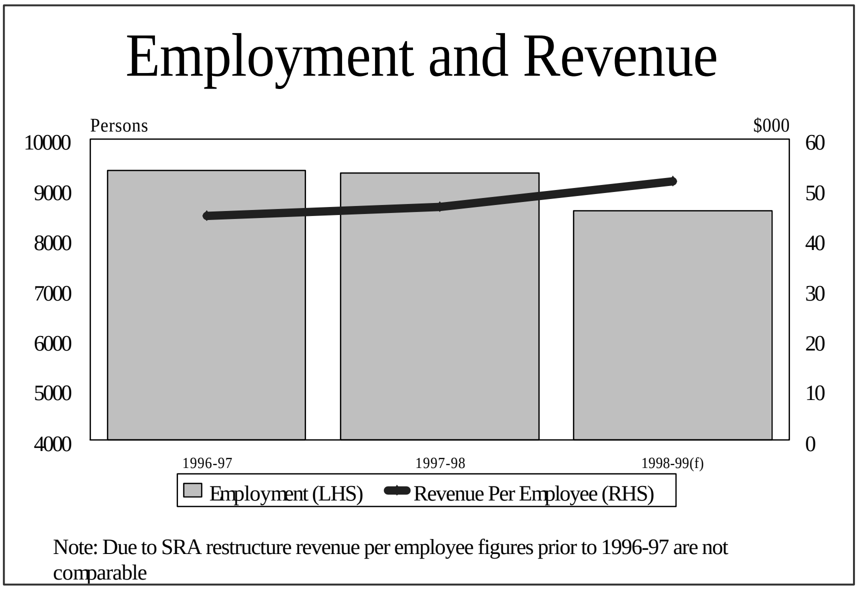
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment	(2)	24,467	22,803	21,270	20,186	19,742	9,370	9,317	8,564	NA	NA
Passenger revenue per employee ($000)	(3)	14.2	14.8	15.8	17.9	19.1	44.8	46.5	51.6	54.0	59.1
Passenger journeys per employee (000)	(3)	9.6	9.8	10.8	12.1	13.0	29.0	28.8	31.5	34.4	39.1
Operating cost per passenger journey ($)		NA	NA	NA	NA	NA	6.04	6.00	5.58	5.12	4.59
Industrial disputes											
- total hours lost (000)	(4)	118.9	20.9	2.7	3.5	0.8	0.0	0.1	NA	NA	NA
- hours lost per Employee		4.7	0.9	0.1	0.2	0.0	0.0	0.0	NA	NA	NA
Countrylink load factor (%)	(5)	57.0	64.0	64.0	62.0	61.0	64.0	60.0	67.0	67.0	68.0
Service											
Passenger journeys (million)											
-cityrail		243.8	229.8	234.8	249.6	256.4	264.7	266.5	272.7	284.7	315.6
-countrylink		2.3	2.2	2.1	2.2	2.4	2.5	2.5	2.6	2.6	2.6
-total		246.1	232.0	236.9	251.8	258.8	267.2	269.0	275.3	287.3	318.2
On time running (%)											
- suburban (within 3 minutes)		90.3	92.0	92.2	90.8	88.7	86.4	91.4	92.0	92.0	92.0
- intercity (within 5 minutes)		91.5	92.1	93.1	92.2	91.9	90.1	94.0	92.0	92.0	92.0
- country (within 10 minutes)		84.8	87.9	84.8	86.3	89.0	87.0	85.0	90.0	90.0	90.0
Real price index (fares based)		106.5	110.4	111.9	110.7	111.8	116.0	118.8	120.0	NA	NA
Finances											
Passenger revenue ($m)	(6)	364.1	349.8	347.9	370.9	381.5	411.9	434.0	451.5	450.5	480.6
Operating cost ($m)	(7)	NA	NA	NA	NA	NA	1,612.8	1,613.3	1,503.8	1,401.8	1,344.9
Social program Payments ($m)	(8)	280.1	293.5	290.4	301.8	304.7	508.3	495.5	473.1	449.0	417.9
Borrowings ($m)		202.1	221.1	339.1	604.8	676.8	189.8	189.5	185.3	180.5	174.3

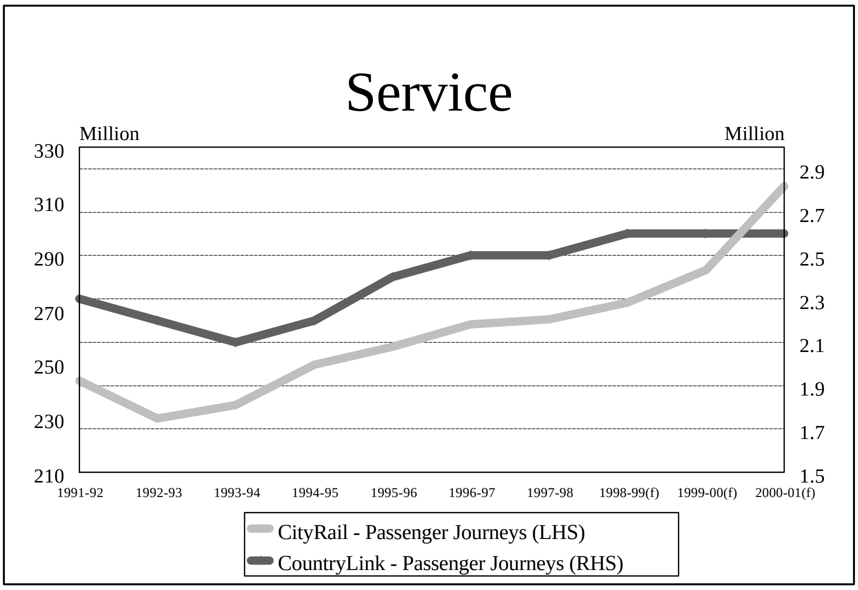
NOTES

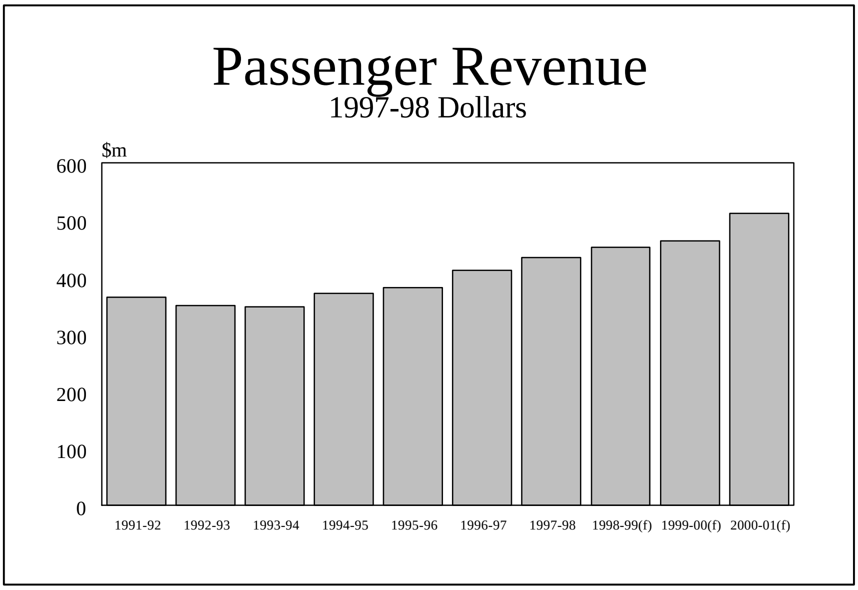
NA Not available
f Forecast

(1) All dollar amounts, including forecasts, are expressed in 1997-98 dollars.
(2) Employees as at 30 June of each financial year. The change in employment between 1995-96 and 1996-97 reflects the creation of FreightCorp, the Rail Access Corporation and the Rail Services Authority.
(3) Based on average number of employees for the financial year.
(4) A State wide stoppage on 23 October 1991 accounted for 117,523 hours of total 118,875 hours lost in 1991-92.
(5) Passenger Kms divided by Seat Kms including rail, intercity and feeder coaches.
(6) Includes catering revenue.
(7) Due to SRA restructure on 1 July 1996, comparable figures for earlier years are not available.
(8) Passenger services only. Excludes redundancy program and pre 1996 liabilities.

