

ANNUAL REPORT 2002-03



AUSTRALIA

RAILWAY CORPORATION



R.H. Allert A.M.
Chairman

The Hon Clare Martin
Minister for the AustralAsia Railway
GPO Box 3146
Darwin NT 0801

Dear Minister

RE: AUSTRALASIA RAILWAY CORPORATION ANNUAL REPORT

I have pleasure in presenting this Annual Report of the AustralAsia Railway Corporation. The report details the activities and operations of the Corporation for the year ending 30 June 2003, in accordance with the provisions of Section 32(2) of the *AustralAsia Railway Corporation Act, 1996*.

There is no additional information attached to the report that is required to be presented under Section 32(1) of the Act, as there were no directions, objections, confirmations or reasons given under Section 19 of the Act during the period to which the report relates.

Yours faithfully

A handwritten signature in black ink, appearing to read "R. H. Allert", written in a cursive style.

RICHARD H ALLERT AM
Chairman
3 November 2003

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Track laid out in preparation for commencement of Tracklaying

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Cover Photo:
Members of the Northern tracklaying crew
installing turnout, north of Katherine –
September/October 2002

All Photographs taken by Charles Page.

© AustralAsia Railway Corporation



Members of the Northern tracklaying crew installing turnout, north of Katherine – September/October 2002

Chairman's Overview

The AustralAsia Railway, Australia's largest infrastructure project since the "Snowy Mountains" hydro scheme, has forged ahead over the past 12 months.

The completion of this major infrastructure achievement will be the culmination of decades of effort by those who shared a vision of the AustralAsia Trade Route, linking burgeoning markets of Asia with south-east Australia and South Australia through the Port of Darwin. Adding to the fulfillment of this vision will be the completion of Stage 2 of the East Arm Wharf at the Port of Darwin, together with the Business Park Development, located adjacent to the Berrimah Freight Yards.

The Corporation was established in 1997 to manage the awarding of the Build, Own, Operate and Transfer concession for the AustralAsia Railway, and continued to play a key role as the project progressed from negotiation to construction, to ensure that the railway is constructed 'fit for its intended purpose'.

During the life of the project there have been considerable contributions by former and current governments, public servants and an enormous commitment by the private sector. I congratulate the Northern Territory, South

Australian and Commonwealth Governments for their sustained support to the project, and congratulate our private sector partners: Asia Pacific Transport, incorporating Kellogg Brown and Root, Barclay Mowlem, John Holland Group, Macmahon Holdings, Australian Railroad Group, National Asset Management, Colonial First State Investments and the Northern and Central Land Councils.

For their continued dedication to this project over this past year, I would like to thank the Corporation's Chief Executive Officer, Mr Paul Tyrrell, Deputy CEO Mr Brendan Lawson and staff, along with my fellow Board Members.

As a result of commendable attention to the project logistics, construction progress accelerated throughout the year with significant milestones achieved including the completion of earthworks and bridges, with the longest across the Elizabeth River being achieved some three months ahead of schedule. Tracklaying activity continued with the crossing of the refurbished historic Fergusson River Bridge in April 2003 and by

the end of June, only 279 km remained to be completed.

Although the project still has a few months to go before it is complete, progress is well ahead of schedule. The fact that the inaugural freight and passenger services are already scheduled to depart Adelaide in early 2004, adds to the certainty that Darwin will soon be connected by rail to every capital city on mainland Australia.

There have been real economic benefits to the Territory and South Australia as a result of the construction phase of this project. Over the next 12 months, when construction completes and operations commence, the new challenge ahead will be to maximise economic opportunities that the AustralAsia Railway will create, not only for Northern Territorians and South Australians, but for all Australians.



RICHARD H ALLERT AM
Chairman



Work progressing on the refurbishment of the Fergusson River Bridge north of Katherine – September/October 2002

Chief Executive Officer's Review

The past 12 months have seen enormous progress made towards completing the railway which will connect the Territory to the rest of Australia.

The 1,420 kilometre Alice Springs to Darwin leg of the AustralAsia Railway is now 93% complete and only 279 kilometres of track laying remains to be completed. At the current rate of progress, completion of the tracklaying is now expected by November 2003 and the completion of all construction is confidently anticipated by the end of the year, well ahead of the contractual completion date of April 2004.

The engineering statistics of the project are staggering. With just a few months of construction remaining, over 99% of the 15 million cubic metres of earthworks have been constructed, more than 1.9 million of the required 2 million sleepers have been manufactured, ballast production is complete, all of the 90 bridges have been constructed and 140,000 tonnes of the total 146,000 tonnes of rail have been transported to site.

However statistics alone do not fully convey the enormity of the task which has been undertaken. The remoteness and the geographical expanse of the project required construction management skills of the highest order, and in this regard the Asia Pacific Transport Consortium and their construction contractors ADrail are to be congratulated on the project's current rate of progress.

The AustralAsia Railway Project exemplifies the achievements possible under a public/private partnership to achieve a project, which would not have been possible under traditional delivery methods.

The contribution of all those working on the project should also be acknowledged. At its peak in September 2002, the project employed over 1,450 personnel. As the project nears completion, and

with the bulk of the earthworks and bridges now complete, those numbers have reduced to approximately 600 at the end of June 2003.

While the basic employment numbers are impressive, it is worth reflecting on some of the underlying statistics, such as training and indigenous employment. Over 1,200 individual enrolments have been recorded in project related training courses with 87% of individuals completing their course. More than 200 indigenous persons have been employed on the project by ADrail and its major sub-contractors.

The success of Indigenous participation, both by direct employment and Aboriginal enterprise sub-contractors has largely been achieved through the support and co-ordination efforts of the Northern and Central Land Councils, both of whom are also equity

shareholders in the AustralAsia Railway.

Territory and South Australian industry have received a significant economic boost from the project. To date, over \$660 million and \$346 million has been awarded in direct contracts to Territory and South Australian based businesses respectively.

The ongoing role of the Corporation throughout the construction phase continues to be the management of it's obligations and those of the Governments in relation to the Project and to review and report on progress.

Review of design and construction has included the joint participation of the Corporation, the Company, the Financiers and the Independent Certifier in relation to remedial works to rectify defects to ensure compliance with the Design Brief.

The Corporation continues to facilitate resolution of issues between the Company and Government Agencies and to ensure compliance with environmental and heritage requirements.

Payments for capital works have been made to the Company in accordance with agreements under the contractual documentation.

As construction nears completion, the structure of the Corporation will change to reflect the ongoing role of monitoring operations. Consequently, increasing attention is being given to developing processes for ensuring the obligations/ entitlements of the Corporation will be met throughout the Concession Period.

