

# **FREIGHT RAIL CORPORATION**

## **2001 / 02**

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# FREIGHT RAIL CORPORATION

30 August, 2002

The Hon Michael Egan, MLC  
Treasurer  
Minister for State Development  
Vice President of the Executive Council  
Level 33, Governor Macquarie Tower  
1 Farrer Place  
SYDNEY NSW 2000

Dear Treasurer

We are pleased to submit to you for presentation to the Parliament of New South Wales, the Freight Rail Corporation Annual Report for the period 1 July, 2001 to 22 February, 2002.

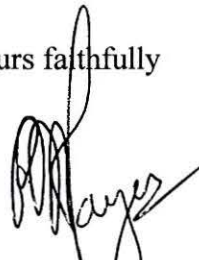
The report has been prepared in accordance with the Annual Report (Statutory Bodies) Act 1984 and the applicable provisions of the Public Finance and Audit Act 1983.

Yours faithfully



Lucio Di Bartolomeo  
Managing Director  
during the period  
1 July, 2001 to 21 February, 2002

Yours faithfully



Peter Mayers  
General Manager Finance  
during the period  
1 July, 2001 to 21 February, 2002

# **FREIGHTCORP**

## **FREIGHT RAIL CORPORATION**

### **ANNUAL REPORT**

**For the period 1 July, 2001 to 22 February, 2002**

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## 1. Introduction

On 21 February, 2002 FreightCorp's business undertaking (including most of its assets and liabilities) was sold to National Rail Consortium (SSL) Pty Limited (now called Pacific National Pty Ltd), a consortium of Toll Holdings and Lang Corporation. A number of assets were retained in State ownership and the Crown assumed FreightCorp's remaining net liabilities.

On 22 February, 2002 FreightCorp converted from a statutory State Owned Corporation to a Corporation Sole constituted by the Treasurer, pursuant to section 15 of the *Freight Rail Corporation (Sale) Act 2001*. The Corporation Sole was established to administer a number of cross – border leases of locomotives entered into in December 1994. The purchaser is entitled to use the locomotives through a sub-sublease.

## 2. Charter

Freight Rail Corporation (hereinafter referred to as FreightCorp) was established on July 1, 1996 as a state-owned corporation of the New South Wales Government. It was established pursuant to amendments to the *Transport Administration Act 1988* under which the Minister of Transport directed that specific assets, rights and liabilities of the State Rail Authority of New South Wales be transferred to FreightCorp.

FreightCorp's vision and values have been:

*"To succeed as the premier national rail-based freight services company by applying the following values:*

- *Quality customer service*
- *Integrity and fairness*
- *Commercial behaviour*
- *Creativity and innovation*
- *Mutual respect and trust"*.

The employees of FreightCorp continued to pursue these visions and values during the review period (1 July, 2001 to 22 February, 2002).

## 3. Aims and Objectives

The principal objectives of FreightCorp as set out in the *Transport Administration Act 1988 (NSW)* were:

- a) to operate efficient, safe and reliable rail freight services, and to be a successful business and, to this end, to operate at least as efficiently as any comparable business;
- b) to maximise the net worth of the State's investment in the Corporation;
- c) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;

- d) where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6(2) of the Protection of the Environment Administration Act 1991; and
- e) to exhibit a sense of responsibility toward regional development and decentralisation in the way in which it operates.

The principal function of FreightCorp under the *Transport Administration Act 1988 (NSW)* was to operate rail freight services. FreightCorp could:

- provide facilities or services that were ancillary to its principal function; and
- conduct any business (whether or not related to its principal function) that it considered would further its objectives.

#### 4. Access

FreightCorp's principal operating address was:

2 – 12 Macquarie Street  
PARRAMATTA NSW 2150

Telephone Number: 61 2 9893 2500  
Facsimilie: 61 2 9893 2501

Website: [www.freightcorp.com.au](http://www.freightcorp.com.au)

As a Corporation Sole, FreightCorp's current address is:

c/- NSW Treasury  
Level 27  
Governor Macquarie Tower  
1 Farrer Place  
Sydney NSW 2000  
Telephone Number: 61 2 9228 4567

#### 5. Management and Structure

Prior to its sale, FreightCorp was governed by an independent Board of Directors in accordance with its Memorandum and Articles of Association. Its two shareholding ministers in the period up to and including the date of sale were the New South Wales Treasurer and the Special Minister of State and Assistant Treasurer.

The directors who served throughout the period from 1 July, 2001 to the date of sale were:

Brian Halstead BE (Chem), BEc, CPA - Chairman  
Lucio Di Bartolomeo BE (Civil), MEngSC, MEI (Aust), FCIT - Managing Director  
Noel Cox – Director  
Deena Shiff BSc (Econ) Hons, BA (Law) Hons - Director  
John Ward BSc, FAICD, FCIT, FAIM, FAMI - Director.

The Board operated the following committees:

- An Audit and Compliance Committee considered risk management, the ethical application of policies and procedures, the adequacy of accounting policies, procedures and internal controls, and reviewed the role of internal and external auditors. The Committee also ensured systems and procedures were in place for compliance with FreightCorp's legal obligations, particularly in relation to trade practices, occupational health and safety, rail safety, environmental law, equal opportunity and affirmative action.

The Audit and Compliance Committee was chaired by John Ward and attended by Deena Shiff and Brian Halstead.

During the year, a Financial Risk Management Committee was formed to specifically manage the risk of hedging diesel fuel costs. The Committee included the Managing Director, the General Manager Finance and the Manager – Taxation and Treasury Accounting. This Committee reported directly to the Audit and Compliance Committee.

- A Remuneration Committee, which considered senior management remuneration was chaired by Noel Cox and attended by Lucio Di Bartolomeo and John Ward.
- A Privatisation Committee was established to supervise FreightCorp management in assisting the NSW Government's Rail Freight Sales Steering Committee and sale advisers to undertake the sale. The Committee reviewed and approved key internal privatisation documents and processes. It also reviewed and approved the due diligence process applied within FreightCorp. The Committee reviewed sale documents and sign-offs required by the Board and made recommendations to the full Board for review and approval. The Privatisation Committee met as part of the full Board during the period to 21 February 2002.

|                     | Board Meetings       |              | Audit & Compliance Committee |              | Remuneration Committee |              | Financial Risk Management Committee |              |
|---------------------|----------------------|--------------|------------------------------|--------------|------------------------|--------------|-------------------------------------|--------------|
|                     | No. of Meetings held | No. Attended | No. of Meetings held         | No. Attended | No. of Meetings held   | No. Attended | No. of Meetings held                | No. Attended |
| Brian Halstead      | 14                   | 14           | 3                            | 3            | N/A                    | N/A          | N/A                                 | N/A          |
| Lucio Di Bartolomeo | 14                   | 14           | N/A                          | N/A          | 2                      | 2            | 2                                   | 2            |
| Noel Cox            | 14                   | 13           | N/A                          | N/A          | 2                      | 2            | N/A                                 | N/A          |
| Deena Shiff         | 14                   | 13           | 3                            | 3            | N/A                    | N/A          | N/A                                 | N/A          |
| John Ward           | 14                   | 14           | 3                            | 3            | 2                      | 2            | N/A                                 | N/A          |

The executive management team, which reported to the Managing Director was:

Terry Kearney BSc (Engineering), MPA, MIE (Aust), MCIT  
Deputy Managing Director.

Peter Winder BEc (Accounting)  
General Manager Coal Services

Robert Sullivan BA (Accounting), CPA  
General Manager Freight Services

Tom Stuber B Surv, MBA  
General Manager Operations

Gary Pedersen BEc, M Comm, FCPA  
General Manager Strategy & Acquisitions  
Company Secretary

John Cree B App Sc (Environmental Health)  
MAIEH  
General Manager Risk and Assurance

Peter Mayers FCA (Aust) FCA (England & Wales)  
General Manager Finance

Bruce Hall BE (Mechanical) FAIM  
Project Director National Growth

## **6. Summary Review of Operations**

### **Introduction**

On 21 February, 2002 FreightCorp's business undertaking, including most of its assets and liabilities, was sold to National Rail Consortium (SSL) Pty Limited (now called Pacific National (NSW) Pty Ltd). Although the sale was completed on that date, under the sale agreement all profits and losses relating to the net sale assets that arose between 14 January, 2002 (final bid date) and 21 February, 2002 accrued to the new owner. Further details on the accounting treatments applied to the sale are included in Note 1(b) to the financial statements.

FreightCorp ceased to be a State Owned Corporation under the State Owned Corporations Act 1989 on 22 February, 2002 and accordingly the financial statements have been prepared to that date on the basis set out above.

### **Financial Performance**

During the period to 22 February, 2002 FreightCorp recorded an operating loss of \$15.8m. The total revenue was \$301.9m.

There were a number of significant and non-recurring costs, which contributed to the operating loss during the period. Weakness in the global investment and capital markets, following the events of September 11 impacted upon the State Superannuation Schemes and accordingly a write-down of \$5.4m was required. The terms of the agreement of the sale of FreightCorp allowed employees to cash in annual leave and long service leave benefits at the date of sale and accordingly the change in net present value calculations led to an increase in the provision of \$4.2m. FreightCorp's costs associated with the privatisation totalled \$2.1m.

During the period to 22 February, 2002 the NSW Government made changes to the community service obligation (CSO) program as part of the overall long term restructure of CSOs in anticipation of the sale of FreightCorp to private entities. Owing to this restructure, the level of CSOs received was reduced by approximately \$28m when compared to a similar period in the prior year. In place of ongoing yearly funding, the Government requires the purchaser to spend approximately \$118m on the construction of new grain consolidation facilities and the upgrade and purchase of new rolling stock. This is discussed further below.

### Operational Performance

During the period to 22 February, 2002 the divisional task hauled was as follows:

|   | <i>2001/02 Period</i> |                   | <i>2000/01 Year</i>  |                   |
|---|-----------------------|-------------------|----------------------|-------------------|
|   | <i>Revenue (\$m)</i>  | <i>Tonnes (m)</i> | <i>Revenue (\$m)</i> | <i>Tonnes (m)</i> |
| <b>Coal</b>                               | 168.4                 | 51.0              | 301.7                | 76.3              |
| <b>Grain and other bulk</b>               | 74.0                  | 6.3               | 155.0                | 10.1              |
| <b>Container</b>                          | 22.3                  | 1.6               | 36.8                 | 2.6               |
| <b>Non-freight services</b>               | 5.2                   | -                 | 24.7                 | -                 |
| <b>CSO payments</b>                       | 27.8                  | -                 | 72.2                 | -                 |
| <b>Other operating revenue</b>            | 4.2                   | -                 | 18.9                 | -                 |
| <b>Total Operating Revenue and Tonnes</b> | 301.9                 | 58.9              | 609.3                | 89.0              |

Owing to the proposed sale of the FreightCorp business by the NSW Government, there was limited investment of time and resources in new projects or growth opportunities during the period, as it was considered that decisions on strategies or initiatives that would have a long term impact or require significant capital funding should be made by the new owners.

### Coal Services

Coal freight revenue for the period was \$168.4m with a haulage task of 51m tonnes, (2m tonnes more than for the same period in the prior year). Although this was 1.7m tonnes below budget, a favourable revenue result was achieved owing to the tonnage and haulage mix.

Coal Services throughput averaged over 216,000 tonnes per day during the period; an increase of over 6,000 tonnes per day above the rate achieved in the prior year.

This increase was partly due to enhanced fleet utilisation and train scheduling initiatives that yielded a 4.7% improvement in average cycle times in the Central Hunter Valley and a reduction in train cancellations from 10% to less than 6% per day.

Improved performance was achieved due to increased tonnage in the Upper Hunter Valley, Port Kembla and new domestic services. In addition, increased freight rates were negotiated with a number of customers during the contract renewal process.

Coal service operational costs were adversely impacted by the delay in implemented Driver-Only Operations and projected savings on the Fuel Miser Project not being achieved.

A number of interstate business development projects did not proceed during the period due to the withdrawal of potential customers from the negotiation process and the impact of the sales process.

### **Freight Services**

The overall performance for Freight Services during the period fell below expectations, with the world's struggling commodity markets adversely affected by significant world events. This was slightly offset by improved trading conditions within Australia.

### ***Grain and Other Bulk***

The grain and other bulk task totalled 6.3m tonnes, which was 5% above budget, but 9% below the prior year.

The Grain Portfolio recorded a lower than budgeted revenue result for the period which reflected the light export shipping stem which was in turn due to a fall in general world trade exacerbated by September 11 events. The domestic market provided some relief with higher than budgeted volumes throughout the period. Domestic performance was supported by expansion of some domestic facilities, carry over of lower quality grain from the prior season, and slower early season export demand. The expansion of the Manildra facility at Nowra also helped boost flour volumes throughout the period.

The domestic focus of the Bulk Portfolio saw it perform very strongly through the period. Strong demands for North Coast Road Projects and Sydney metropolitan development activities resulted in better than expected cement volumes and an above budget performance. Peak demands for major track possessions early in the period increased revenue from the Rail Infrastructure Corporation above expectations and contributed significantly to the excellent bulk result.

### ***Container***

Despite the strong start to the period as a result of increased containerised export grain movements, the PortLink portfolio recorded a revenue result below expectations. Tonnage of 1.6m tonnes was 13% below budget but consistent with tonnage for the same period last year. A reduced number of export grain licences, distributed by the Wheat Export

Authority, reversed the trend shown early in the period. Cotton volumes out of the Narrabri region were also well below expectations due to the late start of the season.

### **Community Service Obligations**

During the year, the NSW Government altered the arrangements for community service obligations, to reflect the environment, which would exist after the sale. The community service obligation for grain was replaced in November, 2001 by a new contract, which requires the construction of grain consolidation facilities and the upgrade and purchase of new rollingstock. Under the new arrangement, the purchaser is to fund these capital works, which are expected to cost approximately \$118m.

A new contract for PortLink community service obligations was signed on 4 November, 2001. The Government will continue to support this operation with a reducing subsidy until 2004. The fuel haulage CSO is being made contestable by the Department of Transport and community service obligations for the North Coast were terminated upon the sale of FreightCorp given the synergies with National Rail, which also operates on this route.

### **Operations & Fleet Management**

During the period through to sale, FreightCorp continued to pursue its objective of quality customer service through operational excellence. This continuous improvement programme resulted in a number of achievements:

- \* Quality Certification to AS9002 was achieved for the Quality Management System for the provision of customised transport solutions in the areas of freight logistics planning, scheduling, delivery and maintenance through FreightCorp Metropolitan Yards (Enfield New Yard, Botany and Clyde).
- \* Completed restructure of the Customer Service Centre to allocate resources, including locomotives and "live program" function to individual businesses.
- \* Completed centralisation of train crew rostering to Parramatta, including documentation of all procedures.
- \* Successfully met the needs of the 2001 grain harvest.

Management also continued to pursue operational reform to improve efficiency, most notably Driver Only Operations and Operations Interface. However, these reforms slowed due to significant management resources being required to provide input into the sale of FreightCorp and a number of industrial issues. In addition, Driver Only Operations was further delayed pending resolution by the Rail Infrastructure Corporation of a number of technical, operational and network issues prior to commencement of the trials. FreightCorp has continued to successfully operate Driver Only in its Leigh Creek operations and within the Hunter Bulk Terminal.

In order to achieve economies in maintenance, whilst maintaining operational key performance indicators, FreightCorp made a number of changes in its maintenance programmes. These were as follows:

- \* 81 and 48 Class major maintenance services were extended, evaluated and adjusted to periods from 90 days to levels of 150 and 250 plus days.
- \* Engine components and air brake equipment contracts were let to Rail Fleet Services.
- \* Following successful trial and implementation of new brake shoes, all Export Grain Wagons now operate under a 112 day Preventative Maintenance regime.
- \* Due to closer micro management and some systems or product improvements on wagon wheelset maintenance, in conjunction with MainTrain, significant expenditure reductions were achieved.

### Access

Prior to the sale of FreightCorp, a new Access Agreement was negotiated with the Rail Infrastructure Corporation. This negotiation was finalised when the NSW Treasurer directed the FreightCorp Board to sign a new 5 year agreement.

### Employee Relations and Organisational Development

As at 21 February 2002, FreightCorp's total staff by employment basis was as follows:

|              |           | 21 February,<br>2002 | 30 June,<br>2001 |
|--------------|-----------|----------------------|------------------|
| Permanent    | Full-Time | 1,956                | 1,983            |
|              | Part-Time | ---                  | 2                |
| Temporary    | Full-Time | 98                   | 67               |
|              | Part-Time | ---                  | 1                |
| Contract     |           | 71                   | 80               |
| <b>Total</b> |           | <b>2,125</b>         | <b>2,133</b>     |

### Environmental, Health and Safety

#### *Environmental Compliance*

FreightCorp complies with all relevant environmental, occupational health and safety and rail safety legislation applicable to its operations in New South Wales, Victoria and South Australia. During the period, FreightCorp did not receive any infringement notice or penalty notice from any regulatory agency. In addition, FreightCorp's compliance with environmental licence conditions has consistently improved over the past years.

#### **Environmental Licences**

| Year                                | 2001/02<br>Period | 2000/01 | 1999/00 | 1998/99 | 1997/98 | 1996/97 |
|-------------------------------------|-------------------|---------|---------|---------|---------|---------|
| Licences                            | 8                 | 8       | 6       | 11      | 13      | 7       |
| Non<br>Compliances                  | 0                 | 1       | 1       | 7       | 25      | 1       |
| Non<br>Compliances<br>(per licence) | 0                 | 0.13    | 0.2     | 0.6     | 1.9     | 0.14    |

Phase 1 Environmental Audits were conducted at all owned and leased sites. All recommendations were reviewed and appropriate actions developed and prioritised. No new high or medium risk issues were identified in these audits. The operation of freight trains has the potential to generate a significant amount of noise. The implementation of a thorough complaint management system and the adoption of a proactive approach to management of noise has seen a consistent reduction in noise complaints. FreightCorp's work in environmental noise control has been augmented by the significant efforts of Rail Infrastructure Corporation in constructing noise barriers, particularly in the Hunter Valley.