STATE RAIL AUTHORITY







ABC

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STATE TRANSIT AUTHORITY

State Transit is the largest operator of buses and ferries in Australia with services covering much of metropolitan Sydney and Newcastle. Its vision is to achieve a quality urban environment underpinned by an efficient, attractive public transport network.

State Transit is established under the *Transport Administration Act, 1988* and, like privately-owned bus and ferry operators in NSW, works within the regulatory framework of the *Passenger Transport Act, 1990.*

State Transit's bus operations in Sydney extend from Palm Beach in the north to Carlingford, Lidcombe and Bankstown in the west and Miranda and Hurstville in the south. Over 183 million passenger journeys were completed on these services in 1997-98. Its ferry services in Sydney cover the Inner Harbour, Parramatta River and Manly and in 1997-98 over 13 million passengers were carried. The Newcastle services operate over an area which extends from Caves Beach in the south, north to the Hunter River and from 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 13.4 million passengers in 1997-98.

State Transit operates in the same commercial environment as private sector transport operators and its objectives, defined in its enabling legislation, are to:

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

Each of these objectives is of equal importance.

The *Passenger Transport Act, 1990* was amended in May 1997 to allow for existing service contracts held by operators to become more competitive. A performance assessment and contestability regime for commercial service contract holders will be introduced to replace the system of perpetual rights currently in place. Current contracts will be renewed for one further five year term and then to obtain the next renewal, operators will have to meet a series of best practice benchmarks covering service levels, costs to Government, if any, fare and ticketing and service quality.

These reforms are designed to improve the service provided by public transport in New South Wales.

For the year ended 30 June 1998 State Transit incurred a net operating loss of $4.501m. After allowing for an income tax benefit of $0.875m attributable to the operating result the net loss was $3.626m.

Strong patronage growth that had been achieved over the two previous financial years was not maintained with core patronage for the year increasing by 2.4 per cent as compared to 3.9 per cent in the previous year. Over the past few years State Transit's growth has reflected the benefits of improved bus priority with significant growth being generated from improvements such as the opening of the Glebe Island Bridge. During 1997-98 projected growth in patronage was impacted by the disruptions being caused by increased construction (pre-Olympics) that is occurring principally in inner city areas of Sydney.

Passenger Revenue for the year increased by 5.7 per cent reflecting patronage increases and a weighted average fare increase of 2.27 per cent.

STATE TRANSIT AUTHORITY

.	*(1)*	**1991-92**	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99(f)**	**1999-00(f)**	**2000-01(f)**
Efficiency											
Employment		4,423	3,897	3,740	3,818	4,101	4,303	4,305	4,310	NA	NA
Passenger trips (000) per employee		43.9	48.3	50.6	50.7	49.5	48.2	48.8	49.2	NA	NA
Passenger revenue ($000) per employee	*(2)*	66.8	69.9	74.7	72.9	70.0	71.2	74.2	75.0	NA	NA
Working hours lost to industrial disputes		7,263	2,967	0	0	0	62	6,702	0	0	0
Service											
Kilometres travelled (000)		69,055	68,803	71,036	72,517	77,116	79,401	80,577	81,400	84,000	86,700
Total passengers carried (000)		193,972	188,358	189,404	193,480	203,155	207,340	210,223	212,200	218,400	224,700
Bus service											
Average age (years)		8.6	9.6	10.0	10.4	11.2	11.5	11.3	11.4	11.3	11.4
buses in service		1,441	1,442	1,462	1,494	1,539	1,629	1,707	1,751	1,770	1,812
Bus passengers carried (000)		182,663	177,311	177,788	181,106	190,201	193,894	196,707	198,700	204,700	210,700
Ferry service											
Average age (years)		8.4	8.6	8.0	9.0	10.0	10.3	11.3	11.8	12.8	13.8
Ferry passengers carried (000)		11,309	11,047	11,616	12,374	12,954	13,446	13,516	13,500	13,700	14,000
Real fare index	*(3)*	101.3	107.4	108.5	106.4	104.4	106.6	108.9	109.0	NA	NA
Finances											
Operating result ($m)		90.4	1.3	4.3	21.1	10.7	1.1	-4.5	-14.4	-1.0	2.0
Gross external debt ($m)	*(4)*	115.5	90.0	67.9	51.1	42.5	33.6	50.3	81.4	96.0	103.8
Total assets ($m)		466.8	446.4	422.2	387.3	406.4	378.8	384.9	362.8	367.4	366.3
Asset sales ($m)		13.3	8.4	25.0	12.6	2.9	5.1	0.9	19.9	2.1	1.0
Return on total assets (%)		19.4	0.3	1.0	5.5	2.6	0.3	-1.2	-4.0	-0.3	0.6
Government contributions ($m)	*(5)*										
- travel concessions		133.8	109.1	111.7	107.9	104.2	111.6	119.5	118.8	118.0	120.0
- operating loss		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- finance charges		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- social programs	*(6)*	122.3	78.5	67.6	54.5	37.0	39.1	42.2	44.0	60.3	61.3
- total		256.1	187.6	179.3	162.4	141.2	150.7	161.7	162.9	178.3	181.3
Dividend payment ($m)	*(7)*	70.0	0.0	0.0	1.6	9.0	0.0	0.0	0.0	0.0	0.6
Net govt contribution ($m)		186.1	187.6	179.3	160.8	132.2	150.7	161.7	162.9	178.3	180.8

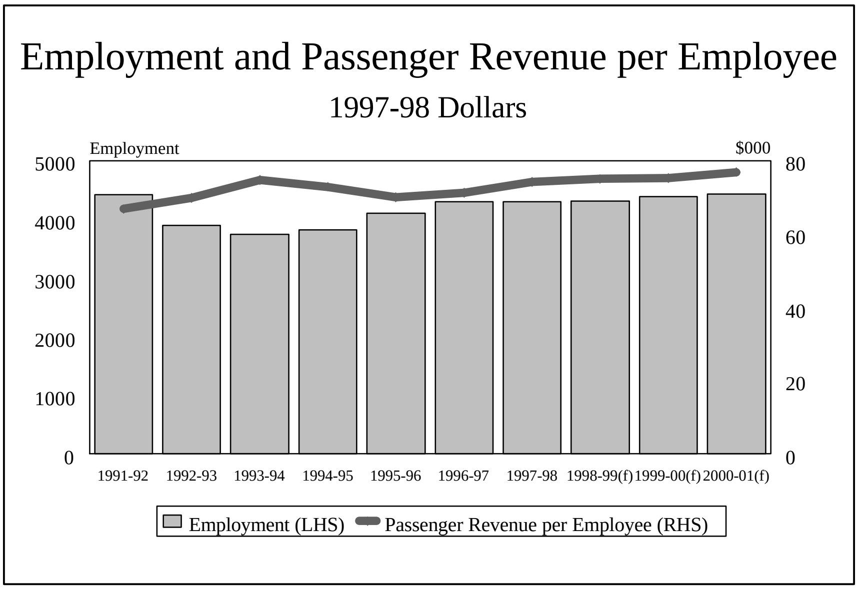
NOTES

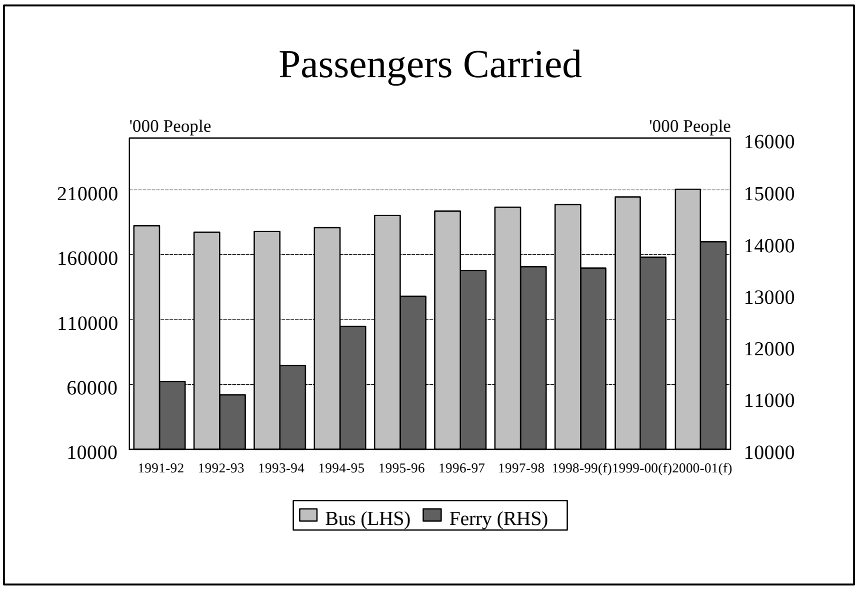
NA *Not available*
e *Estimate*
f *Forecast*

