

ARTC Statement of Corporate Intent

2015/16

ARTC





STATEMENT OF CORPORATE INTENT 2015/16

Chairman's Message

ARTC's mandate from Government is to increase the freight volume carried on our network while operating as a sustainable commercial enterprise.

This Statement of Corporate Intent summarises ARTC's Corporate Plan and provides a high-level overview of the key business environment challenges being faced by ARTC and the strategies being put in place to manage those challenges and deliver on the Government's mandate.

The business environment being faced by ARTC in developing its Corporate Plan is characterised by challenging conditions across both the general freight and bulk markets. Volumes in the general freight market are being influenced by both the general slowdown in the economy and changes in its structure, which is creating a lower growth environment for ARTC's primary markets. While coal volumes are continuing to grow, ARTC has now delivered adequate capacity to accommodate contracted volumes. Accordingly the forward investment program in the Hunter Valley is now smaller than in recent years. At the same time, the ceiling rate of return will be reset from 1 July 2016 and in the current low interest rate environment is likely to be set at a lower rate. In these circumstances it is unlikely that ARTC will be able to sustain the same level of growth in earnings that it has achieved over the past five years.

This has reinforced the need for ARTC to continue to develop as a more customer oriented organisation and to focus on cost management, and accordingly the key initiatives in the Corporate Plan are around the internal transformation of the Company. The Board considers that these initiatives will allow ARTC to continue to build on its considerable track record of achievement since it was established in 1998.

On 11 May 2015 the Minister for Finance announced a scoping study in 2015-16 on options for the future management, operations and ownership of ARTC. The Company will work cooperatively with the Shareholders to support the work of the scoping study. However, ARTC's focus will remain firmly on managing the business and on implementing its Corporate Plan.

ARTC's Statement of Corporate Intent is prepared for paragraph 95(1) of the Public Governance, Performance and Accountability Act. It has been prepared for the 2015/16 financial year and covers the reporting period 2015/16 to 2019/20. No other legislation has been identified as being specifically applicable to the preparation of ARTC's Corporate Plan.

Lucio Di Bartolomeo
Acting Chairman

ARTC

The Australian Rail Track Corporation (ARTC) is a company incorporated under the Corporations Act. Our shares are owned by the Commonwealth of Australia which is represented by the Minister for Infrastructure & Regional Development, and the Minister for Finance.

ARTC was created as a result of the Commonwealth and mainland State Governments Inter-Governmental Agreement in 1997 for the establishment of a “one-stop shop” for rail operators seeking access to the interstate standard gauge rail network between Brisbane and Perth.

The purpose of ARTC is to provide 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; and
- Promoting operational efficiency and uniformity on the rail network.

ARTC is one of Australia’s largest rail network owners operating and managing over 8,500 kilometres of standard gauge track in South Australia, Victoria, Western Australia, New South Wales and Queensland. Our core competencies include access management, network control, rail infrastructure planning and management, signalling and communications, as well as offering expert advice in developing rail transport solutions to customers.

ARTC plays a critical role in the transport supply chain and in the overall economic development of Australia. Our rail network is used to move a range of commodities including general freight, coal, other bulk minerals and agricultural products. Our network is also important in providing access for interstate and inter-city passenger services. Access to ARTC’s network, including price setting, is regulated through access undertakings to the ACCC.

Any ARTC activities that expand beyond the existing network or into new functions are to be agreed with our Shareholders in order to comply with the objectives outlined in ARTC’s constitution (clause 2.1) and the Commercial Freedoms Framework.

ARTC does not have any community service obligations and has not received any Ministerial directions.

Business Strategy

Three years ago, ARTC set out on a course to transform its business from being heavily focused on project delivery to being focused on serving our customers. This organisational transformation was considered essential to be able to realise the full benefit of the transformation that had been achieved in the physical condition and capability of the Interstate and Hunter Valley rail networks.

Progress toward this goal is now becoming evident. ARTC initiated its first ever customer satisfaction survey in 2013 where it achieved a score of 57%. The 2014 survey returned a score of 63%, exceeding our target of 60%. Building a customer focused organisation is a medium term project and we will be continuing to judge our progress by continuously lifting customer satisfaction over time.

