2016
Annual
Report

Australian
Rail Track
Corporation

ABN 75 081 455 754
11 Sir Donald Bradman Drive,
Keswick Terminal, SA 5035

ARTC

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ARTC publishes announcements, reports and a comprehensive range of operational information on our website at artc.com.au

ABOUT US

WE MANAGE

Over 8,500 km standard gauge track

WE MAINTAIN

Our network out of 27 provisioning centres

WE EMPLOY

Over 1,200 people

WE MANAGE

The transit of over 450 trains per day on our network

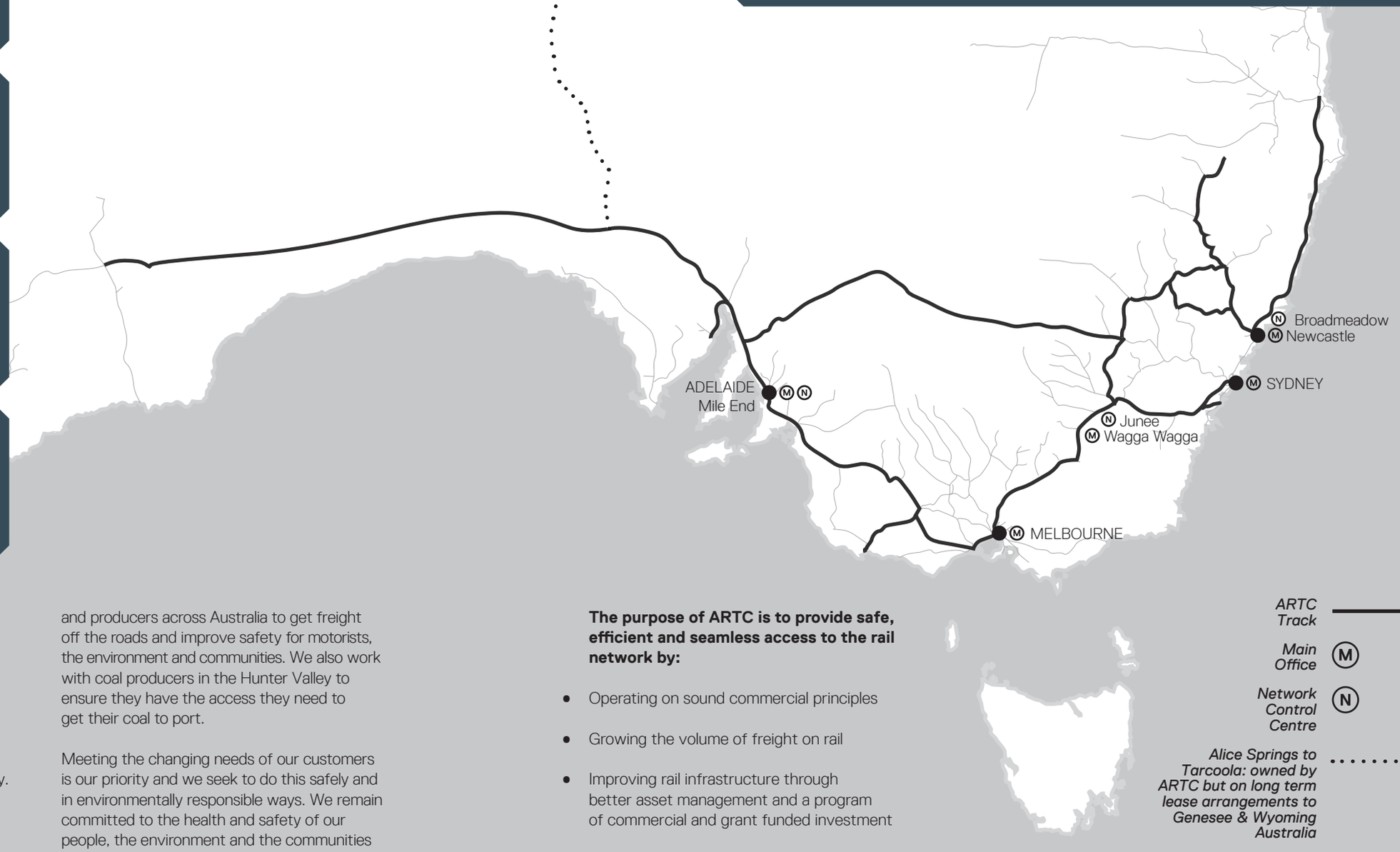
We're a vital part of the transport supply chain with over 8,500km of rail network spanning across five states, facilitating the movement of both people and freight. Our team is experienced and we have delivered billions of dollars worth of investment to upgrade and modernise our rail network. We help make rail a cost efficient, reliable, safe and responsible mode of transport, growing Australia's economy.

We manage the seamless, safe transit of hundreds of freight and passenger trains across our network every day. We work with rail operators to provide access to rail for businesses and producers across Australia to get freight off the roads and improve safety for motorists, the environment and communities. We also work with coal producers in the Hunter Valley to ensure they have the access they need to get their coal to port.

Meeting the changing needs of our customers is our priority and we seek to do this safely and in environmentally responsible ways. We remain committed to the health and safety of our people, the environment and the communities in which we operate.

We are committed to

MAKE RAIL THE MODE OF CHOICE IN THE NATIONAL LOGISTICS CHAIN



The purpose of ARTC is to provide safe, efficient and seamless access to the rail network by:

- Operating on sound commercial principles
- Growing the volume of freight on rail
- Improving rail infrastructure through better asset management and a program of commercial and grant funded investment
- Promoting operational efficiency and uniformity on the rail network.

CHAIRMAN'S OVERVIEW

IT IS A GREAT HONOUR TO HAVE BECOME THE CHAIRMAN OF ARTC. IN THAT SPIRIT, AND ON BEHALF OF THE BOARD OF DIRECTORS AND MANAGEMENT TEAM, I AM PLEASED TO PRESENT OUR ANNUAL REPORT FOR FY2016.

This year, ARTC produced a strong underlying profit, despite challenging market conditions. Following this result, the total dividend paid for the year to the Shareholders was $91.3 million, an increase of 59 percent over the prior year. We are pleased to deliver such a satisfactory outcome for our Shareholders.

ARTC's commitment is to put our customers at the centre of all we do, while delivering value for Shareholders. This has led our leadership team to continue to focus our transformation program on the quality of the customer experience; our own effectiveness and efficiency; as well as the safety of our staff, customers and the community. ARTC recognises the critical role we play in the transport supply chain. We will continue to work hard to make rail the preferred mode for transporting freight.

During the year we also welcomed the opportunity to participate in the Government's Scoping Study, culminating in the May 2016 Budget announcement where the Australian Government advised it had decided to retain ownership in ARTC and leverage our capability to help deliver Inland Rail.

The Board and management are now working proactively and constructively with our Shareholders on the new body of work for the Inland Rail Programme which includes market testing to optimise private sector involvement in the delivery and financing of Inland Rail. ARTC is pleased to be actively involved in this process and is committed to a fact-based and rigorous process that ensures the best outcome is delivered for customers, the community and our Shareholders.

Financial Results

ARTC's reported Net Profit after Tax (NPAT) of $117.6 million, while lower than the prior year, included an unfavourable post-tax adjustment of effectively $48.7 million relating to prior years. This adjustment arose from the Australian Competition and Consumer Commission's (ACCC) 2013 review of the cost allocation methodology used for Zone 1 and Zone 3 coal producers in the Hunter Valley, which was completed this year. This year's financial accounts reflect the adverse impact on ARTC of that decision relating to 1 January 2013 to 30 June 2016. Excluding that item, ARTC's NPAT would have exceeded last year by 23.5 percent.

ARTC's access revenue for the FY2016 was $755.7 million, which was $2.7 million (0.4 percent) below last year, driven primarily by the Hunter Valley Revenue Allocation Review outcome which resulted in a provision being taken against revenue for $69.5 million with a corresponding direct adverse impact on our reported profit. Without that impact, access revenue would have increased by $66.8 million (9 percent) over the prior year.

The adverse revenue impact was significantly mitigated by close attention to achieving cost savings across other expenses resulting in profit from operating activities for the year of $233.9 million which was $2.4 million above last year.

The total dividend reported for FY2016 of $91.3 million represents an increase of $33.9 million on last year's dividend of $57.4 million.

Business Overview

Overall volumes on the ARTC network for FY2016 were 2.5 percent above those recorded for the corresponding 2015 financial year.

This increase was due to growth in North South intermodal volumes and stronger import and export freight movements.

The minerals sector (excluding coal) continued to record volumes below the same 2015 period due to the decline in global iron ore prices and the closure of the Arrium iron ore operation in South Australia. Volumes across other freight sectors during the period remained generally in line with, or marginally below, the recorded 2015 volumes. Pleasingly some sectors in these markets signalled a return to growth or returned to rail in the latter half of the financial year and this bodes well for FY2017 and beyond.

Intermodal volumes were impacted by the Rawlinna derailments in December 2015 and April 2016, along with continued weakening of the Western Australian economy. Grain volumes were below target expectations due to a later than usual harvest and lower market rates, which resulted in grain being held in storage. In the Hunter Valley, the coal chain delivered 159.3Mt of export coal for FY2016 compared to 159.7Mt in the corresponding 2015 financial year – a strong result given the subdued coal price, but also reflective of the positive market appetite for high quality thermal coal delivered through a high performing network and coal supply chain.

Looking Ahead

Whilst the economic outlook for the year ahead remains challenging, we see opportunities to leverage our asset base, maintain a focus on productivity improvements and consider ways to consolidate for future growth.

Our strength as a business lies in the combination of our strong, nationally-significant infrastructure network, and our talented people – and through both we remain committed to demonstrating rail's value as a sustainable solution to supply chains across the country.

"THE TOTAL DIVIDEND PAID TO OUR SHAREHOLDERS FOR THE YEAR WAS $91.3 MILLION, AN INCREASE OF 59 PER CENT OVER THE YEAR PRIOR. WE ARE PLEASED TO DELIVER SUCH A SATISFACTORY OUTCOME."

We have the opportunity to continue building on this and demonstrate our expertise in project delivery in the year ahead via major projects such as the Inland Rail Programme, Advanced Train Management System (ATMS) and upgrading the productivity of the rail line between Adelaide and Tarcoola.

We are involving our customers and our supply chain partners in infrastructure projects more than ever before to ensure we meet market need and that what we do is clever, targeted investment.

This is part of our broader approach to doing things smarter and more efficiently.

We are looking at ways to deliver Inland Rail as innovatively as possible and are applying some of the lessons learned from other major projects delivered around the world.

Inland Rail will be crucial to help complete the national interstate rail network and to grow rail's competitiveness against road and to attract new freight to rail from different sectors. With close to $1 billion in funding now committed by the Australian Government, this project continues to gain momentum as we ready it for construction.

The project, coupled with broader private investment in rail and rail-associated infrastructure means the next 12 months are going to be important ones for rail's growth. Coupled with our own strategy that sees a critical place for intermodal terminal development, we are confident that the FY2017 will be a positive one for us to consolidate and grow.

The Board

FY2016 has been one of significant change for the Board.

Three long-serving dedicated directors retired. Pamela Catty and Barry Cotter retired from the Board on 17 March after five years of service. On 29 June, Lucio Di Bartolomeo retired from the Board after nine years of service. I thank each of them for their commitment and the significant contribution they have made to the Company.

Following my joining the Board on August 3, 2015, Vince Graham and Chris Barlow were appointed as directors on 8 March and 2 May respectively. Gillian Brown was reappointed for a further 3 year term on 30 June 2016.

The Board will continue to work with our Shareholder to review its skills and capabilities to meet future challenges.

On behalf of the Board I would like to express my appreciation to our CEO, the management team and all our employees for their efforts and commitment. I would also like to thank our customers for their ongoing support.

We all remain focused on placing rail as the mode best suited to carrying a larger burden of the Australian freight task.

Helen Nugent AO
Chairman

CEO OVERVIEW

AS WE REVIEW OUR PERFORMANCE OVER THE LAST 12 MONTHS WE CAN BE PROUD OF ANOTHER YEAR OF GROWING RAIL'S PLACE AS A CENTRAL AND IMPORTANT PART OF THE NATIONAL SUPPLY CHAIN – WHILE DELIVERING A SOLID FINANCIAL RESULT IN DIFFICULT CONDITIONS.

While the economic climate has remained challenging and resource prices have affected expected volumes, our financial health continues to be strong, characterised by our stable customer base and continued efforts to improve our financial performance across the business.

ARTC reported a respectable underlying profit performance given the prevailing market conditions and adverse impact of a significant adjustment relating to prior years. Our Net Profit After Tax for the year was $117.6 million on Earnings Before Interest and Tax (EBIT) of $223.7 million, only $1.4 million below FY2015. Our total revenue (excluding interest and insurance recoveries) of $842.5 million was 1.7 percent higher than in FY2015 resulting in an EBIT margin of 26.5 percent.

We are committed to continue delivering value for our Shareholders and this was reflected by the $91.3 million dividend payment for the year – nearly double the return on the year prior.

This has been a pleasing result as it has been delivered during a time of subdued business confidence, low commodity prices and other difficult external economic factors – particularly our exposure to difficult global coal market conditions affecting our Hunter Valley customers.

During the year Moody's adjusted our credit rating to A1 from Aa2, primarily driven by their outlook for thermal coal. Despite this, the rating agency reaffirmed that we continue to hold a strong investment grade rating underpinned by our robust and diverse market position and the essential nature of our business.

There were two major announcements relating to ARTC in the Federal Budget released in May. The Australian Government confirmed that it had decided to retain ownership of ARTC to leverage our skills, value and technical expertise to deliver the Inland Rail Programme, in particular the pre-construction works.

The Government committed a further $593.7 million to the Programme in the Budget and with over 70 people now working on Inland Rail we are well and truly underway with getting the Programme shovel-ready.

Transformation

ARTC continues to build on its position as a leading rail network owner serving multiple supply chains across the country. A key driver in our success to become more customer-focused and to create value for the users of our network is our Transformation Program.

The progress of our organisational transformation is evident in three year-on-year increases in our annual customer satisfaction survey. Over the three surveys we have undertaken we have moved our customer satisfaction score from 5.7 to 6.3 last year to 6.6 this year. The trend is pleasing as customer satisfaction is fundamental to bringing more freight onto rail.

We also measured our reputation among our key customers for the first time and this returned a score of 77.6 percent - which is in the above-average range and a competitive score amongst our industry peers. Nonetheless we recognise that we can get better and we are committed to further improvement in this area.

Staff engagement remained above industry averages for the year with our Employee Engagement rated at 72 percent and Satisfaction at 76 percent. We also delivered a range of initiatives to build greater diversity in our business. This included the introduction of a targeted female recruitment campaign in the Hunter Valley. This delivered outstanding results with the overall percentage of women in the company growing from 17 to 19 percent over the course of the year. We are also supporting our workforce through the introduction of domestic violence leave, a mentoring program and unconscious bias training. These initiatives are important as we build a positive and fulfilling work environment for our people.

Unfortunately, our safety performance for the year was disappointing. Our value of No Harm means our people must look out for each other and get home safely from work every day. While our Lost Time Injury Frequency Rate (LTIFR) and Medically Treated Injury Frequency Rate (MTIFR) have improved consistently since the establishment of ARTC, the performance has levelled off over the past few years and this is something we do not accept. Our LTIFR and MTIFR of 3.73 and 6.72 respectively is a result that we acknowledge needs to be improved and we are developing further initiatives with the clear objective to prevent our people being injured at work.

A key component of the Transformation Program in the last year has been on leadership. We recognise that enabling and empowering our leaders is necessary for the cultural change that will make us more efficient as a business and more responsive to our customer's needs. It also has a particularly close relationship with improving our safety culture. It is clear that where we have strong local leadership we have very good safety outcomes.

Business Overview

After safety, the reliability of our coal, freight and passenger operators is a focal point for the business.

Over the year, the Business Units performed strongly in this area. In the Hunter Valley we measure our performance against the number of train cancellations that can be attributed to ARTC. Always striving to reduce this number, this year we recorded 0.6 percent, well below our 1 percent target.

The Interstate Business Unit similarly continued to demonstrate that the substantial reliability improvements made over the last few years are being sustained and continue to meet the high freight availability needs of our customers.

Alongside this reliability focus we are also working closely with our customers to deliver productivity improvements. Part of this has been supported by applying technology and information where possible to improve performance. Our wayside monitoring technology program is a good example of this, providing freight operators with real time data on rolling stock performance and our asset maintenance teams with predictive track information. In combination these are helping us avoid, reduce and respond to equipment or infrastructure failures that would otherwise impact on network reliability.

Likewise during the year, ARTC maintained its strong record of successful capital project delivery. Although on a smaller scale to prior years, this year's projects included the East West Improvement works, Port Botany Rail Line upgrades, the Hunter Valley Kooragang Arrival Roads and 30 Tonne Axle Load projects. ARTC has deep skill and execution capability to deliver such projects on time and on budget.

"BY FOCUSING ON OUR COMPETITIVE ADVANTAGES AS A MODE AND AS A BUSINESS, I AM CONFIDENT RAIL WILL CONTINUE TO GROW AND ENHANCE AUSTRALIA'S COMPETITIVENESS MORE GENERALLY."

Work has also commenced on the Adelaide to Tarcoola Rerailing Project and progress was made on new technology-based projects, such as the ARTC Network Optimisation Project (ANCO) in the Hunter Valley and the Advanced Train Management System (ATMS) Implementation Stage 1 – a communications based train management system. Development of ATMS is progressing well and a key milestone during the year included it being verified as a certified safe working system.

Outlook

Like many industries across Australia our business is faced with an economy in transition. This makes it difficult to predict the future, but it is clear that past trends may no longer be key predictors of the future. That will require us to think creatively, be more innovative, look at a broad range of options to create growth and to build on the capability of our people and the unique infrastructure assets we possess.

This is clearly a platform to continue our Transformation, and by focusing on our competitive advantages as a mode and as a business, I am confident rail will continue to grow and contribute more significantly to Australia's economic prosperity.

Our people

Finally, I would like to thank ARTC's senior management team and all our employees for their hard work over the past year.

The strong performance we have achieved has been the result of their efforts and a commitment to make ARTC a better company striving to provide real value to our customers and greater rewards for our shareholders.

ARTC has a strong and positive outlook and I look forward to working with them and our Shareholders to achieve further success.