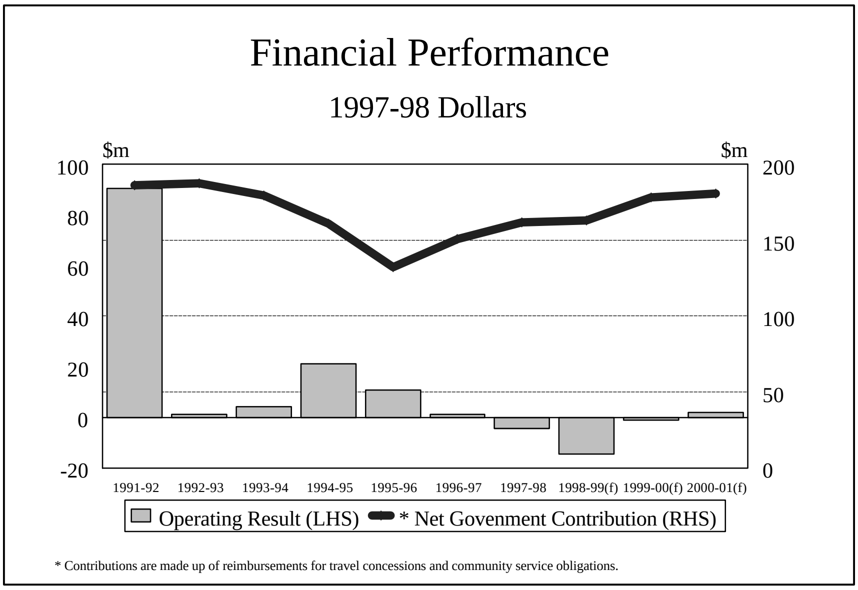
(1) All dollar amounts reported in 1997-98 prices. All revenue based forecasts are based on assumptions outlined in the latest Independent Pricing and Regulatory Tribunal determinations.
(2) Passenger revenue comprises farebox, charters, hirings and concessions.
(3) Derived from information supplied for the Government Charges Index.
(4) The 1997-98 increase in debt is to pay for the bus fleet expansion program.
(5) Contributions for the disadvantages of operating under government conditions ceased in 1994-95. The value of these contribution was $15.3 million in 1992-93, $13 million in 1993-94 and $2.8 million in 1994-95.

(6) In 1991-92 the method of calculating Social Programs included a return on assets used in providing non-commercial services, resulting in a profit which was returned to the government as a dividend. In subsequent years the method of calculation has been refined, and this element has been eliminated.
(7) CSOs were calculated on a different basis in 1991-92 resulting in a large profit which was paid back to the Government as a dividend.

STATE TRANSIT AUTHORITY







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SYDNEY PORTS CORPORATION

Sydney Ports Corporation's mission is to plan, develop and manage the Ports of Sydney, and facilitate shipping movements and seaborne trade growth while effectively operating the business for the optimum benefit of the people of New South Wales.

The Sydney Ports Corporation was established on 1 July 1995 to take the lead role in promoting, developing and operating the Sydney ports. It is the central infrastructure provider and manager for the ports of Sydney Harbour and Botany Bay. The Corporation holds the responsibility for providing safe navigation to ocean-going commercial vessels and facilitating the efficient movement of cargo and passengers on these vessels.

The Corporation is licensed by the NSW Government to undertake port safety functions to a required standard and to act as a protector of the marine environment within the port.

Sydney Ports Corporation achieved an operating profit of $40.9 million in the 1997-98 financial year. The result was obtained after allowing for a 5 per cent reduction in prices effective from the commencement of the financial year. This profit has enabled the Corporation to make a $15.4 million income tax equivalent payment and a $12.7 million dividend payment to the NSW Government.

Trade through the ports of Sydney is continuing its strong upward trend. Record container volumes were achieved, with the milestone 800,000 TEUs (twenty foot equivalent units) passed for the first time. This is an increase of 9.6 per cent over the container throughput achieved in the previous financial year. Total trade reached a record 36.3 million revenue tonnes.

During the 1997-98 year, the Corporation continued to facilitate the use of electronic commerce within the maritime industry and is regarded as a leading player within this domain in Australia.

SYDNEY PORTS CORPORATION

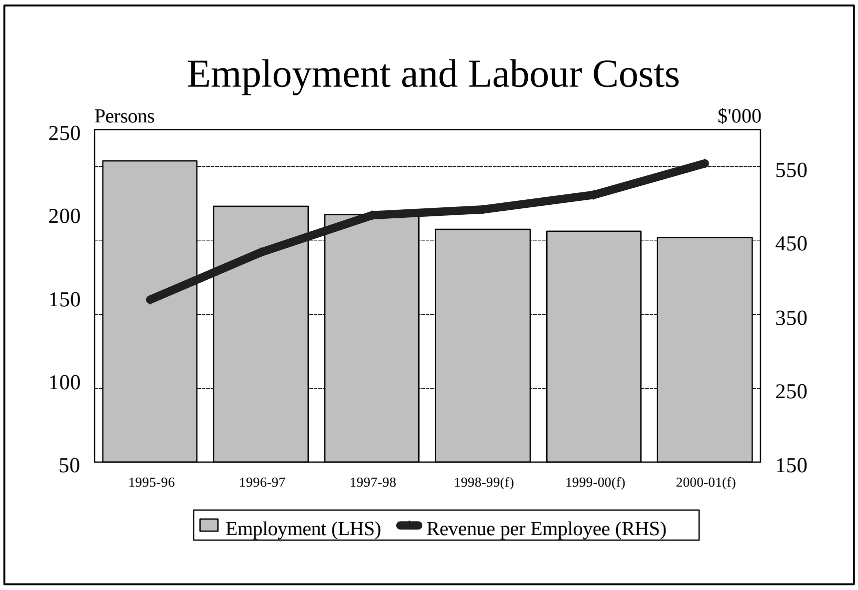
	(1)	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency							
Employment	(2)	231	204	199	190	189	185
Revenue per employee ($000)		370	434	484	492	512	554
Industrial disputation							
- total hours lost		0	0	0	0	0	0
- hours lost per employee		0	0	0	0	0	0
Contract labour ($m)		1.26	0.98	0.82	0.56	0.58	0.60
Service							
Total trade (million tonnes)	(3)	31.6	32.8	36.3	36.7	38.8	41.2
Vessel arrivals		2166	2267	2330	2389	2537	2711
Vessel turnaround time (hrs)		40.6	40.2	39.6	NA	NA	NA
Berth occupancy (%)		NA	NA	NA	NA	NA	NA
Berth queueing time (hrs)		NA	NA	NA	NA	NA	NA
Average time at berth		38.6	36.5	37.8	NA	NA	NA
Avg port management charge per tonne of cargo ($)		1.99	1.89	1.84	1.83	1.81	1.81
Avg port management charge per vessel ($)		29060	27307	28627	28145	27607	27554
Finances							
Operating result ($m)		43.6	38.5	40.9	32.6	30.4	34.1
Contribution to govt ($m)		31.7	29.2	28.1	23.0	21.5	24.0
Asset sales ($m)		0.6	0.6	0.5	0.0	0.0	0.0
Return on total assets (%)	(4)	14.9	15.4	7.6	5.8	4.8	5.1
Return on equity (%)	(4)	31.3	26.2	12.1	8.7	8.1	9.2
Gross external debt ($m)		152.4	150.9	150.5	147.5	215.1	258.3
Debt to equity (%)		109.3	102.7	44.4	39.2	57.3	69.4
Times interest earned		7.2	3.8	3.0	2.6	1.7	1.7