FreightLink Pty Ltd, the operating arm of the Asia Pacific Transport Consortium will operate the new railway, commencing on 15 January 2004 with a schedule of 5 return trains per week. FreightLink's stated first objective is to capture 350,000 tonnes of the existing domestic freight and fuel currently being transported to the Territory by other modes. Opportunities for international freight are being pursued through alliances with Intra-Asian shipping lines and large international freight forwarders to promote the benefits of Darwin as a gateway to Asia.

Territory tourism is also set to benefit from the completion of the AustralAsia Railway with Great Southern Railway planning to operate a return weekly service from Adelaide to Darwin, commencing on 1 February 2004. It is estimated that the Territory will welcome an additional 30,000 visitors choosing to travel by rail.

The project is well on track to deliver its promise of a railway to Darwin and congratulations are due to all those associated with the AustralAsia Railway over the past year.



PAUL TYRRELL
Chief Executive Officer



Excavator at work in
the Edith River area
– September/October
2002

The Project

When complete, the AustralAsia Railway project will link Adelaide to Darwin by rail.

The project comprises:

- the construction of a new 1420 km stretch of standard gauge line between Alice Springs and Darwin;
- the leasing, at a nominal rental, and maintenance of the existing 830 km Tarcoola to Alice Springs standard gauge line which opened in 1980;
- integration with the Port of Darwin including a railway embankment and intermodal container terminal and the new Business Park developments providing a direct road/rail transport facility for domestic freight; and
- operation of the new transcontinental line for 50 years after completion of construction.

The project is a BOOT (Build, Own, Operate and Transfer back) scheme, with lease arrangements covering 50 years' operation before the railway is handed back to the Northern Territory and South Australian Governments. This is part of a trend towards privatisation of Australia's railway system and transfer of commercial risk for major infrastructure projects to the private sector.

With construction expected to be completed by November and planning well advanced for the transition to operations, the stage is set to herald a new era of transport and tourism for the Northern Territory, South Australia and beyond.

FreightLink, the operating arm of Asia Pacific Transport will initially run five return freight services a week from Adelaide to Darwin, providing a competitive service to existing long haul road freight services.

The AustralAsia Railway will provide opportunities at Port Augusta, Tennant Creek and Katherine to develop as regional intermodal transport hubs.

The Ghan will initially run one passenger service a week from Adelaide to Darwin, with scheduled stopovers at Tennant Creek and Katherine. The journey is destined to become one of the world's greatest transcontinental train travel experiences, stimulating tourism growth along the route.

Government Contribution to the Project

The governments' objective was to facilitate the private sector participation in the project by providing an up front payment, to attract the balance of capital on commercial terms, with the private sector responsible for the construction and operation risks.

In 1995, the Northern Territory Government signed a Memorandum of Understanding with South Australia, a partnership providing the basis for the joint South Australia/Northern Territory approach to making the AustralAsia Railway a reality.

The AustralAsia Railway Corporation was established in 1997 by the South Australian and Northern Territory Governments to facilitate the delivery of the project through a Build, Own, Operate and Transfer Back (BOOT) scheme.

The AustralAsia Railway Corporation coordinated the tender process and negotiations, while the Territory Government was responsible for negotiating with Indigenous Land Councils and pastoralists regarding acquisition of the corridor, environmental and heritage issues, and fencing of the corridor where required.

In 1999, the Asia Pacific Transport Consortium was selected as the preferred tenderer and negotiations began on contractual detail. In October 1999, government funding was finalised, with the Territory providing \$165 million, the South Australian Government \$150 million and the Commonwealth \$165 million from its Federation Fund.

In January 2001, another \$79 million in stand by funding was provided by the three governments on commercial terms.

In May 2003, there was a reallocation of debt/equity within the consortium members, which did not affect the quantum, but changed the timing of some Government Contributions.

For more information, visit the AustralAsia Railway Corporation internet site at <http://www.aarc.com.au>.

Construction Highlights

Construction of the AustralAsia Railway has progressed rapidly during 2002–2003 in preparation for the hand over from construction to operations in November 2003.

July 2002

- The completion of the largest cutting on the project near Crater Lake, 50 kilometres south of Darwin. This cutting was designed to avoid introducing tight curves into the railway alignment, to provide fill in valleys between hills, and to raise the railway line above the expected height of floods in several streams in that area.
- Work also commenced on the Elizabeth River Bridge, which at 510 metres between abutments, is the longest bridge on the AustralAsia Railway.

August 2002

- Construction of the Katherine River Bridge was completed. The bridge has eight spans and is built above the record flood levels experienced in the 1998 Australia Day floods.

September 2002

- Employment peaked with over 1,450 people working directly for the construction contractors and major sub-contractors working in the field. A wide range of skills and services were engaged during the construction phase of the railway including engineers, chefs, cleaners, welders, plant operators, administration and information specialists to name a few. At that time more than 130 indigenous people had been offered access to training prior to seeking and gaining employment with the project.

December 2002

- The final thermit weld, linking the two sections of the line between Katherine and Tennant Creek was ignited at the ADrail Buchanan Camp 425km north of Tennant Creek.

- The longest bridge on the project, the Elizabeth River Bridge south of Darwin was structurally completed three months ahead of schedule.

March 2003

- Construction of all minor and major bridges required for the railway was completed.
- Production of ballast at Katherine (Witte) and Tennant Creek (Warrego) quarries was completed. Of the required 2.835 million tonnes of ballast, 1.285 million tonnes was produced at the Katherine Quarry and 1.550 million tonnes at the Tennant Creek quarry.



Crane lifting decking to be attached to refurbished Fergusson River Bridge on the old North Australian Railway line north of Katherine, which originally carried it's first train in 1918 – September 2002

April 2003

- Tracklaying north from Katherine towards Darwin resumed after the wet season.
- The tracklayer crossed the Fergusson River Bridge, which was originally constructed for the North Australian Railway (NAR), in 1918 and carried its last train in 1976 when the NAR was closed. The crossing of the bridge was the first in nearly 27 years and represents another success story for construction of the AustralAsia Railway with the re-use of this historic structure.