In mid-2014 the organisation established a formal process to deliver the transformation project. The overarching goal of the transformation process is to “make rail the mode of choice by improving customer satisfaction, employee engagement and company profitability.”

The first major change resulting from this process was the introduction of a refined business structure effective from September 2014. Central to the new structure is the need to ensure that the two operating business units, Interstate and Hunter Valley, have the appropriate responsibilities and resources to be able to service their customers’ needs and be held accountable for their performance. The two business units need to be supported by service divisions that are effective, reliable and add value.

ARTC’S VISION IS TO:

MAKE RAIL THE MODE OF CHOICE IN THE NATIONAL LOGISTICS CHAIN

On 1 December 2014, ARTC launched its new corporate image, including new logo. This was an important element of the brand stream of transformation and will help the company convey an image that is appropriate to its role in the industry and a company committed to customer success. The new corporate image builds on the new company values launched in late 2013.

The 'Effectiveness and Efficiency' stream is currently a key focus of the transformation workplan. The purpose of this stream is to ensure that ARTC is delivering the most appropriate outcomes for its stakeholders by doing the right things in the right way. The project aims, in conjunction with other transformation streams, to encourage a cultural change from a compliance culture to one focused on continuous improvement.

The effectiveness and efficiency project has become increasingly important to the organisation in light of changes in the external environment. Two years ago it started to become apparent that the economic environment was softening. Over the past year, the economic headwinds have intensified with significant declines in coal and iron ore prices, little to no growth in the general freight market and a poor agricultural season in some districts.

There is now reasonably clear evidence that the absolute decline in manufacturing in Australia, and the increasing volume of freight being shipped direct to the city of final consumption rather than through a national distribution centre, is being reflected in a largely stagnant general freight market.

The winding down of the construction phase of the mining boom, particularly in Western Australia, has materially impacted on freight volumes on ARTC's key East West corridor. Both the North South and East

West corridors are showing essentially no growth during 2014/15.

The decline in coal prices is also translating directly into a change in focus in the Hunter Valley. Producers are now primarily focused on cost of production. While volumes are continuing to grow and a number of mine expansions continue to be considered, a number of higher cost mines have closed and medium term volume expectations are declining. The primary focus for the Hunter Valley coal industry is now on how to reduce the cost per tonne of transport rather than facilitating growth.

In this context, ARTC is not anticipating a significant capital program for the Hunter Valley during the next five years. Forward capital is now dominated by projects to support productivity growth in the coal chain as a whole.

The decline in the price of iron ore has also had a significant impact on ARTC with the two iron ore traffics that had been operating across the ARTC network both suspending operations.

While a number of initiatives are being considered to mitigate the decline in ARTC's traditional growth drivers, it is too early to assess to what extent these can mitigate the broader economic pressures.

ARTC has a number of other important initiatives underway:

- The Australian Government has asked ARTC, under the guidance of the Inland Rail Implementation Group, to progress the delivery of the Inland Rail project within a 10-year timeframe.

STRATEGIC OBJECTIVES

ARTC's six strategic objectives reflect the key focus areas and are aimed at providing long term value to our customers and Shareholders.



OUR VALUES

ARTC's values and behaviours were created to excite and inspire our people and form the foundation on which we are transforming the ARTC. Values influence behaviour, and we recognise that establishing a culture that values and supports diverse and broad thinking, customer focused decision making, accountability and responsibility is fundamental to achieving the strategies outlined in this Statement of Corporate Intent.



In our world, safety is everything. We care about people, environment and communities. It doesn't matter how big or small, doing things safely means doing things right.

Behaviours

- We take care
- We look out for each other
- We find safe ways



Future thinking is in our DNA. It's how we innovate, change the game and break through challenges and barriers. We're leaders who think differently; curious and skilful, we challenge the status quo.

Behaviours

- We find solutions
- We embrace excellence
- We think bold, not old



We care about what matters and we're committed to the success of our customers, stakeholders and employees. We ask questions, listen and respond to needs. We're always on the front foot and actively engaged.