#### **Environmental (Noise) Complaints**

| Year       | 2001/02<br>Period | 2000/01 | 1999/00 | 1998/99 | 1997/98 | 1996/97 |
|------------|-------------------|---------|---------|---------|---------|---------|
| Complaints | 13                | 24      | 103     | 142     | 358     | 382     |

#### **Workers' Compensation**

There were 325 claims for workers' compensation lodged in the period to 21 February, 2002, 95 of which were lost time injuries. The most common causes of injury were trips, slips and falls, long-term exposure to noise, exposure to mental stress, manual handling, and hitting or being hit by objects. The most common injuries were sprains, strains and industrial deafness.

FreightCorp was a licensed self-insurer for workers' compensation claims made under the *Workers' Compensation Act 1987* and the *Workplace Injury Management and Workers' Compensation Act 1998*. As a condition of the license, FreightCorp maintained a reinsurance policy for workers' compensation claims from any one event exceeding \$1m (indexed). A provision was made to cover claims made or likely to be made up to \$1m. The actuarial assessment of liability for workers' compensation claims for the period ending 21 February, 2002 was estimated at \$11.4m by independent actuaries.

#### **Workers' Compensation Claims**

| Year                             | 2001/02<br>Period | 2000/01 | 1999/00 | 1997/98 |
|----------------------------------|-------------------|---------|---------|---------|
| No. Workers' Compensation Claims | 325               | 357     | 393     | 489     |

#### **Occupational Health & Safety**

In 2001 FreightCorp commenced implementation of an integrated Environmental Health & Safety Management System. During the review period, significant advances were made in occupational health and safety risk management, including the completion of workplace risk assessments at all major sites. This work involved the identification of workplace hazards, the evaluation of existing controls and where required, the development and implementation of new controls to manage risks identified.

## 7. Legal Changes

The *Freight Rail Corporation (Sale) Act 2001* ('the Sale Act') incorporated amendments to the *Transport Administration Amendment Act* to facilitate the sale of FreightCorp pursuant to the Sale Act.

There were no other legislative changes, which had a direct impact on FreightCorp.

## 8. Exemptions from Disclosure and Reporting Provisions

The Treasurer has granted the following exemptions to Statutory State Owned Corporations, which are in competition in the following areas:

- research and development;
- land disposal;
- investment management performance; and
- liability management performance.

Conditional exemptions requiring summarised details have been granted for:

- report of operations;
- management and activities;
- human resources;
- consultants;
- consumer response; and
- risk management and insurance activities.

Owing to the sale of FreightCorp on 21 February, 2002, the Treasurer has granted the following further exemptions, being information not relevant to a State Owned Corporation, which has ceased to operate:

- budgetary performance and preparation of a budget for the following financial period;
- amendments to the code of conduct (if any);
- the number of copies of the annual report printed and the average cost of each copy;
- a statement on the performance, performance criteria and performance related incentive payments made or payable to the Chief Executive Officer and executive officers of or above Level 5;
- the number of executive officers of each level compared to the previous year, the number of female executive officers compared to the previous year and the names, position and remuneration package of each executive officer of or above Level 5 holding office at the end of the reporting year; and
- the prescribed matters for the report of the operations as set out in Schedule 1 to the Annual Reports (Statutory Bodies) Regulation 2000.

The preparation of FreightCorp's final financial statements was more complicated and time consuming than preparing a normal set of financial statements for an ongoing enterprise because of:

- the need to clarify the appropriate accounting treatment of FreightCorp's business transactions between the date of final bids and the date of completion;
- the requirement under the sale contract to prepare an actuarial valuation of FreightCorp's superannuation assets and liabilities as the date of sale; and
- the need to obtain the assistance of the purchaser's staff to prepare the final accounts.

For these reasons the Treasurer extended the time for submitting FreightCorp's final annual report to 31 August 2002 pursuant to s. 13 of the *Annual Reports (Statutory Bodies) Act 1984*.

# Freight Rail Corporation

## Financial Statements 22 February 2002

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***Beginning of audited financial report***

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## Statement of Financial Performance

for the period from 1 July 2001 to 22 February 2002

|  | Note | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|--|------|---|---|--|--|
| Revenues from ordinary activities  | 2    | 301,854   | 609,282   | 300,615  | 607,937  |
| Expenses from ordinary activities excluding borrowing costs expense  | 2    | (303,003)   | (544,213)   | (301,764)  | (542,868)  |
| Borrowing costs expense on loans   |      | (14,670)  | (27,136)  | (9,072)  | (12,881)   |
| Borrowing costs expense on finance leases  |      | -   | -   | (5,598)  | (14,255)   |
| <b>Profit / (loss) from ordinary activities before income tax expense</b>  |      | <b>(15,819)</b>                                       | <b>37,933</b>                                       | <b>(15,819)</b>                                      | <b>37,933</b>                                      |
| Income tax equivalent revenue / (expense), relating to ordinary activities   |      | 27,217  | 6,456   | 27,217   | 6,456  |
| <b>Net profit / (loss) from ordinary activities after related income tax revenue / (expense)</b>                         | 5    | <b>11,398</b>   | <b>44,389</b>                                       | <b>11,398</b>  | <b>44,389</b>                                      |
| Extraordinary loss after income tax expense  | 3    | (201,012)   | -   | (201,012)  | -  |
| <b>Net profit / (loss) after ordinary activities and extraordinary items</b>   |      | <b>(189,614)</b>                                      | <b>-</b>  | <b>(189,614)</b>                                     | <b>-</b>   |
| Decrease in asset revaluation reserve  | 22   | (2,797)   | -   | (2,797)  | -  |
| <b>Total changes in equity other than those resulting from transactions with the Crown and other government agencies</b> | 6    | <b>(192,411)</b>                                      | <b>44,389</b>                                       | <b>(192,411)</b>                                     | <b>44,389</b>                                      |

## Statement of Financial Position

as at 22nd February 2002

|                                      |       | Consolidated<br>22 Feb 2002 | Consolidated<br>30 June 2001 | FreightCorp<br>22 Feb 2002 | FreightCorp<br>30 June 2001 |
|--------------------------------------|-------|-----------------------------|------------------------------|----------------------------|-----------------------------|
|                                      | Note  | \$ 000                      | \$ 000                       | \$ 000                     | \$ 000                      |
| <b>Current Assets</b>                |       |                             |                              |                            |                             |
| Cash assets                          | 19    | -                           | 16,833                       | -                          | 16,833                      |
| Receivables                          | 8     | -                           | 59,995                       | -                          | 59,995                      |
| Investments                          | 9     | -                           | 79,794                       | -                          | 79,794                      |
| Inventories                          | 10    | -                           | 8,274                        | -                          | 8,274                       |
| Future income tax benefit            | 11    | -                           | 20,896                       | -                          | 20,896                      |
| <b>Total Current Assets</b>          |       | -                           | <b>185,792</b>               | -                          | <b>185,792</b>              |
| <b>Non-Current Assets</b>            |       |                             |                              |                            |                             |
| Property, plant and equipment        | 13    | -                           | 764,394                      | -                          | 764,394                     |
| Other non-current assets             | 12    | -                           | 3,185                        | -                          | 3,185                       |
| <b>Total Non-Current Assets</b>      |       | -                           | <b>767,579</b>               | -                          | <b>767,579</b>              |
| <b>Total Assets</b>                  |       | -                           | <b>953,371</b>               | -                          | <b>953,371</b>              |
| <b>Current Liabilities</b>           |       |                             |                              |                            |                             |
| Borrowings and leases                | 14    | -                           | 10,977                       | -                          | 10,977                      |
| Creditors                            | 15    | -                           | 43,893                       | -                          | 43,893                      |
| Provisions                           | 16    | -                           | 73,173                       | -                          | 73,173                      |
| <b>Total Current liabilities</b>     |       | -                           | <b>128,043</b>               | -                          | <b>128,043</b>              |
| <b>Non-Current Liabilities</b>       |       |                             |                              |                            |                             |
| Borrowings and leases                | 14    | -                           | 303,796                      | -                          | 303,796                     |
| Provisions                           | 16    | -                           | 40,206                       | -                          | 40,206                      |
| <b>Total Non-Current Liabilities</b> |       | -                           | <b>344,002</b>               | -                          | <b>344,002</b>              |
| <b>Total Liabilities</b>             |       | -                           | <b>472,045</b>               | -                          | <b>472,045</b>              |
| <b>Net Assets</b>                    |       | -                           | <b>481,326</b>               | -                          | <b>481,326</b>              |
| <b>Equity</b>                        |       |                             |                              |                            |                             |
| Contributed Equity                   | 6 (a) | -                           | 356,339                      | -                          | 356,339                     |
| Reserves                             | 22    | -                           | 32,164                       | -                          | 32,164                      |
| Retained Earnings                    | 5     | -                           | 92,823                       | -                          | 92,823                      |
| <b>Total Equity</b>                  | 6     | -                           | <b>481,326</b>               | -                          | <b>481,326</b>              |

## Statement of Cash Flows

for the period from 1 July 2001 to 22 February 2002

| Note  | Consolidated  | Consolidated  | FreightCorp   | FreightCorp   |
|---|---|---|---|---|
|   | Period ended<br>22 Feb 2002<br>\$ 000<br>Inflows/(Outflows) | Year ended<br>30 Jun 2001<br>\$ 000<br>Inflows/(Outflows) | Period ended<br>22 Feb 2002<br>\$ 000<br>Inflows/(Outflows) | Year ended<br>30 Jun 2001<br>\$ 000<br>Inflows/(Outflows) |
| <b>Cash flows from operating activities</b>               |   |   |   |   |
|   | 2,862   | 5,281   | 2,862   | 5,281   |
| Interest received   |   |   |   |   |
| Receipts from customers                                   | 287,588   | 558,285   | 287,588   | 558,285   |
| Receipts for community services obligations               | 27,845  | 72,221  | 27,845  | 72,221  |
| Payments to suppliers and employees                       | (292,742)   | (540,735)   | (292,742)   | (540,735)   |
| Interest and other costs of finance paid                  | (11,256)  | (27,190)  | (11,256)  | (27,190)  |
| <b>Net cash provided by operating activities</b>          | <b>14,297</b>   | <b>67,862</b>   | <b>14,297</b>   | <b>67,862</b>   |
| 20  |   |   |   |   |
| <b>Cash flows from investing activities</b>               |   |   |   |   |
| Payments for property, plant and equipment                | (11,739)  | (33,249)  | (11,739)  | (33,249)  |
| Receipts from sale of property, plant and equipment       | 1,769   | 8,503   | 1,769   | 8,503   |
| <b>Net cash used in investing activities</b>              | <b>(9,970)</b>  | <b>(24,746)</b>   | <b>(9,970)</b>  | <b>(24,746)</b>   |
| <b>Cash flows from financing activities</b>               |   |   |   |   |
| Repayment of borrowings                                   | -   | (11,391)  | -   | (383)   |
| Repayment of lease obligations                            | -   | -   | -   | (11,008)  |
| Dividends paid  | (25,366)  | (4,800)   | (25,366)  | (4,800)   |
| <b>Net cash used in financing activities</b>              | <b>(25,366)</b>   | <b>(16,191)</b>   | <b>(25,366)</b>   | <b>(16,191)</b>   |
| <b>Cash flows from or related to sale of business</b>     |   |   |   |   |
| Transfer of cash or cash equivalents to the Crown         | (64,699)  | -   | (64,699)  | -   |
| Cash or cash equivalents sold to National Rail Consortium | (7,500)   | -   | (7,500)   | -   |
| Proceeds from borrowings                                  | 231,524   | -   | 231,524   | -   |
| Repayment of borrowings                                   | (234,913)   | -   | (12,281)  | -   |
| Repayment of lease obligations                            | -   | -   | (222,632)   | -   |
| <b>Net cash from or related to sale of business</b>       | <b>(75,538)</b>   | <b>-</b>  | <b>(75,538)</b>   | <b>-</b>  |
| <b>Net increase/(decrease) in cash held</b>               | <b>(96,627)</b>   | <b>26,925</b>   | <b>(96,627)</b>   | <b>26,925</b>   |
| Cash at the beginning of the financial period             | 96,627  | 69,702  | 96,627  | 69,702  |
| <b>Cash at the end of the financial period</b>            | <b>-</b>  | <b>96,627</b>   | <b>-</b>  | <b>96,627</b>   |
| 19  |   |   |   |   |

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

### 1. Summary of significant accounting policies

#### (a) Background

Freight Rail Corporation was established on 1 July 1996 pursuant to amendments to the *Transport Administration Act 1988*. Under this act, the Minister for Transport directed that specific assets, rights and liabilities of the State Rail Authority of New South Wales be transferred to Freight Rail Corporation. Freight Rail Corporation is referred to in this financial report as 'FreightCorp'.

#### (b) Basis of accounting

The financial report has been prepared as a general purpose financial report in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, Part 3 of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2000*.

Generally, the historical cost basis of accounting has been adopted. However, most items of property, plant and equipment (and associated depreciation expenses) were measured at their current value, certain employee entitlement liabilities (and associated expenses) were measured at their present value and borrowings were measured at their current settlement value. (Refer notes (l), (m) and (o).

The accrual and going concern basis of accounting has been adopted in the preparation of financial information.

In accordance with the Freight Rail Corporation (Sale) Act 2001, No. 35, on the repeal of section 19G (Establishment of FreightCorp as a statutory State Owned Corporation) of the *Transport Administration Act 1988*, FreightCorp ceased to be a State Owned Corporation under the State Owned Corporations Act 1989 and was converted to a corporation sole constituted by the Treasurer.

On conversion to a Corporation sole section 43A (General audit of former statutory bodies) of the Public Finance and Audit Act 1983 applies as if FreightCorp had been abolished. This section applies where a statutory body ceases to be a statutory body because it is abolished or dissolved or its name is removed from Schedule 2.

Therefore financial statements for the period ended 22 February 2002 are required to be prepared.

On 21 February 2002 FreightCorp completed the sale of its business, including certain assets and liabilities to National Rail Consortium (SSL) Pty Limited (NRC). Although the sale was completed on that date, the sale was effective from close of business on the 14 January 2002, being the date at which NRC submitted a fixed bid for the FreightCorp business. All profits and losses which arose between 14 January 2002 and 21 February 2002 accrue to NRC and accordingly the operations which were conducted by FreightCorp during that period have been excluded from these Financial Statements. Refer note 4.

Certain assets and liabilities of FreightCorp were, however, specifically excluded from the business sale agreement and accordingly the transactions relating to these assets and liabilities during the period 15 January 2002 to 22 February 2002 have been included in these financial statements.

Where income or expense, resulting in an inflow or outflow of cash, arose in respect of these excluded assets and liabilities, the business sale agreement requires FreightCorp to refund NRC for cash outflows and receive payment from NRC for cash inflows. The net cash outflow arising from this clause in the agreement was met by the Crown and consequently has been treated as a reduction in equity.

#### (c) Change in Accounting Policies

##### (i) Borrowings

During the previous year ended 30 June 2001 borrowings were recognised at their current capital value after deducting any unamortised discount from, or adding any unamortised premium to, their face value. Any discount or premium was deferred and amortised over the term of the borrowing on a straight line basis.

The face value of all principal amounts falling due within 12 months after 30 June, 2001, and any unamortised discounts or premiums thereon, were recognised as current liabilities at that date. All other principal amounts, and the related unamortised discounts or premiums were recognised as non-current liabilities.

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

Amortisation of discounts and premiums relating to borrowings were brought to account as revenue or expense.

Immediately prior to sale borrowings were recognised at their settlement value owing to the sale of the FreightCorp business to National Rail Consortium (Pty) Limited and the transfer of certain assets and liabilities to the Crown. The remaining unamortised discount was written back to borrowings.

### (ii) Converting preference shares

During financial year ended 30 June 2001 the preference shares were reclassified as equity and the payment of the coupon on the shares was treated as a dividend, as the converting preference shareholders carried all the risks and rewards of ordinary shareholders. The preference shares were converted to ordinary shares on 30 June 2001.

### (d) Comparative information

Where appropriate and practicable the previous year's comparative information has been adjusted to conform with the current period presentation.

### (e) Principles of consolidation

The consolidated financial report of the economic entity includes the financial report of the parent entity, FreightCorp, and the Motive Power Company Pty Limited which it controlled during the current period, (Refer note 24). MPC ceased to be a controlled entity on 21 February 2002.

In preparing the consolidated financial report, the effects of all transactions within the economic entity have been eliminated in full.

### (f) Rounding

In accordance with the *Public Finance and Audit Act 1983*, all amounts in the financial report have been rounded to the nearest thousand dollars.

### (g) Income tax

FreightCorp's income was subject to income tax equivalent payments under the New South Wales Government's Tax Equivalent Regime. The income of Motive Power Company Pty Limited was subject to income tax in accordance with Commonwealth income taxation legislation.

The liability method of tax effect accounting has been employed, whereby the income tax expense for the period has been calculated on the pre-tax operating result adjusted for permanent differences between taxable and accounting income.

Any applicable income tax on cumulative timing differences was set aside to the provision for deferred income tax or the future income tax benefit account at the rates which were expected to apply when those timing differences were expected to reverse. However, future income tax benefits were not recognised unless their realisation was virtually certain.

The income tax expense for the current period has been calculated on the operating results for the period upto and including 21 February 2002 using the 30% corporate tax rate and all deferred tax balances have been reversed.

### (h) Cash and cash equivalents

Cash on hand and in banks and short-term investments were stated at the lower of cost and net realisable value. For the purposes of the Statement of Cash Flows, cash included cash on hand and highly liquid investments with short periods to maturity, which were readily convertible to cash on hand at FreightCorp's option and were subject to an insignificant risk of changes in value.

On 14 January 2002 cash and cash equivalents exceeding \$7.5m were distributed to the Crown in accordance with section 4.4 of the business sale agreement.