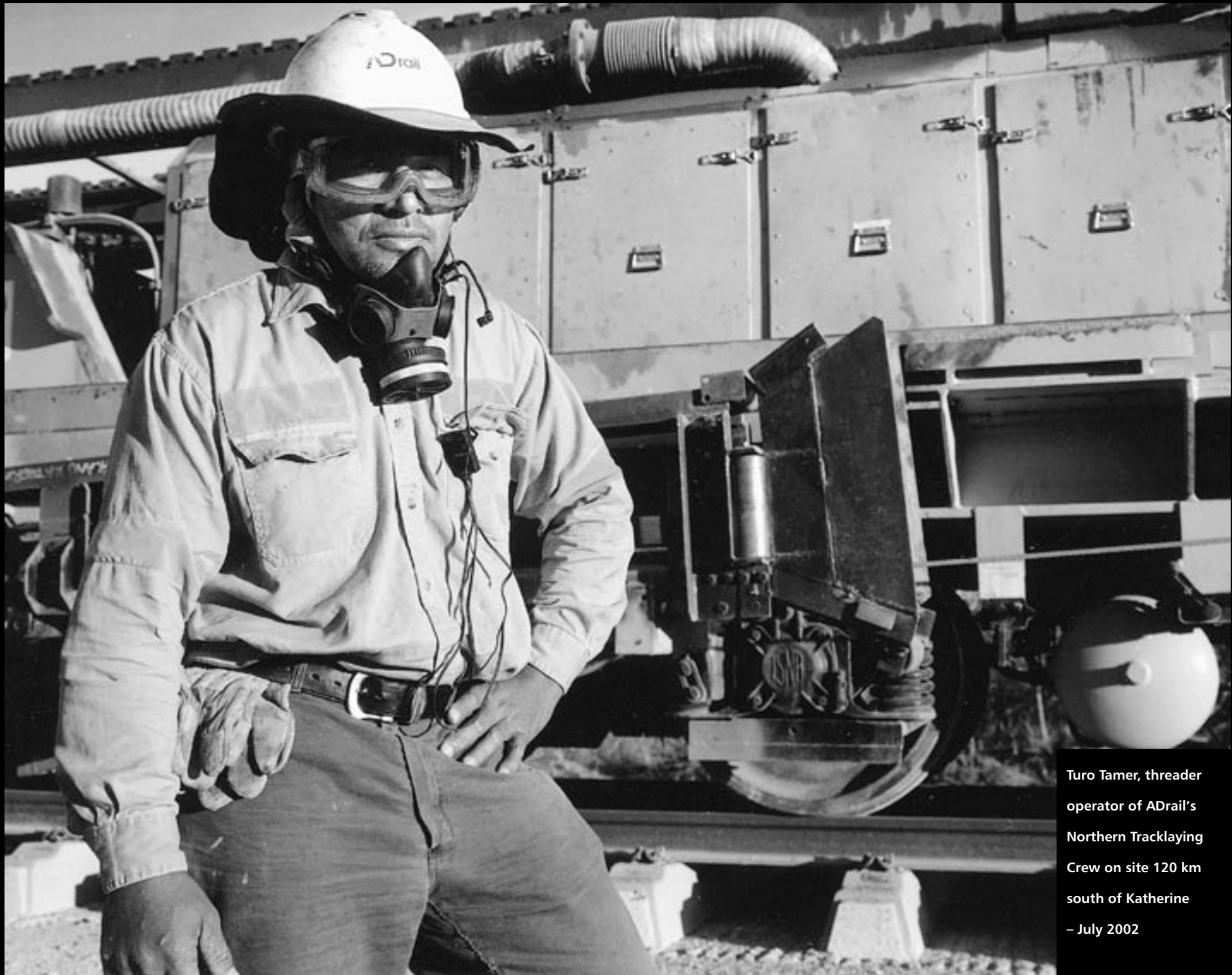
June 2003

- FreightLink, the operating arm of the Asia Pacific Transport Consortium announced the date for the inaugural freight train to travel from Adelaide to Darwin. The inaugural train to travel on the AustralAsia Railway will be a freight train departing Adelaide

on 15 January and arriving into Darwin on 17 January 2004.

- Further to this, Great Southern Railway, operators of The Ghan passenger service, announced their intention to operate an inaugural passenger service departing Adelaide on 1 February and arriving into Darwin on 3 February 2004.
- Tracklaying was completed to 1141 km – 135km south of Darwin and 144km north of Alice Springs.
- All major and minor bridges were completed.
- Of the 2 million concrete sleepers required, 1,899,071 had been produced.
- There was a total of 597 people employed on the project.

- \$1.079 billion worth of contracts had been awarded.
- The total requirement of 2.8 million tonnes of ballast produced



Turo Tamer, threader operator of ADrail's Northern Tracklaying Crew on site 120 km south of Katherine – July 2002



Fabrication of
Corrugated Steel
pipes used in culvert
construction, The Bend.

Role of AustralAsia Railway Corporation

The AustralAsia Railway Corporation is a statutory body established under the *AustralAsia Railway Corporation Act 1996* and supported by South Australia through complementary legislation.

The Corporation was established in 1997 by the Northern Territory and South Australian Governments to manage the awarding of a Build, Own, Operate and Transfer back (BOOT) concession and to enter into contractual arrangements with the successful consortium (Asia Pacific Transport Company).

The two Governments jointly guarantee the Corporation's obligations which are specified in contractual arrangements covered by the project documents. The respective rights and obligations of the two governments and the project are regulated by an Inter-Governmental Agreement.

The Corporation has negotiated a detailed Concession Deed which seeks to deal with all risks which have been identified as having the potential to arise during the project. The Deed seeks to mitigate those risks by apportioning appropriate responsibility for them.

The Corporation has a range of security over the completed works for the values exercisable in the event that the Concession is terminated.

The Corporation is based in Darwin. The Chairman is Richard H Allert AM, a prominent South Australian businessman. The Chief Executive Officer is Paul Tyrrell, Chief Executive of the Northern Territory Department of the Chief Minister.

In transition from project negotiation to the construction period, the Corporation's role changed substantially. Two critical functions during the construction period were:

- to receive and invest government financial contributions and provide progress payments against certified completion of construction;
- to manage the Corporation's contractual obligations under the project documents. Construction works are divided into Government Works and Company Works.

The Government Works Program covers elements with long life low depreciation, such as embankments and bridges.

Other functions of the AustralAsia Railway Corporation during construction included:

- ensuring compliance with the design brief in conjunction with the Asia Pacific Transport Company and engaging the services of an auditor and independent certifier;
- monitoring and reporting on the progress of the project;
- protecting the interests of the Northern Territory, South Australia and Commonwealth Governments and ensuring the consortium is meeting its obligations under the project documents, including those covering operations and maintenance of the existing Tarcoola to Alice Springs railway.

- facilitating the resolution of any issues between the Asia Pacific Transport company and government agencies to ensure unobstructed construction and ensuring the Northern Territory Government carries out its obligations regarding environmental monitoring and corridor fencing;
- participating in a range of committees stipulated in contractual documents, covering issues such as design, environmental monitoring, Aboriginal issues, industry participation and port development;
- monitoring the obligations of the consortium under the Local Industry and Aboriginal Participation Plan, under which the Asia Pacific Transport Company committed to spend at least 75% of construction expenditure on South Australian and Territory goods, services and labour;
- contract and lease administration;

The Corporation's role is expected to change considerably once FreightLink commences commercial operations in January 2004. To manage the change in role, the Corporation has been upgrading its existing Contract Management System, set up for the construction period. Upgrading the Contract Management System will ensure contract information is readily available to the Corporation to deliver all its obligations and ensure other parties deliver on their obligations for the 50 year Concession Period.

