SERVING REGIONAL COMMUNITIES
V/Line is Victoria’s largest regional passenger transport operator, with a long history serving its communities through rail and coach services. In July 2003, it began a new chapter in its operations with the establishment of V/Line Passenger Corporation.

V/LINE PASSENGER CORPORATION AND V/LINE PASSENGER PTY LIMITED
V/Line Passenger Corporation was established on 15 July 2003 as a statutory rail corporation under the Rail Corporations Act 1996.

The corporation was set up to acquire National Express Group Australia (V/Line Passenger) Pty Ltd ("NXVLP") from the National Express Group following that group’s decision to withdraw from the operation of its rail transport franchises.

V/Line Passenger Corporation’s acquisition of NXVLP took place on 1 October 2003 and the name of NXVLP changed to V/Line Passenger Pty Ltd ("V/Line").

V/Line has a Franchise Agreement with the Director of Public Transport, representing the State Government of Victoria, to operate regional rail and rail replacement coach services.

V/Line remains subject to a Deed of Company Arrangement and has been operating as a stand-alone organisation since 1 October 2003, when it came out of receivership.

OUR MISSION
V/Line connects people and places.

OUR VISION
Victoria’s communities choose V/Line as their preferred way of getting from place to place.

OUR VALUES
Respect
Empowerment
Customer Focus
Excellence
Honesty

ABOUT THIS REPORT
This is V/Line Passenger Corporation’s first annual report, covering the period since its establishment on 15 July 2003 to financial year-end on 30 June 2004.

This report also provides details of the activities of V/Line Passenger Pty Ltd from 1 July 2003 to 30 June 2004 and its financial performance from 1 October 2003 – the date on which V/Line Passenger Corporation acquired NXVLP from the National Express Group – to 30 June 2004.
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IN 2003-04, V/LINE TRANSPORTED APPROXIMATELY 130,000 CUSTOMERS EACH WEEK, OR A TOTAL OF 6.9 MILLION FOR THE YEAR.
21 October 2004

The Hon. Peter Batchelor MP
Minister for Transport
Level 26 Nauru House
80 Collins Street
Melbourne 3000

Dear Minister

I have pleasure in submitting the Annual Report for V/Line Passenger Corporation and V/Line Passenger Pty Limited (V/Line) for the financial period 1 October 2003 to 30 June 2004.

The period has been one of significant transition for V/Line as it has moved from receivership to a stand-alone organisation.

Our priority has been to develop a customer-focussed organisation and culture that supports the Victorian Government’s major regional rail initiatives. This has included supporting the Spencer Street Station Redevelopment, the Regional Fast Rail Project with the Department of Infrastructure and preparation for the introduction of the new V’Locity trains.

I am pleased to report that in 2003–04 V/Line achieved all its budget targets with respect to its subsidies and expenditure.

The board and management are confident that the foundations we are putting in place will enable V/Line to progressively deliver the passenger rail benefits of the Government’s Linking Victoria strategy.

Yours faithfully

Frank Tait, Chairman
The year 2003–04 marked the beginning of a new era for V/line, the State’s largest regional passenger transport operator.

The State Government is supporting improved rail passenger services through major infrastructure projects, including Spencer Street Station Redevelopment, the Regional Fast Rail Project and the construction of 38 new V’Locity passenger trains. V/Line is preparing itself to be an active partner in this exciting future.

While the car will continue to be the travel choice of many people, the significant service improvements that will flow from the State Government’s investments in passenger rail will provide an attractive transport alternative.

V/Line’s management and staff are the key to our future success and we will continue to invest in them. Their dedication and support for our customers and for the significant changes taking place have contributed to the success that V/Line has enjoyed in the past year.

V/Line worked hard throughout the year to support the projects involved in the re-building of its network infrastructure, put new strategies in place to develop its business and customer relationships, and made exciting plans for the future.

Given the scope of renewal, we faced significant challenges and these undoubtedly placed strain on our business, our customers and our staff. However, the results we have achieved are a testament to the dedication and willingness of all involved to work together for a better regional rail future.

The support of the Victorian State Government has been crucial to that transition, as has the support of regional communities and our 600-plus employees. Our operational and financial performances this year are commendable in the context of these challenges.

A NEW ERA FOR REGIONAL RAIL

The year 2003–04 saw the Victorian Government’s vision for rebuilding the State’s regional rail network become a reality, with the start of works on the Regional Fast Rail Project, the largest investment in country rail infrastructure in many decades and pivotal to V/Line’s long-term success.

Significant progress was also made on the redevelopment of Spencer Street Station, with its distinctive rolling roof symbolising a new gateway to Melbourne.

V/Line is supporting the Regional Fast Rail Project by working closely with the Department of
Infrastructure and contractors upgrading track and signalling on major rail corridors. During the year, the first stage of major upgrades was completed on the Geelong, Latrobe Valley and Ballarat lines. This was an important achievement, requiring unprecedented levels of cooperation and communication with customers and between V/Line, the Department of Infrastructure, Freight Australia and contractors.

Other key events included the re-opening of the Bairnsdale line in May. Premier Steve Bracks and Transport Minister Peter Batchelor joined more than 5000 people in a spectacular community event to welcome passenger trains back to the town after an absence of more than 10 years.

V/Line is also overseeing the manufacture and introduction of 38 new V'Locity trains that will deliver direct benefits to regional communities by providing more frequent, reliable and comfortable services. This is the real goal of V/Line and Regional Fast Rail – to meet customers’ needs in an ever-changing environment and thereby to contribute to the economic development of businesses and communities across Victoria.

**Towards a Sustainable Future**

V/Line’s infrastructure and service renewal takes place at a time of considerable socio-economic change in parts of regional Victoria, with increasing numbers of city residents seeking a ‘sea change’ in lifestyle by moving to country areas and commuting by rail to their jobs.

V/Line sees its role as a service provider while at the same time forming a key part of the social infrastructure that will facilitate this important trend in regional development, adding to the quality of life in regional communities.

Our passenger rail services will be pivotal in servicing these expanding communities and there are unprecedented opportunities to demonstrate our value to customers. We want to grasp these opportunities fully, ensuring that we work in close partnerships to maximise benefits for all.

At the same time, record world oil prices, coupled with increasing community awareness of the environmental impact of traditional road transport, present significant challenges and opportunities for V/Line to make a major contribution towards achieving a sustainable future for regional communities – and for the V/Line business itself.

This recognition is encapsulated in our vision, which drives strategy development at every level of our business.

**V/Line’s Vision**

V/Line’s vision is simple: Victoria’s communities choose V/Line as their preferred way of getting from place to place. We fully support the Government’s broader Linking Victoria program.

The key to achieving our vision is developing a customer-oriented culture, so that choosing V/Line is easy.

This means that understanding the needs and expectations of the customer and continually seeking ways to meet and surpass those needs and expectations is now at the heart of all our activities.

The process of change has been evident during 2003–04 through the many rail infrastructure projects. These projects will progressively come to completion during 2005 and our customers will start enjoying the benefits of new and better services.

The Board is confident that 2004–05 will be the first ‘building’ year for the new V/Line as it strengthens its position as an integral part of life in regional Victoria.

Frank Tait, Chairman
V/Line's first year of operation was one of significant challenge and major achievement. It has established a firm foundation for an exciting future for regional passenger travel in Victoria.

That future will ensure a modern, safe and reliable regional passenger rail system for all Victorians, underpinned by the State Government’s major rail infrastructure projects, as well as the introduction of V/Line’s new trains and the development of a new timetable to meet customer needs.

Our vision of Victorian communities choosing V/Line as their preferred way of getting from place to place drives our business strategy.

During 2003–04, V/Line put in place a number of important ‘building blocks’ to prepare its network for achieving that vision. These included:

SAFETY
V/Line is committed to operating a safe and secure environment for its customers and staff. Safety is core to our business and is our key focus every day. It is an integral part of our role and accreditation as a transport operator in Victoria.

During 2003–04 there were several significant incidents involving motor vehicles which resulted in injuries to our customers and staff. Thorough investigations of these incidents have been undertaken as part of our promise to maintain the highest rail safety standards.

Overall, there was a steady decline in the number of safety incidents involving V/Line staff members. This is reflected in a reduced number of WorkCover claims.

Continuing improvement in our safety performance in all areas of operation will be a key focus in 2004–05 and beyond.

BUSINESS PLANNING
On 1 July 2003 V/Line signed a new three-year franchise agreement with the Department of Infrastructure, which came into effect on 1 October 2003. This agreement provides the necessary timeframe and certainty for us to implement our major programs so as to add value to the V/Line business to prepare for re-franchising in 2007.

The end of receivership on 1 October 2003 marked the beginning of a new V/Line. The period of receivership was difficult for all V/Line employees, who are to be commended for their continued commitment to the efficient running of the business during that time.

Strengthening internal relationships and involving employees have been critical to achieving the change needed in the new V/Line. Complementing these efforts has been the development of a close working relationship with union representatives.

The V/Line Business Plan for 2004–07, which was presented to the Department of Infrastructure in February 2004, outlined the activities and budgets necessary to meet V/Line’s three key business objectives to:

1. maintain the existing customer base during the transition period by providing excellent service
2. play our part in the delivery of major government initiatives that renew our infrastructure
3. strengthen the V/Line business through improved efficiency and better service provision, so that the planned refranchising in 2007 will maximise its value to the Government.

Acceptance of the plan by the Director of Public Transport is indicative of the sound working relationships that we continue to develop at all levels of government.

This annual report provides a progress report on the implementation of our business plan. It details our activities and results against the strategic objectives that have been established for each part of our business. This helps to demonstrate the significant changes already under way at V/Line as well as the challenges ahead.

PERFORMANCE OVERVIEW
V/Line’s success is measured against specific performance targets set by the Victorian Government. These include safety, financial, operational and customer service targets.

During the year proactive management of customer communications and replacement coach services minimised customer inconvenience caused by temporary line closures due to the Regional Fast
Rail Project and other disruptions. Our customers have been most understanding during this significant rebuilding period. I thank them for their support and patience.

Similarly, the redevelopment of Spencer Street Station affected V/Line services as a result of platform closures and restricted train movements. V/Line continued to work closely with the Spencer Street Station Authority and all other relevant parties to facilitate this important construction project.

For the financial period 1 October 2003 to 30 June 2004, V/Line achieved all its budget targets with regard to subsidies and expenditure. Operating revenues were $125.6 million, comprising fare collections of $35.0 million, government subsidies of $84.4 million and other income of $6.2 million. Expenditure totalled $137.4 million, resulting in a net profit of $126.1 million. No dividend was paid for the period.

The net profit was a direct result of the accounting process applied to the purchase of the V/Line business, with a nominal $1 paid for assets valued at $136.8 million.

Operationally, V/Line met its reliability targets at all times. However, the flow-on effects of the infrastructure projects affected punctuality and, as a result, some lines were below target during some months.

Operations were also affected by an ongoing shortage of train drivers throughout the Victorian rail network. V/Line will use both recruitment and training to meet its future needs.

As expected, patronage fell significantly during the periods of line closures and other works but has recovered well, reflecting the effectiveness of V/Line’s management of these disruptions and customer acceptance of the comprehensive coach

V/LINE IS COMMITTED TO OPERATING A SAFE AND SECURE ENVIRONMENT FOR ITS CUSTOMERS AND STAFF.
replacement program. Overall patronage – which continues to be affected by line closures – was down by 6.5 per cent for the year.

Despite these operational challenges, customer satisfaction (as measured by the Department of Infrastructure’s quarterly survey), remained steady at 79 per cent for V/Line rail services and 82 per cent for rail replacement coach services.

