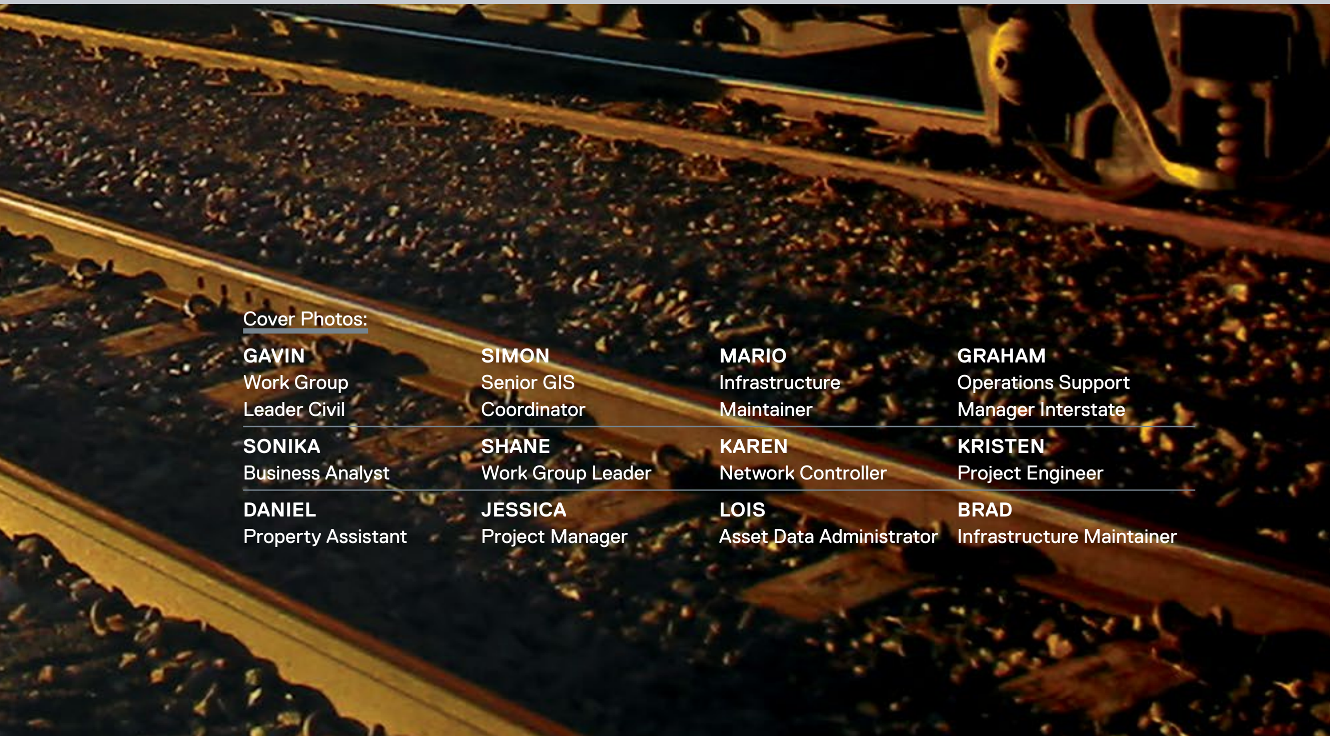
# 2018 Annual Report

Australian
Rail Track
Corporation

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

> OUR NETWORK CONNECTS CAPITAL CITIES, REGIONAL CENTRES, MINING PRECINCTS AND MAJOR PORTS WITH THE INDUSTRIES AND MARKETS THAT DRIVE AUSTRALIA'S ECONOMY.



Cover Photos:

| | | | |
|---|---|---|---|
| **GAVIN**<br>Work Group Leader Civil | **SIMON**<br>Senior GIS Coordinator | **MARIO**<br>Infrastructure Maintainer | **GRAHAM**<br>Operations Support Manager Interstate |
| **SONIKA**<br>Business Analyst | **SHANE**<br>Work Group Leader | **KAREN**<br>Network Controller | **KRISTEN**<br>Project Engineer |
| **DANIEL**<br>Property Assistant | **JESSICA**<br>Project Manager | **LOIS**<br>Asset Data Administrator | **BRAD**<br>Infrastructure Maintainer |

# CONTENTS

# ABOUT US

## WHO WE ARE

We are one of Australia's largest freight rail network owners with 20 years of experience in operating, maintaining and building rail infrastructure.

Each day, across five states, our network transports intermodal containers, agricultural products, general freight and passenger services, as well as hundreds of thousands of tonnes of coal and minerals. This gets freight off roads which reduces congestion, is good for the environment and improves safety for motorists and communities.

We continue to meet the changing needs of our customers – rail operators and coal companies – and are committed to the health and safety of our people, the environment and local communities in which we operate.

## WHAT WE DO

We were established to modernise rail in Australia. Our experienced team has delivered billions of dollars worth of investment to revive our rail network, providing the transport and logistics industry with a safe and reliable network to support the many industries that Australia's economy depends on.

We work with rail operators to provide access to rail for businesses and producers across Australia and through this, we manage the seamless, safe transit of hundreds of freight and passenger trains across our network every day.

We are also building the Inland Rail route between Melbourne and Brisbane. This will transform the transport supply chain, providing a world-class rail network capable of meeting Australia's long-term freight needs.

We manage over

**8,500 km**

of standard gauge track

We maintain our network out of

**27 provisioning centres**

We employ over

**1,300 people**

We manage the transit of around

**500 trains**

per day on the network


Patrick, Property Consultant

ABOUT US

Miranda, Infrastructure Maintainer

# OUR PURPOSE

Improve Australia's productivity by making rail the mode of choice in the national logistics chain

## OUR VALUES

### NO HARM

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

### ACTIVE ENGAGEMENT

We act with integrity 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.

### FUTURE THINKING

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.

### RESULTS DRIVEN

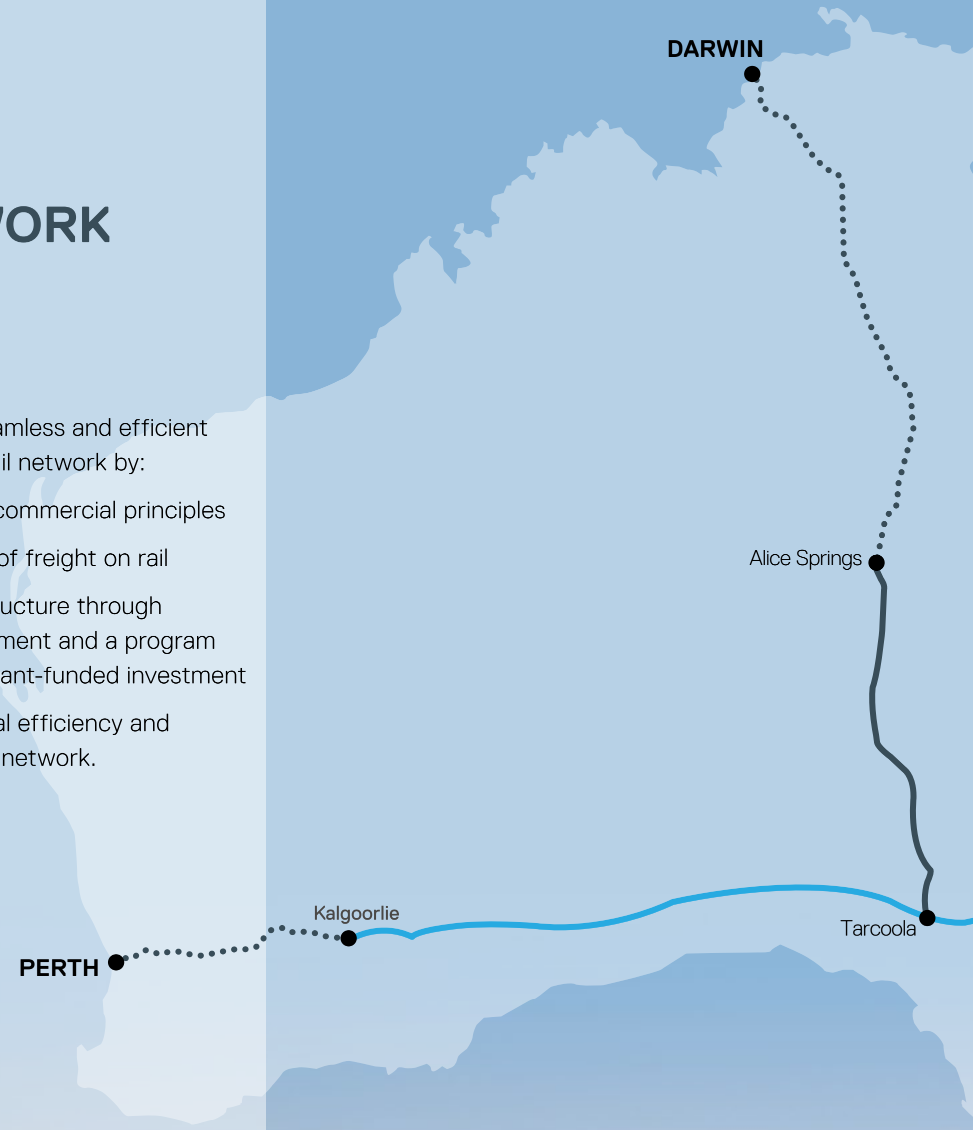
We deliver results. We're driven by results because they lead to progress. Determined to make rail the mode of choice for freight, we work together to achieve personal, organisational and industry-wide results.

# OUR NETWORK

## OUR ROLE

Our role is to provide seamless and efficient access to users of our 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.





CAIRNS
BRISBANE
Toowoomba
Moree
Parkes
Broadmeadow
Newcastle
SYDNEY
ADELAIDE
Mile End
Junee
Wagga Wagga
Albury
MELBOURNE
ARTC Track
Inland Rail Route
Main Office
M
Network Control Centre
N
Alice Springs to Tarcoola: owned by ARTC but is on long-term lease arrangements
Interstate Rail Network (other owners)

"ARTC IS COMMITTED TO PROVIDING VALUE TO OUR SHAREHOLDER AND TO THE COUNTRY, AND IT HAS AGAIN SHOWN ITSELF TO BE A CAPABLE AND PROFITABLE COMPANY WITH A STRONG AND PROVEN BALANCE SHEET."

# CHAIRMAN'S OVERVIEW

The Directors and I are pleased to present Australian Rail Track Corporation's (ARTC) annual report and financial statements for the 2017–18 financial year.

Since joining ARTC as Chairman in April, I have been impressed by the organisation's significant capability to deliver a wide range of initiatives in support of its customers and the industry, and which ultimately support the growth and competitiveness of our country.

Over the course of the year, this has been demonstrated by:

1. A strong financial performance and the company's continued capacity to create long term value to its Shareholder
2. The achievement of major milestones for the nationally significant Inland Rail project, establishing the framework to allow the start of construction
3. Remaining well positioned to deliver other major projects and further growth opportunities whilst managing the demands of successfully and safely operating a busy national business.

**Our continued strong financial position and underlying business operations help create long-term growth prospects**

ARTC is committed to providing value to our Shareholder and to the country, and it has again shown itself to be a capable and profitable company with a strong and proven balance sheet.

This has always been a core strength of ARTC's and despite challenging economic conditions and lower rates of return applicable to our Hunter Valley regulated assets, we were able to deliver dividend payments totalling $65.39 million during the 2018 year.

It's an ongoing challenge to ensure we successfully manage a profitable and commercially focused enterprise with the need to deliver major capital projects and policy initiatives on behalf of the Australian Government and for the benefit of industry over extended periods of time.

ARTC's balance sheet as at 30 June 2018 reflects total assets in excess of $4.8 billion and Shareholder equity in the business of more than $3.7 billion.

We have been able to leverage our significant asset base to continue delivering a sizeable investment program including beginning the Inland Rail project. Nearly $230 million in capital investments this year has included $153 million in the Interstate rail network and nearly $76 million in our Hunter Valley rail network, with significant further investment to come.

The largest investment is of course Inland Rail, which will bring substantial benefit to the country as outlined by the project's economic business case released in 2015 as well as long term benefits to ARTC post construction.

In addition to the $8.4 billion equity investment announced by the Australian Government in May 2017 ARTC will also prudently leverage its balance sheet and operating cash flows to contribute to the construction cost of this nation building project.

Given Inland Rail's scale, it is well understood that the project will have significant implications for ARTC's financial reporting in future years which will be the subject of ongoing review as the project develops.

**We have delivered on major milestones for Inland Rail this year, setting the foundations to start track construction of this nationally significant project**

Strategic, well planned investment in infrastructure is crucial to the long-term prosperity and productivity of our nation. Inland Rail will be an important demonstration of how the nation can benefit over the long-term from better transport networks.

It is the largest-ever nationally focused project dedicated to meet the freight needs of the country for the next century and beyond, and our Shareholders have identified the project as a primary policy objective.

To that end, we have made substantial progress this year.

Importantly Australian and State Government participation in the project has been assured with the Australian Government signing bilateral agreements with the NSW and Victorian governments to support the delivery of Inland Rail in March and April 2018 respectively. Discussions relating to the remaining bilateral agreement with the Queensland Government are progressed constructively.

These bilateral agreements are significant as they provide the framework to underpin the long-term commercial arrangements related to the project, as well as allowing ARTC to progress the substantial works program in these states.

We also worked extensively with our Australian Government Shareholders, the Department of Infrastructure, Regional Development and Cities and the Department of Finance, to finalise our governance arrangements for the project. This involved signing off on three major documents:

1. An equity financing agreement with the Australian Government, through the Department of Finance was agreed enabling ARTC to begin drawing equity financing to fund the remaining pre-construction activities and the first construction projects.
2. The Project Development Agreement between the ARTC and the Australian Government via the Department of Infrastructure, Regional Development and Cities articulating the roles and responsibilities of both parties to ensure the successful delivery of the project.
3. The Statement of Expectations issued by our Shareholder Ministers sets a clear framework for the project over the coming years.

Crucially, we recognise that Inland Rail must be a stakeholder driven project, rather than one purely focused on engineering delivery. While the project will deliver significant economic benefits to the nation, we understand that a project of this magnitude will have an impact on communities, landowners and businesses. Our commitment is to work with these groups to minimise potential impacts of the project where we can, but also make sure we maximise the benefits of the project to local communities.

Inland Rail will result in a sizeable shift in freight from road to rail as well as generate hundreds of millions of dollars' worth of other related policy benefits to the transport sector, environment, regional development and more.