Contractual Structure

The project is one of the most complex infrastructure projects undertaken in Australia, with over 300 documents and dozens of separate signatories. The project documents fall into six main groups:

- **The government project documents:** Which comprise all documents to which the corporation and governments are parties. They include the Concession Deed and

each of the various lease documents for the corridor. The Government Works Agreement and \$50 million Loan Agreement are the project documents that facilitate the government financial contributions to the project.

- **The equity and joint venture documents:** These documents regulate the equity investment in the project. The consortium members have formed an unincorporated joint venture in accordance with the terms of the Unincorporated Joint Venture agreement and their equity contributions are made in accordance with the Equity Subscription Agreement.
- **Design and construction documents:** These are contractual arrangements that provide for the construction of the railway by the Design and Construction joint venturers for the company and the Government Works Contractor.



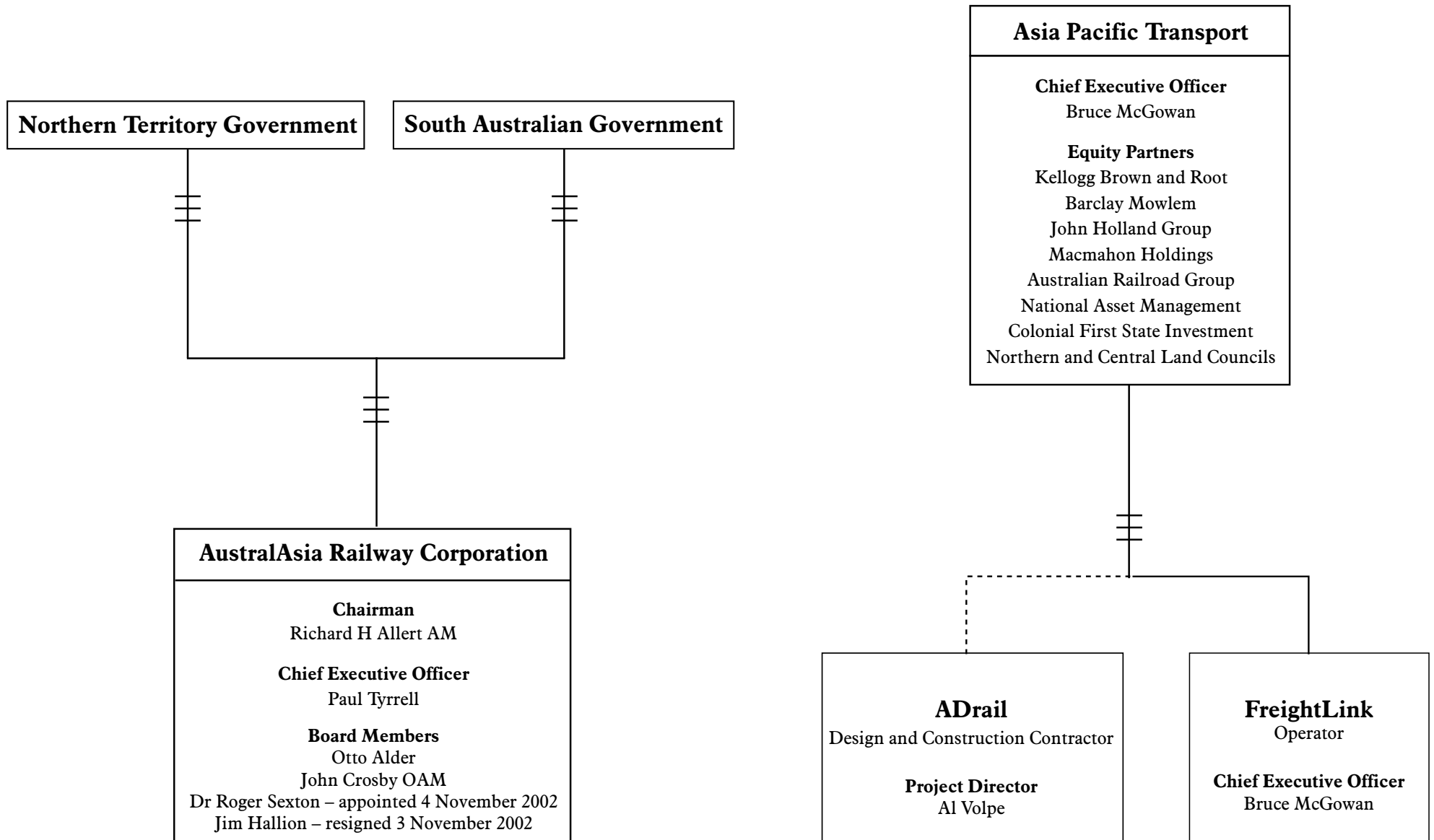
Local Katherine resident, Tony Darr in the rail loading facility at the Katherine Depot.



Reinforcing cages used for construction of Katherine floodway bridges.

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- **Operation and maintenance documents:**
These contractual arrangements deal with the operation and maintenance of the railway.
 - **Debt financing documents:**
These comprise the contractual arrangements under which the senior debt providers and mezzanine debt providers will lend money for the project. They include loan arrangements, charges over company assets, and intercreditor arrangements to regulate relationships between the various lenders.
 - **Inter-governmental agreements:**
Set out the various agreements between the three governments – the Commonwealth, South Australia and Northern Territory.

Organisational Structure





Nightshift operations
at Cut No 5 north
of Alice Springs
– February 2003



Graham Campbell,
Gantry Operator at
Katherine Sleeper
Plant, standing atop
some of the 100,000
sleepers stockpiled at
Katherine Depot.

Legislation

The AustralAsia Railway Corporation was established by the *AustralAsia Railway Corporation Act 1996 (NT)* which was assented to on 7 January 1997, and commenced on 25 August 1997. The legislation is supported by the complementary enactment of the *Alice Springs to Darwin Railway Act 1997 (SA)*.

The *AustralAsia Railway Corporation Act* has been amended by:

- *AustralAsia Railway Corporation Amendment Act 1998*
- *AustralAsia Railway Corporation Amendment Act 2000*
- *AustralAsia Railway Corporation Amendment Act No. 2 2000*
- *AustralAsia Railway Corporation Amendment Act 2001*
- *AustralAsia Railway (Special Provisions) Regulations 2000*
- *Corporation Reform (Consequential Amendments NT) Act 2001*

The Northern Territory and South Australian Governments have also passed

additional supporting legislation that ensures an efficient interface between various pieces of South Australian and Northern Territory legislation and the processes involved in constructing and operating the AustralAsia Railway.