Behaviours

- We take initiative
- We pay attention
- We respect one another



We deliver results. We're driven by results because they lead to progress. Determined to make rail the mode of choice for freight, we work together to achieve personal, organisational and industry-wide results.

Behaviours

- We set and measure goals
- We promote and recognise performance
- We focus on success

The past year has seen ARTC devote considerable resources to developing the Business Case for Inland Rail, with a particular emphasis on refinement and more detailed costing of the route. Inland Rail is expected to significantly grow rail's competitiveness against road and divert significant quantities of both interstate and agricultural freight from road to rail.

- ATMS is a communication based safeworking system being developed by ARTC as a lower cost and safer alternative to conventional signalling systems. ARTC is now well advanced with stage 1 of the implementation of ATMS, field application on the line between Port Augusta and Whyalla. Attention is now being directed toward firming-up the planned roll-out of ATMS across the network.
- An increasing amount of attention is being directed to the regional and cross-metropolitan markets. ARTC has seen good growth in regional import / export containers over recent years and believes that there may be further opportunity to grow this business, particularly out of the Riverina and North West NSW regions. Specific business development managers have now been appointed to pursue these opportunities.
- ARTC's customers and State Governments have been keen to develop the cross-metropolitan container market particularly in Sydney and Melbourne. ARTC believes that the infrastructure is now largely in place to be able to capitalise on

this opportunity and is now turning to look at what specific operational initiatives are required to remove barriers to success in this market.

- ARTC's safety performance has shown good improvement over a long period. Further progress is highly dependent on culture. Employees need to look out for themselves and others and to be prepared to act appropriately when they identify potentially unsafe situations. Across ARTC the safety performance of individual groups varies widely. The challenge for ARTC is to capture the qualities of the high performing groups and embed them across the organisation.

Accountability & Reporting

The ARTC Board has responsibility for the performance of the company and is fully accountable to the Shareholders. The Board is required to provide:

- A Corporate Plan on an annual basis to cover a period of minimum four years;
- Quarterly progress reports;
- Other reports as requested by the Shareholders; and
- An Annual Report in accordance with the Corporations Act.

ARTC will comply with the Commonwealth Government Business Enterprise Governance and Oversight Guidelines, the Public Governance Performance and Accountability Act 2013, and meet the notification requirements under the agreed Commercial Freedoms Framework, as well as meet all relevant regulatory requirements.

On a quarterly basis, regular progress reports against both financial and operational performance are provided to our Shareholder representatives. At this time, consideration is also given to any key items of strategic interest.

Human Resources Strategy

ARTC has had a successful industrial relations strategy over many years with a key objective being the growth, efficiency and effectiveness of ARTC as a competitive, value-added element of the national land transport logistics network and making rail the mode of choice in the national logistics chain.

Where ARTC requires change to continue to ensure a profitable, customer focused, competitive and efficient operation, constructive consultation with relevant stakeholders is considered to be a critical and important part of the process.

ARTC at all times complies with all relevant industrial related legislation in the development and execution of its industrial relations strategies. ARTC will continue to provide regular updates to Shareholder representatives on the progress of the Enterprise Agreement negotiations.

Risk Management

ARTC continues to support, promote and actively advance effective and cyclical risk management as a crucial element of the organisation and an integral part of achieving its strategic objectives and corporate vision.

ARTC's business risk profile is aligned to the key risk categories of Safety, Assets, Financial, Environmental, Regulatory and Reputation (S.A.F.E.R.R).

ARTC's goals for risk management are:

- To manage risk to enhance safety at work and to support efficient business operations and achievement of our strategic goals;
- To reduce or eliminate where possible, the risks that impact the safety of employees, contractors, customers and members of the public, so far as is reasonably practicable; and

- To manage financial and business risks to ensure the commercial performance of the Company meets corporate goals and continues to foster positive and productive relationships with stakeholders and Shareholders.

Investment Strategy

ARTC's investment programs over the past ten years have been structured around the business intent of its corridors, together with an overarching network-wide plan for systems. These programs are:

Hunter Valley: To provide capacity to meet contracted volumes and domestic coal requirements.