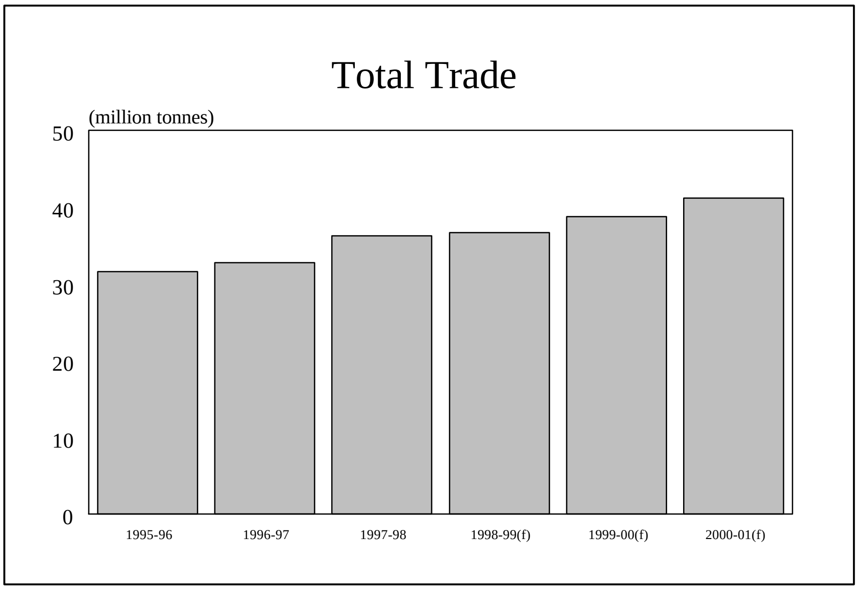
~~NOTES~~

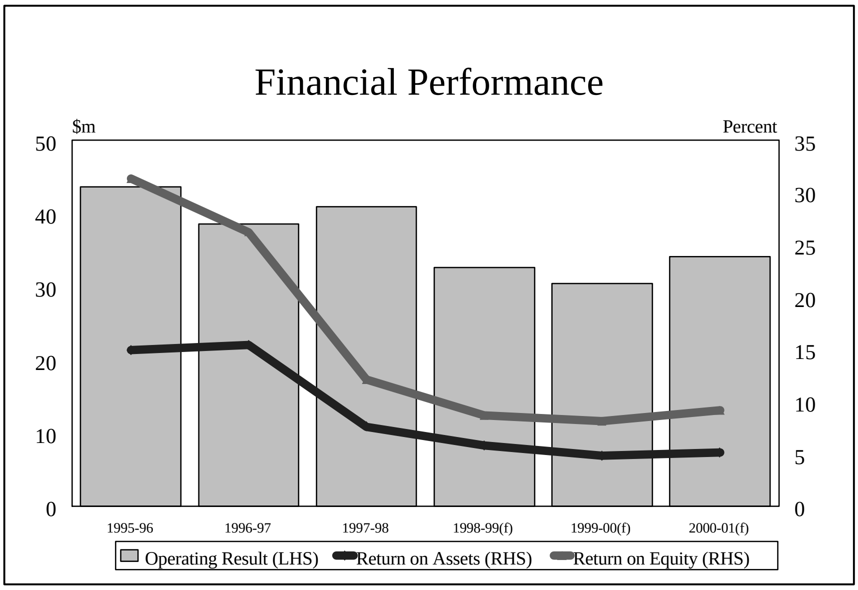
NA Not available
f Forecast

(1) All dollar values are reported in 1997-98 prices.
(2) Excludes labour employed by consultancy.
(3) Total trade expressed in million revenue tonnes at SPC berths. (Excludes cargo at privately owned berths).
(4) Revaluation of assets undertaken in 1997-98.

SYDNEY PORTS CORPORATION







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SYDNEY WATER CORPORATION

The recently conducted review of Sydney Water's 1996 medium term price determination by the Independent Pricing and Regulatory Tribunal (IPART) in June 1998 further strengthens the process of pricing reform in New South Wales by accelerating the rate of property tax reduction and progressively eliminating cross subsidies between customers. In addition to this, Sydney Water's trend performance in reducing operating costs per property continues to deliver substantial efficiency gains to its residential customers and the business community.

The main features of the Independent Pricing and Regulatory Tribunal's (IPART) 1998 medium term review of Sydney Water's four year price path (covering the period from 1996-97 to 1999-2000) were the retention of usage, service and availability charges for water, sewer and drainage services over the remainder of the price path and the elimination of a further $20 million of property taxes by the year 2000. In March 1998, IPART also undertook a review of Sydney Water's stormwater charges and expenditures in conjunction with the mid term review.

In terms of operational efficiency, Sydney Water continues to progress towards its target of reducing underlying operating costs by 45 per cent between 1992-93 and 2000-01. The reduction in operating costs since 1992 has been fully directed towards reducing prices for Sydney Water customers.

Sydney Water's financial performance continued to deliver sound results during 1997-98. All financial performance targets agreed with shareholders at the commencement of the financial year were exceeded and operating profit (before tax and abnormals) increased by 14 per cent. The Corporation improved its Shareholder Value Added (SVA) by $52 million throughout the year.

As a result of the pricing reforms undertaken to date, Sydney Water is well placed to comply with obligations set out under the Council of Australian Governments' (COAG) Strategic Water Reform Framework. Sydney Water has already achieved a common price for all water sold, introduced a two part tariff and has substantially reduced cross subsidies between customer segments.

Several key programs contained in Sydney Water's WaterPlan 21 strategy, the centrepiece of the NSW Government's $3 billion Waterways package, gathered momentum during 1997-98. Sydney Water's Infiltration- Exfiltration program, the Northside Storage Tunnel and Sewer Overflow Licensing Program will deliver significant environmental gains for Sydney Harbour and surrounding waterways.

The results of the 1997 Operating Licence Audit have shown that Sydney Water achieved full or high compliance in almost all of the operating requirements and there were no areas of non-compliance. The overall level of compliance has improved over the last three Operating Licence audits with continuing improvement in customer service, drinking water quality and environmental performance.

During the 1997-98 financial year, Sydney Water participated in the Office of Water Services' (Ofwat) benchmarking of privatised UK water companies as part of a process of assessing relative performance compared with other vertically integrated businesses of global standing. Of the eleven water and sewerage companies compared, the results showed Sydney Water to have the lowest leakage rate, the second lowest level of supply interruptions and the sixth lowest incidence of unsatisfactory pressure.

During July, August and September 1998, the contamination of Sydney's water supply by giardia and cryptosporidium overshadowed Sydney Water's activities in the year under review. Whilst these water contamination incidents occurred after the end of the 1997-98 financial year, these incidents were an issue of major public concern and as a result, this review has been broadened to include the period of the contamination incidents. The Board of Sydney Water acted immediately to put in place initiatives to safeguard the quality of Sydney's water supply.

In response to these incidents, the NSW Government commissioned an independent inquiry to establish, among other things, the causes of the contamination. A summary of the key findings and recommendations of the McClellan Inquiry is contained in its fifth and final report. In addition to this, the NSW Government asked IPART to consider the issue of rebates to customers affected by the contamination. In response to this request, IPART recommended a $15 rebate as well as the deferral of the increase in the water usage charge from 80 to 85 cents until the problem affecting the delivery of filtered water has been resolved.