EXPANDING THE V/LINE NETWORK AND FLEET

The re-opening of a number of regional rail lines is a key component of the State Government’s Linking Victoria strategy. The first of these – Bairnsdale in May 2004 and Ararat in July 2004 – received overwhelming community support. These lines clearly have the potential for growth of both inbound and outbound travel.

The Government has also announced that services will be returned to Mildura and Leongatha in the future.

During the year, detailed planning took place in preparation for the resumption of V/Line’s operation of the Shepparton rail and associated coach services. These were previously operated by Hoys Pty Ltd whose franchise expired on 30 June 2004.

Preparations were also under way for taking over the rail services on the Warrnambool line, following a direction from the Director of Public Transport.

In May 2004, the first of V/Line’s 38 new V’Locity trains rolled off the Bombardier assembly line in Dandenong. With their new, modern design, easy passenger access and comfort, they will make a significant addition to V/Line’s fleet. Once testing is completed, the vehicles will be introduced to operational service progressively from early 2005.

UNDERSTANDING OUR CUSTOMERS

During 2003-04 V/Line undertook a major customer study designed to ensure that we have a clear understanding of our customers, their V/Line experience and their travel needs. This research has been invaluable in preparing us to capitalise on the major rail rejuvenation programs currently under way.

While the upgraded lines and new trains will provide the foundation for the V/Line of the future, the key to delivering improved service to our customers will be our new timetable, which is expected to be available for customer and community comment at the end of 2004.

The year also saw V/Line entering into initial discussions with the newly established Transport Ticketing Authority on development of a new ticketing solution for Victoria. V/Line is fully supportive of this major initiative, which will facilitate travel between metropolitan and regional networks by providing customers with a ticket that meets their needs and has built-in flexibility.

In conclusion, I would like to thank all V/Line employees for their professionalism, patience and commitment during this period of transition for our business, enabling us to sustain the momentum necessary to address our key business challenges.

Andrew Neal, Managing Director
V/Line is regional Victoria's major provider of passenger rail and coach services. It is responsible for the operation of transport services, the staffing of stations and the sale of tickets through its own staff and agents. Some coach services are provided under contracts with private coach operators.

**FLEET**
- 41 locomotives
- 139 carriages
- 21 sprinters

In addition, 38 new two-carriage V’Locity trains are on order and due to start entering service in early 2005.

V/Line provides onboard catering on longer-haul routes.

**PATRONAGE**
V/Line transports approximately 6.5 million rail passengers and approximately 0.5 million coach passengers annually around regional Victoria.

Every week V/Line operates 1,154 rail services and 592 coach services across regional Victoria.

As at 30 June 2004, there were 68 stations.

**COACHES**
There are two types of coach operations in the V/Line network:
- the rail replacement coach services that are operated by V/Line
the coach services - often with V/Line livery - that are contracted by the Department of Infrastructure. These comprise the majority of the services.

REVENUE

V/Line generates approximately $46.5 million in farebox revenue per year. Approximately 60 per cent of fares are full fare and 40 per cent concession fare.

On average 7,200 tickets are sold each day, 80 per cent of which are through V/Line’s ticket system, V/Net. The remaining 20 per cent of tickets are sold manually - through agents or the Met or as onboard sales. V/Line has 450 agents across Victoria.

Most tickets are ‘ordinary’ one-way or return tickets, usually unreserved. Periodical tickets (weekly, monthly, annual and date to date) are also available.

EMPLOYEES

At 30 June 2004, V/Line employed 631 people (622 full-time equivalent employees).

THE YEAR IN REVIEW

The year 2003–04 has been one of transition for the V/Line business. We faced significant challenges as we supported major rail infrastructure projects while maintaining the highest possible levels of customer service. The table opposite provides an overview of the year’s highlights.
### THE YEAR IN REVIEW

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| **SAFETY**       | Annual Safety Regulatory Audit completed by Department of Infrastructure, confirming compliance with all safety standards.  
                  | 20 per cent reduction in WorkCover claims.  
                  | First survey of V/Line employees' views and attitudes on safety. |
| **CUSTOMERS**    | Customer satisfaction for both rail and coach services – as measured by Department of Infrastructure surveys – remained steady.  
                  | Comprehensive customer research completed. Research results are contributing to the development of new V/Line timetable, customer service and marketing initiatives.  
                  | Major government projects (Regional Fast Rail, Spencer Street Station Redevelopment) supported through effective management of customer travel during line disruptions and temporary closures. Short-term patronage loss restored to close to pre-disruption levels on Geelong, Latrobe Valley and Ballarat lines. |
| **EMPLOYEES**    | Completed introduction of new employee-focussed programs, including Employee Assistance Program and Workplace Awareness Program.  
                  | Training Needs Analysis completed, with development of comprehensive training plans under way.  
                  | Introduction of new supervisory role for V/Line locomotive drivers. |
| **OPERATIONS**   | Reliability targets achieved. Fluctuations in punctuality performance on some lines.  
                  | Bairnsdale line re-opened.  
                  | Detailed preparations made for re-opening of Ararat line.  
                  | Extension of Bendigo line services to Eaglehawk.  
                  | Type-testing of V/Line’s new V’Locity trains began, with first trains scheduled for service in early 2005. |
| **FINANCE**      | Complied with all financial requirements of the V/Line franchise agreement, including completion of detailed business plan.  
                  | Achieved all revenue and expenditure budget targets |
| **COMMUNITY**    | Stronger links established with local government and interest groups on all key corridors through briefings on Regional Fast Rail Project and new V/Line timetable.  
                  | Sponsorship of the Victorian Country Football League and its associated netball competitions. |
In 2003–04, V/Line transported approximately 130,000 customers each week – or a total of 6.9 million for the year. This comprised 6.4 million rail passengers and 500,000 passengers on coaches contracted and/or managed by V/Line.

UNDERSTANDING OUR CUSTOMERS’ NEEDS

During 2003–04, V/Line placed particular focus on customer needs at every level of its business.

In late 2003, V/Line commissioned a major research study into its existing customer base and market to help develop a medium-to-long term service strategy.

Research results indicated that 75 per cent of customers were positive about travelling with V/Line. However, they wanted improved network performance, particularly in terms of frequency, punctuality and comfort.

This information is central to development of V/Line’s new timetable and will also help to determine fleet upgrades and replacements, marketing initiatives and customer service programs.

THE NEW V/LINE TIMETABLE

In March 2004, the development of a new ‘customer-driven’ service plan, or timetable, was transferred from the Department of Infrastructure to V/Line.

This timetable, planned for full introduction by 2006, will bring together the benefits of the new trains, upgraded infrastructure and latest safety systems through the Regional Fast Rail Project. Combined, these will deliver to customers a far superior service, with increased convenience, frequency, reliability and comfort.

As a starting point, the work undertaken by the Department of Infrastructure (community consultation and growth projections), along with government commitments on the Regional Fast Rail Project, provided a base for the next stage of development of the timetable.

In addition, V/Line interviewed a further 5,000 existing and potential customers about their specific timetabling needs and expectations. This research helped V/Line to refine its thinking and develop the new service plan in much greater detail.

We expect to issue a draft of the new timetable for customer comment by the end of 2004.

NEW TICKETING SOLUTION

During the year V/Line worked with the Transport Ticketing Authority to develop the initial ticketing concept to meet the needs of regional Victorians and V/Line customers. This cooperative relationship will continue into the new year, with V/Line being involved in the design of system specifications and the evaluation of tenders.

The SmartCard technology that underpins the new ticketing solution is to be trialled by V/Line in 2006.

MANAGING DISRUPTION THROUGH IMPROVED COMMUNICATION

Customers experienced considerable disruption to normal services during the year as a result of important track upgrades to support the Regional Fast Rail Project. There were long periods of disruption and closure on the Geelong, Ballarat and Latrobe Valley lines.
THE KEY TO DELIVERING IMPROVED SERVICE WILL BE V/LINE’S NEW SERVICE PLAN AND TIMETABLE.
THE REGIONAL FAST RAIL PROJECT WILL ENABLE V/LINE TO DELIVER MORE FREQUENT, FLEXIBLE, RELIABLE AND COMFORTABLE PASSENGER RAIL SERVICES.
From the outset, V/Line recognised that accurate and timely customer information would reduce the inconvenience of changes to regular services and enable people to plan their journeys with confidence.

On all affected lines, comprehensive communication campaigns were mounted to inform customers about the track upgrades, the resulting temporary disruptions and closures, and arrangements for replacement coach services to minimise inconvenience.

Replacement coach services during periods of track closures operated to normal schedules wherever possible.

V/Line also implemented major customer information programs to manage service disruptions and changes resulting from the redevelopment of Spencer Street Station. V/Line worked cooperatively with the Spencer Street Station Authority and other parties to inform customers and minimise the effects of disruptions.

**TRACKING CUSTOMER SATISFACTION**

The Director of Public Transport commissions monthly surveys to assess whether public transport operators are providing the quality of service that their customers expect. Results are published quarterly.

Interviewees are asked to state their level of satisfaction with specific aspects of public transport as well as the service overall, including service delivery, information delivery, staff performance and value for money.

**DOI CUSTOMER SATISFACTION TRACKING**

The Regional Fast Rail Project is the biggest upgrade of Victoria’s rail in 120 years. When completed, the project will offer V/Line customers along key corridors more frequent, flexible, reliable and comfortable rail services.

Major construction contracts were awarded to the Thiess ALSTOM Joint Venture and Regional Rail Link consortia in June 2002. The Department of Infrastructure has managed the infrastructure upgrade project with support from V/Line and Freight Australia.

The works include upgrading more than 500 kilometres of railway on the Geelong, Latrobe Valley, Ballarat and Bendigo lines, with around 70 per cent of the new track suitable for trains travelling up to 160km/h.

Together with V/Line’s 38 new V’Locity trains and a new improved timetable, the project will deliver some of the most significant improvements in the history of regional rail travel in Victoria.

Regional Fast Rail construction works are scheduled for completion in 2005. By 30 June 2004, the bulk of the track works (170 kilometres of track) had been completed on the Geelong, Latrobe Valley and Ballarat lines. Preliminary works have begun on the installation of the modern signalling system and improved safety protection at level crossings.
CUSTOMER ENQUIRIES

V/Line provides a customer call centre, which includes an information service for people with special needs and for non-English speaking people.

There were more than 4,600 customer enquiries during the year – an average of 390 calls per month. The most frequent enquiries related to service delivery, ticketing information and claims.

This year a new system was implemented to monitor and report on customer enquiries and comments and their follow-up.

EQUAL ACCESS

V/Line is committed to providing equal access to travel for all Victorians and strives to enhance its service for people with special needs.

Our compliance with the Disability Discrimination Act (DDA) is measured against the Disability Standards for Accessible Public Transport, which became part of the Act in October 2002. The first compliance date is 31 December 2007.

In March 2004, we provided the Department of Infrastructure with a progress report on our work to date in improving the accessibility of our services and our plans for the remainder of 2004 and 2005.

The report confirmed that:

- the 38 new V’Locity trains will be compliant with the Disability Standards
- V/Line’s new road coaches will offer wheelchair access
- the re-opened Bairnsdale and Ararat services are compliant with the Disability Standards
- V/Line continues to provide its employees with information and training on DDA issues.

In addition, we expect to finalise a formal V/Line DDA action plan later this year.

As a member of the Public Transport Advisory Committee, V/Line actively participates in discussions aimed at identifying and resolving DDA issues.

MARKETING INITIATIVES

Extensive customer research provided better understanding of customer segments and their
needs, and this has been valuable in developing a range of special travel packages that will be launched as part of an integrated marketing program in 2004-05.

**Travel promotions**

V/Line’s travel promotions during the year centred on the AFL football season and the perennially successful Snow Coach service.

‘Footy trains’ are special rail services on our major lines. Approximately 116,000 football fans used V/Line’s ‘footy trains’ during rounds 14 to 22 in 2003 and rounds 1 to 13 in 2004. This patronage was similar to that of the previous year.