Interstate: To achieve a step-change in rail's competitiveness in the North South intermodal market and to maintain rail's strong competitive position in the East West market.

Signalling and Communications: To move to a communications-based safeworking system on a modern, network-wide telecommunications platform.

ARTC's investment since 2004 has incorporated:

- ARTC's commitment of \$872 million in investment as part of the NSW lease;
- Three untied grants from the Australian Government totalling \$820 million;
- Dramatic growth in the scale of the Hunter Valley commercial investments, commensurate with the growth in forecast demand;
- The Nation Building stimulus package announced in December 2008, providing \$1.189 billion of equity in the network;
- A further equity injection of close to \$1 billion announced in the May 2010 Federal Budget; and
- Various other smaller investments, including ATMS, Auslink funded projects and projects undertaken on behalf of the States.

A feature of ARTC's investment over the past 10 years has been to bring the interstate network up to an appropriate mainline standard. This process is now largely complete. With the downturn in the general freight market, the loss of iron ore traffic and stabilising demand in the Hunter Valley, ARTC has also slowed its forward capacity investment program. As such, ARTC does not have a significant capital investment program driven by capacity or asset condition for the five years of the Corporate Plan period.

The focus of ARTC's forward capital is primarily directed toward improving train productivity.

Key projects that ARTC is continuing to progress are:

Hunter Valley

- Completion of the Kooragang Arrival Road stage 2 project now under construction including signalling upgrades Hexham – Kooragang recommended by the HVCCC to increase network reliability in the KCT terminal area.
- Staged roll-out of ATMS, subject to development of a business case based on productivity benefit that is attractive to the coal industry.
- The ARTC network control optimisation (ANCO) project to increase productivity through upgraded network control and train information systems at a preliminary estimate of \$30 million, subject to industry approval of a business case.

Interstate

- Inland Rail, in accordance with the Australian Government's request for ARTC to develop the Inland Rail project with a view to its construction within 10 years, with initial funding of \$33 million being provided by the Government as a grant.
- Five loop extensions to 1800 m between Melbourne and Adelaide at a cost of \$15 million to provide adequate capacity for the introduction of unrestricted operation of 1800 metre trains, and to be funded by a reallocation of Productivity Package funding not previously spent.

- Roll-out of ATMS, subject to the development of funding solutions.
- Port Botany Rail Line upgrade phase 3, a \$75 million project primarily focussed on remediating poor track condition following ARTC's take-up of the line in late 2013, funded through the Infrastructure Investment Program.

Capital Management

ARTC's capital structure has been developed with consideration to the capital investment program, funding options and in consultation with the Shareholders.

ARTC maintains a combination of \$A bonds issued on the Australian Domestic Market and Syndicated Debt Facilities in support of the major works investment program.

The forecast dividend payout ratio is calculated at a rate of 30% of Adjusted Net Profit after Tax for 2014/15, increasing to 50% for 2015/16 - 2016/17 and to 60% thereafter.

Financial Results

Key financial results for 2013/14 and forecast results for 2014/15 are shown in the table below. Forecast 2014/15 outcomes exceed the targets established in ARTC's 2014/15 Corporate Plan.

FINANCIAL RESULTS¹	2013/14 Actual	2014/15 Forecast²
Operating Revenue (\$m)	767.3	857.3
EBITDAI ³ (\$m)	404.7	430.0
Net Profit After Tax before Dividend (\$m)	127.6	175.8
Dividend	36.0	57.4
Net Assets (\$m)	3,567.0	3,686.4
Return on Capital Employed	6.6%	6.8%

¹ Forecast end of year result based on February 2015 management accounts

² 2014/15 does not include any Fair Value or Impairment adjustments as these are only determined at financial year end as part of annual audited accounts preparation

³ EBITDAI = Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment

For more information on ARTC, including copies of Annual Reports, please refer to ARTC's website:

www.artc.com.au

Refer to the "Latest News" section on ARTC's website for up to date information, press releases and other important announcements from ARTC.

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