

...highly valued. It is an important part of our everyday life in Victoria today as it has been for 150 years. All these years ago the railway helped bring the people of young state. Today's rail network, with new services, new trains and improved infrastructure, signals a new era of growth and confidence across the state's regional public transport provider, we run more than 1,000 train services and 600 coach services every week, helping 1.5 million people get to work, study, leisure and many other activities. We also offer services for Melbourne, as well as interstate and overseas visitors who want to visit or explore our southern coast to experience the best of country and city life. Friendly, caring and professional service is important, which is why we employ more staff across the state. Many provide service to the travelling public day in, day out at our stations or on board our trains. Others work around the clock to maintain 1,100 kilometres of vital track and signalling for freight and passenger trains, providing safe and easy access to the freight network, and hence supporting every Victorian's commitment to a growing economy. To deliver on these commitments we are fully supported by the State, responsible for the funding of the rail network on a well-proven business model. There is no doubt that everyday life in Victoria today as it has been for 150 years. All these years ago the railway helped bring the people of young state. Today's rail network, with new services, new trains and improved infrastructure, signals a new era of growth and confidence across the state's regional public transport provider, we run more than 1,000 train services and 600 coach services every week, helping 1.5 million people get to work, study, leisure and many other activities. We also offer services for Melbourne, as well as interstate and overseas visitors who want to visit or explore our southern coast to experience the best of country and city life. Friendly, caring and professional service is important, which is why we employ more staff across the state. Many provide service to the travelling public day in, day out at our stations or on board our trains. Others work around the clock to maintain 1,100 kilometres of vital track and signalling for freight and passenger trains, providing safe and easy access to the freight network, and hence supporting every Victorian's commitment to a growing economy. To deliver on these commitments we are fully supported by the State, responsible for the funding of the rail network on a well-proven business model.



# Annual Report 2006-07

V/Line is as important to everyday life in Victoria today as it has been for 150 years.

All those years ago the railway helped forge the future for the emerging young state.

Today's rail renaissance, with more services, new trains and improved infrastructure, signals a new era of growth and confidence across regional Victoria.

As the state's regional public transport provider, we run more than 1400 train services and 600 coach services every week, helping 1.3 million people get from place to place for work, study, leisure and many other activities. We also offer services for Melburnians, as well as interstate and overseas visitors, who want to visit or work in the country. So our customers get to experience the best of country and city life.

Friendly, caring and professional service is important, which is why we employ more than 1200 people across the state. Many provide service to the travelling public day in, day out at our stations or on board our trains. Others work around the clock operating and maintaining 4100 kilometres of vital track and signalling for freight and passenger trains. Providing safe and easy access to the freight network, and hence supporting the economic life of many Victorian communities, is a priority.

To deliver on these commitments we are fully owned by the State, responsible to the Minister for Public Transport and funded on a not-for-profit basis.

## **OUR VISION**

To enable customers to experience the best of Victoria.

## **OUR MISSION**

To deliver safe, reliable and enjoyable travel throughout Victoria while always striving to improve our services and provide value for customers, the community and our V/Line team.

## **LIVING OUR VALUES**

- Put our customers first
- Be honest
- Take responsibility
- Strive for excellence
- Respect everyone
- Make safety paramount in all we do.

## **ABOUT THIS ANNUAL REPORT**

This report provides a summary of V/Line's key activities and financial performance for the period 1 July 2006 to 30 June 2007.

With V/Line assuming responsibility for Victoria's regional rail network on 4 May 2007, this report also covers the key activities and financial performance of the network from that date to 30 June 2007.





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## › Letter to the Minister

**31 October 2007**

The Hon. Lynne Kosky  
Minister for Public Transport  
Level 26, 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 Ltd (V/Line) for the financial year 1 July 2006 to 30 June 2007.

The past year has seen enormous growth in patronage of V/Line services, with Victorians responding positively to the government's multi-million dollar investment in new trains and infrastructure. Similarly, the introduction of our new timetable and the 20 per cent fare reduction have played major roles in attracting more customers to regional rail travel.

I am also pleased to report that the Regional Network and Access business was successfully integrated with V/Line during the latter part of the year following the government's buy-back of the business.

Given the significant growth and organisational changes experienced during 2006–07, V/Line's financial performance was again in line with expectations.

V/Line's board and management are confident that we are now in a position to make an even greater contribution to the development of Victorian regional communities.

Yours faithfully



Frank Tait, Chairman



# Chairman's report

*'V/Line's aim to be the preferred way of travelling in regional Victoria is becoming a reality.'*

## Chairman's report

In our first annual report in 2004, I spelt out the aim for the 'new V/Line': to have Victorian communities choose V/Line as their preferred way of getting from place to place. Three years on, I am delighted to report that this vision has indeed become a reality, with patronage increasing by 35 per cent over this period.

### INVESTMENT DELIVERS RETURNS

This remarkable result undoubtedly supports the State government's multi-million dollar investment in regional rail infrastructure and operations. This decision, which anticipated the recent growth of regional communities, has reinvigorated public transport and made it a genuine alternative whenever people choose to travel.

The potential for continued growth in our passenger operations was further demonstrated by the strong customer response to the government's decision to reduce rail fares by an average 20 per cent in March this year. Record numbers of Victorians have taken the opportunity to experience the comfort and convenience of V/Line's services – some for the very first time.

Given this success, it is now time for us to look more broadly at the role that V/Line plays in regional communities so that we can be even more relevant to people's daily lives. Our research tells us that regional Victorians want V/Line to be there whenever they need to travel. Our new timetable has gone a long way towards achieving just that.

We now have an expanded vision for V/Line to enable our customers to experience the best of Victoria. Whether they wish to travel to and from Melbourne, to the next town or to tourist destinations, our aim is to provide comfortable and reliable rail and coach services at times that suit their needs. We want V/Line to be 'top of mind'.

### NEW TIMETABLE SUCCESS

The new, expanded timetable introduced during the year, which was based on extensive community and customer consultation, has contributed significantly to earning customers' trust and confidence and demonstrating that we can deliver the services people want. The challenge now is to take the next step and ensure that our customers gain the maximum benefit from the revitalised network.

Our new vision requires an even greater focus on the anticipation of travel requirements and the development of innovative solutions. We will continue to listen closely to our customers' needs and to respond rapidly to them. This, together with our core commitment to safety, will be our focus in the months and years ahead.

At the same time, we recognise that our success in 2006–07 has brought with it some challenges. There is no doubt that the popularity of some peak services has resulted in crowded conditions. While we are doing what we can to minimise inconvenience through refinements to the timetable and fleet deployment, long-term solutions are required. Together with the Department of Infrastructure we are currently looking at strategies to increase our fleet capacity.

### INFRASTRUCTURE BUY-BACK

The decision of the Victorian Government to buy back the State's regional rail infrastructure lease also led to an expansion of V/Line's role late in the financial year, with the transition of the Regional Network and Access (RNA) business from Pacific National.

The inclusion of RNA means V/Line is now responsible for the operation of the passenger rail network as well as the maintenance and management of the State's important rail freight network. With this greatly expanded role, we are now looking forward to working even more closely with regional communities throughout Victoria.

It was a great credit to V/Line management and staff that the government chose to entrust the custodianship of RNA to V/Line. The board and I wish to congratulate the Chief Executive, Rob Barnett, and his management team on the seamless integration of the business and welcome all staff who chose to become V/Line employees.

The State government's Regional Rail Freight Review, led by the former Deputy Prime Minister Tim Fischer, will be central to the future of the regional rail network and the role to be played by RNA. V/Line is participating fully in the review.

### APPRECIATION FOR A TEAM EFFORT

I would like to congratulate and thank the V/Line team on their outstanding achievements in what has been a record-breaking year. Their efforts have ensured that the major changes of the last three years have delivered successful outcomes for customers across the state.

I would also like to thank my fellow members of the board for their commitment and oversight of this exciting and challenging period.

We look forward to 2007–08 and beyond with great optimism and energy as we continue to earn the trust and respect of the communities we serve.




Frank Tait – Chairman

CEO's report

'This has been a year of unprecedented growth in services and patronage, steadily improving performance and the successful integration of Regional Network and Access.'

CEO's report



2006–07 has been a year of significant achievement for V/Line. It was a year of unprecedented growth in services and patronage, steadily improving operational performance and the successful integration of the Regional Network and Access (RNA) business.

V/Line in recent years has experienced and absorbed enormous change. Both staff and customers have shown great patience, resilience and commitment throughout this period. The smooth introduction of the new timetable, guaranteeing 'more trains, more often' to regional centres and beyond, was a moment for celebration as well as an opportunity to thank staff and customers for their support.

### CONNECTING WITH COMMUNITIES

At the same time we recognise the importance of continuing to strengthen our relationship with our customers and regional areas throughout the state. We are proud that V/Line reflects the strong sense of connection and values that are the backbone of these communities.

Never was this spirit of community more evident than in the aftermath of the terrible events of 5 June 2007 at Kerang, when one of our trains was involved in a tragic level crossing collision. Eleven of our customers died, with many others requiring treatment for serious injuries. The incident deeply affected all those involved. The magnitude of the accident presented challenges, both immediately on-site and in the months following this tragedy. I cannot speak too highly of the professional, dedicated and sustained response of emergency services and V/Line staff throughout this difficult time.

On behalf of everyone at V/Line, I extend again my deepest sympathy to the families, friends and communities affected by the accident.

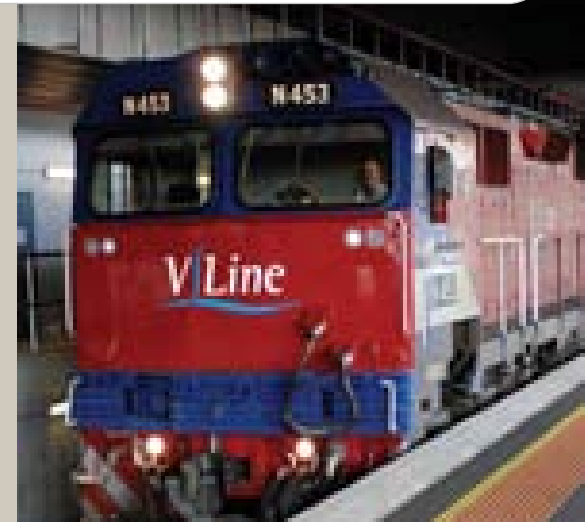
### GROWING OUR SAFETY CULTURE

Our goal is to ensure that all the activities under our control protect the safety of our customers and staff. We strive to do this by placing safety at the core of our business.

With the obvious exception of the Kerang incident, V/Line's overall safety performance in 2006–07 continued to improve. During the past year we undertook a major risk assessment and identification program that increased awareness of safety across the organisation. We emphasised that safety performance rests squarely with our managers and employees at all levels.

This increased emphasis on management responsibility, coupled with more training, improved communication and the close monitoring of safety indicators, has resulted in the development of a workplace culture with a clear focus on safe working.

This approach has been supported and enhanced by the development of more than 1500 policies, procedures and work instructions which led to V/Line receiving ISO9001 quality certification in June 2007. We will now apply the same discipline to fulfilling the requirements of ISO14000 certification for our environmental management system. ➤



Similarly, the State government's review of risk assessments of level crossings (ALCAM) in the wake of the tragic incident at Kerang will have far-reaching implications for V/Line. The event starkly highlighted the need to continue to develop and implement solutions for the control and management of level crossings. V/Line welcomes the government's early initiatives and will work diligently with all relevant authorities on this issue.

### PATRONAGE CLIMBS TO RECORD LEVELS

Patronage in 2006-07 climbed to its highest level in more than 60 years, with nine million passenger trips – 29 per cent more than last year. This followed the introduction of the new timetable in September and October 2006 and the government's 20 per cent reduction in fares from March 2007. As we continue to refine our operations, we are working to achieve an ambitious further 20 per cent increase in patronage over the next two years.

Last year's growth brought some challenges for a number of peak services, particularly on the Geelong, Bacchus Marsh and Sunbury sectors where there has been crowding. This will certainly be eased by two new VLocity trains scheduled to be delivered in late 2007, and 14 VLocity middle carriages currently on order.

V/Line is also working with the Department of Infrastructure on longer term fleet improvements to address high patronage growth on most lines.

### IMPROVEMENT IN REGIONAL PERFORMANCE

V/Line staff have responded magnificently to the demands created by business growth of this magnitude. They have adapted quickly to the changed operating environment and worked hard to ensure that customers are informed and able to enjoy the full benefits of the new V/Line services.

During a period when we have introduced significantly more rail services into key regional centres, V/Line has been able to maintain its performance as measured by punctuality and reliability. Reliability has been consistently above the target of 96 per cent. Punctuality, particularly in the regional network where we have control over our performance, improved on short distance services but was down slightly on long distance trains due to heat speed restrictions over summer.

### IMPROVED BUSINESS SYSTEMS

This year saw V/Line move into a new phase of operation with the introduction of improved business systems and processes that will help enhance the quality of our public transport and network management services.

A new business improvement program introduced during 2006-07 is already delivering significant benefits. More than 40 projects have been started, ranging from development of new cleaning standards to luggage-handling processes at Southern Cross Station and more effective resolution of customer complaints.

Frontline employees undertake problem-solving training which they apply to workplace issues in a process of continuous improvement.

We expect the program to make a major contribution to our overall business performance, with between 250 and 300 projects to be completed over the next year.

During 2006-07, V/Line installed new business management systems which will lead to an improvement in the reporting of a number of activities. We now have enhanced reporting processes in place for our financial performance, procurement activities and human resource management.



## NEW ROLE WITH THE REGIONAL NETWORK

Our business expanded significantly in the latter part of the financial year with the integration of the track operation and maintenance activities previously carried out by Pacific National. Following the State government's decision to buy back the rail network lease, V/Line assumed responsibility in May for more than 4000 kilometres of passenger and freight rail track across Victoria and into New South Wales.

V/Line's workforce grew overnight by more than 340 people. Meticulous planning and preparation led to a seamless integration, with rail safety accreditation achieved in both Victoria and New South Wales in just 60 days. The decision of the Safety Regulator to confirm accreditation within such a short period reflects great credit on all those involved.

A key contributor to the successful transition of the RNA business was a restructure of V/Line's Safety, Security and Environment Team that ensured all key safe working and operating processes were in place when the transfer occurred.

The integration process is continuing and V/Line is already seeing significant benefits for all rail users from the linking of passenger rail and track operation maintenance. We look forward to the recommendations of the current Regional Rail Review, which will undoubtedly affect the operation of the rail freight network.

## DEVELOPING OUR STAFF

The integration of RNA contributed to V/Line's staff numbers increasing from 856 to 1255, or 47 per cent, during 2006–07. This increase, coupled with the operational challenges of the past year, have made staff training and development more important than ever.

In preparation for the introduction of the new timetable, tailored training programs were provided to ensure that our people were fully equipped to adapt to new processes and systems. These programs made a significant contribution to the year's success.

The total number of training sessions for the year increased by 89 per cent. This included the piloting of a competency framework and the introduction of a leadership development program.

## FINANCIAL PERFORMANCE

Our total revenue for the year was \$318.9 million (\$294.4 million from operational activities), including a 7 per cent increase of farebox revenue to \$52.9 million and government subsidies of \$203.1 million. Total expenditure was \$342.3 million. The financial result in 2006–07 — a deficit of \$23.4 million — was in line with expectations, given the significant changes in our operations, including the transfer of the RNA business, and the 20 per cent fare reduction introduced in March 2007.

## LOOKING FORWARD

The achievements of 2006–07 provide a sound foundation for continued growth and improvement of the V/Line business. With the successful integration of RNA, V/Line now controls all key elements of the Victorian regional rail operation and we see great opportunities ahead to make a real difference to the communities we serve.

Everyone at V/Line can be proud of the achievements of the past year. On behalf of the management team, I would like to thank all staff for their continued commitment and contribution to our success.

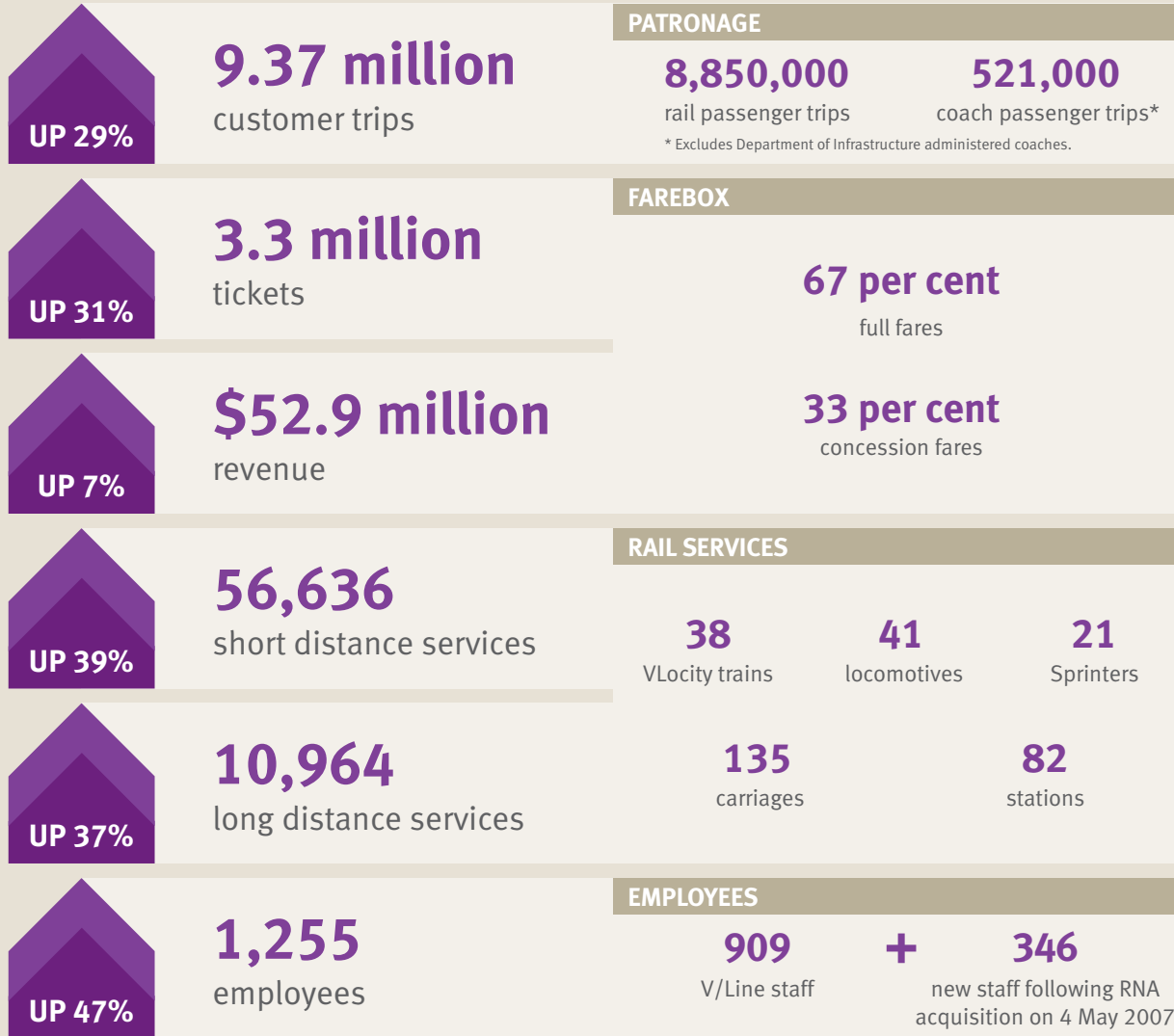


Rob Barnett — Chief Executive Officer

# Overview

'During 2006-07, V/Line customers took 9.37 million trips, 8.85 million by rail and 521,000 by coach.'