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

### (i) Receivables

During the current financial period and in prior years trade receivables were recognised and carried at original invoice amount less a provision for any uncollectable debts. A provision was made for doubtful debts as they arose and its adequacy was reviewed periodically. Receivables were monitored during the period and bad debts were written off against the provision when they were determined to be irrecoverable.

### (j) Investments

Due to their nature, investments were valued at cost plus accrued interest receivable, which was also equivalent to their net market value.

On 14 January 2002 investments were distributed to the Crown in accordance with section 4.4 of the business sale agreement.

### (k) Inventories

Inventories held were valued at the lower of weighted average cost and estimated net realisable value on an item by item basis. Inventories issued were expensed or capitalised at the time of issue.

### (l) Property, plant and equipment

#### (i) Land and buildings reclassification

FreightCorp believed that land and buildings were irrevocably linked due to the similar nature and function of these assets as a whole. Consequently, the distinction between land and buildings was determined as one class for financial reporting purposes.

It should be noted that depreciation only related to buildings within the land and building asset class.

#### (ii) Capitalisation policy

An item of property, plant and equipment was recognised as an asset if it was controlled by FreightCorp, was expected to be used for more than one year, was likely to produce future economic benefits and possessed a cost or other value that could be measured reliably.

Expenditure on the acquisition, replacement or enhancement of property, plant and equipment was capitalised and recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

All land was capitalised and the capitalisation threshold for all other non-current assets, except capital spares, was \$5,000. No threshold was applied to capital spares.

An item of property, plant and equipment ceased to be recognised when it was disposed of or when it was permanently withdrawn from use and there were no probable future economic benefits expected to arise.

#### (iii) Valuation

Property, plant and equipment purchased or constructed was initially recorded at historical cost. Construction cost included the cost of materials, direct labour and attributable overheads. Property, plant and equipment acquired under a finance lease was initially recorded at the present value of the minimum lease payments.

Freehold land and buildings on freehold land were measured on a fair value basis and valuations were determined at least once every three years. At each balance date, the value of each asset in the class being revalued was reviewed to ensure that it did not differ materially from the asset's fair value at the reporting date. Where necessary, the asset was revalued to reflect its fair value.

The carrying amount of property, plant and equipment was reviewed each year to ensure that it was not greater than the asset's recoverable amount.

Where a class of non-current asset was measured on the fair value basis, revaluations were made with sufficient regularity to ensure that the carrying amount of each asset in the class did not differ materially from its fair value at the reporting date.

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

Where assets were revalued, the potential effect of the capital gains tax on disposal was not taken into account in the determination of the revalued carrying amount. Where it was expected that a liability for capital gains tax would arise, the expected amount was disclosed by way of note.

Surplus property, plant and equipment was valued at its estimated current market selling price.

If a net revaluation increment arose on revaluation of a class of property, plant and equipment, it was credited directly to the asset revaluation reserve for that class of asset. If a net revaluation decrement arose, it was expensed, except that to the extent it reversed a previous increment or decrement, in which case it was debited to the asset revaluation reserve or credited to revenue respectively.

### **(iv) Recoverable amount of Non-Current Assets**

In prior years the holistic approach was used in determining recoverable amount. Non-current assets were written down to recoverable amount, where the carrying value of non-current asset exceeded recoverable amount. FreightCorp adopted the transitional provisions of the Australian Accounting Standard AAS 38 Revaluation of Non-Current Assets. In determining the recoverable amount of non-current assets, the expected net cash flows were discounted to their present value.

During the current period a recoverable amount test was not performed as all non-current assets were either sold to National Rail Consortium (SSL) Pty Limited or returned to the Crown.

### **(v) Depreciation**

Each item of property, plant and equipment (except land and work in progress) was depreciated on a straight line basis over its estimated useful life, commencing when the item was first put into use or held ready for use by FreightCorp.

A capital spare was depreciated over the useful life of the asset or class of assets to which it related. An improvement or extension of an existing depreciable asset, which became an integral part of that asset, was depreciated over the remaining useful life of that asset.

Depreciation rates were reviewed at least annually, and adjusted if necessary, to ensure they continued to reflect the most recent assessments of the useful lives of the respective assets, with regard to such factors as asset usage and rates of technological and commercial obsolescence.

Depreciation methods were reviewed at least annually, and adjusted if necessary, to ensure they continued to reflect the expected pattern of consumption or loss of future economic benefits.

The effect of any changes in depreciation rates or methods were recognised as they occurred.

An item of property, plant and equipment acquired under a finance lease was depreciated on a straight line basis over the periods which were expected to benefit from the item's use. Where there was reasonable assurance at the beginning of the lease term that ownership of the item would be obtained at the end of the lease term, the item was depreciated over its useful life.

The cost of an improvement to, or on leasehold property was depreciated over the shorter of the unexpired term of the lease or the estimated useful life of the improvement.

### **(vi) Assets leased**

Where FreightCorp was a lessor, the leased asset was recognised as property, plant and equipment and the associated rent recognised as rent revenue in the period in which it was earned.

### **(vii) Disposals**

During the current period and in prior years, on disposal or retirement the carrying amount of an item of property, plant and equipment has been recognised as an expense and cash proceeds (excluding GST) recognised as revenue. Any related revaluation increment remaining in the asset revaluation reserve at the time of disposal has been transferred to accumulated funds.

### **(viii) Work in Progress**

Work in progress comprised expenditure on incomplete capital works.

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

### **(m) Borrowings**

As at 22 February 2002, borrowings were recognised at their settlement value owing to the sale of the FreightCorp business to National Rail Consortium (Pty) Limited and the transfer of certain assets and liabilities to the Crown.

### **(n) Leases**

#### **(i) Classification**

Leases were classified as finance leases, where FreightCorp as lessee, assumed substantially all the risks and benefits of ownership of the leased property. Other leases were classified as operating leases.

#### **(ii) Details of leasing arrangements**

Various types of lease arrangements were in place until 21 February 2002.

Approximately 47% of the rolling stock fleet (Locomotives) was obtained under complex sale and leaseback arrangements where FreightCorp was the lessee under finance leases. However for 55% of this rollingstock the related lease liabilities were eliminated through defeasance arrangements. The remaining 45% of leased rollingstock was under a sub-lease arrangement. The sub-lease arrangement was terminated on 21 February 2002 (refer note 13).

The NSW rail network was used by FreightCorp as lessee under a 10-year non-exclusive, non-cancellable operating lease (access agreement) with Rail Infrastructure Corporation. This agreement which had a remaining term of four years was terminated during the current period and replaced by a five year agreement signed on 21 December 2001. The lease rental (access fee) was negotiated annually and FreightCorp's commitment varied depending on the rates negotiated and freight volumes transported across the rail network.

Some office accommodation was obtained under operating leases, some resulting from sale and leaseback arrangements. Some leases were renewable at FreightCorp's option for periods of up to twelve months.

#### **(iii) Finance leases**

FreightCorp capitalised all finance leases. A lease asset and a liability equal to the present value of the minimum lease payments were recorded at the inception of the lease. Contingent rentals were written off as an expense in the accounting period in which they were incurred. Lease assets were amortised on a straight line basis over the term of the relevant leases or over the remaining useful life of the asset, where it was likely that ownership of the lease asset would be obtained. Lease liabilities were reduced by repayments of principal. The interest component of the lease payments was treated as an expense.

#### **(iii) Operating leases**

In the current period and prior years, operating lease revenue and expense has been recognised in the periods in which it was earned or incurred, respectively.

#### **(iv) Lease incentives**

In the current period and prior years a lease incentive received (from a lessor) has been recognised as a liability and progressively reduced by allocating lease rental payments between rental expense and reduction of the liability on a straight line basis over the term of the lease. This liability crystallised as at the close of business on 14 January 2002, and has been brought to account.

### **(o) Employee entitlements**

In the current period liabilities for wages and salaries, annual leave, long service leave, pay in lieu of certain holidays worked and severance benefits were recognised in respect of services provided by employees up to the close of business on the 14 January 2002. In previous years they were recognised in respect of services provided up to 30 June each year.

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

The liabilities and associated expenses for all annual leave, wages and salaries and any other employee entitlement liabilities have been measured at their nominal amounts using remuneration rates current as at 14 January 2002 (30 June in previous years). All other recognised employee entitlement liabilities and associated expenses were measured at the present value of the estimated future payments.

Sick leave liabilities (which were all non-vesting) have never been recognised because sick leave taken was expected to be less than the entitlement accruing in that year and, it was considered improbable that existing accumulated entitlements would be used by employees.

Contributions to employee entitlement provisions have been expensed or capitalised as they accrued.

The Motive Power Company Pty Limited did not employ any staff but its directors were considered to be employees for the purposes of the Commonwealth *Superannuation Guarantee (Administration) Act 1992*.

The liability for employee entitlements was assumed by National Rail Consortium (SSL) Pty Limited with effect from the close of business on 14 January 2002.

### (p) Revenue recognition

Revenue has been measured at the fair value of the consideration or contributions received or receivable. In most cases this has been the value of the cash exchanged or exchangeable.

Revenue from the rendering of a service (excluding the provision of Government contributions and social programs) has been recognised when a right to be compensated for the services arose, by reference to the stage of completion of the contract. Such revenue has usually been recognised in the period the service was rendered.

Government contributions and social program revenues have been recognised when received. If, after recognition as revenue, any such receipt has had to be repaid because of a failure to meet specific conditions attaching to it, a creditor and an expense has been recognised.

### (q) Financial instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability (or equity instrument) of another entity. They comprise cash at bank, receivables, investments, creditors, borrowings, finance leases, derivative financial instruments and financial guarantees.

#### (i) Derivative financial instruments

Interest rate swap contracts were utilised to actively manage exposures to interest rate risk by enabling a floating rate interest obligation to be swapped into a fixed rate obligation or vice versa. The difference between the two rates, calculated by reference to an agreed notional principal amount, is exchanged between the parties at specified intervals.

Interest rate swap contracts were not recognised in the statement of financial position because the value of the floating rate component of each contract could not be measured reliably until settlement date.

The net fair values of interest rate swap contracts were determined at balance date by reference to the amounts quoted by New South Wales Treasury Corporation to realise or settle the contracts.

Interest rate swap contracts were transferred to the Crown on 22 February 2002.

#### (ii) Financial guarantees

Financial guarantees in the form of deposits or bank guarantees were obtained from other parties to secure contractual payment or performance obligations to FreightCorp. In the event of the financial guarantee becoming receivable due to non-payment or non-performance by the parties, the deposit was to be retained, or the bank guarantee collected by FreightCorp.

Financial guarantees receivable or payable were not recognised in the statement of financial position because their realisation was contingent upon the occurrence of future events which had low probabilities.

## FREIGHT RAIL CORPORATION AND ITS CONTROLLED ENTITIES

The net fair value of a financial guarantee was determined at balance date by reference to its contractual amount.

### (iii) Commodity Swaps for Fuel

During the current period FreightCorp entered into oil swap arrangements to hedge and effectively manage the cost of diesel fuel purchases. The arrangements were entered into with the objective of reducing the risk of exposure to oil price fluctuations and exchange rate movements.

During the current period it was FreightCorp's policy not to recognise oil swaps in the financial statements. Net receipts and payments were recognised as an adjustment to fuel expense. Fuel swap contracts transferred to the Crown on 22 February 2002.

### (r) Private sector participation in the provision of public infrastructure

The Motive Power Company Pty Limited (MPC) arrangements were restructured on 21 February 2002 and MPC ceased to be a controlled entity of FreightCorp from that date.

Prior to 21 February 2002, MPC provided Ready Power locomotive services under a finance and operating lease arrangement. The company acquired 89 locomotives and a maintenance workshop, and supplied fully maintained locomotives over 15 years expiring on 30 September 2011.

In previous years, FreightCorp's unconsolidated financial report recognised the locomotives as a leased asset (property, plant and equipment) and a lease liability. Prior to 21 February 2002 the locomotive maintenance workshop was recognised as a fixed asset (property, plant and equipment) funded by borrowings. The locomotive maintenance charges were expensed.

Prior to 21 February 2002, the consolidated financial report recognised the locomotives and the maintenance workshop as property, plant and equipment funded by borrowings. The intra-entity locomotive maintenance charges were eliminated during the period.

Whilst the MPC was controlled by FreightCorp, FreightCorp did not have any equity in the Company.

### (s) Joint Ventures

Prior to 21 February 2002, FreightCorp had a 50% interest in the assets, liabilities and output of a joint venture entity, called 'Riverina Freight Terminal', for the operations of a freight terminal in the Riverina (Griffith) area. The joint venturer was Alpens (Griffith) Pty Limited.

The joint venture commenced on 1 August 1998.

Australian Accounting Standard 19 'Interests in Joint Ventures' requires the adoption of equity accounting and the disclosure of additional information. FreightCorp did not adopt the standard, as the joint venture did not have a material effect on FreightCorp's financial report or the consolidated financial report.

FreightCorp's share of the joint venture:

|                    | <u>21 February 2002</u> | <u>30 June 2001</u> |
|--------------------|-------------------------|---------------------|
|                    | \$ 000                  | \$ 000              |
| <b>Assets</b>      | 291                     | 357                 |
| <b>Liabilities</b> | 291                     | 361                 |
| <b>Revenue</b>     | 858                     | 1,109               |
| <b>Expenses</b>    | 854                     | 1,112               |

FreightCorp has no capital expenditure commitments or contingencies relating to the Joint Venture.

| Note  | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---|---|---|--|--|
| <b>2. Profit from ordinary activities before income tax expense</b>   |   |   |  |  |
| The profit from ordinary activities before income tax expense has been determined after:  |   |   |  |  |
| <b>Crediting as revenue</b>   |   |   |  |  |
| Freight services  | 264,698   | 506,453   | 264,698  | 506,453  |
| Community service obligations revenue from the NSW Government   | 27,845  | 72,221  | 27,845   | 72,221   |
| Interest income   | 2,657   | 5,242   | 2,657  | 5,242  |
| Revenue on sale of assets   | 1,769   | 8,503   | 1,769  | 8,503  |
| Rental income   | 714   | 1,550   | 82   | 205  |
| Restatement of borrowings to capital value  | -   | 8,346   | -  | 8,346  |
| Recognition of property, plant and equipment  | -   | 405   | -  | 405  |
| Other   | 4,171   | 6,562   | 3,564  | 6,562  |
|   | <b>301,854</b>  | <b>609,282</b>                                      | <b>300,615</b>                                       | <b>607,937</b>                                     |
| <b>Charging as expense</b>  |   |   |  |  |
| Depreciation of property, plant and equipment   | 18,379  | 31,035  | 18,379   | 31,035   |
| Annual leave, long service leave and pay in lieu of certain holidays worked   | 15,108  | 18,815  | 15,108   | 18,815   |
| Workers' compensation   | 3,030   | 2,505   | 3,030  | 2,505  |
| Increase/(decrease) in provision for self-insured workers compensation  | (563)   | 4,782   | (563)  | 4,782  |
| Superannuation  | 7,265   | 12,323  | 7,265  | 12,323   |
| (Increase)/decrease in superannuation reserve account, over past service liability  | 5,395   | 13,048  | 5,395  | 13,048   |
| Amortisation of leased assets   | 10,176  | 18,548  | 10,176   | 18,548   |
| Rail access operating lease expenses  | 70,118  | 129,612   | 70,118   | 129,612  |
| Operating lease expenses  | 1,515   | 4,020   | 1,515  | 4,020  |
| Doubtful debts  | 312   | 173   | 312  | 173  |
| Bad debts expense   | -   | 44  | -  | 44   |
| Directors' emoluments   | 223   | 270   | 184  | 233  |
| Consultants' fees   | 3,567   | 1,122   | 3,567  | 1,122  |
| Audit fees  | 301   | 276   | 293  | 268  |
| Severance expense   | 2,744   | 6,961   | 2,744  | 6,961  |
| Privatisation costs   | 2,054   | 3,234   | 2,054  | 3,234  |
| Expense on disposal of property, plant and equipment  | 2,495   | 5,001   | 2,495  | 5,001  |
| Write down of property, plant and equipment   | 3,351   | 2,412   | 3,351  | 2,412  |
| Other expenses  | 157,533   | 290,032   | 156,341  | 288,732  |
|   | <b>303,003</b>  | <b>544,213</b>                                      | <b>301,764</b>                                       | <b>542,868</b>                                     |
| <b>2(a). Loss on asset disposal</b>   |   |   |  |  |
| Revenue from sale of assets   | 1,769   | 8,503   | 1,769  | 8,503  |
| Expenses from sale of assets  | (2,495)   | (5,001)   | (2,495)  | (5,001)  |
| Loss on asset disposal  | <b>(726)</b>  | <b>3,502</b>  | <b>(726)</b>   | <b>3,502</b>                                       |
| <b>2(b). Significant Items</b>  |   |   |  |  |
| Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant to explaining the financial performance of the entity |   |   |  |  |
| Restatement of borrowings to current capital value  | -   | (8,346)   | -  | (8,346)  |
| (Increase)/decrease in superannuation reserve account, over past service liability  | 5,395   | 13,048  | 5,395  | 13,048   |
| Increase/(decrease) in provision for self-insured workers compensation  | (563)   | 4,782   | (563)  | 4,782  |
| Cost associated with privatisation  | 2,054   | 3,234   | 2,054  | 3,234  |
| Severance expense   | 2,744   | 6,961   | 2,744  | 6,961  |
| Increase/(decrease) in provision for long service leave   | 4,197   | -   | 4,197  | -  |

| Note | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|------|---|---|--|--|
|------|---|---|--|--|

2(c). FreightCorp had a community service obligation contract with the New South Wales Government to provide freight train services to regional areas at non-commercial rates. Many companies and primary producers utilised these services to deliver freight to various destinations. FreightCorp received funding for the provision of these services. The rates charged were determined using FreightCorp's pricing policy and were set at the level required to keep freight on rail.