In the Northern Territory, the legislation includes:

- *AustralAsia Railway (Special Provisions) Act 1999;*
- *AustralAsia Railway (Special Provisions) Amendment Act 2000;*
- *AustralAsia Railway (Special Provisions) Amendment Act (No. 2) 2000;*
- *AustralAsia Railway (Third Party Access) Act.*

In South Australia, the legislation includes:

- *Alice Springs to Darwin Railway Act 1997;*

- *Alice Springs to Darwin Railway (Financial Commitment) Amendment Act 1999;*
- *AustralAsia Railway (Third Party Access) Act 1999;*
- *Alice Springs to Darwin Railway (Miscellaneous) Amendment Act 2000;*
- *Alice Springs to Darwin Railway (Financial Commitment Amendment) Act 2001.*

AustralAsia Railway Corporation Board Members

AustralAsia Railway Corporation Board Members as at 30 June 2003



Chairman
Mr Richard H Allert AM

Appointed 4 September 1997

DUniv (Honorary), FCA,
Centenary Medal

Richard Allert is Chairman of AXA Asia Pacific Holdings Limited, Coles Myer Limited and Voyages Hotels & Resorts Pty Ltd.

Mr Allert is also a Director of the Australia Business Arts Foundation Ltd and a Member of the Australia Council's Major Performing Arts Board, and has held positions with a number of Government instrumentalities and community organisations over many years.



**Member and
Chief Executive Officer**
Mr Paul Tyrrell

Appointed 4 September 1997

B.Ec, Dip.CE, FIEAust,
CPEng, FCIT

Paul Tyrrell is Chief Executive of the Northern Territory Department of the Chief Minister and Head of the Northern Territory Railway Unit.

Senior past appointments have included Secretary, NT Department of Lands and Housing, Secretary, NT Department of Transport and Works, and Chief Executive Officer of the Darwin Port Corporation.

Paul has been involved in the development of most major infrastructure projects in the NT in recent times. Paul is also Chairman of the NT Government's Major Projects Group, managing and progressing, at a strategic level, the major projects critical to the future economic development of the Northern Territory.

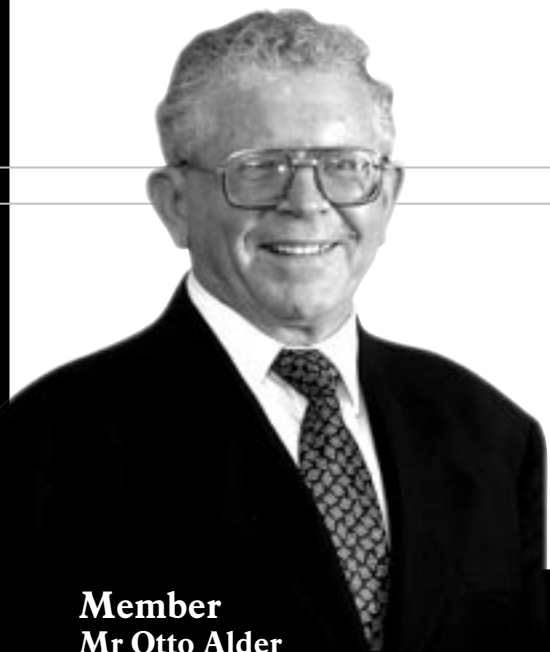


Member
Mr John Crosby OAM

Appointed 4 December 1997

John Crosby is the Managing Director of Brencorp Properties Pty Ltd and a Consultant to various management boards of the Lensworth Group (a wholly owned subsidiary of the Fosters Group).

Mr Crosby is a former Director of the South Australian Urban Planning Authority and SA Water Corporation and past Chairman of the Australian Finance Conference (SA Division).



Member
Mr Otto Alder

Appointed 21 July 1998

Otto Alder is the Remuneration Tribunal for the Northern Territory.

Prior to retirement in 1994, Mr Alder served in various executive capacities for the Northern Territory Government during his 20 years of service, the last role being the head of the Department of Industries and Development.



Member
Mr Jim Hallion

Appointed 6 October 1998
and resigned on 3 November 2002

BE(Hons), MAICD, ASIA, MIE(Aust)

Jim Hallion is Chief Executive of the South Australian Department of Primary Industries and Resources.

Prior to this position, Mr Hallion was the Chief Executive of the Department of Industry and Trade and head of the South Australian Adelaide-Darwin Rail Task Force. Before joining the Department of Industry and Trade in 1994, Mr Hallion was Director of Corporate Services with the Australian National Railways Commission.



Member
Dr Roger Sexton

Appointed 4 November 2002

B.Ec(Hons), M.Ec PhD (Econ)
FAICD FAIM

Roger Sexton is Chairman of the South Australian Venture Capital Board. Dr Sexton is an economist and investment banker and has held Executive and Board positions on a number of public and private companies and organisations in Australia and overseas.



The first girder being placed on the Elizabeth River Bridge – the longest bridge on the project – October 2002

Board Members' Report

The Board Members present their report on the accounts for the period ended 30 June 2003.

Members

The following persons held office as members of AustralAsia Railway Corporation ("the Corporation") for the 2002-03 financial year:

- Richard H Allert AM
(Chairman)
- Paul Tyrrell
(Chief Executive Officer)
- John Crosby OAM
- Otto Alder
- Roger Sexton
(Appointed 4 November 2002)
- Jim Hallion
(Resignation 3 November 2002)

Further details on Members are provided at Note 14 to the financial statements.

Principal Activities

The functions of the Corporation are specified in the *AustralAsia Railway Corporation Act 1996 (NT)*.

In summary, the Corporation was created to facilitate the completion of the Adelaide to Darwin rail link on behalf of the Northern Territory and South Australian Governments.

Ministerial Directions

No written ministerial directions were received by the Corporation, under Section 19 of the *AustralAsia Railway Corporation Act*, for the period ending 30 June 2003.

Rounding of Amounts to Nearest Thousand Dollars

Amounts have been rounded off in the Members' Report and Financial Statements to the nearest thousand dollars, unless otherwise indicated.

Review of Operations and Significant Changes during the Financial Year

On 20 April 2001 contractual documentation was executed that gave the Asia Pacific Transport Consortium

("Consortium") the right to construct and operate a railway between Alice Springs and Darwin on a "Build, Own, Operate and Transfer Back" arrangement.

In accordance with agreements set out under the contractual documentation, the Corporation had received or accrued all project grants prior to the year ended 30 June 2003 (2002 \$110m) from the Commonwealth of Australia and the Governments of the Northern Territory and South Australia.