It also creates long-term enterprise value for ARTC. Following its completion, Inland Rail will provide operating cash flow benefits from day one of operations, but in these early stages, our primary focus is to ensure timely delivery in collaboration with the private sector and hand-in-hand with community stakeholders and governments.

This is a focus area for the Board. We know that working closely with all of our stakeholders remains central to our capacity to deliver our work schedule. We are determined to strengthen these relationships in 2019.

**We continue to run a substantial business and separate to Inland Rail, ARTC is concurrently progressing more than $1 billion of investment that will enhance the network and make Australia more globally competitive**

These projects include the $252m Adelaide-Tarcoola re-railing upgrade; the $235m North East Railway Line upgrade in Victoria; the Advanced Train Management System project; the Port Botany Rail Line upgrade (Stage 3); the $40 million Goulburn to Sydney Re-railing Project; the $15 million Melbourne – Adelaide loops extension project plus major capital and maintenance delivery in the Hunter Valley and across the Interstate business.

One of the major highlights of the year was the Australian Government's commitment of $400 million in the 2018 Federal Budget to duplicate the Port Botany Rail Line and deliver the Cabramatta Loop in Sydney.

Port Botany rail line duplication specifically has been a long sought-after initiative by industry and these works will support Port Botany as it becomes Australia's largest container port by volume in the next 30 years.

The investment pipeline strengthens the national supply chain and delivers new capacity, reliability and operational benefits to our customers. It represents an ongoing commitment to increase the performance and productivity of the national freight industry and the Australian businesses that benefit as a result.

ARTC has responded promptly to these demands in addition to running a busy operational business and work is now underway to deliver these high priority initiatives.

**We continue to prepare the business for future demands**

2018 has been a pivotal year in the growth and evolution of ARTC. We have taken advantage of the opportunities of growing the business to plan for the future in many areas, but three warrant a special mention: the new safety strategy, improving community relations and updating the organisational structure.

The business takes pride in the way it has implemented its new three-year safety strategy, Pathway to Zero. The strategy has significantly lifted the awareness and engagement of the organisation around safety issues while also emphasising our leaders' core roles and building their capacity. This has achieved significant improvements in lead safety indicators as our people become increasingly focused on safety. We have won several safety awards in recognition of the advancements and successes that have been achieved.

We recognise that maintaining existing and building new rail networks impacts local communities and we are committed to working closely with them to ensure positive outcomes for everyone. In 2018, we have upgraded our community engagement capacity to work constructively with key stakeholders and the communities surrounding all of our work programs.

We have made changes to our organisational structure to strengthen our capability and position the company to support the delivery of Inland Rail without compromising the growth and success of our existing business.

The prospects for rail in Australia are extremely positive as governments across the nation see rail as essential infrastructure to deal with the challenges of rapidly increasing freight tasks, global competition, productivity, population growth, congestion, road safety and environmental well-being.

ARTC, as one of Australia's largest rail network owners, is well-positioned to respond effectively to these challenges.

ARTC has enjoyed another strong year, balancing significant growth and change. We have a large pipeline ahead of us as we start construction of Inland Rail, and advance other major construction works. While the performance this past year has been good, we are excited about the opportunities ahead.

I would like to thank the ARTC leadership team and all of our employees for their commitment and contribution to the task.

On behalf of the Board, may I also recognise and thank outgoing Board Chairman Dr Helen Nugent AO for her leadership of ARTC over the past three years and wish her well for the future.

I look forward to the year ahead.

**The Hon. Warren Truss**
Chairman

"...IN THE LAST TWELVE MONTHS WE'VE SEEN SIGNIFICANT PROGRESS ON NEW INITIATIVES THAT WILL HELP CEMENT RAIL AS THE MODE OF CHOICE IN THE NATIONAL LOGISTICS CHAIN AND FURTHER IMPROVE AUSTRALIA'S PRODUCTIVITY FOR THE NEXT 20 YEARS AND BEYOND."

# CEO'S OVERVIEW

It is a pleasure to deliver the 2018 annual report in what is a celebratory year recognising our 20th year of operation.

And it is fitting after two decades that saw us re-build, expand and modernise the national interstate rail network, that in the last twelve months we've seen significant progress on new initiatives that will help cement rail as the mode of choice in the national logistics chain and further improve Australia's productivity for the next 20 years and beyond.

This year we've seen marked success in our Pathway to Zero Safety Strategy, which is already creating a step change in our safety culture and delivering further improvement in our safety results. We continued to work closely with our customers to make rail more competitive, and we achieved a solid revenue result despite challenging market dynamics.

The most significant challenge experienced by the business over the past 12 months has been to move quickly to full project delivery mode for Inland Rail and finalise with our Shareholders the governance arrangements for the construction and financing of this major project of national significance.

We are pleased with the progress that has been made and are looking forward to the commencement of track construction between Parkes and Narromine in 2018.

**We launched our Pathway to Zero safety strategy which is already creating a step change in our safety culture**

In what continues to be a testament to the way our people have owned and responded to our safety vision, our three year Pathway to Zero safety strategy continues to deliver positive results.

Over the past five years we've steadily driven the development of our safety culture and improved our safety performance.

- The trends for all major metrics are falling, including Lost Time Injuries, Medically Treated Injuries, First Aid Notifications and total injury results.
- Our Lost Time Injury Frequency Rate (LTIFR) result dropped to 0.68 for every million hours worked, a great achievement, and the first time in our Company's history to record a number below 1. Our Medically Treated Injury Frequency Rate (MTIFR) was also its lowest ever at 4.07.
- Pathway to Zero has also driven a shift in focus from lagging indicators like injury frequency rates to leading ones, such as hazard reporting and safety observations. Our people are now reporting more and providing greater insight into safety performance than ever before.
- We have also commenced measuring our safety culture performance through routine surveys – giving us a regular 'pulse' of how we are performing.

- And, lastly, we delivered our Fatal and Severe Risks Program which has been an opportunity to focus and respond to the key risks faced by our people and institute the behaviours required to manage these.

In July we were delighted to receive the Safety Award at the Australasian Railway Industry Awards in Melbourne.

These results are enormously pleasing as we strive to ensure no one is harmed at work or on our network.

**We delivered a solid revenue result across most areas of the business while absorbing a range of challenging external factors**

Our operational revenue remained solid in 2018 – demonstrating the ongoing resilience of the underlying business.

I say this in light of it being a particularly challenging year with a major customer, Aurizon, exiting the interstate intermodal market in December 2017; mineral ore volumes in South Australia ceasing; and volume across most other cyclical market segments down.

While some freight has been lost to road, the Aurizon intermodal impact has, to a large extent, been mitigated by a transfer of rail volumes to the other two intercapital rail operators in Pacific National and SCT. The commencement of SCT services between Melbourne and Brisbane in January 2017 to complement their east-west operation to Perth was timely and we continue to work closely with both operators to pursue opportunities to grow this market by shifting freight from road to rail.

Changes in economic conditions and related adjustments under the Hunter Valley Access Undertaking in 2017 have seen a reduction in rates of return applicable for Hunter Valley regulated assets that also impacted the 2018 year financial results.

These adverse factors were partially offset by stronger than anticipated coal volumes, particularly from our customers in the Upper Hunter Valley and Gunnedah Basin. Volumes have been driven by a consistent demand for the high-quality thermal coal product in the Hunter Valley, and underpinned by a reliable, well-coordinated and efficient rail-based supply chain to which ARTC is a key and valued contributor.

We operate within a constantly changing business environment, and this is demonstrated by further changes to the ownership structure of coal assets in the Hunter Valley, with Yancoal acquiring remaining Rio Tinto Hunter Valley coal assets and then subsequently forming a joint venture with Glencore for the Hunter Valley Operations mine.

### Financial Performance

ARTC maintained a solid operating profit, cash flows and balance sheet position.

Profit results were below last year and the key factors are summarised below:

- Access Revenue for the year of $712.9 million was in line with last year ($713.8 million) reflecting the business conditions outlined earlier. Total revenue and other income of $831.0 million was slightly ahead of last year ($826.8 million) inclusive of the Benalla-Oaklands expenditures recovered as referenced below.
- Operating expenses excluding finance costs for the year increased by $57.1 million to $703.6 million (2017: $646.5 million), with the increase primarily due to:
  - Infrastructure costs relating to the requirement to expense costs on the Inland Rail project and the Adelaide-Tarcoola upgrade project.
  - Infrastructure maintenance costs relating to a wide range of minor track projects and the Benalla-Oaklands line project expenditures.
  - Impairment expenses related to the annual fair value assessment that resulted in the write-down of certain infrastructure assets on ARTC's Interstate network and early stage Inland Rail project expenditure.
  - A reduction in net incident expenses incurred net of insurance recoveries.
- Finance costs reduced by $5.6 million due to lower net borrowings and interest costs during year.
- Income tax expense increased by $20.8 million due to the impact of movement in non-cash timing differences on deferred tax balances.
- As a result of these items, Net Profit after Tax of $54.2 million was achieved, compared with $122.5 million the prior year. Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment (EBITDAI) for the year was $325.2 million compared to $364.6m in the prior year, demonstrating the continued strong underlying cash profitability of the business.

During the year ARTC received equity contributions of $143.4m (2017 $81.0m) from the Australian Government for the Adelaide-Tarcoola re-railing upgrade and the Inland Rail project which substantially funded the related expense items noted above.

**Operational Performance**

Operationally, Hunter Valley business performance remained strong, with 158 million tonnes of export coal transported to the Port of Newcastle for the year. This is slightly down on 2017 (163.4 million tonnes), largely due to one of our customers experiencing supply issues for part of the year.

Intermodal volumes on the Interstate network were down 4 percent compared to the year prior due to changes in the customer environment outlined earlier. While this resulted in revenue being flat this year compared to the 12 months prior, we see modest growth over the coming five years despite weakness in Western Australia and relatively flat economic conditions elsewhere.

This outlook is based on growing confidence in South Australian mineral exploration and strength in regional commodity exports.

**We have worked closely with our customers to make rail more competitive**

Our customers, across all parts of our network, remain central to the commercial success of our business and we continue to invest heavily in growing these relationships. We've been working closely with them to keep improving reliability and run time performance.

This has included targeted initiatives to support our passenger operator customers in the Southern Highlands of NSW and the North East Rail Line in Victoria. The initiatives include both targeted track maintenance activities, but also in-depth analysis of the causal factors impacting performance, and a close attention to the data informing these. We've experienced substantial improvement in performance as a result.

Pleasingly, as a consequence, our customer survey result findings continue to improve as our customers acknowledge improvements in both our customer service and our service offering. We have also been improving our operational efficiency to support customer growth and their productivity.

We started realising benefits from our Asset Management Improvement Program (AMIP) which is using a data-driven approach to be smarter about managing the lifecycle of our asset base.

In the Hunter Valley we are focused on making the network more efficient and on progressing initiatives that increase coal throughput.
A highlight for the year included the selection of our preferred technology partner – GE Technology – for the ARTC Network Control Optimisation project (ANCO).

The Advanced Train Management System also continues to progress with the system planned to enter into revenue operations between Port Augusta and Whyalla from mid-2019, and work to prepare the next track section for deployment between Tarcoola and Kalgoorlie now also underway.

Finally, we continue to explore new growth markets, including the cotton industry where we are now seeing cotton being transported in volume by rail for the first time out of the Riverina.

**We have made major steps toward delivering on the Inland Rail project and are working closely with the communities across the country**

Right across our stakeholder base, we have received clear and regular feedback about the opportunity and demand for the Inland Rail project and the criticality of ARTC delivering it.

This is a nationally significant project that will equip Australia with the core infrastructure it will need for the next 50 to 100 years, providing the freight pathways required for supply chains of the future and to move the goods that Australia consumes.

We've been working on the pre-construction phase of Inland Rail for a number of years, however following the Australian Government's decision in May 2017 to invest a further $8.4 billion of equity into ARTC to deliver the project, we've made significant strides in getting ready for construction.

A key milestone was achieved in January 2018 with the first delivery of steel rails to Peak Hill in NSW from the steel plant in Whyalla. This material along with the concrete sleepers being manufactured in Mittagong is being delivered to site in readiness for the commencement of track construction between Parkes and Narromine.

We are committed to delivering this project hand-in-hand with the community and in partnership with the private sector.

Working with the community is a priority, which over the last twelve months, has involved thousands of engagement opportunities:

- Making our team available to more than 2,400 community members attending hosted information sessions. Engaging with members of the community to understand how they can make the most out of the Inland Rail project
- Participating in more than 750 individual meetings with impacted landowners
- Working constructively through community concerns with Community Consultative Committees in Queensland, as well as establishing four in New South Wales
- Continued constructive industry conversations to ensure industry members are best prepared to meet the demands of the project
- Continuing our commitment to engage with concerned community groups, particularly in southern and northern New South Wales.

The team also continues to grow. We made a key appointment in engaging Richard Wankmuller as CEO for Inland Rail in April. Richard comes to us with 35 years' experience in CEO and Managing Director positions with some of the world's largest engineering and construction companies.

We also continue to bring in new expertise to the project team with more than 200 talented people now driving the project.

Crucially, the project has moved from a long-talked about 'idea' to becoming reality and we made important inroads to planning approvals and contracts, including:

- Receiving state environment and planning approval for the first construction component of the project between Parkes and Narromine
- Selecting the first supplier to construct that important section
- Finalising technical and approvals contracts for route design along the entire Inland Rail corridor
- Letting major supply contracts for sleepers, rail and quarry materials
- Starting the PPP process that will finance and deliver the most complex section of the network, Gowrie to Kagaru in Queensland, and also further advance our development plan.

It is a privilege to be given the responsibility to deliver Inland Rail, a project that after decades of discussion, has had a number of milestones completed in the last twelve months allowing construction to commence between Parkes and Narromine.

We are excited to continue this work into 2018–19.

**We have focused on positioning the business in the best possible way to meet our future demands**

With the advent of Inland Rail construction, an additional pipeline of more than $1 billion in other projects we need to deliver, as well as the ongoing changing business environment, we have had to comprehensively review our company strategy to ensure we continue to build the delivery capability while strengthening and growing our core business.

The three major areas of focus we have delivered include:

- Providing an environment that supports our people to achieve their full potential
- Respecting and creating value for our stakeholders and communities
- Strengthening our organisational systems and capability.

We are already seeing the benefits of some of these changes, including:

- Creating a Corporate Services and Safety Division, bringing a bigger emphasis to centralised enabling functions, such as technology, safety systems and procurement, which need to be managed differently as our organisation grows.
- Connecting the People and Corporate Affairs functions to elevate the importance of building and maintaining a healthy and capable workforce into the future.