2(d). The restatement to current capital value related to borrowings of the State Rail Authority of New South Wales which were transferred to FreightCorp on corporatisation (1 July 1996). Due to the nature of the portfolio transferred, New South Wales Treasury guaranteed to reimburse FreightCorp for any losses which were subsequently incurred on the restructure of the loan portfolio. The guarantee given by New South Wales Treasury was subsequently revoked, with the agreement of the shareholder ministers. (Refer note 1(m)).

2(e). Decrease in superannuation reserve reflects the change in the monetary value of the superannuation reserve account balance over the past service liability. Due to the fact that the expense associated with this movement had not been incurred for taxation purposes, there are no tax equivalent implications for FreightCorp.

2(f). Severance expense reflects the cost of voluntary redundancies during the period.

### 3. Extraordinary Items

On 21 February 2002, FreightCorp sold its business and certain assets and liabilities to:

#### 3(a). National Rail Consortium (SSL) Pty Limited (NRC)

The sale of these assets and liabilities was effective from 14 January 2002 as all profits and losses arising after that date and relating to those assets and liabilities accrue to NRC.

The assets and liabilities sold, together with their book values as at 14 January 2002 and the related sale proceeds were as follows:

|  |                  |          |                  |          |
|--|------------------|----------|------------------|----------|
| Cash   | 7,500            | -        | 7,500            | -        |
| Receivables  | 71,024           | -        | 71,024           | -        |
| Inventories  | 9,390            | -        | 9,390            | -        |
| Future income tax benefit                                  | 19,370           | -        | 19,370           | -        |
| Property, plant and equipment (non leased)                 | 407,578          | -        | 407,578          | -        |
| Property, plant and equipment (leased)                     | 268,559          | -        | 268,559          | -        |
| Creditors  | (40,428)         | -        | (40,428)         | -        |
| Current provisions   | (26,572)         | -        | (26,572)         | -        |
| Non-current provisions                                     | (42,701)         | -        | (42,701)         | -        |
|  | 673,720          | -        | 673,720          | -        |
| <b>Sale proceeds:</b>                                      |                  |          |                  |          |
| Net assets   | 363,726          | -        | 363,726          | -        |
| Leased property, plant and equipment                       | 244,000          | -        | 244,000          | -        |
|  | 607,726          | -        | 607,726          | -        |
| Loss on Sale to National Rail Consortium (SSL) Pty Limited | (65,994)         | -        | (65,994)         | -        |
| Income tax expense   | (96,426)         | -        | (96,426)         | -        |
| <b>Extraordinary loss after income tax expense</b>         | <b>(162,420)</b> | <b>-</b> | <b>(162,420)</b> | <b>-</b> |

#### 3(b). Sydney Ports Authority

The sale of these assets was effective from 21 February 2002. The assets together with their book values as at 21 February 2002 and the related sale proceeds were as follows:

|  |                |          |                |          |
|--|----------------|----------|----------------|----------|
| Property, plant and equipment                      | 21,673         | -        | 21,673         | -        |
| Sale proceeds                                      | 11,500         | -        | 11,500         | -        |
| Loss on Sale to Sydney Ports Authority             | (10,173)       | -        | (10,173)       | -        |
| Income tax benefit                                 | 849            | -        | 849            | -        |
| <b>Extraordinary loss after income tax benefit</b> | <b>(9,324)</b> | <b>-</b> | <b>(9,324)</b> | <b>-</b> |

| Note | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|------|---|---|--|--|
|------|---|---|--|--|

### 3(c). Revaluation decrement relating to property, plant and equipment vested to the State Rail Authority of NSW (SRA)

The vesting of these assets was effective from 21 February 2002. These assets were vested to SRA due to the sale of FreightCorp. A revaluation was performed on these assets based on as a separate class of asset at the time of vesting. This resulted in a revaluation decrement as follows:

|  |                         |   |                         |   |
|--|-------------------------|---|-------------------------|---|
| Property, plant and equipment                      | (35,556)                | - | (35,556)                | - |
| Revaluation decrement                              | <u>(35,556)</u>         | - | <u>(35,556)</u>         | - |
| Income tax benefit                                 | 6,288                   | - | 6,288                   | - |
| <b>Extraordinary loss after income tax benefit</b> | <b><u>(29,268)</u></b>  | - | <b><u>(29,268)</u></b>  | - |
| Extraordinary loss before tax                      | (111,723)               | - | (111,723)               | - |
| Taxation change relating to extraordinary loss     | (89,289)                | - | (89,289)                | - |
| <b>Total extraordinary loss after tax change</b>   | <b><u>(201,012)</u></b> | - | <b><u>(201,012)</u></b> | - |

The sale proceeds were received directly by the Crown and accordingly have been treated as a distribution of equity.

### 4. Operations for period 15 January 2002 to 21 February 2002 not included in the statement of financial performance

|  |                     |   |                     |   |
|--|---------------------|---|---------------------|---|
| Crediting as revenue                   | 62,471              | - | 62,271              | - |
| Charging as expense                    | 59,244              | - | 59,044              | - |
| <b>Profit from ordinary activities</b> | <b><u>3,227</u></b> | - | <b><u>3,227</u></b> | - |

Tax expense arising on the profit for the period from 15 January 2002 to 21 February 2002 has been included in income tax equivalent expense (see note 7).

| Note  | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---|---|---|--|--|
| <b>5. Retained Earnings</b>   |   |   |  |  |
| Retained earnings at the beginning of the financial period                                  | 92,823  | 103,966   | 92,823   | 103,966  |
| Net profit / (loss) from ordinary activities after related income tax expense               | 11,398  | 44,389  | 11,398   | 44,389   |
| Extraordinary loss after income tax   | (201,012)   | -   | (201,012)  | -  |
| Dividends provided for or paid  | -   | (55,532)  | -  | (55,532)   |
| Transfer from asset revaluation reserve   | 29,367  | -   | 29,367   | -  |
| Retained earnings at the end of the financial period  | <b>(67,424)</b>                                       | <b>92,823</b>                                       | <b>(67,424)</b>                                      | <b>92,823</b>                                      |
| Retained earnings transferred to the Crown  | <b>67,424</b>   | -   | <b>67,424</b>  | -  |
| Retained earnings at the end of the financial period  | -   | <b>92,823</b>                                       | -  | <b>92,823</b>                                      |
| <b>6. Equity</b>  |   |   |  |  |
| Total equity at the beginning of the financial period                                       | 481,326   | 392,469   | 481,326  | 392,469  |
| Total changes recognised in the statement of financial performance                          | (192,411)   | 44,389  | (192,411)  | 44,389   |
| Transactions with the Crown and other government agencies                                   |   |   |  |  |
| Converting preference shares  | -   | 100,000   | -  | 100,000  |
| Vesting of property, plant & equipment to SRA   | 6 (c) (7,888)   | -   | (7,888)  | -  |
| Vesting of property, plant & equipment from SRA   | 401   | -   | 401  | -  |
| Amounts received by the Crown in respect of the sale of Delec to the Sydney Ports Authority | 6 (d) (11,500)  | -   | (11,500)   | -  |
| Transfer of surplus cash and cash equivalents to the Crown                                  | 9 (64,699)  | -   | (64,699)   | -  |
| Amounts paid/received by the Crown in respect of excluded assets/liabilities                | 1 (b) 453   | -   | 453  | -  |
| Transfer of prepaid stamp duty to the Crown   | (677)   | -   | (677)  | -  |
| Amounts received by the Crown in respect of sale of business                                | (607,726)   | -   | (607,726)  | -  |
| Borrowings assumed by the Crown   | 310,813   | -   | 310,813  | -  |
| Payment of government guarantee fee   | 793   | -   | 793  | -  |
| Payment of audit fees by the Crown  | 6 (e) 278   | -   | 278  | -  |
| Payment of fuel hedging costs by the Crown  | 6 (f) 218   | -   | 218  | -  |
| Payment of interest swaps by the Crown  | 2,497   | -   | 2,497  | -  |
| Payment of underfunded amount in defined benefit scheme by the Crown                        | 2,210   | -   | 2,210  | -  |
| Transfers of dividends payable to the Crown   | 25,366  | -   | 25,366   | -  |
| Transfer of tax liabilities to the Crown  | 60,546  | -   | 60,546   | -  |
| Dividends   | -   | (55,532)  | -  | (55,532)   |
| Total equity at the end of the financial period   | -   | <b>481,326</b>                                      | -  | <b>481,326</b>                                     |

| Note | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|------|---|---|--|--|
|------|---|---|--|--|

**6(a). Share capital**

|   | 2002                |         | 2001                |         |
|---|---------------------|---------|---------------------|---------|
|   | Number of<br>shares | \$ 000  | Number of<br>shares | \$ 000  |
| Ordinary shares at the beginning of the financial period                              | 100,000,002         | 356,339 | 2                   | 256,339 |
| 100,000,000 \$1 converting preference shares converted to ordinary shares of \$1 each | -                   | -       | 100,000,000         | 100,000 |
| Vesting of property, plant and equipment from the State Rail Authority of NSW         |                     | 401     |                     |         |
| Vesting of property, plant and equipment to the State Rail Authority of NSW           |                     | (7,888) |                     |         |
| Share capital at the end of the financial period                                      | 100,000,002         | 348,852 | 100,000,002         | 356,339 |
| Share Capital transferred to the Crown  | 100,000,002         | 348,852 | -                   | -       |
| Share capital at the end of the financial period                                      | -                   | -       | 100,000,002         | 356,339 |

**6(b).** FreightCorp was corporatised on July 1, 1996 with issued capital of \$2, comprising 2 ordinary shares of \$1. The shares were issued to the Treasurer of New South Wales (the Treasurer) and the Special Minister of State and Assistant Treasurer who constituted the voting shareholders of FreightCorp. Dividends payable to the voting shareholders were paid to the Treasurer out of retained earnings.

During 1996/1997 FreightCorp issued 100,000,000 converting preference shares, out of the share premium reserve, at an issue price of \$1.00 each. Each share entitled the holder to one vote at a general meeting of FreightCorp. The voting shareholder Ministers were entitled to cumulative dividends on the converting preference shares, which were payable to the Treasurer. The converting preference shares were convertible to debt notes at the option of the voting shareholder Ministers prior to 30 June 2000, subject to specified conditions being met.

During 2000/2001, FreightCorp reclassified the preference shares from debt to equity for the reasons referred to in note 1(c) (ii).

**6(c).** On February 20, 2002, two significant parcels of land were transferred to the State Rail Authority of NSW (SRA) at nil consideration. In addition 15 parcels of land and 3 fuelling and effluent treatment plants were transferred from the SRA to FreightCorp, also for nil consideration. The transfers were effected by an order under section a(2) of the Freight Rail Corporation (Sale) Act 2001. As the transfers fall within the category of transfers between government agencies, they have been shown as a net distribution of equity in the financial statements of FreightCorp.

**6(d).** On February 20, 2002, FreightCorp sold certain land and buildings to Sydney Ports Authority for \$11.5m. The sale resulted in a loss of \$10.17m when compared to the book value, which has been included in the loss on asset disposal (note 3(b)). The proceeds from the sale of land and buildings was received directly by the Crown and accordingly has been treated as an adjustment to equity.

**6(e).** Under the terms of the business sale agreement National Rail Consortium (SSL) Pty Limited is responsible for preparing the financial statements, whereas FreightCorp is responsible for the cost of the audit. Therefore, the audit fees have been recognised as an expense in these financial statements. However, as the cost will be met by the Crown, they have been disclosed as a return of equity.

**6(f).** During September 2001, FreightCorp entered into diesel fuel hedge contracts for the purchase of approximately 20,000 barrels per month. Net receipts and payments on the hedge contracts have been recognised as an adjustment to fuel expense. The accrued expense outstanding in respect of these contracts has been met by the Crown and consequently has been disclosed as a return of equity.

| Note  | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---|---|---|--|--|
| <b>7. Income Tax Equivalent Expense</b>   |   |   |  |  |
| The prima facie tax on profit from ordinary activities differs from the income tax provided in the financial report and is reconciled as follows: |   |   |  |  |
| Profit/(loss) from ordinary activities before income tax  | (15,819)  | 37,933  | (15,819)   | 37,933   |
| Prima facie tax payable at 30% (2001: 34%)  | (4,746)   | 12,897  | (4,746)  | 12,897   |
| Tax effect of permanent differences   |   |   |  |  |
| Non-deductible expenditure  | 52  | -   | 52   | -  |
| Income from 15 January to 21 February 2002  | 968   | -   | 968  | -  |
| Non-assessable gains  | -   | (2,732)   | -  | (2,732)  |
| Less other  | (1,882)   | -   | (1,882)  | -  |
| <b>Income tax equivalent attributable to ordinary activities</b>  | <b>(5,608)</b>  | <b>10,165</b>                                       | <b>(5,608)</b>                                       | <b>10,165</b>                                      |
| Profit / (loss) from extraordinary activities before income tax   | (111,723)   |   | (111,723)  |  |
| Prima facie tax payable at 30%  | (33,517)  |   | (33,517)   |  |
| Tax effect of permanent differences   |   |   |  |  |
| Non-deductible accounting loss  | 33,517  |   | 33,517   |  |
| Assessable gains from disposal  | 89,289  |   | 89,289   |  |
| <b>Income tax equivalent attributable to extraordinary activities</b>   | <b>89,289</b>   | <b>-</b>  | <b>89,289</b>  | <b>-</b>   |
| Total income tax equivalent attributable to extraordinary and ordinary activities in current year   | 83,681  |   | 83,681   |  |
| Less deferred tax liability not recognised  | -   | (5,898)   | -  | (5,898)  |
| Less recognition of future income tax benefits not previously brought to account  | (21,610)  | (10,723)  | (21,610)   | (10,723)   |
| <b>Income tax equivalent relating to ordinary and extraordinary activities</b>  | <b>62,071</b>   | <b>(6,456)</b>                                      | <b>62,071</b>  | <b>(6,456)</b>                                     |
| <b>The future income tax benefit at balance date consists of:</b>   |   |   |  |  |
| Provision not currently deductible:   |   |   |  |  |
| Employee entitlements   | -   | 17,896  | -  | 17,896   |
| Carried forward tax losses  | -   | 3,000   | -  | 3,000  |
| 11  | -   | <b>20,896</b>                                       | -  | <b>20,896</b>                                      |
| <b>Income Tax Provision</b>   |   |   |  |  |
| Current year liability  | 85,156  | -   | 85,156   | -  |
| Utilisation of prior year losses  | (24,610)  | -   | (24,610)   | -  |
|   | <b>60,546</b>   | <b>-</b>  | <b>60,546</b>  | <b>-</b>   |
| Income tax provision transferred to the Crown   | (60,546)  | -   | (60,546)   | -  |
| <b>Income tax provision at the end of the financial period</b>  | <b>-</b>  | <b>-</b>  | <b>-</b>   | <b>-</b>   |
| <b>Total income tax equivalent expense is comprised of:</b>   |   |   |  |  |
| Current years income tax provision  | 83,681  | -   | 83,681   | -  |
| Future income tax benefit - prior years   | (21,610)  | (6,456)   | (21,610)   | (6,456)  |
|   | <b>62,071</b>   | <b>(6,456)</b>                                      | <b>62,071</b>  | <b>(6,456)</b>                                     |

In accordance with the NSW Government's Tax Equivalent Regime (TER), the income tax expense is calculated at 30% of the profit from ordinary activities before tax, after allowing for permanent differences between taxable and accounting income. As at 30 June 2001 FreightCorp booked only those timing differences and tax losses for which there was virtual certainty of realisation. Deferred tax balances have not been recognised because FreightCorp converted from a State Owned Corporation to a Corporation Sole on 22 February 2002 and ceased to be subject to the TER from that date.

|                                 | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---------------------------------|---|---|--|--|
| <b>8. Receivables (Current)</b> |   |   |  |  |
| Freight debtors                 | -   | 48,875  | -  | 48,875   |
| Other debtors                   | -   | 9,430   | -  | 9,430  |
| Prepayments                     | -   | 2,235   | -  | 2,235  |
|                                 | -   | 60,540  | -  | 60,540   |
| Provision for doubtful debts    | -   | (545)   | -  | (545)  |
| <b>Total Receivables</b>        | -   | 59,995  | -  | 59,995   |

**9. Investments (Current)**

|                        |   |        |   |        |
|------------------------|---|--------|---|--------|
| At call                | - | 79,794 | - | 79,794 |
| Short-term investments | - | 79,794 | - | 79,794 |

In accordance with the terms of the business sale agreement the National Rail Corporation gained control of \$7.5m cash or cash equivalents at 14 January 2002. Accordingly, the Crown took control of all cash and cash equivalents in excess of that amount at that date. The amount retained by the Crown of \$64.699m has been shown as a net distribution of equity.

**10. Inventories (Current)**

|                                      |   |       |   |       |
|--------------------------------------|---|-------|---|-------|
| Stores and materials carried at cost | - | 8,274 | - | 8,274 |
| <b>Total stores and materials</b>    | - | 8,274 | - | 8,274 |

**11. Future income tax benefit**

|                           |        |   |        |   |        |
|---------------------------|--------|---|--------|---|--------|
| Future income tax benefit | 11 (a) | - | 20,896 | - | 20,896 |
| <b>Total</b>              |        | - | 20,896 | - | 20,896 |

**11(a). Future income tax benefits (FreightCorp)**

Due to the sale of FreightCorp to the National Rail Consortium future income tax benefits have been realised as FreightCorp ceased to be subject to the TER from 22 February 2002.

**11(b). Future income tax benefits (controlled entity)**

As at 21 February 2002, estimated income tax losses of \$4.546m (2001 : \$4.43m) relating to a controlled entity are available to be offset against assessable income in future years. The benefit of these losses has not been brought to account as an asset due to the fact that realisation of the benefit is not virtually certain. The benefit will only be obtained if:

- (a) the controlled entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- (b) the controlled entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- (c) no changes in tax legislation adversely affect the controlled entity in realising the benefit from the deductions for the loss.