SYDNEY WATER CORPORATION

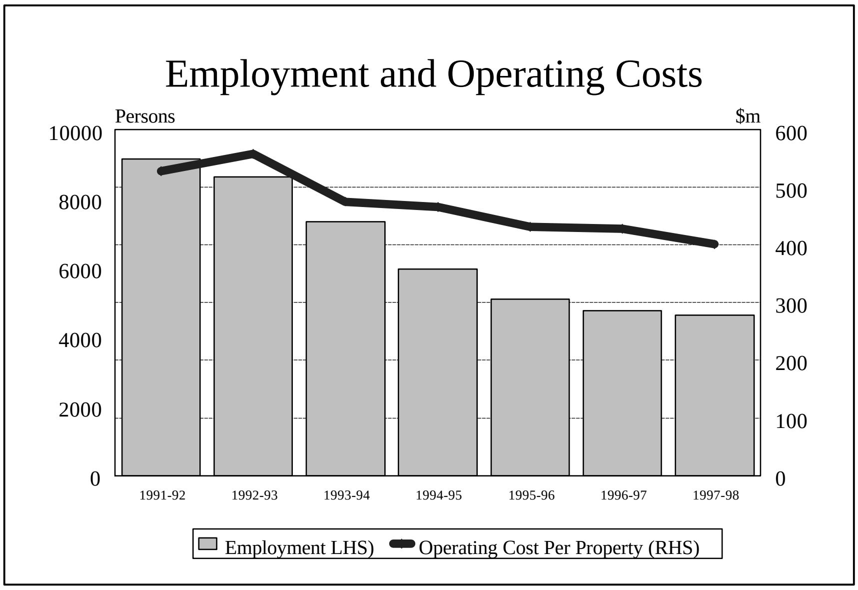
	(*)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment	*(1)*	9,142.0	8,629.0	7,326.0	5,965.0	5,099.0	4,763.0	4,629.0	NA	NA	NA
Operating cost per property ($)	*(2)*	527.8	557.9	475.0	465.3	431.1	428.0	400.7	NA	NA	NA
Employees per thousand Properties		6.6	6.1	5.1	4.1	3.4	3.2	3.0	NA	NA	NA
Revenue collection as a percentage of revenue billed (%)		98.0	99.0	99.0	99.0	98.0	98.0	98.5	99.0	99.0	99.0
Capital works expenditure:											
actual / estimated (%)		99.8	95.3	68.3	65.0	84.3	68.7	89.0	NA	NA	NA
Time lost to unplanned absences (%)		4.0	4.1	3.7	4.0	3.4	3.2	2.8	NA	NA	NA
Injury incidence rate	*(3)*	6.4	7.5	6.6	5.3	4.9	4.4	3.7	NA	NA	NA
Injury frequency rate	*(3)*	23.0	38.0	33.0	28.0	28.0	25.0	21.4	NA	NA	NA
Service											
Million properties served	*(4)*	1.4	1.4	1.4	1.5	1.5	1.5	1.5	NA	NA	NA
New properties served (000)		14.8	18.5	22.2	27.2	25.0	22.9	23.1	NA	NA	NA
Megalitres supplied (000)		633.0	595.0	625.0	569.0	551.0	588.0	620.0	NA	NA	NA
Capital works contracted out		NA	NA	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
System reliability:											
Mainbreaks per 100 km		35.0	37.7	35.3	26.5	20.3	23.1	25.0	<35	NA	NA
Sewer chokes per 100 km		57.8	60.1	75.4	87.6	72.3	70.2	87.1	<60	NA	NA
Water resource management:	*(5)*	99.0	94.0	95.0	95.0	96.9	99.1	99.8	NA	NA	NA
Quality guidance compliance (1980)		94.0	95.0	94.0	98.0	98.8	98.7	99.5	NA	NA	NA
- health (%)											
- aesthetics (%)											
Waste water management:											
Solids removed (%)		48.0	49.0	50.0	45.0	55.0	60.0	60.0	60.0	60.0	60.0
dry tonnes of sludge per day											
- disposed to ocean		25.0	8.0	9.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- recycled		52.0	73.0	81.0	89.0	104.0	113.0	102.0	107.0	110.0	113.0
Pollutants discharged to Nepean/Hawkesbury system (kg/day)	*(6)*										
- nitrogen		2,627.0	2,617.0	2,389.0	1,726.0	1,898.0	1,708.0	1,684.0	1,650.0	1,600.0	1,400.0
- phosphorus		163.0	167.0	147.0	93.0	93.0	59.0	65.0	50.0	40.0	35.0
- ammonia		774.0	608.0	506.0	151.0	137.0	50.0	57.0	50.0	47.0	45.0
Real price index	*(7)*	103.9	105.1	97.4	87.2	75.3	75.5	76.5	74.2	NA	NA
Finances											
Operating result ($m)		158.3	136.5	208.7	121.6	156.5	209.3	243.0	NA	NA	NA
Return on total assets (%)											
total		2.6	2.2	2.0	2.0	2.0	2.5	2.6	NA	NA	NA
core		2.0	2.0	2.0	2.0	2.2	2.5	2.6	NA	NA	NA
Return on shareholders funds (%)		1.7	1.0	1.0	1.0	1.1	1.1	1.4	NA	NA	NA
Asset sales ($m)		17.0	16.8	21.0	88.5	46.7	29.0	7.0	NA	NA	NA
Gross external debt ($m)		1,951.1	1,902.0	1,934.0	1,871.5	1,784.1	1,746.9	1,742.0	NA	NA	NA