- Progressing the implementation of our Workforce Diversity and Inclusion Strategy. We are proud that the percentage of women in leadership positions grew by 17.4 percent this year, and that at 22.4 percent, we've exceeded our current corporate target of having at least 22 percent of our workforce being women.
- We're also pleased that the proportion of Aboriginal and Torres Strait Islanders in our workforce increased to 2.4 percent this year. Although this percentage is high relative to many organisations, we want to improve on this, and have established a planning group to develop initiatives for the coming years.
- Strengthening our risk management and assurance capabilities. As our business requirements evolve, so must our risk management and risk assurance capabilities. This year, for example, saw us respond to the changing and increasingly sophisticated threat landscape to develop a Cyber Security Strategic Plan. This outlines our strategic intent to improve our overall cyber security position, enhance our capability to identify, protect against, detect, respond to and recover from cyber events or incidents.

Over the past twenty years we have built and established the foundations for a world-class rail network, and in the years ahead the projects we are driving, and change we are undergoing as a company, will help that become a reality.

That is only possible thanks to the dedication of the wider ARTC team and the support of our Shareholder, customers, stakeholders and community.

I look forward to embracing the challenges of the year ahead.

**John Fullerton**
CEO and Managing Director

# RESULTS SUMMARY

## OUR RESULTS AT A GLANCE

ACCESS REVENUE
(million dollars)

**$712.9**

EBITDAI
(million dollars)

**$325.2**

LTIFR*
(Lost Time Injury Frequency Rate)

**0.68**

MTIFR*
(Medically Treated
Injury Frequency Rate)

**4.07**

* Number of injuries for every million hours worked

EXPORT COAL TRANSPORTED
(million tonnes)

**158.0**

NON-COAL GROSS TONNE KILOMETRES (GTKs)
(transported on the Interstate network)

**58 billion**

CUSTOMER SATISFACTION SCORE
(2017 Customer Satisfaction Survey)

**7.2/10**

EMPLOYEE ENGAGEMENT
(2017 Employee Engagement Survey)

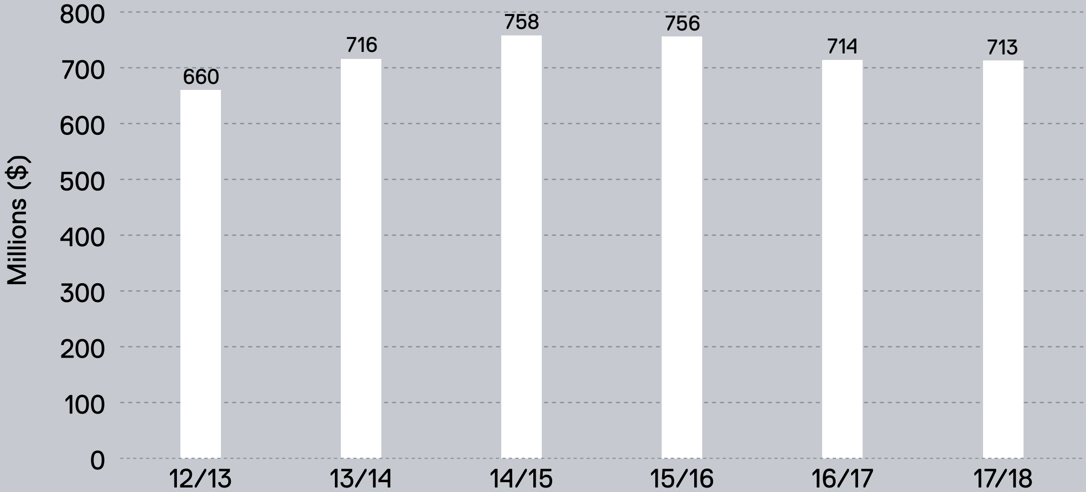
**73%**

# FINANCIAL SUMMARY

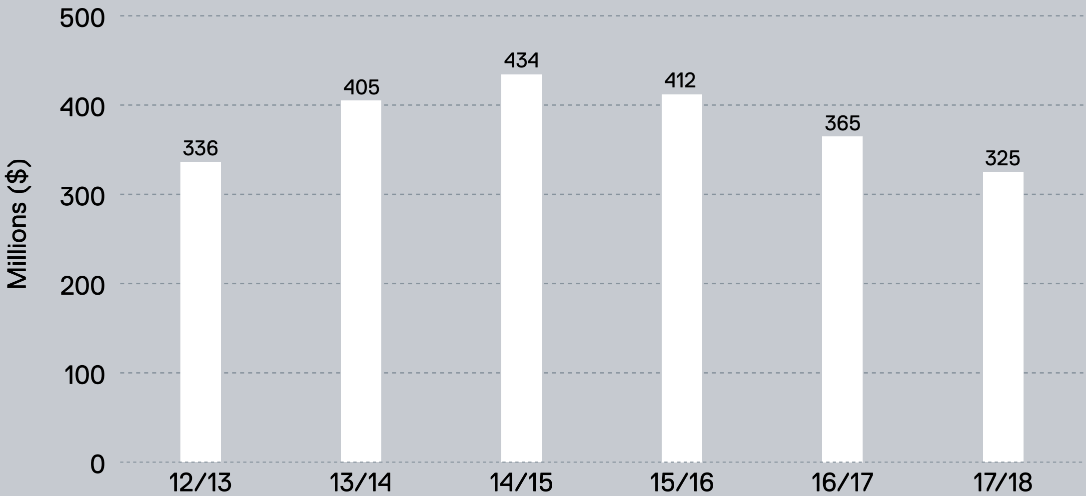
| | 2018 | 2017 |
|---|---|---|
| | $M | $M |
| Access Revenue | 712.9 | 713.8 |
| Other Revenue* | 105.4 | 102.7 |
| TOTAL REVENUE* | 818.3 | 816.5 |
| EBITDAI | 325.2 | 364.6 |
| Depreciation and Amortisation Expense | (185.5) | (188.6) |
| Impairment Reversal/(Expense) | (19.6) | (1.1) |
| EBIT | 120.1 | 174.9 |
| Net Finance Cost | (18.0) | (25.4) |
| NET PROFIT BEFORE TAX | 102.1 | 149.5 |
| Tax (Expense)/Benefit | (47.9) | (27.1) |
| NET PROFIT AFTER TAX | 54.2 | 122.4 |
| DIVIDEND PAID | 65.4 | 82.8 |
| TOTAL DEBT | 364.6 | 514.7 |
| SHAREHOLDER EQUITY | 3,678.7 | 3,514.3 |
| EBITDAI/TOTAL REVENUE | 39.7% | 44.7% |
| EBIT/TOTAL REVENUE | 14.7% | 21.4% |
| EBITDAI/SHAREHOLDER EQUITY | 8.8% | 10.4% |
| DEBT/DEBT + SHAREHOLDER EQUITY | 9.0% | 12.8% |

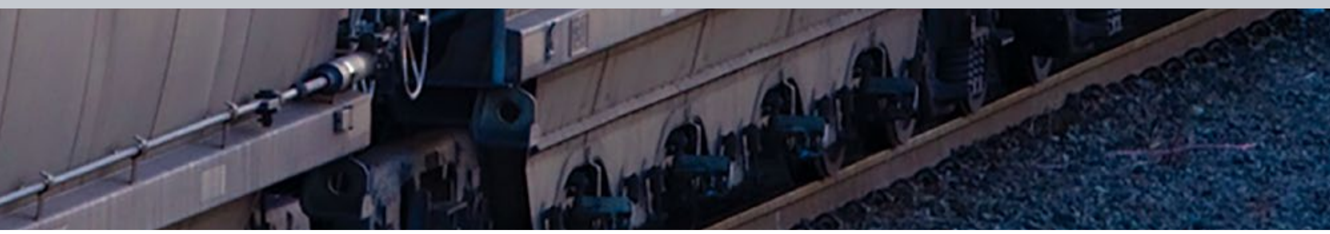
* Excluding interest received and insurance recoveries

## —ACCESS REVENUE SUMMARY




## —EBITDAI SUMMARY



# 1 OUR PERFORMANCE IN 2017–18

This section provides an overview of the progress, initiatives and milestones achieved over the past year for:

## INLAND RAIL

It was an exciting year for Inland Rail as we achieved some key milestones that take this project from concept to reality. These include the delivery of the first shipment of steel rail, sleepers and ballast, and the selection of a preferred tenderer for constructing the Parkes to Narromine section.

## HUNTER VALLEY

During the year we delivered improvements in our network's capability and reliability. At the same time, we progressed longer term improvement initiatives to further increase operating efficiency.

## INTERSTATE

Our focus this year was to further work with our customers and leverage new technologies to improve rail's overall competitiveness with road for moving freight. We've worked hard to grow and diversify our business base.

## SAFETY

The safety of our people and our customers is everything. This year we began implementation of a three-year 'Pathway to Zero' safety strategy, achieved significant improvements in our safety KPIs and won several safety awards.

## PEOPLE AND SYSTEMS

This year we've been making sure we have the right business capabilities in place, including our people, our culture and the way we manage risk and procurement.

## ENVIRONMENT

We remain committed to being a responsible rail track operator and good neighbour through minimising the impacts of our operations on the local environments where we operate. To this end, this year we've delivered a number of environmental initiatives.

# **INLAND RAIL:** MOVING TO CONSTRUCTION

Inland Rail will be a world class rail network connecting Australia that will help secure the country's future competitiveness and meet our long-term freight challenge. 2017–18 was an exciting year for Inland Rail as we achieved a number of key milestones that takes this project from concept to reality.

## MOVING TOWARD CONSTRUCTION

While the intensity of Inland Rail is set to ramp up in the future with construction peaking in the early 2020s, it's important that we lay the necessary foundations to ensure the project's success.

This year, the Australian Government confirmed the final study areas to progress engineering and environmental design and investigations. This enabled us to accelerate pre-construction activities and reach a key milestone of awarding Technical and Approvals Consultancy Services (TACS) contracts for all 13 projects that make up the overall Inland Rail Programme.

These contracts are for the development of engineering designs and Environmental Impact Statements, which are important steps towards obtaining formal planning approvals.

As a result, we progressed all 13 projects from Concept Assessment stage to Feasibility Design. We also progressed design and environmental approvals for the Parkes to Narromine section.

Major milestones for this project included:

- Delivery of the first shipment of steel rail in January. This steel was sourced from Liberty OneSteel's Whyalla steel mill and welded into long lengths at our Port Augusta facility.
- Delivery of the first concrete sleepers, ballast and culverts.
- We selected a preferred tenderer for construction for the Parkes to Narromine section.

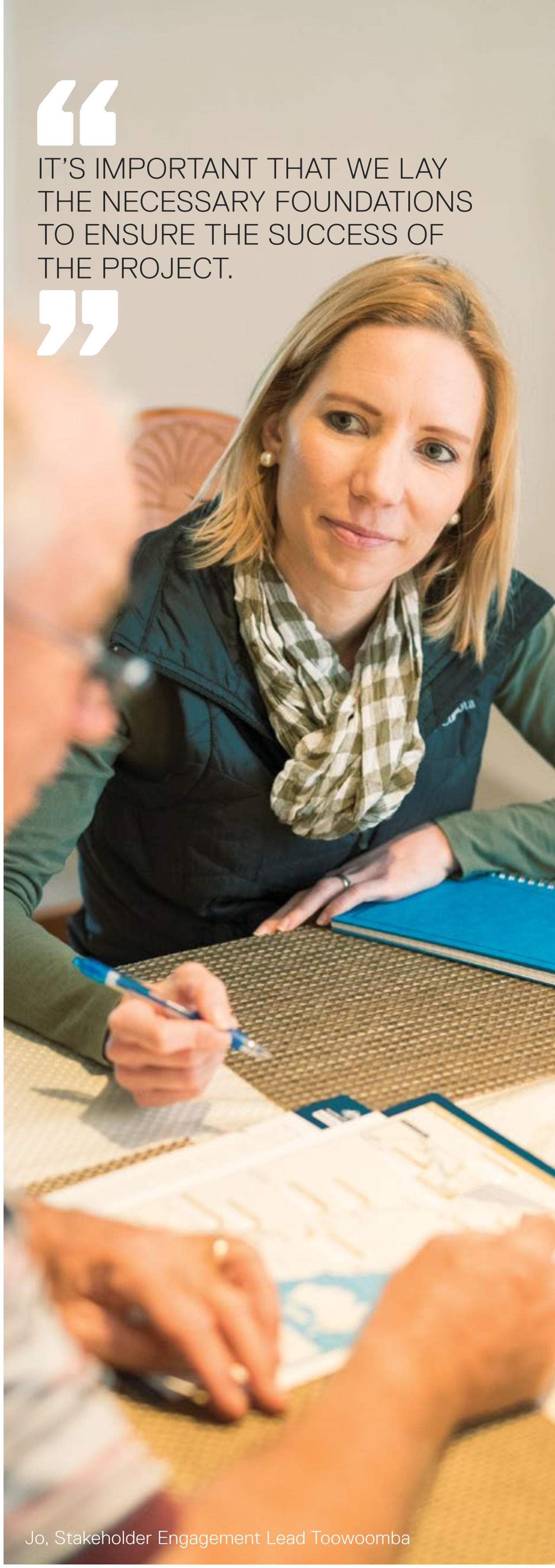
The Narrabri to North Star section of the project also progressed through the detailed design process and will be the second project to start construction.

We expect to complete Feasibility Designs and environmental impact statements (and equivalent planning and environmental approval processes) across all final projects over the next two to three years.

## FINALISING GOVERNANCE AND FINANCING ARRANGEMENTS WITH THE AUSTRALIAN GOVERNMENT

During the year, we finalised the governance and financing arrangements for the delivery of Inland Rail with the Australian Government. Under these arrangements, we began drawing equity financing to fund the remaining pre-construction activities and the first construction activities.

We also progressed arrangements for the Public Private Partnership (PPP) that will be used to deliver the most complex section of the network – Gowrie to Kagaru in Queensland. A dedicated project team is being established for the PPP, and the formal procurement process will commence towards the end of 2018, as well as the development of a detailed implementation plan. The project team also released the geotechnical work for the PPP component of alignment for Expressions of Interest with a view to having the data available prior to the Request for Proposal process of the PPP commencing.




Jo, Stakeholder Engagement Lead Toowoomba

## DEVELOPING BILATERAL AGREEMENTS WITH THE STATES

We continued to support the Department of Infrastructure, Regional Development and Cities in developing bilateral agreements between the Commonwealth and the governments of New South Wales, Queensland and Victoria. These agreements will set out the respective governments' commitments to progress the project, including support for critical matters such as corridor protection, land acquisition and long-term lease tenure to support the development of Inland Rail.