For taxation purposes, control of FreightCorp's business undertaking transferred to National Rail Consortium (SSL) effective from 21 February 2002.

|   | Note   | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---|--------|---|---|--|--|
| <b>12. Other assets (non-current)</b>                           |        |   |   |  |  |
| Superannuation (gross liability)                                |        | -   | (168,162)   | -  | (168,162)  |
| Investment reserve  |        | -   | 171,347   | -  | 171,347  |
| Net superannuation asset / (liability)                          | 12 (a) | -   | 3,185   | -  | 3,185  |
| Total   |        | -   | 3,185   | -  | 3,185  |
| Net superannuation asset / (liability) transferred to the Crown |        |   |   |  |  |
|   |        | -   | -   | -  | -  |
| Total net superannuation asset / (liability)                    |        | -   | 3,185   | -  | 3,185  |

**12(a). Superannuation**

On 1 July 1996 FreightCorp assumed a fully funded superannuation liability for current employees. These employees were transferred to FreightCorp on 1 July 1996 from the State Rail Authority of New South Wales (SRA), pursuant to the Transport Administration Act 1988. Prior to this date the SRA had an unfunded superannuation liability. The NSW Treasury agreed to fully fund the previously unfunded superannuation liability for transferred employees prior to the establishment of FreightCorp. All defined benefit superannuation schemes were now fully funded by FreightCorp.

William Mercer Pty Limited on behalf of the Superannuation Administration Corporation, has assessed the gross superannuation liabilities for the defined benefit schemes administered by the SAS Trustee Corporation (STC) for the period ended 22 February 2002. These schemes included the State Superannuation Scheme (SSS), the State Authorities Superannuation Scheme (SASS) and the State Authorities Non-Contributory Superannuation Scheme (SANCS). William Mercer's assessment of fund liabilities was determined on an ongoing basis, which assumed that staff exit schemes, under ordinary circumstances, in accordance with historic trends. As at 21 February 2002 a further actuarial assessment was performed which revealed a deficit of \$2.2m. This resulting reduction of \$5.395m was charged as an expense through the statement of financial performance and the deficit credited through equity as it was funded by the Crown.

The date of the last triennial review was 30 June 2000. The key assumptions adopted by the actuary, using membership data bases as at 28 February 2000, were:

|   | 2000-01 | 2001-02 | 2002-03 | 2004-05 | 2004-05 |
|---|---------|---------|---------|---------|---------|
| Investment return (% pa)                | 7.0     | 7.3     | 7.0     | 7.0     | 7.0     |
| General salary increase (% pa)          | 5.0     | 4.0     | 6.5     | 4.0     | 4.0     |
| Increase in consumer price index (% pa) | 3.25    | 2.5     | 2.5     | 2.5     | 2.5     |

Other superannuation schemes contributed to by FreightCorp were the First State Superannuation Scheme (FSSS) and the Public Sector Executives Superannuation Scheme (PSESS). Contributions to the Public Sector Executives Superannuation Scheme (PSESS) ceased on 1 March 2000 and all of its members and assets were transferred to the First State Superannuation Scheme (FSSS). These schemes are fully funded defined contribution schemes.

**Details of defined benefit schemes were:**

|                        | SASS           |                | SANCS          |                | SSS            |                | TOTAL          |                |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                        | 2002<br>\$ 000 | 2001<br>\$ 000 | 2002<br>\$ 000 | 2001<br>\$ 000 | 2002<br>\$ 000 | 2001<br>\$ 000 | 2002<br>\$ 000 | 2001<br>\$ 000 |
| Gross Liability        | (149,113)      | (148,981)      | (19,391)       | (18,203)       | (1,194)        | (978)          | (169,698)      | (168,162)      |
| Investment Reserve     | 147,348        | 151,071        | 18,157         | 18,313         | 1,983          | 1,963          | 167,488        | 171,347        |
| Fund surplus/(deficit) | (1,765)        | 2,090          | (1,234)        | 110            | 789            | 985            | (2,210)        | 3,185          |

The balance of \$2.210m has been transferred to the Crown.

| Note                                       | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|--|---|---|--|--|
| <b>13. Property, plant and equipment</b>   |   |   |  |  |
| <b>Land &amp; Buildings</b>                |   |   |  |  |
| At fair value                              | -   | 152,655   | -  | 152,655  |
| Accumulated depreciation - buildings       | -   | (26,734)  | -  | (26,734)   |
|  | -   | 125,921   | -  | 125,921  |
| <b>Rollingstock (non-leased)</b>           |   |   |  |  |
| At replacement cost                        | -   | 688,141   | -  | 688,141  |
| Accumulated depreciation                   | -   | (454,584)   | -  | (454,584)  |
|  | -   | 233,557   | -  | 233,557  |
| <b>Rollingstock (leased)</b>               |   |   |  |  |
| At replacement cost                        | -   | 500,982   | -  | 500,982  |
| Accumulated amortisation                   | -   | (224,919)   | -  | (224,919)  |
|  | -   | 276,063   | -  | 276,063  |
| <b>Plant and equipment</b>                 |   |   |  |  |
| At replacement cost                        | -   | 86,094  | -  | 86,094   |
| Accumulated depreciation                   | -   | (21,171)  | -  | (21,171)   |
|  | -   | 64,923  | -  | 64,923   |
| <b>Track infrastructure</b>                |   |   |  |  |
| At replacement cost                        | -   | 91,556  | -  | 91,556   |
| Accumulated depreciation                   | -   | (44,941)  | -  | (44,941)   |
|  | -   | 46,615  | -  | 46,615   |
| <b>Work in progress</b>                    |   |   |  |  |
| At historical cost                         | -   | 17,315  | -  | 17,315   |
| <b>Total property, plant and equipment</b> | -   | <b>764,394</b>                                      | -  | <b>764,394</b>                                     |

**13(a) Revaluation of property, plant and equipment**

During the 1999-2000 financial year a revaluation was undertaken of land and buildings and plant and equipment.

Revaluations of land, buildings and plant and equipment reflected the valuations determined by the Directors' assessment of independent valuations by Edward Rushton Australia Pty Ltd as at 30 June 2000.

Revaluations of rollingstock and track infrastructure were performed by management during 1998-1999 and reflected the written down replacement cost determined by the Directors' assessment of those valuations.

|  | Consolidated               |  |                                    |                             |                                |                            |                 |
|--|----------------------------|--|------------------------------------|-----------------------------|--------------------------------|----------------------------|-----------------|
|  | Land & Buildings<br>\$ 000 | Rollingstock<br>(non-leased)<br>\$ 000 | Rollingstock<br>(leased)<br>\$ 000 | Plant & Equipment<br>\$ 000 | Track Infrastructure<br>\$ 000 | Work in Progress<br>\$ 000 | Total<br>\$ 000 |
| <b>13(b) Reconciliations of property plant and equipment</b> |                            |  |                                    |                             |                                |                            |                 |
| <b>Gross Carrying Amount</b>                                 |                            |  |                                    |                             |                                |                            |                 |
| Balance at 30 June 2001                                      | 152,655                    | 688,141                                | 500,982                            | 86,094                      | 91,556                         | 17,315                     | 1,536,743       |
| Additions  | 1,079                      | 2,201                                  | 2,672                              | 7,008                       | -                              | 13,520                     | 26,480          |
| Disposals  | (29,507)                   | -                                      | -                                  | (3,814)                     | (16,103)                       | -                          | (49,424)        |
| Recognition of property, plant and equipment                 | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| Reclassification   | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| Capitalisations  | -                          | -                                      | -                                  | -                           | -                              | (12,816)                   | (12,816)        |
| Other - Adjustments 13(c)                                    | (26,963)                   | -                                      | -                                  | (2,708)                     | (25,597)                       | (2,405)                    | (57,673)        |
| Disposals - Sold to National Rail Consortium                 | (97,264)                   | (690,342)                              | (503,654)                          | (86,580)                    | (49,856)                       | (15,614)                   | (1,443,310)     |
| <b>Balance at 22 February 2002</b>                           | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| <b>Accumulated Depreciation / Amortisation</b>               |                            |  |                                    |                             |                                |                            |                 |
| Balance at 30 June 2001                                      | (26,734)                   | (454,584)                              | (224,919)                          | (21,171)                    | (44,941)                       | -                          | (772,349)       |
| Disposals  | 8,732                      | -                                      | -                                  | 576                         | 15,943                         | -                          | 25,251          |
| Depreciation expense   | (811)                      | (9,751)                                | (10,175)                           | (7,296)                     | (522)                          | -                          | (28,555)        |
| Reclassification   | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| Other - Adjustments 13(c)                                    | 1,327                      | -                                      | -                                  | 1,071                       | 6,085                          | -                          | 8,483           |
| Disposals - Sold to National Rail Consortium                 | 17,486                     | 464,335                                | 235,094                            | 26,820                      | 23,435                         | -                          | 767,170         |
| <b>Balance at 22 February 2002</b>                           | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| <b>Net Book Value</b>  |                            |  |                                    |                             |                                |                            |                 |
| As at 30 June 2001   | 125,921                    | 233,557                                | 276,063                            | 64,923                      | 46,615                         | 17,315                     | 764,394         |
| <b>As at 22 February 2002</b>                                | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |

|  | FreightCorp                |  |                                    |                             |                                |                            |                 |
|--|----------------------------|--|------------------------------------|-----------------------------|--------------------------------|----------------------------|-----------------|
|  | Land & Buildings<br>\$ 000 | Rollingstock<br>(non-leased)<br>\$ 000 | Rollingstock<br>(leased)<br>\$ 000 | Plant & Equipment<br>\$ 000 | Track Infrastructure<br>\$ 000 | Work in Progress<br>\$ 000 | Total<br>\$ 000 |
| <b>13(b) Reconciliations of property plant and equipment (continued)</b> |                            |  |                                    |                             |                                |                            |                 |
| <b>Gross Carrying Amount</b>   |                            |  |                                    |                             |                                |                            |                 |
| Balance at 30 June 2001  | 152,655                    | 688,141                                | 500,982                            | 86,094                      | 91,556                         | 17,315                     | 1,536,743       |
| Additions  | 1,079                      | 2,201                                  | 2,672                              | 7,008                       | -                              | 13,520                     | 26,480          |
| Disposals  | (29,507)                   | -                                      | -                                  | (3,814)                     | (16,103)                       | -                          | (49,424)        |
| Recognition of property, plant and equipment                             | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| Reclassification   | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| Capitalisations  | -                          | -                                      | -                                  | -                           | -                              | (12,816)                   | (12,816)        |
| Other - Adjustments 13(c)  | (26,963)                   | -                                      | -                                  | 59,996                      | (25,597)                       | (2,405)                    | (57,673)        |
| Disposals - Sold to National Rail Consortium                             | (97,264)                   | (690,342)                              | (503,654)                          | (86,580)                    | (49,856)                       | (15,614)                   | (1,443,310)     |
| <b>Balance at 22 February 2002</b>                                       | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| <b>Accumulated Depreciation / Amortisation</b>                           |                            |  |                                    |                             |                                |                            |                 |
| Balance at 30 June 2001  | (26,734)                   | (454,584)                              | (224,919)                          | (21,171)                    | (44,941)                       | -                          | (772,349)       |
| Disposals  | 8,732                      | -                                      | -                                  | 576                         | 15,943                         | -                          | 25,251          |
| Depreciation expense   | (811)                      | (9,751)                                | (10,175)                           | (7,296)                     | (522)                          | -                          | (28,555)        |
| Reclassification   | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| Other - Adjustments 13(c)  | 1,327                      | -                                      | -                                  | 1,071                       | 6,085                          | -                          | 8,483           |
| Disposals - Sold to National Rail Consortium                             | 17,486                     | 464,335                                | 235,094                            | 26,820                      | 23,435                         | -                          | 767,170         |
| <b>Balance at 22 February 2002</b>                                       | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |
| <b>Net Book Value</b>  |                            |  |                                    |                             |                                |                            |                 |
| As at 30 June 2001   | 125,921                    | 233,557                                | 276,063                            | 64,923                      | 46,615                         | 17,315                     | 764,394         |
| <b>As at 22 February 2002</b>  | -                          | -                                      | -                                  | -                           | -                              | -                          | -               |

13(c). The net total of Other - Adjustments is \$49.2m relating to: Fixed asset and capital WIP write-offs of \$3.4m, fixed assets vested between FreightCorp and the State Rail Authority of NSW (SRA) of \$7.5m and the revaluation decrement on vested assets of \$38.3 (\$35.5m decrement expensed and \$2.8m decrement to the asset revaluation reserve).

| Note | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|------|---|---|--|--|
|------|---|---|--|--|

13(d). Estimated useful lives of property, plant and equipment and depreciation expenses

| Asset class                                   | Estimated<br>useful lives | Depreciation<br>expensed<br>22 Feb 2002<br>\$ 000 | Depreciation<br>expensed<br>30 Jun 2001<br>\$ 000 |
|---|---------------------------|---|---|
| Buildings                                     | 10-80 years               | 810   | 1,342   |
| Rolling stock (non-leased)                    | 10-56 years               | 9,751   | 17,038  |
| Plant and equipment                           | 2-30 years                | 7,296   | 11,707  |
| Track infrastructure                          | 50 years                  | 522   | 948   |
| <b>Total depreciation</b>                     |                           | <b>18,379</b>                                     | <b>31,035</b>                                     |
| Rolling stock (leased)                        | 15-26 years               | 10,176  | 18,548  |
| <b>Total finance charges</b>                  |                           | <b>10,176</b>                                     | <b>18,548</b>                                     |
| <b>Total depreciation and finance charges</b> |                           | <b>28,555</b>                                     | <b>49,583</b>                                     |

As part of its ongoing review of asset utilisation and maintenance costs during 2000-01, FreightCorp reviewed the components of rolling stock which had an extended life owing to their use as capital spares after the rolling stock had reached the end of its useful life. Depreciation rates were adjusted to recognise their extended life, resulting in a reduction of depreciation in the year ended 30 June 2001 of \$8.377m.

14. Borrowings and leases

**Current**

|                      |        |   |               |   |               |
|----------------------|--------|---|---------------|---|---------------|
| Borrowings           | 1 (m)  | - | 10,810        | - | 417           |
| Finance lease        | 17 (b) | - | -             | - | 10,393        |
| Lease incentive      |        | - | 167           | - | 167           |
| <b>Total Current</b> |        | - | <b>10,977</b> | - | <b>10,977</b> |

**Non-current**

|                          |        |   |                |   |                |
|--------------------------|--------|---|----------------|---|----------------|
| Borrowings               | 1 (m)  | - | 303,295        | - | 91,164         |
| Finance lease            | 17 (b) | - | -              | - | 212,131        |
| Lease incentive          |        | - | 501            | - | 501            |
| <b>Total Non-current</b> |        | - | <b>303,796</b> | - | <b>303,796</b> |

**Total borrowings and leases**

|                 |        |   |                |   |                |
|-----------------|--------|---|----------------|---|----------------|
| Borrowings      | 1 (m)  | - | 314,105        | - | 91,581         |
| Finance lease   | 17 (b) | - | -              | - | 222,524        |
| Lease incentive |        | - | 668            | - | 668            |
| <b>Total</b>    |        | - | <b>314,773</b> | - | <b>314,773</b> |

**Borrowings**

From 1 July 1997 to 30 June 2000 borrowings were recognised at their market value. However, from 1 July 2000 borrowings were recognised at their current capital value after deducting any unamortised discount from, or adding any unamortised premium to their face value. Any discount or premium was deferred and amortised over the term of the borrowing on a straight line basis.

The face value of all principal amounts falling due within 12 months after the end of the period, and any unamortised discounts or premiums thereon, were recognised as current liabilities. All other principal amounts, and the related unamortised discounts or premiums were recognised as non-current liabilities. Amortisation of discounts and premiums relating to borrowings were brought to account as revenue or expense.

As at 21 February 2002 borrowings were restated to surrender value owing to the sale of FreightCorp to National Rail Consortium (SSL) Pty Limited. At this date borrowings were assumed by the Crown.

| Note                                   | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|--|---|---|--|--|
| <b>15. Creditors</b>                   |   |   |  |  |
| <b>Current</b>                         |   |   |  |  |
|  | -   | 4,657   | -  | 4,657  |
| Trade creditors                        | -   | 2,983   | -  | 2,983  |
| Employee related creditors             | -   | 6,092   | -  | 6,092  |
| Capital works accruals                 | -   | 30,161  | -  | 30,161   |
| Other creditors and accruals           | -   | <b>43,893</b>                                       | -  | <b>43,893</b>                                      |
| <b>Total Current</b>                   | -   |   | -  |  |
| <b>16. Provisions</b>                  |   |   |  |  |
| <b>Current</b>                         |   |   |  |  |
|  | -   | 13,106  | -  | 13,106   |
| Annual leave                           | -   | 205   | -  | 205  |
| Pay in lieu of certain holidays worked | 16 (a)  | 3,221   | -  | 3,221  |
| Long service leave                     | -   | 3,411   | -  | 3,411  |
| Wages and salaries                     | -   | <b>19,943</b>                                       | -  | <b>19,943</b>                                      |
| <b>Total employee entitlements</b>     | -   | 2,498   | -  | 2,498  |
| Workers' compensation                  | 16 (b)  | -   | -  | -  |
| Income taxation payable                | -   | 50,732  | -  | 50,732   |
| Dividends                              | -   | -   | -  | -  |
| Other provisions                       | -   | 73,173  | -  | 73,173   |
| <b>Total Current</b>                   | -   |   | -  |  |
| <b>Non-current</b>                     |   |   |  |  |
|  | -   | 2,161   | -  | 2,161  |
| Pay in lieu of certain holidays worked | 16 (a)  | 28,934  | -  | 28,934   |
| Long service leave                     | -   | <b>31,095</b>                                       | -  | <b>31,095</b>                                      |
| <b>Total employee entitlements</b>     | -   | 9,111   | -  | 9,111  |
| Workers' compensation                  | 16 (b)  | -   | -  | -  |
| <b>Total Non-current</b>               | -   | 40,206  | -  | 40,206   |
| <b>Total Provisions</b>                |   |   |  |  |
|  | -   | 13,106  | -  | 13,106   |
| Annual leave                           | -   | 2,366   | -  | 2,366  |
| Pay in lieu of certain holidays worked | 16 (a)  | 32,155  | -  | 32,155   |
| Long service leave                     | -   | 3,411   | -  | 3,411  |
| Wages and salaries                     | -   | <b>51,038</b>                                       | -  | <b>51,038</b>                                      |
| <b>Total employee entitlements</b>     | -   | 11,609  | -  | 11,609   |
| Workers' compensation                  | 16 (b)  | -   | -  | -  |
| Dividends                              | -   | 50,732  | -  | 50,732   |
| Other provisions                       | -   | -   | -  | -  |
| <b>Total</b>                           | -   | <b>113,379</b>                                      | -  | <b>113,379</b>                                     |

**16(a). Employee entitlement provisions**

An actuarial assessment of the liability for long service leave was conducted as at 31 December 2000 by William M Mercer Pty Limited. The assumptions adopted in this valuation are considered to be valid and have been adopted in respect of long service leave provisions which were assumed by National Rail Consortium (SSL) Pty Limited (NRC) with effect from 14 January 2002 as was the liability accrued for employee annual leave entitlements.