## Overview



## CUSTOMERS

Patronage (rail and coach)



Increase of 29 per cent due to new timetable and fare reductions.

Customer Satisfaction Index (DOI target 68)			
TRAINS		COACHES	
2005-06	76	2005-06	80
2006-07	76	2006-07	78
The level of satisfaction is in line with last year and remains above the DOI target of 68.			
No. customer information enquiries		No. customer feedback cases	
2005-06	800,406	2005-06	11,438
2006-07	816,066	2006-07	12,529
This increase reflects the growth in patronage.		This increase reflects the growth in patronage.	
No. of on-train consultation sessions with customers		Compensation paid to customers for V/Line not meeting on-time targets (complimentary ticket value)	
2005-06	10	2005-06	\$35,802
2006-07	12	2006-07	\$47,074
Extension of program launched in 2005-06		This increase reflects the growth in services with the new timetable.	

## SAFETY

Lost-time injury (LTI) rate per million hours worked – within V/Line's control<sup>†</sup>



Decrease of 25 per cent in LTI rate not including stress/trauma.

LTI frequency rate per million hours worked – with stress/trauma <sup>†</sup>		Customer incidents within V/Line's control per million km – requiring medical assistance	
2005-06	23.6	2005-06	2.2
2006-07	31.2	2006-07	0.9
Signals passed at danger (SPADs per million km) – human factor		Customer incidents per million km – requiring medical assistance	
2005-06	0.85	2005-06	3.3
2006-07	0.8	2006-07	2.1*

## EMPLOYEES

No. of employees (total head count)



346 staff from Pacific National made the transition to V/Line.

Full-time equivalent staff		Training attendance numbers	
2005-06	845	2005-06	2683
2006-07	1240	2006-07	2953
Training sessions			
2005-06	261		
2006-07	493		

<sup>†</sup> Figure does not include RNA staff who transferred to V/Line in May 2007.

\* Excludes customers affected by the incident at Kerang in June 2007.

## OPERATIONS

### Reliability – Overall\*



Reliability consistent despite increase in services.

Reliability – Short Distance*		Reliability – Long Distance*	
2005-06	98.9%	2005-06	99.8%
2006-07	98.7%	2006-07	99.6%
Punctuality – Short Distance† on time to 5 minutes		Punctuality – Long Distance† on time to 10 minutes	
2005-06	85.7%	2005-06	85.0%
2006-07	86.6%	2006-07	83.5%
No. of services ran – Short Distance		No. of services ran – Long Distance	
2005-06	40,871	2005-06	8007
2006-07	56,636	2006-07	10,964

\* average monthly performance (DOI target 96%)  
† average monthly performance (DOI target 92%)

### Punctuality – Overall‡ outside the metropolitan network #

on time to 5 minutes for short distance services  
and to 10 minutes for long distance services



On-time target achieved outside metropolitan network. Improved punctuality where V/Line has direct control of all planning and operations.

Rolling stock availability (% of fleet availability)			
2005-06		2006-07	
Sprinters	93%	Sprinters	93%
Carriages	93%	Carriages	93%
Locomotives	84%	Locomotives	82%
VLocity	94%	VLocity	94%
Availability was in line with expectations.			
Rolling stock reliability (3-month mean km between faults)			
2005-06		2006-07	
Sprinters	23,119	Sprinters	23,113
Carriages	217,941	Carriages	179,205
Locomotives	25,811	Locomotives	20,745
VLocity	53,000	VLocity	79,378
VLocity reliability continued to be well above expectations. Other rolling stock was in line with forecasts.			

# Figure is for Melbourne-bound trains before they enter the metropolitan system.

## FINANCE

### Revenue (from operational activities)



MILLION

MILLION

Comprising:			
Farebox		Government subsidies	
2005-06	\$49.3m	2005-06	\$161.6m
2006-07	\$52.9m	2006-07	\$203.1m
Other			
2005-06	\$23.6m		
2006-07	\$38.4m		
Revenue (from non-operational activities)			
2005-06	\$12.2m		
2006-07	\$24.5m		

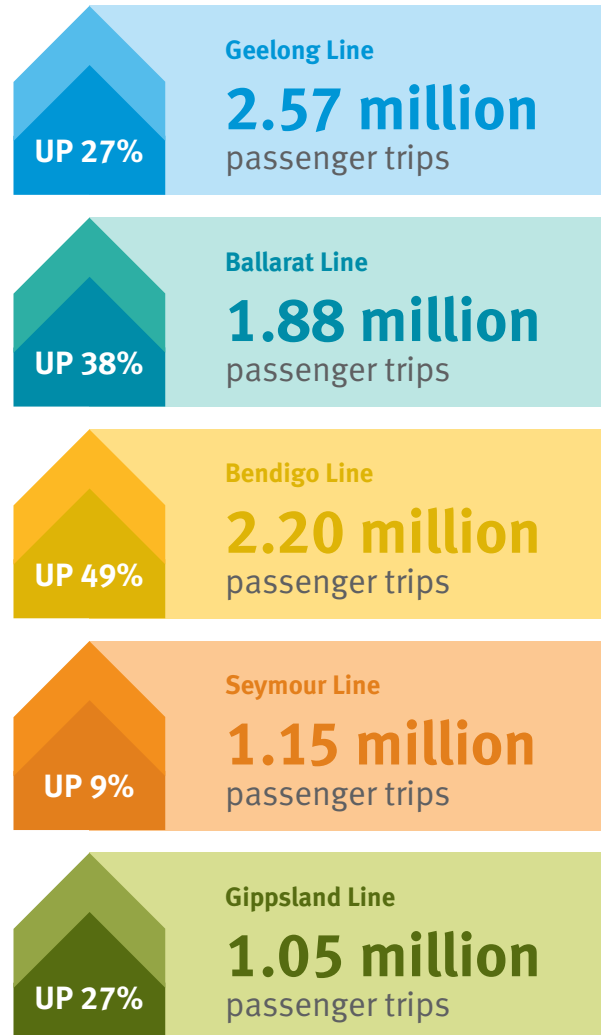
### V/LINE RAIL AND COACH PASSENGER SERVICES



Please note: this map does not show every destination available on V/Line services. Correct as at October 2007. Not to scale.



## RAIL PATRONAGE BY LINE



*'With the extra services I can live here and get the train to Uni in Bendigo. It's just so much cheaper than the car, and I can study on the way.'*

**Carley Dohnt** – Echuca student



Safety and security

'Significant progress was made in 2006-07 towards achieving V/Line's long-term safety goal of zero incidents within its control that impact on customers or staff.'

## Safety and security

V/Line's long-term safety goal is to reduce to zero the incidents within its control that have an impact on customers or staff. Significant progress was made during 2006–07 in ensuring that the processes and systems required to achieve this goal are firmly in place.

### 2006–07 PROGRAMS

A key achievement in the past year was the completion of broad-ranging risk assessment programs across the organisation, leading to the development and implementation of a comprehensive risk management system, a key requirement of the new *Rail Safety Act 2006*.

This formal risk management process has been complemented by an increased awareness of safety risks at all organisational levels. A hazard identification system is now in place across V/Line, with employees at all levels involved in identifying and reporting potential hazards. Identified risks are recorded in the risk management system, with managers required to report on steps taken to eliminate hazards.

This focus on responsibility for safety has been reinforced through a safety investigation training program conducted for managers and supervisors. The training is designed to identify the real reasons for safety incidents and develop strategies to help prevent future accidents.

Similarly, a monthly tool-box talk program in all work locations has helped ensure that safe-working practices and the safety of customers receive the highest priority from all employees.

At the same time, V/Line has undertaken a range of engineering initiatives to improve the safety of its operations. For example, more than \$2 million was invested in safety fencing at 22 stations, with a further 20 stations to be reviewed in 2007–08. Progressive replacement of N-Set carriage doors also continued

throughout the year, with modified power operated doors now fitted to half the fleet.

### SAFETY PERFORMANCE

The effectiveness of these safety programs was reflected in the steady improvement in safety performance recorded across all areas of the business.

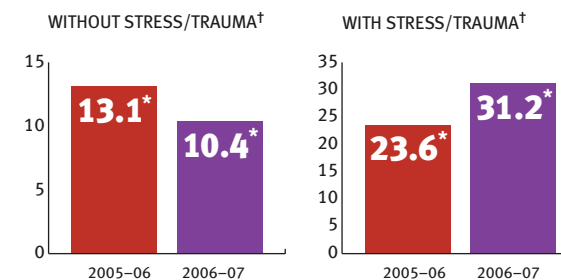
The key staff safety performance indicator – the Lost-time injury (LTI) frequency rate for incidents within V/Line's control – improved by 25 per cent to 10.4 compared with 13.1 in 2005–06. The LTI frequency rate including time lost as a result of stress and trauma increased from 23.6 to 31.2 due to an increase in the number of trespasser incidents on the rail system.

Incidents within V/Line's control which resulted in customers requiring medical treatment improved to 0.9 incidents per million kilometres, compared with 2.18 for the previous year. The rate for all customer incidents requiring medical treatment (both within and outside V/Line's control) also reduced from 3.27 incidents per million kilometres in 2005–06 to 2.1 in 2006–07.†

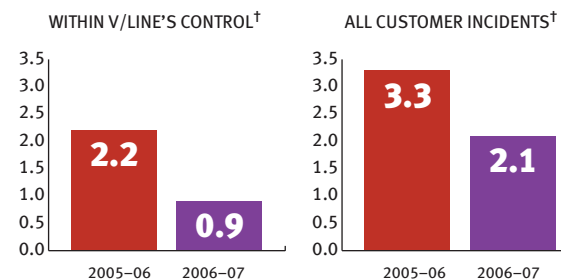
The important operational safety indicator, Signals Passed at Danger (SPADs) involving human factors, also improved during 2006–07. There were 0.8 SPADs per million kilometres travelled during 2006–07, compared with 0.85 in the previous year. This is a significant result considering the level of operational change that has been introduced over the year. ➤

† Excludes customers affected by the incident at Kerang in June 2007.

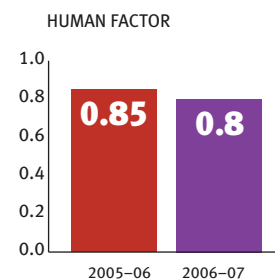
### LOST-TIME INJURY (LTI) FREQUENCY RATE



### CUSTOMER INCIDENTS PER MILLION KILOMETRES



### SIGNALS PASSED AT DANGER (SPADs) PER MILLION KILOMETRES#



† Excludes customers affected by the incident at Kerang in June 2007.  
\* LTIs per million hours worked.  
# While there is zero tolerance for SPADs, V/Line's 2006–07 result is in line with that of UK rail operators.



Public Transport Minister Lynne Kosky inspects a refurbished Sprinter train with improved exterior visibility.

Recognising that human error can and does play a significant role in safety incidents and accidents, V/Line in 2006-07 developed a new Human Factors Program, which aims to effect positive change in safety and security behaviour. The training program seeks to build an atmosphere of trust in which employees are encouraged to provide essential safety-related information to help improve procedures. It will be rolled out across V/Line in 2007-08.

#### ANNUAL DOI AUDIT

Public Transport Safety Victoria conducts a Rail Safety Accreditation Compliance Audit annually. In 2006-07 V/Line again met all of the standards to maintain its Rail Safety Accreditation.

#### REGIONAL NETWORK AND ACCESS (RNA) ACCREDITATION

One of V/Line's most significant and demanding safety-related challenges during 2006-07 was achieving safety accreditation for the integration of regional network and access activities following the government's buy-back of the business from Pacific National.

A major change management program was developed and implemented within a very short timeframe to ensure the business could be successfully and safely transferred to V/Line when the buy-back was completed in May 2007. All RNA safety systems and processes had to be converted and integrated with V/Line before safety accreditation could be achieved in both Victoria and New South Wales.

Following integration, the V/Line and RNA safety groups were combined to ensure consistent standards, policies and protocols across the organisation.

#### LEVEL CROSSING SAFETY

The incident at Kerang on 5 June 2007, which is subject to investigations by the Coroner and the Office of the Chief Investigator, again focused attention on the critical issue of level crossing safety in Victoria, particularly relating to the increased number and average speeds of heavy road vehicles.

V/Line is continuing to work with government and industry bodies at the highest levels to develop strategies to achieve infrastructure improvements and address road driver behaviour. We must ensure that the lessons of Kerang lead to a safer environment for all users.

#### SECURITY MANAGEMENT

With the integration of RNA, V/Line now has responsibility for the security of train operations into the ports of Melbourne, Geelong and Portland. This involves the implementation of stringent security checks in line with federal and state government requirements.

The integration of RNA also led to a complete review and re-write of V/Line's Emergency and Crisis Response Plan, Business Continuity Management Plan and Security Risk Management Plan. Work also continued on security risk assessments across every location within the business.

A security awareness training refresher program will also be rolled out in 2007-08.

#### WORKCOVER CLAIMS

V/Line has reduced its WorkCover premium from 3.5 per cent to 2.5 per cent, reflecting a sustained reduction in its level of claims, which are now below the industry rate.

**SERIOUS INCIDENTS**

There were nine serious incidents during 2006–07.

<b>Birregurra</b> – 2 August 2006	Level-crossing collision between a passenger train and a car. No injuries.
<b>Traralgon</b> – 12 October 2006	Derailment of a passenger train between Sale and Traralgon. No injuries.
<b>Winchelsea</b> – 12 November 2006	Level-crossing collision between a passenger train and a car. One fatality.
<b>Springvale</b> – 15 November 2006	Level-crossing collision between a passenger train and a car. No injuries.
<b>North Shore, Geelong</b> – 23 March 2007	Level-crossing collision between a passenger train and an abandoned car. No injuries.
<b>Mildura</b> – 20 May 2007	Derailment of a freight train. No injuries.
<b>Seymour</b> – 4 June 2007	Derailment of a passenger train. No injuries.
<b>Kerang</b> – 5 June 2007	Collision between a semi-trailer and a train north of Kerang which tragically resulted in the deaths of 11 passengers.
<b>Yarraville</b> – 29 June 2007	Level-crossing collision between a truck and a train. No injuries.

*The focus on responsibility for safety has been reinforced through a safety training program.*



# Our customers

*'V/Line delivered on the promise of a rail service that meets the needs of Victorians: more frequent, more reliable, more comfortable and at prices that are competitive with the car.'*

## Our customers

**STRONG ENDORSEMENT FOR ‘NEW’ V/LINE NETWORK**

Victorians voted with their feet in 2006–07 when they enthusiastically endorsed some of the most far-reaching improvements ever made to the State’s regional passenger rail network.

There were nine million passenger trips on V/Line trains during the year – a 29 per cent increase on the previous year, or more than two million extra trips.

After several years of disruptions, V/Line delivered on the promise of a rail service that meets the needs of Victorians: more frequent, more reliable, more comfortable and at prices that are competitive with the car.

For the 2006–07 year, V/Line transported 9.37 million customers, compared with 7.26 million in 2005–06. Of this total, 8.85 million were rail passengers and 521,000 were coach passengers (excludes Department of Infrastructure administered coaches). Commuters made 44 per cent of passenger trips, with a further 56 per cent discretionary travel – for personal, family and leisure activities.

And with additional timetable and fleet improvements on the way, V/Line aims to continue building patronage, especially in the discretionary travel market. In particular V/Line will encourage Melburnians to use rail for leisure travel to regional Victoria.

**A NEW ERA TIMETABLE**

One of the most significant changes ever made to the V/Line timetable occurred in September and October 2006 when there was a 40 per cent increase in the number of passenger rail services into major regional centres.

Regional Victorians responded immediately to a timetable that they helped create through extensive research and feedback involving more than 5000 people. The new timetable features:

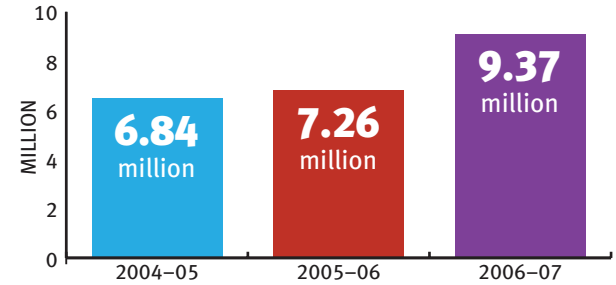
- flagship services during peak times
- early morning and later evening trains
- new ‘shoulder’ peak services
- new early morning ‘counter peak’ services into Ballarat and Bendigo for students and workers
- hourly off-peak services for many regional centres
- dramatic increase in weekend services (nearly doubled on some key lines)
- new late night trains from Melbourne, especially on Fridays and Saturdays
- improved service levels to outer regional Victoria
- better access to City Loop trains via North Melbourne.

V/Line closely monitored the effectiveness of the new timetable and in February 2007 made further improvements to ensure services were operating at the right times with the right capacity.

At the same time, daily trains were introduced to Echuca, increasing the number of weekly services to and from Melbourne from four to 18 a week. This new Echuca timetable also caters for Echuca students and business people needing to arrive in Bendigo before 9am on weekdays.