John Fullerton
Chief Executive Officer

PERFORMANCE SUMMARY

EBITDAI (million dollars)	412
Access Revenue (million dollars)	756
The amount of export coal transported (million tonnes)	159

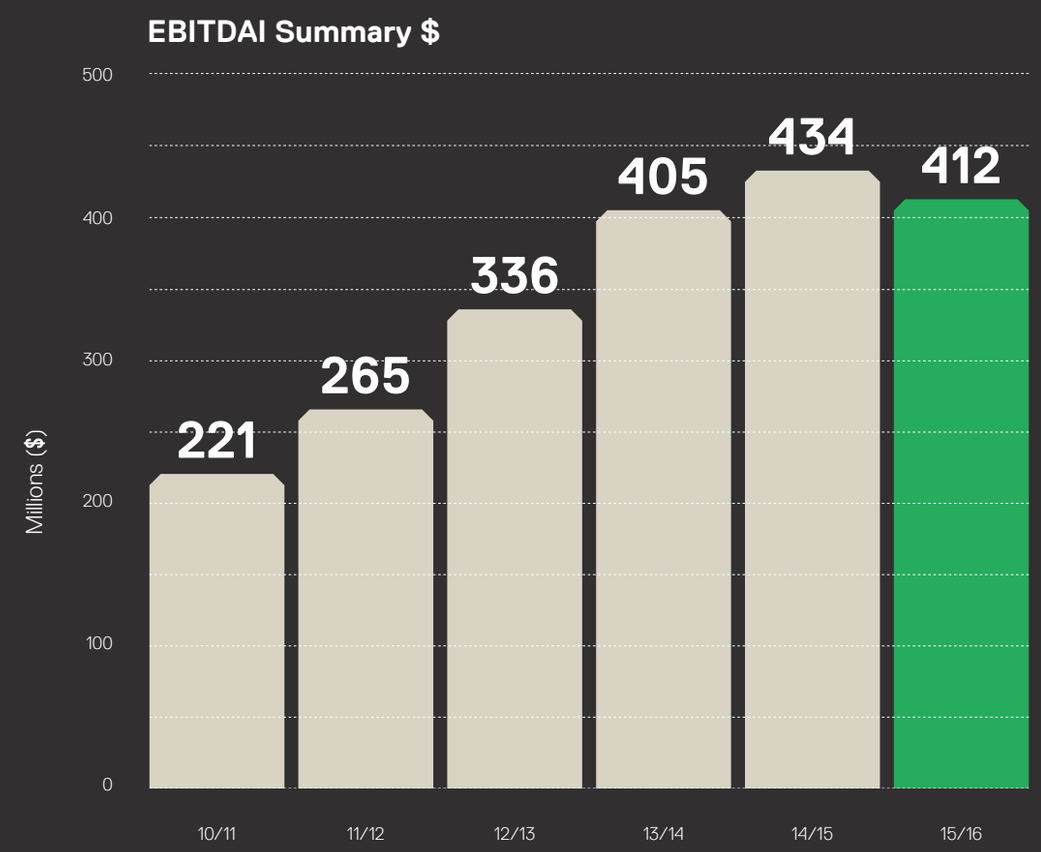
Lost Time Injury Frequency Rate *	3.73
Medically Treated Injury Frequency Rate *	6.72

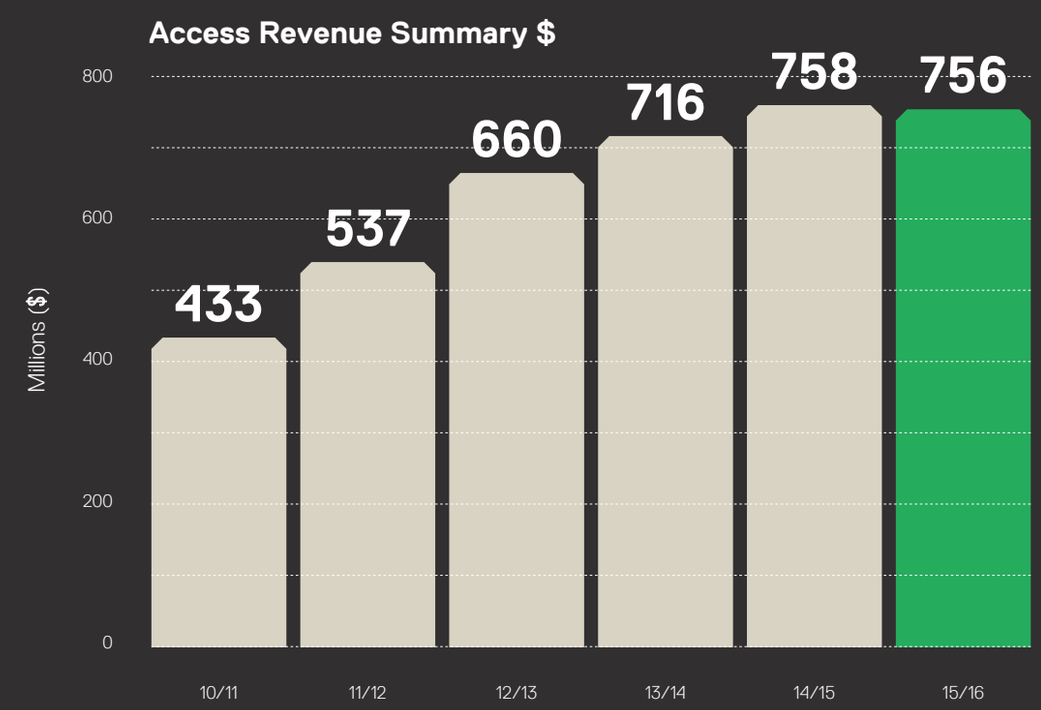
* Number of injuries for every million hours worked

FINANCIAL SUMMARY & PERFORMANCE

	2016	2015
	$M	$M
Access Revenue	755.7	758.4
Other Revenue*	86.8	70.2
TOTAL REVENUE*	**842.5**	**828.6**
EBITDAI	**412.2**	**433.5**
Depreciation and Amortisation Expense	(191.5)	(182.9)
Impairment Reversal/(Expense)	3.0	(25.5)
EBIT	**223.7**	**225.1**
Net Finance Cost	(31.9)	(37.1)
NET PROFIT BEFORE TAX	**191.8**	**188.0**
Tax (Expense)/Benefit	(74.2)	(53.4)
NET PROFIT AFTER TAX	**117.6**	**134.6**
DIVIDEND PAID	**91.3**	**57.4**
TOTAL DEBT	**644.1**	**1,010.9**
SHAREHOLDER EQUITY	**3,490.4**	**3,606.9**
EBITDAI / TOTAL REVENUE	**48.9%**	**52.3%**
EBIT / TOTAL REVENUE	**26.5%**	**27.2%**
EBITDAI / SHAREHOLDER EQUITY	**11.8%**	**12.0%**
DEBT / DEBT + SHAREHOLDER EQUITY	**15.6%**	**21.9%**

*Excluding interest and insurance recoveries





HUNTER VALLEY NETWORK

Our Hunter Valley network moves coal, general freight, bulk freight and passengers - around 240 trains per day. Around half of these trains are loaded with coal for export to overseas markets, part of our role in supporting one of the world's largest coal export operations.

Coal throughput and prices are relatively stable again this year with some local variability as a result of mine closures as companies downsize their interests, but in other areas we are seeing modest increases in throughput. Due to the conditions, to assist our customers, our focus across the entire network has been cost efficiency and working hard on improving network productivity.

HIGHLIGHTS

- Six out of nine Provisioning Centres achieved between 1,000 and 3,900 injury free days.
- We have achieved record throughput for the Gunnedah Basin line from Muswellbrook to Narrabri. As a result of targeted removal of high impact speed restrictions, revised timetabling and possession planning, we've delivered an ongoing capacity improvement for our customers in this zone.
- We created the opportunity to transport an additional 336kt of coal to port by removing a regular three day track possession between Muswellbrook and Turrawan. The amendment to the possession plan was a result of a detailed review of the track possession (shut down) program for the coming year. This involved consultation with customers, suppliers and terminals, and reassessing the maintenance activities required to ensure a reliable network.
- We made the most of the network closure during the severe floods in January by undertaking important track maintenance work in non-flood affected areas, resulting

in better overall infrastructure reliability once the entire network was restored. The January flooding brought over 200mm of rain that resulted in localised flooding and closure of a section of track between Sandgate and Warabrook, halting passenger, coal and freight services.

- We've partnered with our customers to progress the development of a business case for ANCO (ARTC Network Control Optimisation). This project aims to provide our Network Controllers with advanced tools and more reliable data to enable faster, more informed decisions to better manage train flow and all other activities on track, helping to deliver the right trains at the right time. Our focus is on improving the customer experience through increased operating efficiency, asset availability and reliability, as well as provide the opportunity to grow our services, particularly in the non-coal area.

- We consulted with customers and supply chain members to improve the way we schedule our track maintenance work. Moving from four planned track possessions a year to six reduced the need for smaller subsequent possessions, providing more certainty and enabling coal customers to transport more coal to port.

- We've run successful trials staging loaded trains on the network in lower utilised areas resulting in more efficient running of trains in the busier sections.

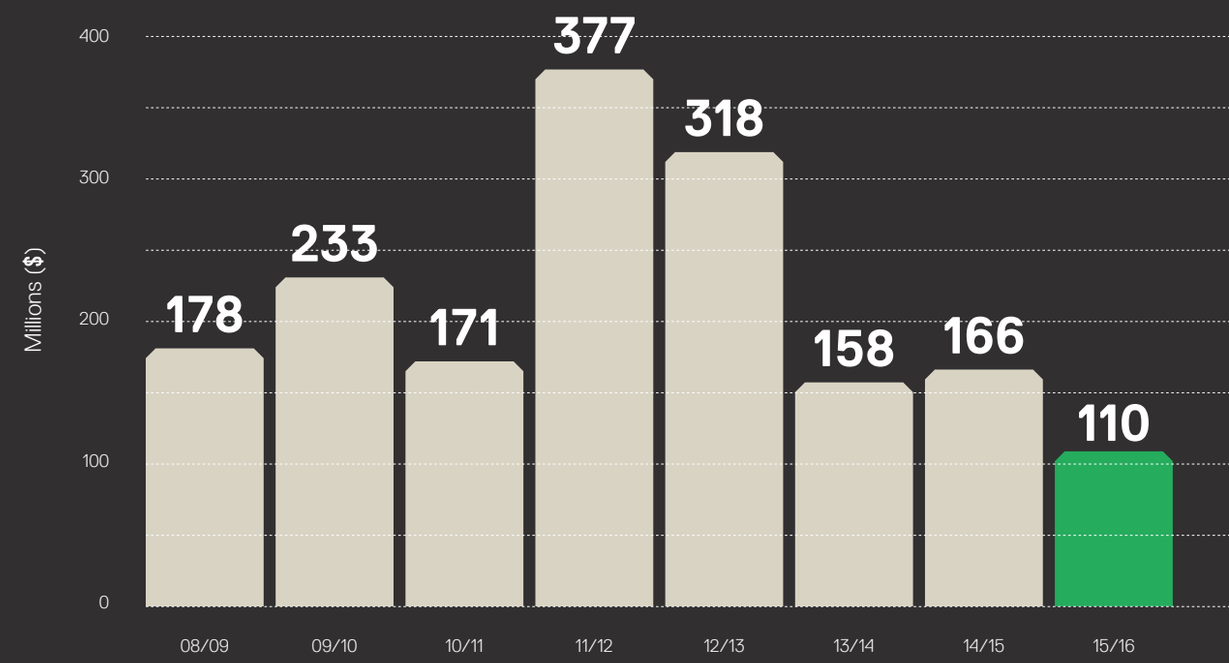
- We have significantly improved performance reporting for our customers. The reporting covers operational efficiency, asset management efficiency and overall supply chain efficiency and highlights areas for improvement on a daily and weekly platform. It will assist in targeting improvements in performance and growth opportunities by area and enable more efficient use of our assets.

- Across our Provisioning Centres we've been implementing a continuous improvement program, engaging our leaders and their teams to improve operating disciplines, generate improvement ideas and make changes about how their work is performed. These initiatives have included improved maintenance planning tools, defect management, improved daily planning and new meeting structures. We have focused on supporting our leaders so we can embed a cohesive and sustainable approach.

"WE DOUBLED THE PAYLOAD OF A STANDARD GRAIN TRAIN"

We doubled the payload of a standard grain train – saving growers dollars and providing a basis on which to make grain transport more efficient. In December history was made when the largest, continuously-tipped export grain train in Australia departed NSW's north west for the Port of Newcastle. This 1,300 metre train's capacity of more than 5,000 tonnes more than doubled the payload of a standard grain train that runs through the Hunter Valley network and the increased payload resulted in cost savings for the grower. Making the move to larger and heavier trains also builds efficiencies into the supply chain and we are continuing to work with grain producers to enable this into the future.

Capital Investment in the Hunter Valley Network



240+

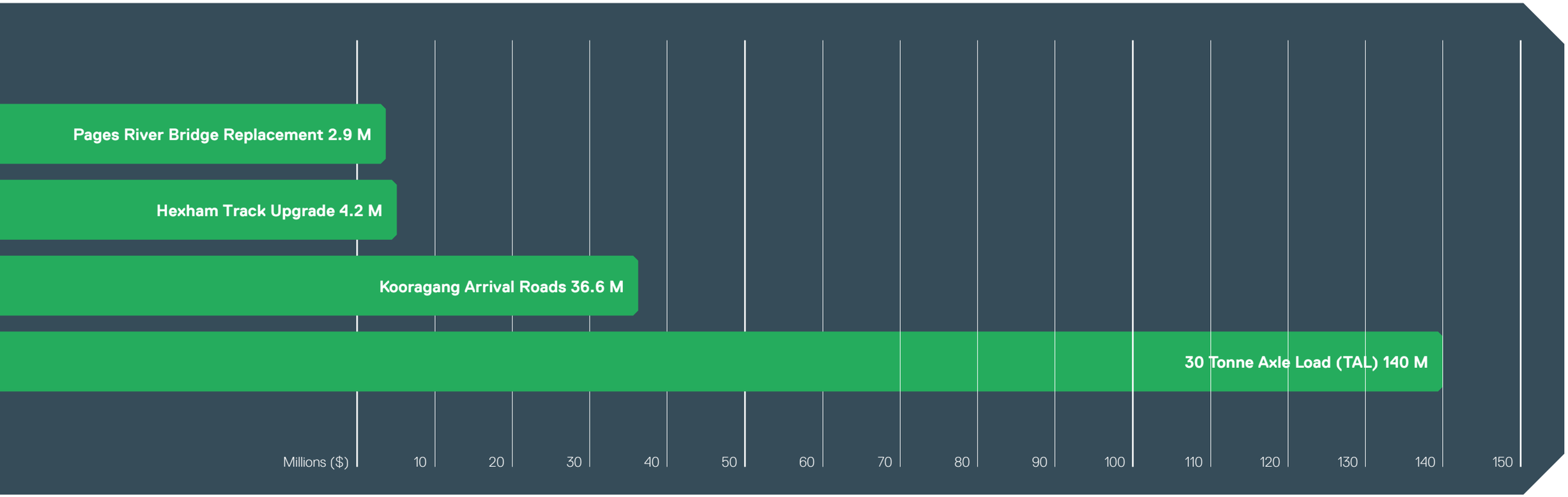
Number of trains per day operating across our Hunter Valley network

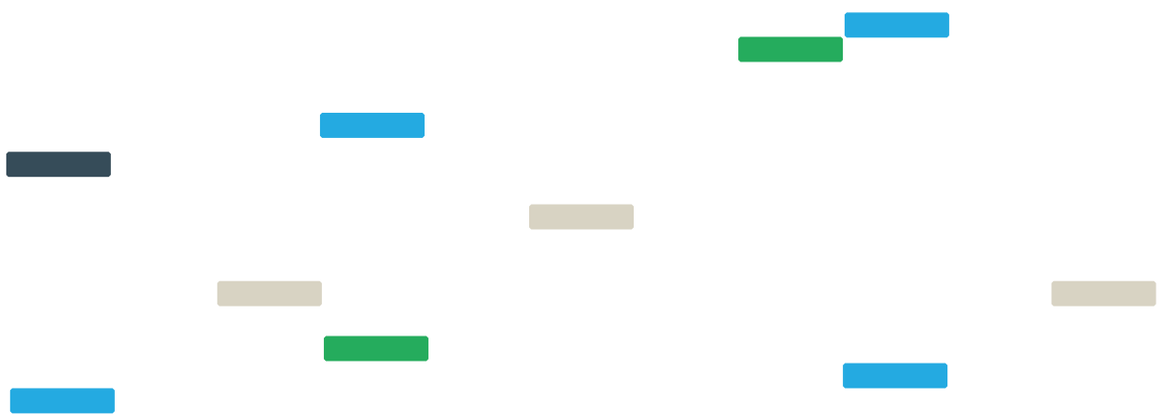
0.6%

Reliability target exceeded (ARTC attributable coal train cancellations).
A key measure of our reliability in the Hunter Valley is that we aim to keep train cancellations low and our target is that no more than 1 percent occur due to ARTC.

$184 MILLION OF CAPITAL PROJECTS COMMENCED OR COMMISSIONED IN THE HUNTER VALLEY 2015-16

Movement of Coal in the Hunter Valley (million tonnes)	14-15	15-16
Total transported on the Hunter Valley Network	168.7	169.8
Transported to the Port of Newcastle (export)	159.7	159.4





The **Pages River Bridge Replacement** was required as the pre-existing structure was approaching the end of its economic life. This project eliminated the risk of any structural failure of the old bridge and potential impacts to train operations.

Construction commenced
September 2015

Commissioned
February 2016

The **Hexham Track Upgrade** project formed part of a long term strategy to provide improved reliability across the Hexham wetlands to the terminals. Reliability and performance has improved through the removal of long term speed restrictions.

Construction commenced
July 2015

Commissioned
October 2015

The **Kooragang Arrival Roads – Stage 2** project provides a new arrival road within the Kooragang Coal Terminal that increases network capacity and reduces the risk associated with variable demand.

Construction commenced
June 2012

Commissioned/ Planned
November 2016

The **The 30 Tonne Axle Load (TAL) Project** is the most efficient way to provide incremental capacity to handle an increase in contracted volumes, mainly from the Gunnedah Basin. 30TAL operations allow for a 25 percent increase in train payload and greater flexibility for above rail operators using their existing locomotive and wagon fleet.

Construction commenced
December 2013

Commissioned/ Planned
October 2017

INTERSTATE NETWORK

The interstate freight market is experiencing modest growth as the Australian economy transitions from the mining construction boom to a broader market base. While traffic on the East West corridor has been flat, this has been slightly offset by increased volumes on the North South corridor. The structural changes in the economy do present a challenge to some of our customers. We are committed to working with all of our customers to find further opportunities for rail.

We are confident in future growth and this has been supported by our strong service performance and maintaining the reliability gains achieved in the previous financial year. We have also further strengthened our business development resources and are engaging with the wider supply chain to develop and deliver new offerings.

HIGHLIGHTS

- Rail's ability to deliver productivity benefits to the national economy, support job growth and ARTC's capability in delivering nationally significant infrastructure was recognised in the Australian Government's commitment to invest in the re-railing upgrade between Adelaide and Tarcoola.

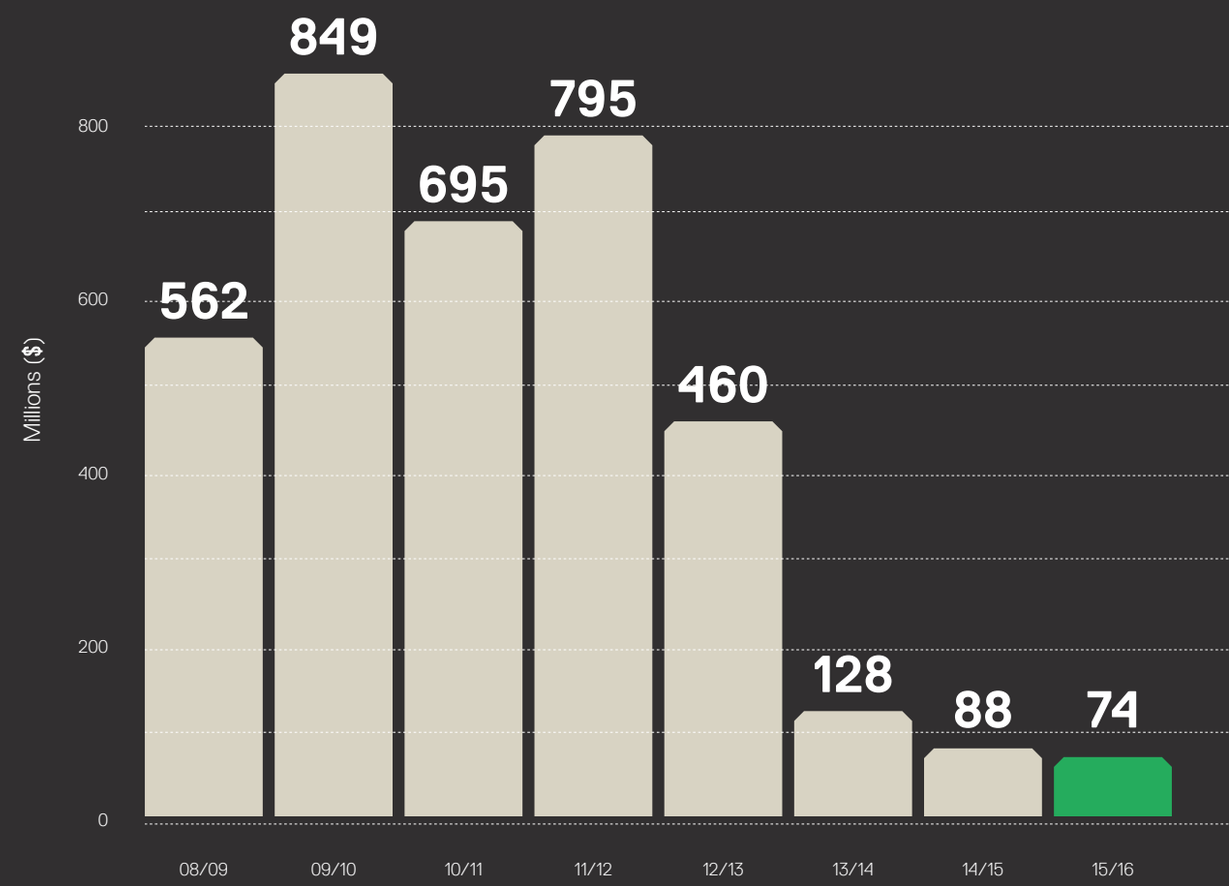
CUSTOMERS ACKNOWLEDGED FURTHER IMPROVEMENTS IN CUSTOMER SERVICE AND SATISFACTION OVER THE LAST YEAR VIA OUR ANNUAL CUSTOMER SURVEY

Our customers have recognised that we are more responsive, are providing high levels of service and taking a leadership role on behalf of the industry.

- Safety Days have been held at every Provisioning Centre across our Interstate network with a dedicated focus on human factors training, the factors that contribute to incidents, near miss reporting and the elements of a 'Just Culture'.
- Safety committees were strengthened by bringing together existing corridor-based sub committees and broadening their focus from WHS to include rail safety issues and a broader representation from corridor and Network Control staff.
- A suite of safety lead indicators is being trialled across all provisioning centres, and together with field audits and regular safety observations, is aimed to support our value of No Harm, ensuring a reduction in injuries and safety incidents.
- Our Business Development Managers are continuing to work with operators and freight owners to grow freight volumes both nationally and in the Riverina region.
- We actively play a key facilitation role in the promotion of business growth within the transport and logistics industry ensuring that any barriers are minimised and resolved.
- We are working with our customers on new initiatives that will help drive reliability and service improvements. For example, our Wayside Strategy delivers industry agreed levels for safe rolling stock and track interaction standards across the network for current and future traffic needs.