**16(b). Workers' Compensation**

FreightCorp is a licensed self-insurer for workers' compensation claims made under the *Workers' Compensation Act 1987*. As a condition of that license FreightCorp maintained an 'excess of loss' (workers' compensation) insurance policy for any claims exceeding \$1.0m. A provision was maintained to cover claims made or likely to be made by employees up to \$1.0m. The provision at 14 January 2002 was made in accordance with an actuarial assessment of the liability for workers' compensation claims which was conducted by McMahon Actuarial Services Pty Limited and was assumed by NRC with effect from that date.

| Note  | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---|---|---|--|--|
| <b>17. Expenditure commitments</b>  |   |   |  |  |
| <b>(a). Borrowings (Face value)</b>   |   |   |  |  |
| payable not later than one year   | -   | 10,810  | -  | 417  |
| later than one year and not later than five years   | -   | 97,421  | -  | 45,748   |
| later than five years   | -   | 211,214   | -  | 50,756   |
| Total face value  | -   | 319,445   | -  | 96,921   |
| <b>(b). Finance lease</b>   |   |   |  |  |
| payable not later than one year   | -   | -   | -  | 22,070   |
| later than one year and not later than five years   | -   | -   | -  | 92,078   |
| later than five years   | -   | -   | -  | 191,869  |
| future finance charges  | -   | -   | -  | (83,493)   |
| Lease liability   | -   | -   | -  | 222,524  |
| Current liability   | 14  | -   | -  | 10,393   |
| Non-current liability   | 14  | -   | -  | 212,131  |
| Total lease liability   | -   | -   | -  | 222,524  |
| <b>(c). Operating leases</b>  |   |   |  |  |
| Non-cancellable operating leases contracted for, but not recognised in the statement of financial position:             |   |   |  |  |
| payable not later than one year   | -   | 4,138   | -  | 4,138  |
| later than one year and not later than five years   | -   | 5,966   | -  | 5,966  |
| later than five years   | -   | 206   | -  | 206  |
|   | -   | 10,310  | -  | 10,310   |
| <b>(d). Other expenditure contractually committed at period and not recorded in the statement of financial position</b> |   |   |  |  |
| <b>Capital expenditure</b>  |   |   |  |  |
| payable not later than one year   | -   | 4,909   | -  | 4,909  |
| later than one year and not later than five years   | -   | -   | -  | -  |
| later than five years   | -   | -   | -  | -  |
|   | -   | 4,909   | -  | 4,909  |
| <b>Motive Power locomotive maintenance</b>  |   |   |  |  |
| payable not later than one year   | -   | 15,910  | -  | 15,910   |
| later than one year and not later than five years   | -   | 63,642  | -  | 63,642   |
| later than five years   | -   | 83,530  | -  | 83,530   |
|   | -   | 163,082   | -  | 163,082  |
| <b>Other working expenditure contracts</b>  |   |   |  |  |
| payable not later than one year   | -   | 27,454  | -  | 27,454   |
| later than one year and not later than five years   | -   | 16,543  | -  | 16,543   |
| later than five years   | -   | -   | -  | -  |
|   | -   | 43,997  | -  | 43,997   |

All expenditure commitments transferred to National Rail Consortium (SSL) Pty Limited with effect from 14 January 2002, other than those related to excluded assets and liabilities which transferred to the Crown on 22 February 2002.

**(e). Contingent Asset**

The total "Expenditure Commitments" for 2001 included input tax credits of \$20.209m that were expected to be recoverable from the ATO.

A commitment existed to the Rail Infrastructure Corporation for access payments to the New South Wales rail network. Access rates were negotiated annually and FreightCorp's commitment varied depending on the rates negotiated and freight volumes transported across the rail network. The amount of the commitment was not disclosed as it could not be reliably measured.

| Note | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|------|---|---|--|--|
|------|---|---|--|--|

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**18. Contingent liabilities**

Contingent liabilities at balance date are classified as follows:

Estimated amount of potential claims and claims subject to litigation not covered by insurance arrangements excluding workers' compensation provisions.

|   |     |   |     |
|---|-----|---|-----|
| - | 952 | - | 952 |
|---|-----|---|-----|

Bank guarantee provided to Workcover Authority of NSW

|        |       |        |       |
|--------|-------|--------|-------|
| 13,931 | 8,192 | 13,931 | 8,192 |
|--------|-------|--------|-------|

Indemnity given to TCorp Nominees against Motive Power Company Pty Limited defaulting in the repayment of locomotive borrowings.

|               |              |               |                |
|---------------|--------------|---------------|----------------|
| -             | -            | -             | 222,524        |
| <b>13,931</b> | <b>9,144</b> | <b>13,931</b> | <b>231,668</b> |

| Note  | Consolidated<br>Period ended<br>22 Feb 2002<br>\$ 000 | Consolidated<br>Year ended<br>30 Jun 2001<br>\$ 000 | FreightCorp<br>Period ended<br>22 Feb 2002<br>\$ 000 | FreightCorp<br>Year ended<br>30 Jun 2001<br>\$ 000 |
|---|---|---|--|--|
| <b>19. Reconciliation of Cash</b>   |   |   |  |  |
| Reconciliation of cash at the end of the financial period as shown in the statements of cash flows with the related items in the statement of financial position: |   |   |  |  |
| Cash on hand and at bank  | -   | 16,833  | -  | 16,833   |
| Short term investments  | -   | 79,794  | -  | 79,794   |
| <b>Closing cash balance</b>   | <b>-</b>  | <b>96,627</b>                                       | <b>-</b>   | <b>96,627</b>                                      |

**20. Reconciliation of net cash provided by operating activities to operating profit after income tax**

|   |                  |               |                  |               |
|---|------------------|---------------|------------------|---------------|
| <b>Profit after income tax</b>  | <b>(189,614)</b> | <b>44,389</b> | <b>(189,614)</b> | <b>44,389</b> |
| Depreciation and amortisation   | 28,555           | 49,583        | 28,555           | 49,583        |
| Net loss on the sale of fixed assets  | 726              | (3,502)       | 726              | (3,502)       |
| Recognition of property, plant and equipment  | -                | (405)         | -                | (405)         |
| Write down of property, plant and equipment   | 3,352            | 2,412         | 3,352            | 2,412         |
| Write down of property, plant and equipment vested to SRA                           | 35,556           | -             | 35,556           | -             |
| Net loss on sale of property, plant and equipment to Sydney Ports Authority         | 10,173           | -             | 10,173           | -             |
| Net loss on sale of FreightCorp to National Rail Consortium (SSL) Pty Limited (NRC) | 65,994           | -             | 65,994           | -             |
| Restatement of borrowings to current capital value                                  | -                | (8,346)       | -                | (8,346)       |
| Receivables sold to NRC   | (71,024)         | -             | (71,024)         | -             |
| Inventories sold to NRC   | (9,390)          | -             | (9,390)          | -             |
| Future income tax benefit sold to NRC   | (19,370)         | -             | (19,370)         | -             |
| Creditors sold to NRC   | 32,416           | -             | 32,416           | -             |
| Provisions sold to NRC  | 69,273           | -             | 69,273           | -             |
| Prepaid stamp duty transferred to the Crown   | (677)            | -             | (677)            | -             |
| Net superannuation liability transferred to the Crown                               | 2,210            | -             | 2,210            | -             |
| Interest swaps transferred to the Crown   | 2,497            | -             | 2,497            | -             |
| Amounts paid/received by the Crown in respect of excluded assets/liabilities        | 453              | -             | 453              | -             |
| Fuel hedging liability transferred to the Crown                                     | 218              | -             | 218              | -             |
| Government guarantee fee liability transferred to the Crown                         | 793              | -             | 793              | -             |
| Audit fee accrual transferred to the Crown  | 278              | -             | 278              | -             |
| Income tax provision transferred to the Crown                                       | 60,546           | -             | 60,546           | -             |
| <i>Changes in assets and liabilities</i>  |                  |               |                  |               |
| (increase)/decrease in receivables  | 59,996           | (6,264)       | 59,996           | (6,264)       |
| (increase)/decrease in inventories  | 8,274            | (756)         | 8,274            | (756)         |
| (increase)/decrease in other assets   | 24,081           | 6,592         | 24,081           | 6,592         |
| increase/(decrease) in creditors & accruals   | (38,372)         | (11,861)      | (38,372)         | (11,861)      |
| increase/(decrease) in provisions   | (62,647)         | (3,980)       | (62,647)         | (3,980)       |
| <b>Net cash provided by operating activities</b>                                    | <b>14,297</b>    | <b>67,862</b> | <b>14,297</b>    | <b>67,862</b> |

**21. Financing facilities**

Facilities available at period end were:

|  |   |         |   |        |
|--|---|---------|---|--------|
| <b>Full amount of facilities</b>       |   |         |   |        |
| NSW Treasury Corporation Loans         | - | 314,105 | - | 91,581 |
| <b>Facilities utilised at year end</b> |   |         |   |        |
| NSW Treasury Corporation Loans         | - | 314,105 | - | 91,581 |

**22. Reserves****Asset revaluation reserve**

|   | <b>Consolidated<br/>Period ended<br/>22 Feb 2002<br/>\$ 000</b> | <b>Consolidated<br/>Year ended<br/>30 Jun 2001<br/>\$ 000</b> | <b>FreightCorp<br/>Period ended<br/>22 Feb 2002<br/>\$ 000</b> | <b>FreightCorp<br/>Year ended<br/>30 Jun 2001<br/>\$ 000</b> |
|---|---|---|--|--|
| Land and Buildings - Opening balance  | 23,340  | 23,340  | 23,340   | 23,340   |
| Decrease in Asset revaluation reserve due to revaluation of land and buildings recognised in the statement of financial performance                             | (4,614)   | -   | (4,614)  | -  |
| Less Transfer to retained earnings  | (18,726)  | -   | (18,726)   | -  |
| Land and Buildings - Closing balance  | <u>-</u>  | <u>23,340</u>   | <u>-</u>   | <u>23,340</u>  |
| Rollingstock - Opening balance  | 237   | 237   | 237  | 237  |
| Less Transfer to retained earnings  | (237)   | -   | (237)  | -  |
| Rollingstock - Closing balance  | <u>-</u>  | <u>237</u>  | <u>-</u>   | <u>237</u>   |
| Track infrastructure - Opening balance  | 8,587   | 8,587   | 8,587  | 8,587  |
| Increase in Asset revaluation reserve due to revaluation of land and buildings recognised in the statement of financial performance                             | 1,817   | -   | 1,817  | -  |
| Less Transfer to retained earnings  | (10,404)  | -   | (10,404)   | -  |
| Track Infrastructure - Closing balance  | <u>-</u>  | <u>8,587</u>  | <u>-</u>   | <u>8,587</u>   |
| <b>Total opening balance in asset revaluation reserve</b>   | <b>32,164</b>   | <b>32,164</b>   | <b>32,164</b>  | <b>32,164</b>  |
| Total decrease in Asset revaluation reserve due to revaluation of land, buildings and track infrastructure recognised in the statement of financial performance | (2,797)   | -   | (2,797)  | -  |
| Less Transfer to retained earnings  | (29,367)  | -   | (29,367)   | -  |
| <b>Total closing balance in asset revaluation reserve</b>   | <b><u>-</u></b>   | <b><u>32,164</u></b>  | <b><u>-</u></b>  | <b><u>32,164</u></b>   |

The asset revaluation reserve has been transferred to accumulated funds as a result of the sale/disposal of FreightCorp's assets during the current period.

**23. Consultants**

Consultants were regarded (in accordance with guidelines issued by the Office of Public Management) as temporary engagements of a professional, technical or general management nature where the outcomes were not well defined at the outset and where advice is provided on options to be considered by management for its decision making purposes. Expenditure on these services for the period up to 14 January 2002 was \$3.567m (2001: \$1.122m). The engagements included specialist professional services in such fields as engineering, corporate strategy and risk management.

**24. Controlled Entities****(a) Motive Power Company Pty Limited**

FreightCorp did not hold any shares in the Motive Power Company Pty Limited (MPC). However, through contractual agreements, it received the majority of the benefits and was exposed to the majority of the risks of the company. In addition, FreightCorp had the capacity to dominate decision making in relation to the company's financial and operating policies. Accordingly, MPC was consolidated as a controlled entity pursuant to the provisions of Australian Accounting Standard AAS24 "Consolidated Financial Reports". The company was incorporated in the Australian Capital Territory.

The transactions of MPC were unwound on 21 February 2002, at which time it ceased to be a controlled entity of FreightCorp.

**(b) Key figures after consolidation and their proportion to group totals**

|                                     | <u>Total Revenue</u> |                    | <u>Operating Profit / (Loss)</u> |                    | <u>Total Assets</u> |                    |
|-------------------------------------|----------------------|--------------------|----------------------------------|--------------------|---------------------|--------------------|
|                                     | <u>Period ended</u>  | <u>Year ended</u>  | <u>Period ended</u>              | <u>Year ended</u>  | <u>Period ended</u> | <u>Year ended</u>  |
|                                     | <u>22 Feb 2002</u>   | <u>30 Jun 2001</u> | <u>22 Feb 2002</u>               | <u>30 Jun 2001</u> | <u>22 Feb 2002</u>  | <u>30 Jun 2001</u> |
|                                     | <u>\$ 000</u>        | <u>\$ 000</u>      | <u>\$ 000</u>                    | <u>\$ 000</u>      | <u>\$ 000</u>       | <u>\$ 000</u>      |
| FreightCorp                         | 300,615              | 607,937            | (15,819)                         | 37,933             | -                   | 953,371            |
| Motive Power Company<br>Pty Limited | 1,239                | 1,345              | -                                | -                  | -                   | -                  |
| <b>Consolidated Total</b>           | <b>301,854</b>       | <b>609,282</b>     | <b>(15,819)</b>                  | <b>37,933</b>      | <b>-</b>            | <b>953,371</b>     |

**25. Financial Instruments**

**(a) Interest rate risk**

Interest rate risk, is the risk of the value of a financial instrument fluctuating due to changes in market interest rates. FreightCorp's exposure to interest rate risk and the effective interest rate for each class of financial asset and financial liability, both recognised and unrecognised at balance date, are detailed below.

| Timing of risk    | Financial Instrument     | Average interest rate (%) |        |             |        | Principal Amount |           |             |           |
|-------------------|--------------------------|---------------------------|--------|-------------|--------|------------------|-----------|-------------|-----------|
|                   |                          | Consolidated              |        | FreightCorp |        | Consolidated     |           | FreightCorp |           |
|                   |                          | 2002                      | 2001   | 2002        | 2001   | 2002             | 2001      | 2002        | 2001      |
|                   |                          | 22 Feb                    | 30 Jun | 22 Feb      | 30 Jun | \$ 000           | \$ 000    | \$ 000      | \$ 000    |
|                   |                          | 22 Feb                    | 30 Jun | 22 Feb      | 30 Jun | 22 Feb           | 30 Jun    | 22 Feb      | 30 Jun    |
| < 1 year          | Cash                     | -                         | -      | -           | -      | -                | 16,833    | -           | 16,833    |
|                   | Receivables              | -                         | -      | -           | -      | -                | 58,305    | -           | 58,305    |
|                   | Investments (Face value) | -                         | 6.0    | -           | 6.0    | -                | 79,794    | -           | 79,794    |
|                   | Creditors                | -                         | -      | -           | -      | -                | 43,893    | -           | 43,893    |
|                   | Borrowings (Face value)  | -                         | -      | -           | -      | -                | -         | -           | -         |
|                   | - Floating rate          | -                         | 5.4    | -           | 5.4    | -                | 10,810    | -           | 417       |
|                   | Preference shares        | -                         | -      | -           | -      | -                | -         | -           | -         |
|                   | Lease liabilities        | -                         | 5.4    | -           | 5.4    | -                | -         | -           | 10,393    |
| 1 to 5 years      | Interest rate swaps      | -                         | 8.4    | -           | 8.4    | -                | 75,000    | -           | 75,000    |
|                   | - Fixed interest         | -                         | -      | -           | -      | -                | (75,000)  | -           | (75,000)  |
|                   | - Floating rate          | -                         | -      | -           | -      | -                | -         | -           | -         |
|                   | Borrowings (Face value)  | -                         | 6.5    | -           | 6.5    | -                | 43,683    | -           | 43,683    |
| - Fixed interest  | -                        | 5.4                       | -      | 5.4         | -      | 53,738           | -         | 2,065       |           |
| - Floating rate   | -                        | -                         | -      | -           | -      | -                | -         | -           |           |
| Lease liabilities | -                        | 5.4                       | -      | 5.4         | -      | -                | -         | 51,673      |           |
| > 5 years         | Interest rate swaps      | -                         | 8.7    | -           | 8.7    | -                | 102,000   | -           | 102,000   |
|                   | - Fixed interest         | -                         | -      | -           | -      | -                | (102,000) | -           | (102,000) |
|                   | - Floating rate          | -                         | -      | -           | -      | -                | -         | -           | -         |
|                   | Borrowings (Face value)  | -                         | 8.0    | -           | 8.0    | -                | 38,044    | -           | 38,044    |
| - Fixed interest  | -                        | 5.4                       | -      | 5.4         | -      | 173,170          | -         | 12,712      |           |
| - Floating rate   | -                        | -                         | -      | -           | -      | -                | -         | -           |           |
| Lease liabilities | -                        | 5.4                       | -      | 5.4         | -      | -                | -         | 160,458     |           |

An average interest rate has not been provided for financial instruments which are subject to a floating rate of interest, as these rates are subject to constant change in accordance with market interest rates.