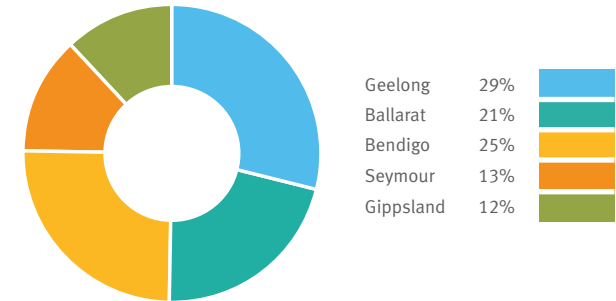
Before the additional services began, there were around 1400 passenger trips a month on the Echuca line. At year end, average monthly patronage had grown to more than 20,000 – a 1300 per cent increase.

**PATRONAGE\***

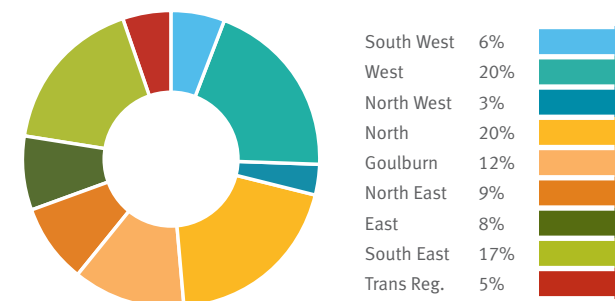


\*Excludes DOI administered coach services.

**RAIL PATRONAGE BY LINE**



**COACH PATRONAGE BY REGION**



## 20 PER CENT FARE REDUCTION

The Victorian Government reduced fares across regional Victoria by an average of 20 per cent from 4 March 2007. Zone 3 was removed from the metropolitan system at the same time.

As a result, a new regional fare to all outer regional locations was set at a discounted rate (30 per cent off the full fare). On some key services, prices were reduced by almost 50 per cent due to re-scheduling of some outer regional services away from the premium peak period up to 6pm to deliver this benefit.

The fare reduction drew an immediate and dramatic response, with patronage growing to levels not seen since World War II. Patronage in May 2007 exceeded last year's record set during the Commonwealth Games when a \$10 return ticket was available to and from regional Victoria.

Patronage growth remained consistent to the end of the year, even allowing for seasonal variation and changes.

## UNDERSTANDING CUSTOMERS EVEN BETTER

The experience of the past year indicates significant potential for sustained patronage growth as long as V/Line continues to develop and offer the services that people are seeking.

Recent research indicates that much of last year's growth came from current users taking more trips. The challenge now is to attract new customers from three identified key future growth markets:

- Families – Melbourne and regional**
- 50+ market – Melbourne and regional**
- Tree changers – regular commuters at key locations**

Information gained from ongoing research is being used to support a range of travel-related initiatives, such as V/Line's station upgrade program, which will substantially improve station facilities over the next five years, and the government's Regional Parkways Project. This project is designed to provide park-and-ride facilities, encouraging people to leave their cars at the station and take the train when travelling to and from regional centres.

The research also provides a firm foundation for a range of targeted marketing campaigns.

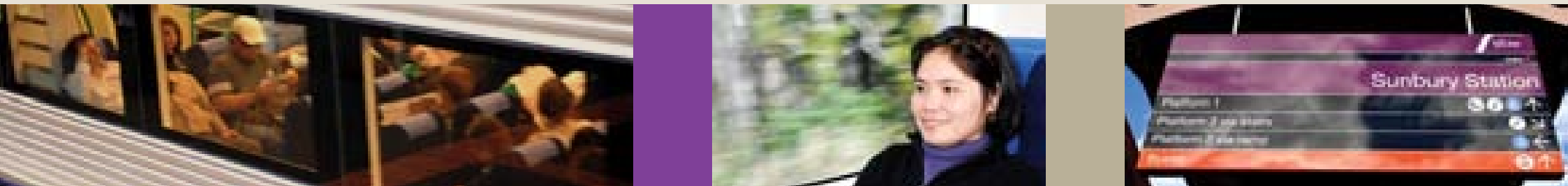
## SELLING THE BENEFITS OF RAIL

V/Line conducted a number of successful marketing campaigns during the year, attracting significant patronage to special events and regional attractions.

**Avalon Air Show** – V/Line operated 142 services to the air show in March, with a total of 21,700 passenger trips – 18 per cent more than for the 2005 event. Significantly, 35 per cent of passengers were first time V/Line users.

**Gold Rush Special** – Working in conjunction with Sovereign Hill in Ballarat, V/Line introduced a seamless travel and entry package for Melbourne, interstate and international travellers. A Gold Rush Special ticket provides travel to and from Ballarat, Sovereign Hill coach transfer, a 10 per cent discount on park entry and a free historic coach ride. The promotion was particularly popular during school holiday periods.

**Royal Melbourne Show** – V/Line offered a \$10 return ticket from anywhere in Victoria to the Show. More than 12,000 tickets were sold, contributing to 32 per cent more patronage than during the same school holiday period in the previous year.





**Movers' Campaign** – V/Line initiated a targeted direct mail program for the first time. Using Australia Post's Mover Redirection data, people who relocated to an area served by a V/Line commuter service received a mail pack containing information on local train services and an offer of a free weekly ticket from their local station to Melbourne. At the end of June, more than 850 people had taken up the offer.

**Footy and racing specials** – Special trains to AFL matches and major country race meetings continued to be popular and well patronised during 2006–07.

The success of Victoria's only regional AFL team – Geelong – was a major factor in driving growth in footy train patronage. Overall, V/Line experienced an increase in footy train patronage on the previous year.

**REVISED CUSTOMER CHARTER**

The Customer Charter outlines V/Line's commitment to service standards, how they are measured and the process for claiming compensation should performance fall short of standards. Copies of the charter are available at staffed stations and on the V/Line website.

In 2006–07 the Customer Charter was revised to include the provision for long distance trains to arrive within 10 minutes of their scheduled time.

The charter enables customers with valid periodical tickets of four weeks or more to apply for compensation in the form of complimentary travel tickets if fewer than 96 per cent of train and coach services run, or fewer than 92 per cent of trains arrive within five minutes (short distance trains) or 10 minutes (long distance trains) of their scheduled time.

Last year, V/Line issued complimentary tickets valued at \$47,074 (compared with \$35,802 the previous year) as compensation for not achieving performance targets. It also issued discretionary compensation in the form of complimentary tickets valued at \$40,869 when customers experienced major disruption or inconvenience.

**CUSTOMER SATISFACTION**

The Public Transport Division (Department of Infrastructure) conducts quarterly surveys to track customer satisfaction with V/Line rail and coach services. The target satisfaction index is 68.

The customer satisfaction index for train services in 2006–07 was 76 – the same as the previous year. The satisfaction index for coach services was 78, compared with 80 the previous year. This slight drop in the coach measure was caused by reduced satisfaction with service delivery and ticketing.



V/Line has continued to refine its Customer Commandments introduced in 2005–06. The eight commandments describe and prioritise the key areas of business performance that are important to customers travelling with V/Line. Based on the results of ongoing market research and benchmarking, the commandments are outlined in the Customer Charter.

Further research during 2006–07 resulted in some re-ordering of customer priorities, with the following result:

**1. Service delivery/performance**

*'V/Line provides me with a reliable service that gets me where I want to go when I want to get there'*

**2. Information**

*'V/Line provides me with accurate and timely information about my travel requirements'*

**3. Staff services**

*'V/Line staff (including call centre staff and V/Line agents) provide me with friendly, personal service and give me the information I need to make my journey enjoyable'*

**4. Cleanliness**

*'V/Line facilities are clean'*

**5. Access, ease and convenience**

*'V/Line services are easy, accessible and convenient to use'*

**6. Comfort**

*'The V/Line travel experience is comfortable'*

**7. Safety**

*'I personally feel safe when travelling with V/Line'*

**8. Products/ticketing**

*'V/Line has the range of tickets that meet my needs and at a price that is competitive'*

The research has also helped identify a number of key customer-focused performance areas. Measures will be developed for each of these areas to achieve improvement in 2007–08 and beyond:

- reliable service and on-time performance
- timely and accurate announcements at stations and on board
- frequent services to meet customer travel and lifestyle needs
- a guaranteed response time and clear and transparent process for complaint handling
- timely information from staff about changed travel times.

## CUSTOMER CONSULTATION AND FEEDBACK

The on-train consultation program continued this year, with 12 sessions covering each line at least twice. Representatives from industry partners, including the Public Transport Ombudsman, Department of Infrastructure and Southern Cross Station Pty Ltd, joined V/Line senior management on peak and off-peak services to receive direct feedback from customers, including:

- generally strong support for the new timetable and reduced fares
- recognition of the added value and convenience of having access to Met travel on a V/Line ticket
- strong customer support and appreciation for conductors
- some concern over changes in timing of outer regional services into the off-peak period to reduce fares
- concerns about crowding on some key peak trains
- concerns about delays caused by suburban congestion
- the need for improved announcements
- requests to improve overall availability of travel information.

Responses to issues raised are published in the customer newsletter *V/Line Voice* and on the V/Line website: [vline.com.au](http://vline.com.au)

V/Line customers have access to call centre services seven days a week by telephoning 136 196 for information, reservations and sales; and 1800 800 120 for feedback on their travelling experience.

A new call centre provider for Victorian public transport operators – UCMS – began operation in July 2006. It handled 816,066 calls to V/Line's 136 196 information line, almost a 2 per cent increase on the previous year. V/Line Customer Relations handled 12,529 customer cases, a 9 per cent increase on 2006–07 – a year in which patronage increased by nearly 30 per cent. Feedback included complaints, suggestions and claims, and a record 502 compliments on services provided.

## COMMUNICATING ONLINE

V/Line's website – [vline.com.au](http://vline.com.au) – has become an increasingly important communication medium for V/Line customers over the past year.

Average monthly visitors to the site increased by more than 50 per cent to nearly 160,000. The main reasons people visit the site are to plan their journey and to check timetables and fares.

Further site enhancements are planned during 2007–08, including an expanded journey planning facility, as well as the introduction of a disruption communication system utilising email and SMS.

## IMPROVING SIGNAGE

Working with Metlink, V/Line began to implement a regional wayfinding program across the state. This project is designed to improve signage to and around stations to make it easier for people to determine where they need to go and to find the information they need.

This project will gather momentum in 2007–08, with signage in most regional stations to be updated and improved.

### POSITIVE RESPONSE TO SOUTHERN CROSS STATION

Customers have been extremely positive about the amenity and operation of the new Southern Cross Station. They appreciate the new and modern facilities, although research has shown that there is room for continuing improvement, particularly in helping people find their way around the new station through improved signage.

Following extensive Metlink and V/Line consultation undertaken through staff and customer focus groups, recommendations to be implemented in 2007–08 include:

- increased signage on V/Line platforms
- improved identification of platforms and departing trains
- increased print size on electronic display boards
- better signage to coach terminals and other facilities.

### PUBLIC TRANSPORT OMBUDSMAN

If customers with public transport-related complaints are not satisfied with the response they receive from the relevant operator, they have an opportunity to ask the Public Transport Ombudsman for an independent review.

This year, the Public Transport Ombudsman reviewed 79 V/Line customer cases, compared with 153 in 2005–06. All cases were satisfactorily resolved.

*'Why would I drive from Kyneton and fuss over parking in the city when I can read a book on the way into work every day?'*

**John Rowe** – Kyneton commuter



Sustainability, environment

'We are in the early stages of establishing a framework that will guide our overall sustainability performance.'

## Sustainability, environment and community

# Environment and Community

## SUSTAINABILITY AT V/LINE

V/Line's operations play an important role in developing sustainable communities in regional Victoria. In turn, V/Line recognises the importance of carrying out its operations with a view to the long term. V/Line is now in the early stages of establishing a framework that will guide its overall sustainability performance in the years ahead.

During 2006–07 consultants Meyrick and Associates were commissioned to undertake a triple bottom line and sustainability-scoping study, including the preparation of appropriate policies.

## ENVIRONMENTAL MANAGEMENT SYSTEM

Preliminary work began on the development of an Environmental Management System (EMS) that will be compliant with ISO 14001. The EMS, together with Quality Management ISO 9001 and Occupational Health and Safety AS 4801, will form the V/Line Integrated Management System. A legislative review and gap analysis for the passenger rail business has been completed for the EMS and work has begun to develop a risk-based structure, based on AS 4360 Risk Management. Development of the EMS will continue into 2007–08.

## COMMONWEALTH GREENHOUSE CHALLENGE

V/Line consolidated its membership of the Commonwealth Greenhouse Challenge Plus program. An emissions inventory, completed during the year for 2005–06, showed greenhouse gas emissions of approximately 61,800 tonnes, which is an increase of just over 4 per cent compared with 2004–05. This resulted from an increase in service kilometres following the completion of Regional Fast Rail infrastructure work, as well as a more comprehensive reporting of electricity and other energy usage. Work on the 2006–07 emissions inventory is under way.

In addition, a broader range of greenhouse measures was developed during the year, including:

- greenhouse emissions per motive power unit kilometre
- greenhouse emissions per passenger kilometre
- energy use per motive power unit kilometre
- energy use per passenger kilometre.

Further progress was also made during the year on V/Line's Greenhouse Action Plan, including:

- a start on the replacement of N-Class locomotive generators, with research continuing on the possible use of a blend of biodiesel in locomotives, as well as alternative types of battery

- development of a project plan to review locomotive engine tuning to reduce emissions
- significantly increased recycling rates at 570 Bourke Street as a result of the 'One Bin System' (with possible extension across the network in 2007–08)
- installation of a 4.5 cubic metre recycling bin at Geelong Station, with investigation under way for a similar bin at Bacchus Marsh Station.

V/Line, with its extensive network and fleet of diesel-fuelled trains, has registered for the Commonwealth Energy Efficiency Opportunities Program, which aims to encourage high energy-using businesses to identify and report on areas where energy efficiency can be improved.

In addition to working towards a sustainable environment, V/Line has a responsibility to ensure that its regional passenger business remains viable into the future. Work has been undertaken with consultants Arup to determine future rolling stock requirements based on a 30-year patronage forecast. This strategy is being developed in conjunction with a number of projects under consideration by the Department of Infrastructure.

Following the development of a set of standards for V/Line stations, studies are now under way to identify work required to meet the standard set for each station. The results will form the basis of a submission to government for funding to support a major program of improvement works.

## ENVIRONMENTAL MANAGEMENT

With the integration of RNA, V/Line is now responsible for the environmental management of rail track environments, including management of the fire prevention plan. Many track environments are ecologically sensitive areas or have historical significance.

V/Line will continue to liaise closely with heritage groups and government authorities, including the Department of Primary Industries and Department of Sustainability and Environment, local councils, catchment management authorities and fire agencies, to ensure that track and track-side areas are properly monitored and maintained. Weed and rabbit control, which is undertaken on a strategic basis in rural areas, is an ongoing priority.

V/Line is actively participating in the Victorian Rail Industry Environmental Forum and its development of a set of vegetation management guidelines for rail corridors. This reference document, which is nearing completion, will assist all rail managers to comply with their environmental legislative responsibilities.

## COMMUNITY

V/Line recognises the key role it plays in the daily life and ongoing development of regional Victoria. The integration of the RNA business broadens and strengthens the V/Line regional footprint.

A number of programs and activities are in place to ensure that we build mutually beneficial relationships with the communities in which we operate.

During the year V/Line managers visited 25 municipalities across the state, identifying areas of interest and providing briefings on V/Line operations and plans. This program will continue over the coming year and will expand to cover municipalities covered by the regional freight network.

We also undertake a range of sponsorships and community support programs.

V/Line's sponsorship of the Victorian Country Football League (VCFL) moved to a new level this year with the development of new programs to support the youth of regional Victoria.

The four-year-old sponsorship of the elite under 15s championship was expanded to include a V/Line Life Training program and the V/Line Umpire Academy and Umpire Leadership Program.

The Life Training sessions provide education on diet, obesity, alcohol, drugs, isolation, depression and suicide. The sessions – supported by V/Line ambassador, Kangaroos AFL player, Nathan Thompson – are designed to help young people make the right decisions in life, both on and off the field. More than 3500 participated in the 2006-07 program. Feedback has been very positive.

The Umpire Academy programs have been created to recognise and foster the umpires of the future and provide them with leadership skills.

V/Line also sponsors the 'significant festivals and events' section of the Victorian Tourism Awards, won this year by the Warrnambool Fun for Kids festival, and also provides travel support for this highly successful event.



### DISABILITY DISCRIMINATION ACT (DDA)

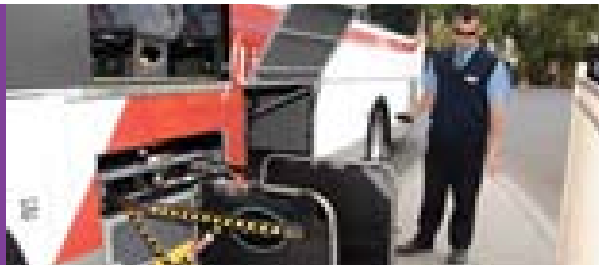
V/Line is committed to meeting the requirements of the Disability Standards for Accessible Public Transport under the Disability Discrimination Act (DDA).

An audit of all stations has been undertaken to assess V/Line's current status regarding accessibility for people with disabilities and compliance with the relevant disability discrimination legislation. V/Line has developed an action plan to meet the goals and milestones outlined in the standards.

During 2006–07 V/Line continued to work on the progressive introduction of hearing impaired augmentation loops across the network to ensure that people with a hearing disability can receive important information.

Work also began on the introduction of tactile ground surface indicators on station platforms to help vision-impaired customers with their orientation. The indicators alert people to obstacles and hazards as well as changes in the direction and location points of the access path.

Progressive upgrades to platform lighting also took place.



*'I've been working with V/Line to encourage kids to make the right choices in life as part of its Life Training program under its VCFL sponsorship. I grew up in Kyneton so it's good to see country kids being shown how to be safe around trains and to know how to look out for themselves and their mates.'*

**Nathan Thompson** – V/Line Life Training ambassador and Kangaroos forward



Our operations

'V/Line has the highest performance targets of any regional operator in Australia.'

## Our operations



**OPERATING PERFORMANCE**

2006–07 was a year of great operational change at V/Line, dominated by the launch of the new timetable in September and October. This means we now operate 1414 rail services and 613 coach services every week across regional Victoria.

The rail operating fleet comprises 38 VLocity and 21 Sprinter trains, 41 locomotives and 135 carriages. There are 82 stations in the V/Line network.