The Snow Coach to Mount Buller transported 6,613 people between 1 July 2003 and 30 June 2004. The service runs seven days a week from Spencer Street Station, with stops at various suburbs and towns en route to Mansfield, where it connects with the Mansfield Mount Buller Buslines service to the snowfields.

**Special events**

As in past years, special service arrangements were made for major commemorative events, such as the Anzac Day parade in Melbourne.

Other regional events, such as the Hanging Rock Races in January and the Ballarat Begonia Festival in March, were also the subject of transport/entry ticket packages.

Another significant promotion was linked with the Victorian Government’s Open House weekend on 24–25 June, 2004. V/Line offered a weekend return ticket and discounted accommodation package for regional customers.

**WORKING WITH REGIONAL COMMUNITIES**

**Community liaison**

V/Line seeks open and cooperative relationships with local government and community interest groups.

In early 2004, we started building these relationships in line with the need to communicate to local government and other community groups on the Regional Fast Rail Project, associated temporary changes to services resulting from major line upgrade work, and the development of the new V/Line timetable.

In all, V/Line conducted jointly with the Department of Infrastructure, 26 briefings to local municipal councils, rail-user advocates and other interest groups.

**Community support**

V/Line negotiated its first major sponsorship with Victorian Country Football League (VCFL) and its associated netball competitions during the year.

The sponsorship was seen as mutually beneficial, with V/Line and the VCFL sharing a common commitment to support and promote regional communities.

As well as promoting rail travel generally across the State, the sponsorship complemented the promotion of V/Line’s special ‘footy trains’ which have proved popular with regional Victorians travelling to AFL matches in Melbourne.

Particular focus was placed on the ‘V/Line Under 15 Championships’ contested in Melbourne in early April 2004.
IN MAY 2004, PREMIER STEVE BRACKS JOINED CROWDS OF EXCITED Bairnsdale residents to welcome the return of V/Line’s passenger train service between Sale and Bairnsdale.
From an operational perspective, 2003–04 was a challenging year for V/Line. Major impacts on passenger rail operations included:

- the Regional Fast Rail Project
- Spencer Street Station Redevelopment
- Regional rail network extensions to Bairnsdale and Ararat.

PUNCTUALITY AND RELIABILITY

V/Line’s operational performance is measured monthly by two key parameters: punctuality and reliability.

Punctuality is defined as the percentage of trains that arrive within five minutes of the scheduled time, with a minimum performance set at 92 per cent. Reliability is the percentage of scheduled trains that operate during a given month, with a minimum level of 96 per cent.

Given the operating environment in 2003–04, the day-to-day priority of V/Line staff has been to manage the system safely and maintain the highest possible punctuality and reliability and thus the lowest possible customer inconvenience.

Throughout 2003–04, V/Line’s reliability was maintained well above the 96 per cent threshold. In fact, it was consistently above 99 per cent, with the exception of November 2003 and June 2004 when there were serious incidents at Ballan, Mitiamo and Elphingstone.

From July 2003 to October 2003, the punctuality of our services was also consistently above the minimum performance target. This was followed by a series of fluctuations, due primarily to line disruptions and, in December, very hot weather that resulted in speed restrictions on trains, thus affecting normal travel times.

RESPONDING TO DISRUPTIONS AND TEMPORARY LINE CLOSURES

There were three major temporary line closures due to track upgrade works for the Regional Fast Rail Project:

A major coach replacement program was implemented on the Geelong line from 4 January to 11 February 2004, when V/Line coaches transported more than 100,000 passengers.

During closure of sections of the Latrobe Valley line between 21 February and 26 April, coaches provided a regular service to and from Pakenham, where trains continued the onward journey to Melbourne.

The closure of parts of the Ballarat line from 17 April to 8 July 2004 necessitated a similar rail replacement coach service between Melbourne, Bacchus Marsh and Deer Park.

SERIOUS INCIDENTS

Our ability to respond to changing circumstances was further challenged during the year by several serious incidents that resulted in injuries to customers and staff. These incidents also resulted in trains being removed from service for lengthy periods for repair.

In one incident at Ballan on the Ballarat line in November, a V/Line Sprinter service collided with a vehicle abandoned on the track, resulting in a number of injuries. All three Sprinter units required major repair work.

A level crossing accident at Nagambie in January tragically resulted in the death of a motorist, while a number of passengers were treated for minor injuries following level crossing incidents at Mitiamo and near Elphingstone in June. Again, repair work to locomotives and carriages was considerable.
VICTORIA’S MINISTER FOR TRANSPORT, PETER BATELOR, INSPECTS V/LINE’S NEW V’LOCITY TRAINS AT THE BOMBARDIER MANUFACTURING FACILITY.
INFRASTRUCTURE MANAGEMENT

V/Line is responsible for station infrastructure at 68 locations across the regional passenger rail network. During 2003–04, initiatives undertaken to enhance station facilities for customers included:

- building upgrades at 15 stations
- electrical upgrades to platform lighting and switchboards at 17 stations
- improvements to platform and waiting room seating at a range of locations
- installation or upgrading of yellow clearance lines on all station platforms.

In addition, V/Line continued a range of major customer service improvement programs, focussing on:

- remote public address systems at all stations
- public address systems at all major and terminating stations
- air-conditioning systems at all fullystaffed stations
- automatic door units at 22 stations
- closed circuit television systems at nine stations.

FLEET PERFORMANCE

Fleet performance is a critical factor in operational performance and therefore in service delivery to customers. V/Line engineers closely monitor three measures to ensure appropriate management of rolling stock. They are:

- fleet availability
- fleet operating performance regime
- mean distances between in-service faults for carriages, sprinters and locomotives.

FLEET AVAILABILITY

The introduction of V/Line’s V’Locity trains will mark a new era of travel across regional Victoria.

Capable of speeds up to 160 km/h, the state-of-the-art train has been specifically designed to meet the needs of V/Line’s customers. Incorporating proven technology and the highest safety standards, the V’Locity offers new levels of reliability and customer comfort.

Each V’Locity unit consists of two semi-permanently attached carriages. The units can be linked to form a train of up to eight carriages, giving V/Line the flexibility to match train size to customer demand.

Key features include:

- seating for 144 passengers
- wider 4-across (2 x 2) seating, with a seat width equivalent to current first class standards
- adjustable armrests
- full wheelchair access
- new passenger information system that displays stops
- toilets and other amenities
- climate control.
During 2003–04, fleet availability for carriages and Sprinters was steady at 90 per cent or above. However, locomotive availability was affected by the incidents at Nagambie, Mitiamo and Elphingstone, which took three locomotives out of service for up to three months.

V/Line’s fleet operating performance regime showed considerable fluctuations over the year, particularly between November 2003 and April 2004, when the impact of the incidents was greatest.

There were also fluctuations in the mean distance measures over the year, with some shortfalls against the performance target.

**FLEET MAINTENANCE**

Since the year 2000, V/Line has contracted EDI Rail to provide all fleet maintenance services. This includes preventative maintenance and refurbishment activities, as well as V/Line’s reactive or ‘out of course faults’ maintenance program.

Preventative maintenance is designed to ensure that required standards of safety and reliability are met, as well as customer expectations.

During 2003–04, more than 17,500 routine preventative maintenance examinations took place. This is a similar number to 2002-03.

V/Line’s fleet refurbishment program comprised 46 major overhauls.

**NEW V/LINE V’LOCity TRAINS**

Preparations are well under way for the introduction of V/Line’s high-speed V’Locity 160 trains. These will play an important role in bringing the benefits of the Government’s Regional Fast Rail Project to V/Line customers.

Bombardier Transportation was contracted to provide 38 trains, to be manufactured locally and to have more than 70 per cent Australian content.

The first train rolled off Bombardier’s Dandenong assembly line in May 2004. An intensive program of formal testing began in June, covering safety, reliability and comfort.

Twenty-two trains are scheduled for delivery by the end of 2005 and another 16 by the second half of 2006.
THE REDEVELOPED SPENCER STREET STATION WILL PROVIDE A NEW GATEWAY TO MELBOURNE, FAST RAIL CONNECTIONS TO REGIONAL VICTORIA AND NEW FACILITIES FOR RAIL, TAXI AND BUS PASSENGERS.
SAFETY MANAGEMENT

Every day of the year V/Line must meet or exceed all safety compliance standards and demonstrate that it is continuously working on minimising safety incidents.

We manage these responsibilities in two ways:

- by constantly monitoring the performance of our Safety Management System
- by developing and implementing new initiatives in safety training.

Through internal safety audits, V/Line continuously reviews its Safety Management System. Audits are a requirement of our Rail Safety Accreditation and are reviewed by the Department of Infrastructure Safety Branch staff.

Safety inspections and regular training in Occupational Health & Safety systems further support and maintain the integrity of V/Line’s overall safety.

V/Line undergoes an annual, external Safety Regulatory Audit, conducted by the Department of Infrastructure. This occurred in November–December 2003 and confirmed our compliance with all safety standards. No conformity issues were raised.

Major safety initiatives during 2003-04 included:

- an internal "safety climate" survey to identify areas for on-going safety performance improvement
- introduction of a revised medical testing regime for operational employees
- development of fatigue management strategies for shiftwork employees.

SAFETY PERFORMANCE

A number of serious incidents involving level crossing and other collisions had a major impact on V/Line’s overall safety performance during the year.

These incidents unfortunately resulted in injuries to some staff and customers. V/Line actively participated in subsequent investigations.

Apart from these exceptional events, V/Line achieved a steady – and, in some areas, improved safety – performance.

There were 20 per cent fewer WorkCover claims than in the previous 12 months.

WORKCOVER CLAIMS

<table>
<thead>
<tr>
<th></th>
<th>2003-2</th>
<th>2002-3</th>
<th>2003-4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>130</td>
<td>127</td>
<td>101</td>
</tr>
</tbody>
</table>

KEY OPERATIONAL HIGHLIGHTS

Re-opening of Bairnsdale rail line

The rail line from Sale to Bairnsdale was re-opened on 2 May 2004 after a 10-year closure. Both the Victorian Premier, Steve Bracks, and the Minister for Transport, Peter Batchelor, as well as local MP Craig Ingram, attended the launch ceremony (see page 18).

V/Line provides two return services a day from Bairnsdale to Melbourne, with weekend timetables structured to enable East Gippsland customers to get to and from Melbourne for major events, including AFL football.

Patronage has increased gradually since the re-launch of the service and this is expected to
continue, particularly given East Gippsland’s tourism appeal.

V/Line is working to develop and promote a range of travel and accommodation packages to attract visitors to the region.

**Preparation for re-opening of Ararat line**

Extensive testing was also undertaken on the Ballarat to Ararat line in preparation for its re-opening on 11 July 2004, with two return services a day to Melbourne.

The Ararat community turned out in force to welcome trains back to the town after an absence of 10 years.

**Announcement of Warrnambool services**

In June 2004, the Government directed V/Line to operate the passenger services from Melbourne to Warrnambool starting 1 September 2004, following the end of the West Coast Railway service agreement.

As the new franchise holder, V/Line committed to providing three daily services to and from Melbourne as defined in the franchise agreement. Successful operation of these services will be a key focus of 2004–05.

**Extended services to Eaglehawk**

Extension of Bendigo line services to Eaglehawk began at the end of October 2003, providing increased customer convenience and choice.

Customers using the line now have the option of travelling from Bendigo or Eaglehawk stations. They have access to three return services a day between Eaglehawk and Melbourne.

**Shepparton passenger services**

Following extensive planning with Hoys Pty Ltd, in March 2004 V/Line announced that it would resume full operation of Shepparton passenger rail and associated coach services from 1 July 2004. The State Government’s contract with Hoys, which had managed the services since 1993 using V/Line trains and drivers, expired on 30 June 2004.