**(b) Credit risk**

Credit risk is the risk of a party to a financial instrument failing to discharge an obligation and causing FreightCorp to incur a financial loss. Receivables and interest rate swaps were exposed to credit risk.

The maximum credit risk exposure in relation to receivables was the carrying amount, less the provision for doubtful debts, as disclosed in the statement of financial position.

The maximum credit risk exposure in relation to interest rate swaps was the net fair value of the contracts as detailed in note 25(c) & (d).

The only significant concentration of credit risk was in respect of receivables for freight transport services provided to customers. Receivables from these customers totalled \$48.875m at 30 June 2001. During the current period receivables from freight customers totalling \$71.024m were sold to National Rail Consortium (SSL) Pty Limited on 14 January 2002. It was considered that, despite the size of credit risk exposure, the actual risk of financial loss was minimal due to the nature and general financial standing of the debtors concerned. Credit risk was further reduced by the existence of bank guarantees which were in place with certain customers.

A financial guarantee was given by FreightCorp to a financial institution to guarantee the repayment of locomotive borrowings (in the event of a contractual default by the Motive Power Company Pty Ltd). A further financial guarantee was given to the WorkCover Authority of New South Wales to guarantee the payment of workers' compensation liabilities arising under self-insurance arrangements.

**(c) Net fair value of financial instruments**

Generally, all financial assets and liabilities recognised in the statement of financial position have been carried at historical cost which was also their fair value. From 1 July 1997 to 30 June 2000 borrowings were recognised at their market value. From 1 July 2000 borrowings were recognised at their current capital value.

At balance date the values for borrowings, finance leases and financial instruments, both recognised and unrecognised, in the statement of financial position were:

|  | Carrying or notional contract amount |                          |                          |                          | Net fair value           |                          |                          |                          |
|--|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|  | Consolidated                         |                          | FreightCorp              |                          | Consolidated             |                          | FreightCorp              |                          |
|  | 2002<br>22 Feb<br>\$ 000             | 2001<br>30 Jun<br>\$ 000 | 2002<br>22 Feb<br>\$ 000 | 2001<br>30 Jun<br>\$ 000 | 2002<br>22 Feb<br>\$ 000 | 2001<br>30 Jun<br>\$ 000 | 2002<br>22 Feb<br>\$ 000 | 2001<br>30 Jun<br>\$ 000 |
| <b>Recognised in the statement of financial position</b>     |                                      |                          |                          |                          |                          |                          |                          |                          |
| <b>Financial assets</b>                                      |                                      |                          |                          |                          |                          |                          |                          |                          |
| Investments (Market value)                                   | -                                    | 79,794                   | -                        | 79,794                   | -                        | 79,794                   | -                        | 79,794                   |
| <b>Financial liabilities</b>                                 |                                      |                          |                          |                          |                          |                          |                          |                          |
| Borrowings   | -                                    | 314,105                  | -                        | 91,581                   | -                        | 323,467                  | -                        | 100,943                  |
| Finance leases   | -                                    | -                        | -                        | 222,524                  | -                        | -                        | -                        | 222,524                  |
| <b>Not recognised in the statement of financial position</b> |                                      |                          |                          |                          |                          |                          |                          |                          |
| <b>Financial assets</b>                                      |                                      |                          |                          |                          |                          |                          |                          |                          |
| Financial guarantees receivable                              | -                                    | 10,123                   | -                        | 10,123                   | -                        | 10,123                   | -                        | 10,123                   |
| <b>Financial liabilities</b>                                 |                                      |                          |                          |                          |                          |                          |                          |                          |
| Financial guarantees payable                                 | -                                    | 8,192                    | -                        | 230,716                  | -                        | 8,192                    | -                        | 230,716                  |
| Unfavourable interest rate swaps                             | -                                    | 177,000                  | -                        | 177,000                  | -                        | 14,047                   | -                        | 14,047                   |

**(d) Derivative financial instruments**

The derivative financial instruments utilised by FreightCorp were interest rate swap contracts and commodity swap contracts. The notional principal amounts and remaining terms of the swap contracts at balance date were:

| Remaining term of contract           | Consolidated             |                          | FreightCorp              |                          |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                      | 2002<br>22 Feb<br>\$ 000 | 2001<br>30 Jun<br>\$ 000 | 2002<br>22 Feb<br>\$ 000 | 2001<br>30 Jun<br>\$ 000 |
|                                      | < 1 year                 | -                        | 75,000                   | -                        |
| 1 to 5 years                         | -                        | 102,000                  | -                        | 102,000                  |
| > 5 years                            | -                        | -                        | -                        | -                        |
| <b>Total value of swap contracts</b> | -                        | <b>177,000</b>           | -                        | <b>177,000</b>           |

**26. Events occurring after balance date**

Under the terms of the sale of business agreement, NSW Treasury was required to make transfer payments to all award employees employed by FreightCorp at the date of sale.

Accordingly, as at 7 March 2002, NSW Treasury made gross payments of \$47.132m to the former employees of FreightCorp.

In addition, NSW Treasury is also required to make a retention payment to contract employees of FreightCorp who transferred to National Rail Consortium (SSL) Pty Limited. The retention payment will be made in two tranches, of \$25,000 to each employee, firstly on 21 May 2002 and secondly on 21 February 2003.

It is only payable to staff who remain employed by National Rail Consortium (SSL) Pty Limited on the date payment is required. The amount due for payment at 21 May 2002 is \$1.885m. It is not possible to estimate the quantum of the payment to be made by the NSW Treasury as at 21 February 2003.

**27. Treasurer's Exemption**

The financial report has been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2000, except where the Treasurer's exemption has been granted.

Exemptions have been granted by the Treasurer pursuant to section 41BA of the Public Finance and Audit Act 1983 and section 15 of the Public Finance and Audit Regulation 2000, so that the financial reporting requirements which apply are comparable with Corporations Law reporting requirements.

The following specific disclosures have been exempted:

| Reference        | Requirements  |
|------------------|---|
| s. 41B (c) PFAA  | Preparation of manufacturing and trading statements and full income and expenditure statements.                               |
| Schedule 1 PFAGR | Amounts set aside for renewal or replacement of fixed assets.   |
| Schedule 1 PFAGR | Amounts set aside to any provision for known commitments.   |
| Schedule 1 PFAGR | Amounts appropriated for repayment of loans, advances, debentures, deposits or otherwise.                                     |
| Schedule 1 PFAGR | A separate description and amount for all other material items of income and expenditure on a program or activity basis.      |
| Schedule 1 PFAGR | Non-current assets whose value exceeds replacement cost and, when adequate provision for writing down that asset is not made. |

(PFAA) Public Finance and Audit Act 1983

(PFAGR) Public Finance and Audit Regulation 2000

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**End of audited financial report**

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**Treasurer of New South Wales  
Australia**

Mr R J Sendt  
Auditor-General  
The Audit Office of NSW  
GPO Box 12  
SYDNEY NSW 2001

S Pichersky  
9228 5375  
139332

8 AUG 2002

Dear Mr Sendt

**Freight Rail Corporation**  
**Statement Pursuant to the Public Finance and Audit Act 1983**

Pursuant to Section 41 (C) of the Public Finance and Audit Act 1983, I declare on behalf of the Freight Rail Corporation that in my opinion:

1. The accompanying financial report exhibits a true and fair view of the financial position of Freight Rail Corporation as at 22 February 2002 and the transactions for the period then ended;
2. The accompanying financial report has been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act 1989, including Part 3 of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2000, except where the Treasurer's exemption has been granted; and
3. I am not aware, at the date of this declaration, of any circumstances that would render any particulars included in the financial report to be misleading or inaccurate.

I make this declaration on the basis of the representations made by Lucio di Bartolomeo Managing Director of FreightCorp and Peter Mayers General Manager Finance during the period 1 July 2001 to 21 February 2002 in their letter to me dated 27 June 2002 and your Client Service Report for the period ended 22 February 2002 dated 26 June 2002, in particular paragraph 2 of that Report, and the draft Independent Audit Report provided to NSW Treasury with the Client Service Report.

Yours sincerely

Michael Egan  
Treasurer



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### FREIGHT RAIL CORPORATION OF NEW SOUTH WALES

**To Members of the New South Wales Parliament and to the Treasurer of New South Wales**

#### Scope

I have audited the accounts of the Freight Rail Corporation of New South Wales (FreightCorp) for the period ended 22 February 2002. The financial report includes the consolidated financial reports of the consolidated entity comprising the Corporation and the entities it controlled at period-end or from time to time during the financial year. The Treasurer is responsible for the financial report consisting of the accompanying statements of financial position, statements of financial performance and statements of cash flows, together with the notes thereto, and the information contained therein. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and the Treasurer based on my audit as required by the *State Owned Corporations Act 1989* and the *Public Finance and Audit Act 1983* (the PF&A Act).

My audit has been conducted in accordance with statutory requirements and Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with my understanding of FreightCorp's and the consolidated entity's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

In my opinion, the financial report of the Freight Rail Corporation of New South Wales complies with section 41B of the PF&A Act, other statutory requirements and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of the Corporation and the consolidated entity as at 22 February 2002 and the results of their operations and their cash flows for the period then ended.

A handwritten signature in black ink, appearing to read 'R J Sendt'.

R J Sendt  
Auditor-General

SYDNEY  
16 August 2002

At the end of the period FreightCorp and its controlled entities did not own or occupy any land.

Land owned or occupied at 30 June 2001 was as follows:

|                       | <b>\$000</b>         |
|-----------------------|----------------------|
| Land under operations | 71,813               |
| Surplus land          | <u>875</u>           |
|                       | <u><u>72,688</u></u> |

**MOTIVE POWER COMPANY PTY LIMITED**

**ABN: 33 058 102 828**

**FINANCIAL REPORT**

**FOR THE PERIOD FROM 1 JULY 2001 TO 21 FEBRUARY 2002**

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# MOTIVE POWER COMPANY PTY LIMITED DIRECTORS' REPORT FOR THE PERIOD ENDED 21 FEBRUARY, 2002

## **Directors**

The names of the company's directors in office during the period were Neville Thomas Cleary and Bryan Jackson Wrigley.

## **Principal Activity**

The principal activity of the company during the year was the provision of locomotive and maintenance services and there was no significant change in the nature of this activity during the period.

## **Results**

The profit after tax and extraordinary items of the company for the period ended 21 February, 2002 was \$nil.

## **Dividends**

No dividends have been proposed or recommended since the date of incorporation.

## **Review and Results of Operations**

As at 1 July, 1996, certain operations and assets of the Freight Rail Business Group of the State Rail Authority of New South Wales were transferred to a corporate entity – "Freight Rail Corporation" trading as FreightCorp. FreightCorp assumed all rights and obligations of the Authority in regard to the Motive Power Contract ("the contract").

The company participated in a cross border sale and leaseback arrangement in 1994-95 and 1995-96 as part of an agreed financial enhancement of the contract. The contract remained largely unaffected by this arrangement, except that locomotives originally owned by the company are now leased by it. The cross border lease agreements were vested to FreightCorp when it was formed on 1 July, 1996.

During the 1998-1999 financial years, the company participated in a further sale and leaseback of the three remaining locomotives as a result of the Beresfield collision in October 1997. The sale and leaseback was a similar transaction to the original sale and leaseback entered into in 1994-95. The locomotives replaced the damaged locomotives provided under the initial sale and leaseback agreement.

## **Directors' Benefits**

During or since the end of the period, no director of the company has received or become entitled to receive any benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial report, by reason of a contract made by the company or a body corporate that was related to the company when the contract was made or when the director received, or became entitled to receive, the benefit with a director; or a firm of which a director is a member; or an entity in which a director has a substantial financial interest.

## **Review of Operations**

The company continued to provide services through the utilisation of the maintenance facility and the locomotives by way of finance leases during the period.

As at 20 February, 2002, the following transactions were completed as part of the sale process of FreightCorp.

- All put and call options under the company's contract and put and call options under the company's lease were exercised and all loan facilities terminated.
- The cross border sale and leaseback arrangements were unwound and all borrowings relating to the company were novated to FreightCorp.

The company became dormant following completion of these transactions.

## **State of Affairs**

The company ceased to trade as at 20 February 2002.

## **Significant Events after the Balance Date**

As the company no longer trades, there are no after date events.

**MOTIVE POWER COMPANY PTY LIMITED**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**PERIOD ENDED 21 FEBRUARY 2002**

|  | Note | Period Ended<br>21 February<br>2002<br>\$'000 | Year Ended<br>30 June<br>2001<br>\$'000 |
|--|------|---|---|
| Revenues from ordinary activities  | 2    | 18,244  | 30,838                                  |
| Expenses from ordinary activities  | 3    | (10,764)                                      | (15,619)                                |
| Borrowing costs expense  | 3    | (7,480)                                       | (15,219)                                |
| <b>Profit (loss) from ordinary activities<br/>before income tax expense</b>        |      | <u>-</u>                                      | <u>-</u>                                |
| Income tax expense relating to ordinary activities                                 | 4    | -   | -                                       |
| <b>Profit (loss) from ordinary activities<br/>after related income tax expense</b> |      | -   | -                                       |
| <b>Net Profit or Loss</b>  |      | <u>-</u>                                      | <u>-</u>                                |

The Statement of Financial Performance should be read in conjunction with the accompanying notes

**MOTIVE POWER COMPANY PTY LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 21 FEBRUARY 2002**

|                                  | Note | Period Ended<br>21 February<br>2002<br>\$'000 | Year Ended<br>30 June<br>2001<br>\$'000 |
|----------------------------------|------|---|---|
| <b>CURRENT ASSETS</b>            |      |   |   |
| Cash                             |      | -   | -                                       |
| Receivables                      | 5    | 23,256  | 238,239                                 |
| <b>TOTAL CURRENT ASSETS</b>      |      | <u>23,256</u>                                 | <u>238,239</u>                          |
| <b>TOTAL ASSETS</b>              |      | <u>23,256</u>                                 | <u>238,239</u>                          |
| <b>CURRENT LIABILITIES</b>       |      |   |   |
| Payables                         | 6    | 23,256  | 521                                     |
| Interest bearing liabilities     | 7    | -   | 237,718                                 |
| <b>TOTAL CURRENT LIABILITIES</b> |      | <u>23,256</u>                                 | <u>238,239</u>                          |
| <b>TOTAL LIABILITIES</b>         |      | <u>23,256</u>                                 | <u>238,239</u>                          |
| <b>NET ASSETS/(LIABILITIES)</b>  |      | <u>-</u>                                      | <u>-</u>                                |
| <b>SHAREHOLDER'S EQUITY</b>      |      |   |   |
| Share Capital                    | 8    | <u>-</u>                                      | <u>-</u>                                |

The Statement of Financial Position should be read in conjunction with the accompanying notes

**MOTIVE POWER COMPANY PTY LIMITED**

**STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 21 FEBRUARY 2002**

|  | <b>Period Ended<br/>21 February<br/>2002<br/>\$'000</b> | <b>Year Ended<br/>30 June<br/>2001<br/>\$'000</b> |
|--|---|---|
|  | Inflows<br>(Outflows)                                   | Inflows<br>(Outflows)                             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>    |   |   |
| Net Cash Used In Operating Activities          | <u>Nil</u>  | <u>Nil</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>    |   |   |
| Net Cash Used In Investing Activities          | <u>Nil</u>  | <u>Nil</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>    |   |   |
| Net Cash Used In Financing Activities          | <u>Nil</u>  | <u>Nil</u>  |
| <b>NET INCREASE/(DECREASE) IN CASH HELD</b>    | <u>Nil</u>  | <u>Nil</u>  |
| Cash at the beginning of the financial period  | <u>Nil</u>  | <u>Nil</u>  |
| <b>CASH AT THE END OF THE FINANCIAL PERIOD</b> | <u>Nil</u>  | <u>Nil</u>  |

During the period FreightCorp made payments to the New South Wales Treasury Corporation on behalf of the company. These types of transactions have been treated as non-cash activities.

The Statement of Cash Flows should be read in conjunction with the accompanying notes

## **MOTIVE POWER COMPANY PTY LIMITED**

### **NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE PERIOD ENDED 21 FEBRUARY 2002**

#### **1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Basis of Accounting**

The financial report has been prepared in accordance with the historical cost convention, except where otherwise stated. Cost in relation to assets represents the cash amount paid or the fair value of the assets given in exchange.

The financial report has also been prepared in accordance with Part 3 of the Public Finance and Audit Act 1983 and regulations associated with the Act, the requirements of the Corporations Act 2001, applicable accounting standards and Urgent Issue Group consensus views, and other authoritative pronouncements of the Australian Accounting Standards Review Board.

The amounts contained in the financial report have been rounded off under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies. In complying with the Class Order, share capital and cash have been rounded to nil.

The accrual basis of accounting has been used in the preparation of financial information.

##### **(b) Changes in Accounting Policies**

The accounting policies are consistent with those applied in the previous year.

The comparative figures are for the year ended 30 June 2001 whereas the current figures relate to the period 1 July 2001 to 21 February 2002.

The accounts have been prepared as at 21 February 2002 to coincide with FreightCorp's sale by the NSW Government to National Rail Consortium Pty Limited.