V/Line’s rail operational performance is reflected by two key measures – services run (reliability) and services on time (punctuality). Reliability is calculated as the percentage of scheduled trains that operate during a given month. The performance target is 96 per cent. Punctuality is the percentage of trains that arrive within five minutes of the scheduled time on short distance services and within 10 minutes of the scheduled time on long distance services. The target is 92 per cent.

During 2006–07, V/Line exceeded its reliability target every month on every line, delivering an overall result of 98.9 per cent across the network – just 0.1 per cent below the result of 2005–06.

This year V/Line has sought to report its punctuality in even greater detail by distinguishing the on-time performance of (i) short distance services and (ii) long distance services both before and after they enter the regional system.

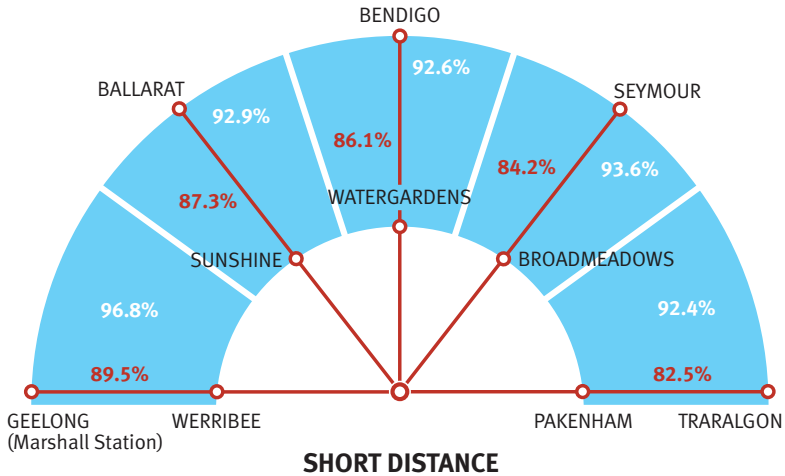
V/Line’s performance on the regional network compared with its performance on the metropolitan system is an important distinction. V/Line has direct control of all planning and operations on the regional network, while the metropolitan rail operator is responsible for managing the metropolitan system. Rail traffic congestion within the metropolitan system regularly affects V/Line’s service punctuality.

On short distance services, V/Line’s overall punctuality was 86.6 per cent, compared with 85.7 per cent in 2005–06. On long distance services, it was 83.5 per cent, compared with 85.0 per cent in 2005–06.

However, data for 2006–07 attests to the fact that V/Line consistently achieved better on-time performance on the regional network outside the metropolitan boundary. In 2006–07 V/Line achieved 93.6 per cent\* on time services on the regional network outside the metropolitan boundary.

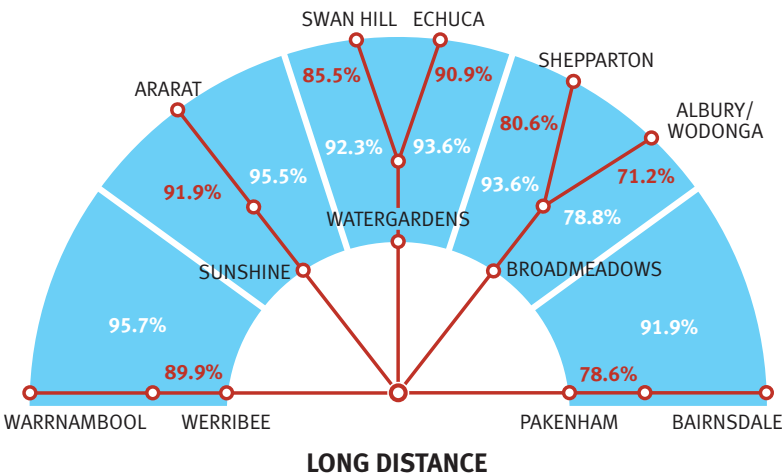
V/Line is one of only two regional train operators in Australia to publicly report its performance. It is the only operator to report on both punctuality and reliability and has the highest targets of any regional operator in Australia.

**ON-TIME PERFORMANCE OF TRAINS ON THE REGIONAL NETWORK UP TO THE METROPOLITAN BOUNDARIES\***

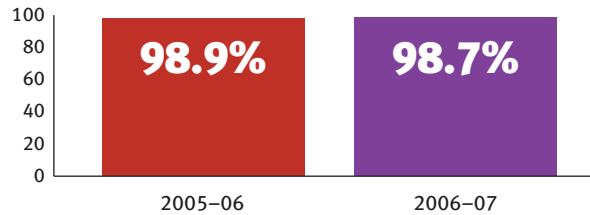


- Regional area punctuality
- Total journey punctuality

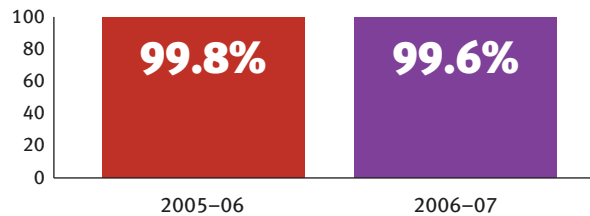
\* Regional area punctuality for Melbourne-bound trains is calculated before the train enters the metropolitan system. Out-bound train punctuality in the regional area is assessed by deducting its actual variance at the metropolitan boundary from its actual variance at its regional destination.



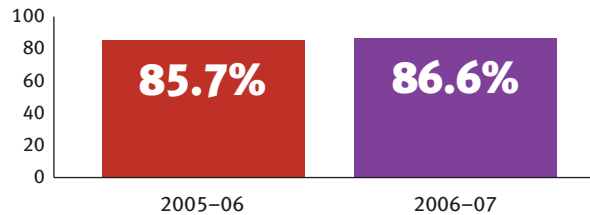
**SHORT DISTANCE RELIABILITY**



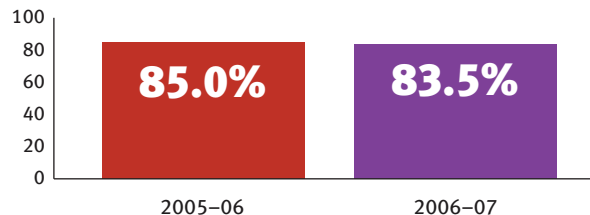
**LONG DISTANCE RELIABILITY**



**SHORT DISTANCE PUNCTUALITY**



**LONG DISTANCE PUNCTUALITY**



**DELIVERY OF NEW TIMETABLE**

From an operational perspective, 2006-07 will be recorded as the year when V/Line's rail network was able to deliver fully on its promise of 'more trains, more often' for its customers.

The new timetable, launched in September 2006, crystallised for customers all the benefits of the major infrastructure works and rail fleet upgrades undertaken over the last three years.

The Geelong, Ballarat and Bendigo lines began the new services on 3 September 2006, with the Gippsland line following on 15 October 2006. Further refinements of the timetable were introduced on 4 March 2007 to coincide with the 20 per cent reduction in V/Line fares. These refinements improve access to cheaper off-peak fares for long distance services and coach connections in particular.

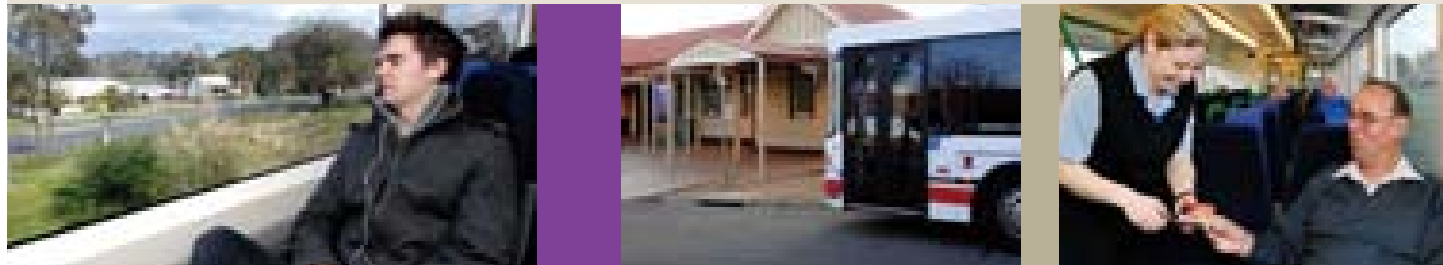
The introduction of the new timetable generated an unprecedented increase in rail patronage and, with it, a number of operational challenges. Despite our best efforts, some peak services continue to experience crowding. We have sought to address these through a review of our fleet planning, continuous monitoring of fleet capacity across the network and quick action to maximise fleet usage.

**INVESTMENT IN THE NETWORK**

In September 2006 V/Line took delivery of the last five of the VLocity trains in its initial contract with manufacturer Bombardier Transport in Dandenong. They have been delivered progressively over the past two years.

With the VLocity fleet now the backbone of the new timetable, V/Line is preparing to take delivery of a further two VLocity units in late 2007 and 14 VLocity middle carriages at the rate of one per month from mid-2008. These additional trains and carriages will boost the capacity of VLocity services and provide further flexibility within the V/Line network.

We are also undertaking a \$13 million refurbishment of V/Line's train fleet, including a \$3 million renovation for the Sprinter trains and an important upgrade to 55 H-Class carriages. The Sprinter renovation comprises new toilet amenities, carpets, seat covers, interior paint and exterior livery for all 21 trains. Work began in May 2007 and will be progressively completed over the next 18 months. The \$10 million upgrade of the H-Class carriages, which will see new interior furnishings, including new toilet amenities, external doors and livery, is scheduled for completion in mid-2009.



### CRAIGIEBURN ELECTRIFICATION

The Craigieburn rail project, which will extend the metropolitan electrified train services by 10 kilometres from Broadmeadows to Craigieburn, reached another major milestone in June 2007 with the completion of the new computerised signaling system.

The new signal infrastructure means that signaling on the line can now be controlled from Craigieburn Station. Activities associated with the new signaling system and other elements of the electrification project, such as track upgrades and replacement work, required regular weekend closures of the Seymour line throughout 2006–07. During these closures, coaches replaced V/Line's train services to Seymour, Shepparton and Albury.

On 30 September 2007, a range of new metropolitan services will start operating between Southern Cross Station and growing communities, such as Craigieburn, Roxburgh Park, Greenvale, Meadow Heights, Coolaroo and Somerton.

With the extension of electrified train services, Connex will take over as the primary rail operator for Craigieburn. V/Line will maintain its off-peak period trains but will cease providing peak services.

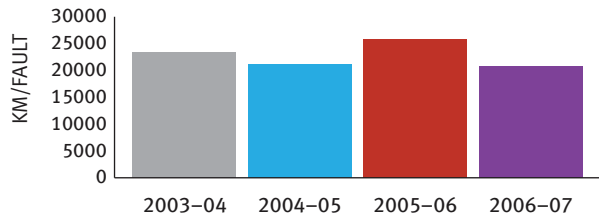


*'This is such an exciting trip. We're going to Geelong to visit my great grandson for the first time. The train is the best way to travel all this way from Melbourne's suburbs. And the Metcard price is included in V/Line's ticket too, which is good value!'*

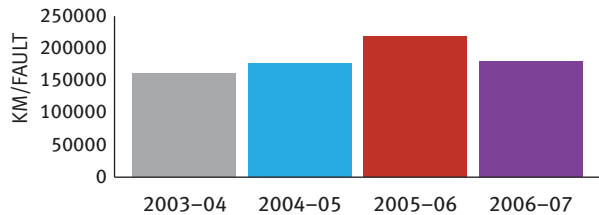
**Lola Johnson** – Melbourne grandparent



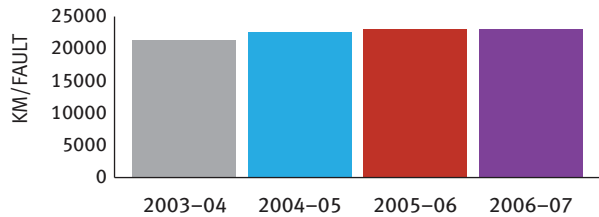
**LOCOMOTIVE RELIABILITY**



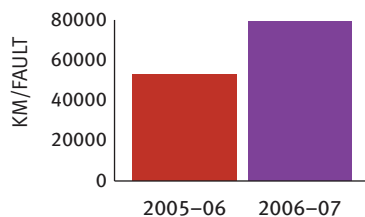
**CARRIAGE RELIABILITY**



**SPRINTER RELIABILITY**



**VLOCITY RELIABILITY\***



\* VLocity trains were introduced in December 2005.

**FLEET PERFORMANCE**

V/Line's fleet performance in 2006-07 was again dominated by the quality of the new VLocity trains whose reliability continued to surpass expectations. Reliability is measured as the mean distance between in-service faults, where a fault is an equipment failure that causes a delay greater than five minutes.

The VLocity trains' average reliability at 30 June 2007 was just under 80,000 kilometres, which is in line with expectations. On average, the VLocity fleet travelled more than one million kilometres each month; and in the peak month of May 2007, almost 1.2 million kilometres. This is a remarkable result.

The average reliability for locomotives was almost 21,000 kilometres for the year and Sprinters recorded an average of more than 23,000 kilometres. The average reliability of carriages was almost 180,000 kilometres.

Fleet availability for VLocity trains was 94 per cent, with one unit out of service for the year as a result of the accident at Trawalla in April 2006 and another two units out of service for part of the year for modifications. Availability of locomotives was 82 per cent, slightly down on last year's result of 84 per cent. Availability for sprinters and carriages was the same as in 2005-06 - 93 per cent.

**FLEET MAINTENANCE**

V/Line works closely with EDI Rail which is contracted to provide preventative maintenance programs for the fleet, as well as reactive 'out of course' fault rectification services. The preventative maintenance program ensures that the required standards of safety, reliability and passenger comfort are maintained.

During the year, 14,974 routine preventative maintenance examinations took place. There were also 46 major overhauls.

Work continued on upgrading stabling facilities for VLocity trains at Geelong and Bendigo. Regional stabling of the VLocity trains is critical to the delivery of the new timetable, especially the morning and evening peak services. Stabling requirements for the progressive delivery of the additional 14 middle carriages in 2008-09 were also reviewed.

V/Line also assumed control of the Dynon diesel shop and fuel point in Melbourne, following the integration of RNA in May 2007.

In addition, cleaning operations were consolidated and a clear set of cleaning standards was developed for contractors and for staff. However, current water restrictions caused by the drought mean exterior cleaning of trains has been significantly reduced.



### IMPROVING STATION FACILITIES

During the year, V/Line increased its staff presence at several stations, including Swan Hill, Echuca, Riddells Creek and Ballan.

The expansion of Drouin Station was completed in October 2006, while the renovation of Swan Hill Station continued to make good progress. Renovation work was also undertaken at Rochester and Elmore stations.

The upgrade of car parks at Kilmore East, Kyneton, Riddells Creek, Morwell and Warragul was also completed during the year. Further upgrades of car parks are planned as part of the government's state-wide Parkway Project.

### IMPROVING COMMUNICATIONS DURING DISRUPTIONS

As a result of feedback from the 2005 Employee Opinion Survey, V/Line conducted an independent review during 2006–07 into how it could improve the flow of timely and accurate information to customers and staff during periods of service disruption.

The review looked at the overall communications process as well as the various elements within it, including the role of V/Line's passenger control centres, network planning office, customer call centre, platform staff, on-train supervisors and conductors, yard office and bus operators. The review also examined V/Line's communication technology, in particular its SMS infrastructure.

V/Line is currently implementing the review's 14 recommendations. These include a significant expansion of the SMS incident notification system for staff and increased use of the existing intranet system to relay relevant information internally. The upgrade to the SMS notification system has been completed and new SMS mobile devices will soon be carried by all conductors, giving them instant access to network status information. From early 2008, customers too will be able to register to receive similar up-to-the-minute information about their rail service via SMS.

*'2006-07 was a year of great operational change at V/Line, dominated by the launch of the new timetable in September and October. This means we now operate 1414 rail services and 613 coach services every week across regional Victoria.'*



Regional Ne

'V/Line is now responsible for the operation and maintenance of 4100 kilometres of rail track across Victoria and into New South Wales.'

## Regional Network and Access

# Network and Access

V/Line assumed responsibility for Victoria's regional rail network on 4 May 2007. This followed the completion of the Victorian government's buy-back of the network from Pacific National.

The network business – now a V/Line department, Regional Network and Access (RNA) – provides rail access to regional freight operators, as well as V/Line's own passenger services. Access provisions, which set out the terms and conditions for access to the network, are regulated by the Essential Services Commission. These access arrangements are published on V/Line's website, [vline.com.au](http://vline.com.au)

V/Line is now responsible for the operation and maintenance of 4100 kilometres of rail track across Victoria and into New South Wales. This management role will enable V/Line to deliver better outcomes for both its freight customers and passengers.

A detailed planning and preparation process ensured a seamless transition of the business, including the transfer of 346 Pacific National employees to V/Line. Safety, IT, Corporate and Finance functions were successfully integrated as part of the transition process.

Rail Safety Accreditation was achieved in both Victoria and New South Wales to enable the transfer of the business to proceed smoothly and on time.

During the year the drought across Victoria had a major impact on the State's grain harvest and as a result a number of freight lines were not in use for several weeks. RNA took advantage of this time to complete staff training programs and other work to ensure that the network is prepared for an expected growth in grain freight traffic.