The Commonwealth signed an agreement with the Victorian Government in March 2018 and with New South Wales in May 2018, and expects to reach agreement in Queensland in the latter half of 2018. The bilateral agreements set a framework for the commercial agreements that we are putting in place with state entities for corridor acquisition, leasing arrangements and Inland Rail developmental activities.

## ENGAGING WITH STAKEHOLDERS AND COMMUNITIES

We're committed to working hand-in-hand with the landowners, local communities and stakeholders who will be affected by the construction and operation of Inland Rail.

As each of the 13 projects moves through its respective planning and engineering design stages it has been critical to ensure that each project has focused on the unique needs and issues of stakeholders relating to those projects.

We are focused on listening and responding to these concerns. We aim to ensure that we treat all our stakeholders fairly in order to build trust and understanding about our construction program. By learning about landowner and community concerns, we can help manage these communities and their environment, as well as maximise the opportunities offered by the project.

We've already conducted extensive community engagement across a large part of the alignment. The majority of communities are excited by what Inland Rail offers; but we recognise there are genuine concerns among sections of the project, particularly in 'Greenfields' sections of the project in northern New South Wales and southern Queensland.

We are committed to listening to these concerns, responding to them and engaging with these communities, many members of which are landowners who have generational connections to the land.

To this end, we've established and continue to build on a variety of engagement methods to enable formal and informal consultation with the community to inform and guide the successful delivery of the project.

We've also worked closely with landowners and negotiated Land Access Agreements for the corridors required in Queensland, New South Wales and associated with the existing rail corridor in Victoria. There are currently over 900 of these active agreements with landowners across the route for investigation purposes, and so far more than 96 percent of landowners approached have entered into an agreement.

We also established four independently chaired Community Consultative Committees (CCCs) to engage with the communities along the Queensland sections of the route that require a new rail corridor. These Committees are in the Inner Darling Downs, Southern Darling Downs, Lockyer Valley and Scenic Rim regions.

We're also establishing four CCC's in New South Wales, three committees for the 307km greenfield Narromine to Narrabri section of the Inland Rail project and a committee for the 37km greenfield North Star to New South Wales/Queensland border section.

Across New South Wales and Queensland we met face to face with landowners on more than 750 separate occasions and with another 2,400 through hosted information sessions.

In Victoria, while the project is still within early stages of the design and planning process, targeted landowner, Council and stakeholder discussions and community engagement sessions also commenced.

There is of course, widespread international and Australian business interest in this project, which is the largest rail freight project in the country's history – and over 1,200 industry representatives attended briefing sessions in May 2018; a further 300 had attended briefings in September 2017.

> “WE'RE COMMITTED TO WORKING HAND IN HAND WITH THE LANDOWNERS, LOCAL COMMUNITIES AND STAKEHOLDERS WHO WILL BE AFFECTED...”

## ENSURING COMMUNITIES BENEFIT FROM THE PROJECT

A social performance program was established during the year with an aim to ensure that the project delivers the best possible social benefits and minimises social impacts to the affected communities.

The program ensures we maximise social performance outcomes such as:

- Integrating stakeholder and community feedback into project planning and design processes
- Ensuring there is robust social impact assessment and impact management planning
- Embedding of social performance requirements in Inland Rail tenders and contracts
- Working with service providers and contractors to deliver social performance benefits
- Achieving direct wins such as ‘buying local’ wherever possible.

We’re working closely to align with Department of Infrastructure and Regional Development and Cities initiatives to ensure a coordinated approach to support is achieved, particularly in areas such as local and indigenous employment and business opportunities.

A program-wide Cultural Heritage and Indigenous engagement team was established through the year, as were functions in sustainability and social performance management.

## SECURING AN EXPERIENCED PROJECT TEAM FOR SUCCESS

As the project continues to build momentum, we’re also responding to the resourcing demands this requires. With an additional 78 ARTC employees being recruited to the project team over the last 12 months, the total number of Inland Rail resources has grown to over 230. This includes over 40 people dedicated to stakeholder communication and engagement activities.

Significantly, we also concluded a worldwide search and appointed a CEO Inland Rail, Richard Wankmuller, who commenced in April this year, reporting directly to ARTC’s CEO and Managing Director. This is in addition to the appointment of an experienced Director to lead the PPP component of the project.

> “AS THE PROJECT CONTINUES TO BUILD MOMENTUM, WE ARE ALSO RESPONDING TO THE RESOURCING DEMANDS THIS REQUIRES.”

# KEY MILESTONES

**NOV 2013** ARTC charged with developing a 10-year delivery plan for Inland Rail

**2014** Inland Rail Implementation Group first meets in March

**AUG 2015** Inland Rail Implementation Group released with Inland Rail program Business Case

**MAY 2016** Infrastructure Australia nominates Inland Rail as a Priority Project

**2016/ 2017** ARTC completed concept assessment of the 2015 Base Case

**MAY 2017** Australian Government commits $8.4 billion in equity to ARTC to deliver Inland Rail

**NOV 2017** All Inland Rail projects now have final study areas

**JAN 2018** First Delivery of Whyalla steel rail for Inland Rail at Peak Hill, NSW

**JUN 2018** ARTC appoints Inlink Joint Venture as first preferred construction contractor for Inland Rail

# WHAT HAS BEEN ACHIEVED

FOR ALL 13 PROJECTS:

Progressed from **Concept Assessment** stage to **Feasibility Design**

**Awarded** Technical and Approvals Consultancy Services contracts

FOR THE PARKES TO NARROMINE SUB-PROJECT:

**Progressed** design and environmental approvals

**Selected** a preferred tenderer for construction

The **first shipment** of steel rail delivered

The first concrete sleepers, ballast and culverts **delivered**

The NARRABRI TO NORTH STAR SUB-PROJECT **progressed** through detailed design process

# **HUNTER VALLEY:** IMPROVING OUR VALUE PROPOSITION TO CUSTOMERS

During 2017–18, we focused on improving Hunter Valley network's capability and reliability to enable our customers to move more coal. We also progressed longer term improvement initiatives to further increase the network's operating efficiency and engaged more with our local communities.

The success of our efforts is reflected in our sustained high coal throughput on the heavy haul coal sections of the network, our above average grain throughput despite adverse production, and our significantly improved service reliability for passenger train operators.

## IMPROVING OUR CAPABILITY AND SERVICE RELIABILITY TO MEET COAL CUSTOMER NEEDS WHILE CONTINUING TO FOCUS ON CAPACITY GROWTH IN THE OUTER NETWORK REGIONS

Our network operates with sustained periods of very high train traffic intensity. In the heavy haul coal sections the focus has been on getting the best use out of the network, as our coal customers sought to take advantage of the buoyant international price for thermal coal. We worked hard to improve reliability and deliver short-term improvements that helped these customers to achieve more throughput while market conditions were favourable.

To increase train running performance, we focused on enhancing train pathing and timetabling. We worked with the Hunter Valley Coal Chain Coordinator and above-rail operators to embed these changes and improve coordination and planning. We also worked quickly to resolve issues with some of our longer life bridge structures in the upper Hunter Valley.

Pleasingly, our latest customer survey revealed improved scores for value, performance, service and support. 70 percent of Hunter Valley customers cite an improvement in their overall experience with ARTC in the last 12 months when compared to the previous year.

## REDUCING PLANNED MAINTENANCE AND IMPROVING RELIABILITY

There are more than 250 bridges and culverts on the Hunter Valley network, including 28 steel bridges on the heavy haul coal sections. This year, we adopted a new approach to repair works that will help us to identify and address potential structural issues ahead of time. This will reduce the risk of future unplanned repair works, and minimise the impact of planned works on our customers.

We also continued to drive improvements in overall network reliability, together with supporting processes and tools. In addition, we progressed implementation of ARTC's Asset Management Improvement Program which will give us more comprehensive information about our assets to optimise our maintenance activities.

## WORKING TOWARDS A PRICE STRUCTURE THAT PROMOTES MORE EFFICIENT NETWORK USAGE

On 28 June 2018, the Australian Competition and Consumer Commission (ACCC) conditionally accepted our Hunter Valley Access Undertaking Variation. This promotes more efficient network utilisation by ensuring that the costs of incremental capacity are borne by those who cause them, and the price of capacity reflects the accessed path and is independent of the volume of coal shipped.


"THIS YEAR OUR COAL CUSTOMERS SOUGHT TO TAKE ADVANTAGE OF THE BUOYANT INTERNATIONAL PRICE FOR THERMAL COAL."

Deacon, Project Engineer

## IMPROVING SUPPLY CHAIN COORDINATION AND EFFICIENCIES FOR AGRICULTURAL CUSTOMERS

We continued to work with a cooperative of grain producers, regional councils and other service providers in the agri-sector to undertake a CSIRO-facilitated study. This study looks at infrastructure options for improving multi-modal freight movements in north west New South Wales. The study is considering how road and rail can work together to improve the competitiveness of the supply chain for agricultural products from this area.

We are also playing an active and ongoing role in planning and coordinating the daily/weekly rail operations for grain growers with rail operators and terminals. This will assist in moving agricultural products to the Port of Newcastle and improve the efficiency of the grain supply chain.

In addition, we continued to work with the Port of Newcastle to develop infrastructure solutions to align with the Port's future strategy around trade growth and diversification.

## PROGRESSING TECHNOLOGY-BASED INITIATIVES TO INCREASE OUR EFFICIENCY AND THE OVERALL COMPETITIVENESS OF RAIL

Over recent years, we've been developing several innovative technology-based projects. This year, we finalised a vendor contract with General Electric (GE) Transportation for the software solution Movement Planner. This software is the centrepiece of one of our initiatives – the ARTC Network Control Optimisation (ANCO) project that will transform the way we plan and operationally manage train paths, potentially saving tens of millions of dollars over the next 10 years.

When fully operational, ANCO will mean faster, more informed decisions can be made to better manage the flow of trains and all other activities on track, made possible by the use of real-time network and train data. This will drive improved network productivity and efficiency that will benefit the entire supply chain.

> "ANCO WILL TRANSFORM THE WAY WE PLAN AND OPERATIONALLY MANAGE TRAIN PATHS, AND POTENTIALLY SAVE TENS OF MILLIONS OF DOLLARS OVER THE NEXT 10 YEARS."

## ENGAGING WITH OUR LOCAL COMMUNITIES

We recognise that the movement of freight, particularly coal, on our Hunter Valley network has impacts on the many local communities and environments along its route. In 2017–18, we developed our first formal community engagement plan to ensure that we are open, friendly and helpful when we're working with community members, and we build genuine relationships with community stakeholders. Also important is the creation of shared value by providing improved community outcomes and community support.

During the year, our actions under the plan included:

- Reviewing the ways in which our community can provide feedback, and training our staff who work with the community so we can provide prompt and practical responses when community members raise matters that we can influence.
- Making improvements to our community notifications program to be more engaging and informative when it comes to major track work closedowns.
- Supporting and participating in local community events including AgQuip (Gunnedah) and Steamfest (Maitland).
- Being the major sponsor of the Central Northern Junior Rugby Union Kookaburras who competed in gala match events in a number of towns including Scone, Gunnedah, Moree and Tamworth.
- Increasing our community engagement by partnering with Landcare Australia to support a Landcare Junior Grant scheme across 29 schools along the Hunter Valley network.

We are the major sponsor of the Central Northern Junior Rugby Union Kookaburras


THE ENTIRE HUNTER VALLEY NETWORK NOW ALLOWS FOR 30 TONNE AXLE LOAD SERVICES.

Rebecca, Environmental Advisor

## UPGRADING OUR NETWORK

In 2017–18, we continued to upgrade the Hunter Valley network to improve customer service, increase efficiency, or enhance safety. Key capital projects completed or significantly progressed during the year include:

### 30 Tonne Axle Load project

September 2017 was an important milestone in the 30 Tonne Axle Load project, as the last of the 60kg rail and associated track strengthening infrastructure was installed. Although there are a few small portions of work remaining, this will mean the entire Hunter Valley network allows for 30 tonne axle load services which will continue to benefit our customers by providing greater reliability and service continuity into the future.

### Farley Bridge

We completed a project to replace Farley Bridge which passes over a busy road. It was replaced with an upgraded concrete and ballast top bridge structure with new steel spans that now meets the clearance requirements. This has helped to improve both the safety and reliability of our network.

### Gowrie Gates Bridge

We started construction on the project to replace Gowrie Gates rail bridge, which passes over the New England Highway at Singleton – a joint project with Roads and Maritime Services. With increased road width and clearance, it will remove significant safety risks and improve the reliability of the road and rail networks, adding value to the community and our customers. The project is expected to be completed in 2019.


3.17
3.17
3.17

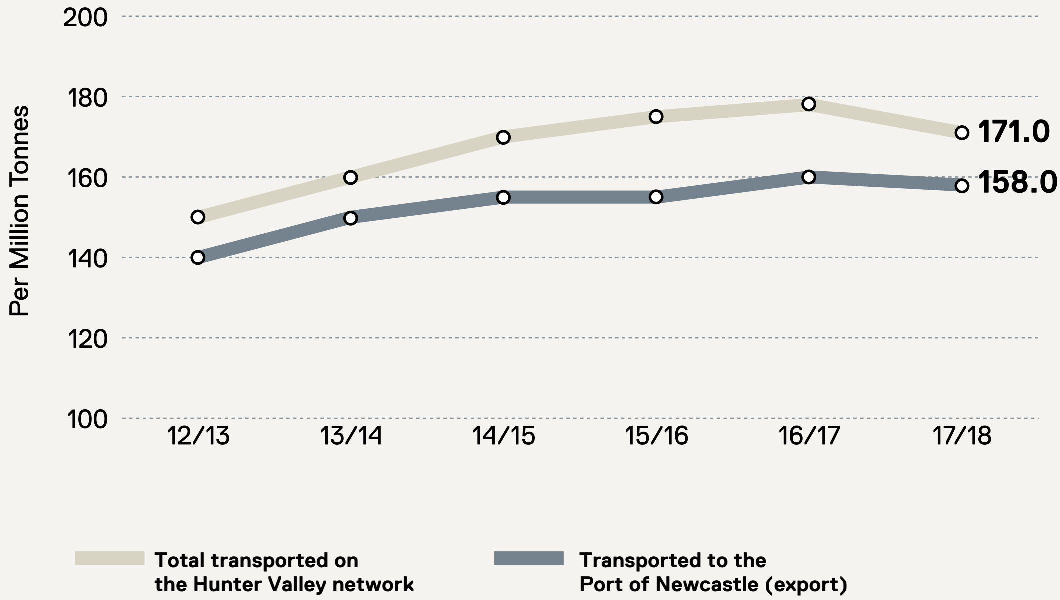

Gavin, Work Group Leader Civil

## $76 million
Capital investment in the Hunter Valley network 2017–18

## 269
The number of trains per day operating across our Hunter Valley network

## 171 million
Total coal tonnes transported on the Hunter Valley network

## — MOVEMENT OF COAL IN THE HUNTER VALLEY
(Million Tonnes)




# **INTERSTATE:** IMPROVING THE COMPETITIVENESS OF RAIL

Our focus for the Interstate network in 2017–18 was working with customers and leveraging new technologies to improve rail's overall competitiveness with road when it comes to moving freight. As a result of our efforts, our customers' perceptions of our value for money, service and support, and reputation continued to increase. Also, the volume of non-coal freight moved across the network remained steady.