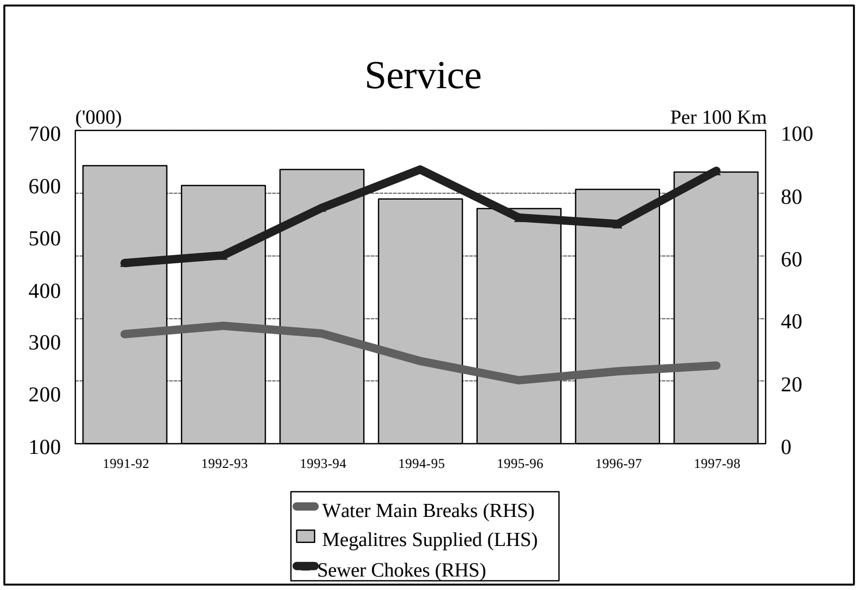
NOTES

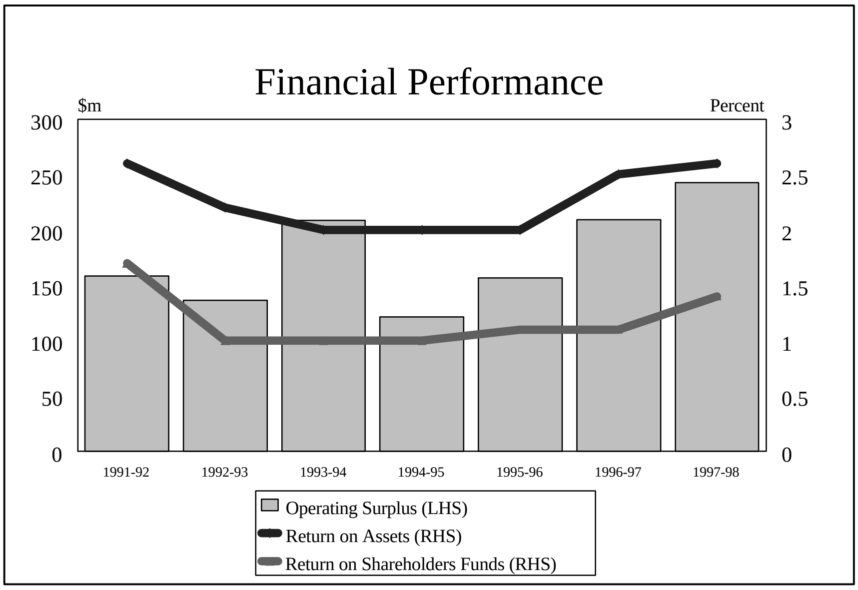
NA Not Available
f Forecast

(*) All dollar values are reported in 1997-98 prices.
(1) Employment figures reflect Full Time Equivalents (FTE) and do not include contractors.
(2) The 1997/98 operating costs reflect the capitalisation of water meters which had previously been expensed.
(3) The definitions for these two indicators are as follows:
Injury Incidence Rate = the number of occurrences of injury or disease for each one hundred workers employed.
Injury Frequency Rate = the number of occurrences of injury or disease for each one million hours worked.
(4) The definition of serviced properties was amended to focus on customers instead of rateable properties in 1994/95. The most significant change involves the acknowledgment of individual flats as one property instead of just the whole block of flats as one customer.
(5) The figures represent the percentage of samples that have physical characteristics within parameters stated in the 1980 NHMRC guidelines. Sydney Water meets those guidelines if in excess of 90% of samples fall within those parameters.
(6) The parameters used to calculate the sewage discharge figures prior to 1993/94 differ from those applied since, making it impossible to draw valid conclusions based on comparisons with current years.
(7) Derived from information supplied for the Government Charges Index.
(8) Since 1993/94 Financial Distribution includes tax equivalent payments.
(9) Forecasts excluding any potential reimbursement for sewer backlogs.

SYDNEY WATER CORPORATION







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TAB LIMITED

> ***The 1997-98 year marked very significant changes to the operation of TAB. Following corporatisation in February 1998 TAB was privatised and shares sold to 750,000 members of the public in June. This new arrangement will provide additional funds to the racing industry as well as raising $1 billion to reduce state debt.***

TAB provides off-course and some on-course wagering to the adult population of New South Wales. Customers may place bets on galloping, harness and greyhound racing, as well as on other sporting events, mainly Rugby League and Soccer. TAB is now the fifth largest wagering operation in the world.

On 25 February 1998 TAB was corporatised as TAB Limited and was listed on the Australian Stock Exchange commencing 22 June 1998. As part of this process the following major changes to the financial structure of the organisation occurred during the year:

- TAB entered into an agreement with the racing industry to pay them fees calculated as 21.64 per cent of wagering revenue and 25 per cent of profit. In return the racing industry provides TAB with the racing product. These fees are paid as an operating cost. In the past the racing industry received TAB profit and the payment for 1996-97 was $123.5 million. Under the new arrangements the industry received $142 million in 1997-98 and it is estimated the fees will total $165.7 million in 1998-99.
- On 6 March 1998 the State Government reduced the wagering tax rate from an effective 51.9 per cent of revenue to 28.2per cent. Wagering tax paid to Government in 1996-97 was $269.8 million. Under the transitional arrangements in 1997-98 the Government received $227.9 million and it is estimated that taxes will total $184.2 million in 1998-99.
- TAB now receives as income the wagering dividend fractions and wagering unclaimed dividends which were previously paid to consolidated revenue. Dividend fractions are approximately $29 million per annum and unclaimed dividends around $9 million per annum.
- TAB purchased, for $308 million, two 99 year licences to operate totalizator wagering both off and on course within New South Wales. The first 15 years of the off course licence is exclusive. The licence was funded by a cash payment of $70 million and the issue of 162.11 million $1 shares at a premium of 47 cents. The value of the licence is being amortised over 99 years at $3.1 million per annum.
- On 6 March 1998 TAB became the controlling totalizator for all totalizator wagering in the State. From this date all revenue earned from on-course wagering flows to TAB. In return TAB pays race clubs a contribution towards the cost of operating the on-course tote. For 1998-99 on-course wagering revenue is forecast to be $30.9 million after wagering tax and racing industry fees. The contribution to on-course costs is forecast at $19 million.
- TAB under its wagering licences can set the takeout rate provided this rate for any individual pool is not more than 25 per cent and the cumulative takeout rate over all pools is not greater than 16 per cent. The cumulative takeout for 1997-98 was 15.1 per cent.

TAB LIMITED

- Sky Channel Pty Ltd was purchased by TAB on 15 April 1998 at a cost of $260 million. This was funded by $100 million cash, $100 million in shares, with the remaining $60 million deferred, to be paid at the rate of $15 million over the next four years. Whilst being revenue positive for TAB, Sky Channel was also a strategic purchase as it gave the Company control of the broadcast of racing into all its outlets. The purchase also forged the way to introduce a racing channel on Pay TV which in turn will improve wagering revenues.
- For the first time in history TAB required debt funding, which at 30 June 1998 was $123 million.
- TAB has been granted 15 year licences by the State Government at a cost of $30 million to develop linked poker machine jackpots in hotels and registered clubs and a central monitoring system for all gaming machines throughout the State. TAB also has a gaming machine investment licence to own, supply and finance gaming machines in NSW hotels and poker machines in NSW clubs connected to the Linked Jackpot system. These gaming businesses will commence in the second half of the 1999 calendar year. The licence fee of $30 million was paid in cash.
- The reduction in the wagering tax rate to 28.2 per cent took effect from 6 March 1998, the date when the wagering licences commenced. The NSW Government guaranteed the racing industry, as part of the privatisation process, the funding the industry would have received had the reduced wagering tax been introduced from 1 October 1997.
- The NSW Government reimbursed TAB $19.4 million for this additional funding.
- In preparation for corporatisation and privatisation the capital and reserves of TAB were restructured as follows:
  - the $9 million contribution by the State Government was converted to 9,000,000 shares of $1;
  - the retained earnings balance of $79.12 million was converted to 53.89 million shares of $1 issued at a premium of 47 cents;
  - the State Government was issued with 162.11 million shares of $1 issued at $1.47; and
  - the 225 million shares of $1 on issue were converted to 450 million shares of 50 cents.

The State Government issued a Share Offer Document on 4 May 1998 offering 450,000,000 shares for sale. These were offered to the public at $2.05 per share. The price for institutions and broker firms was set at $2.10 per share. TAB Limited was listed on the Australian Stock Exchange on 22 June 1998. Trading in shares closed that day at $2.20. The share price as at 4 November 1998 was $3.10.

On 29 June 1998, 50 million shares were issued to Publishing & Broadcasting Limited and Radmar Pty Ltd (News Ltd) at $2.10 per share as part payment for Sky Channel. The total value was $105 million, of which $100 million related to the Sky Channel purchase and the remaining $5 million was paid to TAB in cash by PBL and Radmar.

TAB LIMITED

For 1997-98 consolidated revenue was $641.5 million. This was $0.5 million below the forecast in the Share Offer Document. Operating profit before tax was $49.7 million being $0.7 million above the forecast. This result was achieved despite wagering turnover being $35.28 million below forecast and was achieved primarily due to reduced fees and commissions payable relating to the reduced turnover and a reduction in other operating costs.

Wagering sales forecast for 1998-99 is $4,144 million. Off-course wagering turnover is forecast to rise 3 per cent with an additional $50 million in sales expected from Fixed Odds Sports Betting, a new product which commenced operation on 29 July 1998. On-course wagering turnover is forecast to be $388 million, which is a reduction on total on-course turnover achieved in the previous year.

No dividend was paid to shareholders for 1997-98. The Directors forecast a fully franked interim dividend of 4 cents per share will be paid in March 1999 and expect to pay a final dividend in respect of 1998-99 of a further fully franked dividend of 4 cents per share in September 1999.

Given the complexity and materiality of financial changes throughout the year, it has not been possible to present unambiguous financial information in the standard format used in this 1997-98 Performance Book. Accordingly a summary table and graphs do not feature in the coverage.

TAB is now a public company and will not be included in the 1998-99 Performance Book.

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TRANSGRID

TransGrid manages the State's high voltage electricity transmission network as well as the State's electricity market. 1998 has been characterised by many changes in TransGrid's operating environment. TransGrid's efforts in the development of the approaching national electricity market (NEM) are evident in the selection of TransGrid's Carlingford Control Centre as one of two national control centres.