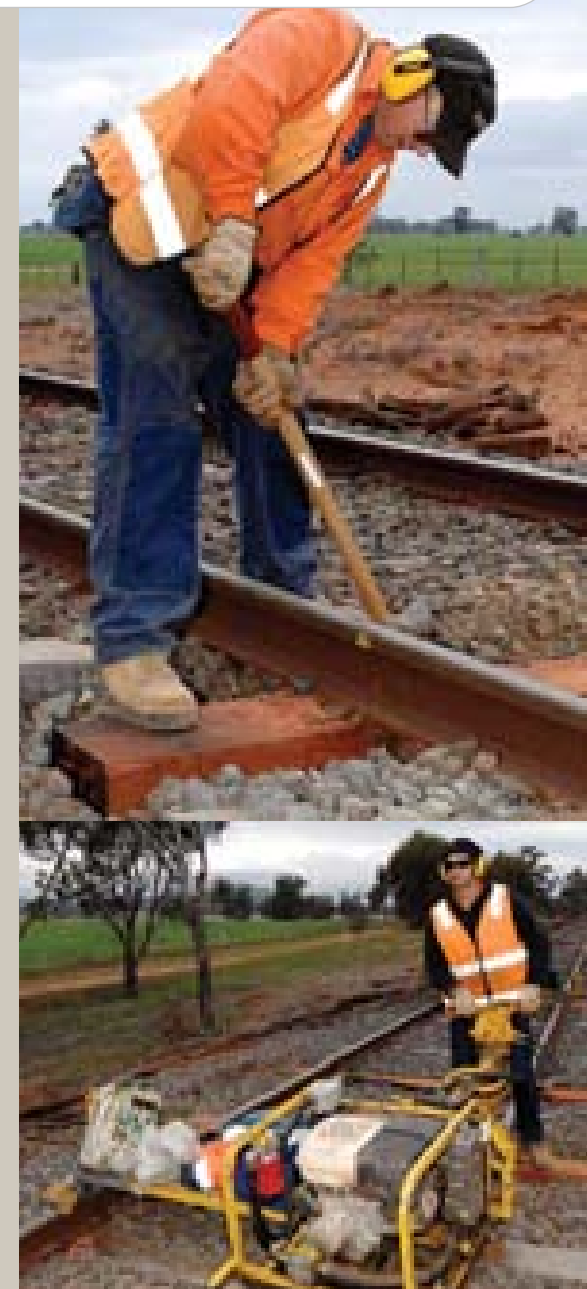
Major maintenance programs undertaken by RNA during the year also reduced the number and length of speed restrictions enforced across the passenger network.

The most significant improvement was on the north-east corridor, where work included renovation of the Dry Creek Bridge at Kilmore East and re-sleepering of the down (Seymour-bound) track between Donnybrook and Seymour. This work caused an immediate improvement in the on-time performance of V/Line passenger services.

Coaches replaced some train services between Marshall Station and Warrnambool throughout February to enable a major track maintenance program to proceed.

The works included:

- re-sleepering of large sections of track
- lime injection to stabilise track formation
- re-surfacing of 60 level crossings
- lowering of the track at Terang Station
- significant upgrade to the Warrnambool rail bridge
- some track resurfacing. >





Replacement of jointed track with continuously welded rail between Traralgon and Sale also resulted in major improvements. A similar program is under way between Swan Hill and Kerang and a major sleeper replacement program has begun between Ballarat and Ararat.

Late in June 2007 the government announced a comprehensive review of Victoria's rail freight network. A Rail Freight Review taskforce, led by the Hon. Tim Fischer AC, is examining a number of issues facing regional freight, including:

- the physical condition of the network and maintenance needs
- potential future demand
- priority of lines for upgrade and/or standardisation
- issues arising from rail freight forecasts, maintenance cost benchmarking and access charges, track standards and above-rail costs for grain transportation
- the network's future configuration, including impact on the road network and grain handling facilities
- the impact of freight trends towards intermodal rail and road freight.

V/Line is represented in a reference group that is working with the taskforce. Consultative meetings are being conducted throughout the state, with interested parties invited to make formal submissions.

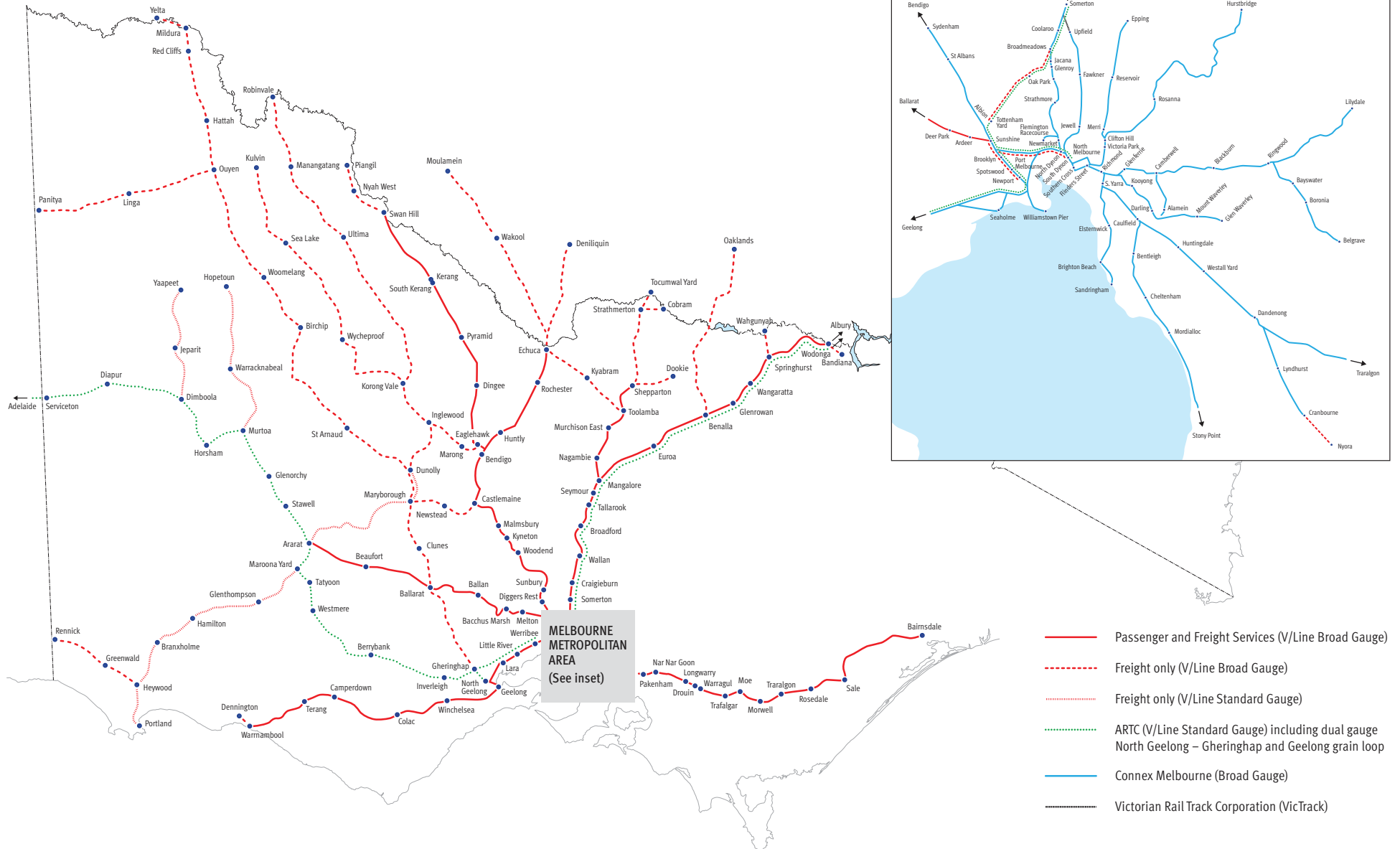
The taskforce is scheduled to present its report with options and recommendations for the future development of the rail freight network to the government by 30 November 2007.

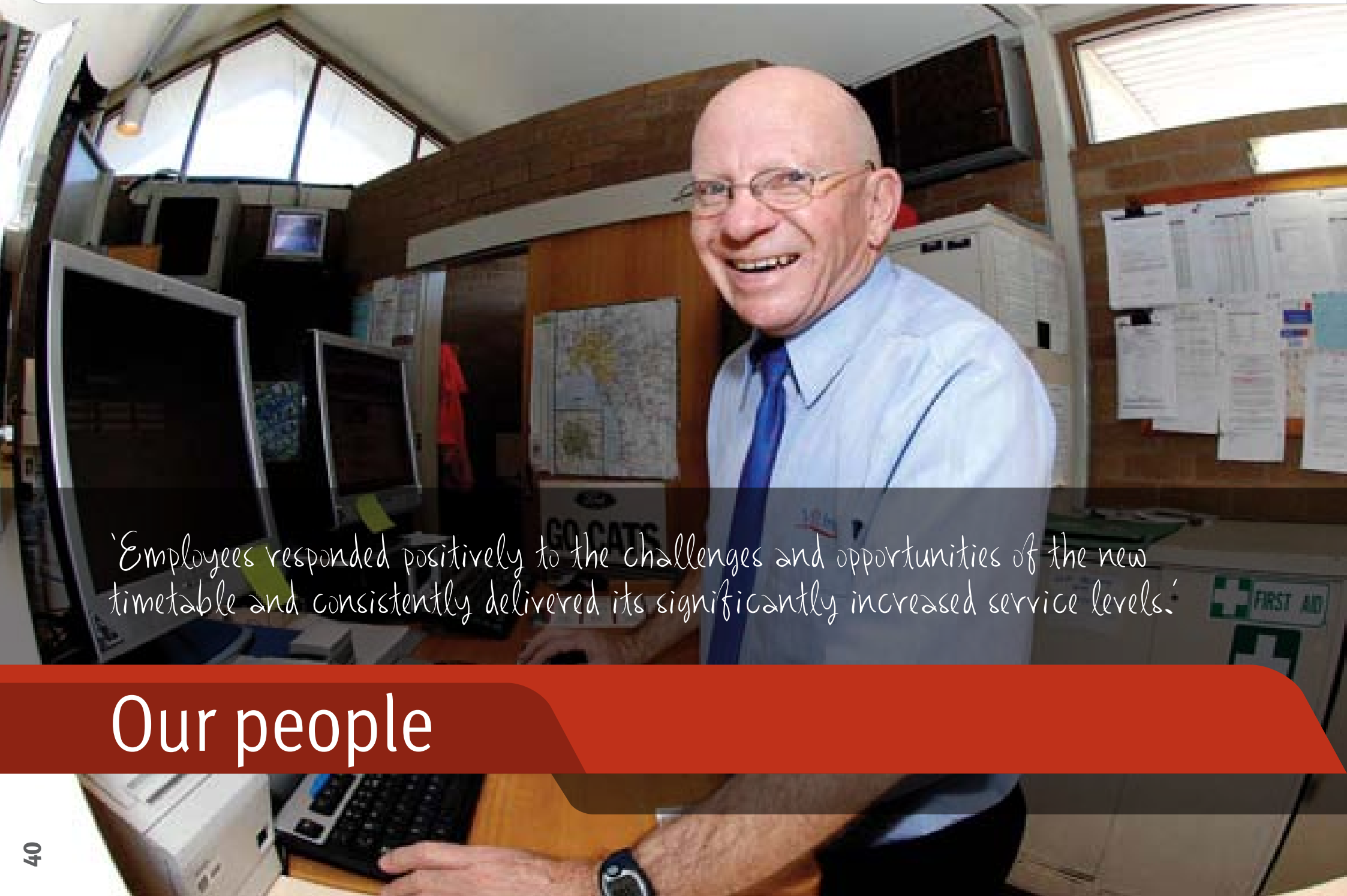
**VLINE (RNA) IS RESPONSIBLE FOR THE REGIONAL LINES TO:**

- Geelong and Warrnambool
- Ballarat, Ararat and Mildura/Merbein
- Kulwin
- Robinvale
- Bendigo and Swan Hill/Piangil
- Echuca, Moulamein (partially open) and Deniliquin
- Seymour, Wodonga/Bandiana and Shepparton/Tocumwal
- Traralgon and Bairnsdale
- Some freight lines within metropolitan Melbourne
- Standard gauge lines to Portland, Hopetoun and Yaapeet.



### VICTORIA'S NETWORK OF PASSENGER AND FREIGHT LINES





*'Employees responded positively to the challenges and opportunities of the new timetable and consistently delivered its significantly increased service levels.'*

## Our people

# Our people

Employee development continued to be a major priority for V/Line in 2006–07. A number of people programs were launched during the year, focusing on leadership, management development, competency profiles, career development and business improvement.

In the latter part of the year, the smooth transition of Pacific National's network and access workforce to V/Line was a notable achievement for the human resource team.

V/Line's employees responded positively to the challenges and opportunities presented by the introduction of the new timetable and have consistently delivered its significantly increased service levels. This has required them to adapt to new processes and new systems.

Training and HR support have been ongoing and have greatly contributed to the success of the new timetable.

## OUR PEOPLE – A SNAPSHOT

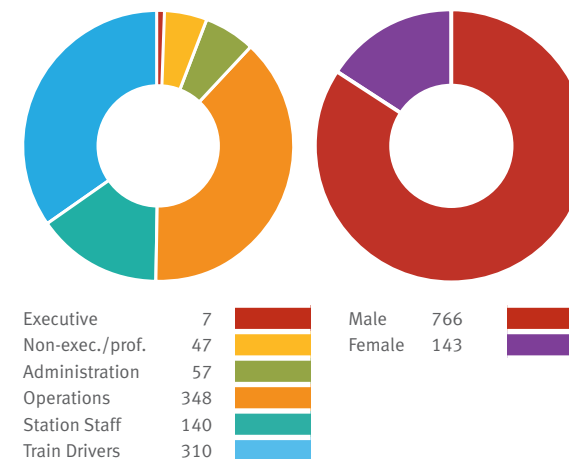
During the year, V/Line's total staff numbers increased from 856 to 1255, primarily as a result of the integration of 346 RNA staff. There were also 53 new staff in the passenger rail business, including station staff, drivers and conductors. Factors contributing to the staff increase were:

- introduction of the new timetable in September 2006
- direct employment of V/Line staff at stations previously managed by agents.

The Driver Workforce Plan continued to be monitored and a recruitment framework was developed to specifically address long-term driver needs.

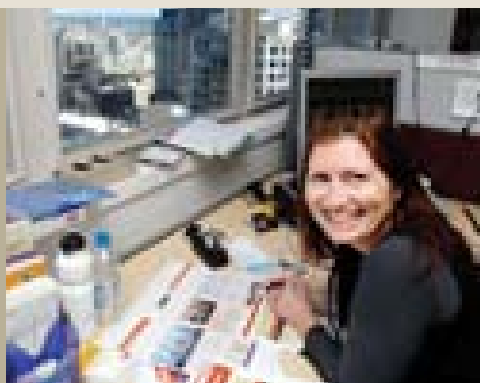
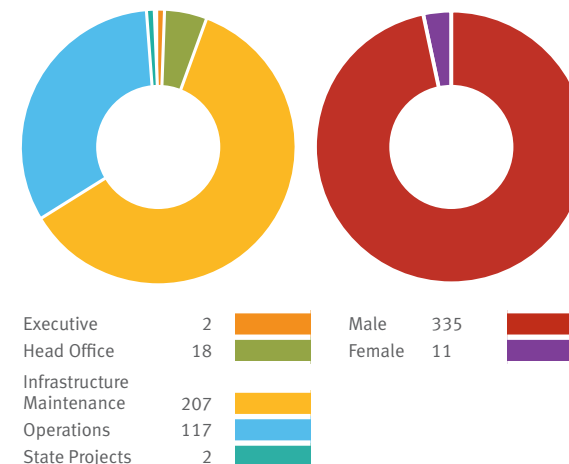
### V/LINE SKILL GROUP AT 30 JUNE 2007

#### Full-time employees



### RNA SKILL GROUP AT 30 JUNE 2007

#### Full-time employees



### SKILL DEVELOPMENT AND LEARNING PROGRAMS

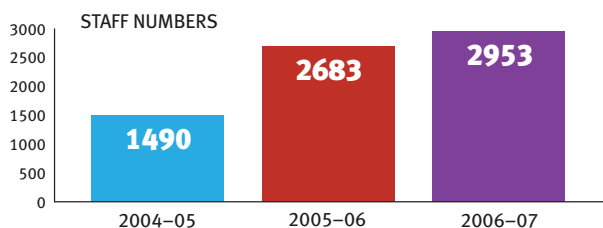
Key achievements in 2006-07 included the development and implementation of a customised two-day residential leadership program for senior managers and the introduction of the V/Line Management Development Program.

The leadership program will help enhance leadership capability within V/Line, while the management development program, consisting of nine modules, is structured to allow managers to attend only those elements that they specifically require. Participants in the program also have the opportunity to gain a Diploma of Business, which is a nationally recognised qualification.

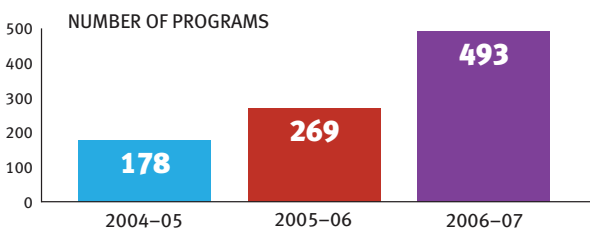
The need for both programs was highlighted in the 2005 Employee Opinion Survey and their introduction has been well received.

#### TRAINING (EXCLUDING RNA)

##### Training Attendance



##### Training programs



During the year, V/Line successfully piloted its competency framework and also continued to develop and implement its annual training calendar. Eight V/Line employees were sponsored to enrol at Central Queensland University in a newly established Master of Rail Operations course in March 2007. Over a three-year period, students have the opportunity to progress their studies from a Graduate Certificate to a Graduate Diploma and can ultimately achieve a Masters qualification.

To support the customer service standards that were created by V/Line staff in 2005-06, a new Managing the Customer Experience training program was implemented. This training program is aligned to the Australian Qualification Framework and to date 187 staff have attended the course.

Forty-eight staff also participated in V/Line's Business Improvement Program (BIP) framework and methodology training. Both programs are aligned to the AQF. The BIP training has led to 42 individual BIP initiatives so far, focusing on a range of improvements, from cleaning standards to customer service issues.

### NEW HUMAN RESOURCE SYSTEM

Significant planning for the implementation of the new Human Resource Information System took place in 2006-07, with all key pre-launch and 'test' milestones achieved. The system will significantly improve the tracking, collection, analysis and reporting of workforce data, giving managers greater access to information to help them with decision-making.

The Human Resources team developed and coordinated all change management activities associated with the establishment of the new system, including the communications strategy and training frameworks. The system will operate from July 2007.

### UNION COLLECTIVE AGREEMENT

In December 2006, the V/Line Passenger 2006-2009 Union Collective Agreement was finalised. V/Line also was required to negotiate two 2007-2009 Union Collective Agreements for RNA. Negotiations for these latter agreements began shortly after the transition of the business to V/Line and were completed by 30 June 2007.

### INTEGRATION OF REGIONAL NETWORK AND ACCESS (RNA) STAFF

Three hundred and forty-six RNA staff chose to make the transition to V/Line in May 2007. A comprehensive project plan to guide their integration was developed and implemented by V/Line over a very short period.

This was a remarkable effort as the project plan included appropriate due diligence, the achievement of all necessary accreditations, and the establishment of a new structure and model for a combined V/Line and RNA Safety Group.

V/Line also successfully negotiated two new workplace agreements for RNA staff that were fully compliant with WorkChoices legislation.