  Another example is our new Customer Portal - an electronic gateway for customers to access and share key business data. The initial launch included access to ARTC Train Tracker which enables customers to track the location of their trains on the network. The Portal also provides centralised reporting of key day-to-day operational information including train progress, consist details and links to speed restrictions and train alteration advices.
- Further work has been done with our people to foster a customer-centric focus through our Transformation Program activities, specifically the Customer Experience and Leadership streams.
- A Market Intelligence System has been established to provide better insight into the main drivers that influence freight modal shift from road to rail.
- We began implementing new ways of working at Provisioning Centres through our Continuous Improvement Program.

Capital Investment in the Interstate Network



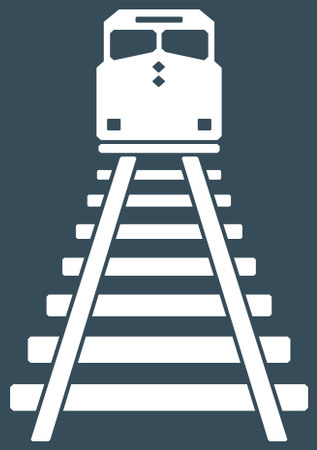
56 BILLION

Non coal Gross Tonne Kilometres (GTK) for the year

OVER 2 MILLION

It would take over 2 million B-double truck movements to transport the same amount of freight as rail on the Interstate network over the course of a year

THE AUSTRALIAN GOVERNMENT ANNOUNCED A $594M EQUITY INJECTION FOR ARTC TO PROGRESS PRE-CONSTRUCTION AND LAND ACQUISITION AND CONFIRMED THAT INLAND RAIL IS TO BE DELIVERED BY ARTC IN PARTNERSHIP WITH THE PRIVATE SECTOR



Inland Rail

Taking advantage of our experience in delivering large, complex rail projects, ARTC is playing a key role in delivering the Inland Rail Programme. On completion it will serve the interstate freight market and enhance the national rail network. The Programme involves the design and construction of a new rail connection between Melbourne and Brisbane via Wagga Wagga, Parkes, Moree and Toowoomba. This will mean faster and more efficient freight transport that bypasses the Sydney rail network and enables the use of double-stacked containers for the entire journey. Importantly, Inland Rail will provide a step-change improvement in rail service quality in the Melbourne to Brisbane corridor to deliver a freight rail service on the east coast that is more competitive with road.

Infrastructure Australia included Inland Rail as a priority project in the Australian Infrastructure Priority List and as part of the 2016-17 Federal Budget, the Australian Government announced a $594 million equity injection for ARTC to progress pre-construction and land acquisition and confirmed that Inland Rail is to be delivered by ARTC in partnership with the private sector.

The ARTC Inland Rail Programme team has made important progress on the Programme in the last 12 months including:

- Delivery of the Inland Rail Programme Business Case and Inland Rail Implementation Group Report to the Australian Government
- Undertaking preliminary field studies and environmental approvals across the alignment
- Working with the community to refine the preferred rail corridor in greenfield sections (in conjunction with field studies)
- Undertaking concept design across the alignment
- Preparing Environmental Impact Statement (EIS) documents and reference design for Parkes to Narromine and Narrabri to North Star.

Advanced Train Management System (ATMS)

ATMS is a modern communications-based train management system. Rather than using the traditional train management system of 'fixed', physical trackside infrastructure like signals, it instead relies on a digitally-controlled network. The system uses wireless, broadband communications, a centralised and on-board computer control system and GPS-based train tracking and control devices to manage train operations.

Stage one of implementing the communications-based safe working system is well advanced with the first phase of in-field trials between Port Augusta and Whyalla to prove system reliability successfully concluded during the year. The second phase, which familiarises train crews and Network Control staff to the system in a live environment, is now underway.
One of the major milestones has been the verification of ATMS as a certified safe working system. This is critical to bring the technology into operational service as it enables ATMS to be the accredited and approved safe working system for trains operating on this stretch of track and prove its potential for wider rollout.

ATMS has the potential to provide significantly upgraded capabilities to the Australian rail industry, supporting our objectives to improve rail network capacity, operational flexibility, train service availability, transit times, rail safety and system reliability.

The Port Botany Rail Line (PBRL) Stage 3

The first part of this project is to upgrade the PBRL to improve access and connectivity between Port Botany and the future Moorebank Intermodal Terminal. The second part is to conduct analysis and design of possible Southern Sydney Freight Line (SSFL) and Metropolitan Freight Network (MFN) capacity enhancements to support the Moorebank Terminal precinct, including cross-metropolitan shuttle services.

Funding for these Stage 3 works is $75 million. Works commenced in July 2014 and are expected to be complete by June 2018. Track upgrading encompasses a number of components including concrete sleepering, track drainage, track reconditioning, re-railing and rail grinding.

The Scoping phase for capacity enhancements is due for completion in September 2016 with capacity and operational analysis, survey, concept design, field investigations, budgets and scopes already complete. Enhancement options at this stage include a passing loop on the SSFL at Cabramatta and duplication of the track between Botany Yard and Mascot.

This Stage 3 project will generate a range of customer benefits including facilitating additional capacity for freight traffic accessing Port Botany, transit time reductions and efficient train paths and speeds delivering increased service reliability and productivity.

SAFETY

We are committed to the safety of our people, customers, community and our network. We continue to refine and improve our safety systems and embed a strong safety culture through active leadership.

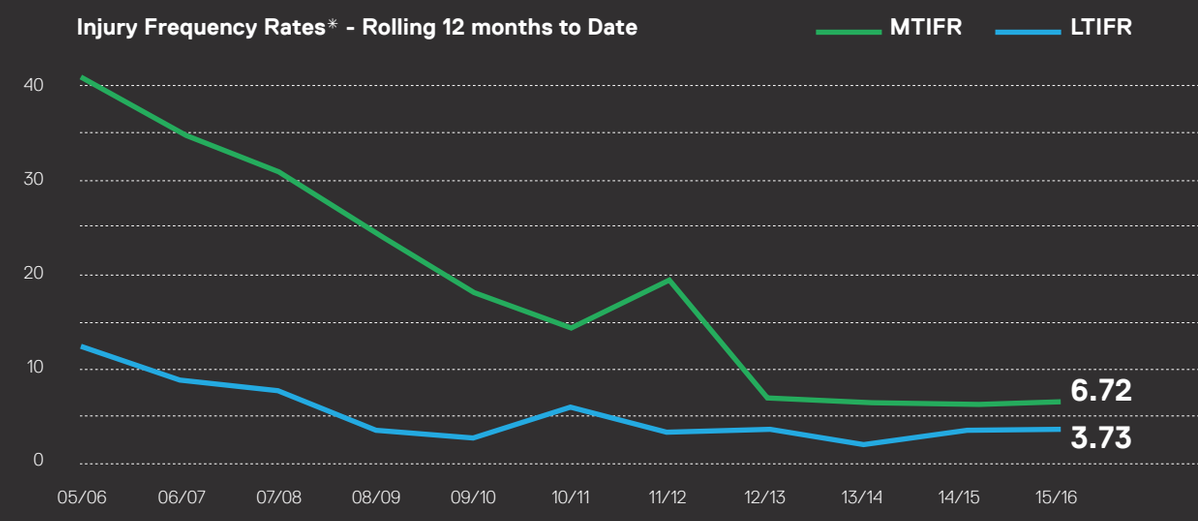
Our Safety Management System is accredited under the Rail Safety Act and we voluntarily participate in system audits by our Work Health and Safety Regulator. We proactively engage with Comcare and the Office of the National Rail Safety Regulator who regulate us to ensure that our system meets legal requirements and effectively prevents injury.

Highlights for the year include:

- We improved our safety standards including changes to our chemical management procedures, consolidating multiple asbestos registers into a single company wide register, and formalising a requirement for long pants and long-sleeved shirts to be worn in the rail corridor to help protect our outdoor workers from the sun.
- We enhanced our drug and alcohol testing program to include a process for obtaining indicative drug test results on site at the time of testing, providing faster indicative results on which we can remove a person from duty until subsequent testing provides a final result.
- We are reviewing in detail the trends around injuries, particularly sprains, in order to reduce the number of people being injured.
- We have continued to further build on current safety initiatives. This will see the roll out of the Risk Management Information System which will continually improve risk management within our business, and the introduction of a Rail Vehicle Manual that provides key information on each rail vehicle type that is owned by us or that is allowed onto the network under our accreditation. This will provide a consistent approach across the states in which we operate. Other initiatives include the publishing of Network Information Books that describe our network in considerable detail for the benefit of rail traffic crews and track workers, and our Stop and Think behavioural program will further improve our safety culture.
- We joined our customers and the rail industry in supporting Rail R U OK? Day in April and encouraged our workers to look out for one another. We continue to provide support for our employees through our Employee Assistance Program, and promote the use of the RailRes application, developed by TrackSAFE, to help employees build resilience and manage their immediate response to stress.

A RANGE OF IMPROVEMENTS AND INNOVATIONS HAVE BEEN INTRODUCED TO INCREASE THE SAFETY OF OUR NETWORK FOR OUR PEOPLE AND OUR CUSTOMERS

These include improvements to our network rules that support our operations, ongoing use of technology in the areas of communication and track worker safety, a strong safety cultural focus by way of safety leadership and the introduction of a national contractor induction to deliver a consistent message of our expectations and requirements.



* Number of injuries for every million hours worked (ARTC employees)

PEOPLE

We employ over 1,200 people across New South Wales, Queensland, South Australia and Victoria, and and we recognise that it's our people that make our business. We're committed to providing the right environment, leadership, skills and training to ensure every one of our people can do their job safely, doing what we need to do to engage them and enable them to do their jobs in a productive and safe manner. It's critical to our future success.

Highlights for the year include:

- Increasing the overall percentage of women in the company from 17 to 19 percent and in the area of frontline operational roles from 1.1 to 9.6 percent in the Hunter Valley. To increase the percentage of females in frontline operational roles we obtained an exemption from the NSW Anti-Discrimination Board which allowed us to target female recruits for specific roles within NSW until July 2017. Our first campaign aimed at women in the Hunter Valley yielded over 900 applications with 11 candidates successfully appointed and now working within our teams at Maitland, Port Waratah, Scone and Muswellbrook.

36

We are focused on developing the talent within our business and providing personal and professional development opportunities. 36 employees have taken advantage of our inaugural mentoring program

- Supported 36 people across the company through our mentoring program. Participants from across the states and from various levels within the organisation are being supported in their professional development, be it from an operational or technical capability perspective or leadership development. We're proud of the fact that half of the participants we've matched with mentors are women, recognising that continued active support of women across the company is critical to meeting our gender diversity goals.

- Key aspects of our Leadership stream under the Transformation Program have been embedded within each Business Unit and Division. Role clarity, active listening and regular performance conversations are three aspects of our Leadership stream that are increasing individual understanding of the way their role contributes to the company strategy, improving communication between leaders and teams, and providing more opportunities for direct feedback.

- We progressed negotiations to replace two Enterprise Agreements, ARTC (NSW) Enterprise Agreement 2012 and ARTC (Victoria) Infrastructure Enterprise Agreement 2013. The two Agreements cover 53 percent of our workforce.

- A Taste of Harmony, a national initiative of the Scanlon Foundation, celebrates diversity in the workplace through encouraging the sharing of food and stories from different cultural backgrounds. Successful events were held at our Adelaide and Newcastle main offices with high attendance and a good number of individuals volunteering to bring dishes.

COMMUNITY & ENVIRONMENT

We recognise that in moving valuable freight from destination-to-destination around the country, the very nature of rail operations can have an impact on our local communities.

And while rail freight is by far the most sustainable and safe land transport mode available, we have a commitment to being a responsible neighbour.

Some of the initiatives we have delivered over the year include:

- Improving the way our teams assess environmental and community impacts before they start works with a focus on minimising noise, dust and other environmental impacts.
- Delivering a high number of site environmental inspections and new tool box talks focused on care for the environment.
- Producing new environmental induction training and noise prediction tools for use by frontline staff.
- Working with our industry stakeholders and the NSW EPA to understand more about coal deposition in the rail corridor.
- Completing a trial Rail Noise Abatement Program in the Hunter Valley.
- Successfully relocating native Osprey birds to new nest poles on the Bellingen River near Repton on the North Coast of NSW.
- Trialling biodegradable rail lubricator greases at Cootamundra and Goulburn and undertaking ecological mapping of the Unanderra to Moss Vale line – a sensitive ecological area.
- Trialling composite sleepers (recycled product) on the North Coast and improving our sleeper disposal and management strategies.
- Over the year we have also built upon the way we engage with community leaders and the image we present. For example in the Hunter Valley we have introduced a '5S' campaign, to improve the presentation of our people and depots in the community.

The majority of our staff live, work and play locally – and are very conscious of the impacts of our operations.

It is also why we are proud of our regional footprint and the investment and employment we provide to communities across Australia. Our maintenance and construction works for example, directly support regional businesses to the tune of more than $200 million a year; through everything from using local contract labour, to hire companies, quarries, service stations, local shops, cafes, accommodation and office supplies.

Not only does our investment in the community support local jobs and businesses, we are also ensuring a vital lifeline for many of these communities – the rail line itself – remains safe and continues to be upgraded.

"WE SUPPORTED MAITLAND STEAMFEST FOR THE TWELFTH YEAR IN A ROW, THE BIGGEST EVENT OF ITS KIND IN AUSTRALIA"

In 2016 this helped support a world first 'quad race' where four steam trains 'raced' side-by-side for 27km along our Hunter Valley coal network.

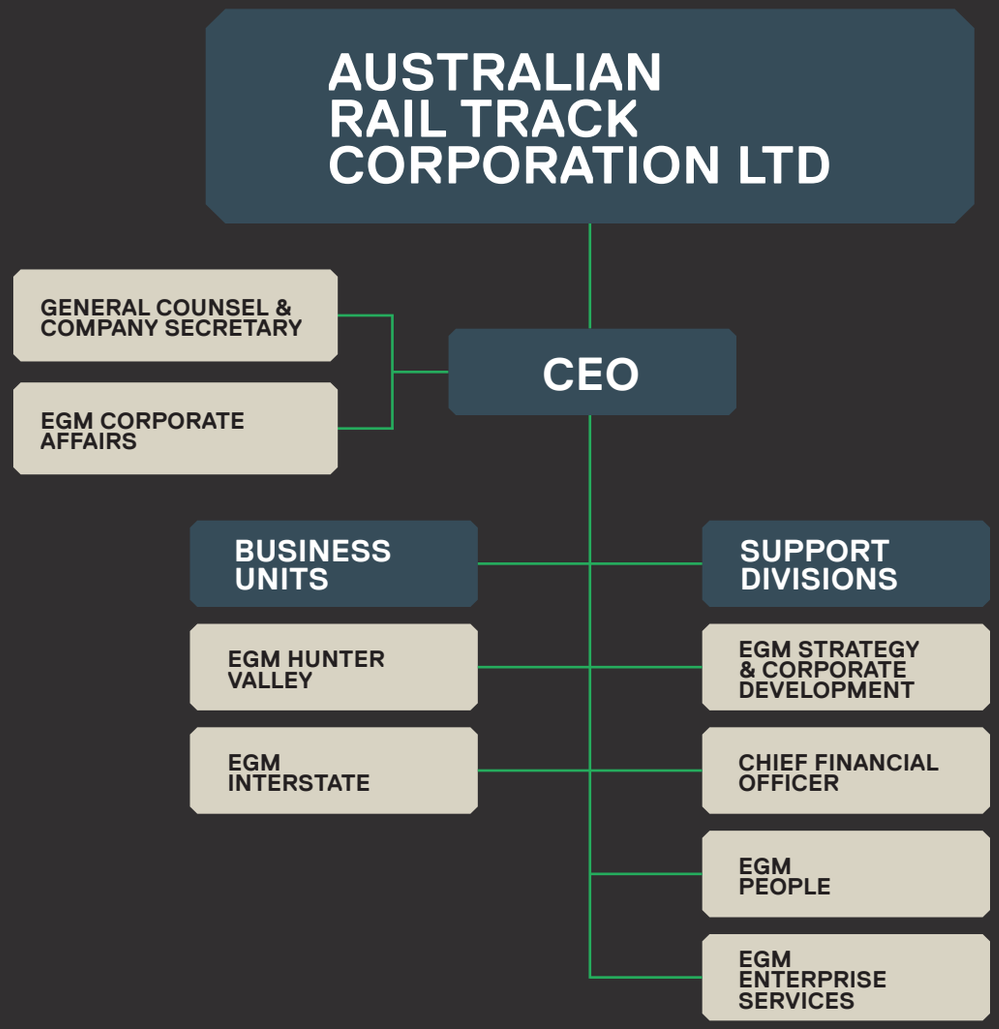
As members of the community we have participated and supported a number of community and rail safety initiatives through the year, including:

- Partnering with Transport for NSW, NSW TrainLink and John Holland Rail to promote rail safety to rural communities via AgQuip and Henty field days.
- Helping the Castlereagh All Blacks enter three teams in the indigenous Koori Cup rugby league festival.
- Helping the Wodonga Men's Shed move to bigger premises in support of the North East Victorian community.
- Working with the 'Friends of Belair' to help improve vegetation along the rail corridor.
- Entering an ARTC team in the Newcastle Surfest for the first time, we won the cup for the most money raised for charity by a Corporate team.
- Supporting a range of rail industry events including the Permanent Way Institution (PWI) Country Meeting, Institution of Railway Signal Engineers (IRSE) and the biannual Conference on Railway Excellence (CORE).
- Supporting the inaugural Ivanhoe Gymkhana.
- Building local relationships with Councils across our network, recognising the core role they play in the community.

While these are individually only small contributions, collectively they represent the importance we place on being part of the communities in which we operate.

ORGANISATIONAL STRUCTURE

The following diagram shows our organisational structure at the Executive Committee level, made up of the Chief Executive Officer, six Executive General Managers (EGMs), a Chief Financial Officer, and a General Counsel and Company Secretary.



DIRECTORS' REPORT

6 2 3 1 4 5

The Board of Directors of the Australian Rail Track Corporation Ltd (ARTC) has pleasure in submitting the Directors' Report together with the Financial Report of the Group (the Group comprises Australian Rail Track Corporation Ltd, ARTC Services Company Pty Ltd and the Standard Gauge Company Pty Ltd) for the financial year ended 30 June 2016. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act 2001.

Directors

The following persons were Directors of Australian Rail Track Corporation Ltd during the whole of the financial year and up to the date of this report unless otherwise stated:

1. Dr Helen Nugent (Chairman from 3 August 2015)
2. Chris Barlow (appointed 2 May 2016)
3. Jay Bonnington (appointed 6 August 2014)
4. Gillian Brown (reappointed 30 June 2016)
5. Vince Graham (appointed 8 March 2016)
6. John Fullerton (CEO appointed February 2011)

Not included in photograph

7. Lucio Di Bartolomeo (end of term 29 June 2016)
8. Pamela Catty (end of term 17 March 2016)
9. Barry Cotter (end of term 17 March 2016)

QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Dr Helen Nugent AO, BA (Hons), PhD, MBA (Dist), Hon. D. Bus, FAICD (Non-Executive Director)

Dr Helen Nugent was appointed as Chairman of ARTC on 3 August 2015. Dr Nugent is an experienced Company Director with a strong background in financial services, energy and resources, and strategy. In financial services, Dr Nugent was a Non-Executive Director of Macquarie Group for 15 years; Chairman of Swiss Re (Australia); Chairman of Funds SA; Non-Executive Director of Mercantile Mutual and the State Bank of NSW; and Director of Strategy at Westpac Banking Corporation. In energy and resources, Dr Nugent is currently a Non-Executive Director of Origin Energy; and as a partner at McKinsey & Company, worked extensively in the sector. Dr Nugent was Chairman of Veda Group, from listing until it was taken over by Equifax, and was also Chairman of Sydney Airport and Macquarie Airport. Dr Nugent has been actively involved in the arts and education. Dr Nugent is currently Chairman of the National Portrait Gallery of Australia; and was previously Chancellor of Bond University and President of Cranbrook School. In 2004, Dr Nugent was made an Officer of the Order of Australia.