Payments towards capital works are required to be made by the Corporation to the Consortium, in accordance with contractual arrangements. At 30 June 2003 these payments totalled \$43 million for the year (2002 \$291m).

Capital works performed by the Consortium to the end of June 2003 resulted in over 1,100 km of track being laid, finalisation of bridge works, ballast production and near completion of sleeper production and earthworks.

Activities during the year resulted in the Corporation recording an operating surplus after tax of \$0.3 million. The surplus is a result of the receipt of operating funds provided by Governments during the year exceeding operating costs for the period.

Matters Subsequent to the End of the Financial Period

At the date of this report there is no matter or circumstance which has arisen since 30 June 2003 that has significantly affected or may significantly affect:

- (a) the operations, in financial periods subsequent to 30 June 2003, of the Corporation, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial periods subsequent to 30 June 2003, of the Corporation.

Likely Developments and Expected Results of Operations

In accordance with contractual agreements resulting from operations during past financial years, the Corporation expects to continue to receive operational grants and payments towards operational expenditure during the 2003-04 financial year, and perform any other services necessary to facilitate the completion of the Adelaide to Darwin rail link on behalf of the Northern Territory and South Australian Governments.

The Corporation will not be required to receive further project grants or make payments towards capital works during 2003-04, with these obligations being finalised during 2002-03.

Auditor

The independent audit firm of BDO was re-appointed as auditor in accordance with section 27 of the *AustralAsia*

Railway Corporation Act and section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the Board members.



RICHARD H ALLERT AM
Chairman
10 September 2003



JOHN D CROSBY OAM
Board Member
10 September 2003



Blasting in Cut No 5
North of Alice Springs
– February 2003

Board Members' Declaration

The Board Members declare that:

1. the financial statements and notes, as set out on pages 33 to 46:

a) comply with Accounting Standards and the *Corporations Act 2001*; and

b) give a true and fair view of the Corporation's financial position as at 30 June 2003 and of its performance for the year ended on that date;

2. in the opinion of the Board Members, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board Members.



RICHARD H ALLERT AM

Chairman

10 September 2003



JOHN D CROSBY OAM

Board Member

10 September 2003

Financial Statements

Statement of Financial Position

as at 30 June 2003

	Note	30 June 2003 \$000	30 June 2002 \$000
Current Assets			
Cash at Bank	2	670	526
Cash Investments	3	449	428
Receivables	4	7,704	27,506
Prepayments	5	11	5
Total Current Assets		8,834	28,465
Non Current Assets			
Receivables	4	0	25,000
Capital Works	6	427,500	409,500
Property, Plant and Equipment	7	142	197
Total Non Current Assets		427,642	434,697
TOTAL ASSETS		436,476	463,162

	Note	30 June 2003 \$000	30 June 2002 \$000
Current Liabilities			
Payables	8	7,757	27,709
Non Current Liabilities			
Net Loans	9	0	0
Net Advances	10	0	0
Provisions	11	0	7,000
TOTAL LIABILITIES		7,757	34,709
NET ASSETS		428,719	428,453
ACCUMULATED FUNDS	16	428,719	428,453
Contingent Liabilities	20		
Commitments	21		

The Statement of Financial Position should be read in conjunction with the notes 1 to 23 forming part of the Financial Statements.

Financial Statements

Statement of Financial Performance

For Financial Year ended 30 June 2003

	Note	2003 \$000	2002 \$000
Revenue			
Income from Operating Activities	12	2,002	116,232
TOTAL REVENUE		2,002	116,232
Operating Expenses			
Expenses	13	1,736	9,776
TOTAL EXPENSES		1,736	9,776
OPERATING SURPLUS/(DEFICIT) BEFORE AND AFTER TAX	16,18	266	106,456

The Statement of Financial Performance should be read in conjunction with the notes 1 to 23 forming part of the Financial Statements.

Financial Statements

Statement of Cashflows

for Financial Year ended 30 June 2003

	Note	2003 \$000	2002 \$000
Cashflows From Operating Activities			
Receipts			
Government Grants and Contributions	19	44,960	137,776
Interest		42	3,456
Total Receipts from Operating Activities		45,002	141,232
Payments			
Payments for Goods and Services		(1,837)	(3,121)
Net Cashflows from Operating Activities	18	43,165	138,111
Cashflows From Investments in Non-Financial Assets			
Capital Works Expenditure		(43,000)	(284,296)

	Note	2003 \$000	2002 \$000
Cashflows From Investments in Financial Assets			
Cash Investments		(21)	150,763
Cashflows From Financing Activities			
Government Advance Received		5,050	0
Advance Provided to Consortium		(5,050)	(6,570)
Net Cashflows from Financing Activities		0	(6,570)
NET INCREASE IN CASH HELD		144	(1,992)
Cash at beginning of reporting period		526	2,518
CASH HELD AT END OF REPORTING PERIOD		670	526

The Statement of Cashflows should be read in conjunction with the notes 1 to 23 forming part of the Financial Statements.

Financial Statements

Notes To and Forming Part of the Financial Statements

30 June 2003

Note 1 Statement of Significant Accounting Policies

The financial report is a general purpose financial report which has been prepared on an accruals basis and is based on historical cost. The report is in accordance with the requirements of the *AustralAsia Railway Corporation Act 1996*, applicable Accounting Standards and other mandatory professional reporting requirements, including Urgent Issues Group Consensus Views.

The *AustralAsia Railway Corporation Act 1996* requires that accounting and reporting obligations imposed and standards required by the *Corporations Law*, apply to the Corporation as if the Corporation were a public corporation incorporated under the Law, and the Territory were the shareholders of the Corporation.

In July 2001, the *Corporations Law* became the *Corporations Act* and as such applies to financial statements compiled after this time.

The following is a summary of the material accounting policies adopted by the AustralAsia Railway Corporation in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

- a) **Going Concern Assumption:** The ongoing operations of the Corporation are reliant on the continued funding by the Northern Territory and South Australian Governments.
- b) **Cash:**
For the purpose of the Statement of Cashflows, cash includes cash on hand and cash held in the AustralAsia Railway Corporation Operating Account.
- c) **Capital Works, Property, Plant and Equipment and Depreciation:**
 - Capital Works are recorded at the cost of acquisition, being the purchase consideration determined at the date of acquisition, plus costs incidental to the acquisition;
 - Plant and equipment acquired are recorded at the cost of acquisition, being the purchase consideration determined at the date of acquisition, plus costs incidental to the acquisition; and

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30 June 2003

- Depreciation/amortisation is provided on property, plant and equipment (refer Note 7). Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. The following are estimated useful lives used in the calculation of depreciation/amortisation:

- Leasehold Improvements 5 years
- Office Furniture & Equipment 3 years

The carrying amount of plant and equipment is reviewed annually by the Board Members to ensure it does not exceed the recoverable amount of those assets.

d) Borrowings:

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis (refer Note 8). No interest was payable on the loans for either financial period.

e) Goods and Services Tax:

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

f) Leased Assets:

Operating lease payments, where substantially all risks and benefits incidental to the ownership of the asset remain with the lessor, are recognised as expenses in the periods in which they are incurred.

g) Receivables:

Receivables are recorded at amounts due less any provision for doubtful debts.

h) Fair Value of Non Current Assets:

Due to the special circumstances of the project, the Board is satisfied that the assets are carried at their fair value.