### TRAIN SERVICES IMPROVEMENT PROGRAM (TSIP)

The Train Services Improvement Program (TSIP) was initiated in response to the 2005 Employee Opinion Survey. Its main objective is to develop a model and structure for operations staff, particularly conductors, that provides greater clarity in relation to roles, reporting relationships and supervision.

A project committee was established with representatives from Operations, Safety and Human Resources. During 2006-07 the committee researched similar models in other rail organisations and industries and tested the models against evaluation criteria. ➤

As a result of this analysis, the committee recommended a functional model for the Operations Group which included the creation of two new management positions: Manager of Conductors and Operations Standards Manager.

Benefits associated with TSIP include the development of two career streams – systems and support – frontline management, professional recognition of the conductor role, and improved risk management. Recruitment of the two new management roles will occur in September 2007.

### SERVICE MILESTONES

In 2006–07, 159 employees reached long service milestones of 10, 15, 20, 25, 30 or 40 years. A special awards ceremony was held to celebrate these occasions at which CEO Rob Barnett assisted with the presentation of awards. Chairman Frank Tait was a special guest at the presentations and congratulated staff for the significant contribution they have made to V/Line.

### PROVIDING SUPPORT TO STAFF

Among its established support programs, V/Line has a comprehensive and confidential 24-hour/7-day-a-week Employee Assistance Program, which provides professional counselling and assistance to staff. The program is delivered by an independent and fully accredited service provider.

During 2006–07 the program was an invaluable and ongoing support to staff members, particularly in the wake of the tragic incidents at Trawalla in April 2006 and at Kerang in June 2007.

*In 2007, 159 employees reached long service milestones of 10, 15, 20, 25, 30 or 40 years. Special award ceremonies were held to celebrate.*



▲ V/Line staff who were acknowledged for 40 years' service in 2007.

Finance

*'Given the significant changes in the business during 2006-07, the financial result for the year was in line with expectations.'*

# Finance

V/Line's financial result in 2006–07 reflects the dramatic growth in the business and its responsibilities during the year, including the substantial increase in passenger rail services and the integration of Regional Network and Access. This growth was accompanied by increased staff and maintenance costs as well as expenses associated with a new business division.

V/Line is funded on a not-for-profit basis to optimise the government subsidy for rail operations that connect and support communities across regional Victoria. The financial treatment of this funding results in an accounting deficit which we report annually. In addition, we prudently manage the government's subsidy, which is monitored by the Department of Infrastructure through monthly meetings.

The operating result for the year was a deficit of \$23.4 million, compared with a deficit of \$4.1 million in 2005–06. This deficit, which was heavily influenced by the takeover of the RNA business and its net liabilities, was in line with government expectations.

Farebox revenue — \$52.9 million, compared with \$49.3 million in the previous year — was affected by the 20 per cent fare reduction introduced in March 2007.

The Victorian Government subsidy was \$203.1 million, \$41.5 million higher than in 2005–06. Total expenditure was \$342.3 million.

Farebox revenue: \$52.9 million, compared with \$49.3 million in the previous year.

#### 'Going concern' basis for accounting

VLPC's financial statements have been prepared on a 'going concern' basis. The directors consider this basis to be appropriate as a result of the Victorian government's commitment 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.

FINANCIAL SUMMARY		
	NOTES	JUNE 07 (\$M)
Revenue – Operational	1	294.4
– Non-operational		24.5
Expenditure	2	342.3
Operating deficit		23.4
Net Cash Inflow from Operating Activities		16.6
Total Assets	3	183.0
Total Liabilities	4	85.3
Net Assets		97.7
Total staff		1,255

#### NOTES

- 1 Operational revenue includes fares, government subsidy and revenue from other operators.
- 2 Expenditure includes track access charges, labour costs, rolling stock maintenance, depreciation and fuel.
- 3 Total assets include rolling stock with a fair value of \$140.8 million.
- 4 Total liabilities are represented by employee entitlements of \$48.6 million and creditors and other liabilities of \$36.7 million.

#### TAX ARRANGEMENTS

By direction of the Treasurer of Victoria, under the *State Owned Enterprises Act 1992*, VLPC and V/Line as its subsidiary entered into the National Tax Equivalent Regime on 1 October 2003.

#### NEW BUSINESS MANAGEMENT SYSTEMS

The introduction of new business management systems during 2006–07 greatly improved V/Line's reporting capacities and helped streamline transaction processing within the finance and procurement areas. During 2007–08 this will be further enhanced by the introduction of comprehensive human resource systems and more refined reporting processes throughout the business.





# Corporate governance



# Corporate governance

## V/LINE PASSENGER CORPORATION, V/LINE PASSENGER PTY LTD AND RELATED ENTITIES

V/Line Passenger Corporation (VLPC) was established on 15 July 2003 as a statutory Rail Corporation under the *Rail Corporations Act 1996*. VLPC is the sole shareholder of the main operating entity, V/Line Passenger Pty Limited (V/Line).

V/Line has a Franchise Agreement with the Director of Public Transport (the Director), representing the State Government of Victoria, to operate regional rail and rail replacement coach services throughout Victoria to 31 December 2009.

In July 2004 the Director directed V/Line to facilitate the operation of heritage rail (i.e. steam) services on behalf of identified rail heritage groups. V/Line established a wholly owned subsidiary company, Victorian Rail Heritage Operations Pty Limited (VRHO), to facilitate the operation of these heritage rail services.

In April 2007 the State government directed V/Line to execute documents and operate the regional below-rail business following the State's buy-back of the infrastructure from Pacific National, to facilitate track access for the operation of both passenger and freight rail services.

## BOARD OF DIRECTORS

As at 30 June 2007, the boards of VLPC and V/Line consisted of the same five independent non-executive directors, with the board of the parent entity, VLPC, reporting to the Minister for Public Transport.

Each board has established protocols and procedures to ensure that corporate governance is maintained at the highest levels and that the strategic direction and overall performance of the respective business entities can be developed and monitored diligently.

The sole director of VRHO up to 20 December 2006 was Mr David Chapman-Kelly, and from 20 December 2006 Mr Rob Barnett.

## MR FRANK TAIT

Mr Tait is the chair of the boards of both VLPC and V/Line. His career spans government, rail transport and defence industries. Along with his role on the V/Line boards, Mr Tait is executive director of the Infrastructure Projects Division within the Department of Infrastructure. He also has a consulting business, advising boards, executive managements and entrepreneurs on business strategy, organisational development and recruitment strategies.

## DR MEREDITH DOIG

In addition to her role as deputy chair of V/Line, Dr Doig is a director of the Port of Melbourne Corporation, Bakers Delight Holdings and the University of Melbourne, where she chairs one of the university's subsidiaries. She was previously a director of the Victorian Channels Authority, the Driver Education Centre of Australia and Fintona Girls' School as well as a member of the federal government's Higher Education Council. Dr Doig also has a consulting business which specialises in advising boards and directors on governance, board evaluations, executive remuneration,

potential assessment and succession planning. For the past seven years, she has been a moderator with the Cranlana Programme on 'Ethics and The Good Society'. Before becoming a professional company director, she held senior executive positions with ANZ, CRA, Comalco and Ford.

## 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 Goulburn Valley Water and also serves on the board of VicForests. She chairs the audit and risk management committee of VicForests.

## MR MICHAEL TILLEY

Mr Tilley is the managing director and a founding director of Terrain Capital. He has worked in the accounting and finance industries for more than 25 years and has a broad range of senior advisory and project management experience in

all facets of corporate finance. Mr Tilley is also chairman of Lower Murray Water Authority, Vision Super Pty Ltd and Legg Mason Asset Management Special Advisory Committee and is a member of the Industry Fund Management Pty Ltd Investor Advisory Board.

## MS ALICE WILLIAMS

Ms Williams is an independent consultant and a company director. She holds a number of government and public board positions, including director of State Trustees Limited, Telstra Sale Company Limited, Airservices Australia and Guild Insurance & Financial Services Limited. She is also a commissioner on the Victorian Competition and Efficiency Commission. She has served on the boards of Australian Accounting Standards and Western Health. Additionally, Ms Williams acts as a consultant to a range of clients, including domestic and international corporations and the Australian Federal Government, on corporate and financial strategy and regulatory matters. She is an active Council Member of the Cancer Council of Victoria. Ms Williams chairs V/Line's Safety and Environment Committee.

## BOARD MEETINGS

The board of VLPC meets as required and the board of V/Line Passenger Pty Limited generally holds monthly meetings and additional meetings as required.

### V/Line Passenger Corporation

DIRECTOR	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
Mr Frank Tait (Chair)	2	2
Dr Meredith Doig	2	2
Ms Catherine Scott	2	2
Mr Michael Tilley	2	2
Ms Alice Williams	2	2

### V/Line Passenger Pty Limited

DIRECTOR	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
Mr Frank Tait (Chair)	10	9
Dr Meredith Doig	10	10
Ms Catherine Scott	10	10
Mr Michael Tilley	10	8
Ms Alice Williams	10	9

## ACCESS TO INFORMATION

Directors of VLPC, V/Line and VRHO are entitled to full access to information required to discharge their responsibilities. Directors of all three entities may obtain independent professional advice on matters arising in the course of board duties. Directors also have access to senior managers and/or officers of the entity on whose board they serve and, on request, to documents held by the entity.

## INDEMNIFICATION OF OFFICERS

VLPC and V/Line have entered separately into deeds of indemnity and access with each director and Corporation Secretary/Company Secretary, Mr David Chapman-Kelly up to 20 December 2006 and Mr Anthony Day from 20 December 2006. VRHO has entered into a deed of indemnity and access with its sole director and secretary, Mr Chapman-Kelly, up to 20 December 2006 and Mr Rob Barnett from 20 December 2006. These deeds of VLPC, V/Line and VRHO 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

The board has established three sub-committees. These relate to people and remuneration; finance, audit and risk; and, safety, security and environment. All three committees met regularly throughout the year. The People and Remuneration Committee was chaired throughout the year by Dr Meredith Doig; the Finance, Audit and Risk Committee by Ms Catherine Scott; and the Safety, Security and Environment Committee by Ms Alice Williams.

## MINISTERIAL DIRECTIONS

VLPC received one Ministerial direction for the period ending 30 June 2007. The direction, received in April 2007, was to execute documents and facilitate the operation of the regional below-rail business following the State's buy-back of the infrastructure from Pacific National, to facilitate track access for the operation of both passenger and freight rail services.

## RISK MANAGEMENT

A process is in place for V/Line, VLPC and VRHO to meet their obligations under the *Victorian Managed Insurance Authority Act 1996*. The board of V/Line, as the significant operating entity, considers risk management issues regularly as part of its monthly board meetings, through the activities of both the Safety, Security and Environment Committee and the Finance, Audit and Risk Committee, as well as through a robust internal audit process known as the Enterprise Wide Risk Management system.

## LEGISLATION

Legislation in Victoria and New South Wales that is central to V/Line's rail accreditation includes:

- Rail Safety Act (2006) and Regulations (Vic.)
- Transport Act (1983) as amended (Vic.)
- Rail Safety Act (2002) and Regulations (2003) (NSW).

## STATUTORY INFORMATION

### FREEDOM OF INFORMATION

VLPC is subject to the provisions of the *Freedom of Information Act 1982*. For the year ended 30 June 2007, VLPC received no requests for access to information.

### BUILDING ACT 1993

It is V/Line's policy to ensure that new buildings and works to existing buildings carried out for and on its behalf comply with the *Building Act 1993*.

### NATIONAL COMPETITION POLICY

VLPC continues to comply with the requirements of the National Competition Policy.

### WHISTLEBLOWERS PROTECTION ACT

VLPC, V/Line and VRHO are all subject to the provisions of the *Whistleblowers Protection Act 2001*. In the past year, no disclosures have been received or investigations made, nor have any disclosures been referred to the Ombudsman nor has the Ombudsman referred any disclosures or made any recommendations to any of the three entities.

### IMPLEMENTATION OF THE VICTORIAN INDUSTRY PARTICIPATION POLICY (VIIPP)

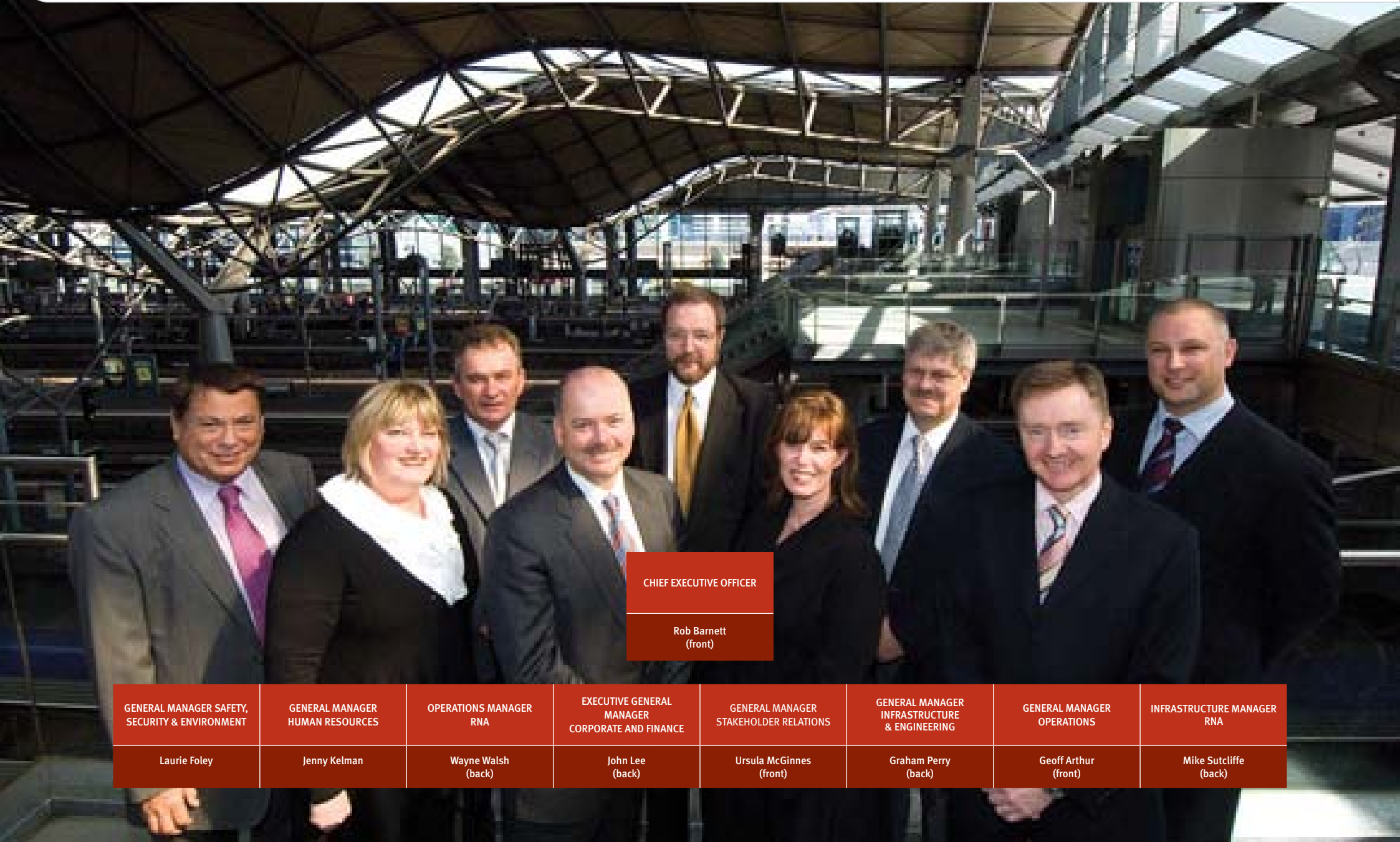
VLPC has not entered into or completed any contracts for the year ended 30 June 2007 to which the VIIPP would apply.

## ENGAGEMENT OF CONSULTANTS (OVER \$100,000)

Twenty 20 Communications Group	Brand development, marketing and advertising services	\$1,163,000
Worley Parsons	Engineering services	\$923,000
Fujitsu Australia	Business management system implementation	\$613,000
Corrs Chambers Westgarth	Legal advice	\$565,000
Critical Risk	Risk management/security	\$475,000
Alphawest	Information technology services	\$334,000
Four MS Pty Ltd	Engineering consulting – train protection warning system; Regional Network and Access integration	\$279,000
Willis Australia	Workcover advice, case management and insurance brokerage	\$242,000
Ernst & Young	Taxation and internal audit services	\$205,000
Battiston Consulting	Business management system consultancy	\$188,000
EMA Consulting	Industrial relations consultancy	\$187,000
Barrington Centre	Critical incident management and employee assistance program	\$185,000
Trevor Rowe & Associates	Communication consultancy services	\$161,000
Mainco	VLOCITY signal design	\$144,000
Compass Consulting	Change program	\$142,000
Tekton	Drawings for building/car park upgrades	\$117,000
Wagstaff Project Management	Project management for car parks	\$114,000

Under \$100,000 = 4 consultancies with a total value of \$273,000





CHIEF EXECUTIVE OFFICER  
 Rob Barnett  
 (front)

GENERAL MANAGER SAFETY, SECURITY & ENVIRONMENT	GENERAL MANAGER HUMAN RESOURCES	OPERATIONS MANAGER RNA	EXECUTIVE GENERAL MANAGER CORPORATE AND FINANCE	GENERAL MANAGER STAKEHOLDER RELATIONS	GENERAL MANAGER INFRASTRUCTURE & ENGINEERING	GENERAL MANAGER OPERATIONS	INFRASTRUCTURE MANAGER RNA
Laurie Foley	Jenny Kelman	Wayne Walsh (back)	John Lee (back)	Ursula McGinnes (front)	Graham Perry (back)	Geoff Arthur (front)	Mike Sutcliffe (back)

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in equity **53**

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**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 Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and Notes to the Financial Statements presents fairly the financial transactions during the year ended 30 June 2007 and the financial position of the consolidated entity at this date.

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

The Accountable Officer and the Chief Financial Accounting Officer have, within the last 12 months, made formal statements to the board that:

- the company's financial reports present fairly, in all material respects, the company's financial condition and operational results in accordance with the requirements of the *Financial Management Act 1994* including the Directions;
- the financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.