Chris Barlow BSc (Hons), CE (Non-Executive Director)

Mr Chris Barlow was appointed to the ARTC Board as a Non - Executive Director on 2 May 2016, joining the Board with extensive experience in the airline and airport industries. Mr Barlow has held a variety of senior leadership roles in the transport and infrastructure industry, serving as Managing Director for a number of UK Airports. Mr Barlow was previously CEO & Managing Director of the Australian Pacific Airports Corporation, running Melbourne and Launceston airports. Additionally, during the year Mr Barlow held a number of Board positions including directorships at Asciano Limited, Airport Development Group, Visit Victoria and Melbourne Convention Bureau. Mr Barlow's background in transport, rail logistics and regulated infrastructure is highly valuable to the ARTC Board.

QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES (CONTINUED)

Jay Bonnington B.Com, MBA, FCPA, FAICD (Non-Executive Director)

Ms Jay Bonnington was appointed as a Non-Executive Director on 6 August 2014. Ms Bonnington commenced her career as a Chartered Accountant and has held many senior roles across construction, engineering, manufacturing, utilities, health and financial services sectors. Until 2005, Ms Bonnington was the National Chief Executive Officer for the Make-A-Wish Foundation. She has over twenty years' experience as a Non-Executive Director on public and private companies, and currently serves as a Non-Executive Director for Utilities Trust of Australia, JS Bonnington & Associates Pty Ltd and Metropolitan Fire and Emergency Services Board. Ms Bonnington is currently the Independent Chair of the Salvation Army Audit/Risk Committee and a former Member of the Deakin University Council. Ms Bonnington is a Trustee of The Queen's Fund and the Deputy Chair of the Lord Mayor's Charitable Foundation.

Gillian Brown LLB (Hons), Grad Dip App Fin & Invest (Non-Executive Director)

Ms Gillian Brown joined the Board as a Non-Executive Director in June 2010. Ms Brown is a highly regarded Partner at Minter Ellison Lawyers, with 25 years of experience in finance, infrastructure, debt capital markets transactions, and energy and resources. Ms Brown is a leading corporate and project finance lawyer and has been recognised as the 2016 Brisbane Structured Finance "Lawyer of the Year". Ms Brown is a former Chairman of Minter Ellison Lawyers and a former board member of Queensland Treasury Corporation and DBCT Holdings Pty Ltd.

Vince Graham BEng (Civil), Grad Dip Mgmt, FAICD (Non-Executive Director)

Mr Vince Graham was appointed to the Board as a Non-Executive Director on 8 March 2016, with extensive experience in executive roles at both a federal and state level. Prior to his appointment, Mr Graham was the Chief Executive Officer of Ausgrid, Endeavour Energy and Essential Energy in NSW. In his role as Managing Director of the National Rail Corporation over a decade, Mr Graham was involved in the development of the national rail freight network. He was the Chief Executive Officer of RailCorp NSW, the Chief Operating Officer of State Rail Authority, and the Managing Director of NSW Grain Handling Authority. Mr Graham has a Civil Engineering Degree from Sydney University.

John Fullerton BTech (EEng), FIE Aust, FAICD, CMILT (CEO and Executive Director)

Mr John Fullerton is Chief Executive Officer and Managing Director of Australian Rail Track Corporation Ltd, and was appointed to the position in February 2011. Mr Fullerton has extensive experience in the rail industry, as Chief Executive Officer of Freight Link, Chairman of Rail CRC Ltd and Director of Tasmanian Railway Pty Ltd. Mr Fullerton's previous positions in the industry include Chief Operating Officer of the National Rail Corporation and Divisional General Manager (Operations) at Pacific National. Mr Fullerton's experience spans more than 30 years across strategic planning, business development, customer service and operations and engineering. Mr Fullerton's extensive background as a strong advocate for the rail industry is highly valuable to ARTC. Under Mr Fullerton's leadership, ARTC has been re-invigorated through the various streams of the Transformation Program, realising a company that is more competitive, more customer focused and more successful in getting freight on rail.

Lucio Di Bartolomeo B.E. (Civil), M Eng Sc, FAIM, FCILTA, MIEA (Non-Executive Director)

Mr Lucio Di Bartolomeo joined the Board as a Non-Executive Director in June 2007 and he assumed the role of Acting Chairman of ARTC from 21 April 2015 until 3 August 2015. Mr Di Bartolomeo's term as a Non-Executive Director for ARTC concluded on 29 June 2016. Mr Di Bartolomeo is a professional Director and is currently Chairman of Eco Logical Australia and North West Rapid Transit; a Non-Executive Director of Australian Super Pty Ltd; and is the immediate past Chairman of Macquarie Generation and National President of Australian Industry Group. Prior to this he was Managing Director of ADI Limited and FreightCorp and Non-Executive Director of Downer EDI. Mr Di Bartolomeo has worked in the rail industry for many years both locally and overseas.

Pamela Catty (Non-Executive Director)

Ms Pamela Catty joined the Board in March 2011. Ms Catty's term as a Non-Executive Director for ARTC concluded on 17 March 2016. Ms Catty is an executive mentor and coach with previous executive leadership roles in the public and private sectors of some 20 years. Ms Catty has experience as a journalist in the UK and Bermuda, adviser to State and Federal Government Ministers, has held roles such as Executive General Manager of Corporate Affairs at Ansett Australia and executive leadership roles at the National Australia Bank and Coles Myer Ltd and Deputy Chairman of Tourism Victoria. She is a graduate of the Australian Institute of Company Directors and of the Institute of Executive Coaching.

Barry Cotter LLB (Non-Executive Director)

Mr Barry Cotter joined the Board in March 2011. Mr Cotter's term as a Non-Executive Director for ARTC concluded on 17 March 2016. Mr Cotter has previously been a Director of Commonwealth Funds Management and a Trustee of the Superannuation Fund Investment Trust. He is currently a Director of his own manufacturing and mining services company.

Company Secretary

Mr Gavin Carney BA, LLB, LLM, GradDip ACG, MAICD, FGIA was appointed Company Secretary in 2009. Mr Carney joined ARTC in 2007 and is also the General Counsel. Mr Carney is a Fellow of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors. As Company Secretary of ARTC, Mr Carney is responsible for monitoring the Company's corporate governance framework and for managing all matters relating to the Company's Board of Directors, Board Committees and Executive Team.

DIRECTORS' REPORT (CONTINUED)

MEETINGS OF DIRECTORS

The number of meetings of the Group's Board of Directors and of each Board Committee held during the year ended 30 June 2016, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Audit & Compliance Committee		Environment Health & Safety Committee		People, Policy & Remuneration Committee		Risk Committee	
Note							(1)			
	A	B	A	B	A	B	A	B	A	B
H Nugent	10	10	4	-	-	-	2	2	1	1
C Barlow #	-	-	-	-	-	-	-	-	-	-
J Bonnington	9	11	4	5	3	3	-	-	1	2
G Brown	11	11	5	5	2	3	-	-	2	2
V Graham (commenced 8 March 2016)	4	4	-	-	1	-	1	-	-	-
L Di Bartolomeo (end of term 29 June 2016)	11	11	5	5	3	2	2	-	2	2
P Catty (end of term 17 March 2016)	7	7	4	4	-	-	2	2	2	2
B Cotter (end of term 17 March 2016)	7	7	-	-	1	2	1	2	1	2
J Fullerton	10	11	5	5	3	3	3	3	2	2

(1) = Whole Board for Succession Planning Committee is incorporated into the People, Policy and Remuneration Committee.

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

Mr Barlow was appointed as Director of the ARTC Board on 2 May 2016. By agreement with the Board, Mr Barlow will commence his term at the 25 & 26 July 2016 Board meetings.

Members of the Board Committees during the year: (* denotes Chairman)

Audit & Compliance
G Brown* (reappointed 30 June 2016)
J Bonnington
P Catty (end of term 17 March 2016)
L Di Bartolomeo (end of term 29 June 2016)
J Fullerton

Environment Health & Safety
L Di Bartolomeo* (end of term 29 June 2016)
G Brown (reappointed 30 June 2016)
B Cotter (end of term 17 March 2016)
V Graham (appointed 8 March 2016)
J Bonnington
J Fullerton

People, Policy & Remuneration
H Nugent * (appointed 3 August 2015)
P Catty (end of term March 2016)
B Cotter (end of term March 2016)
J Fullerton

Risk Committee
H Nugent* (appointed 3 August 2015)
C Barlow (appointed 2 May 2016)
J Bonnington
G Brown (reappointed 30 June 2016)
V Graham (appointed 8 March 2016)
L Di Bartolomeo (end of term 29 June 2016)
P Catty (end of term 17 March 2016)
B Cotter (end of term 17 March 2016)
J Fullerton

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the provision of rail access and infrastructure management of rail networks, either owned or leased by ARTC.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the group during the financial year were as follows:

Continuing implementation of ARTC's Transformation Program has seen the further activity across a range of areas with particular focus on delivering optimum customer outcomes together with activities under the leadership and effectiveness & efficiency work streams

The Scoping Study that had been announced by the Commonwealth Government in 2015 was undertaken during the 2015/6 year which assessed options for the future management, operations and ownership of ARTC.
In May 2016 the Government announced completion of the Scoping Study and the decision that ARTC would remain in Government ownership to leverage its skills, values and experience to deliver Inland Rail in partnership with the private sector. ARTC has been undertaking development (planning) activities for Inland Rail funded from within an initial grant allocation from the Australian Government of $300 million. The $300 million grant has funded the preparation by ARTC of a Programme Business Case (completed September 2015) together with concept design, preliminary environmental assessments and a range of technical studies. Based on its assessment of the Business Case, Infrastructure Australia included Inland Rail as a priority project in the Australian Infrastructure Plan and Priority List in May 2016, and the Government made a commitment to provide a further $594 million in equity funding to ARTC to advance the pre-construction stages of Inland Rail, including corridor acquisition.

During the year the ACCC concluded its review of the Hunter Valley Access Undertaking 2013 Annual Compliance Assessment, which resulted in a change to the cost allocation methodology and timing of cost recoveries by the Group, with a resulting reduction in revenue from 1 January 2013 to 30 June 2016. The final outcome will not be known until the ACCC reviews the 2014, 2015 and 2016 Annual Compliance Assessments. However, a full provision has been made for the estimated amount repayable as at 30 June 2016. The adverse revenue and profit and loss impact of the provision for the year of this decision amounts to $69.5 million. Refer also to notes 4 (viii), 5(a) and 6(e). The resulting revenue reduction is recoverable in future years.

The Hunter Valley Access Undertaking expired at 30 June 2016 with the parties being unable to conclude the terms of the replacement Undertaking. As a result, the ACCC has approved a six month extension of the current Undertaking to enable the parties to continue negotiations of the new Undertaking.

There were no other significant changes in the state of affairs of the Group during the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Both the Interstate and Hunter Valley business units were affected by protected industrial action during August 2016. Unions issued notices of action as part of negotiations underway for the NSW Enterprise Agreement which covers 528 staff in NSW.

The action took the form of work bans and most significantly a series of 24 hour stoppages which caused major disruption to ARTC passenger, coal and freight operator customers. The Agreement was put to a vote of employees in mid-August 2016 and a majority of employees voted to approve the Agreement. The protected industrial action ceased after this vote. At the time of signing, the Agreement has been lodged at the Fair Work Commission for certification under the Fair Work Act.

It is the opinion of the Directors of the Group that no other event has arisen that would significantly affect the operation of the Group, the result of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments and the expected results of operations of ARTC are contained in the Chief Executive Officer's and Chairman's Report.

DIVIDENDS - AUSTRALIAN RAIL TRACK CORPORATION LTD

On 2 November 2015 the Group made a payment of $26.8 million to the shareholder as the final dividend for the 2014/15 financial year.

On 29 April 2016, the Group made a payment of $64.5 million to the shareholder as an interim dividend.

The final dividend for the 2015/16 year will be determined upon finalisation of the accounts targeting payment in October 2016.

REVIEW OF OPERATIONS

The review of operations of the Group is contained in the Chief Executive Officer's and Chairman's Report.

ENVIRONMENTAL REGULATION

ARTC is committed to managing its operational activities and services in an environmentally responsible manner to meet its legal, social and ethical obligations. ARTC holds licences from both the Environment Protection Authority of South Australia and the Environment Protection Authority of NSW. In South Australia, the licence is held under Part 6 of the Environment Protection Act 1993 to undertake the activity of "Railway Operations". The licence is due to expire on 31 January 2019. In New South Wales, the licence is held under Section 55 of the Protection of the Environment Operations Act 1997 to undertake "Railway Systems Activities". The licence has an anniversary date of September 5 and is subject to payment of the fee and provision of annual returns, continues until the parties agree to change or withdraw it. To date, ARTC has complied with the requirements of both licence agreements. Other than in South Australia and New South Wales, ARTC is not required to be licensed.

INDEMNIFICATION OF OFFICERS

During the reporting period, ARTC had in place insurance cover in respect of liabilities arising from the performance of the Directors and Officers of the Group.

The disclosure of the premium paid under section 300(8) (b) of the Corporations Act 2001 is not shown as the insurance contract between ARTC and the insurer prohibits ARTC from disclosing such information.

No known liability has arisen under the insurance contract as at the date of this report.

NON-AUDIT SERVICES

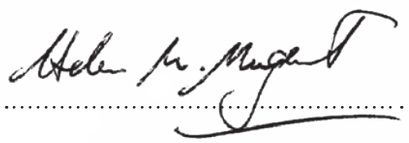
Non-audit services can be found in note 17 of the Financial Statements.

DIRECTORS' REPORT (CONTINUED)

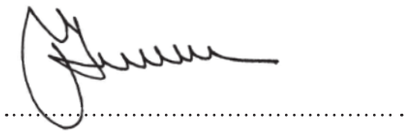
AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as received by the Directors as required under section 307C of the Corporations Act 2001 is set out on this page.

Signed in accordance with a resolution of the Directors:



H Nugent
Director
Signed in Sydney on the 25th day of August 2016



J Fullerton
Director
Signed in Sydney on the 25th day of August 2016

Australian Rail Track Corporation Ltd Financial Report 2015/16 Auditor's Independence Declaration

In relation to my audit of the financial report of Australian Rail Track Corporation Ltd for the year ended 30 June 2016, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the Corporations Act 2001; and

(ii) no contravention of any applicable code of professional conduct.

Auditor
Australian National Audit Office

Clea Lewis
Executive Director
Delegate of the Auditor - General
Signed in Canberra on the 25th of August 2016

CORPORATE GOVERNANCE STATEMENT

The ARTC Board currently comprises six members. The Board is chaired by an Independent Non-Executive Director and the roles of the Chair and Managing Director are separate. The Managing Director is the only Executive Director on the Board and is also the Chief Executive Officer. All of the other Directors are Independent Non-Executive Directors.

ASX PRINCIPLES OF GOOD CORPORATE

ARTC's system of corporate governance reflects the eight principles enunciated in the ASX "Corporate Governance Principles and Recommendations". The following table indicates where specific ASX Principles are dealt with in this statement:

ASX Principle	Reference
1 Lay solid foundations for management and oversight	The Board, Board Committees, Accountability and Audit
2 Structure the Board to add value	The Board, Board Committees
3 Promote ethical and responsible decision making	Governance Policies
4 Safeguard integrity in financial reporting	The Board, Accountability and Audit, Board Committees
5 Make timely and balanced disclosure	Our Shareholder
6 Respect the rights of security holders	Our Shareholder
7 Recognise and manage risk	Accountability and Audit
8 Remunerate fairly and responsibly	Board Committees

THE BOARD

Board role and responsibilities

ARTC recognises the respective roles and responsibilities of the Board and Management through its system of formal delegations and a schedule of matters reserved to the Board.

This enables the Board to provide strategic guidance for the company and effective oversight of Management. It also clarifies the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and Management accountability to both the Group and its shareholders. The major powers the Board has reserved for itself are:

(a) Annual business budget and plan;
(b) Strategic plan for the Group;
(c) Significant business initiatives that require notification to Shareholder Ministers;
(d) All expenditure and property transaction contracts greater than $5 million not subject to a specific Board approval;
(e) Access agreements that do not comply with the Board agreed pricing and access principles and policies;
(f) Employment contract for the Chief Executive Officer and the organisational structure for direct reports;
(g) Parameters for Workplace Enterprise Agreements;
(h) Senior Executive variable reward scheme;
(i) Long term price paths for train operators; and
(j) The framework for the Rail Access Agreement.

Board composition and membership

The Board's size and composition is subject to limits imposed by ARTC's Constitution, which provides for a minimum of three Directors and a maximum eight Directors. The Board currently comprises five Non-Executive Directors and one Executive Director. The Directors of ARTC are listed with a brief description of their qualifications and experience on pages 36 to 39 of this Annual Report. Directors are appointed by the Shareholder Minister in accordance with the Company's Constitution and GBE Guidelines.

The GBE Guidelines require that the Group's Board consist of 40 percent women, 40 percent men and the remaining 20 percent of the Board positions are held by either women or men. Currently, the Board comprises three women and three men.

Conflicts of interest

The Directors of ARTC are requested to disclose to the Company any interests or directorships which they hold with other organisations and to update this information if it changes during the course of the directorship. Directors and senior management are also required to identify any conflicts of interest they may have in dealing with ARTC's affairs and refrain, where required, from participating in any discussion or voting on these matters.

Where a Director has declared material personal interest and/or may be presented with a potential material conflict of interest in a matter presented to the Board or Committee, the Director does not receive copies of Board or Committee reports relating to the matter and excuse themselves from the Board meeting at the time the matter is considered. Disclosures are recorded in the minutes.

Chairman

Helen Nugent, an Independent Non-Executive Director, has been Chairman of the Company since 3 August 2015. Lucio Di Bartolomeo was appointed Acting Chair from 20 April 2015 (when John Caldon's term expired) until 2 August 2015. The Chairman of the Board is responsible for the leadership of the Board and for the efficient and proper functioning of the Board, including maintaining relationships with the Shareholder.

Board evaluation

In line with the GBE Guideline requirements, ARTC conducts an annual review of the Board's performance.

The Board has agreed to annually undertake self-assessments, with an in-depth externally facilitated assessment every 3 years. During the course of this year, two external board evaluations were undertaken.

The Board determines the actions to be taken in relation to the recommendations arising from the assessments and regularly reviews progress against the action plans.

The Chairman provides the Shareholder Ministers with written confirmation that this review process has been followed and raises any areas of concern.

Director induction and education

On appointment, each Director receives a formal letter of appointment from the Shareholder Ministers. ARTC has an induction program for new Directors which includes individual meetings with Executive Members, Directors, and visiting ARTC's operational locations. Directors are provided with a detailed manual with information on the Company's corporate strategy, company policies, meeting arrangements, rail industry and general company matters. The Board has regular discussions with the CEO and Management and attends site tours of ARTC's operational sites.

Board access to information and independent advice

The Board has direct access to Management and any company information Management possess in order to make informed decisions and discharge its responsibility.

The Company Secretary is accountable to the Board. The Board must approve the appointment and removal of the Company Secretary.

Any Director can seek independent professional advice in the discharge of their responsibilities, with the agreement of the Chairman, which cannot unreasonably be withheld.

Board Committees

To assist in the discharge of its responsibilities, the Board has established the following Board Committees:

- Audit and Compliance
- People, Policy and Remuneration
- Environment, Health and Safety
- Risk

Each Committee is chaired by a Non-Executive Director and comprises a majority of Independent Non-Executive Directors. Membership of the Committees is based on Director's qualifications, skills and experience. Each Committee is governed by its own Charter, detailing the Committee's role, membership requirements and duties. Each Charter is reviewed periodically and revised when appropriate.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Composition of Committee	*Main Areas of Responsibility*
Audit & Compliance	
• At least 3 Non-Executive Directors appointed by the Board • The Chair cannot be the Chair of the Company	The primary responsibility of the Committee is to assist the Board fulfill its responsibilities for corporate governance, probity, due diligence, effectiveness of internal control, management of financial risks and financial reporting.
People, Policy & Remuneration	
• At least 2 Non-Executive Directors appointed by the Board • CEO plus any other company executives or advisor will attend by invitation	The primary responsibility of the Committee is to assist the Board fulfill its responsibilities for providing oversight at Board level of the company's policies, procedures and practices as they affect employees, contractors or others performing work for the company, and to make recommendations to the Board regarding remuneration of the CEO and Directors.
Environment Health & Safety	
• At least 2 Non-Executive Directors appointed by the Board • CEO plus any other company executive or advisor attend by invitation	The primary responsibility of the Committee is to assist the Board fulfill its responsibilities for the company's management of risks associated with its environment and public and work health and safety functions and to monitor processes and programs adopted by Management to ensure compliance with relevant policies and procedures.
Risk	
• All Non-Executive members of the Board of Directors • The Chairman of the Board acting as the Chairman of the Committee • CEO and other company executive attend by invitation	The primary responsibility of the Committee is to assist the company fulfill its responsibilities for corporate governance, by overseeing the way the company manages risk in accordance with its Risk Management Policy.

ACCOUNTABILITY AND AUDIT

Risk Management

ARTC continues to build a risk management framework and has developed a comprehensive risk register that captures the material business risks facing the Company. The Risk Committee comprises the whole Board and Executive Management team who review the identified risks and monitor ARTC's overall risk management.