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i) Revenue Recognition:

Grant income and interest income are recognised as they accrue. All revenue is stated net of the amount of goods and services tax (GST).

j) Creditors:

Liabilities are recognised for amounts to be paid in the future for goods or services received prior to Balance Date, whether or not billed to the Corporation. Trade creditors are normally settled within 30 days.

k) Financial Assets and Liabilities:

Financial assets and liabilities are measured at cost and recognised when it is probable that the economic benefits embodied in the asset or the future sacrifice of economic benefits required of the liability will eventuate.

l) Employee/Member Benefits:

- Superannuation: Superannuation Guarantee Levy is paid in respect of remuneration of employees and members.
- Other Employee Benefits: The Corporation reimburses the Northern Territory Government for all employee annual leave, leave bonuses, long service leave and other employee benefits.

m) Taxation:

The Income Tax Assessment Act 1936 exempts income received by AustralAsia Railway Corporation from income tax

n) Change in Accounting Policies:

There have been no changes in accounting policies in the current financial year.

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Notes To and Forming Part of the Financial Statements

30 June 2003

2003
\$000

2002
\$000

Note 2 Cash

Operating Account	669	525
Cash on Hand	1	1
Total Cash	670	526

Note 3 Cash Investments

Cash Invested	449	428
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No adjustment has been made to the carrying value to reflect net realisable value as it is considered the full carrying amount will be recovered

Note 4 Receivables

Current

Goods and Services Tax Refunds to be Received	701	2,502
South Australian Government Project Grants	7,000	25,000
Other Receivables	2	4
Total Current Receivables	7,703	27,506

Non Current

South Australian Government Project Grants	0	25,000
Total Receivables	7,703	52,511

2003
\$000

2002
\$000

Note 5 Prepayments

Office Equipment Lease	1	1
Office Rental Costs	7	0
Other Prepayments	3	4
Total Prepayments	11	5

Note 6 Capital Works

Progress Claims (refer Note 1)	427,500	409,500
Total Capital Works	427,500	409,500

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30 June 2003

	2003	2002
	\$000	\$000
Note 7 Other Property, Plant and Equipment		
Leasehold Improvements		
Original Cost	219	219
Accumulated Amortisation	(44)	0
Opening Balance 1 July 2002	175	219
Less Current Year Amortisation	(44)	(44)
Written Down Value 30 June 2003	131	175
Furniture and Fittings		
Original Cost	33	33
Accumulated Depreciation	(11)	0
Opening Balance 1 July 2002	22	33
Less Current Year Depreciation	(11)	(11)
Written Down Value 30 June 2003	11	22
Total Property, Plant and Equipment	142	197

	2003	2002
	\$000	\$000
Note 8 Payables		
Current		
Trade Creditors	7,757	27,709
Total Creditors	7,757	27,709
Consisting of:		
Northern Territory Government Agencies	20	66
External Bodies	7,737	27,643
Total Creditors	7,757	27,709
Note 9 Net Loans		
Loan from Northern Territory Government	25,000	25,000
Loan from South Australian Government	25,000	25,000
	50,000	50,000
Loans to the Consortium	(50,000)	(50,000)
Net Loans	0	0

The Corporation received loans from the Northern Territory and South Australian Governments totalling \$50 million for the purpose of on lending to the Consortium. Repayment of loans to Governments is conditional upon receipt of loan repayments from the Consortium. Therefore, the loan liability has been netted off against the loan asset. The full amount of \$50 million had been drawn down by the Consortium prior to the 2002-03 financial year. Loans to the Consortium are secured over the assets of the Consortium and repayment is guaranteed by individual members of the Consortium.

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30 June 2003

	2003 \$000	2002 \$000
Note 10 Net Advances		
Advance from Commonwealth Government	5,050	0
Advance to Northern Territory Government	(5,050)	0
Net Advances	0	0

The Corporation received an advance from the Commonwealth Government totalling \$5.05 million for the purpose of on lending to the Northern Territory Government. Repayment of the advance to the Commonwealth Government is conditional upon receipt of advance repayments from the Northern Territory Government. Therefore, the advance liability has been netted off against the advance asset. As at 30 June 2003, the full amount of \$5.05 million had been paid to the Northern Territory Government.

Note 11 Provisions

The Consortium was eligible to receive a \$7 million incentive payment if it complied with agreed specific performance criteria set out within the Local Industry and Aboriginal Participation Plan (LIAPP) during the construction of the railway. As the Consortium complied with agreed specific performance criteria during 2002-03, the provision was transferred to Payables within Current Liabilities at 30 June 2003, with payment proceeding in July 2003.

	2003 \$000	2002 \$000
Note 12 Revenue		
Income from operating activities		
Government Contributions	1,960	2,776
Government Project Grants	0	110,000
Interest Revenue	42	3,456
Total Revenue	2,002	116,232

All Government Project Grants had either been accrued or received prior to 2002-03.

Note 13 Expenses

Auditors' Remuneration – Audit Services	8	12
Provision for LIAPP Incentive (refer Note 11)	0	7,000
Other Operating Expenditure Classified by Nature		
Amortisation	44	44
Depreciation	11	11
Employee Expenses	147	146
Other	1,526	2,563
Total Expenses	1,736	9,776

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30 June 2003

Note 14 Details of Board Members

Members Remuneration	2003 Members	2002 Members
The number of Members of the Corporation whose income from the Corporation falls within the following bands:		
\$0 – \$9,999	3	2
\$10,000 – \$19,999		
\$20,000 – \$29,999		
\$30,000 – \$39,999	2	2
\$40,000 – \$49,999		
\$50,000 – \$59,999		
\$60,000 – \$69,999		
\$70,000 – \$79,999	1	1
	\$000	\$000
Total income paid or payable, or otherwise made available to all Members of the Corporation from the Corporation, including superannuation guarantee levy.	147	146

Full Meetings of Board Members

There were 8 meetings for the 2002-03 financial year.