V/Line also took over operation of the Shepparton station and the rail replacement coach service from Shepparton to Cobram. Seven Hoys employees transferred to V/Line.
At 30 June 2004, V/Line had 631 employees (622 full-time equivalent employees) operating its service network.

During the year, a range of important initiatives were undertaken to support V/Line’s strategic agenda of engaging, motivating and involving its workforce.

They focussed on shifting the human resources function from a personnel/administration and reactive industrial relations model to one which emphasises open communication, employee development and business partnering. This is part of a wider ongoing cultural change process within V/Line.

To this end, closer working relationships were developed with Operations, Safety and Stakeholder Relations staff to ensure a multidisciplinary approach to all employee initiatives, communications and issues.

CERTIFICATION OF EBA

After a comprehensive negotiation process with union representatives, the Enterprise Bargaining Agreement (EBA) for 2003–2006 was completed and certified in late November 2003.

The EBA contained a number of strategic initiatives, including the development of a single V/Line award, the implementation of a new classification framework based on the Australian qualification framework and the establishment of a participative and consultative process with staff and union representatives in relation to the Regional Fast Rail Project. The latter will provide the foundation for a cooperative working relationship during a period of abnormal disruption.

EMPLOYEE ASSISTANCE PROGRAM

Launched in May 2004, V/Line’s new Employee Assistance Program provides a comprehensive and confidential, 24-hour/7-day counselling and assistance program for employees.

The program has been very positively received at all levels of the organisation.

WORKPLACE AWARENESS PROGRAM

The Workplace Awareness Program was developed and implemented to support V/Line’s workplace and cultural change. It ensures that all employees are aware of V/Line’s policies and their own responsibilities with regard to workplace issues, such as equal opportunity, bullying, sexual harassment, drugs and alcohol, and post-traumatic stress.

Between November 2003 and June 2004, 275 employees undertook the program, giving positive feedback. It is intended that all employees will complete the course by June 2005.
"V/LINE’S MANAGEMENT AND STAFF ARE THE KEY TO OUR FUTURE SUCCESS AND WE WILL CONTINUE TO INVEST IN THEM." - CHAIRMAN, FRANK TAIT
FRONTLINE MANAGEMENT CERTIFICATE FOR DRIVERS/CONDUCTORS

V/Line’s first multidisciplinary, frontline management course began in November 2003. It aims to foster frontline supervisory skills, promote better communication and enhance opportunities for interaction and understanding between drivers and conductors.

LOCOMOTIVE DRIVER RECRUITMENT AND TRAINING

During the year, we focussed our efforts on recruiting qualified drivers and this resulted in 12 new members joining us in August and September 2004.

Complementing this initiative was our ongoing Locomotive Driver Training Program, which aims to extend driver skills and job satisfaction within V/Line. In 2003-04, we also introduced a new level of supervision for our locomotive drivers. Supported by a comprehensive and multi-faceted training program, this new frontline supervisory role assists with verification of driver procedures and driver training. It also extends the career path for drivers within V/Line. Six locomotive drivers have completed the program and have taken up their new duties.

CONDUCTOR ON-TRAIN SUPERVISORS

A review of the potential benefits of an on-train supervisor role for conductors was undertaken in January 2004 and resulted in the creation of a new supervisory position. The role will offer a career path to conductors and improve consistency in service. A working party has been established to take up the initiative.

TRAINING

During 2003–04, V/Line employees attended 1000 individual training sessions across 40 different categories.

In addition, during March 2004, Human Resources conducted an analysis of the training needs of approximately 120 employees across the organisation to help identify overall priorities and to develop a training calendar.

During May and June 2004, a similar training needs analysis was undertaken for executive and senior management. This work will provide the foundation for the development of future training programs.
V/Line is preparing to make a transition to International Financial Reporting Standards in June 2005. A smooth transition will be ensured by participation in government policies and implementation processes.

By direction of the Treasurer of Victoria, under the State Owned Enterprise Act 1992, V/Line Corporation and its subsidiary entered into the National Tax Equivalent Regime (NTER) on 1 October 2003.

For the nine-month period 1 October 2003 to 30 June 2004, V/Line achieved all its budget targets with respect to subsidies and expenditure. Operational expenditure totalled $137.4 million and operating revenues $125.6 million, resulting in a net profit (including non-operational revenue) of $126.1 million.

Operational revenue comprised fare collections of $35.0 million, government subsidies of $84.4 million and other income of $6.2 million. Excluding government subsidies, revenue was better than budget by $718,000.

Operational expenditure before interest and depreciation of $121.9 million was also within budget expectations.

The consolidated cash position increased by $2.3 million over the period, reflecting the acquisitions of the V/Line business and its trading for nine months. Operational cash flow activities of $9.7 million, funded the net investing activities of $7.4 million.

### FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th>Note</th>
<th>June '04 (9 mths)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>- Operational 125.6</td>
<td>1</td>
</tr>
<tr>
<td>- Non Operational 137.8</td>
<td></td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td>2</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>126.1</td>
</tr>
<tr>
<td><strong>Net Cash Inflow from Operating Activities</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
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</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>126.1</td>
</tr>
<tr>
<td><strong>Total Staff</strong></td>
<td>622.0</td>
</tr>
</tbody>
</table>

### NOTES

1. Operational revenue includes fares, government subsidy and other revenue from interoperators. Non-operating revenue consists almost entirely of the gain resulting from the purchase for $1 of V/Line assets valued at $136.8 million. This gain does not affect the company’s cash position or cash flow.
2. Expenditure includes track access charges, labour costs, rolling stock maintenance, and depreciation of rolling stock and fuel.
3. The net cash outflow represents the reduction in government subsidies and utilisation of cash reserves for the period.
4. Total assets are substantially represented by rolling stock valued at $177.5 million under fair value accounting methodology.
5. Total liabilities are represented by employee entitlements of $29.6 million and creditors and other liabilities of $21.8 million.

### TAX ARRANGEMENT

By direction of the Treasurer of Victoria, under the State Owned Enterprise Act 1992, V/Line Corporation and its subsidiary entered into the National Tax Equivalent Regime (NTER) on 1 October 2003.

### ‘GOING CONCERN’ BASIS OF ACCOUNTING

V/Line’s financial statements have been prepared on a ‘going concern’ basis. The directors consider this basis to be appropriate as a result of the Government’s commitments to fund V/Line’s operations pursuant to the franchise agreement, and to meet employee liabilities in the event that V/Line is unable to do so.
The boards of V/Line Passenger Corporation and V/Line Passenger Pty Limited consist of the same five members, with the board of the parent entity, V/Line Passenger Corporation, reporting to the Minister for Transport.

Both boards adopt established protocols and procedures to ensure that corporate governance is maintained at the highest levels and that the strategic direction and overall performance of V/Line’s business can be developed and monitored in a diligent manner.

BOARD COMPOSITION

Each board has five directors, including four non-executive directors. The chair and deputy chair are both non-executive directors.

Members of the boards are as follows:

**Mr Frank Tait**

Mr Tait is the chair of both V/Line boards and also runs a consultancy business advising boards, executive managements and entrepreneurs on business strategy, organisational development and recruitment strategies. Mr Tait’s distinguished career spans government, rail transport and defence industries. Along with his role on the V/Line boards, Mr Tait is also executive director of the Regional Fast Rail Project.

**Dr Meredith Doig**

Dr Doig is on the board of numerous organisations, including the Port of Melbourne Corporation and Baker’s Delight. She is also a member of the Council of the University of Melbourne. Dr Doig has held senior executive positions in ANZ, CRA and Ford and is currently the managing director of Potentia Australia.

**Mr Colin Nicol**

Mr Nicol is a chartered accountant who is a founding partner of McGrath Nicol and Partners, before which he was national managing partner of KPMG’s Corporate Recovery practice. Mr Nicol was one of two receivers and managers appointed following the withdrawal of National Express Group from its Victorian transport franchises. He has extensive experience in the financial advisory, corporate restructure and insolvency fields.

**Ms Catherine Scott**

Ms Scott is an experienced board member and has held senior executive positions in the investment banking and airline industries. In addition to finance expertise she brings a thorough understanding of infrastructure projects and regional development. Ms Scott is the deputy chairperson of the Goulburn Broken Catchment Management Authority (GBCMA) and also serves on the boards of Goulburn Valley Water (GVW) and VicForests. She chairs the audit and risk management committees of GBCMA and VicForests.

**Mr Andrew Neal**

Mr Neal is managing director of V/Line Passenger Pty Ltd. Mr Neal has a long and distinguished career in railways throughout Australia, including a term as managing director of Australian National in the mid-1990s and chief executive of the Victorian Public Transport Corporation. Mr Neal joined V/Line in January 2003.
ACCESS TO INFORMATION

Directors are entitled to full access to information required to discharge their responsibilities. Directors may obtain independent professional advice on matters arising in the course of board duties. Directors also have access to senior managers and documents held by the organisation.

INDEMNIFICATION OF OFFICERS

During the year both V/Line Passenger Pty Ltd and V/Line Passenger Corporation entered into a Deed of Indemnity and Access with each director and the secretary, Mr David Chapman-Kelly. These Deeds provide for indemnification against liabilities arising from the conduct of the business or from the discharge of directors’ duties (other than any liability relating to a wilful breach of duty or trust) and the maintenance of directors’ and officers’ insurance.

BOARD COMMITTEES

Matters relating to remuneration and audit are considered by the Board of V/Line Passenger Pty Ltd as part of regular meetings of committees of the board held during the year. The board has established a Remuneration and People Committee, chaired by Dr Meredith Doig, and a Finance, Audit and Risk Committee, chaired by Mr Colin Nicol.
MINISTERIAL DIRECTIONS

On 28 September 2003 the Treasurer and the Minister for Transport directed V/Line Passenger Corporation to:

a. acquire all the issued shares in National Express Group Australia (V/Line Passenger) Pty Ltd (“NXVLP”); and
b. to cause NXVLP to enter into a range of agreements with the Director of Public Transport (“Director”).

Consequently:

a. all the issued shares in NXVLP were acquired by V/Line Passenger Corporation on 1 October 2003; and
b. NXVLP entered into the stated agreements with the Director on the same date.

STATUTORY INFORMATION

FREEDOM OF INFORMATION ACT

V/Line Passenger Corporation is subject to the Freedom of Information Act 1982 and complies with the provisions of the Act. During the reporting year, five requests for information were received. V/Line has complied with the Act and responded to all requests.

BUILDING ACT

V/Line complies with the provisions of the Building Act 1993.

WHISTLEBLOWERS PROTECTION ACT

V/Line is subject to the provisions of the Whistleblowers Protection Act 2001.

Since acquisition of V/Line Passenger Pty Ltd by V/Line Passenger Corporation on 1 October 2003, no disclosures have been received or investigations made by either entity. They have not referred any disclosures to the Public Transport Industry Ombudsman nor has the ombudsman referred any disclosures or made any recommendations to either entity.

COMPETITIVE NEUTRALITY

V/Line complies with Victorian Government policy on competitive neutrality.

ADDITIONAL INFORMATION

V/Line has complied with its annual report statutory obligations. In addition, information relating to the following activities has been compiled and is available on request:

• declarations of pecuniary interest
• publications produced by V/Line
• changes in fares
• overseas visits
• industrial accidents and disputes.