While it was disappointing to see Aurizon, one of our major customers, decide to no longer participate in the interstate intermodal market, the Interstate Business Unit continues to work hard to grow and diversify its business base.

## COLLABORATING WITH CUSTOMERS TO IMPROVE OUR SERVICE

During the year, we worked closely with our customers and other stakeholders to better understand their needs and improve our service. For example:

- We worked with customers and adjoining network providers to identify productivity and efficiency improvements. As a result, we began installing a new electronic train path ordering system. This will enable rail operators who are planning a train journey across one or more networks to submit electronic train path requests rather than having to apply to each network provider separately. This will mean substantial time, cost and efficiency benefits for the overall supply chain.

“THE INTERSTATE BUSINESS UNIT CONTINUES TO WORK HARD TO GROW AND DIVERSIFY ITS BUSINESS BASE.”

> DURING THE YEAR WE WORKED CLOSELY WITH OUR CUSTOMERS AND OTHER STAKEHOLDERS TO BETTER UNDERSTAND THEIR NEEDS AND IMPROVE OUR SERVICE.

- We helped rail operators conduct a maintenance trial which uses actual condition data to plan rolling stock maintenance. This approach is more economical than the more traditional time or distance-based planning and will increase the safety, availability and reliability of our customers' rolling stock.
- We provided research support to customers who were testing different wheelsets, helping them to make significant cost savings without compromising safety or reliability.
- We worked with our customers to deliver more useful data and information and ways to access it. This means they now have access to real time train location information, which helps them improve their own operational performance.
- The Southern Highlands Goulburn to Sydney Re-rail Project is a $40M ARTC-funded project to re-rail 150km of track that is contributing to service delays, due for completion in June 2020. As a direct response to these delays, we continued to collaborate with NSW Trains to improve the quality of passenger services, both from a rolling stock, track and maintenance perspective. Work done to date has already greatly improved service performance in this area.
- We continued to hold twice-yearly Interstate customer forums. Our customers have told us these are extremely valuable and a fantastic opportunity to interact with other rail operators as well as ARTC staff.

## PURSUING EFFICIENCY AND PRODUCTIVITY GAINS

We continued to refine the way we plan and manage the Interstate network's track maintenance. This year, we made improvements to the planning, scheduling and dispatch of maintenance work, resulting in additional productive time on track for maintenance workers on a daily basis and is now embedded into our normal project and maintenance operations.

We also worked with customers to install additional Vehicle Track Interaction (VTI) units on selected train services, as well as a customised unit for monitoring the way passenger carriages interact with the track. These units provide us with objective data on track condition, which is useful for our planning, track maintenance program and prioritising maintenance works.

We continued implementing ARTC's Asset Management Improvement Program (AMIP), which is establishing the processes and systems we need to optimise our asset maintenance activities and deliver a full picture of asset condition, risk and cost. When fully implemented, AMIP will deliver a number of cost savings and efficiencies.

Advanced Train Management System (ATMS) will also vastly improve operations through increased capacity, operational flexibility, improved safety and system reliability. It will revolutionise the way we control trains through digital communications replacing traditional physical infrastructure. Progress this year has seen a continuation of lab and track-based testing. The remaining development and testing activities are planned for completion in mid-2019, leading to the first live operational running of the ATMS between Port Augusta and Whyalla commencing later that year.

## WORKING TO INCREASE RAIL'S SUPPLY CHAIN COMPETITIVENESS

As an industry leader we continued to actively promote policies and reforms that improve rail freight's competitiveness in the national logistics and supply chain industry. For example:

- We worked with our co-members of the Freight on Rail Group (FORG) to make an industry submission to the National Freight and Supply Chain Strategy Inquiry and provided input into state infrastructure and freight strategies.
- The Australian and state governments have committed to a Land Transport Reform process that includes potential changes to the way heavy vehicle operators are charged for the use of the road network. We continue to strongly support this important reform. We've engaged with governments and made submissions (both as ARTC and as part of FORG) to the independent pricing regulation on heavy vehicle charges process. We are pleased with the progress made during the year that included the Australian Government's acknowledgement that these reforms have the potential to deliver substantial net benefits to the Australian economy, and its announcement that a National Heavy Vehicle Charging Pilot will commence in 2018–19.
- We continued to engage with regional and interstate freight supply chains – including industry associations, governments, regional councils, intermodal terminal owners/operators, domestic freight forwarders and freight owners – to ensure that rail-based supply chain solutions are optimised.

## ENGAGING WITH OUR LOCAL COMMUNITIES

We are based in many local communities throughout our Interstate network and are mindful of the impact we can have through our operations. We regularly participate in local community events and causes to show our support and appreciation, this year included:

- Partnering with Landcare Australia to beautify railway land at Mile End in Adelaide. This involved working with the community, including a local school, to introduce native plant species to rehabilitate the degraded area.
- Donating $60,000 worth of steel rail for a new Rhino Enclosure at the Monarto Zoo in South Australia, a not-for-profit conservation that exists to save certain species from extinction and connect people with nature.
- Providing a shipping container to the Port Augusta Men's Shed to store their finished products in. We are also a proud supporter of the Wodonga Men's shed in Victoria which recently moved to a larger venue to cater for expanding demand.
- Participating in Henty Field Days with Transport for New South Wales to encourage safe rail behaviours in the community, particularly focused on acting vigilantly around level crossings.
- Supporting the Royal Flying Doctor Services (RFDS) 90th birthday as a silver sponsor for their celebration event in Port Augusta. The RFDS is an important service for our teams particularly for our employees in Port Augusta and Kalgoorlie who spend a lot of time working across the Nullarbor.

## UPGRADING OUR NETWORK

This year we continued to upgrade the Interstate network to improve service, efficiency and safety. Key capital projects completed or significantly progressed during the year include:

### Melbourne to Adelaide Loops

We completed this project to extend six loops between Victoria and South Australia. As a result, 1,800 metre trains can now safely stable and pass at these loop locations. We also installed and commissioned four intermediate signals at Werneth in Victoria, which have effectively halved the travel time for movements through this section of the network. This project was successfully delivered within the agreed $15 million budget.

### Adelaide to Tarcoola Rail Upgrade Acceleration

We made significant progress on this major project to allow our customers to run faster and heavier trains on this stretch of the network. The $252 million project is fully funded by the Australian Government and involves the re-railing of around 600 kilometres of track and upgrades to level crossings, turnouts and bridge strengthening.

We commenced the main rail installation works in February, and these works are on track for completion in mid-2019. To date, a total of over 140km of track has been re-railed. We also progressed the turnout replacement and level crossing track upgrade works, completing 32 level crossings and nine turnouts as well as the full upgrade of a 4km section of track on the Outer Harbor corridor to support the project objectives.

During the year, we increased our average daily weld production to well above target, without any reduction in weld quality. As at June 30, more than 80 rail trains have been unloaded on site, delivering over 740 lineal kilometres of long rail.

### North East Rail Line

In March 2018, the Australian Government increased its funding commitment for the upgrade of the North East Rail Line (NERL) from $100 million to $235 million. This is part of the Interstate freight network that is also used by V/Line to provide passenger services between Melbourne and Albury. The aim of the funding increase is to enable V/Line Passenger Class 2 performance.

We worked closely with the Victorian Government, Public Transport Victoria and V/Line as well as the Australian Government to finalise the scope of works, and the project will take approximately three years to complete.

In addition, in March we took advantage of the scheduled annual shutdown to deliver over $3 million worth of works and are also undertaking mudhole removal, track resurfacing and bridge upgrades where possible. A further $1 million in track tamping was invested in the rail line over May and June.

## Port Botany Rail Line

Work on the Port Botany Rail Line Upgrade Project has continued this year. This $75 million Government-funded project involves upgrading remaining sub-standard track through replacement of ballast, timber sleepers and the installation of stronger rail to increase load capacity, and is due to be completed towards the end of 2018.

As part of the May Budget this year the Australian Government announced $400 million to fully fund the duplication of the remaining single track section of Sydney's Port Botany Rail Line that will improve freight movement on Sydney's rail network and encourage a shift in freight from road to rail. This funding will also deliver a passing loop at Cabramatta to provide more freight train capacity on the line supporting intermodal terminals.

The Southern Sydney Freight Line (SSFL) is a key rail line that feeds into Port Botany. To facilitate the movement of freight from the Moorebank Intermodal Terminal (MIT) to the port, we provided Sydney Intermodal Terminal Alliance (SIMTA) access to the SSFL to enable the construction and integration of two new connection turnouts, track re-configuration including loop line extension and existing turnout renewal, all of which have been successfully completed this year.

Our Coffs Harbour Provisioning Centre team won the prestigious Alan Barham Maintenance Award from the NSW Permanent Way Institute for 2017. The award recognises the team's hard work and dedication to the maintenance of their part of the network in multiple disciplines, including track, structures and signals.


From left to right: Steven, Craig, Adam, Darren, Karen, Col, Luke, Kurt, Mitchell, Michael, Wayne

# 58 billion
Non-coal Gross Tonne Kilometres (GTKs) transported on the Interstate network

# 228
The average number of trains per day operating across our Interstate network

# 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

# Over $14 billion
We transport over $14 billion worth of goods across our network every year


WE CONTINUED TO UPGRADE THE INTERSTATE NETWORK TO IMPROVE CUSTOMER SERVICE, INCREASE EFFICIENCY OR ENHANCE SAFETY.

Graham, Operations Support Manager

> WE'VE SIGNIFICANTLY LIFTED THE LEVEL OF AWARENESS AND ENGAGEMENT AROUND SAFETY ISSUES ACROSS ALL LEVELS OF OUR ORGANISATION.

Brett, Principal Advisor Safety, Hunter Valley

Catherine, Principal Advisor Safety and Environment, Interstate

# **SAFETY:** IMPLEMENTING OUR ‘PATHWAY TO ZERO’ STRATEGY

In operating our network, the safety of our people and our customers is everything. Our goal is that no one is harmed at work or on our network. Over the past five years we’ve moved towards this goal by strengthening our safety culture and improving our safety performance. We’ve significantly lifted the level of awareness and engagement around safety issues across all levels of our organisation, and emphasised leadership’s core role in safety.

To improve even further, in 2017–18, we began implementation of a three-year ‘Pathway to Zero’ safety strategy, while continuing to support national and community safety campaigns. We also achieved significant improvements in our safety KPIs – including our lowest ever Lost Time Injury Frequency Rate.

## IMPLEMENTED YEAR 1 OF OUR PATHWAY TO ZERO SAFETY STRATEGY

The Pathway to Zero safety strategy focuses on four themes – leaders, people, systems and organisation. Under each theme, several elements will be developed and delivered over three years. In 2017–18, we successfully implemented the year one activities for each element. Our key achievements under each theme are outlined in the following pages.

## LEADERS

This theme focuses on continuing to build our leaders’ capabilities to set the tone and direction of a proactive safety culture through actions and behaviours that inspire their teams to make safe choices and actively manage risk. In 2017–18, we advanced its elements:

1. **Safety leadership development**
   To equip our leaders to effectively lead their teams in relation to safety, we worked with experts in the field of organisation design and behaviour to build a safety leadership development framework, which includes workplace education and training programs for Certificate IV and Diploma qualifications in Safety Leadership and Management. We also began implementing these programs, running three programs for 36 participants (two Diploma and one Certificate IV) this year.

2. **Safe work interactions**
   This element aims to get leaders at all levels out into the workplace, talking to frontline people about safety, risk and their work. This year, we undertook initial activities focused on developing common tools, approaches and reporting mechanisms for these interactions.

## PEOPLE

This theme is about motivating our people to care deeply for the safety and wellbeing of themselves and their workmates and empower them to take personal responsibility for their work. It comprises three elements:

1. **Targeted education and awareness-raising about fatal and severe risks and lifesaving behaviours**
   This program aims to build our employees' capability to 'Stop and Think', identify and control risk, and take responsibility for their own actions. Last year, we delivered train-the-trainer sessions to our frontline staff. This year, those staff delivered monthly toolbox sessions to their teams on all 10 fatal and severe risks for ARTC.

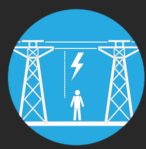
2. **Fitness for work program**
   To enhance our existing pre-employment and periodic health assessments, we reviewed our current health and fitness assessments against industry best practices and our current wellness initiatives.

3. **Empowering our people through regular performance conversations**
   This element aims to ensure that all people across the business know what is expected of them, feel confident in performing their role, and understand how their work contributes to better safety outcomes. Building on previous work, the focus this year was on leaders discussing individual roles with their teams, and providing them with documentation to confirm their understanding.

ARTC staff participating in Safety Day activities in the Hunter Valley
From left to right: Andrew, Tristan, Greg, Simon, Rebecca, Anne

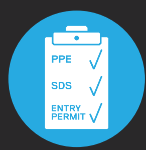
# ARTC'S FATAL AND SEVERE RISKS


VEHICLE ACCIDENTS



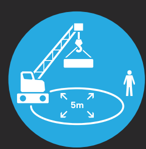
CONTACT WITH ELECTRICITY

MANUAL HANDLING




HAZARDOUS CHEMICALS, HOT MATERIALS AND CONFINED SPACES

STRUCK BY RAIL TRAFFIC




CRUSHED BY A CRANE OR LIFTED LOAD

RAIL TRAFFIC COLLISION


FALL FROM HEIGHT


STRUCK BY MOBILE PLANT

CONTRACTOR MANAGEMENT

## SYSTEMS

This theme is about integrating and improving our safety information systems, so our leaders and people can quickly and easily obtain the tools, processes and documentation they need to manage risks related to safety. During the year, we progressed its four elements:

1. **Incident Cause Analysis Methodology (ICAM)**
   We trained all frontline teams to use ICAM to investigate rail safety, work health and safety, and environmental incidents. This involved over 440 staff from the Hunter Valley and Interstate business units. We also developed a range of supporting tools, and a single corporate procedure to promote consistent application and reporting of ICAM across the business. ICAM now underpins ARTC's business-wide approach to investigating, analysing and identifying the root causes of all safety incidents, and implementing corrective actions that prevent recurrence.