TransGrid (the trading name of the Electricity Transmission Authority) was established on 1 February 1995 under the *Electricity Authority Act 1994.* It was established as part of the restructure of the State's electricity supply industry to separate potentially competitive parts of the industry from the natural monopoly parts. The organisation is responsible for:

- solely operating, and maintaining the State's high voltage transmission network;
- planning new transmission network investments;
- coordinating the transmission of electricity between transmission networks;
- developing, implementing and administering the State's wholesale electricity market; and
- the system operations of the State's wholesale electricity market (including the balancing of supply and demand of electricity, coordinating the dispatch of electricity generating units and ensuring reliability and security of supply).

TransGrid manages assets of $2.0 billion. It has a debt of $788 million, 1,034 staff and annual revenue of $378 million. TransGrid achieved a pre tax operating profit for the 1997–98 financial year of $83.6 million. This was equivalent to a rate of return on assets of 8.99 per cent. Debt levels and returns will fluctuate around these levels depending on the organisation's position in its capital investment cycles.

In August 1995, the then Minister for Energy endorsed the recommendations of the Independent Efficiency Review undertaken as part of the process of TransGrid's establishment. One outcome of the review was a commitment by TransGrid to achieve a 25 per cent real reduction in controllable costs by June 1998. The financial statements for 1997-98 show a controllable cost reduction outcome of 25.14 per cent over the three-year period to June 1998.

TransGrid has a significant network enhancement program in progress. Specific projects include the Queensland Interconnector and Lismore-Mullumbimby, Inverell-Moree and Coffs Harbour-Kempsey 132 KV lines. On 26 February 1998 the Hon. Mr Bob Debus, Minister for Energy, opened Regentville Substation. The substation meets the growing electricity requirements of the rapidly expanding western Sydney region.

Further developments in the State electricity market during 1997-98 included opening up the wholesale market to new participants, facilitating greater retail competition and establishing competitive trading arrangements between New South Wales and Victoria as the first stage of the NEM.

TransGrid seeks to manage its existing business efficiently by adopting best practice operations and maintenance procedures, which are facilitated through participation in international benchmarking studies. The future direction of TransGrid will be defined by a strong commercial focus, the seeking of 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.

TRANSGRID

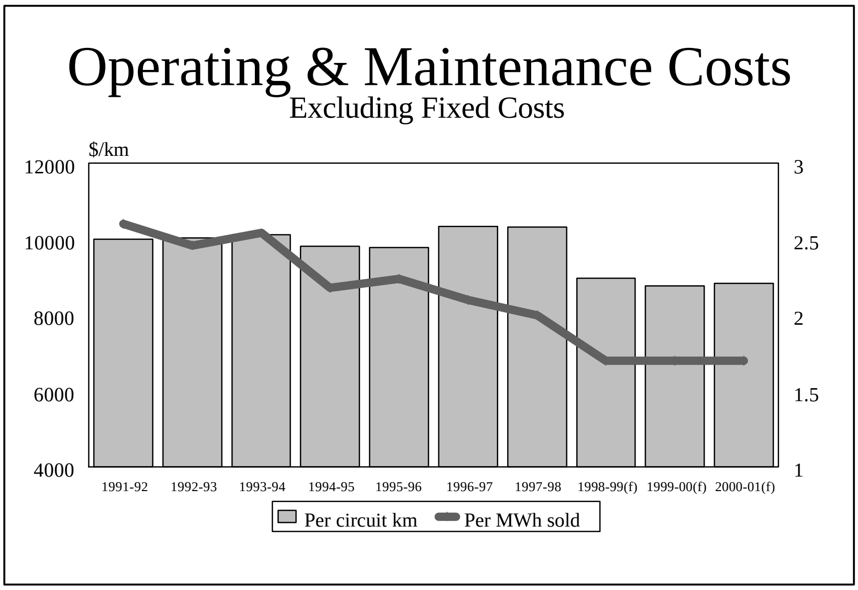
	(1)	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99(f)	1999-00(f)	2000-01(f)
Efficiency											
Employment		NA	NA	NA	1295	1265	1083	1034	NA	NA	NA
Transmission system Reliability (1/mill.)	(2)	5.1	7.1	3.7	4.5	1.8	4.6	4.0	4.0	3.0	3.0
Transmission equipment utilisation factor (%)	(3)	25.6	25.7	26.0	26.0	26.6	27.3	27.8	28.5	28.7	29.5
Transmission losses (%)		3.2	3.0	2.8	2.9	2.7	3.0	3.0	3.0	3.0	3.0
Service											
Transmission transformer capacity (MVA)	(4)	25,984	26,954	26,954	27,519	24,179	23,664	24,024	24,024	24,399	24,399
Transmission circuit km	(5)	12,632	12,840	12,839	12,778	12,861	11,465	11,465	11,605	11,831	11,831
Operating & maintenance costs	(6)										
excluding fixed costs											
PER CIRCUIT KM ($/km)		10,006	10,038	10,127	9,816	9,779	10,335	10,317	8,779	8,346	8,122
PER MWH SOLD ($/MWh)	(7)	2.60	2.46	2.54	2.18	2.24	2.10	2.00	1.66	1.62	1.56
Including fixed costs											
PER CIRCUIT KM ($/km)		24,235	27,105	22,369	25,286	24,104	26,378	25,621	23,221	22,598	22,767
PER MWH SOLD ($/MWh)	(7)	6.22	6.82	5.52	5.58	5.51	5.34	5.02	4.50	4.35	4.28
Total factor productivity	(8)	NA	NA	NA	1.00	1.05	1.14	1.18	NA	NA	NA
Finances	(9)										
Return on total assets (%)		NA	NA	NA	8.7	9.2	8.65	9	8	8	8
Return on equity (%)		NA	NA	NA	6.8	8.9	7.33	8.7	7	7	7
Dividend to equity ratio (%)		NA	NA	NA	5.2	5.6	5.14	4.49	5	4	4
Dividend payout ratio (%)	(10)	NA	NA	NA	85	85	85	85	85	85	85
Debt to equity (%)		NA	NA	NA	50	45	44.37	41.65	39	42	41
Gross external debt ($m)		NA	NA	NA	1010.9	907.3	853.8	788.4	734.0	857.7	813.9
Interest cover (times)		NA	NA	NA	1.84	1.9	1.75	2.04	1.94	1.94	1.87