Numbers of meetings attended by:

Member	Number of Meetings eligible to attend	Number of Meetings Attended
Richard H Allert	8	8
Paul Tyrrell	8	6
John Crosby	8	7
Otto Alder	8	8
Roger Sexton	6	6
Jim Hallion	2	1

Retirement, Election and Continuation in Office of Board Members

The date of appointment of members:

Member	Initial Date of Appointment	Date of Retirement
Richard H Allert	4 September 1997	
Paul Tyrrell	4 September 1997	
John Crosby	4 December 1997	
Otto Alder	21 July 1998	
Roger Sexton	4 November 2002	
Jim Hallion	6 October 1998	3 November 2002

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Note 15 Financial Instruments

Interest rate risk

The Corporation does not have an exposure to interest rate risk for financial assets and financial liabilities. Loans and Advances as detailed in Note 9 and Note 10 do attract interest, however, no interest is payable until an equivalent amount of interest is received from the Consortium or the Northern Territory Government.

Net fair value of financial assets and liabilities

Monetary financial assets and financial liabilities are recorded at their nominal value.

The carrying amount of cash operating account, accounts receivable and accounts payable approximate net fair value

	2003	2002
	\$000	\$000

Note 16 Accumulated Funds

Accumulated funds at the beginning of the financial year	428,453	321,997
Operating surplus/(deficit) and extraordinary items after income tax and government contributions	266	106,456
Accumulated Funds	428,719	428,453

Note 17 Services Received Free Of Charge

During the 2001-02 and 2002-03 financial years, the Corporation received advisory services from officers of the Northern Territory and South Australian Governments at no charge.

	2003	2002
	\$000	\$000
Note 18 Statement of Cashflows		
Reconciliation of operating surplus/ (deficit) after tax to net cash flows from operations		
Operating surplus/(deficit) after tax	266	106,456
Charges not requiring funds		
Depreciation / Amortisation	55	55
Provision for LIAPP	0	7,000
Changes in Assets and Liabilities		
Decrease in Receivables	44,802	24,775
Increase in Prepayments	(6)	0
Net increase in Creditors/ Provisions relating to Operations	(1,952)	(175)
Net Cashflows from Operations	43,165	138,111

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Notes To and Forming Part of the Financial Statements

30 June 2003

	2003	2002
	\$000	\$000
Note 19 Government Grants and Contributions Received for Period		
Northern Territory Government Project Grants	0	0
South Australian Government Project Grants	43,000	25,000
Commonwealth Government Project Grants	0	110,000
Total Project Grants	43,000	135,000
Northern Territory Government Operating Contributions	980	1,441
South Australian Government Operating Contributions	980	1,335
Total Operating Contributions	1,960	2,776
Total Government Contributions	44,960	137,776

South Australian Government Project Grants were accrued during the 2000-01 financial year.

Note 20 Contingent Liabilities

Guarantees and indemnities provided under contracts to which the Corporation is a party are subsequently underwritten by the Governments of the Northern Territory and/or South Australia. The Corporation has provided a number of indemnities under the project documents according to a risk allocation structure agreed with the Consortium and other parties to the project documents.

Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title, claims under the *Aboriginal Land Rights Act*, undisclosed interests on the corridor, environmental contamination, heritage and sacred sites, and environmental assessment processes. For all of these risks, the Corporation has undertaken extensive work to secure appropriate title and to minimise the likelihood of any problems arising. The contingent liabilities arising from these indemnities are unquantifiable, but expected to be immaterial.

The project documents provide for the early termination of the concession arrangement by the Consortium in certain circumstances that would give rise to the payment of an Early Termination Amount. The Early Termination Amount comprises several components, including all debt and debt break costs for the Project, certain agreed break costs for third party contractors and payments to

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30 June 2003

equity to reflect the value of their investment in the Project.

While the monetary value of certain components of the Early Termination Amount are set out in the project documents, the overall amount of the payment will depend on circumstances known only at the time of the payment of the Early Termination Amount. Apart from the component representing compensation for contractual and debt financing break costs, the Early Termination Amount is designed to be a proxy for the market value of the railway business. In return for making the Early Termination Amount payment, ownership of the railway infrastructure will return to the Corporation.

There is an extensive risk management regime in place for all events that would give rise to an Early Termination Amount payment. In particular, the Corporation has specified periods to cure the event that would give rise to the termination. For all of these events, the cure is within the control of either the Corporation and/or the NT and SA Governments. During the cure period, the Corporation provides an indemnity to the Consortium for any losses it suffers as a result of the event that the Corporation/Governments are seeking to cure.

Commonwealth funding agreements contain standard form indemnities

from the Corporation in favour of the Commonwealth and its officers for any unlawful or negligent acts or omissions by the Corporation.

The contingent liabilities arising from all of the above guarantees and indemnities are unquantifiable, but expected to be immaterial. However, for all of the events that would give rise to the liabilities, the Corporation has comprehensive risk management procedures in place. Accordingly, although the prospect of any one of the contingent liabilities eventuating is considered to be minimal, the Corporation has established contract management procedures to deal with possible eventualities should they arise.

Note 21 Commitments

At 30 June 2003 the Corporation had made all payments required under the project documents (excluding the \$7m LIAPP Incentive Bonus). Hence, there were no further commitments at 30 June 2003 (2002 \$43m).

Note 22 Segments

The Corporation operates solely to facilitate the completion of the Adelaide to Darwin rail link.

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Notes To and Forming Part of the Financial Statements

30 June 2003

Note 23 Other Statutory Information

Distributions

No dividends or distributions were made during the financial year ending 30 June 2003.

Domicile of Company

Darwin, Northern Territory, Australia

Number of Employees

The Corporation reimbursed the NT Government for an average of 9 employees contracted to the Corporation during the financial year (2002–10).

Corporation Details

Principal Place of Business:

Tourism House, 43 Mitchell Street
DARWIN NT 0801

Postal Address:

GPO Box 4796
DARWIN NT 0801

Indemnifying Officer

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid by the Corporation, during or since the end of the financial year, to any person who is or has been an officer or auditor of the company.

Details of Board Members' experience and qualifications are detailed on page 42 of the Annual Report.



Tracklayer crossing the Fergusson River Bridge, north of Katherine, April 2003.

Scope

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes 1 to 23 to the financial statements, and the directors' declaration for AustralAsia Railway Corporation for the financial year ended 30 June 2003. The Corporation's Board members are responsible for the preparation and true and fair presentation in the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Corporation.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Corporation's financial position, and performance as represented by the results of its operations and its cash flows.

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

Audit Opinion

In our opinion, the financial statements of AustralAsia Railway Corporation are in accordance with:

- a) the Corporations Act, including:
 - (i) giving a true and fair view of the Corporation's financial position as at 30 June 2003 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- b) other mandatory professional reporting requirements.



BDO
Chartered Accountants



R G Rutter
Partner
Darwin: 10 September 2003

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