2. **Common database and IT platform**
   We are integrating our existing rail safety, workplace health and safety, and environmental safety systems into one central system.

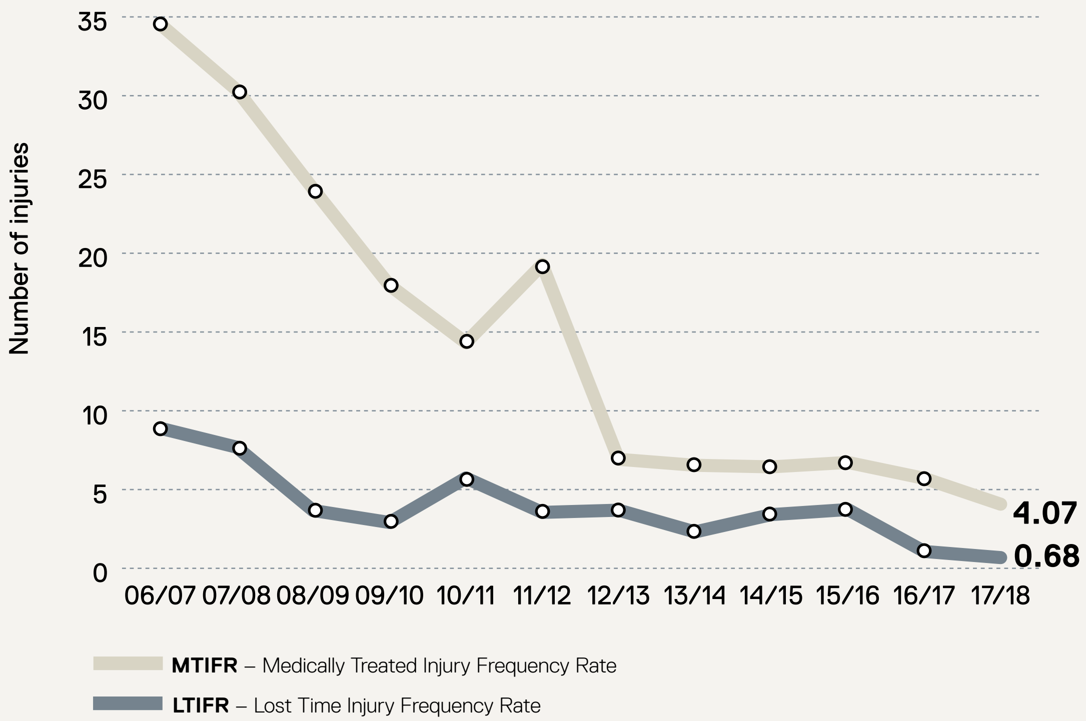
3. **Holistic and integrated reporting**
   We also made good progress on this complex project that aims to empower our leaders to make informed decisions around safety by ensuring they receive timely, meaningful and relevant data and analysis.

4. **Effective communication**
   We commenced a trial of the 'ETW Application' already in use by John Holland Rail on the Country Regional Network. The application is designed to improve communication by allowing safe workers to make more informed decisions (location assurance), reduce voice communication errors (information passed electronically) and faster transitions. If the trial is successful the application will be implemented across all three network control centres.

> WE'RE GENUINELY MAKING WORLD-CLASS STRIDES IN SAFETY IMPROVEMENT – IT'S OUR PEOPLE THAT JUDGE US BEST ON THAT AND THEY'RE OUR STRONGEST ADVOCATES.

## COMPANY SAFETY PERFORMANCE

**—INJURY FREQUENCY RATES**
Rolling 12 months to date





David, Project Manager Corridor Works

Rebecca, Administration Officer

## ORGANISATION

The organisation theme is about reorganising our business structures and processes to support a more proactive safety culture. We want our workforce to be more involved in the health and safety function, with our line managers increasingly taking over this function, with advice from our Health and Safety professionals. Over 2017–18, we progressed the following:

1. **Safety and risk governance arrangements**
   Important to driving our Pathway to Zero journey, we've reviewed and strengthened our structure and governance. We commissioned an independent review of our Safety, Risk and Environment organisational structure, and an internal review of the membership and structure of our Operational, Safety and Environment Review Committee (OSERC). In addition, we established and filled a new role of Group Executive Corporate Services and Safety.

2. **Just and Fair Culture**
   To improve consistency and fairness in recognising and rewarding people for exemplary behaviour and taking disciplinary action for poor behaviour in relation to safety, we developed and launched a Just and Fair Culture policy. We also began a program of communication, training and coaching to embed this policy into the way we work at ARTC.

3. **Risk Management System**
   A steering committee and cross-functional project team to provide one consolidated, integrated risk assurance system across the business was established. The system will be implemented on a progressive basis over 2018–19.

## SUPPORTED AND CONTRIBUTED TO NATIONAL RAIL SAFETY INITIATIVES

During 2017–18, we:

- Took part in National Rail Safety Week, an annual community awareness campaign, working within the community to raise awareness about track safety, particularly at level crossings
- Promoted Rail RUOK? Day, focusing on engaging our employees in conversations about their health and wellbeing
- Implemented a mental health awareness campaign across our Interstate network, including St John Ambulance Mental First Aid Training
- Continued to support the Office of the National Rail Safety Regulator (ONRSR), including by working with ONRSR to develop a new national data strategy that enables nationally consistent and comparable data that is better focused, relevant and reliable
- Continued to chair the National Level Crossing Data Working Group, which is developing a strategy to address difficulties in accessing consistent level crossing safety data.

Our All Injury Frequency Rate (AIFR) for 2017–18 has reduced by

**↓15%**

over the last 12 months

## EXTERNAL RECOGNITION

Our efforts and success in improving our safety culture and performance were recognised through several awards during the year. For example:

- We won the Safety Award at the **2018 Australasian Rail Industry Awards**
- We were runner up for **2017 National Freight Industry Safety Award**
- We won the **SA Permanent Way Institution 2017 Safety Award**

ARTC representatives , Kylie, Brett and Catherine were proud to accept the Safety Award at the 2018 Australasian Rail Industry Awards night.

# PEOPLE AND SYSTEMS: ENSURING THE RIGHT BUSINESS CAPABILITIES ARE IN PLACE

Over the past year, we've continued to develop the capabilities of our people and improve work culture to ensure we provide the environment for them to perform their roles in an engaged, safe and productive manner.

Managing our business risks is also critical for our success and we've progressed key projects to upgrade our systems for managing risk. In addition, we recognise that the procurement function is a critical enabler of our business strategy and have initiated a three year Procurement Transformation Program.

## DEVELOPING OUR WORKFORCE CAPABILITIES

As well as the safety-related training outlined in the Safety section of this document, this year we enhanced the training and development we provide to our Interstate Network Control staff and Train Transit Managers (TTMs). We provided coaching and mentoring training to a core group of 22 Network Controllers and TTM supervisors at the Metro Trains Melbourne Academy. This group is now responsible for on-board mentoring of trainee Network Control staff.


Arvin, Graduate Legal Counsel

Edwina, Assistant to the Company Secretary

## SUPPORTING THE CREATION OF A TALENT PIPELINE

Across both the Hunter Valley and Interstate business units, we began a series of “Manager once removed” sessions to identify and develop talented employees and support our succession planning and retention.

We also became proud sponsors of a new initiative that aims to create a pipeline of talent in the supply chain and logistics industry by attracting and inspiring female leaders of tomorrow. The Wayfinder: Supply Chain Careers for Women initiative was successfully launched in Geelong in March 2018, aiming to increase the number of females in supply chain education, training, jobs and careers.

As part of this sponsorship, we are represented on the Wayfinder Steering Committee and will assist in a series of events to be held throughout 2018 in Brisbane, Sydney, Newcastle, Perth and Adelaide, to help build a roadmap of industry roles and better support the connection between industry and the university and vocational educational sectors.


Hermione Parsons of Deakin University

Anne, Manager Corridor Works

## CONTINUING TO VALUE AND PROMOTE DIVERSITY IN OUR WORKFORCE

ARTC recognises the value a diverse workforce can contribute to our long-term success. During 2017–18, we progressed implementation of our diversity and inclusion strategy through running programs to support primary care givers returning to work after maternity leave, actively participating in Diversity Council of Australia events and supporting National Women in Operations forums.

Our efforts to promote diversity have led to positive results for the year. For example:

- the proportion of women in our workforce reached **22.4%**, in line with our corporate plan target of 22% (up from 18% three years ago)
- the number of women in ARTC leadership increased by **17.4%**
- the proportion of Aboriginal and Torres Strait Islanders (ABTSI) in our workforce increased to **2.4%**.

While the representation of ABTSI people in our workforce is high relative to many organisations, we want to do better. To this end, we established an ABTSI planning group this year, comprising elected representatives from each of our business units, to help positive ABTSI engagement and cultural recognition throughout ARTC. The group is developing an ABTSI action plan that will outline our initiatives for the coming years.

## MANAGING INDUSTRIAL RELATIONS

During the year, we successfully negotiated two new Enterprise Agreements – Australian Rail Track Corporation Enterprise Agreement 2017, and ARTC South Australia/Western Australia Infrastructure Maintenance Enterprise Agreement 2017. We continued to negotiate to replace the remaining two Infrastructure Maintenance Enterprise Agreements in New South Wales and Victoria.

## IMPROVING OUR RISK MANAGEMENT CAPABILITIES

As our business requirements evolve, our risk management and risk assurance capabilities are maturing. During 2017–18, we began to implement a risk management improvement plan that aims to continually improve our risk management activities and ensure that we have the processes, systems and organisational capabilities we need to effectively implement our Risk Management Policy. Key activities during the year included:

- Reviewing and updating our Business Risk Profile and Risk Matrix
- Commencing implementation of a new enterprise-wide risk management system
- Establishing a set of Key Risk Indicators and enhancing our reporting of these to our Board and Executive Committee.

## STRENGTHENING OUR ABILITY TO MANAGE CYBER THREATS

With increased digitalisation and interconnectivity between traditional IT and operational environments, and a changing and more sophisticated threat landscape, our risk of exposure to a cyber incident or attack has significantly increased. To reduce our overall risk exposure, we developed a Cyber Security Strategic Plan and established a comprehensive security program across ARTC.

## TRANSFORMING OUR PROCUREMENT FUNCTION

We've undertaken a review of our procurement framework to ensure the governance and probity of our processes are robust, and to improve the cost efficiency of our services by achieving better value for money from our expenditure. We've introduced procurement thresholds, improved our supporting documentation and updated our procurement principles.

Over 430 employees have received introductory training in the new framework with advanced training to be rolled out in 2018–19.

Over
**1,300 staff**

**22% female**

**2.4% Indigenous**

**73%***
Employee engagement score

* 2017 Employee Engagement Survey'

Shane, Work Group Leader

# **ENVIRONMENT:** MINIMISING OUR IMPACT ON LOCAL ENVIRONMENTS

While rail is the most sustainable and safe mode of land transport available, we recognise that constructing and maintaining rail networks, and moving freight along those networks, can impact on local environments. We're committed to being a responsible rail track operator and good neighbour through minimising the impacts of our operations.

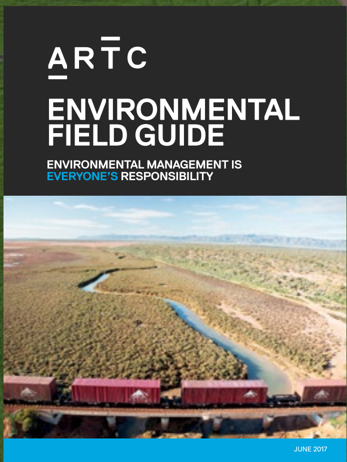
During 2017–18, we delivered on this commitment through a range of environmental initiatives. For example:

- **We prepared an Environmental Field Guide and Stop and Think Card** to communicate the key environmental impacts of rail maintenance and construction to ARTC staff, and to provide them with practical guidance for managing those impacts.

> WE ARE COMMITTED TO BEING A RESPONSIBLE RAIL TRACK OPERATOR AND GOOD NEIGHBOUR.

- **We strengthened our approach, skills and tools for assessing and managing the environmental impacts of our activities.** This included developing new environmental induction materials to ensure our new staff are aware of our environmental responsibilities and requirements, updating our Noise Prediction Tool and developing an environmental impact assessment library. We also further developed our new interactive environmental training materials, which focus on the environmental impacts of our construction and maintenance activities.
- **We continued to tackle our waste disposal challenges**, including working with the New South Wales Environment Protection Authority (EPA) to develop a Resource Recovery Order that will facilitate reuse of our ballast waste in civil applications outside of the rail corridor. We also started looking at options to define a reuse pathway for our timber sleeper waste.
- **We conducted energy audits of representative ARTC office sites** and identified cost-effective energy saving initiatives. We also began progressively implementing these initiatives across our offices, including completing a lighting upgrade at our Adelaide head office that has a projected saving of $25,000 per annum.

Finally, we continued to work with our regulators to demonstrate our focus on compliance, particularly in New South Wales and South Australia where we hold licences with the EPA.