ENGAGEMENT OF CONSULTANTS

OVER $100,000

<table>
<thead>
<tr>
<th>Consultants</th>
<th>Project 2003-04</th>
<th>Expenditure ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrs Chambers</td>
<td>Legal services</td>
<td>400,685</td>
</tr>
<tr>
<td>Westgarth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEK Consulting</td>
<td>Market research</td>
<td>399,175</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arup</td>
<td>Engineering services</td>
<td>107,650</td>
</tr>
</tbody>
</table>

UNDER $100,000

Eight consultancies with a total value of $432,968.
Statutory Statement 34
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Statement of Financial Position 36
Statement of Cash Flows 37
Notes to and Forming Part of the Financial Statements 38
Auditor General’s Statement 62
Statutory Statement

We certify that the attached financial statements for V/Line Passenger Corporation and subsidiaries have been prepared in accordance with Standing Direction 4.2 of the Financial Management Act 1994, applicable financial reporting directions, Australian accounting standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the statement of financial performance, statement of financial position, statement of cash flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the period ended 30 June 2004 and financial position of the Consolidated Entity as at 30 June 2004.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

Frank Tait, Chairman

Andrew Neal, Managing Director

Scott Campbell, Chief Financial Officer

Melbourne, 21 October 2004
<table>
<thead>
<tr>
<th>NOTES</th>
<th>CONSOLIDATED</th>
<th>PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $’000</td>
<td>2004 $’000</td>
</tr>
</tbody>
</table>

**Revenue from ordinary activities**

<table>
<thead>
<tr>
<th></th>
<th>2004 $’000</th>
<th>2004 $’000</th>
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</thead>
<tbody>
<tr>
<td>Revenues from operating activities</td>
<td>125,648</td>
<td>-</td>
</tr>
<tr>
<td>Revenues from non-operating activities</td>
<td>137,890</td>
<td>136,769</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>263,538</td>
<td>136,769</td>
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</table>

**Expenses from ordinary activities**

<table>
<thead>
<tr>
<th></th>
<th>2004 $’000</th>
<th>2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational expenses</td>
<td>110,821</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>19,140</td>
<td>-</td>
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<tr>
<td>Selling expenses</td>
<td>1,690</td>
<td>-</td>
</tr>
<tr>
<td>Marketing and communication expenses</td>
<td>989</td>
<td>-</td>
</tr>
<tr>
<td>Customer service expenses</td>
<td>1,604</td>
<td>-</td>
</tr>
<tr>
<td>Diminution of Investment</td>
<td>-</td>
<td>10,697</td>
</tr>
<tr>
<td>Other expenses</td>
<td>3,157</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>137,401</td>
<td>10,697</td>
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</table>

**Result from ordinary activities**

<table>
<thead>
<tr>
<th></th>
<th>2004 $’000</th>
<th>2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>126,137</td>
<td>126,072</td>
</tr>
</tbody>
</table>

**Tax equivalent expense**

<table>
<thead>
<tr>
<th></th>
<th>2004 $’000</th>
<th>2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>-</td>
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</table>

**Net result for the reporting period**

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<thead>
<tr>
<th></th>
<th>2004 $’000</th>
<th>2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 (a)</td>
<td>126,137</td>
<td>126,072</td>
</tr>
</tbody>
</table>

**Total changes in equity**

<table>
<thead>
<tr>
<th></th>
<th>2004 $’000</th>
<th>2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>126,137</td>
<td>126,072</td>
</tr>
</tbody>
</table>
## Statement of Financial Position

### As at 30 June 2004

### Current assets

<table>
<thead>
<tr>
<th></th>
<th>NOTES</th>
<th>CONSOLIDATED 2004</th>
<th>PARENT 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash assets</td>
<td>5</td>
<td>2,306</td>
<td>-</td>
</tr>
<tr>
<td>Receivables</td>
<td>6</td>
<td>7,061</td>
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</tr>
<tr>
<td>Inventories</td>
<td>7</td>
<td>62</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>186</td>
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<tr>
<td></td>
<td></td>
<td><strong>Total current assets</strong></td>
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</tr>
<tr>
<td></td>
<td></td>
<td><strong>9,615</strong></td>
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### Non-current assets

<table>
<thead>
<tr>
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<th>NOTES</th>
<th>CONSOLIDATED 2004</th>
<th>PARENT 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>1(k),9</td>
<td>-</td>
<td>126,072</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>10</td>
<td>167,899</td>
<td>-</td>
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<tr>
<td></td>
<td></td>
<td><strong>Total non-current assets</strong></td>
<td><strong>167,899</strong></td>
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<tr>
<td></td>
<td></td>
<td><strong>126,072</strong></td>
<td><strong>-</strong></td>
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### Total assets

<table>
<thead>
<tr>
<th></th>
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<th><strong>CONSOLIDATED 2004</strong></th>
<th><strong>PARENT 2004</strong></th>
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<tbody>
<tr>
<td></td>
<td></td>
<td><strong>177,514</strong></td>
<td><strong>126,072</strong></td>
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### Current liabilities

<table>
<thead>
<tr>
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<th>NOTES</th>
<th>CONSOLIDATED 2004</th>
<th>PARENT 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>1(c), 11</td>
<td>20,334</td>
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<tr>
<td>Provisions</td>
<td>1(c), 12</td>
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<tr>
<td></td>
<td></td>
<td><strong>Total current liabilities</strong></td>
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<tr>
<td></td>
<td></td>
<td><strong>28,716</strong></td>
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### Non-current liabilities

<table>
<thead>
<tr>
<th></th>
<th>NOTES</th>
<th>CONSOLIDATED 2004</th>
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<td>Provisions</td>
<td>1(c), 12</td>
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<tr>
<td></td>
<td></td>
<td><strong>Total non-current liabilities</strong></td>
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</tr>
<tr>
<td></td>
<td></td>
<td><strong>22,661</strong></td>
<td><strong>-</strong></td>
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</table>

### Total liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th><strong>CONSOLIDATED 2004</strong></th>
<th><strong>PARENT 2004</strong></th>
</tr>
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<tr>
<td></td>
<td></td>
<td><strong>51,377</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

### Net assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th><strong>CONSOLIDATED 2004</strong></th>
<th><strong>PARENT 2004</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>126,137</strong></td>
<td><strong>126,072</strong></td>
</tr>
</tbody>
</table>

### Equity

<table>
<thead>
<tr>
<th></th>
<th>NOTES</th>
<th>CONSOLIDATED 2004</th>
<th>PARENT 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated profits</td>
<td>13(a)</td>
<td>126,137</td>
<td>126,072</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total equity</strong></td>
<td><strong>126,072</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>126,137</strong></td>
<td><strong>126,072</strong></td>
</tr>
</tbody>
</table>

---

The above statement of financial position should be read in conjunction with the accompanying notes.
<table>
<thead>
<tr>
<th>NOTES</th>
<th>CONSOLIDATED 2004 $’000</th>
<th>PARENT 2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers (inclusive of GST)</td>
<td>142,201</td>
<td>-</td>
</tr>
<tr>
<td>Payments to suppliers (inclusive of GST) and employees</td>
<td>(132,786)</td>
<td>-</td>
</tr>
<tr>
<td>Interest received</td>
<td>244</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td>27</td>
<td>9,659</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of plant and equipment</td>
<td>(11,096)</td>
<td>-</td>
</tr>
<tr>
<td>Cash acquired in acquisition of controlled entities</td>
<td>3,743</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET CASH FLOWS USED IN INVESTING ACTIVITIES</strong></td>
<td>(7,353)</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET INCREASE IN CASH HELD</strong></td>
<td>2,306</td>
<td>-</td>
</tr>
<tr>
<td>Add opening cash brought forward</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>CLOSING CASH CARRIED FORWARD</strong></td>
<td>5</td>
<td>2,306</td>
</tr>
</tbody>
</table>
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NOTE 1  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

This general purpose financial report of the Corporation has been prepared in accordance with the Financial Management Act 1994, Australian Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group Consensus Views. The financial report has been prepared using the historical cost convention.

The financial report has been prepared on a going concern basis. Refer to note 1 (c) for further discussion.

(b) Not for profit

The Directors are of the view that the consolidated entity qualifies as a not for profit entity since the primary obligation is the delivery of public transportation services to regional Victoria. The Franchise Agreement with the Director of Public Transport determines the services that are run and the payments received for those services, which are budgeted to achieve a break even EBITDA result. Neither the Corporation mission nor corporate strategy include the achievement of profit as one of the consolidated entity’s goals. As such, it has been deemed to be a not for profit entity and accordingly complies to accounting standards set for not for profit entities.

(c) Going Concern

This financial report has been prepared on a going concern basis. The consolidated entity is subsidised by its ultimate parent entity, the State Government of Victoria, pursuant to the Franchise Agreement with the Director of Public Transport.

The funding requirements for the year ending 30 June 2005 have been agreed under an approved budget allocation. The Franchise Agreement contains provisions for the funding requirements to be met by the State Government of Victoria throughout the franchise period.

The Director of Public Transport has also agreed the Department of Infrastructure will meet all of the consolidated entity’s employee entitlements as and when those amounts fall due in the event the consolidated entity is not able to meet these financial obligations, while the consolidated entity is under State ownership. The Director of Public Transport has further assured that any payments made by the Department of Infrastructure in relation to employee entitlements will not require reimbursement by the consolidated entity.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Refer to Note 28 for further details of the consolidated entity’s economic dependency on the State Government of Victoria.

(d) Shortened financial year

The Corporation came into inception on 15 July 2003. Furthermore, on 1 October 2003, it purchased V/Line Passenger Pty Ltd for $1 and commenced operations. As a result of this being the first year of existence, there are no comparative amounts from the prior year.

(e) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Government subsidies are recognised when they are controlled by the consolidated entity, which is generally upon receipt of the subsidy.
NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) Cash
For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks.

(g) Trade receivables
Trade receivables represent passenger and inter-operator revenues receivable and are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full amount is no longer probable. For trade receivables normal terms are 30 days and 7 days for agency accounts.

(h) Receivables – related parties
Receivables from related parties are recognised and carried at the nominal amount due. There is no interest charged on related party receivables.

(i) Inventories
Inventory consists of fuel used in rolling stock. It is valued at the monthly average cost.

(j) Revaluations of non-current assets
Rolling stock is measured at fair value and all other non-current assets are measured at cost.
Revaluations are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at the reporting date.
Revaluations are assessed annually and supplemented by independent assessments, at least every three-years. Revaluations are conducted in accordance with the Victorian Government Policy – Revaluation of Non-Current Physical Assets.
Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net result, the increment is recognised immediately as revenue in the net result.
Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.
Revaluation increments and decrements are offset against one another within a class of non-current assets.

(k) Investment in Subsidiaries
Investments in subsidiaries are carried at fair value. Where these investments exceed the net asset position of the subsidiary, the carrying value is written down to the net asset position.

(l) Cost and valuation of property, plant and equipment
Valuation of Rolling Stock
The valuation was performed by rolling stock specialists and reviewed by a qualified valuer. The valuation of the rolling stock is based on the depreciable replacement cost of these assets. Although valuation of assets is typically based on the net recoverable value as per AASB 1010, depreciable replacement cost has been used as the valuation basis. The net recoverable amount test does not apply to not for profit entities, since there is no dependence on its assets’ abilities to generate net cash inflows, consequently the carrying amount of the Corporation’s rolling stock should reflect their remaining ability to provide services. Thus the depreciable
replacement amount method of revaluing the rolling stock is the most appropriate valuation method for the Corporation, as a not for profit entity. Refer to Note 1 (b) for further details regarding the not for profit status.

(m) Depreciation of property, plant and equipment

Depreciation is provided on a straight-line basis on all plant and equipment, including rolling stock. It is calculated at rates to allocate the cost less estimated residual value at the end of the useful lives of the assets against revenue over the shorter of the estimated useful lives, or alternatively the remaining lives of the relevant asset to the consolidated entity.

Rolling stock comprises locomotives, carriages, diesel multiple units (known as Sprinters) and vans. Any refurbishments or conversions are depreciated over the remaining life of the original asset.