**MOTIVE POWER COMPANY PTY LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE PERIOD  
ENDED 21 FEBRUARY 2002**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(c) Income Tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time that items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to the company tax losses are not carried forward as an asset because it is not virtually certain that the benefit will be realised.

**(d) Receivables**

Receivables are monitored during the year and all bad debts are written off as incurred.

**MOTIVE POWER COMPANY PTY LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT  
FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED**

|  | <b>Period Ended<br/>21 February<br/>2002<br/>\$'000</b> | <b>Year Ended<br/>30 June<br/>2001<br/>\$'000</b> |
|--|---|---|
| <b>2 REVENUE FROM ORDINARY ACTIVITIES</b>            |   |   |
| Revenues from operating activities                   |   |   |
| Service payments from FreightCorp                    |   |   |
| Interest on locomotives                              | 7,000   | 14,255  |
| Interest on maintenance centre                       | 480   | 964   |
| Maintenance  | 9,996   | 14,177  |
| Facility rent  | 684   | 1,345   |
| Total revenues from operating activities             | 18,160  | 30,741  |
| Revenues from non-operating activities               |   |   |
| Recoupment of administrative costs                   | 84  | 97  |
| Total revenues from outside the operating activities | 84  | 97  |
| Total revenues from ordinary activities              | 18,244  | 30,838  |
| <b>3 EXPENSES</b>                                    |   |   |
| Administration and general                           | 36  | 52  |
| Audit fee  | 8   | 8   |
| Board members emoluments                             | 40  | 37  |
| Maintenance  | 10,680  | 15,522  |
| Expenses from ordinary activities                    | 10,764  | 15,619  |
| Borrowing costs                                      | 7,480   | 15,219  |
| Total expenses                                       | 18,244  | 30,838  |

## MOTIVE POWER COMPANY PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED

#### 4 INCOME TAX

As at 21 February 2002, estimated income tax losses of \$4,545,741 (30 June 2001: \$4,430,339) are available to offset against future years' taxable income. The benefit of these losses has not been brought to account as realisation is not virtually certain.

The benefit will only be obtained if:

- a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- b) the company continues to comply with the conditions for deductibility imposed by the law; and
- c) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the loss.

#### 5 RECEIVABLES

|                                    | Period Ended<br>21 February<br>2002<br>\$'000 | Year Ended<br>30 June<br>2001<br>\$'000 |
|------------------------------------|---|---|
| <b>Current</b>                     |   |   |
| Debtors (FreightCorp)              | 23,256  | 521                                     |
| Receivables – locomotives          | -   | 222,524                                 |
| Receivables – maintenance facility | -   | 15,194                                  |
| Total Receivables                  | <u>23,256</u>                                 | <u>238,239</u>                          |

The NSW State Government announced the sale of FreightCorp on 31 January 2002. As part of the sale process the put and call options under the company's lease and the put and call options under the company's contract were exercised on 20 February 2002.

**MOTIVE POWER COMPANY PTY LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT  
FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED**

**6 PAYABLES**

| <b>Current</b>             | <b>Period Ended<br/>21 February<br/>2002<br/>\$'000</b> | <b>Year Ended<br/>30 June<br/>2001<br/>\$'000</b> |
|----------------------------|---|---|
| GST payable                | 23,211  | 199   |
| Other creditors & accruals | 45  | 322   |
| <b>Total Payables</b>      | <u>23,256</u>   | <u>521</u>  |

**7 INTEREST BEARING LIABILITIES**

**Current**

|   |          |                |
|---|----------|----------------|
| Loan (secured) - TCorp Nominees (Locomotives)         | -        | 222,524        |
| Loan (secured)- TCorp Nominees (Maintenance Facility) | -        | 15,194         |
| <b>Total Interest Bearing Liabilities</b>             | <u>-</u> | <u>237,718</u> |

The NSW State Government announced the sale of FreightCorp on 31 January 2002. As part of the sale process the put and call options under the company's lease and the put and call options under the company's contract were exercised and all loan facilities were terminated on 20 February 2002.

The facility was secured by a fixed charge over specified income rights of the company.

**MOTIVE POWER COMPANY PTY LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT  
FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED**

**8 SHARE CAPITAL**

|  | <b>Period Ended<br/>21 February<br/>2002<br/>\$'000</b> | <b>Year Ended<br/>30 June<br/>2001<br/>\$'000</b> |
|--|---|---|
| Authorised, Issued and Fully Paid Up Capital |   |   |
| 3 Ordinary Shares of \$1                     | -   | -   |

**9 AUDITOR'S REMUNERATION**

Amounts received or due and receivable  
by the auditors for:

|                |          |          |
|----------------|----------|----------|
| Audit services | <u>8</u> | <u>8</u> |
|                | <u>8</u> | <u>8</u> |

**10 NON CASH OPERATING ACTIVITIES**

Expenses paid by FreightCorp :

|                                 |               |               |
|---------------------------------|---------------|---------------|
| Maintenance                     | 10,141        | 14,158        |
| Board members emoluments        | 40            | 37            |
| Audit fee                       | 8             | 8             |
| Financial services – accounting | 26            | 48            |
| Other expenses                  | 2             | 9             |
|                                 | <u>10,217</u> | <u>14,260</u> |

**11 NON CASH FINANCING ACTIVITIES**

The net of FreightCorp payments, interest  
and other expenses capitalised to the TCorp  
facility during the income period

|           |         |
|-----------|---------|
| (237,718) | (9,927) |
|-----------|---------|

## MOTIVE POWER COMPANY PTY LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED

#### 12 EXPENDITURE COMMITMENTS

The NSW State Government announced the sale of FreightCorp on 31 January 2002. As part of the sale process, which took effect 21 February 2002, the NSW State Government requested FreightCorp unwind the Motive Power Company structure. As a result all borrowings were categorised as current as at 30 June 2001 and no borrowings exist at 21 February 2002. Therefore commitments are payable as follows:

|                         | <b>Period Ended<br/>21 February<br/>2002<br/>\$'000</b> | <b>Year Ended<br/>30 June<br/>2001<br/>\$'000</b> |
|-------------------------|---|---|
| <b>Borrowings</b>       |   |   |
| Not later than one year | -   | 237,718   |

#### 13 CONTINGENT LIABILITIES

All current and future acquired assets, properties and income rights of the company are secured by charges executed on 26 March, 1993.

The NSW State Government announced the sale of FreightCorp on 31 January 2002. As part of the sale process, which took effect 21 February 2002, the NSW State Government requested FreightCorp unwind the Motive Power Company structure.

All borrowings relating to Motive Power Company were novated to FreightCorp under this arrangement and as such no contingent liabilities exist.

**MOTIVE POWER COMPANY PTY LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT  
FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED**

| <b>Period Ended<br/>21 February<br/>2002<br/>\$'000</b> | <b>Year Ended<br/>30 June<br/>2001<br/>\$'000</b> |
|---|---|
|---|---|

**14 REMUNERATION OF DIRECTORS**

Amounts received or due and receivable by the directors of the company

|    |    |
|----|----|
| 40 | 37 |
|----|----|

The number of directors of the company included in these figures are shown below in their relevant income bands:

|                                   |   |   |
|-----------------------------------|---|---|
| Income between \$Nil and \$10,000 | - | - |
| \$10,000 and \$20,000             | 2 | 2 |

The names of the company's Directors in office during the financial period were as follows:

Neville Thomas Cleary  
Bryan Jackson Wrigley

**15 ECONOMIC DEPENDENCY**

The company was specially constituted for the purpose of fulfilling obligations pursuant to a series of contracts, documents and agreements executed on 26 March 1993. This is reflected in the company's Memorandum of Association.

The Motive Power Contract ("the contract") allowed FreightCorp to fully terminate the contract at 180 days notice without any reasons. The contract also allowed FreightCorp immediate and complete termination in the event of certain special defaults.

The NSW State Government announced the sale of FreightCorp on 31 January 2002. As part of the sale process the put and call options under the company's lease and the put and call options under the company's contract were exercised and all loan facilities were terminated on 20 February 2002.

The sale of FreightCorp, effective 21 February 2002, novated the Head Contract to the new owners and therefore once all outstanding expenses have been met, the company will be dormant.

**MOTIVE POWER COMPANY PTY LIMITED**

**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT  
FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED**

**16 SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

No significant events have taken place since balance date.

**17 FINANCIAL INSTRUMENTS**

**(a) Terms, Conditions & Accounting Policies**

| Financial Instrument             | Statement of Financial Position Notes | Accounting Policies  | Terms and Conditions  |
|----------------------------------|---------------------------------------|--|---|
| <i>(i) Financial Liabilities</i> |                                       |  |   |
| Maintenance Facility TCorp Loan  | 7                                     | Borrowings are recognised at their face value. The face value of all principal amounts falling due within 12 months after the end of the year, are recognised as current liabilities. All other principal amounts are recognised as non-current liabilities. | FreightCorp indemnified the company for the loan that was repayable monthly with the final instalment due on 30 June 2011. Interest was charged on a floating rate. On 20 February 2002, the loan facility was terminated with the exercise of the put and call options under the company's lease.    |
| Locomotive TCorp Loan            | 7                                     | Borrowings are recognised at their face value. The face value of all principal amounts falling due within 12 months after the end of the year, are recognised as current liabilities. All other principal amounts are recognised as non-current liabilities. | FreightCorp indemnified the company for the loan that was repayable monthly with the final instalment due on 30 June 2011. Interest was charged on a floating rate. On 20 February 2002, the loan facility was terminated with the exercise of the put and call options under the company's contract. |

**MOTIVE POWER COMPANY PTY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE PERIOD ENDED 21 FEBRUARY 2002 CONTINUED**

**(b) INTEREST RATE RISK AND MATURITY/REPRICING DATES**

| Financial Instruments                       | Fixed interest rate maturing in: |                     |                     |                     |                     |                     |                     |                     | Non-interest bearing |                     | Total carrying amount as per the statement of financial position |                     | Weighted average effective interest rate |                |
|---|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|--|---------------------|--|----------------|
|   | Floating interest rate           |                     | 1 Year or Less      |                     | Over 1 to 5 years   |                     | More than 5 years   |                     |                      |                     |  |                     |  |                |
|   | 21 Feb. 2002 \$'000              | 30 June 2001 \$'000 | 21 Feb. 2002 \$'000 | 30 June 2001 \$'000 | 21 Feb. 2002 \$'000 | 30 June 2001 \$'000 | 21 Feb. 2002 \$'000 | 30 June 2001 \$'000 | 21 Feb. 2002 \$'000  | 30 June 2001 \$'000 | 21 Feb. 2002 \$'000  | 30 June 2001 \$'000 | 21 Feb. 2002 %                           | 30 June 2001 % |
| <b>Financial Liabilities</b>                |                                  |                     |                     |                     |                     |                     |                     |                     |                      |                     |  |                     |  |                |
| Trade Creditors & Accruals                  | -                                | -                   | -                   | -                   | -                   | -                   | -                   | -                   | 23,256               | 406                 | 23,256   | 406                 | N/A                                      | N/A            |
| Accounts Payable – related party/entity (*) | -                                | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                    | 115                 | -  | 115                 | -  | -              |
| Maintenance Facility TCorp loan             | -                                | 15,194              | -                   | -                   | -                   | -                   | -                   | -                   | -                    | -                   | -  | 15,194              | -  | 6.26           |
| Locomotive TCorp loan                       | -                                | 222,524             | -                   | -                   | -                   | -                   | -                   | -                   | -                    | -                   | -  | 222,524             | -  | 6.26           |
| <b>Total Financial Liability</b>            | -                                | 237,718             | -                   | -                   | -                   | -                   | -                   | -                   | 23,256               | 521                 | 23,256   | 238,239             | -  | -              |

**(c) NET FAIR VALUE**

The aggregate net fair values of financial assets and liabilities, both recognised and unrecognised at the balance date are as follows:

|  | Total carrying amount as per the statement of financial position |                     | Aggregate net fair value |                     |   | Total carrying amount as per the statement of financial position |                     | Aggregate net fair value |                     |
|--|--|---------------------|--------------------------|---------------------|---|--|---------------------|--------------------------|---------------------|
|  | 21 February 2002 \$'000  | 30 June 2001 \$'000 | 21 February 2002 \$'000  | 30 June 2001 \$'000 |   | 21 February 2002 \$'000  | 30 June 2001 \$'000 | 21 February 2002 \$'000  | 30 June 2001 \$'000 |
| <b>Financial Assets</b>                |  |                     |                          |                     | <b>Financial liabilities</b>                |  |                     |                          |                     |
| Receivables – trade                    | -  | 115                 | -                        | 115                 | Trade Creditors & Accruals                  | 23,256   | 406                 | 23,256                   | 406                 |
| Receivables – related party/entity (*) | 23,256   | 406                 | 23,256                   | 406                 | Accounts Payable – related party/entity (*) | -  | 115                 | -                        | 115                 |
| Maintenance Facility Receivables       | -  | 15,194              | -                        | 15,197              | Maintenance Facility TCorp loan             | -  | 15,194              | -                        | 15,197              |
| Locomotive Receivables                 | -  | 222,524             | -                        | 222,565             | Locomotive TCorp loan                       | -  | 222,524             | -                        | 222,565             |
| <b>Total Financial Assets</b>          | <b>23,256</b>  | <b>238,239</b>      | <b>23,256</b>            | <b>238,283</b>      | <b>Total Financial Liabilities</b>          | <b>23,256</b>  | <b>238,239</b>      | <b>23,256</b>            | <b>238,283</b>      |

\* Motive Power Company is a controlled entity of FreightCorp.

**MOTIVE POWER COMPANY PTY LIMITED**

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Motive Power Company Pty Limited, we state that:

In the opinion of the directors:

1. The financial report of the company, read in conjunction with the notes thereto, is in accordance with the Corporations Act 2001, and:
  - (a) gives a true and fair view of the company's financial position as at 21 February 2002 and of its financial performance for the period ended on that date; and
  - (b) complies with Australian Accounting Standards and Corporations Regulations 2001.
2. At the date of this declaration there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due and payable.



**NEVILLE THOMAS CLEARY**  
Director



**BRYAN JACKSON WRIGLEY**  
Director

Date: 7 May 2002  
Location: Sydney



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### MOTIVE POWER COMPANY PTY LIMITED

To Members of the New South Wales Parliament and Members of Motive Power Company Pty Limited

#### Scope

I have audited the accounts of the Motive Power Company Pty Limited for the financial period ended 21 February 2002. The company's directors are responsible for the financial report consisting of the statement of financial performance, statement of financial position, statement of cash flows and accompanying notes, and the directors' declaration, and the information contained therein. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and members of the company based on my audit as required by the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Corporations Act 2001*.

My audit has been conducted in accordance with Australian Auditing Standards and statutory requirements to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with my understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

In my opinion, the financial report of the Motive Power Company Pty Limited complies with section 41B of the PF&A Act, and is in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 21 February 2002 and of its performance for the financial period ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.

R J Sendt  
Auditor-General

SYDNEY  
9 May 2002

**MOTIVE POWER COMPANY PTY LIMITED**

**STATEMENT BY MEMBERS OF THE BOARD  
FOR THE PERIOD ENDED 21 FEBRUARY 2002**

Pursuant to Section 41C (1B) and (1C) of the Public Finance and Audit Act 1983, Section 14 (1) of the Public Finance and Audit (General) Regulation 1995 and in accordance with a resolution of the members of the Board of Motive Power Company Pty Ltd, we declare on behalf of the company that in our opinion:

1. the accompanying financial report, read in conjunction with the notes thereto, exhibits a true and fair view of the financial position of Motive Power Company Pty Limited as at 21 February 2002, and transactions for the period then ended; and
2. the financial report has also been prepared in accordance with Part 3 of the Public Finance and Audit Act 1983 and regulations associated with the Act, the requirements of the Corporations Act 2001, applicable accounting standards and Urgent Issue Group consensus views, and other authoritative pronouncements of the Australian Accounting Standards Board.

Further, we are not aware as at the date of this statement of any circumstances that would render any particulars included in the financial report to be misleading or inaccurate.



**Neville Thomas Cleary**  
**Director**



**Bryan Jackson Wrigley**  
**Director**

Date: 7 May 2002  
Location: Sydney

**MOTIVE POWER COMPANY PTY LIMITED  
STATUTORY INFORMATION AND STATEMENTS OF  
OPERATIONS FOR THE  
PERIOD ENDED 21 FEBRUARY, 2002**

**Management Structure**

The Directors of the company are:

***Neville Thomas Cleary***

Mr Cleary was appointed Director of the company at the date of incorporation pursuant to Clause 8.1 of the Articles of Association. He is a Director of Ipoh Limited, Garratt's Limited and Ardel Pty Limited.

***Bryan Jackson Wrigley, BCom, FCPA (Treasury), FFTP***

Mr Wrigley was appointed Director of the company at the date of incorporation pursuant to Clause 8.1 of the Articles of Association.

**Senior Officers**

The company does not have any employees. Accounting services are provided by Ernst & Young; administrative support was provided by FreightCorp officers.

**Access**

The address of the company is:

Level 5  
51 Allara Street  
CANBERRA ACT 2600

Telephone No: (02) 6267 3888

Hours of Business: 9.00 am to 5.00 pm (Monday to Friday)

**Legal Changes, Economic and Other Factors**

Operations for the period under review have not been affected by an legal change, or any adverse economic or other factors, other than the change to operations as described in the Directors' Report.

**Consultants**

The company did not employ any consultants during the year.

***Guarantee of Service***

Guarantee of service during the period relates to locomotive availability, where the company has guaranteed 100 per cent daily availability of 84 locomotives.

***Risk Management and Insurance***

The company did not undertake any risk management or insurance activities because no staff are employed and its locomotives were leased to FreightCorp.

***Performance Measures 2001/02***

The contract with FreightCorp specified that 84 locomotives are to be provided on a 100 per cent availability basis.

Availability of locomotives is calculated each month and compared with the target of 100 per cent.

Average availability of locomotives calculated on this basis was 100 per cent for 2001/02.