ARTC

ENVIRONMENTAL FIELD GUIDE

ENVIRONMENTAL MANAGEMENT IS EVERYONE'S RESPONSIBILITY

JUNE 2017

01 FLORA & FAUNA

02 NOISE

03 WASTE

04 CONTAMINATION

05 SOIL & WATER

06 HERITAGE

07 AIR QUALITY

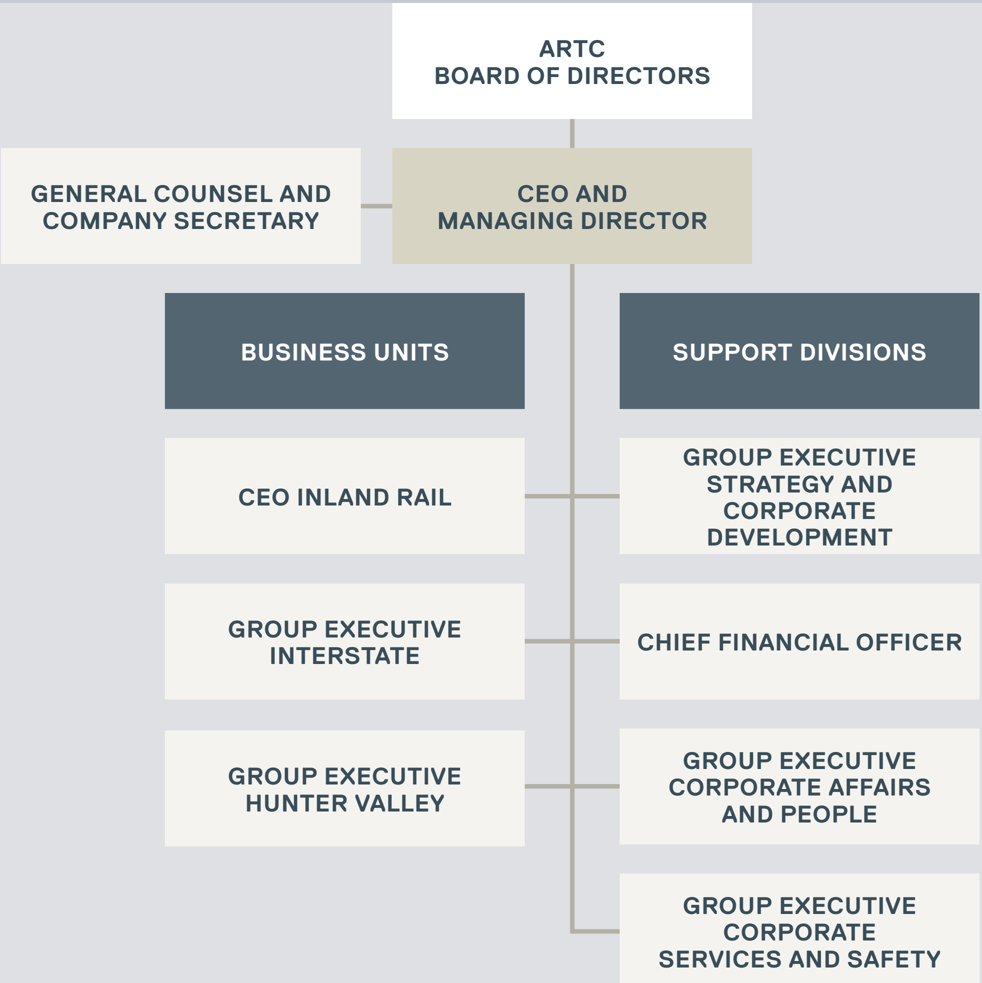
08 VISUAL


Linda, Corporate Risk Manager and Katrina, Manager Rail Accreditation meet with representatives from the Office of the National Rail Safety Regulator

# ORGANISATIONAL STRUCTURE

We are a company incorporated under the Corporations Act. Our shares are owned by the Commonwealth of Australia, represented by the Minister for Infrastructure and Transport and the Minister for Finance.

We are governed by a Board of Directors appointed by the Shareholder Ministers.



# 2 REPORTS AND STATEMENTS

> OUR OPERATIONAL REVENUE REMAINED SOLID IN 2018 – DEMONSTRATING THE ONGOING RESILIENCE OF THE UNDERLYING BUSINESS.

# DIRECTORS' REPORT


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 2018. 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:

W Truss (appointed 21 April 2018)
Dr H Nugent (end of term 20 April 2018)
C Barlow
G Brown
J Fullerton
V Graham
D Saxelby
J Seabrook
J Bonnington (end of term 5 August 2017)

## QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

### The Hon Warren Truss (Non-Executive Director)

The Hon Warren Truss was appointed to the ARTC Board as Chairman on 21 April 2018. Previously, Warren served as a Member of the Federal Parliament for 26 years including 8 years as the Federal Leader of the National Party. As the 16th Deputy Prime Minister and Minister for Infrastructure and Regional Development, Warren was responsible for the delivery of several significant Australian Government investments including the early funding for Inland Rail. Prior to entering federal politics, Warren served in local government for 14 years, holding various roles including Chairman and Councillor of the Kingaroy Shire Council. Previously, Warren was Chair of the Sugar Coast Burnett Regional Tourism Board, Deputy Chair of Bulk Grains Queensland and President of the Australian Council of Rural Youth.

### 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. Chris is a Chartered Civil Engineer. Chris has held a variety of senior leadership roles in the transport and infrastructure industries, serving as Managing Director for a number of UK Airports. Chris was previously CEO and Managing Director of the Australian Pacific Airports Corporation, running Melbourne and Launceston airports. Additionally, Chris has had the experience of a number of Board positions. He was on the Board of Asciano (Patrick Stevedoring and Pacific National Rail). He is presently Chair of Airport Development Group, (Darwin and Alice Springs Airports) and Melbourne Convention Bureau.

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

Ms Gillian Brown joined the Board as a Non-Executive Director in June 2010. Gillian is a highly regarded Consultant at Minter Ellison Lawyers, with significant experience in finance, infrastructure, energy and resources, and debt capital markets transactions. She is a leading corporate and project finance lawyer and has been recognised with numerous accolades including individual Best Lawyer rankings for structured finance and project finance. Gillian is a Non-Executive Director of QIC Limited, a former Chairman of Minter Ellison Lawyers and a former board member of Queensland Treasury Corporation and DBCT Holdings Pty Ltd.

### Vince Graham AM, 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. Vince has had extensive experience in executive roles at both a federal and state level. Prior to his appointment, Vince 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, Vince 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. Presently, Vince is a Non-Executive Director of the Western Sydney Airport Corporation.

## David Saxelby BEng (Civil), MAICD (Non-Executive Director)

Mr David Saxelby was appointed to the Board as Non-Executive Director on 1 December 2016. David has had a highly successful 30-year career in construction, infrastructure contracting and major projects. He was previously the Managing Director of Thiess and most recently the Chief Executive Officer of Lendlease's Construction and Infrastructure Business. David has been responsible for delivering many of Australia's iconic major projects, including the ANZAC Bridge, Darling Harbour Convention Centre, Lane Cove Tunnel, Epping to Chatswood Underground Rail Link and NorthConnex. David has held a number of senior industry positions as President and Board member of Australian Constructors Association, Board member of Roads Australia, Board member of Infrastructure Partnership Association and Board member of the Mineral Council of Australia. David was listed in the Top 100 Engineers in Australia for four consecutive years and is a Non-Executive Director of the Office of Projects Victoria Advisory Board, Decmil Group, Royal Botanic Gardens and the Domain Trust Board of Trustees.

## Jennifer Seabrook BCom, FCA, FAICD (Non-Executive Director)

Ms Jennifer Seabrook was appointed to the ARTC Board as Non-Executive Director on 1 December 2016. Jennifer is a chartered accountant and has had a successful executive career in mergers and acquisitions, equity and debt capital markets, and financial advisory. She is a Special Advisor to Gresham Partners Limited and holds directorships at MMG Limited, Western Australian Treasury Corporation, IRESS Limited and Iluka Resources Limited. Jennifer's experience in mergers, acquisitions and capital structuring advisory transactions include the sale of Wesfarmers' interest in the Australian Railroad Group; being a member of the advisory team for Wesfarmers' successful takeovers of Coles and Howard Smith; advising on the privatisation of the Dampier to Bunbury Natural Gas Pipeline; and the IPO's for WA Newspapers, SGIO and Bankwest. Previous Non-Executive Director roles include Amcor Limited, West Australian Newspapers Holdings Limited, Bank of Western Australia, Western Power Corporation and AlintaGas. Jennifer's former advisory panel memberships include ASIC's External Advisory Group, the Takeovers Panel, Corporations Law Simplification Task Force and WA Pearling Industry Advisory Panel.

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

Mr John Fullerton is Managing Director and Chief Executive Officer of Australian Rail Track Corporation Ltd and was appointed to the position in February 2011. Mr Fullerton has over 35 years' experience in the rail industry across Australia and currently holds the position as Non-Executive Director of the Australasian Railway Association and is the Alternate Non-Executive Director of Hunter Valley Coal Chain Coordinator Ltd. Mr Fullerton is also a member of the Freight on Rail Group having served as its inaugural Chairman from 2015 to 2018. Mr Fullerton was previously Chief Executive Officer of Freight Link Pty Ltd and Asia Pacific Transport Pty Ltd, Chairman of Rail CRC Ltd, Non-Executive Director of Tasmanian Railway Pty Ltd, Non-Executive Director Rail

Industry Safety and Standards Board Ltd and inaugural Board Member for South Australian Young Entrepreneur Scheme. Mr Fullerton has held other senior executive roles in the rail industry including Chief Operating Officer at National Rail Corporation and Divisional General Manager (Operations) at Pacific National. Mr Fullerton has been listed in the Top 100 Influential Engineers in Australia for four consecutive years from 2011 to 2014.

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

Ms Bonnington joined the ARTC Board on 6 August 2014. Ms Bonnington's term as a Non-Executive Director for ARTC concluded on 5 August 2017. Ms Bonnington started her career as a Chartered Accountant and over a 30 year executive career in international and local finance, has held many senior roles including CFO and Finance Director across construction, engineering, manufacturing, energy, utilities, health and financial services sectors. Her executive career involved working at Transfield Ltd on major projects. Between 2002–2005, Ms Bonnington was the National Chief Executive Officer of the Make-A-Wish Foundation Australia. Ms Bonnington now serves as a full-time Non-Executive Director of Perpetual Super Ltd, UTA Hastings Infrastructure Fund and SEFA Ltd, as well as various community NFP boards.

### 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's term as Chairman and Non-Executive Director for ARTC concluded on 20 April 2018. Helen has significant experience in infrastructure, energy and resources, and financial services. As Non-Executive Director of Origin Energy (2001–2016) and Macquarie Group (1999–2014), she has overseen the development of major infrastructure projects in areas such as LNG, energy and roads. She has also been Chairman of Sydney Airport and Macquarie Airports. Currently, she is Chairman of Ausgrid. In the financial services sector, she was Director of Strategy at Westpac Banking Corporation (1994–1999); Chairman of Funds SA (2000–2015); Chairman of Swiss Re (Australia); Chairman of Veda Group; and a Non-Executive Director of Mercantile Mutual and State Bank of New South Wales.

### 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.

## 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 2018, and the numbers of meetings attended by each Director were:

| | Meeting of Directors | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Full meeting of Directors** | | **Audit and Compliance Committee** | | **Environment Health and Safety Committee** | | **People, Policy and Remuneration Committee (1)** | | **Risk Committee** | | **Inland Rail Committee** | |
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| W Truss (2) | 3 | 3 | 1 | – | 1 | – | – | – | – | – | 2 | 2 |
| H Nugent (3) | 7 | 7 | 3 | – | 3 | – | 4 | 4 | 2 | 2 | 6 | 6 |
| C Barlow | 10 | 10 | – | – | – | – | 4 | 4 | 2 | 2 | 8 | 8 |
| G Brown (4) | 8 | 10 | 5 | 5 | 4 | 4 | 3 | 4 | 2 | 2 | 4 | – |
| V Graham (5) | 10 | 10 | 5 | 5 | 4 | 4 | 3 | – | 2 | 2 | 5 | – |
| D Saxelby (6) | 9 | 10 | 2 | – | 4 | 4 | 2 | – | 1 | 2 | 8 | 8 |
| J Seabrook (7) | 10 | 10 | 5 | 5 | 1 | – | 3 | – | 2 | 2 | 5 | 7 |
| J Bonnington | 1 | 1 | 1 | 1 | – | – | – | – | 1 | 1 | – | – |
| J Fullerton (8) | 10 | 10 | 5 | 5 | 4 | 4 | 4 | – | 2 | 2 | 8 | 8 |

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

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

(2) Mr Truss attended one Audit and Compliance Committee and one Environment Health and Safety meeting as an ex officio member.

(3) Dr Nugent attended three Audit and Compliance Committee and three Environment, Health and Safety Committee meetings as an ex officio member.

(4) Ms Brown attended four Inland Rail Committee meetings as an ex officio member.

(5) Mr Graham attended three People, Policy and Remuneration Committee meetings as an invitee and five Inland Rail Committee meetings as an ex officio member.

(6) Mr Saxelby attended two Audit and Compliance Committee meetings as an ex officio member and two People, Policy and Remuneration Committee meetings as an invitee.

(7) Ms Seabrook attended one Environment, Health and Safety Committee as an ex officio member and three People, Policy and Remuneration Committee meetings as an invitee. Ms Seabrook was appointed to the Inland Rail Committee in September 2017 and was not a Member of the Committee for the first meeting held in August 2017.

(8) John Fullerton attended the Audit and Compliance Committee and the People, Policy and Remuneration Committee by invitation.

## Members of the Board Committees during the year:

### Audit and Compliance

| Member | Membership period (if other than full year) |
|---|---|
| G Brown | Chair |
| J Bonnington | End of term 5 August 2017 |
| V Graham | |
| J Seabrook | |

### Environment Health and Safety

| Member | Membership period (if other than full year) |
|---|---|
| V Graham | Chair |
| G Brown | |
| J Bonnington | End of term 5 August 2017 |
| J Fullerton | |
| D Saxelby | |

### People, Policy and Remuneration

| Member | Membership period (if other than full year) |
|---|---|
| J Seabrook | Appointed Chair 3 May 2018 |
| C Barlow | |
| G Brown | |
| H Nugent | End of term 20 April 2018 |

### Risk Committee

| Member | Membership period (if other than full year) |
|---|---|
| C Barlow | Appointed Chair 3 May 2018 |
| J Bonnington | End of term 5 August 2017 |
| G Brown | |
| J Fullerton | |
| V Graham | |
| H Nugent | End of term 20 April 2018 |
| D Saxelby | |
| J Seabrook | |
| W Truss | Appointed 21 April 2018 |

### Inland Rail Committee

| Member | Membership period (if other than full year) |
|---|---|
| D Saxelby | Appointed Chair 31 August 2017 |
| C Barlow | Appointed 31 August 2017 |
| J Fullerton | Appointed 31 August 2017 |
| H Nugent | End of term 20 April 2018 |
| J Seabrook | Commenced 28 September 2017 |
| W Truss | Appointed 3 May 2018 |

## 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:

### 1. Inland Rail Activities:

Following the additional $8.4 billion of equity funding commitments announced by the Federal Government in the May 2017 Federal Budget, ARTC significantly increased a range of activities relating to the Inland Rail project including:

- commencement of initial corridor works on Parkes to Narromine segment towards the end of the financial year;
- further detailed corridor assessment and refinement of the corridor alignment including geotechnical testing;
- extensive community engagement;
- the finalisation of funding arrangements relating to equity commitments by the Commonwealth Government to ARTC to support the project;
- Network lease agreements negotiations have commenced;
- further design works;
- procurement of materials and services; and
- increasing direct staffing of the project to 237 (2017: 104) employees and contractors as at 30 June 2018.