Major depreciation periods are:

- Leasehold improvements: 3 to 10 years, or remaining useful life to the consolidated entity
- Plant and equipment: 3 to 10 years, or remaining useful life to the consolidated entity
- Rolling Stock (including components): 2 to 40 years, or remaining useful life to the consolidated entity

(n) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 3 to 10 years.

(o) Leased non-current assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership where appropriate.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Lease Incentives

Incentives received on entering into operating leases are recognised as liabilities. The incentive of the lease is amortised over the remaining life of the lease.

(p) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

The majority of payments are settled at the end of the month following the month of the invoice date.

(q) Related party payables

Payables to related parties are carried at the principal amount. No interest is charged by the lender.
NOTE 1  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(r) Maintenance and repairs

Repairs and maintenance work on rolling stock are scheduled in accordance with V/Line’s Rolling Stock Management Plan and the Rail Safety Management Standards. Scheduled maintenance examinations on rolling stock are determined at set intervals depending on the type of rolling stock.

The Refurbishment program included in the Rolling Stock Management plan includes major examinations and overhauls of rolling stock. The consolidated entity treats these examinations as significant upgrades, which extend the useful life of the rolling stock. Included in the Refurbishment program is the replacement of major units such as traction and locomotive motors, generators, wheel sets and bogies. These items are capitalised and amortised over their useful life.

All other maintenance examinations and minor work are treated as repairs and maintenance and expensed to the profit and loss when incurred.

(s) Goods and Services Tax

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of an asset or part of an item of expense. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as part of receivables or payables in the statement of financial position.

The GST component of a receipt or payment is recognised on a gross basis in the statement of cash flows in accordance with Accounting Standard AAS 28 Statement of Cash Flows.

(t) National Tax Equivalent Regime (NTER)

By direction of the Treasurer of Victoria, under the State Owned Enterprise Act 1992, the consolidated entity has entered into the NTER on 1 October 2003. Any NTER expense payable is calculated on operating profit or loss adjusted for permanent and timing differences between NTER income and accounting income.

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 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 tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Future income tax benefits arising from tax losses are not brought to account at balance date, as realisation of the benefit is not regarded as virtually certain.

(u) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled including related on-costs.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.
NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities are used, which have terms to maturity approximating the terms of the related liability.

The determination of the current and non-current portion of employee benefits liabilities is based upon management’s expectation and analysis of when employees are likely to take leave.

Employee benefit expenses and revenues arising in respect of the following categories:

• wages and salaries, annual leave, long service leave, sick leave and other leave benefits
• other types of employee benefits

are charged against profits in their respective categories.

The contributions made to superannuation funds by the consolidated entity are charged against profits when due.

(v) Rounding of amounts

Amounts in the financial report have been rounded to the nearest thousand dollars, or in other cases, to the nearest dollar.

(w) Adoption of International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, all Australian reporting entities are required to adopt the financial reporting requirements of the Australian equivalents to International Financial Reporting Standards (IFRS). This requirement also extends to any comparative financial information included within the report. The first day of the comparative period, 1 July 2004, effectively becomes the transition date for the consolidated entity.

Any adjustments arising from changes in the recognition or measurement of assets and liabilities at the transition date arising from the adoption of IFRS will be made against accumulated funds at the transition date.

The consolidated entity has taken the following steps in managing the transition to Australian equivalents to IFRS:

• commence activities to identify key issues and the likely impacts resulting from the adoption of Australian equivalents to IFRSs
• an education process for all stakeholders to raise awareness of the changes in reporting requirements
• reconfiguration and testing of user systems and processes to meet new requirements.

A number of changes to the existing accounting policies have been identified that may have a material impact on the future financial position and performance following the adoption of the requirements of Australian equivalents to IFRS (the new standards). These include:

Valuation of assets

In accordance with the Victorian Government Policy – Revaluation of Non-Current Physical Assets, the consolidated entity currently measures its non-current physical assets, other than plant, equipment and vehicles, at fair value subsequent to initial recognition. Plant, equipment and vehicles are measured on a cost basis. Revaluations are assessed annually and supplemented by independent assessments at least every three years. The new standard continues to offer a choice for measuring each class of non-current physical assets either at cost or at fair value. However, non-current assets measured at fair value will only be required to be revalued at least every three to five years and all assets in a class must be revalued at the same time. The Victorian Government has not yet concluded whether it will make any changes to the valuation basis of any class of asset or the methodology or frequency at which revaluations are performed. The financial effects of any such changes are unknown.
NOTE 1  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Impairment of assets

Under the new standards, an asset will be required to be assessed for impairment each year. If indicators of impairment exist, the carrying value of an asset will need to be assessed to ensure that the carrying value does not exceed its recoverable amount, which is the higher of its value-in-use and fair value less costs to sell. For the consolidated entity, value-in-use of an asset is its depreciated replacement cost. Other than inventories, financial assets and assets arising from construction contracts, impairment testing will apply to all assets regardless of whether they are measured on a cost or fair value basis. Where the carrying value of an asset exceeds its recoverable amount, the difference will be written-off as an impairment loss to the statement of financial performance except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that asset.

Any impairment losses at transition date will be adjusted against the accumulated funds.

In addition, a number of other changes in requirements have been identified which are expected to lead to changes in methodology or processes, increased disclosures and possibly changes in measurement of assets or liabilities. The changes are not expected to have a material impact.

(x) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by V/Line Passenger Corporation (Parent entity) as at 30 June 2004 and the results of all controlled entities for the period then ended. V/Line Passenger Corporation and its controlled entities together are referred to in this financial report as the Consolidated entity. The effects of all transactions between entities within the Consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.
NOTE 2 REVENUE

Revenue by source

Revenue from operating activities
Fare-box revenue 35,008 –
Inter-operator income 3,997 –
Government subsidy 84,411 –
Other income 2,232 –
Total revenue from operating activities 125,648 –

Revenue from non-operating activities
Gain on purchase of investment (a) 136,769 136,769
Interest- other persons/corporations 244 –
Other non-operating income 877 –
Total revenue from non-operating activities 137,890 136,769

Total revenue from normal activities 263,538 136,769

(a) Significant item

The gain on purchase of the investment in V/line Passenger Pty Ltd has resulted from acquiring net assets of $137 million including the fair value of rolling stock of $168 million. The consideration paid for the net assets by the consolidated entity was $1. In accordance with Acquisition of Assets (AAS 21) this was a non-reciprocal transfer. As a result, it was appropriate to recognise this gain as revenue in the statement of financial performance, rather than treating it as a discount on acquisition and applying it proportionately against the non-monetary assets as per Accounting for Goodwill (AAS 18).
### NOTE 3 EXPENSES AND LOSSES FROM ORDINARY ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED 2004 $’000</th>
<th>PARENT 2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>30,970</td>
<td>–</td>
</tr>
<tr>
<td>Superannuation</td>
<td>2,690</td>
<td>–</td>
</tr>
<tr>
<td>Annual leave and long service leave expense</td>
<td>2,467</td>
<td>–</td>
</tr>
<tr>
<td>Other on-costs (fringe benefits tax, payroll tax and workcover levy)</td>
<td>3,730</td>
<td>–</td>
</tr>
<tr>
<td>Total employee benefits</td>
<td>39,857</td>
<td>–</td>
</tr>
<tr>
<td><strong>Depreciation of non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>989</td>
<td>–</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>25</td>
<td>–</td>
</tr>
<tr>
<td>Rolling stock</td>
<td>10,713</td>
<td>–</td>
</tr>
<tr>
<td>Rolling stock – capitalised improvements</td>
<td>2,284</td>
<td>–</td>
</tr>
<tr>
<td>Total depreciation</td>
<td>14,011</td>
<td>–</td>
</tr>
<tr>
<td><strong>Other charges against assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad and doubtful debts – trade debtors</td>
<td>64</td>
<td>–</td>
</tr>
<tr>
<td>Total rental expense relating to operating leases</td>
<td>28,949</td>
<td>–</td>
</tr>
<tr>
<td>Provision for diminution of investment</td>
<td>–</td>
<td>10,697</td>
</tr>
</tbody>
</table>
NOTE 4 INCOME TAX

The prima facie tax on operating profit differs from the income tax provided in the financial statements as follows:

Tax effect of permanent differences
- Depreciation of rolling stock 48 –
- Unrealised gain on purchase of investment (41,031) (41,031)
- Other 1 –

Total income tax expense on operating activities after permanent differences (3,141) (3,210)

Restatement of opening tax balances (9,037) –
Losses not recognised 4,770 3,210
Future Income Tax Benefit (FITB) not recognised 7,408 –

Total income tax expense attributable to operating activities – –

Unbooked deferred tax assets and liabilities

FITB arising to offset future assessable income has not been brought to account at balance date, as realisation of the benefit is uncertain.

Prima facie FITB - non-current 9,388 3,210
Provision for Deferred income tax - non-current (1,980) –
Income tax expense effect on FITB (7,408) (3,210)

FITB - non-current – –

Tax loss details

Future income tax benefit arising from current year tax losses not brought to account at balance date as realisation of the benefit is not regarded as virtually certain 4,770 3,210

This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised
- the conditions for deductibility imposed by tax legislation continue to be complied with
- no changes in tax legislation adversely affect the entity realising the benefit.
NOTE 5 CASH ASSETS

Cash balance comprises:
- Cash at bank: 2,241
- Cash on hand: 65

Total: 2,306

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

- Balances as above: 2,306
- Balances per statement of cash flows: 2,306

NOTE 6 RECEIVABLES

- Trade debtors: 4,250
- Less: Provision for doubtful debts: (248)

Total: 4,002

- Fuel rebate receivables: 1,461
- Insurance refund: 936
- Department of Infrastructure receivables: 310
- Other receivables: 352

Total: 7,061

Related party receivable

- Other entities in the wholly owned group: 380
- Other related parties: 170

Total: 550

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:

(i) Credit sales are on 30 day terms

Details of the terms and conditions of related parties:

Receivables are set out in Note 21 – Related Party.
NOTE 7 INVENTORIES

Diesel Fuel

62

- 

NOTE 8 OTHER ASSETS

Prepayments

186

- 

NOTE 9 INVESTMENTS

Unlisted shares in the following companies

<table>
<thead>
<tr>
<th>Name</th>
<th>Country of incorporation</th>
<th>Percentage of equity interest held in entity</th>
<th>CONSOLIDATED 2004 $’000</th>
<th>PARENT 2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>V-Line Passenger Pty Ltd</td>
<td>Australia</td>
<td>100%</td>
<td>136,769</td>
<td>-</td>
</tr>
<tr>
<td>Provision for diminution</td>
<td></td>
<td>-</td>
<td>(10,697)</td>
<td>126,072</td>
</tr>
</tbody>
</table>

On 1 October 2003, the Corporation purchased one ordinary share in V-Line Passenger Pty Ltd (subject to Deed of Company Arrangement) for $1. This represents 100% of the company’s issued and paid up capital.

The Corporation has consolidated the V-Line Passenger Pty Ltd investment as it has control.