Insurance

ARTC maintains appropriate insurance policies to ensure that its financial interests and liabilities are fully protected and that it complies with its various contractual obligations. ARTC's insurance portfolio provides cover for damage or destruction of its rail network infrastructure assets, liability protection for its general, professional and statutory liabilities and protection for its board members and employees whilst such persons are engaged on ARTC related business and activities.

Internal audit

In September 2014 ARTC entered into a five year contract with KPMG for the provision of internal audit services. ARTC Internal Audit maintains a three year Internal Audit Plan which is reviewed and updated annually. KPMG assisted Internal Audit to review and update the FY16 - FY18 Non-Safety Internal Audit Plan (the Plan).

In May 2016 the Audit and Compliance Committee approved the revised FY16 - FY18 Plan. A progress report which provides an update on Internal Audit's progress on delivering the annual Plan is presented to each Audit and Compliance Committee meeting.

External Audit

Under section 98 of the PGPA Act, the Auditor-General is responsible for auditing the financial statements. In addition ARTC's Annual Report is tabled in Parliament and financial accounts lodged with ASIC.

ANAO has contracted with Ernst &Young to audit the ARTC on behalf of the Auditor-General. The Audit and Compliance Committee invite the external auditors to each Committee meeting and the papers for each meeting are provided to both ANAO and Ernst &Young. The external auditors are also invited to ARTC's Annual General Meeting.

Our Shareholder

The Commonwealth of Australia holds all the shares in the Group. The responsible Shareholder Ministers are the Senator Mathias Cormann, Minister for Finance and Minister Darren Chester, Minister for Infrastructure and Regional Development. ARTC recognises, upholds and facilitates the effective exercise of the rights of the single shareholder, the Commonwealth of Australia. In this regard, the company is subject to the PGPA legislation and the Commonwealth Government Business Enterprise Governance and Oversight Guidelines in addition to the Corporations Act. ARTC has also negotiated a Commercial Freedoms Framework with the Shareholder which agrees ARTC's mandate.

Shareholder communication

ARTC complies with the Commonwealth Government Business Enterprise Governance and Oversight Guidelines, including the development of an annual Corporate Plan, the publication of an annual Statement of Corporate Intent and regular Shareholder liaison, including formal quarterly Shareholder reports and meetings.

GOVERNANCE POLICIES

Code of Conduct

ARTC recognises the importance of integrity and ethical behaviour. This commitment is demonstrated in the Company's Code of Conduct which sets out the principles of conduct and behaviour ARTC requires from its employees.

Public Interest Disclosure Procedure

In accordance with the Public Interest Disclosure Act, ARTC has a framework for the disclosure of suspected wrongdoing and for the protection of whistle blowers. The framework applies to disclosures made by ARTC staff.

Equal Opportunity

The ARTC Corporate Plan recognises the importance of providing ARTC employees with a work environment that is both engaging and fulfilling.

ARTC's Diversity Policy outlines the Company's commitment to value diversity, treating all job applicants and employees in the same way, regardless of their sex, sexual orientation, age, race, ethnic origin or disability.

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Revenue from continuing operations			
Access revenue	5(a)	**755,705**	758,375
Interest revenue		**10,286**	6,395
Total revenue		**765,991**	764,770
Other income			
Incident and insurance recovery	5(d)	**2,508**	23,157
Government grants		**69,523**	54,620
Profit/(loss) on sale of fixed assets		**371**	233
Net foreign exchange gains		**6**	99
Other income		**16,854**	15,222
Total other income		**89,262**	93,331
Total revenue and other income		**855,253**	858,101
Employee benefits expense	5(b)	**(166,848)**	(161,579)
Infrastructure maintenance		**(188,185)**	(160,697)
Depreciation and amortisation expense	5(c)	**(191,490)**	(182,939)
Reversal/(recognition) of impairment	8(b)	**3,015**	(25,525)
Incident costs	5(d)	**(7,109)**	(23,541)
Operating lease		**(7,223)**	(6,350)
Other expenses		**(63,494)**	(65,918)
Expenses, excluding finance costs		**(621,334)**	(626,549)
Profit from operating activities		**233,919**	231,552
Finance costs	5(e)	**(42,141)**	(43,518)
Profit before income tax		**191,778**	188,034
Income tax (expense)/benefit	7(a)	**(74,212)**	(53,436)
Net Profit after tax		**117,566**	134,598
Profit is attributable to:			
Equity holder of Australian Rail Track Corporation Ltd		**117,566**	134,598

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Profit/(Loss) for the year		**117,566**	134,598
Other comprehensive income			
Items that may be reclassified to profit or loss - net of tax			
Cash flow hedge charged to equity - interest rate swap	9(b)	**884**	1,277
Cash flow hedge charged to equity - foreign exchange	9(b)	**19**	-
Cash flow hedge net transfer to profit and loss - foreign exchange	9(b)	**-**	22
Total items that may be reclassified subsequently to profit or loss		**903**	1,299
Items that will not be reclassified to profit or loss - net of tax			
Revaluation adjustment property plant and equipment	9(b)	**(138,260)**	(43,695)
Re-measurement (losses)/gains on defined benefit plans	9(c)	**(5,437)**	3,678
Total items that will not be reclassified to profit and loss		**(143,697)**	(40,017)
Other comprehensive (loss)/income for the year, net of tax		**(142,794)**	(38,718)
Total comprehensive (loss)/income for the year, net of tax		**(25,228)**	95,880
Total comprehensive (loss)/income for the year is attributable to:			
Equity holder of Australian Rail Track Corporation Ltd		**(25,228)**	95,880

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2016

	Notes	Consolidated 2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6(a)	**107,461**	319,937
Trade and other receivables	6(b)	**64,100**	61,425
Inventories	8(a)	**29,094**	30,553
Derivative financial instruments	12(a)	**38**	-
Current tax receivables		**1,298**	-
Other current assets		**5,163**	4,677
Total current assets		**207,154**	416,592
Non-current assets			
Receivables	6(b)	**707**	-
Property, plant and equipment	8(b)	**4,361,990**	4,550,192
Deferred tax assets	8(c)	**178,667**	191,680
Intangible assets	8(d)	**86,561**	91,730
Shares held at cost		**19**	19
Total non-current assets		**4,627,944**	4,833,621
Total assets		**4,835,098**	5,250,213
LIABILITIES			
Current liabilities			
Trade and other payables	6(c)	**82,001**	88,978
Interest bearing liabilities	6(d)	**-**	251,398
Derivative financial instruments	12(a)	**-**	1,262
Provisions	8(e)	**48,491**	59,295
Other liabilities	6(e)	**73,757**	1,559
Deferred income - government grants		**55,868**	33,237
Total current liabilities		**260,117**	435,729
Non-current liabilities			
Interest bearing liabilities	6(d)	**644,131**	759,455
Deferred income - government grants		**421,549**	437,740
Provisions	8(e)	**3,888**	3,756
Defined benefit plans	8(f)	**14,468**	6,617
Other liabilities	6(e)	**516**	-
Total non-current liabilities		**1,084,552**	1,207,568
Total liabilities		**1,344,669**	1,643,297
Net assets		**3,490,429**	3,606,916
EQUITY			
Contributed equity	9(a)	**2,603,226**	2,603,226
Reserves	9(b)	**1,023,845**	1,134,895
Retained earnings	9(c)	**(136,642)**	(131,205)
Total equity		**3,490,429**	3,606,916

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

				Attributable to owners of Australian Rail Track Corporation Ltd					
Consolidated	Notes	**Contributed equity $'000**	**Property, plant and equipment revaluation reserve $'000**	**Hedging reserve - cash flow hedge - foreign exchange $'000**	**Hedging reserve - cash flow hedge - interest rate swap $'000**	**Profit reserve $'000**	**Total reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 July 2014		2,603,226	974,633	(22)	(2,161)	127,643	**1,100,093**	**(134,883)**	**3,568,436**
Total profit for the year as reported in the financial statements	9(c)	-	-	-	-	-	**-**	**134,598**	**134,598**
Re-measurement gains/(losses) on defined benefit plans - (net of tax)	9(c)	-	-	-	-	-	**-**	**3,678**	**3,678**
Cash flow hedge interest rate swap - (net of tax)	9(b)	-	-	-	1,277	-	**1,277**	**-**	**1,277**
Cash flow hedge foreign exchange - (net of tax)	9(b)	-	-	22	-	-	**22**	**-**	**22**
Asset revaluation reserve adjustment - (net of tax)	9(b)	-	(43,695)	-	-	-	**(43,695)**	**-**	**(43,695)**
Total comprehensive income for the year		-	(43,695)	22	1,277	-	**(42,396)**	**138,276**	**95,880**
Transfer to profit reserve	9(b), 9(c)	-	-	-	-	134,598	**134,598**	**(134,598)**	**-**
Dividends provided for or paid	9(b)	-	-	-	-	(57,400)	**(57,400)**	**-**	**(57,400)**
Balance at 30 June 2015		**2,603,226**	**930,938**	**-**	**(884)**	**204,841**	**1,134,895**	**(131,205)**	**3,606,916**

FOR THE YEAR ENDED 30 JUNE 2016

Balance at 1 July 2015		2,603,226	930,938	-	(884)	204,841	**1,134,895**	**(131,205)**	**3,606,916**
Total profit for the year as reported in the Financial Statements	9(c)	-	-	-	-	-	**-**	**117,566**	**117,566**
Re-measurement gains/(losses) on defined benefit plans - (net of tax)	9(c)	-	-	-	-	-	**-**	**(5,437)**	**(5,437)**
Cash flow hedge interest rate swap - (net of tax)	9(b)	-	-	-	884	-	**884**	**-**	**884**
Cash flow hedge foreign exchange - (net of tax)	9(b)	-	-	19	-	-	**19**	**-**	**19**
Asset revaluation reserve adjustment - (net of tax)	9(b)	-	(138,260)	-	-	-	**(138,260)**	**-**	**(138,260)**
Total comprehensive income for the year		-	(138,260)	19	884	-	**(137,357)**	**112,129**	**(25,228)**
Transfer to profit reserve	9(b), 9(c)	-	-	-	-	117,566	**117,566**	**(117,566)**	**-**
Dividends provided for or paid	9(b)	-	-	-	-	(91,259)	**(91,259)**	**-**	**(91,259)**
Balance at 30 June 2016		**2,603,226**	**792,678**	**19**	**-**	**231,148**	**1,023,845**	**(136,642)**	**3,490,429**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		**927,884**	896,785
Payments to suppliers and employees		**(528,708)**	(468,715)
Government grants - revenue		**37,156**	22,613
		436,332	450,683
Income taxes paid		**(1,298)**	-
Interest received		**10,286**	6,395
Net cash inflow from operating activities	10	**445,320**	457,078
Cash flows from investing activities			
Payments for property, plant and equipment		**(193,233)**	(265,656)
Payments for intangibles		**(1,783)**	(3,791)
Payment for shares		**-**	(19)
Proceeds from sale of property, plant and equipment		**497**	2,381
Net cash outflow from investing activities		**(194,519)**	(267,085)
Cash flows from financing activities			
Government grants - deferred		**38,807**	49,879
Payments for transaction and interest costs relating to borrowings		**(44,982)**	(49,581)
Proceeds (repayments)/from to interest bearing liabilities	6(d)	**(365,843)**	95,780
Finance lease payments		**-**	(18)
Dividends paid to Group's Shareholder	11(b)	**(91,259)**	(57,400)
Net cash (outflow)inflow from financing activities		**(463,277)**	38,660
Net (decrease)increase in cash and cash equivalents		**(212,476)**	228,653
Cash and cash equivalents at the beginning of the financial year		**319,937**	91,284
Cash and cash equivalents at end of year	6(a)	**107,461**	319,937

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONTENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 01
REPORTING ENTITY

Australian Rail Track Corporation (the parent) is a Company limited by shares incorporated in Australia located at 11 Sir Donald Bradman Drive, Keswick Terminal, South Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries together referred to as the "Group". The Group is a Government Business Enterprise (GBE) and the ultimate controlling entity is the Commonwealth Government.

The financial report of ARTC for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 25 August 2016.

NOTE 02
BASIS OF ACCOUNTING

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, the requirements of the Corporations Act 2001 and other authoritative pronouncements of the Australian Accounting Standards Board. Australian Rail Track Corporation Ltd is a for profit entity for the purpose of preparing the financial statements.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Where necessary, comparative figures have been adjusted to conform to changes in the presentation of the Financial Statements in the current year.

The financial statements are prepared on a historical cost basis except for certain classes of plant and equipment and held for sale assets which are measured at fair value.

The financial statements have been prepared on a going concern basis. See note 21(x).

NOTE 03
FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group is an entity to which the Instrument applies.

NOTE 04
SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or may involve a higher degree of judgement or complexity within the next financial year are set out below.

(i) Defined benefit plan

Various actuarial assumptions are required when determining the Group's defined benefit obligations. See note 8(f) and 21(v).

(ii) Timing of project completion

The Group continues a capital investment program, with the continued delivery being reliant on industry demand, the availability of requisite material, project resources and applicable regulatory approvals.

(iii) Fair value

In order to comply with relevant accounting standards the Group undertook a fair value assessment of the infrastructure assets, the results of which are detailed in notes 8(b) and 12(d)(iii). Key assumptions when completing the assessment are: the forecast data including, revenue expense and capital cash flows and the discount rate used. Therefore, management has reviewed the cash flow and made adjustments to account for any known variables and to ensure a market participant would view the positions taken as reasonable. In addition, the discount rate used is compiled with the support of an external market specialist. Note 12(d)(iv) and (v) contains further detail on the process and valuation technique.

(iv) Deferred tax recognition

The Group has recognised a net deferred tax asset as set out in note 8(c). The Group has recognised a deferred tax asset in relation to deductible temporary differences to the extent that a deferred tax liability exists in relation to taxable temporary differences, which are expected to reverse over the same periods. In addition, an excess deferred tax asset has been recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The recognition of the net deferred tax asset is considered appropriate following an assessment of the overall forecast accounting profit and tax payable position of the Group over the next five years. See note 21(k).

(v) Incident recognition

The provision for incidents recognises the Group's estimated liability with respect to costs associated with damage caused by incidents such as force majeure, derailments, including the potential for third party and/or insurance recoveries. See note non-financial assets 8(e) and 21(h).

(vi) Provisions - Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligations can be measured reliably. See note 8(e) & 21(s)(i).

(vii) Provisions - Long service leave

The Group's net obligation in respect of long term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. For long service leave the future benefit is altered to take into account the probability of reaching entitlement and inflationary increases. These benefits are discounted to determine its present value. The discount for long service leave is the yield proximate to the reporting date on the Australian Corporate Bond market. See note 8(e) & 21(s)(ii).

(viii) Access revenue - Hunter Valley Coal provision

Driven by the ACCC analysis of the Hunter Valley Access Undertaking 2013 Annual Compliance Assessment a provision was made in respect of the over recovery of constrained coal network revenue for calendar years 2013, 2014, 2015 and 2016. The methodology used by the ACCC is forecast to be applied to the calculation from 2013 onwards. The review requires a detailed reallocation of capital charges between customers originating in different pricing zones which has a subsequent impact on the revenue calculations. The final amount for each year will be determined through ACCC Annual Compliance Assessments. Note that, as the costs are reallocated to different customers ARTC has the ability to treat any shortfall in the collection of its revenue ceiling (in Pricing Zone 3) as a capitalised loss which can be recovered through access charges in future years. See note 5(a) and 6(e).

	Consolidated	
	2016	2015
	$'000	$'000
(a) Access revenue		
Hunter Valley	**484,774**	480,256
Interstate	**270,931**	278,119
	755,705	758,375

The access revenue for Hunter Valley was adversely impacted by the outcome of the ACCC determination in relation to its review of the Hunter Valley Access Undertaking 2013 Annual Compliance Assessment and the flow on impact thereof. The adverse revenue and profit and loss impact of the provision for the year of this decision amounts to $69.5m. The Hunter Valley Access Undertaking requires revenue to be calculated on a calender year basis. Provided below is a breakdown of the change in the accounting estimate of revenue by calendar year:

2016	**11,900**	-
2015	**24,100**	-
2014	**18,100**	-
2013	**15,400**	-
	69,500	-

See note 4(viii) and 6(e), for further information regarding this review.

The Interstate access revenue was impacted by reduced mineral traffic primarily related to the closure of Iron Ore mines in northern South Australia.

		Consolidated	
		2016	2015
	Notes	**$'000**	$'000
(b) Employee benefits expense			
Wages and salaries		**163,764**	158,284
Workers compensation		**2,249**	2,303
Defined benefit plan expense	8(f)	**835**	992
		166,848	161,579
(c) Depreciation and amortisation			
Depreciation			
Buildings		**1,013**	1,002
Plant and equipment		**183,525**	175,413
	8(b)	**184,538**	176,415
Amortisation			
Computer software		**2,355**	1,922
Land rights		**825**	830
Other		**3,772**	3,772
	8(d)	**6,952**	6,524
Total depreciation and amortisation		**191,490**	182,939
(d) Net incident cost			
Expenses - Incident cost		**7,109**	23,541
Other income - Incident and insurance recovery		**2,508**	23,157
		4,601	384
(e) Finance costs			
Financing costs		**42,141**	43,517
Finance lease interest		**-**	1
		42,141	43,518

(a) Cash and cash equivalents

	Consolidated	
	2016	2015
	$'000	$'000
Current assets		
Cash at bank and in hand	**3,813**	27,123
Funds on deposit	**103,648**	292,814
	107,461	319,937

Cash at bank earns interest at floating rates based on daily bank deposit rates. The "funds on deposit" at balance date reflects funds available to the Group that have been placed on deposit with major Australian banking institutions over various periods not exceeding 180 days consistent with the Group's Treasury Policy. The carrying amount of cash and cash equivalents equates to the fair value. The Group's exposure to interest rate, credit risk and rates earned for the above is set out in note 12.

(b) Trade and other receivables

	Consolidated					
	2016			2015		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Trade receivables	**51,220**	**-**	**51,220**	35,883	-	35,883
Provision for doubtful receivables	**(31)**	**-**	**(31)**	(24)	-	(24)
Other receivables	**12,911**	**707**	**13,618**	25,566	-	25,566
	64,100	**707**	**64,807**	61,425	-	61,425

Information on credit risk, impairment and fair value of trade and other receivables can be found in note 12.

(c) Trade and other payables

	Consolidated	
		Restated
	2016	2015
	$'000	$'000
Current liabilities		
Trade payables	**77,949**	80,005
Other payables	**4,052**	8,973
	82,001	88,978

There has been a reclassification of payroll payables from trade payables to other payables that better reflects the nature of the payable. Comparables have been restated to reflect this change. Information about the Group's exposure to financial risk is set out in note 12.

(d) Interest bearing liabilities

	Consolidated					
	2016			2015		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Bonds - maturing:						
29 April 2016	**-**	**-**	**-**	251,398	-	251,398
20 December 2017	**-**	**199,989**	**199,989**	-	199,712	199,712
5 December 2019	**-**	**174,972**	**174,972**	-	174,840	174,840
11 December 2024	**-**	**124,160**	**124,160**	-	124,051	124,051
Syndicated debt facility	**-**	**145,010**	**145,010**	-	260,852	260,852
	-	**644,131**	**644,131**	251,398	759,455	1,010,853

The cashflow movement of ($365.8m) (2015: $95.8) differs from the variance between the balances above due to the impact of effective interest.

(e) Other liabilities

	Consolidated					
	2016			2015		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Other liabilities	**73,757**	**516**	**74,273**	1,559	-	1,559
	73,757	**516**	**74,273**	1,559	-	1,559

Other liabilities is primarily comprised of a liability in respect of the over recovery of constrained network coal revenue arising from the review by the ACCC of ARTC's - Hunter Valley Access Undertaking Compliance Submissions for 2013 onwards. The review has resulted in a reduction in recognised revenue per the compliance submissions. It is expected that this revenue reduction will be recovered over future years. This account was previously an asset and was classified under other receivables. See note 4(viii) and 5(a).

(a) Income tax expense/(benefit)

	Consolidated	
	2016	2015
	$'000	$'000
Current tax expense	**-**	-
Deferred tax expense		
Origination and reversal of temporary differences	**57,588**	56,806
Change in recognised deductible temporary differences	**16,624**	(3,370)
	74,212	53,436
Total income tax expense/(benefit)	**74,212**	53,436

The Group's current tax expense for the year ended 30 June 2016 is nil (2015: nil) due to the existence of tax deductions available to the Group as a result of the Group's ability to claim tax depreciation on NSW lease assets utilising Division 58 of the Income Tax Assessment Act 1997 and to utilise offsets generated in previous years.