Frank Tait, Chairman



Rob Barnett, Chief Executive Officer



Dr Meredith A. Doig, Director


John D. Lee, Executive General Manager  
– Corporate & Finance**OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

	NOTES	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>INCOME</b>					
Revenue	2	294,435	234,529	-	-
Other income	2	24,506	12,168	-	-
<b>Total Income</b>		<b>318,941</b>	<b>246,697</b>	-	-
<b>EXPENSES</b>					
Operational expenses	3	246,828	186,550	-	-
Administrative expenses		30,914	28,673	-	-
Selling expenses		1,104	2,409	-	-
Marketing and communication		4,173	3,155	-	-
Customer service expenses		2,641	2,631	-	-
Impairment loss	9	-	-	23,373	4,061
Other expenses		17,998	8,747	-	-
Impairment of assets	10	500	-	-	-
Trains provided free of charge – (Value in Kind)	1 (f)	28,863	18,593	-	-
Assumption of RNA net liabilities	14	9,293	-	-	-
<b>Total expenses</b>		<b>342,314</b>	<b>250,758</b>	<b>(23,373)</b>	<b>(4,061)</b>
Net loss before income tax expense		(23,373)	(4,061)	(23,373)	(4,061)
Income tax expense	4	-	-	-	-
<b>Net loss for the period</b>	<b>13</b>	<b>(23,373)</b>	<b>(4,061)</b>	<b>(23,373)</b>	<b>(4,061)</b>

The above Operating Statement should be read in conjunction with the accompanying notes.

**BALANCE SHEET AS AT 30 JUNE 2007**

	NOTES	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	859	2,953	-	-
Receivables	6	12,504	9,829	-	-
Inventories	7	4,484	1,900	-	-
Other current assets	8	377	377	-	-
<b>Total current assets</b>		<b>18,224</b>	<b>15,059</b>	-	-
<b>Non-current assets</b>					
Investments	1(l), 9	-	-	97,683	121,056
Property, plant and equipment	10	164,753	170,086	-	-
<b>Total non-current assets</b>		<b>164,753</b>	<b>170,086</b>	<b>97,683</b>	<b>121,056</b>
<b>Total assets</b>		<b>182,977</b>	<b>185,145</b>	<b>97,683</b>	<b>121,056</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables	1(o), 11	36,681	29,990	-	-
Provisions	1(x), 12	46,971	32,834	-	-
<b>Total current liabilities</b>		<b>83,652</b>	<b>62,824</b>	-	-
<b>Non-current liabilities</b>					
Provisions	1(x), 12	1,642	1,265	-	-
<b>Total non-current liabilities</b>		<b>1,642</b>	<b>1,265</b>	-	-
<b>Total liabilities</b>		<b>85,294</b>	<b>64,089</b>	-	-
<b>Net assets</b>		<b>97,683</b>	<b>121,056</b>	<b>97,683</b>	<b>121,056</b>
<b>EQUITY</b>					
Accumulated surplus/(losses)	13	97,683	121,056	97,683	121,056
<b>Total equity</b>		<b>97,683</b>	<b>121,056</b>	<b>97,683</b>	<b>121,056</b>
Commitments for expenditure	24				
Contingent assets and liabilities	23				

The above Balance Sheet should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007**

	NOTES	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>121,056</b>	<b>125,117</b>	<b>121,056</b>	<b>125,117</b>
Net loss for the period		(23,373)	(4,061)	(23,373)	(4,061)
<b>Total equity at the end of the financial year</b>		<b>97,683</b>	<b>121,056</b>	<b>97,683</b>	<b>121,056</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

	NOTES	CONSOLIDATED		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from government (GST inclusive)		223,404	177,068	-	-
Receipts from other entities (GST inclusive)		91,909	68,822	-	-
Payments to suppliers and employees (GST inclusive)		(296,552)	(218,114)		
GST payments to the Australian Tax Office		(2,793)	(6,051)		
Interest received		594	708	-	-
<b>Net cash flows from operating activities</b>	27	16,562	22,433	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for plant and equipment		(18,656)	(22,062)		
<b>Net cash flows used in investing activities</b>		(18,656)	(22,062)	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		(2,094)	371	-	-
<b>Cash and cash equivalents at the beginning of the financial year</b>		2,953	2,582	-	-
<b>Cash and cash equivalents at the end of the financial year</b>	5	859	2,953	-	-

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of accounting**

This is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Financial Management Act 1994* and Accounting Standards, including Australian accounting interpretations and authoritative pronouncements of the Australian Accounting Standards Board.

The company is in compliance with the requirements of the Australian equivalents to International Financial Reporting Standards (AIFRS). V/Line has applied the AIFRS to all financial reports and appropriate notes contained in these statements.

V/Line Passenger Corporation is a Victorian statutory corporation established in Australia under the *Rail Corporations Act 1996*.

The financial report has been prepared on an accruals basis and is based on historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Accounting policies applied are consistent between the current and prior years.

The financial statements were authorised for issue by the board on 7 September 2007.

**Correction of prior year errors**

In the prior year, amounts brought to account as expenses in the consolidated entity were found to relate to the 2007 financial year. Due to the size and nature of these amounts, the comparative amounts have been restated in these financial statements.

In the prior year, an entry for \$2.7 million in relation to the impairment of the investment in subsidiaries was made in the parent entity. This entry should not have been made and the comparatives have been adjusted accordingly.

Rolling stock at valuation has been adjusted in the consolidated entity to reflect the same value in the financial statements as V/Line Passenger Pty Ltd.

The table below displays a summary of the adjustments made.

CONSOLIDATED ENTITY	2006 AS REPORTED \$'000	ADJUSTMENT INCREASE/ (DECREASE) \$'000	2006 RESTATEMENT \$'000
Operating Statement – expenses	252,601	(1,843)	250,758
Balance Sheet – payables	32,014	(1,843)	30,171
Balance Sheet – rolling stock	169,533	553	170,086
Balance Sheet – equity	118,660	2,396	121,056

PARENT ENTITY	2006 AS REPORTED \$'000	ADJUSTMENT INCREASE/ (DECREASE) \$'000	2006 RESTATEMENT \$'000
Operating Statement – impairment loss	5,904	(1,843)	4,061
Balance Sheet – investments	116,499	4,557	121,056
Balance Sheet – equity	116,499	4,557	121,056

**(b) Controlled entities**

The financial report comprises the consolidated financial statements of V/Line Passenger Pty Limited and its subsidiaries. The effects of all transactions between entities in 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 operating statement 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 exists.

**(c) Not for profit**

The board is of the view that the consolidated entity qualifies as a not-for-profit entity since the primary obligation of the company is the delivery of subsidised public transportation services to regional Victoria. The entity has signed a franchise agreement with the Director of Public Transport which determines the services that the company provides and the payments received for those services. The entity's funding is based on achieving a small loss before interest, depreciation and tax and neither the mission nor corporate strategy of the company reflects achieving profit. As such, the entity has been deemed to have a not-for-profit status and accordingly complies with accounting standards set for not-for-profit entities including AIFRS requirements.

**(d) Going concern**

Notwithstanding the deficiency in net current assets of \$65.4 million (2006: \$47.7 million) 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 a franchise agreement with the Director of Public Transport.

The funding requirements for the year ended 30 June 2008 have been agreed by the Director of Public Transport under an approved budget allocation pursuant to the franchise agreement. The franchise agreement contains provisions for the funding requirements to be met by the State Government of Victoria throughout the franchise period.

On 13 April 2007, the Director of Public Transport directed the consolidated entity to assume, in the public interest, responsibility for the operation and management of the State's regional rail network. The Director of Public Transport acknowledges and agrees that, if the consolidated entity suffers material financial detriment as a result of complying with this direction, the consolidated entity will be reimbursed by the Director of Public Transport an amount agreed by the consolidated entity and the Director or, failing agreement, as determined by the Director.

The Director of Public Transport acknowledges and agrees that, for the benefit of the directors of the consolidated entity and without limiting the level of financial support, the Director of Public Transport has agreed to provide the consolidated entity funding

to a level sufficient for it to comply with the solvency requirements under the *Corporations Act 2001*.

The Director of Public Transport has also agreed that, while the consolidated entity is under state ownership, 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.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor 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.

**(e) Comparatives**

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified unless the reclassification is impractical.

**(f) Revenue**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

Use of VLocity, Diesel Multiple Unit Trains are leased by Rolling Stock Holdings Pty Ltd and provided free of charge ('Value in Kind' – 'VIK'). The VIK measurement is based on the value of the lease payments.

Government provides subsidies that are recognised as revenue when they are controlled by the Company, which is generally upon receipt of the subsidy.

Farebox revenue (ticket sales) is recognised on an accrual basis. Sales of tickets that relate to passenger trips to be taken after the reporting date are not recognised as income but as a liability.

**(g) Cash**

Cash and cash equivalents comprise cash on hand and cash at bank, deposits at call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

**(h) Trade and other receivables**

Trade receivables representing passenger and inter-operator revenues receivable are initially recognised at fair value and subsequently measured at amortised cost. They are carried at nominal amounts due less any allowance for uncollectible amounts. A provision for impairment 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.

**(i) Related party receivables**

Receivables from related parties are recognised and carried at fair value. There is no interest charged on related party receivables.

**(j) Inventories**

V/Line has a supplier arrangement with EDI Rail Pty Ltd for the supply of spare parts. These spares are available on a ‘just in time’ basis. This practice is considered by industry to be best practice as it has the lowest storage costs. V/Line has a contract for these spares to be available upon request. Spares inventory levels (excluding RNA) decreased by \$168,000 during the year. These items are valued at cost on a first in, first out basis.

**(k) 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 every three years. Revaluations are conducted in accordance with the Victorian Government Policy – FRD 6A Application of Victorian Government Policy ‘Revaluation of Non-Current Physical Assets’.

**(l) 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.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

**(m) Cost and valuation of property, plant and equipment**

*i. Valuation of Rolling Stock and rotables*

In 2004, V/Line Passenger Pty Ltd revised its accounting policy in relation to the valuation of rolling stock. The 2004 valuation was performed by rolling stock specialists and reviewed by a qualified valuer. Although valuation of assets is typically based on the net recoverable amount, the company has used depreciable replacement cost as a valuation basis. This valuation is in keeping with FRD 6A,

which states that the net recoverable test does not apply to a not for profit entity since there is no dependence on its assets’ ability to generate cash inflows.

Any revaluation increment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

V/Line intends to commission another valuation of its rolling stock in 2008.

*ii. Depreciation of property, plant and equipment*

Depreciation is provided on a straight-line basis on all plant and equipment, including rolling stock and buildings.

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

*iii. Estimated useful lives of property, plant & equipment are set out below:*

Leasehold improvements	3 to 10 years
Plant and equipment	3 to 10 years
Rolling stock	2 to 40 years

The assets’ residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*iv. Leasehold improvements*

The cost of improvements to leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 3 to 10 years (2006 – 3 to 10 years).

*v. Leased non-current assets*

Leases of property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**(n) Leases***i. Finance Leases*

Leases of property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The entity does not have any finance leases.

*ii. Operating Leases*

Operating lease payments, including any contingent rentals, are recognised as an expense in the operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

*iii. 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.

**(o) Trade and other payables***i. Payables consist predominantly of creditors and other sundry liabilities.*

Payables are carried at amortised cost and represent liabilities for goods and services provided prior to the end of the financial year that remain unpaid. These amounts are brought to account when the obligation to make future payments in respect of the purchase of the goods and services arises.

*ii. Related party payables*

Payables to related parties are carried at amortised cost. No interest is charged by the lender.

**(p) Repairs and maintenance**

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 when incurred.

**(q) Goods and Services Tax**

Revenues, expenses, assets and liabilities are recognised net of the amount of associated GST unless the GST incurred is not recoverable from the taxation authority, in which case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

**(r) National Tax Equivalent Regime (NTER)**

By direction of the Treasurer of Victoria, under the *State Owned Enterprise Act 1992*, the consolidated entity 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.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the operating statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

V/Line and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax

liabilities resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group is then subsequently assumed by the parent entity. The group notified the ATO that it had formed an income tax consolidated group to apply from 1 October 2003. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before tax.

**(s) 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 that 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.

In determining the present value of future cash outflows, the interest rates relating 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 benefit liabilities is based upon management's expectation and analysis of when employees are likely to take leave.

Employee benefit expenses arising in respect of salaries and wages, annual leave, long service leave, sick leave, other leave benefits and other employee benefits are charged against profits.

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

**(t) Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

**(u) Functional Currency**

The functional currency of the consolidated entity is the Australian dollar.

**(v) Financial Instruments**

V/Line has no financial assets other than cash and receivables.

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist.

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the operating statement.

**(w) Impairment of assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared with the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the operating statement, except to the extent that the write-down is to be brought to account in the asset revaluation reserve.

**(x) Provisions**

Provisions are recognised when there is a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows using market yields at the reporting date on national government bonds with terms to maturity that match, as close as possible, the estimated future cash flows.

**(y) Significant accounting estimates and judgments**

Management evaluates estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*i. Key estimates – Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. An impairment of \$500,000 has been recognised in respect of rolling stock for the year ended 30 June 2007.

*ii. Key judgments – Allowance for impairment loss on trade receivables*

There has been a \$77,000 increase to the provision in 2007 based on a detailed analysis of the recoverability of individual accounts.

*iii. Key judgments – Timing of employment provisions*

All employment provisions are classified according to whether the entity has an unconditional right to defer settlement beyond 12 months.

*iv. Key judgments – Useful lives of property, plant & equipment*

Property, plant & equipment useful lives are reviewed on an annual basis to ensure their contribution is realistically based on their useful economic life.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 2 INCOME</b>				
<b>(A) REVENUE</b>				
Farebox revenue	52,889	49,303	-	-
Inter-operator income	1,058	1,298	-	-
Franchise subsidy	203,094	161,600	-	-
Access charges	4,509	-	-	-
Other income	4,022	3,735	-	-
Trains free of charge (Value in Kind)	28,863	18,593	-	-
	294,435	234,529	-	-
<b>(B) OTHER INCOME</b>				
Interest – other persons / corporation	591	708	-	-
Government project reimbursement revenue	17,875	8,747	-	-
Capital transfer re-allocation	6,040	2,713	-	-
	24,506	12,168	-	-
Total income	318,941	246,697	-	-

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**NOTE 3 OPERATIONAL EXPENSES**

Franchise performance penalty	4,326	1,749	-	-
Other direct costs	5,591	4,076	-	-
Fleet maintenance	47,670	31,277	-	-
Fuel costs	17,786	12,661	-	-
Road coach services	3,372	10,858	-	-
Access charges	62,701	44,704	-	-
Repairs & maintenance	9,660	2,117	-	-
	151,106	107,442	-	-

**DIRECT LABOUR COSTS**

Salaries and wages	60,484	43,646	-	-
Superannuation	6,115	4,899	-	-
Annual leave and long service leave expense	119	4,005	-	-
Other on-costs (fringe benefits tax, payroll tax and work cover levy)	6,267	5,536	-	-
	72,985	58,086	-	-

**DEPRECIATION OF NON-CURRENT ASSETS**

Plant and equipment	2,855	1,452	-	-
Leasehold improvements	322	334	-	-
Rolling stock	12,414	13,409	-	-
Rolling stock – capitalised improvements	7,146	5,827	-	-
	22,737	21,022	-	-
<b>Total operational expenses</b>	<b>246,828</b>	<b>186,550</b>	<b>-</b>	<b>-</b>

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**NOTE 4 INCOME TAX**

The components of tax expense comprise:

Current tax	-	-	-	-
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The prima facie tax on profit from ordinary activities before income tax is as follows:

Prima facie tax payable on ordinary activities before income tax at 30% (2006: 30% economic entity)	(7,012)	(1,218)	(7,012)	(1,218)
Tax effect of permanent differences and tax losses not brought to account	7,012	1,218	7,012	1,218
	-	-	-	-

The company has substantial prior year tax losses which began and continue to accumulate since the year ended 30 June 2004. Management has decided that there is no likelihood of profits to be offset against prior year tax losses. As a result, the income tax effect of these losses have not been brought to account in the financial statements.

The amount of accumulated tax losses as at 30 June 2007 is approximately \$73,000,000, representing future income tax benefits of approximately \$21,900,000 not recognised.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**NOTE 5 CASH AND CASH EQUIVALENTS**

Cash at bank	771	2,882	-	-
Cash on hand	88	71	-	-
	859	2,953	-	-

**NOTE 6 RECEIVABLES**

Trade receivables	10,108	6,770	-	-
Less: Provision for impairment	(262)	(186)	-	-
	9,846	6,584	-	-
Fuel rebate receivables	1,991	2,949	-	-
Other receivables	667	296	-	-
	12,504	9,829	-	-
Related party receivables				
Trade receivables include the following receivables from related parties:				
Department of Infrastructure	6,839	4,467	-	-
Other related parties	1,055	70	-	-
	7,894	4,537	-	-

Terms and conditions relating to the above financial instruments:

Credit sales are on 30 day terms

Details of the terms and conditions of related parties receivables are set out in Note 22.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**NOTE 7 INVENTORIES**

Spares and materials at cost	4,484	1,900	-	-
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**NOTE 8 OTHER CURRENT ASSETS**

Prepayments	377	377	-	-
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**NOTE 9 INVESTMENTS**

Controlled entities consolidated

Unlisted shares in the following companies:

Name	Country of incorporation	Equity interest				
V/Line Passenger Pty Ltd	Australia	100%	-	-	121,056	125,117
Impairment loss			-		(23,373)	(4,061)
			-	-	97,683	121,056
Victorian Rail Heritage Operations Pty Ltd	Australia	100%	-	-	-	-

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 capital. V/Line Passenger Pty Ltd forms part of the consolidated entity.

On 7 July 2004, by direction of the Director of Public Transport pursuant to section 4.3 of the franchise agreement, Victorian Rail Heritage Operations Pty Ltd (VRHO) was registered. V/Line Passenger Pty Ltd has 100% ownership of VRHO. The principal activities of VRHO are the provision of labour requirements to operate a passenger train network in accordance with the requirements of Division 3, Part VI of the Transport Act. VRHO provides the labour requirements to three heritage train operator incorporated bodies.