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

Plant and Equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>CONSOLIDATED 2004 $’000</th>
<th>PARENT 2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At cost</td>
<td>8,895</td>
<td>-</td>
</tr>
<tr>
<td>Provision for depreciation</td>
<td>(6,136)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2,759</td>
<td>-</td>
</tr>
</tbody>
</table>

Rolling stock

<table>
<thead>
<tr>
<th>Description</th>
<th>CONSOLIDATED 2004 $’000</th>
<th>PARENT 2004 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At cost</td>
<td>108</td>
<td>-</td>
</tr>
<tr>
<td>Provision for depreciation</td>
<td>(5)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>103</td>
<td>-</td>
</tr>
</tbody>
</table>
**NOTE 10 PROPERTY, PLANT AND EQUIPMENT (CONT.)**

**Rolling stock**
At independent valuation – 1 October 2003 167,743 –
Provision for depreciation (10,708) –

157,035 –

**Leasehold improvements**
At cost 301 –
Provision for amortisation (58) –

243 –

**Rolling stock - capital improvements**
Cost 7,770 –
Provision for depreciation (2,284) –

5,486 –

**Capital works in progress**
2,273 –

Total property, plant and equipment net book value 167,899 –

**Reconciliations**
Reconciliations of the carrying amount of property, plant and equipment are set out below:

**Plant and Equipment**
Written down value acquired from V/Line Passenger Pty Ltd 2,885 –
Additions 140 –
Transfers from work in progress 723 –
Depreciation expense (989) –

2,759 –

**Leasehold improvements**
Written down value acquired from V/Line Passenger Pty Ltd 267 –
Depreciation expense (25) –

243 –
### NOTE 10  PROPERTY, PLANT AND EQUIPMENT (CONT.)

#### Rolling Stock
- **Fair value acquired from V/Line Passenger Pty Ltd**: $167,743
- **Additions**: $108
- **Depreciation expense**: ($10,713)

\[ 157,138 \]

#### Capital works in progress
- **Written down value acquired from V/Line Passenger Pty Ltd**: $1,048
- **Additions**: $1,961
- **Transfers to property, plant and equipment**: ($723)
- **Write off of fixed assets**: ($13)

\[ 2,273 \]

#### Rolling Stock Capital Improvements
- **Additions**: $7,770
- **Depreciation expense**: ($2,284)

\[ 5,486 \]

### NOTE 11 PAYABLES

- **Trade creditors**: $3,166
- **Accruals**: $13,792
- **Deferred income**: $518
- **Other creditors**: $2,858

\[ 20,334 \]

Total payables include the following related party payables:
- **Entities in the wholly owned group**: $3,116
- **Other related parties**: $130

\[ 3,246 \]

The net working capital deficit noted on the statement of financial position is a consequence of the timing of the receipts and payments in the month. Refer to note 1(c) Going Concern and note 28 Economic Dependency for further discussion of financial support by the Department of Infrastructure.
NOTE 12  PROVISIONS

(a) Current
Employee benefits 6,967 –
Other provisions 1,415 –

(b) Non-current
Employee benefits (note 24) 22,661 –

(c) Movement in other provisions
Value acquired from V/Line Passenger Pty Ltd 2,474 –
Additional provisions made 1,072 –
Amounts paid (46) –
Transfer to accruals (56) –
Write back of provisions (459) –
Settlement of provisions (1,570) –

Closing balance 30 June 2004 1,415 –

NOTE 13  EQUITY AND MOVEMENTS IN EQUITY

(a) Accumulated profits
Balance at the beginning of the period – –
Net profit attributable to members of the Company 126,137 126,072
Balance at the end of the year 126,137 126,072
NOTE 14 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity’s exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at the balance date are as follows:

<table>
<thead>
<tr>
<th>Financial Instruments</th>
<th>Fixed interest rate maturing in:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30 June 2004</td>
</tr>
<tr>
<td></td>
<td>Floating interest rate</td>
</tr>
<tr>
<td>(i) Financial assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2,306</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>-</td>
</tr>
<tr>
<td>(ii) Financial liabilities</td>
<td></td>
</tr>
<tr>
<td>Trade and other creditors</td>
<td>-</td>
</tr>
</tbody>
</table>

All other financial assets and financial liabilities, both recognised and unrecognised, are non-interest bearing.

(b) Net fair values

The carrying amounts of financial assets and financial liabilities, both recognised and unrecognised, at balance date, approximate their fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Recognised financial instruments

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term to maturity.
Trade receivables and payables: The carrying amount approximates fair value.

(c) Credit risk exposures

The Company’s maximum exposures* to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

Concentrations of credit risk

The main exposure to credit risk arises as it operates in the public transport field and relies on the credit worthiness of the State Government of Victoria.

Other credit risk in trade receivables is managed in the following ways:

- enforcing disclosed payment terms
- debt collection policies and procedures.

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.
NOTE 15  CONTROLLED ENTITIES

On 1 October 2003, V/Line Passenger Corporation purchased 100% of the shares of V/Line Passenger Pty Ltd for $1. Details of the acquisition are as follows:

Consideration
Cash acquired 3,743 –
Inflow of cash 3,743 –

Fair value of net assets of entity acquired:
Property, plant and equipment 170,891 –
Cash asset 3,743 –
Inventories 44 –
Trade receivables 3,835 –
Other receivables 6,314 –
Prepayments 2,154 –
Payables (19,855) –
Employee provisions (27,883) –
Other provisions (2,474) –
Total net assets acquired 136,769 –
Consideration paid (cash $1) – –
Gain on purchase 136,769 –

The following entities are controlled by V/Line Passenger Corporation as at the 30 June 2004:
V/Line Passenger Pty Ltd.
NOTE 16 MINISTERS AND ACCOUNTABLE OFFICERS

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

The names of persons who were Responsible Persons of the Consolidated entity at any time during the financial year were:

**Responsible Minister:**

The Hon. Peter Bachelor MLA, Minister for Transport  
15 July 2003 to 30 June 2004

**Directors of the Board:**

Mr F.A. Tait  
Dr M.A. Doig  
Mr C.M. Nicol  
Ms C.L. Scott  
Mr A.L. Neal

**Accountable Officer:**

Mr A.L. Neal

NOTE 17 REMUNERATION OF EXECUTIVES

The number of executive officers, other than the Accountable Officer, and their total and base remuneration during the reporting period are shown in the table below in their relevant income bands. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments, retirement benefits and fringe benefits tax.

<table>
<thead>
<tr>
<th>Income Band</th>
<th>Total Remuneration</th>
<th>Base Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 No.</td>
<td>2004 No.</td>
</tr>
<tr>
<td>$110,000 – 119,999</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>$120,000 – 129,999</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>$130,000 – 139,999</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>$140,000 – 149,999</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>$150,000 – 159,999</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>$160,000 – 169,999</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total numbers</strong></td>
<td><strong>16</strong></td>
<td><strong>16</strong></td>
</tr>
<tr>
<td><strong>Total amount</strong></td>
<td><strong>$599,014</strong></td>
<td><strong>$564,353</strong></td>
</tr>
</tbody>
</table>

The executive remuneration table denoting the income bands contains the annualised remuneration amounts, whereas the total amount reflects the amounts paid since acquisition of the V/Line business.
NOTE 18 REMUNERATION OF DIRECTORS

Income paid or payable, or otherwise made available, in respect of the period, to all directors (including the Accountable Officer) of the Company, directly or indirectly, from the entity or any related party: $258,430

The number of directors of the parent entity whose annualised income (including superannuation contribution) falls within the following bands is:

<table>
<thead>
<tr>
<th>Band</th>
<th>CONSOLIDATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 20,000 - $ 29,999</td>
<td>3</td>
</tr>
<tr>
<td>$ 40,000 - $ 49,999</td>
<td>1</td>
</tr>
<tr>
<td>$220,000 - $229,999</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
</tr>
</tbody>
</table>

NOTE 19 REMUNERATION OF AUDITORS

Audit fees paid or payable to the Victorian Auditor-General’s Office for audit of the consolidated entity’s financial reports:

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED</th>
<th>PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid as at 30 June 2004</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payable as at 30 June 2004</td>
<td>55</td>
<td>10</td>
</tr>
</tbody>
</table>

NOTE 20 RELATED PARTY DISCLOSURES - DIRECTORS

(a) The directors of the parent entity during the period ending 30 June 2004:

<table>
<thead>
<tr>
<th>Director</th>
<th>Appointment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>F.A. Tait</td>
<td>15 July 2003</td>
</tr>
<tr>
<td>M.A. Doig</td>
<td>15 July 2003</td>
</tr>
<tr>
<td>C.M. Nicol</td>
<td>1 October 2003</td>
</tr>
<tr>
<td>A.L. Neal</td>
<td>15 July 2003</td>
</tr>
<tr>
<td>C.L. Scott</td>
<td>23 September 2003</td>
</tr>
</tbody>
</table>
## NOTE 21 RELATED PARTY DISCLOSURES

(i) Wholly-owned group transactions

### Payments to related party (for period entity related)

<table>
<thead>
<tr>
<th>RELATED PARTY</th>
<th>NATURE OF TRANSACTIONS</th>
<th>TERMS AND CONDITIONS</th>
<th>CONSOLIDATED 30 JUNE 2004</th>
<th>PARENT 30 JUNE 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victorian Rail Services Pty Ltd</td>
<td>Provision of information technology services and rental of premises</td>
<td>The Company was charged services on a cost basis only.</td>
<td>$2,222,282</td>
<td>-</td>
</tr>
<tr>
<td>VicTrack Access</td>
<td>Provision of communication services</td>
<td>Normal commercial terms and conditions</td>
<td>$767,130</td>
<td>-</td>
</tr>
<tr>
<td>Spencer Street Station Authority</td>
<td>Rental payments</td>
<td>Normal commercial terms and conditions</td>
<td>$1,263,980</td>
<td>-</td>
</tr>
<tr>
<td>Metlink Victoria Pty Ltd - Formerly known as Revenue Clearing House Pty Ltd</td>
<td>Funding to Revenue Clearing House for ticket sales</td>
<td>In accordance with agreement</td>
<td>$718,247</td>
<td>-</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>Miscellaneous payments made under the franchise agreement and the new Franchise Agreement</td>
<td>In accordance with the franchise agreement and the new Franchise Agreement</td>
<td>$38,593</td>
<td>-</td>
</tr>
</tbody>
</table>

### Receipts from related party (for period entity related)

<table>
<thead>
<tr>
<th>RELATED PARTY</th>
<th>NATURE OF TRANSACTIONS</th>
<th>TERMS AND CONDITIONS</th>
<th>CONSOLIDATED 30 JUNE 2004</th>
<th>PARENT 30 JUNE 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spencer Street Station Authority</td>
<td>Reimbursement of site allowances and other charges</td>
<td>Normal commercial terms and conditions</td>
<td>$671,912</td>
<td>-</td>
</tr>
<tr>
<td>Metlink Victoria Pty Ltd - Formerly known as Revenue Clearing House Pty Ltd</td>
<td>Collection and distribution of</td>
<td>In accordance with the agreement metropolitan ticket sales</td>
<td>$1,841,225</td>
<td>-</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>Provides funding to the Company</td>
<td>In accordance with the new franchise agreement and as required since 1 October 2003</td>
<td>$97,136,836 (a)</td>
<td>-</td>
</tr>
</tbody>
</table>

(a) This represents the funding received from the Department of Infrastructure and is GST inclusive
(ii) Other related party transactions

**Deloitte**

From 23 December 2002 until 14 July 2003, Simon A Wallace-Smith & Robert W Whitton (“Deloitte”) of Deloitte Touche Tohmatsu were the appointed Administrators of V/Line Passenger Pty Ltd prior to the acquisition of the company by the parent entity. On 14 July 2003 a Deed of Company Arrangement (“DOCA”) was entered into with creditors of V/Line Passenger Pty Ltd and from that date Deloitte ceased to be Administrators of the Company and Simon A Wallace-Smith & Peter G Yates (“DTT”) also of Deloitte Touche Tohmatsu were appointed Administrators of the DOCA. Deloitte continues to be a related party as V/Line Passenger Pty Ltd remains subject to the DOCA and will not be released from this arrangement until it is settled. In the role of DOCA Administrators, DTT corresponded with creditors to determine valid proof of debt claims. DTT will be paid out of the pool of funds available for distribution to the creditors.