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	Consolidated	
	2016	2015
	$'000	$'000
Profit from continuing operations before income tax expense	**191,778**	188,034
Tax at the Group's statutory tax rate of 30%	**57,533**	56,410
Change in recognised temporary differences	**16,624**	(3,370)
Amendments and prior year adjustments	**170**	627
Research and development income tax offset	**(135)**	(250)
Non-taxable items	**20**	19
Total income tax expense	**74,212**	53,436

(c) Amounts charged or credited directly to equity

	Consolidated	
	2016	2015
	$'000	$'000
Deferred income tax related to items charged directly to equity		
Net (loss)/gain on revaluation of infrastructure assets	**(59,254)**	(18,727)
Net (loss)/gain on defined benefit plan	**(2,330)**	1,576
Net gain on interest rate swap	**377**	557
Net gain on foreign exchange hedge	**9**	-
	(61,198)	(16,594)
Deferred income tax charge included in equity comprises:		
(Decrease)/increase in deferred tax liabilities	**(63,085)**	11,999
(Increase)/decrease in deferred tax assets	**1,887**	(28,593)
	(61,198)	(16,594)

The income tax charged directly to equity of ($59.3m) (2015: ($18.7m)) is the tax effect of the reversal of revaluations of ($197.5m) (2015: $62.4m), see note 8(b). The income tax charged directly to equity of ($2.3m) (2015: $1.6m) is the tax effect of the defined benefit amount included in other comprehensive income ($7.7m) (2015: $5.3m), see note 8(f).

(d) Tax consolidation legislation

Australian Rail Track Corporation Ltd and its wholly owned Australian controlled entities consolidated for income tax purposes as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 21(k).

NOTE 8
NON-FINANCIAL ASSETS AND LIABILITIES

(a) Inventories

	Consolidated	
	2016	2015
	$'000	$'000
Current assets		
Raw materials - at cost	**29,094**	30,553
	29,094	30,553

(b) Property, plant and equipment

Non - Current Assets

Consolidated	Construction in progress $'000	Freehold land $'000	Freehold buildings $'000	Leasehold buildings $'000	Leasehold Improve-ments -infrastruc-ture $'000	Plant & Equipment -Infrastruc-ture $'000	Plant & Equipment -Other $'000	Leased plant and equipment $'000	Total $'000
At 1 July 2014									
Cost or fair value	392,719	5,127	15,468	16,182	3,428,231	737,553	79,788	665	4,675,733
Accumulated depreciation	-	-	(3,759)	(3,210)	(87,448)	(1,117)	(29,753)	(302)	(125,589)
Net book amount	**392,719**	**5,127**	**11,709**	**12,972**	**3,340,783**	**736,436**	**50,035**	**363**	**4,550,144**
Year ended 30 June 2015									
Opening net book amount as at 1 July	392,719	5,127	11,709	12,972	3,340,783	736,436	50,035	363	4,550,144
Additions	-	2,175	1,141	822	389,930	11,306	6,370	-	411,744
Impairment expense	-	-	-	-	(23,420)	(2,105)	-	-	(25,525)
Borrowing costs capitalised	4,810	-	-	-	-	-	-	-	4,810
Additions into capital works in progress	259,820	-	-	-	-	-	-	-	259,820
Depreciation charge	-	-	(489)	(513)	(136,634)	(31,790)	(6,692)	(297)	(176,415)
Transfers out of capital work in progress	(411,744)	-	-	-	-	-	-	-	(411,744)
Written down value of assets disposed	-	-	-	-	-	-	(154)	(66)	(220)
Reversal of revaluation of assets	-	-	-	-	(18,306)	(44,116)	-	-	(62,422)
Closing net book amount	**245,605**	**7,302**	**12,361**	**13,281**	**3,552,353**	**669,731**	**49,559**	**-**	**4,550,192**
At 30 June 2015									
Cost or fair value	245,605	7,302	16,609	17,004	3,783,565	719,722	85,283	-	4,875,090
Accumulated depreciation	-	-	(4,248)	(3,723)	(231,212)	(49,991)	(35,724)	-	(324,898)
Net book amount	**245,605**	**7,302**	**12,361**	**13,281**	**3,552,353**	**669,731**	**49,559**	**-**	**4,550,192**

Consolidated

Year ended 30 June 2016									
Opening net book amount as at 1 July	245,605	7,302	12,361	13,281	3,552,353	669,731	49,559	-	4,550,192
Additions	-	95	818	359	144,989	28,370	9,062	-	183,693
Reversal of impairment expense	-	-	-	-	2,720	295	-	-	3,015
Borrowing costs capitalised	1,962	-	-	-	-	-	-	-	1,962
Additions into capital works in progress	189,061	-	-	-	-	-	-	-	189,061
Depreciation charge	-	-	(499)	(514)	(147,031)	(29,062)	(7,432)	-	(184,538)
Transfers out of capital work in progress	(183,770)	-	-	-	-	-	-	-	(183,770)
Written down value of assets disposed	-	-	-	-	(7)	-	(104)	-	(111)
Reversal of revaluation of assets	-	-	-	-	(204,015)	6,501	-	-	(197,514)
Closing net book amount	**252,858**	**7,397**	**12,680**	**13,126**	**3,349,009**	**675,835**	**51,085**	**-**	**4,361,990**
At 30 June 2016									
Cost or valuation	252,858	7,397	17,427	17,362	3,615,966	726,552	87,165	-	4,724,727
Accumulated depreciation	-	-	(4,747)	(4,236)	(266,957)	(50,717)	(36,080)	-	(362,737)
Net book amount	**252,858**	**7,397**	**12,680**	**13,126**	**3,349,009**	**675,835**	**51,085**	**-**	**4,361,990**

(b) Property, plant and equipment (continued)

(i) Leased assets

Plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

	Consolidated	
	2016	2015
	$'000	$'000
Leasehold equipment		
Cost written down value	**-**	363
Accumulated depreciation	**-**	(297)
Written down value of assets sold	**-**	(66)
Net book amount	**-**	-

(ii) Basis of valuation

At 30 June 2016 the Group undertook a fair value assessment using an income method approach as there are no similar market quoted assets. ARTC's policy is to revalue on a triennial basis or if in an intervening year the fair value of the revalued asset class differs materially from its carrying amount. Property, plant and equipment reviews are undertaken annually to ensure significant movements are identified and accounted for. The net present value of the cash flows for each business unit is compared with the current carrying value and any significant variance is taken to the financial statements.

This resulted in an upward revaluation of the Interstate business unit's assets. The result of this year's assessment is a $12.8m valuation increment (2015: $102.4m valuation decrement). An additional impairment benefit of $3.0m (2015: $25.5m impairment expense) has been recognised in the income statement as a reversal of prior year impairment charges.

The Hunter Valley business unit assets were previously revalued. The result of this year's assessment is a $210.3m valuation decrement (2015: $40.0m valuation increment). For further details on the calculation refer to note 12(d).

If infrastructure assets were stated on the historical cost basis less impairment, the amounts would be as follows:

	Consolidated	
		Restated
	2016	2015
	$'000	$'000
Infrastructure assets		
Plant & Equipment		
Cost	**791,081**	762,715
Accumulated depreciation	**(212,173)**	(187,432)
Net book amount	**578,908**	575,283
Leasehold Improvements		
Cost	**3,546,660**	3,393,958
Accumulated depreciation	**(595,402)**	(474,631)
Net book amount	**2,951,258**	2,919,327

The prior year deemed cost amount of Plant and Equipment and Leasehold Improvements has been restated to include the impact of 2015 depreciation expense on revalued assets which had previously been omitted. This is a disclosure change only and there is no impact to the actual carrying value as reported on the balance sheet nor the depreciation recognised in the income statement.

(c) Deferred tax balances

(i) Deferred tax assets

	Consolidated	
	2016	2015
	$'000	$'000
The balance comprises temporary differences attributable to:		
Property plant and equipment	**367,274**	476,745
Income tax losses and non-refundable offsets	**3,765**	3,049
Defined benefit plan	**4,340**	1,985
Cash flow hedges - interest rate swap and foreign exchange	**-**	379
	375,379	482,158
Movements:		
Opening balance at 1 July	**482,158**	533,936
(Charged)/credited to the consolidated income statement related to tax losses and offsets	**716**	(17,841)
(Charged)/credited to the consolidated income statement related to property plant and equipment	**(105,641)**	(63,263)
(Charged)/credited to equity related to property, plant and equipment	**(3,830)**	30,725
Credited /(Charged) to equity related to defined benefit plan	**2,330**	(1,576)
(Charged)/credited related to cash flow hedge	**(387)**	(557)
Adjustments for movements through income statement	**33**	734
Closing balance at 30 June before set off	**375,379**	482,158
Set off of deferred tax liabilities	**(196,712)**	(290,478)
Net deferred tax asset	**178,667**	191,680

At 30 June 2016, the Group has unrecognised deferred tax assets of $265.0m (2015: $248.4m) associated with provisions, deferred government grant income assessable on receipt for tax purposes and property, plant & equipment. The deductible temporary differences in relation to property, plant & equipment exist as a result of the Group's ability to claim tax depreciation on NSW lease assets utilising Division 58 of the Income Tax Assessment Act 1997 and the impairment of the assets of the Interstate business unit.

The Group has an unrecognised deferred tax asset in relation to a carried forward capital loss of $0.7m (2015: $0.7m). It is not recognised on the basis that there are no forecast future capital gains against which the loss could be utilised.

(c) Deferred tax balances (continued)

(ii) Deferred tax liabilities

	Consolidated	
	2016	2015
	$'000	$'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**193,700**	286,121
Other receivables	**3,012**	4,357
Deferred tax liabilities	**196,712**	290,478
Movements:		
Opening balance at 1 July	**290,478**	305,412
(Credited)/charged to equity related to property, plant and equipment	**(63,085)**	11,999
(Credited)/charged to the consolidated income statement related to property, plant and equipment	**(29,336)**	(31,290)
Other receivables	**(1,345)**	4,357
Closing balance at 30 June before set off	**196,712**	290,478
Set off of deferred tax liabilities	**(196,712)**	(290,478)
Net deferred tax liability	**-**	-

NOTE 8 (CONTINUED)
NON-FINANCIAL ASSETS AND LIABILITIES

(d) Intangible assets

Consolidated	**Computer Software $'000**	**Land Rights $'000**	**Other $'000**	**Total $'000**
At 1 July 2014				
Cost	16,281	42,242	55,000	113,523
Accumulated amortisation and impairment	(11,850)	(1,236)	(5,974)	(19,060)
Net book amount	**4,431**	**41,006**	**49,026**	**94,463**
Year ended 30 June 2015				
Opening net book amount as at 1 July	4,431	41,006	49,026	94,463
Additions into asset register	3,565	226	-	3,791
Amortisation charge	(1,922)	(830)	(3,772)	(6,524)
Closing net book amount	**6,074**	**40,402**	**45,254**	**91,730**
At 30 June 2015				
Cost	19,762	42,378	55,000	117,140
Accumulated amortisation and impairment	(13,688)	(1,976)	(9,746)	(25,410)
Net book amount	**6,074**	**40,402**	**45,254**	**91,730**
Consolidated				
Year ended 30 June 2016				
Opening net book amount as at 1 July	6,074	40,402	45,254	91,730
Additions into asset register	1,750	33	-	1,783
Amortisation charge	(2,355)	(825)	(3,772)	(6,952)
Closing net book amount	**5,469**	**39,610**	**41,482**	**86,561**
At 30 June 2016				
Cost	14,491	42,411	55,000	111,902
Accumulated amortisation	(9,022)	(2,801)	(13,518)	(25,341)
Net book amount	**5,469**	**39,610**	**41,482**	**86,561**

(e) Provisions

	Consolidated					
	2016			2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee benefits	**39,826**	**3,888**	**43,714**	37,320	3,756	41,076
Restructuring costs	**550**	**-**	**550**	227	-	227
Incident provision	**8,115**	**-**	**8,115**	19,060	-	19,060
Other provisions	**-**	**-**	**-**	2,688	-	2,688
	48,491	**3,888**	**52,379**	59,295	3,756	63,051

(i) Information about individual provisions and significant estimates

For information related to the Group's accounting policies related to employee provisions refer to note 21(s).

Arising from the Group's transformation program the restructure obligation provision reflects the redundancy costs that have been provided for and paid during the financial year. The remaining provision of $0.550m is expected to be fully utilised over the next twelve months.

The incident provision recognises the Group's estimate of the liability with respect to costs associated with damage caused by incidents such as derailments, which occurred whilst using the Group's rail infrastructure.

(ii) Movements in provisions

Movements in each class of provision during the financial year are set out below:

2016	**Employee benefits $'000**	**Re-structure obligation $'000**	**Incident $'000**	**Other $'000**	**Total $'000**
Carrying amount at 1 July	41,076	227	19,060	2,688	63,051
Additional provisions recognised	25,728	550	7,109	-	33,387
Amounts used during the year	(23,090)	(227)	(18,054)	(2,688)	(44,059)
Carrying amount at 30 June	**43,714**	**550**	**8,115**	**-**	**52,379**

(f) Non-current liabilities - Defined benefit plans

(i) Consolidated Balance Sheet amounts

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the year as follows:

	Present value of obligation $'000	**Fair value of plan assets $'000**	**Net amount $'000**
Balance as at 1 July 2014	**(40,331)**	**28,701**	**(11,630)**
Included in consolidated income statement			
Current service cost	(589)	-	(589)
Interest (expense)/income	(1,405)	1,002	(403)
	(1,994)	**1,002**	**(992)**
Included in other comprehensive income			
Re-measurements			
Return on plan assets, excluding amounts included in interest (expense)/income	-	2,253	2,253
(Loss)/gain from change in financial assumptions	4,071	-	4,071
Experience gains/(losses)	(1,070)	-	(1,070)
	3,001	**2,253**	**5,254**
Contributions:			
Employers	-	751	751
Plan participants	(275)	275	-
Payments from plan:			
Payments from plan	1,596	(1,596)	-
	1,321	**(570)**	**751**
Balance as at 30 June 2015	**(38,003)**	**31,386**	**(6,617)**
Balance sheet as at 1 July 2015	**(38,003)**	**31,386**	**(6,617)**
Included in consolidated income statement			
Current service cost	(535)	-	(535)
Interest (expense)/income	(1,769)	1,469	(300)
	(2,304)	**1,469**	**(835)**
Included in other comprehensive income			
Re-measurements			
Return on plan assets, excluding amounts included in interest (expense)/income	-	(593)	(593)
(Loss)/gain from change in demographic assumptions	(2,847)	-	(2,847)
(Loss)/gain from change in financial assumptions	(3,474)	-	(3,474)
Experience gains/(losses)	(853)	-	(853)
	(7,174)	**(593)**	**(7,767)**
Contributions:			
Employers	-	751	751
Plan participants	(280)	280	-
Payments from plan:			
Benefit payments	5,917	(5,917)	-
	5,637	**(4,886)**	**751**
Balance as at 30 June 2016	**(41,844)**	**27,376**	**(14,468)**

(f) Non-current liabilities - Defined benefit plans (continued)

(ii) Superannuation plan

On commencement on 5 September 2004 of the 60 year lease with the NSW Government to operate the NSW interstate main lines, the Hunter Valley business unit and dedicated metropolitan freight lines to the Sydney Ports, employees previously employed by Rail Infrastructure Corporation/State Rail Authority and now currently employed by ARTC, are members of the following defined benefit funds:

State Authorities Superannuation Scheme (SASS)

SASS is a split benefit scheme, which means it is made up of an accumulation style contributor financed benefit and a defined benefit style employer financed benefit. Employees can elect to contribute between 1% and 9% of their salary to SASS and can vary their contribution rate each year. Generally, each percentage of salary that a member contributes each year buys the member one benefit point which is used in the calculation of the employer financed benefit.

State Superannuation Scheme (SSS)

SSS is a defined benefit scheme subsidised by the employer. Contributions to the defined benefit scheme are recognised as an expense as they become payable.

State Authorities Non-Contributory Superannuation Scheme (SANCS)

SANCS is a productivity type superannuation benefit accrued by SASS members in addition to their contributory scheme benefits. Calculated at 3% of final average salary or final salary, depending on the mode of exit, for each year of service from 1 April 1988. It is fully employer financed.

All the schemes are closed to new members.

The schemes in the Pooled Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-contributory Superannuation Scheme Act 1987, and their associated regulations.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform to the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that member benefits are adequately protected.

An actuarial investigation of the Pooled fund is performed every three years. The last actuarial triennial review was performed as at 30 June 2015.

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

(iii) Categories of plan assets

The asset recognised does not exceed the present value of any economic benefits available in the form of reductions in future contributions to the plan.

All Pooled Fund assets are invested by SASS Trustee Corporation at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

The major category of plan assets are as follows:	**Consolidated 2016** Quoted $m	Un-quoted $m	Total $m	Consolidated 2015 Quoted $m	Un-quoted $m	Total $m
Equity instruments	**18,198**	**3,617**	**21,815**	19,862	3,656	23,518
Property	**1,113**	**2,537**	**3,650**	949	2,504	3,453
Short term securities	**2,044**	**6**	**2,050**	96	2,546	2,642
Fixed interest securities	**1**	**3,554**	**3,555**	1	3,659	3,660
Other assets	**471**	**6,645**	**7,116**	622	6,548	7,170
	21,827	**16,359**	**38,186**	21,530	18,913	40,443

	Consolidated 2016 %	2015 %
Equity instruments	**57**	58
Property	**10**	9
Short term securities	**5**	6
Fixed interest securities	**9**	9
Other assets	**19**	18
	100	100

(iv) Actuarial assumptions and sensitivity

Actuarial assessment undertaken by Mercer as at 30 June 2016 contains the following significant independent actuarial assumptions (expressed as weighted averages):

	Consolidated 2016	2015
Discount rate	**3.6%**	4.6%
Rate of CPI increase	**2.4%**	2.5%
Future salary increases	**3.1%**	3.1%

The sensitivity of the total defined benefit obligation as at 30 June 2016 under several scenarios is shown below.

Scenarios related to changes to the discount rate, salary growth rate and rate of CPI increase relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios related to pensioner mortality relate to sensitivity to demographic assumptions. The assumption as to the expected rate of return on assets is determined by weighing the expected long term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

(f) Non-current liabilities - Defined benefit plans (continued)

(iv) Actuarial assumptions and sensitivity

	Change in assumption	Impact on defined benefit: Increase in assumption		Impact on defined benefit: Decrease in assumption	
		2016	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000
Discount rate	1.0%	4,209	3,343	(5,196)	(4,092)
Salary growth rate	0.5%	(1,248)	(1,174)	1,190	1,118
Rate of CPI increase	0.5%	(1,096)	(669)	1,000	608
Pensioner mortality rate	5.0%	175	105	(420)	(110)

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

(v) Risk exposure

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- Investment risk - The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- Longevity risk - The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk - The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

(vi) Defined benefit liability and employer contributions

In accordance with the Occupational Superannuation Standards Regulations and Australian Accounting Standard 25 "Financial Reporting by Superannuation Plans" funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

The next triennial review is at 30 June 2018, the report is expected to be released by the end of 2018.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Expected contributions to defined benefit plans for the year ending 30 June 2017 are $1.4m. Following the triennial review of the Defined Benefit Fund as at 30 June 2015 it was determined that ARTC had an estimated funding shortfall of approximately 12% that the Trustees are endeavouring to recover over the 3 year period from 1 July 2016 to 30 June 2019. The impact is that the employer contribution will increase to $1.4m p.a. for each of the next 3 years and be subject to ongoing review.

The weighted average duration of the defined benefit obligation is 16.8 years (2015:12.2 years).

(vii) Amounts recognised in consolidated income statement

The amounts recognised in the consolidated income statement in employee benefits expense are as follows:

	Consolidated	
	2016	2015
	$'000	$'000
Current service cost	**535**	589
Interest cost on benefit obligation	**300**	403
	835	992

(viii) Amounts recognised in other comprehensive income

	Consolidated	
	2016	2015
	$'000	$'000
Actuarial (losses)/gains on liabilities	**(7,174)**	3,001
Actual return on Fund assets less interest income	**(593)**	2,253
	(7,767)	5,254

NOTE 9
EQUITY

(a) Contributed equity

(i) Share capital

	2016	2015	**2016**	2015
	Shares	Shares	**$'000**	$'000
Ordinary shares - fully paid	**2,511,475,100**	2,511,475,100	**2,603,226**	2,603,226
	2,511,475,100	2,511,475,100	**2,603,226**	2,603,226

There were no movements in ordinary share capital during the financial year (2015: nil).

(ii) Ordinary shares

On a show of hands every holder of ordinary shares present at a meeting in person, or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

(b) Reserves

	Consolidated	
	2016	2015
	$'000	$'000
Asset revaluation reserve	**792,678**	930,938
Cash flow hedging reserve - interest rate swap	**-**	(884)
Cash flow hedging reserve - foreign exchange	**19**	-
Profit reserves	**231,148**	204,841
	1,023,845	1,134,895
Movements:		
Revaluation surplus - Property, plant and equipment		
Opening balance at 1 July	**930,938**	974,633
Revaluation on asset revaluation reserve - (net of tax)	**(138,260)**	(43,695)
Balance as at 30 June	**792,678**	930,938
Profit reserve		
Opening balance at 1 July	**204,841**	127,643
Profit transferred into the reserve	**117,566**	134,598
Dividend paid	**(91,259)**	(57,400)
Balance as at 30 June	**231,148**	204,841
Cash flow hedges		
Opening balance at 1 July	**(884)**	(2,183)
Hedge liability - interest rate swap	**884**	1,277
Hedge reserve - foreign exchange	**19**	22
Balance as at 30 June	**19**	(884)
	1,023,845	1,134,895

(i) Asset revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of infrastructure assets.