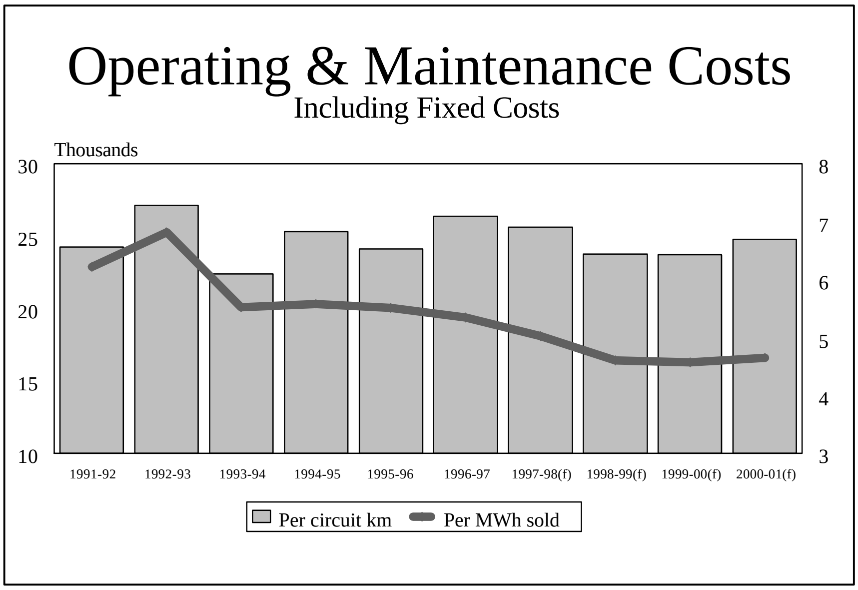
NOTES

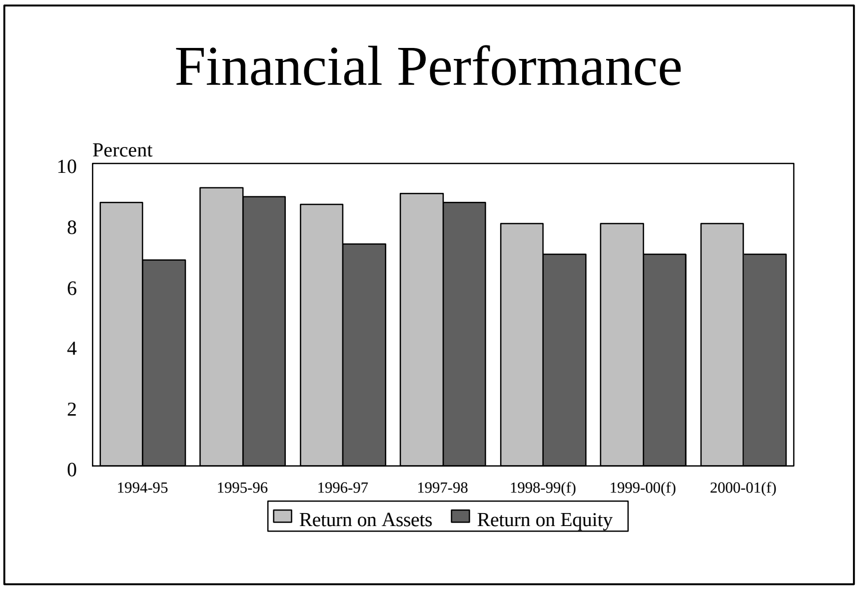
NA *Not available*
f *Forecast*

(1) *All dollar amounts reported in 1997-98 prices.*
(2) *Calculated as units not supplied divided by million units demanded.*
(3) *Calculated as annual energy delivered by the Network divided by aggregate transformer capacity multiplied by hours in the period.*
(4) *Measured in Mega Volt Amperes. Excludes station spare (or disconnected) transformers, auxiliary transformers, tie transformers, static var compensator transformers and all transformers less than 77kV. Before 1995-96, figures include tie and SVC transformers. Capacity in 1995-96 includes transformers transferred to distributors but still maintained by TransGrid.*
(5) *Includes transmission overhead lines and underground cables, 77kV and above. Also includes lines transferred to distributors but still maintained by TransGrid.*
(6) *Overhaul and Maintenance costs for 1998-99 and beyond reflect the commencement of the NEM*
(7) *Utilises total MWh supplied through TransGrid's network.*
(8) *TransGrid's total factor productivity (TFP) series uses the unilateral definition which measures the enterprise's change in productivity over time. The series does not reflect absolute TFP levels and therefore can not be compared to the results of other GTEs presented in this publication.*
(9) *1994-95 figures are annualised and based on 5 months of data.*
(10) *Dividend payout ratio excludes tax equivalents.*

TRANSGRID


Operating & Maintenance Costs
Excluding Fixed Costs
$/km
12000
10000
8000
6000
4000
3
2.5
2
1.5
1
1991-92
1992-93
1993-94
1994-95
1995-96
1996-97
1997-98
1998-99(f)
1999-00(f)
2000-01(f)
Per circuit km
Per MWh sold


Operating & Maintenance Costs
Including Fixed Costs
Thousands
30
25
20
15
10
8
7
6
5
4
3
1991-92
1992-93
1993-94
1994-95
1995-96
1996-97
1997-98(f)
1998-99(f)
1999-00(f)
2000-01(f)
Per circuit km
Per MWh sold


Financial Performance
Percent
10
8
6
4
2
0
1994-95
1995-96
1996-97
1997-98
1998-99(f)
1999-00(f)
2000-01(f)
Return on Assets
Return on Equity

APPENDIX

GLOSSARY

The performance of each organisation is measured by a number of unique indicators, as well as more generic indicators, which are defined below.

All dollar amounts have been converted to 1997-98 prices, using the Sydney year-average Consumer Price Index, apart from the current and forecast year estimates, which are in 30 June 1998 dollars (consistent with the approach in previous publications). Removing the impact of inflation assists analysis of the underlying trends in the indicators.

EFFICIENCY INDICATORS

Employment
Effective Full Time Staff, derived by adding full-time staff to the full-time equivalent of any part-time staff.

Output per Employee
Where appropriate, physical output divided by employment. In other cases, real revenue per employee is reported. Annual changes in this indicator are one measure of efficient utilisation of labour resources in the enterprise.

Staff hours lost to industrial disputes:
Reported as an aggregate number of hours lost to industrial disputation or as an average figure per employee.

CUSTOMER SERVICE INDICATORS

Market share
An indicator of the agency's performance within its industry. This indicator is not relevant for all agencies. Shifts in market share are indicative of competitive strategies within the agency and of external changes, including market deregulation, to the operating environment.

Real price index
A single index constructed for each agency to identify how customer charges have moved in relation to the Sydney Consumer Price Index. The index commences at 100 in 1988-89.

An increase in the index reflects a real increase in charges; an unchanged figure indicates that the movement in charges equals the change in the CPI; while an index trending downward means real decrease in charges to consumers.

The 1994-95 Performance Book saw the introduction of a new method of reporting on the Real Price Index. For those agencies appearing both in the Government Charges Index (GCI) and the Performance Book, a series constructed from the movement in charges reported in the GCI is used.

This approach ensures consistency between the GCI and the data reported by agencies in the rest of the Performance Book.

A consequence of this approach however, is that forecasts of the Real Price Index are not available for the last three years of forecasts.

The Government Charges Index does not contain separate price movements for each of the electricity agencies. Therefore, the indexes supplied by the various electricity agencies are utilised.

FINANCIAL INDICATORS

Operating result
Unless otherwise stated, an above-the-line pre-tax profit. It consists of operating income (including investment income but excluding extraordinary items such as asset sales) less operating expenses (including interest but excluding corporate taxes and dividends).

Contribution to government
Contributions of the agency to the Consolidated Fund. Ideally, enterprises pay to the NSW Government the equivalent of corporate tax, plus a dividend, equal to a reasonable rate of return on capital (less earnings retained to meet endorsed enterprise objectives). The amounts are separately identified, where appropriate.

Asset sales
Total revenue from the extraordinary sale of enterprise assets in the financial year.

Where asset sales are used to renew asset stock in the enterprise the overall rate of return on assets may be lifted. Proceeds from asset sales may also be used to retire external debt.

Return on (total) assets
Operating result before interest and tax as a percentage of total revalued assets. In some cases, historic cost valuations have been used (as footnoted). Return on assets is a fundamental indicator of performance in Government enterprises and enables economic comparisons between industries and sectors.

Return on operating (core) assets
Operating EBIT from core assets plus Government funded Social Programs, as a percentage of operating assets. This indicator measures the performance of the operating asset base.

Return on equity
Operating result before tax but after interest, as a percentage of equity. Equity is defined as total assets less total liabilities. Although an imperfect indicator for non-corporatised Government enterprises, return on equity measures the rate of return on public capital invested in an agency.

Gross external debt:
The gross amount owed to parties external to the agency, including that amount repayable to the Government of New South Wales.

Trends in external debt are an indicator of longer term enterprise performance and future financial viability. A priority of the present NSW Government is the reduction of external debt.

Debt to equity ratio:
Gross external debt as a percentage of equity. A declining ratio is generally desirable when interest rates are high or uncertain. A lower ratio indicates a higher rate of internal funding and less vulnerability to adverse interest rate movements.

Times interest earned:
Earnings before interest and tax (EBIT) divided by the total interest expense measures gearing in the income stream, that is, the ability of the enterprise to meet its interest charges from its earnings.

Social programs:
The value of NSW Government payments to the enterprise in return for meeting the provision of Social Programs. It is intended that all Social Programs be fully identified and financed in transfers between the State and the agency.

The elimination of implicit concessions assists in creating a level playing field for the agency in its industry and allows the agency to provide services in a commercial environment.

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