	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**NOTE 10 PROPERTY, PLANT AND EQUIPMENT****PLANT AND EQUIPMENT**

At cost	25,819	14,580	-	-
Accumulated depreciation	(18,544)	(8,424)	-	-
	7,275	6,156	-	-

**TRACK INFRASTRUCTURE**

At cost	589	-	-	-
Accumulated depreciation	(8)	-	-	-
	581	-	-	-

**ROLLING STOCK**

At independent valuation – 1 October 2003	164,875	164,690	-	-
Accumulated depreciation	(45,451)	(33,038)	-	-
Impairment	(500)	-	-	-
	118,924	131,652	-	-

**LEASEHOLD IMPROVEMENTS**

At cost	3,589	3,177	-	-
Accumulated amortisation	(814)	(492)	-	-
	2,775	2,685	-	-

**ROLLING STOCK – CAPITALISED IMPROVEMENTS**

Cost	36,509	29,130	-	-
Rotables	794	833	-	-
Accumulated depreciation	(15,462)	(8,316)	-	-
	21,841	21,647	-	-
Capital works in progress	13,357	7,946	-	-
<b>Total property, plant and equipment</b>	<b>164,753</b>	<b>170,086</b>	<b>-</b>	<b>-</b>

**ROLLING STOCK – IMPAIRMENT**

In June 2007 there was an incident at Kerang involving three train carriages and a truck which resulted in two carriages being damaged. The carriages are not useful without substantial costs being incurred well in excess of their current value. A decision has not yet been made in relation to the cost benefit of repairing the carriages.

The fair value of the two carriages at 30 June 2007 is approximately \$500,000, therefore, an impairment for \$500,000 has been brought to account.

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**MOVEMENT IN CARRYING AMOUNTS**

The movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the year is as follows.

**PLANT AND EQUIPMENT**

Carrying amount at beginning of year	6,156	2,328	-	-
Additions	3,975	5,280	-	-
Disposals	-	-	-	-
Depreciation expense	(2,856)	(1,452)	-	-
Carrying amount at end of year	7,275	6,156	-	-

**TRACK INFRASTRUCTURE**

Carrying amount at beginning of year	-	-	-	-
Additions	581	-	-	-
Disposals	-	-	-	-
Depreciation expense	-	-	-	-
Carrying amount at end of year	581	-	-	-

**ROLLING STOCK AT VALUATION**

Carrying amount at beginning of year	131,652	145,402	-	-
Additions/(transfers)	186	443	-	-
Impairment	(500)	-	-	-
Disposals	-	(784)	-	-
Depreciation expense	(12,414)	(13,409)	-	-
Carrying amount at end of year	118,924	131,652	-	-

**LEASEHOLD IMPROVEMENTS**

Carrying amount at beginning of year	2,685	883	-	-
Additions	412	2,136	-	-
Depreciation expense	(322)	(334)	-	-
Carrying amount at end of year	2,775	2,685	-	-

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ROLLING STOCK AT COST – CAPITALISED IMPROVEMENTS</b>				
Carrying amount at beginning of year	21,647	14,533	-	-
Additions/(transfers)	7,340	12,941	-	-
Disposals	-	-	-	-
Depreciation expense	(7,146)	(5,827)	-	-
Carrying amount at end of year	21,841	21,647	-	-
<b>CAPITAL WORKS IN PROGRESS</b>				
Carrying amount at beginning of year	7,946	8,507	-	-
Additions	15,731	4,608	-	-
Transfers to fixed assets	(2,961)	(5,169)	-	-
Reversals from fixed assets (project expenses capitalised by VicTrack)	(7,359)	-	-	-
Carrying amount at end of year	13,357	7,946	-	-
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>				
Carrying amount at beginning of year	170,086	171,653	-	-
Additions/(transfers)	28,224	25,408	-	-
Disposals	-	(784)	-	-
Depreciation expense	(22,737)	(21,022)	-	-
Transfers to fixed assets	(2,961)	(5,169)	-	-
Reversal from fixed assets (project expenses capitalised by VicTrack)	(7,359)	-	-	-
Impairment	(500)	-	-	-
Carrying amount at end of year	164,753	170,086	-	-

All primary franchise assets are subject to a fixed charge and all other assets to a floating charge in favour of the Director of Public Transport. The maximum prospective liability secured by the Deed of Charge is one billion dollars.

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>NOTE 11 PAYABLES</b>				
Trade payables	6,261	7,783	-	-
Accruals	24,743	19,222	-	-
Deferred income	603	436	-	-
Other payables	5,074	2,549	-	-
	36,681	29,990	-	-
Amounts payable to related parties:				
Department of Infrastructure	-	79	-	-
Other related parties	7,614	7,073	-	-
	7,614	7,152	-	-
<b>NOTE 12 PROVISIONS</b>				
<b>SHORT-TERM PROVISIONS</b>				
Employee benefits	45,577	31,655	-	-
Other provisions (employee related)	1,394	1,179	-	-
	46,971	32,834	-	-
Movement in other provisions:				
Opening balance	1,179	1,270	-	-
Additional provisions raised during the year	215	-	-	-
Amounts used	-	(91)	-	-
Closing balance	1,394	1,179	-	-
<b>LONG-TERM PROVISIONS</b>				
Employee benefits	1,642	1,265	-	-

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

**NOTE 13 EQUITY****RETAINED EARNINGS**

Balance at the beginning of the year	121,056	125,117	121,056	125,117
Net profit/(loss)	(23,373)	(4,061)	(23,373)	(4,061)
Balance at the end of the year	97,683	121,056	97,683	121,056

**NOTE 14 ASSUMPTION OF NET LIABILITIES – REGIONAL AND ACCESS NETWORK**

On 4 May 2007, the Victorian Government completed the transfer of the Regional Network and Access (RNA) business from Pacific National. All employees, their leave entitlements, inventory and plant & equipment items were transferred.

The amounts recognised at the date of acquisition were:

Inventory	2,791	-	-	-
Plant & equipment	1,615	-	-	-
Employee entitlements	(13,189)	-	-	-
Other provisions	(510)	-	-	-
Net liabilities assumed	(9,293)	-	-	-

The operating results in relation to the RNA business unit for the period 4 May to 30 June 2007 were:

**INCOME**

Operating revenue	16,740	-	-	-
Total income	16,740	-	-	-

**EXPENSES**

Operational expenses	12,264	-	-	-
Administrative expenses	3,347	-	-	-
Other expenses	124	-	-	-
Total expenses	15,735	-	-	-

<b>Profit/(loss) for the period</b>	<b>1,005</b>	<b>-</b>	<b>-</b>	<b>-</b>
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**NOTE 15 FINANCIAL INSTRUMENTS****(a) Financial Risk Management**

The company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills and leases. The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not have any derivative instruments at 30 June 2007.

*i. Treasury Risk Management*

A finance committee consisting of senior executives of the group meets on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

*ii. Financial Risks*

The main risks the company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

**Interest rate risk**

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2007 the company had no debt.

**Foreign currency risk**

The company is not exposed to fluctuations in foreign currencies.

**Liquidity risk**

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

**Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

**Price risk**

The company is not exposed to any material commodity price risk.

**(b) Interest rate risk**

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in the effective interest rates of financial assets and financial liabilities.

2007							FIXED INTEREST RATE MATURING IN:						
Financial Instruments	floating interest rate	1 year or less	between 1 and 5 years	over 5 years	non-interest bearing	weighted average effective interest rate							
<b>FINANCIAL ASSETS</b>													
Cash	859	-	-	-	-	6.12%							
Trade and other receivables	-	-	-	-	12,504	-							
<b>FINANCIAL LIABILITIES</b>													
Trade and other payables	-	-	-	-	36,681	-							

2006							FIXED INTEREST RATE MATURING IN:						
Financial Instruments	floating interest rate	1 year or less	between 1 and 5 years	over 5 years	non-interest bearing	weighted average effective interest rate							
<b>FINANCIAL ASSETS</b>													
Cash	2,953	-	-	-	-	5.66%							
Trade and other receivables	-	-	-	-	9,829	-							
<b>FINANCIAL LIABILITIES</b>													
Trade and other payables	-	-	-	-	29,990	-							

All other financial assets and liabilities are non-interest bearing.

**(c) Net fair values**

The carrying amounts of financial assets and liabilities approximate their fair values.

The aggregate net fair values of financial assets and liabilities are equal to their carrying amount.

	2007 \$'000	2006 \$'000
<b>FINANCIAL ASSETS</b>		
Cash assets	859	2,953
Receivables	12,504	9,829
	13,363	12,782
<b>FINANCIAL LIABILITIES</b>		
Payables	(36,681)	(29,990)
Interest bearing liabilities	-	-
<b>Net financial assets</b>	<b>(23,318)</b>	<b>(17,208)</b>

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.

**(d) 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 balance sheet.

The main exposure to credit risk arises as the company 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 16 CONTROLLED ENTITIES**

V/Line Corporation did not purchase any other entities during the year. In 2004, V/Line Corporation purchased 100% of the shares of V/Line Passenger Pty Ltd for \$1.

The following entities are 100% controlled by V/Line Passenger Corporation as at 30 June 2007:

V/Line Passenger Pty Ltd  
Victorian Railway Heritage Operations Pty Ltd

**NOTE 17 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 at any time during the financial year were:

**Responsible Minister:**

The Honourable Lynne Kosky MP, Minister for Public Transport.

**Directors of the Board:**

Mr Frank A. Tait

Dr Meredith A. Doig

Ms Catherine L. Scott

Mr Michael D. Tilley (Appointed 01 July 2006)

Ms Alice J. M. Williams (Appointed 01 July 2006)

	2007	2006
Accountable Officer	\$330,000–339,999	\$340,000–349,999

**NOTE 18 REMUNERATION OF EXECUTIVES**

Executive officers' (other than the accountable officer) remuneration during the reporting period is shown in the table below. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments, retirement benefits and fringe benefits tax.

	TOTAL REMUNERATION		BASE REMUNERATION	
	2007	2006	2007	2006
\$160,000–\$169,999	-	1	-	1
\$170,000–\$179,999	-	1	1	1
\$180,000–\$189,999	-	1	2	3
\$190,000–\$199,999	1	2	-	-
\$200,000–\$209,999	1	-	1	-
\$210,000–\$219,999	1	-	-	1
\$220,000–\$229,999	1	1	-	-
\$230,000–\$239,999	-	-	1	-
\$250,000–\$259,999	1	-	1	-
\$280,000–\$289,999	1	-	-	-
<b>Total numbers</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Total amount</b>	<b>1,375,980</b>	<b>1,150,087</b>	<b>1,249,594</b>	<b>1,114,907</b>

**NOTE 19 REMUNERATION OF DIRECTORS AND ACCOUNTABLE OFFICER**

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors including the accountable officer, directly or indirectly, from the entity or any related party.	492	454	-	-
The number of directors including the accountable officer whose income (including superannuation contribution) falls within the following bands:				
\$20,000-\$29,999	4	3	-	-
\$40,000-\$49,999	-	1	-	-
\$60,000-\$69,999	1	-	-	-
\$330,000-\$339,999	1	-	-	-
\$340,000-\$349,999	-	1	-	-
	6	5	-	-

**NOTE 20 REMUNERATION OF AUDITORS**

Amounts received or due and receivable by the auditors:

- audit of the financial statements	62	71	10	14
- other services	-	-	-	-
	62	71	10	14

**NOTE 21 DIRECTORS' DISCLOSURES**

The directors of the parent entity during the year ending 30 June 2007 were:

Frank A. Tait	(Appointed 1 October 2003)
Meredith A. Doig	(Appointed 1 October 2003)
Catherine L. Scott	(Appointed 1 October 2003)
Michael D. Tilley	(Appointed 1 July 2006)
Alice J. M. Williams	(Appointed 1 July 2006)

All directors are directors of V/Line Passenger Pty Ltd which forms part of the consolidated entity.

**NOTE 22 RELATED PARTY DISCLOSURES**

RELATED PARTY	NATURE OF TRANSACTION	TERMS AND CONDITIONS	CONSOLIDATED 2007 \$	CONSOLIDATED 2006 \$
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**PAYMENTS TO RELATED PARTIES**

Metlink Victoria Pty Ltd	Provision of services for V/Line customers to access suburban network	The entity was charged services on a cost basis only	2,422,230	2,252,230
VicTrack Access	Provision of communication services	Normal commercial terms and conditions	3,038,962	3,806,977
Southern Cross Station Authority	Rental payments	Normal commercial terms and conditions	946,533	1,013,733
Department of Infrastructure	Miscellaneous payments made under the franchise agreement.	In accordance with the franchise agreement.	4,325,858	9,923,296

**RECEIPTS FROM RELATED PARTIES**

Southern Cross Station Authority	Reimbursement of site allowances and other charges	Normal commercial terms and conditions	105,658	72,875
Department of Infrastructure	Provides funding to the company	In accordance with the franchise agreement	203,094,430	177,068,673
VicTrack Access	Management fee for rent collection	In accordance with agreement	59,225	54,678

The parent company did not have any related party transactions within the wholly owned group.

**NOTE 23 CONTINGENT ASSETS AND LIABILITIES**

Prior to 30 June 2007 there had been a number of incidents involving rolling stock and either motor vehicles or trucks at level crossings throughout Victoria. As a result of these incidents, damage was sustained to rolling stock that has or will necessitate repairs as well as other operational costs incurred by the incidents. V/Line is pursuing the owners and/or operators of the vehicles involved in these incidents (either in person or through their insurers) for the costs of the repairs and other expenses incurred. The amount of contingent assets in relation to these incidents is uncertain. In addition, there may be contingent liabilities in relation to the incidents.

**NOTE 24 OPERATING LEASES AND EXPENDITURE COMMITMENTS****OPERATING LEASE COMMITMENTS**

Operating lease commitments primarily relate to commercial lease agreements in relation to tenancy at 570 Bourke Street and 628 Bourke Street, Melbourne. The leases, which expire in 2014 and 2015 respectively, include fixed rate increases of between 3% and 3.5% or market rent reviews at dates specified in the agreements.

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

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within one year	1,407	762	-	-
Later than one year but not later than 5 years	4,265	1,870	-	-
Later than 5 years	2,988	1,618	-	-
	8,660	4,250	-	-

**EXPENDITURE COMMITMENTS**

Expenditure commitments primarily relate to station access charges payable up until the 31 December 2009, the franchise agreement expiry date.

Commitments in relation to operating expenditure are shown below.

Within one year	20,413	27,724	-	-
Later than one year but not later than 5 years	11,432	3,635	-	-
Later than 5 years	-	916	-	-
	31,845	32,275	-	-

**NOTE 25 EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS****(a) Employee benefits**

The aggregate employee benefit liability is comprised of:

	CONSOLIDATED		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Accrued wages, salaries and on-costs	3,560	1,394	-	-
Short term provisions (current)	46,971	32,834	-	-
Long term provisions (non-current)	1,642	1,265	-	-
	52,173	35,493	-	-

**(b) Superannuation**

Prior to the original franchise agreement, the majority of the consolidated entity's staff were members of government superannuation funds.

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 members, so are not controlled by the consolidated entity.

With effect from 29 August 1999, employees were given the option to remain in the government superannuation funds or 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 government 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**

	CONTRIBUTION FOR THE YEAR	CONTRIBUTION FOR THE YEAR	CONTRIBUTION OUTSTANDING AT YEAR END	CONTRIBUTION OUTSTANDING AT YEAR END
	2007	2006	2007	2006
VicSuper	1,815	1,466	-	-
Other	1,203	854	-	-
Total	3,018	2,320	-	-

**NOTE 26 SUBSEQUENT EVENTS**

There are no events subsequent to balance date.

**NOTE 27 CASH FLOW STATEMENT**

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
<b>(a) Reconciliation of operating profit/(loss) after tax to net cash flows from operations</b>	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss) after tax	(23,373)	(4,061)	(23,373)	(4,061)
<b>NON-CASH FLOWS IN PROFIT/(LOSS)</b>				
Depreciation	22,737	21,022	-	-
Asset impairment	500	-	-	-
Provision of diminution of investments	-	-	23,373	4,061
Assumption of Regional and Network Access net liabilities	9,293	-	-	-
<b>CHANGE IN OPERATING ASSETS AND LIABILITIES</b>				
(Increase)/decrease in trade and other receivables	(2,675)	(1,403)	-	-
(Increase)/decrease in inventories	207	(1,815)	-	-
(Increase)/decrease in prepayments	-	(12)	-	-
(Decrease)/increase in trade and other payables	9,056	8,077	-	-
(Decrease)/Increase in other provisions	817	625	-	-
<b>Net cash from/(used in) operating activities</b>	<b>16,562</b>	<b>22,433</b>	<b>-</b>	<b>-</b>
<b>(b) Reconciliation of cash</b>				
Cash balance comprises:				
- Cash at bank	771	2,887	-	-
- Cash on hand	88	66	-	-
	<b>859</b>	<b>2,953</b>	<b>-</b>	<b>-</b>

**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 2008 have been approved by the State. The consolidated entity's three year business plan has also been approved by the Director of Public Transport pursuant to the franchise agreement.

**NOTE 29 DIVIDENDS**

No dividends were paid, declared or recommended during the year, or subsequent to the year end.



# VAGO

Victorian Auditor-General's Office

## INDEPENDENT AUDIT REPORT

### V/Line Passenger Corporation

#### To the Members of the Parliament of Victoria and Members of the Board of the Corporation

##### *Matters Relating to the Electronic Presentation of the Audited Financial Report*

This auditor's report for the financial year ended 30 June 2007 relates to the financial report of the V/Line Passenger Corporation included on its web site. The Members of the Board of the V/Line Passenger Corporation are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's 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.

##### *The Financial Report*

The accompanying financial report for the year ended 30 June 2007 of the V/Line Passenger Corporation which comprises the operating statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the statutory statement has been audited. The financial report includes the consolidated financial statements of the economic entity, comprising the V/Line Passenger Corporation and the entities it controlled at the year's end or from time to time during the financial year as disclosed in note 1 (b) to the financial statements.

##### *The Responsibility of the Members of the Board for the Financial Report*

The Members of the Board of the V/Line Passenger Corporation are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

##### *Auditor's Responsibility*

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to internal control relevant to the Board Members' preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the V/Line Passenger Corporation and the consolidated entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

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*Auditing in the Public Interest*

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# VAGO

Victorian Auditor-General's Office

## Independent Audit Report (continued)

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

##### *Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. The Auditor-General, his staff and delegates comply with all applicable independence requirements of the Australian accounting profession.

##### *Auditor's Opinion*

In my opinion, the financial report presents fairly, in all material respects, the financial position of the V/Line Passenger Corporation and the economic entity as at 30 June 2007 and their financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE  
13 September 2007

  
D.D.R. Pearson  
Auditor-General

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*Auditing in the Public Interest*

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**DISCLOSURE INDEX**

The Annual Report of the V/Line Passenger Corporation is prepared in accordance with all relevant Victorian legislation.

This index has been prepared to identify compliance with statutory disclosure requirements.

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