(ii) Profit reserve

The profit reserve is used to preserve current profits for the purpose of paying dividends in future years.

(iii) Hedge reserve - cash flow hedges

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Amounts are reclassified to the consolidated income statement when the associated hedged transaction settles.

(c) Retained earnings

Movements in retained earnings were as follows:

	Consolidated	
	2016	2015
	$'000	$'000
Balance at 1 July	**(131,205)**	(134,883)
Net profit/(loss) for the year after tax	**117,566**	134,598
Re-measurement (losses)/gains on defined benefit plans - (net of tax)	**(5,437)**	3,678
Transfer to profit reserve	**(117,566)**	(134,598)
Balance as at 30 June	**(136,642)**	(131,205)

NOTE 10
CASH FLOW INFORMATION

Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2016	2015
	$'000	$'000
Net profit/(loss) for the year after tax	**117,566**	134,598
Adjustments for:		
Depreciation	**184,538**	176,415
Amortisation	**6,952**	6,524
Recognition of impairment (reversal)/expense	**(3,015)**	25,525
Recognition of government grant income attributable to financing activities	**(32,367)**	(32,007)
Net (gain) on sale of non-current assets	**(371)**	(233)
Finance costs	**42,141**	43,518
Income tax expense	**74,212**	53,436
Operating profit before changes in working capital and provisions	**389,656**	407,776
Change in operating assets and liabilities:		
Change in trade debtors and other receivables	**(4,681)**	18,509
Change in inventories	**1,459**	2,433
Change in other current assets	**(486)**	5,866
Change in trade and other payables	**(2,727)**	12,717
Change in other liabilities	**72,787**	1,737
Change in provisions	**(10,688)**	8,040
Net cash inflow from operating activities	**445,320**	457,078

NOTE 11
CAPITAL MANAGEMENT

(a) Risk management

The Group's objectives when managing capital are to:

- safeguard the ability to continue as a going concern (refer to note 21(x)), so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2016, the Group's strategy, unchanged from 2015, was to maintain a gearing ratio under 50%. The gearing ratios were as follows:

		Consolidated	
			Restated
		2016	2015
	Notes	**$'000**	$'000
Total Borrowings	6(c), 6(d)	**726,132**	1,099,831
Less cash and cash equivalents	6(a)	**(107,461)**	(319,937)
Adjusted net debt		**618,671**	779,894
Total equity		**3,490,429**	3,606,916
Adjusted equity		**4,109,100**	4,386,810
Net debt to adjusted equity ratio		**15.1%**	17.8%

Total borrowings include trade and other payables and the impact of amortised interest and fees.

(b) Dividends - Ordinary shares

	Consolidated	
	2015	2014
	$'000	$'000
Final dividend for the year ended 30 June 2015 of 1.03 cents (2015: 0.77 cents) per fully paid share	**26,770**	20,100
Interim dividend for the year ended 30 June 2016 of 2.48 cents (2015: 1.49) per fully paid share	**64,489**	37,300
	91,259	57,400

The Group's principal financial instruments comprise receivables, payables, bonds, banking facilities, cash, short term deposits and derivatives. The carrying amount equates to the fair value of the financial instruments.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Treasury Committee, a committee reporting to the CEO, is responsible for reviewing, monitoring and endorsing funding and risk management strategies. Treasury identifies, evaluates and monitors compliance and manages financial risks in accordance with the Treasury Policy and Strategy. Treasury provides updates to the Audit and Compliance Committee which oversees adequacy, quality and effectiveness of governance and financial risk management.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge cash flow risk exposures. Derivative financial instruments are exclusively used for hedging purposes, that is, not as trading or other speculative instruments. The Group uses different methods to identify and measure various different types of risk to which it is exposed.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions such as purchases of equipment and supplies from overseas. All significant non Australian dollar denominated payments require Treasury to assess and mitigate the Group's foreign exchange risk.

Forward contracts are generally used to manage foreign exchange risk. Treasury is responsible for managing the Group's exposures in each foreign currency by using external foreign currency instruments in accordance with Board approved Treasury Policy.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the consolidated income statement by the related amount deferred in equity.

During the year ended 30 June 2016 there was a reclassification of cash flow hedge from equity to the income statement of $0.047m (2015: $(0.022m)) due to the maturing of the hedges. There was hedge ineffectiveness of $0.011m in the current year that was expensed to the income statement (2015: nil).

At 30 June the Group has an outstanding effective cash flow hedge that is set to mature in January 2017 at which time the foreign exchange gain or loss from the effective hedge will impact the Income Statement. The ineffective portion of the cash flow hedge will impact the Income Statement during this period until maturity in January 2017. Treasury will continue to assess and mitigate the Groups foreign exchange risk.

(ii) Cash flow and interest rate risk

The Group's main interest rate risk arises from borrowings. Bonds issued at variable rates expose the Group to cash flow interest rate risk. The Group's policy is to maintain borrowings within the fixed floating rate control limits as specified for defined time periods. Interest rate instruments are used to achieve this when necessary. During the financial year, the Group's borrowings at fixed and variable rates were denominated in Australian dollars.

The Group's policy is to invest its available cash reserves with due regard to the timing and magnitude of operational cash flow requirements. The Group manages its cash flow interest rate risk by entering into and designating interest rate related authorised hedging instruments as hedges. As at the reporting date, cash reserves are being held as cash and short term investments.

The gain or loss from re-measuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into the income statement when the hedged interest expense is recognised. In the year ended 30 June 2016 there was no reclassification into profit or loss (2015: nil). Hedge effectiveness was assessed at the inception of the bonds and was found to be effective. Hedge effectiveness was also assessed prospectively and retrospectively using the cumulative dollar offset method as at 30 June 2016 as a part of the bi-annual testing. There was no hedge ineffectiveness in the year ended to 30 June 2016 (2015: nil). See note 21(t).

Instruments used by the Group

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following derivative financial instruments:

	Consolidated	
	2016	2015
	$'000	$'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	**38**	-
Total current derivative financial instrument assets	**38**	-
Current liabilities		
Interest rate swap contracts - cash flow hedges	**-**	(1,262)
Total current derivative financial instrument liabilities	**-**	(1,262)

(iii) Classification of derivatives

Derivatives are classified as hedging instruments and accounted for at fair value in other comprehensive income and deferred in equity in the hedging reserve. It is reclassified into the income statement when the hedged interest expense is recognised.

(a) Market risk (continued)

(iv) Sensitivity analysis - interest rate and foreign currency

	Interest rate risk			
	-0.5%		+0.5%	
	Profit $'000	Equity $'000	Profit $'000	Equity $'000
30 June 2016				
Financial assets				
Cash and cash equivalents	(376)	(376)	376	376
Total increase/(decrease) in financial assets	**(376)**	**(376)**	**376**	**376**

	Interest rate risk			
	-0.5%		+0.5%	
	Profit $'000	Equity $'000	Profit $'000	Equity $'000
30 June 2015				
Financial assets				
Cash and cash equivalents	(1,120)	(1,120)	1,120	1,120
Total increase/(decrease) in financial assets	(1,120)	(1,120)	1,120	1,120

This analysis assumes all other variables are constant.

NOTE 12 (CONTINUED)
FINANCIAL RISK MANAGEMENT

(b) Credit risk

(i) Risk management

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount. Credit risk is managed on a Group basis. Credit risk arises predominantly from derivatives and trade and other receivable. The Group does not hold any credit derivatives to offset its credit exposure.

The Group's Treasury Policy outlines the approach to the management of counterparty credit risk as approved by the Board. A number of criteria are utilised to manage and spread the level of risk such as: minimum credit rating of counterparty (investment grade), maximum credit exposure to any one counterparty and consideration of counterparty concentration risk.

The Group's policy is that all customers enter into access agreements meeting the terms and conditions as set out in the agreement before entering the Group's rail network and receiving any trade credit facilities.

The Group's exposure to bad debts has been historically low and statistically insignificant, therefore no collective loss provision is determined. The Group does have significant concentration of credit risk associated with major customers providing a high proportion of access revenue, therefore any bad debt provisions required are assessed on an individual basis.

(ii) Credit quality

Allowance for impairment

The ageing analysis of trade receivables as at 30 June 2016 are listed below and include $19.4m (2015: $2.9m) of trade receivables that are past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The $31.8m (2015: $32.9m) of trade receivables is neither past due nor impaired and based on the credit history of these customers it is expected that these amounts will be received when due.

The ageing of trade receivables is as follows:

	Consolidated	
	2016 $'000	2015 $'000
Neither past due nor impaired	**31,849**	32,940
Past due but not impaired		
30 - 60 days	**18,660**	2,788
61 - 90 days	**11**	95
> 90 days	**700**	60
Total	**51,220**	35,883

As at 30 June 2016 there was an allowance of impairment in trade and other receivables of the Group of $0.031m (2015: $0.024m). The individually impaired items relate to rental on property where the lessees have fallen significantly behind on lease payments. Other receivables past due but not considered impaired are nil (2015: nil).

(b) Credit risk (continued)

Movements in the provision for impairment of trade receivables that are assessed for impairment individually are as follows:

	Consolidated	
	2016	2015
	$'000	$'000
At 1 July	**(24)**	(64)
Provision for impairment charged to other expenses during the financial year	**(13)**	(12)
Receivables written off during the year as impaired trade receivables	**6**	52
At 30 June	**(31)**	(24)

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of committed credit facilities to support funding requirements and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and maintaining adequate liquidity reserves to support forecast net business expenditure requirements for a minimum of twelve months on a rolling monthly basis.

As at 30 June 2016 $145m of the $500m syndicated debt facility has been utilised (2015: $260m). The Group has a $1,500m Australian Dollar Domestic Note programme of which $500m is issued. Note that $250m matured in the current financial year (note 6(d)). The Group also has access to business card facilities of $2m (2015: $2m).

As at the reporting date of 30 June 2016, as the bond issuer, ARTC complied with clause 4.3 Earnings and Asset Covenant of the Information Memorandum.

Maturities of financial assets and liabilities based on contractual maturities

The tables below analyse the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

The amounts disclosed in the table are the contractual principal and accrued interest undiscounted cash flows.

At 30 June 2016	**Less than 6 months $'000**	**6 - 12 months $'000**	**Between 1 and 5 years $'000**	**Over 5 years $'000**	**Total cash-flows $'000**
Financial assets					
Cash & cash equivalents	107,461	-	-	-	107,461
Trade & other receivables	64,066	34	367	340	64,807
Derivatives financial instruments - foreign exchange	38	-	-	-	38
Total financial assets	**171,565**	**34**	**367**	**340**	**172,306**
Financial liabilities					
Trade & other payables	82,001	-	-	-	82,001
Bond issue	13,344	13,344	421,156	144,688	592,532
Borrowings	145,333	-	-	-	145,333
Other liabilities	73,764	6	49	454	74,273
Total financial liabilities	**314,442**	**13,350**	**421,205**	**145,142**	**894,139**
30 June 2015					
Financial assets					
Cash & cash equivalents	319,937	-	-	-	319,937
Trade & other receivables	61,425	-	-	-	61,425
Total financial assets	381,362	-	-	-	381,362
Financial liabilities					
Trade & other payables	88,978	-	-	-	88,978
Bond issue	17,474	267,480	442,219	150,312	877,485
Borrowings	261,750	-	-	-	261,750
Derivatives financial liabilities - interest rate swap	632	632	-	-	1,264
Other liabilities	1,559	-	-	-	1,559
Total financial liabilities	370,393	268,112	442,219	150,312	1,231,036

(d) Fair value measurements

(i) Fair value hierarchy and accounting classification

Judgements and estimates are made in determining the fair values of the items that are recognised and measured at fair value in the financial statements. The reliability of the inputs used in determining fair value, has been classified into the three levels prescribed under AASB 13. An explanation of each level follows underneath the table.

(d) Fair value measurements (continued)

			Fair Value			
30 June 2016	Notes	**Carrying Value $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Non-financial assets						
Designated at fair value						
Leasehold improvements - infrastructure assets	8(b)	3,349,009	-	-	3,349,009	3,349,009
Plant & equipment - infrastructure assets	8(b)	675,835			675,835	675,835
Total non-financial assets		**4,024,844**	**-**	**-**	**4,024,844**	**4,024,844**
Financial assets						
Fair value - hedging instruments						
Foreign exchange forward contracts used for hedging	12(a)	38	-	38	-	38
Loans and receivables						
Trade and other receivables	6(b)	64,807	-	-	-	64,807
Cash and cash equivalents	6(a)	107,461	-	-	-	107,461
Total financial assets		**172,306**	**-**	**38**	**-**	**172,306**
Financial liabilities						
Other financial liabilities						
Interest bearing liabilities	6(d)	644,131	-	-	-	644,131
Trade payables	6(c)	82,001	-	-	-	82,001
Total financial liabilities		**726,132**	**-**	**-**	**-**	**726,132**
30 June 2015						
Non-financial assets						
Designated at fair value						
Infrastructure assets	8(b)	3,552,353	-	-	3,552,353	3,552,353
Plant & equipment - infrastructure assets	8(b)	669,731	-	-	669,731	669,731
Total non-financial assets		4,222,084	-	-	4,222,084	4,222,084
Financial assets						
Loans and receivables						
Trade and other receivables	6(b)	61,425	-	-	-	61,425
Cash and cash equivalents	6(a)	319,937	-	-	-	319,937
Total financial assets		381,362	-	-	-	381,362
Financial liabilities						
Fair value - hedging instruments						
Interest rate swaps used for hedging	12(a)	1,262	-	1,262	-	1,262
Other financial liabilities						
Interest bearing liabilities	6(d)	1,010,853	-	-	-	1,010,853
Trade payables	6(c)	88,978	-	-	-	88,978
Total financial liabilities		1,101,093	-	1,262	-	1,101,093

(i) Fair value hierarchy and accounting classification (continued)

Level 1: The fair value of instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Disclosed fair values

The carrying amounts of trade receivables and payables, bonds, banking facilities, cash and short term deposits equates approximately to their fair values due to their nature and are carried at amortised cost.

All investments in shares are held at cost.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the current or the previous financial year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The present values and discounted rates used were adjusted for counterparty and own credit risk and are not considered a significant input.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- The fair value of infrastructure assets is determined using risk adjusted discounted cash flow projections based on reasonable estimates of future cash flows.

(d) Fair value measurements (continued)

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 30 June 2015 and 30 June 2016 for the Group:

	$'000
Opening balance 1 July 2014	**4,077,219**
Additions	401,236
Loss included in expenses	(25,525)
Depreciation	(168,424)
Changes in fair value included in other comprehensive income	(62,422)
Closing balance 30 June 2015	**4,222,084**
Additions	173,359
Gain included in expenses	3,015
Depreciation	(176,093)
Disposals	(7)
Change in fair value included in other comprehensive income	(197,514)
Closing balance 30 June 2016	**4,024,844**

(iv) Valuation inputs and relationships to fair value

The following table summarises the information about the significant unobservable inputs used in level 3 fair value infrastructure asset measurements. See (ii) above for the valuation techniques adopted.

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the cashflow forecasts for each business unit which is comprised of the relevant CGUs. Risk adjustments are made and terminal value calculations are completed on a probability basis.	Forecast annual revenue, Maintenance and capital expenditure, Risk-adjusted discount rate	The estimated fair value would increase (decrease) if; the annual revenue growth rate were higher (lower), if maintenance and capital expenditure were lower (higher); or the risk-adjusted discount rate were lower (higher). Generally a change in the annual revenue growth rate is accompanied by a directionally similar change in maintenance and capital expenditure.

(v) Valuation processes

The Group calculates the fair value for infrastructure assets using the income method approach, whereby the measurement reflects current market expectations of future cashflows discounted to their present value for each cash generating unit that would be considered reasonable by a normal market participant. The estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the business risk.

ARTC's policy is to revalue on a triennial basis or in an intervening year if the fair value of the revalued asset class differs materially from its carrying amount. Property, plant and equipment reviews are undertaken annually to ensure significant movements are identified and accounted for. At 30 June 2016 the Group undertook a fair value assessment on an income method approach as there are no similar market quoted assets. The net present value of the cash flows for each business unit is compared with the current carrying value and any significant variance is taken to the financial statements.

The main level 3 inputs used by the Group for this process are derived and evaluated as follows:

- The Interstate business unit comprises the East West and North South CGU's, the underlying cash flows are compiled on the basis that the CGU's operate as a combined Interstate business unit.
- Due to the long life of the asset base of the business, cash flows are considered for the shorter of mine life or 20 years.
- Expected cash flows are based on the terms of existing contracts, along with the entity's knowledge of the business and assessment of the likely current economic environment impacts, adjusted to account for an expected arm's length market participant's view of cash flow risks.
- Growth rates for income are derived from the underlying contract data, GDP growth rates, inflation estimates and pricing assumptions. Long term average growth rates used range from 0.8% to 4.9% (2015: 1.6% to 5.0%).
- Discount rates are determined using an external expert assessment to calculate a post-tax rate that reflects current market assessments of the time value of money and the risk specific to the business providing a range of 6.8% to 7.2% (2015: 7.0% to 7.3%).

Summarised sensitivity analysis

For the fair values of infrastructure assets reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant would have the following effects:

	Fair Value Impact			
	2016		2015	
	Increase $'000	**Decrease $'000**	Increase $'000	Decrease $'000
Annual revenue (1% movement p.a.)	**153,423**	**(153,423)**	147,509	(147,509)
Maintenance and capital expenditure (1% movement p.a.)	**(58,491)**	**58,491**	(52,481)	52,481
Discount rate (1% movement)	**(662,818)**	**956,836**	(642,812)	917,716

NOTE 13
SUBSIDIARIES

Significant investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal non - operating subsidiaries in accordance with the accounting policy described in note 21(d):

Name of subsidiary	Country of incorporation	Equity holding	
		2016	2015
		%	%
ARTC Services Company Pty Ltd	Australia	**100**	100
Standard Gauge Company Pty Ltd	Australia	**100**	100

NOTE 14
CONTINGENCIES

The Group accounts for costs associated with rectifying rail access related incidents following their occurrence. Income from subsequent insurance and other recoveries are only recognised when there is a contractual arrangement in place and the income is virtually certain of being received. As a result, certain potential insurance and or other recoveries have not been recognised at year end, as their ultimate collection is not considered virtually certain.

NOTE 15
COMMITMENTS

(a) Capital commitments

At 30 June 2016, the Group has commitments in the order of $85.5m relating to the investment program that the Group will be undertaking in the Interstate and Hunter Valley business units in the coming years.

The scope of the work is over a range of projects along the corridor, with the focus on repairing, renovating and rebuilding the rail infrastructure assets to address rail's performance on the corridor.

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2016	2015
	$'000	$'000
Property, plant and equipment payable:		
Within one year	**83,399**	73,373
Later than one year but not later than five years	**2,082**	86,737
	85,481	160,110

(b) Lease commitments: Group as lessee

Non-cancellable operating leases

The Group leases various offices and warehouses under operating leases expiring within one to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2016	2015
	$'000	$'000
Commitments in relation to leases contracted for at the end of each reporting period but not recognised as liabilities, payable:		
Within one year	**9,455**	8,987
Later than one year but not later than five years	**18,006**	19,267
Later than five years	**3,037**	2,321
	30,498	30,575

(c) Lease commitments: Group as the lessor

The Group has entered into various property leases with terms of the lease ranging from one year to indefinite. The future minimum lease payments receivable under operating leases are as follows:

	Consolidated	
	2015	2014
	$000	$000
Within one year	**6,058**	5,899
Later than one year but not later than five years	**8,650**	9,223
Later than five years	**9,302**	8,662
	24,010	23,784

NOTE 16
DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were Directors of ARTC during the financial year:

(i) Chairman Non - Executive

- Dr H Nugent AO (appointed 3 August 2015)

(ii) Executive Director

- J Fullerton Chief Executive Officer

(iii) Non - Executive Directors

- L Di Bartolomeo (end of term 29 June 2016)
- J Bonnington
- G Brown (reappointed 30 June 2016)
- V Graham (appointed 8 March 2016)
- P Catty (end of term 17 March 2016)
- B Cotter (end of term 17 March 2016)
- C Barlow (appointed 2 May 2016)

(b) Key Management Personnel

Title	Name
Chief Executive Officer	J Fullerton
Chief Financial Officer	A Bishop
Executive General Manager Strategy & Corporate Development	S Ormsby
Executive General Manager Interstate Network	P Winder
Executive General Manager Hunter Valley	J Vandervoort
Executive General Manager People	J McAullife
General Counsel and Company Secretary	G Carney
Executive General Manager Enterprise Services	T Ryan
Executive General Manager Corporate Affairs	J Lavender-Baker

(c) Remuneration of Directors and Key Management Personnel

	Consolidated	
		Restated
	2016	2015
	$	$
Short term employee benefits	**4,300,460**	3,947,905
Post - employment benefits	**217,197**	200,318
Other long-term benefits	**520,587**	541,963
Termination benefits	**-**	267,920
	5,038,244	4,958,106

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

The 30 June 2015 number has been restated to include other long term benefits as required by the accounting standard.