**VicTrip Pty Ltd**

Under the Franchise Agreement, V/Line Passenger Pty Ltd is contracted to provide general travel information to the public. Accordingly, V/Line Passenger Pty Ltd contributed to the costs of VicTrip Pty Ltd on the basis of shares held. V/Line’s investment in VicTrip Pty Ltd was sold for $1 on 17 April 2004. Amounts paid to VicTrip Pty Ltd for the six-months and seventeen days ended 17 April 2004 amounted to $811,100. During the six-months and seventeen days ended 17 April 2004, V/Line received amounts relating to ticket sales from VicTrip Pty Ltd totalling $862,797. At 30 June 2004 V/Line has a receivable from VicTrip Pty Ltd for $145,023.

(iii) Transactions with the Directors

Refer to Note 18 for details of Directors Remuneration for the period ending 30 June 2004.

(iv) Transactions with director-related entities

All directors named in the Directors’ Report are directors of V/Line Passenger Pty Ltd which forms part of the consolidated entity

**NOTE 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

As a consequence of the new Franchise Agreement, the subsidiary Company has entered into a Deed of Amendment of Charge. All primary franchise assets will be subject to the fixed charge and all other assets to a floating charge in favour to the Director of Public Transport. The maximum prospective liability secured by the Deed of Charge is one billion dollars.

V/Line Passenger Pty Ltd has entered into an agreement for the supply and manufacture of new rolling stock. The agreement provides that the supplier procure the issue of a Lessee’s Refund Amount Letter of Credit (“LRLC”). The LRLC is currently with Dresdner Bank AG with a face value of $6.8 million.

At the time of completion of these financial statements, V/Line had been notified of potential claims from Bombardier Transportation Pty Ltd arising from delays to the testing and commissioning of the new V’Locity rolling stock.

Bombardier has advised that it may seek to hold V/Line liable for costs of any delay. It is not presently known whether such costs will arise, their amount, whether V/Line bears any liability for their costs, or whether there are other parties who are wholly or partly responsible.

Throughout the period and more recently there have been several collisions involving V/Line trains and other third parties. These are summarised below:

- Level crossing accident - Melbourne bound train from Kyneton involving a motor vehicle
- Train derailment involving a motor vehicle which was across the tracks at Ballan

V/Line believe none of the above accidents will result in any material claim against V/Line.

In January 2003 along the Bendigo line a series of bushfires occurred, resulting in several properties suffering fire damage. A Coronial Inquest may be started to investigate the incident. V/Line has been notified of a claim against the company for approximately $11,000 and is defending this claim. Total legal costs of both the inquest and the claim are expected to be less than $150,000.
NOTE 23  COMMITMENTS FOR EXPENDITURE

Contractual commitments

Commitments for minimum contractual payments in relation to non-cancellable operating commitments are payable as follows:

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED</th>
<th>PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>49,514</td>
<td>–</td>
</tr>
<tr>
<td>Later than one year but not later than 5 years</td>
<td>303,428</td>
<td>–</td>
</tr>
<tr>
<td>Later than 5 years</td>
<td>383,797</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>736,739</td>
<td>–</td>
</tr>
</tbody>
</table>

The majority of contractual expenditure commitments includes the introduction of the new V'Locity diesel multiple units (“V’Locity DMU’s”). The commitments will commence once the V’Locity DMU’s are in revenue service. Refer to note 25 – Events occurring after reporting date – for further discussion on the delivery of the V’Locity DMU’s. In accordance with clause 14.2 of the new Franchise Agreement, the Director must pay the consolidated entity an increased Franchise payment to reflect the additional commitment costs borne by the consolidated entity for the V’Locity DMU’s. These additional payments commence once the DMU’s are in regular service. Other non-cancellable operating commitments are also included in the above.

NOTE 24  EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

(a) Employee benefits

The aggregate employee benefit liability is comprised of:

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED</th>
<th>PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued wages, salaries and on costs</td>
<td>1,059</td>
<td>–</td>
</tr>
<tr>
<td>Provisions (current)</td>
<td>6,968</td>
<td>–</td>
</tr>
<tr>
<td>Provisions (non-current)</td>
<td>22,661</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>30,688</td>
<td>–</td>
</tr>
</tbody>
</table>

(b) Superannuation commitments

Prior to the original Franchise Agreement, the majority of the consolidated entity’s staff were members of Government Superannuation funds that were open to members prior to the award of the original franchise in 1999 to the V/Line Passenger Pty Ltd.

The State organised funds include the Revised Scheme, New Scheme and the Transport Superannuation Fund, which are all defined benefits schemes. These schemes are ‘master funds’ comprising a large number of participating companies and are, therefore, not controlled by the consolidated entity.
With effect from 29 August 1999, employees were given the opportunity to remain in the State organised superannuation funds or to change to a private superannuation fund. The private funds joined by employees of the consolidated entity since 29 August 1999 are VicSuper or Superannuation Trust of Australia. These funds are both accumulation funds.

The consolidated entity has not recognised any unfunded superannuation liabilities as the State has guaranteed to undertake this liability from the commencement of the original franchise in 1999. Any unfunded liabilities that may arise subsequent to the new franchise are calculated annually by the Government Superannuation Office and paid by V/line at the end of the financial year.

(c) Superannuation schemes contributions and liabilities

A. VicSuper Scheme

i) contributions for the year - $433,000.
ii) contributions outstanding at year-end - $47,000.
iii) contributions are made in accordance with the Commonwealth Superannuation Guarantee Legislation.

B. Superannuation Trust Australia

i) contributions for the year - $460,000.
ii) contributions outstanding at year-end - nil.
iii) contributions are made in accordance with actuarial calculations, as advised by the Government Superannuation Office.

C. Individual Employee Schemes

i) contributions for the year - $44,000.
ii) contributions outstanding at year-end - nil.
iii) contributions are made in accordance with the Commonwealth Superannuation Guarantee Legislation.

NOTE 25 EVENTS OCCURRING AFTER REPORTING DATE

V/line has reached agreement with Hoys Roadlines Pty Ltd to take over the train services between Melbourne and Shepparton. This became effective on 1 July 2004.

V/line has been directed by the Director of Public Transport pursuant to the Franchise Agreement to take over the franchise of The Victorian Railway Company Pty Ltd (trading as West Coast Railway) to provide the train services to and from Warrnambool. The takeover of these services was effective from 1 September 2004.

V/Line has provided employment to certain employees of The Victorian Railway Company Pty Ltd (trading as West Coast Railway).

V/Line will receive payment for the value of the employee entitlements including on-costs less adjustments for the notional tax effect of the total value from West Coast Railway upon completion of an actuary’s valuation.

On July 7 2004, V/Line Passenger Pty Ltd formally registered a new company named Victoria Rail Heritage Operations Pty Ltd (VRHO). The shares in VRHO are 100% owned by V/Line Passenger Pty, Ltd. The purpose of creating this new company is to facilitate a directive from the Director of Public Transport pursuant to the Franchise Agreement between V/Line Passenger Pty Ltd and the State to provide an accredited company to operate the various Victorian Heritage Rail ventures on behalf of various heritage groups.
NOTE 26  SEGMENT INFORMATION

The consolidated entity operates in the passenger transportation industry in Victoria only and therefore only operates in one segment. As a consequence, additional segment disclosure is not relevant.

NOTE 27  RECONCILIATION OF RESULT FROM ORDINARY ACTIVITIES TO NET CASH INFLOW FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED</th>
<th>PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results from ordinary activities</td>
<td>126,137</td>
<td>126,072</td>
</tr>
<tr>
<td>Government funding for asset purchases</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>14,011</td>
<td>-</td>
</tr>
<tr>
<td>Unrealised gain on purchase of investment</td>
<td>(136,769)</td>
<td>(136,769)</td>
</tr>
<tr>
<td>Provision for diminution of investments</td>
<td>-</td>
<td>10,697</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>64</td>
<td>-</td>
</tr>
<tr>
<td>Decrement in value of non-current assets</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>Change in operating assets and liabilities, net of effects from restructuring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in receivables</td>
<td>3,087</td>
<td>-</td>
</tr>
<tr>
<td>Increase (decrease) in inventories</td>
<td>(18)</td>
<td>-</td>
</tr>
<tr>
<td>Decrease in other operating assets</td>
<td>1,968</td>
<td>-</td>
</tr>
<tr>
<td>Increase in trade creditors</td>
<td>479</td>
<td>-</td>
</tr>
<tr>
<td>Increase (decrease) in other provisions</td>
<td>687</td>
<td>-</td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>9,659</td>
<td>-</td>
</tr>
</tbody>
</table>

(c) Non-cash financing and investing activities

Finance lease transactions

The Company had no activity during the year. There is expected to be activity in subsequent periods.

NOTE 28  ECONOMIC DEPENDENCY

The consolidated entity provides public transport services to rural and regional Victoria. The provision of these services is subsidised by the State Government of Victoria. Without the provision of that subsidy the consolidated entity could not continue as a going concern. The subsidy requirements for the year ending 30 June 2005 have been approved by the State. The consolidated entity’s three year Business Plan has also been approved, pursuant to the Franchise Agreement.

NOTE 29  DIVIDENDS

No dividends were paid, declared or recommended during, or subsequent to, the period end.
AUDITOR-GENERAL'S REPORT

To the Members of the Parliament of Victoria, responsible Ministers and Members of the V/Line Passenger Corporation

Matters relating to the electronic presentation of the Audited Financial Report

This audit report relates to the financial report of V/Line Passenger Corporation for the financial period ended 30 June 2004 included on its web site. The Corporations Directors are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit Scope

The accompanying financial report of V/Line Passenger Corporation for the financial period ended 30 June 2004, comprising statement of financial performance, statement of financial position, statement of cash flows and notes to the financial statements, has been audited. The financial report includes the consolidated financial statements of the economic entity, comprising the V/Line Passenger Corporation and the entity it controlled at the year’s end or from time to time during the financial year as disclosed in note 1(d) to the financial statements. The Corporations Directors are responsible for the preparation and presentation of the financial report and the information it contains. An independent audit of the financial report has been carried out in order to express an opinion on it to the Members of the Parliament of Victoria, responsible Ministers and Corporations Directors as required by the Audit Act 1994.

The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The audit procedures included an 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 as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the Financial Management Act 1994, so as to present a view which is consistent with my understanding of the Corporation’s and the economic entity’s financial position, and their financial performance and cash flows.

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

Audit Opinion

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the Financial Management Act 1994, the financial position of V/Line Passenger Corporation and the economic entity as at 30 June 2004 and their financial performance and cash flows for the period then ended.

MELBOURNE
22 October 2004

J.W. CAMERON
Auditor-General
This annual report of V/Line Corporation is prepared in accordance with all relevant Victorian legislation. This index has been prepared to identify compliance with statutory disclosure requirements.

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Requirement</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Charter and purpose</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRD 22</td>
<td>Manner of establishment and the relevant Ministers</td>
<td>Inside cover, 3</td>
</tr>
<tr>
<td>FRD 22</td>
<td>Objectives, functions, powers and duties</td>
<td>6, 30</td>
</tr>
<tr>
<td>FRD 22</td>
<td>Nature and range of services provided</td>
<td>9, 10</td>
</tr>
<tr>
<td><strong>Management and structure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRD 22</td>
<td>Organisational structure</td>
<td>31</td>
</tr>
<tr>
<td><strong>Financial and other information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRD 22</td>
<td>Statement of workforce data and merit and equity</td>
<td>26</td>
</tr>
<tr>
<td>FRD 22</td>
<td>Summary of the financial results for the year</td>
<td>29</td>
</tr>
<tr>
<td>FRD 22</td>
<td>Significant changes in financial position during the year</td>
<td>29</td>
</tr>
<tr>
<td>FRD 22</td>
<td>Operational and budgetary objectives and performance against objectives</td>
<td>19, 29</td>
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