NOTE 17
REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Consolidated Entity, its related practices and non-related audit firms:

Audit and other assurance services

	Consolidated	
	2016	2015
	$	$
Audit services		
The following total remuneration was received or is due and receivable, by the Australian National Audit Office in respect of its services, including those performed by its contractors Ernst & Young for auditing the financial report of the entity in the Group	**260,000**	260,000
Other assurance services		
The following total remuneration was received or is due and receivable, by the Australian National Audit Office in respect of its services, including those performed by its contractors Ernst & Young relating to fees for Infrastructure Investment Grant Audit	**10,000**	10,000
Total remuneration for audit and other assurance services	**270,000**	270,000
Other services		
The following total remuneration was received or is due and receivable, by Ernst & Young relating to fees for the review of the programme business case in relation to the Inland Rail Proposal	**-**	32,475
Total remuneration for other services	**-**	32,475

NOTE 18
RELATED PARTY DISCLOSURES

(a) Ultimate controlling entity

ARTC is the ultimate Australian parent entity within the Group and the ultimate controlling entity of the Group is the Commonwealth Government.

(b) Directors

A Director related entity includes any legal, administrative or fiduciary arrangement, organisational structure or other party, including a person, having the capacity to deploy equity instruments in order to achieve objectives. The entity must be under joint or overall control or significant influence of a Director or his/her related parties.

Other than those listed below, there were no other related party transactions with Directors at year end (2015: $ nil).

ARTC Chairman, Dr Helen Nugent was a Director of Origin Energy Ltd during the financial year. ARTC has a commercial relationship with Origin Energy Ltd as an Access Holder in the Hunter Valley. As a Non-Executive Director, she had no direct involvement in the negotiation of the Access Holder Agreement with ARTC (2015: nil).

ARTC Director, Mr Chris Barlow was a Director of Asciano Ltd during the financial year, a freight logistics company that the Group has a commercial relationship with. As a Non-Executive Director he had no direct involvement with the Group's dealings with Asciano Ltd, of which Pacific National is a subsidiary company. The Group deals with Asciano Ltd under normal commercial terms and conditions. Mr Barlow received no information nor did he participate in any discussions relating to Asciano or any of its competitors (2015: nil). Mr Barlow retired from Asciano on 19 August 2016.

ARTC Director, Mr Lucio Di Bartolomeo was a Director and Chairman of Macquarie Generation during the financial year. ARTC has a commercial relationship with Macquarie Generation as an Access Holder in the Hunter Valley. As a Non-Executive Director, he had no direct involvement in the negotiation of the Access Holder Agreement with ARTC (2015: nil).

There were no loans to Directors at year end (2015: nil).

NOTE 19
SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Both the Interstate and Hunter Valley business units were affected by protected industrial action during August 2016. Unions issued notices of action as part of negotiations underway for the NSW Enterprise Agreement which covers 528 staff in NSW. The action took the form of work bans and most significantly a series of 24 hour stoppages which caused major disruption to ARTC passenger, coal and freight operator customers. The Agreement was put to a vote of employees in mid-August 2016 and a majority of employees voted to approve the Agreement. The protected industrial action ceased after this vote. At the time of signing, the Agreement has been lodged at the Fair Work Commission for certification under the Fair Work Act.

No other events have occurred after the balance sheet date that should be brought to account or disclosed in the year ended 30 June 2016 financial statements.

NOTE 20
PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the Parent entity (Australian Rail Track Corporation Limited) show the following aggregate amounts:

	2016	Restated 2015
	$'000	$'000
Balance sheet		
Current assets	**200,131**	409,569
Non-current assets	**4,627,944**	4,833,621
Total assets	**4,828,075**	5,243,190
Current liabilities	**260,117**	435,729
Non-current liabilities	**1,084,552**	1,207,568
Total liabilities	**1,344,669**	1,643,297
Net assets	**3,483,406**	3,599,893
Shareholders' equity		
Contributed equity	**2,603,226**	2,603,226
Reserves	**1,023,845**	1,134,895
Retained earnings	**(143,665)**	(138,228)
Capital and reserves attributable to owners of Australian Rail Track Corporation Ltd	**3,483,406**	3,599,893
Total revenue and other income	**855,253**	858,101
Total expenses	**(621,334)**	(626,549)
Finance costs	**(42,141)**	(43,518)
Income tax (expense)/benefit	**(74,212)**	(53,436)
Profit/(Loss) for the year	**117,566**	134,598
Other comprehensive income, net of tax		
(Devaluation)/Revaluation property plant and equipment	**(138,260)**	(43,695)
Re-measurement gains/(losses) on defined benefit fund obligations	**(5,437)**	3,678
Cash flow hedge charged to equity - interest rate swap	**884**	1,277
Net changes in the fair value of cashflow hedges transferred to profit and loss	**19**	22
Other comprehensive income for the year, net of tax	**(142,794)**	(38,718)
Total comprehensive income, net of tax	**(25,228)**	95,880

(b) Contingencies of the parent entity

The parent entity accounts for costs associated with rectifying rail access related incidents following their occurrence. Income from subsequent insurance and other recoveries is only recognised when there is a contractual arrangement in place and the income is probable of being received. As a result, certain potential insurance and or other recoveries have not been recognised at year end, as their ultimate collection is not considered probable.

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2016, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $85.5m (2015: $160.1m). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2015:

- AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality. This removes the guidance of materiality from Australian Accounting Standards. This is not expected to have an impact on ARTC financial accounts.

- ASIC has replaced Class Orders with Legislative Instruments. Apart from the change of reference from a Class Order (CO 98/100 Rounding in Financial Reports and Directors' Reports) to a Legislative Instrument (ASIC Corporations Rounding in Financial/Directors' Reports Instrument 2016/191) there is no impact of the making of the Rounding instrument. The Rounding instrument continues with the same effect and conditions of the class order on which it is based: CO 98/100.

The adoption of these standards and ASIC Legislative Instruments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations which may be relevant to the Group are set out below.

(i) AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially changed approach to hedge accounting. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018 but will require retrospective adjustments for the 2017/18 comparative disclosures. The Group does not currently intend to early adopt and will continue to monitor its position, particularly around hedging requirements to determine whether early adoption will provide any financial benefits.

The Group is yet to undertake a detailed assessment of the impact of AASB 9. However, based on a preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. AASB 15 establishes a new revenue recognition model, changes the basis for deciding whether revenue is to be recognised over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018 but will require retrospective adjustments for the 2017/18 comparative disclosures. The Group does not currently intend to early adopt.

The Group is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the preliminary review of the five steps, the standard is not expected to have a material impact on the transactions and balances recognised in the financial

statements when it is first adopted for the year ending 30 June 2019.

(iii) AASB 16 Leases

AASB 16 replaces AASB 117 Leases and some lease-related Interpretations. AASB 16 requires all leases to be accounted for on balance sheet by leases with minor exceptions, provides new guidance on the application of the definition of lease and on sale and lease back agreements, largely retains the existing lessor accounting requirements and requires new and different disclosures about leases. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 but may require retrospective adjustments for the 2018/19 comparative disclosures. The Group does not currently intend to early adopt.

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the preliminary assessment, there are some likely impacts when it is first adopted for the year ending 30 June 2020 including:

- Significant increase on the administration requirements of leases,
- Increase in the number of lease assets and financial liabilities recognised on the balance sheet, although the quantum is likely to be small in relation to the size of the balance sheet,
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments and interest on all lease liabilities will now be included in financing activities, although the quantum is likely to be small in relation to the total operating and financing cash flows.

AASB 16 is a new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Early adoption of this standard is permitted only if the Group has adopted AASB 15 Revenue from Contracts with Customers.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

There are no other standards that have been issued or amended but are not yet effective that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Parent entity financial information

The financial information for the Parent entity, Australian Rail Track Corporation Ltd, disclosed in note 20 has been prepared on the same basis as the consolidated financial statements.

(d) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Australian Rail Track Corporation Ltd (''Company'' or ''Parent entity'') as at 30 June 2016 and the results of the controlled entities for the year then ended. Australian Rail Track Corporation Ltd and its controlled entities are referred to in this financial report as the "Consolidated Entity" or "the Group". The effects of all transactions between entities in the Consolidated Entity are eliminated in full.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Australian Rail Track Corporation Ltd and are not material to the Group.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable the economic benefit will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

(f) Access revenue

Access revenue recognised comprises amounts received and receivable by the Group granting operators access to the rail network during the year.

(g) Interest revenue and borrowing expenses

Interest revenue and borrowing costs are recognised as they accrue using the effective interest method. This is a method of calculating the amortised cost of a financial asset or liability and allocating the interest and other costs over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

(h) Recoveries and expenses associated with rail access related incidents

Income attributable to insurance or other recoveries arising from rail access related incidents is only recognised where a contractual agreement is in place and receipt of amounts outstanding is virtually certain. Costs of rectification are recognised when incurred.

Where the Group has suffered damage to its rail network due to other parties, the recourse is commercial negotiation and, if not successful, legal proceedings are initiated, as appropriate.

Potential liabilities and assets are reviewed throughout the year and finalised at reporting date for inclusion in the financial statements. Inclusion of liabilities or assets relating to rail access related incidents occurs where the Group can reliably measure costs or recoveries.

(i) Government grants

The grants received primarily arise from rail projects delivered under the Infrastructure Investment Programme, including the Inland Rail Project, to improve efficiency and safety of the National Land Transport Network. Previously the Company has been awarded other grants from the Government of Victoria and other state funded projects. Grants from the government are recognised at their fair

value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Where the grants have attached conditions and/or are project specific, they are recognised at their fair value and initially credited to deferred income upon receipt, then recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Where those grants relate to expenditure that is to be capitalised, they are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets from the date of commissioning. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the periods in which expenses are recognised e.g. Inland Rail Project.

(j) Infrastructure maintenance

Infrastructure maintenance of infrastructure assets is classified as major periodic maintenance if it is part of a systematic planned program of works, occurs on a cyclical basis and is significant in monetary value. Major periodic maintenance may include significant corrective works, component replacement programs, and similar activities and these costs are expensed.

(k) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income and any adjustments in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax liabilities (DTLs) are recognised for all taxable temporary differences between the carrying amount of assets and liabilities for financial reporting and the amounts used for taxation purposes.

Deferred tax assets (DTAs) are recognised for all deductible temporary differences, carry forward of unused tax offsets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax offsets and losses can be utilised.

Division 58 of the Income Tax Assessment Act 1997 ("Division 58"), has entitled the Group to value certain assets, for taxation purposes, using pre-existing audited book values or the notional written down values of the assets as appropriate. This effectively means the tax depreciable value of these rail infrastructure and related assets significantly exceeds the carrying value. Accordingly, Division 58 results in significant deductible temporary differences and potential DTAs. The carrying amount of DTAs is reviewed at each reporting date and adjusted to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised.

DTAs and DTLs are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. DTAs and DTLs are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the DTAs and DTLs relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Australian Rail Track Corporation Ltd and its wholly owned Australian controlled entities consolidated for income tax purposes as of 1 July 2003.

The head entity, Australian Rail Track Corporation Ltd and the controlled entities in the income tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the stand alone taxpayer approach, consistent with the requirements of Interpretation 1052, in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the income tax consolidated group. In addition to its own current and deferred tax amounts, Australian Rail Track Corporation Ltd also recognises the current tax liabilities (or assets) and the DTAs arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(l) Leases

Group as a lessee

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which substantially all the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 15(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the lease.

Group as a lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

(m) Inventories

Inventories are valued at lower of cost and net realisable value. Cost is assigned on a first in first out basis.

(n) Property, plant and equipment

Fair Value

The fair value for infrastructure assets is calculated using the income method approach, whereby the measurement reflects current market expectations of future cashflows discounted to their present value for each asset grouping that would be considered reasonable by a normal market participant. The estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the business risk.

Fair value assessments are only applied to infrastructure assets on the basis that non-infrastructure such as motor vehicles, information technology and other non-infrastructure assets are transferable within

the Group and have a short life and a ready market. The written down value of these assets is in line with their fair value.

All other property, plant and equipment are stated at historical cost less accumulated depreciation, and any accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Revaluation

The Group's infrastructure assets were revalued as at 30 June 2016. Infrastructure assets are shown at fair value (inclusive of revaluations and impairments) less accumulated depreciation, based on periodic, but at least triennial revaluations.
Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the consolidated balance sheet, except to the extent that it reverses a revaluation decrement of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement (net of tax). Revaluation increments and decrements recognised are allocated to the infrastructure asset carrying amounts within the asset grouping on a pro rata basis.

At the commencement of the application of Australian International Financial Reporting Standards the Group has elected that the deemed cost of assets on hand at 30 June 2005 is the revalued amount of those assets. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Items of property, plant and equipment are either derecognised on disposal or when no further future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated income statement. Upon disposal or derecognition, any revaluation reserve relating to the asset is transferred to retained earnings.

Impairment

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any indication exists, then the asset's recoverable amount is estimated. An impairment expense is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds it recoverable amount.

As the Group applies fair value valuations to most non-financial assets, the carrying value will be the fair value which is the estimated recoverable amount and therefore a separate impairment calculation is not required. See note 4(iii).

Cost

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation

Land is not depreciated. The cost of improvements to or on leasehold properties is amortised over the expected lease term or the estimated useful life of the improvement to the Group, whichever is the shorter. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Maximum Economic Useful Life*

Infrastructure assets

Ballast	60 years
Bridges	40 years
Culverts	100 years
Rail	110 years
Sleepers	70 years
Signals & Communications	30 years
Turnouts	60 years
Tunnels	50 years

Non-Infrastructure assets

Buildings	50 years
IT & Other equipment	4 years
Motor vehicles	5 years
Other equipment	40 years

** Depending on the age and location of particular assets, the economic life may vary. The maximum economic useful lives are reviewed at the end of each financial year and adjusted if required. The current year review resulted in a maximum useful life change for turnouts from 15 years to 60 years arising from extended life of turnout componentry. The impact on future years is impracticable to determine to a sufficient level of certainty. It has not been necessary to adjust useful lives of turnouts capitalised as Infrastructure assets are adjusted through the fair value altering the cost base and depreciation rates applicable to the individual assets.*

(o) Capital work in progress and capitalisation

Work in progress comprises expenditure on incomplete capital works. Expenditure on the acquisition of new infrastructure assets is capitalised when these new assets increase the net present value of future cash flows.

Infrastructure assets in the course of construction are classified as capital work in progress. Capital works in progress are recorded at cost, and are not depreciated until they have been completed and the assets are ready for economic use.

(p) Intangible assets

Computer software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of computer software over its estimated useful life of four years.

Under lease arrangements, ARTC may provide funds to other bodies to acquire additional land holdings to enable the infrastructure to be expanded. ARTC is not entitled to be reimbursed for this expenditure but has the right to use the land. The land rights have a finite useful life expiring in conjunction with the relevant lease and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of land rights over its estimated useful life.

Other intangible assets relate to contractual rights in relation to a wholesale access agreement which provides a pricing cap over the third party infrastructure asset between Kalgoorlie and Perth which completes track access between the east and west coast of Australia.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid and are measured at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

Due to their short term nature they are not discounted.

(r) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date.

(s) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long term obligations

The liability for long service leave and associated on-costs is accumulated from the date of commencement. They are measured at the amounts expected to be paid when the liabilities are settled and discounted to determine their present value. Consideration is given to expected future wage and salary levels with an allowance for expected future increases.

As not all annual leave is expected to be taken within twelve months of the respective service being provided, annual leave obligations are classified as long term employee benefits in their entirety. Annual leave is measured on a discounted basis utilising corporate bond market rate as per the G100 when discounting employee benefit liabilities.

(t) Financial Instruments

The Group's principal financial instruments comprise receivable, payables, borrowings, bonds, cash, funds on deposit and derivatives.

Non-derivative financial assets

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. Receivables comprise cash and cash equivalents and trade and other receivables. Cash and cash equivalents in the balance sheet includes cash on hand, funds on deposit with financial institutions, other short term, highly liquid investments with original maturities of 180 days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments in shares are held at cost and reviewed for impairment.

Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date and derecognised when contractual obligations are discharged, cancelled or expired. Such liabilities are recognised at fair value less any directly attributable transaction costs, subsequently measured at amortised cost using the effective interest method. Other financial liabilities comprise loan facilities (see note 12), bonds, bank overdrafts and trade and other payables.

Derivative financial instruments

The Group can hold derivative financial instruments to hedge its foreign currency and interest rate risk exposures. On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to hedged risk and whether the actual results of each hedge are within a range of 80 - 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Derivatives are recognised initially at fair value, any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognised in other comprehensive income and presented in equity, unless ineffective in which case the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are transferred to the consolidated income statement in the periods when the hedged item affects profit or loss (for instance when the delivery of the goods hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging the imported goods is recognised in the consolidated income statement within 'infrastructure maintenance'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as infrastructure maintenance in the case of goods relating to maintenance, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this 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 consolidated 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(v) Defined benefit plan

ARTC is a member of the following superannuation schemes: State Authorities Superannuation Scheme (SASS), State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS).

The schemes are all defined benefit schemes where at least a component of the final benefit is derived from a multiple of the member's salary and years of membership. All schemes are closed to new members.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

The defined benefit asset or liability recognised in the consolidated balance sheet represents the present value of the defined benefit obligation, less the fair value of the plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The corporate bond market rate as per the G100 is utilised when discounting employee benefit liabilities as of 30 June 2016.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Going concern

The consolidated financial statements have been prepared on a going concern basis, as the Director's consider that the Group will be able to meet the mandatory repayment terms of banking facilities 6(d) and other amounts payable.

At 30 June 2016, the Group has a net deficiency of current assets to current liabilities of $53.0m (2015: $19.1m). Notwithstanding this deficiency, the Directors remain confident that the Group will be able to meet its debts as and when they fall due. The Directors are of the opinion that the financial statements are appropriately prepared on a going concern basis having regard to the following:

As at 30 June 2016

- The Group has net assets of $3,490m (2015: $3,607m)
- The Group generated cash from operating activities of $445m (2015: $457m)
- The Group expects to continue to generate positive cash flows from operating activities in the next twelve months
- The Group has $355m of unutilised funds available through a Syndicated Debt Facility Agreement (2015: $240m) (as detailed in note 12(c))
- The Group engages in active financial risk management and an established debit capital market programme which are subject to ongoing governance at Committee and Board level (as detailed in note 12)

DIRECTORS' DECLARATION 30 JUNE 2016

In the Directors' of Australian Rail Track Corporation Ltd.'s ("the Consolidated Entity") opinion:

(a) the consolidated financial statements and notes set out on pages 50 to 108 are in accordance with the Corporations Act 2001, including:

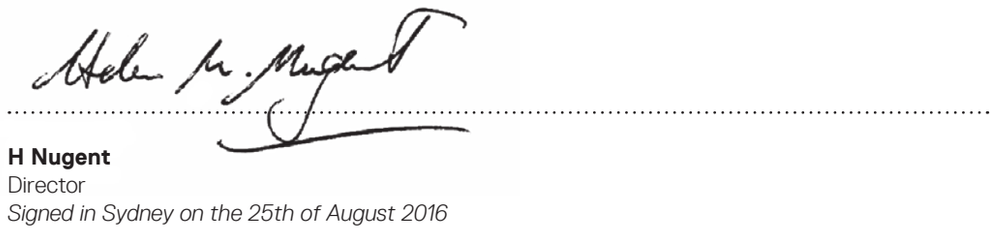
(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the year ended on that date, and

(b) the financial statements and notes set out on pages 50 to 108 are also in accordance with the international financial reporting standards issued by the International Accounting Standards Board; and

(c) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



H Nugent
Director
Signed in Sydney on the 25th of August 2016

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of Australian Rail Track Corporation Ltd

Report on the Financial Report

I have audited the accompanying financial report of Australia Rail Track Corporation Ltd, which comprises the Consolidated balance sheet as at 30 June 2016, the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity and the Consolidated statement of cash flows for the year then ended, Notes comprising a Summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity comprising the Australia Rail Track Corporation Ltd and the entities it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the financial report of Australia Rail Track Corporation Ltd is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Report

The directors of Australia Rail Track Corporation Ltd are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Australian National Audit Office

Clea Lewis

Clea Lewis

Executive Director

Delegate of the Auditor-General

Canberra

25 August 2016

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