### 2. ACCC Hunter Valley Compliance Assessment:

In December 2017 the ACCC announced the decision to conduct a review into the efficiency of operating expenditures on the Hunter Valley coal network for the 2015 Calendar year which has delayed the finalisation of the 2015 and subsequent Compliance Assessments. The Group continues to carry a financial liability on the balance sheet for the previously estimated compliance assessment outcome but has made no specific adjustment in relation to the operating efficiency review that is currently occurring.

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

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

It is the opinion of the Directors of the Group that no 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 Chairman's and the Chief Executive Officer's Reports.

## DIVIDENDS

On 10 November 2017 the Group made a payment of $22,409,000 to the shareholder as the final dividend for the 2016/17 financial year.

On 24 May 2018, the Group made a payment of $42,980,000 to the shareholder as an interim dividend.

The final dividend for the 2017/18 year is expected to be paid in October 2018.

## REVIEW OF OPERATIONS

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

## 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 FROM EXTERNAL AUDITORS

The External Auditors provided non-audit services during 2017/18 of $0.133m (2016/17 – $nil). The Directors are satisfied that the non-audit services provided are compatible and do not compromise the general standard of independence for auditors imposed by the *Corporations Act 2001*.

## 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 page 80.

Signed in accordance with a resolution of the Directors:

**W Truss**
Director

Signed in Sydney on the 30th day of August 2018

**J Fullerton**
Director

Signed in Sydney on the 30th day of August 2018

# AUDITOR'S INDEPENDENCE DECLARATION (CONTINUED)

## AUSTRALIAN RAIL TRACK CORPORATION LTD FINANCIAL REPORT 2017–18
## 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 2018, 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.

Australian National Audit Office

**Lesa Craswell**
Executive Director

Delegate of the Auditor – General

Signed in Canberra on the 30th of August 2018

## REMUNERATION REPORT – UNAUDITED

This report outlines the approach to setting remuneration and the outcomes for ARTC's Key Management Personnel (KMP) for the year ended 30 June 2018.

The KMP covered in this report include Non-Executive Directors of the Company, the Managing Director and all senior executives appointed to roles that report directly to the Managing Director.

| Name | Title | 2018 Status |
|---|---|---|
| | **Non-Executive Directors** | |
| **Warren Truss** | Chairman | Appointed 21 April 2018 |
| **Dr Helen Nugent AO** | Chairman | End of term 20 April 2018 |
| **Chris Barlow** | Non-Executive Director | Full year |
| **Gillian Brown** | Non-Executive Director | Full year |
| **Vince Graham AM** | Non-Executive Director | Full year |
| **David Saxelby** | Non-Executive Director | Full year |
| **Jenny Seabrook** | Non-Executive Director | Full year |
| **Jay Bonnington** | Non-Executive Director | End of term 5 August 2017 |

| Name | Title | 2018 Status |
|---|---|---|
| | **Executive Directors** | |
| **John Fullerton** | Managing Director and Chief Executive Officer | Full year |
| | **Other Key Management Personnel** | |
| **Andrew Bishop** | Chief Financial Officer | Full year |
| **Gavin Carney** | General Counsel and Company Secretary | Full Year |
| **Kylie Gallasch** | Group Executive Corporate Services and Safety | Appointed 15 January 2018 |
| **Jane Lavender-Baker** | Group Executive Corporate Affairs and People | Full Year |
| **Simon Ormsby** | Group Executive Strategy and Corporate Development | Full Year |
| **Jonathan Vandervoort** | Group Executive Hunter Valley | Full year |
| **Peter Winder** | Group Executive Interstate | Full year |
| **Richard Wankmuller** | Chief Executive Officer Inland Rail | Appointed 23 April 2018 |

# REMUNERATION REPORT – UNAUDITED (CONTINUED)

## Non-Executive Director Remuneration

All Non-Executive Directors of ARTC are appointed by the Commonwealth of Australia through the Shareholding Ministers.

Fees for Non-Executive Directors are set and paid according to the determination of the Commonwealth Remuneration Tribunal (the Tribunal).

## Senior Executive Remuneration

ARTC's remuneration system and structure is designed to attract and retain the right people, with the right expertise to help deliver its vision and achieve the strategic objectives and targets set out in the Corporate Plan.

The achievement of the company strategy relies on ARTC's ability to attract and retain senior executives who can lead the business to deliver our safety, people, and commercial objectives and do so in a way that strengthens and builds on the culture defined by our company values.

Remuneration for all senior executives consists of two components; a Fixed Annual Remuneration (FAR) and "at risk" remuneration delivered through a Short-Term Incentive (STI) program. The FAR aims to reward senior executives for executing the core requirements of their role. The STI program is an "at risk" annual incentive opportunity where an STI payment may be awarded subject to the achievement of relevant company and individual key performance indicators (KPI's).

The FAR for ARTC's Managing Director is determined by the Tribunal and the role is currently classified as a Principal Executive Officer (PEO) Band D. The FAR includes two components, a Total Remuneration Reference Rate (TRRR) and an additional person specific component. The Tribunal has also consented to an "at risk" component for the Managing Director of up to 30% of the TRRR for the office.

For other senior executives market factors, technical expertise and industry benchmarks all influence the setting of the FAR component, and ARTC utilises the Mercer system to provide independent assessment in determining appropriate remuneration for roles across the Company. The guiding principle is to position total remuneration towards the mid-point of the Mercer (Australia) benchmark for comparable roles in the Australian market. Notwithstanding receipt of that information, all decisions made were those of the People, Policy and Remuneration Committee, the Board and senior management.

For FY18 the senior executive remuneration framework consisted of fixed remuneration and STI.

| Component | Objective | Performance Condition |
|---|---|---|
| FAR | Reflects the market value of the role and the executive's skills and experience | Reviewed annually or upon significant change in responsibilities |
| STI | Incentive for achievement of company and individual objectives and targets for the financial year | Executives participate in an STI plan which assesses performance against agreed KPI's over the financial year |

## STI Program

The Managing Director's Performance Plan (the Plan) is determined with the Board at the start of each financial year. The Plan sets out the performance expectations of the Managing Director.

The Plan and the defined Key Result Areas then determine the specific focus for other KMP depending on their role and associated accountabilities.

The Corporate Measures used to measure performance are set by the Board and aligned to the measures in the company's Corporate Plan, approved annually by the Shareholders.

With the exception of the CEO for Inland Rail, KMP performance for FY2018 was assessed against five corporate measures that included:

| Measure | Weighting | Outcome |
|---|---|---|
| Operating profit | 40% | Exceeded |
| Safety Performance | 15% | Exceeded |
| Customer, employee and stakeholder engagement | 10% | Exceeded |
| Progress of Strategic Actions specific to each KMP | 25% | Exceeded/significantly exceeded |
| Individual leadership, teamwork and cultural behaviour | 10% | Significantly exceeded |

## REMUNERATION REPORT – UNAUDITED (CONTINUED)

The measures for the CEO Inland Rail's Performance Plan reflected his commencement date and the immediate priorities of the role in the delivery of Inland Rail. The measures included:

| Measure | Weighting | Outcome |
|---|---|---|
| Strategic Actions<br>– Stakeholder engagement<br>– Community and landowner engagement<br>– Conduct a 90 Day review of the Inland Rail program and develop a forward plan of action | 90% | Significantly exceeded |
| Individual leadership, teamwork and cultural behaviour | 10% | Significantly exceeded |

The maximum STI available for KMP as a percent of FAR is outlined in the following table:

| Role | STI as percent of FAR |
|---|---|
| Managing Director | 30* |
| CEO Inland Rail | 50 |
| Other KMP | 20 |

* 30% of TRRR

In setting targets, with the objective of achieving alignment with the interest of Shareholders, due regard is paid to ARTC's Corporate Plan. To achieve the maximum award, the relevant targets must be significantly exceeded.

The ARTC Board retain discretion to adjust both up and down the straight mathematical outcome of the STI result for KMP who participate in the scheme.

## Non-Executive Director Remuneration

The following table details the fees paid to Non-Executive Directors.

| Name | Year | Based fixed annual salary $ | Post-employment Superannuation $ | Total $ |
|---|---|---|---|---|
| W Truss (Chairman from 21 April 2018) | 2017 | – | – | – |
| | **2018** | **22,027** | **2,093** | **24,120** |
| H Nugent AO (Chairman from 3 August 2015 to 20 April 2018) | 2017 | 112,291 | 10,669 | 122,960 |
| | **2018** | **92,513** | **8,789** | **101,302** |
| C Barlow (appointed 2 May 2016) | 2017 | 56,150 | 5,334 | 61,484 |
| | **2018** | **57,270** | **5,441** | **62,711** |
| G Brown (reappointed 30 June 2016) | 2017 | 56,150 | 5,334 | 61,484 |
| | **2018** | **57,270** | **5,441** | **62,711** |
| V Graham AM (appointed 8 March 2016) | 2017 | 56,150 | 5,334 | 61,484 |
| | **2018** | **57,270** | **5,441** | **62,711** |
| D Saxelby (appointed 1 December 2016) | 2017 | 32,826 | 3,118 | 35,944 |
| | **2018** | **57,270** | **5,441** | **62,711** |
| J Seabrook (appointed 1 December 2016) | 2017 | 32,826 | 3,118 | 35,944 |
| | **2018** | **57,270** | **5,441** | **62,711** |
| J Bonnington (Director from 6 August 2014 to 5 August 2017) | 2017 | 56,150 | 5,334 | 61,484 |
| | **2018** | **5,507** | **523** | **6,030** |
| **Total non-executive** | 2017 | 402,543 | 38,241 | 440,784 |
| **Director remuneration** | **2018** | **406,397** | **38,610** | **445,007** |

# REMUNERATION REPORT – UNAUDITED (CONTINUED)

## Executive Remuneration

The following table represents the remuneration receivable by KMP executives applicable to the relevant year. e.g. The short term incentives for financial year 2018 represent the amounts awarded to KMP for performance outcomes associated with FY2018 and are to be paid in October 2018.

| | | Short-term benefits | | | Post-employment |
|---|---|---|---|---|---|
| **Name** | **Year** | **Base salary and fees** | **STI/ Bonuses** | **Non-cash benefits** | **Superannuation contributions** |
| | | **$** | **$** | **$** | **$** |
| **Executive Director** | | | | | |
| J Fullerton | 2017 | 526,936 | 133,067 | – | 19,616 |
| | **2018** | **537,439** | **143,270** | **–** | **20,049** |
| **Other key management personnel (group)** | | | | | |
| A Bishop | 2017 | 363,383 | 64,748 | – | 19,616 |
| | **2018** | **389,787** | **71,059** | **–** | **20,049** |
| G Carney | 2017 | 302,422 | 52,129 | – | 19,616 |
| | **2018** | **314,457** | **52,768** | **–** | **20,049** |
| K Gallasch (i) | 2017 | – | – | – | – |
| | **2018** | **155,594** | **25,588** | **–** | **9,253** |
| J Lavender–Baker (ii) | 2017 | 237,265 | 49,950 | – | 19,616 |
| | **2018** | **294,732** | **57,180** | **–** | **20,049** |
| S Ormsby | 2017 | 321,243 | 56,070 | – | 19,616 |
| | **2018** | **326,579** | **53,983** | **–** | **20,049** |
| J Vandervoort (iii) | 2017 | 400,860 | 68,740 | – | 19,616 |
| | **2018** | **408,837** | **73,577** | **–** | **20,049** |
| P Winder (iv) | 2017 | 421,211 | 80,196 | – | 19,616 |
| | **2018** | **495,278** | **77,256** | **–** | **20,049** |
| R Wankmuller (v) | 2017 | – | – | – | – |
| | **2018** | **187,850** | **78,846** | **–** | **3,856** |
| **Total Executive KMP** | 2017 | 2,573,320 | 504,900 | – | 137,312 |
| | **2018** | **3,110,553** | **633,527** | **–** | **153,452** |
| **Total NED remuneration** | 2017 | 402,543 | – | – | 38,241 |
| | **2018** | **406,397** | **–** | **–** | **38,610** |
| **Total KMP remuneration expense** | 2017 | 2,975,863 | 504,900 | – | 175,553 |
| | **2018** | **3,516,950** | **633,527** | **–** | **192,062** |

| Other long term benefits | | Termination benefits | Total remuneration |
|---|---|---|---|
| STI deferral | Long service leave | | |
| $ | $ | $ | $ |
| – | 13,087 | – | 692,706 |
| **–** | **15,075** | **–** | **715,833** |
| – | 8,974 | – | 456,721 |
| **–** | **10,825** | **–** | **491,720** |
| – | 14,315 | – | 388,482 |
| **–** | **9,385** | **–** | **396,659** |
| – | – | – | – |
| **–** | **3,782** | **–** | **194,217** |
| – | 8,138 | – | 314,969 |
| **–** | **19,888** | **–** | **391,849** |
| – | 7,958 | – | 404,887 |
| **–** | **9,271** | **–** | **409,882** |
| – | 6,894 | – | 496,110 |
| **–** | **7,162** | **–** | **509,625** |
| – | 7,400 | – | 528,423 |
| **–** | **12,541** | **–** | **605,124** |
| – | – | – | – |
| **–** | **3,120** | **–** | **273,672** |
| – | 66,766 | – | 3,282,298 |
| **–** | **91,049** | **–** | **3,988,581** |
| – | – | – | 440,784 |
| **–** | **–** | **–** | **445,007** |
| – | 66,766 | – | 3,723,082 |
| **–** | **91,049** | **–** | **4,433,588** |

(i) Kylie Gallasch was appointed as a KMP on 15 January 2018.

(ii) Jane Lavender-Baker was Group Executive Corporate Affairs from 1 July 2017 to 1 September 2017 and was appointed as Group Executive Corporate Affairs and People from 2 September 2017.

(iii) Jonathan Vandervoort substantive position is Group Executive Hunter Valley but temporarily performed the role of Group Executive Interstate from 1 January 2018 to 30 June 2018.

(iv) Peter Winder substantive position is Group Executive Interstate but temporarily performed the role as Interim CEO Inland Rail from 1 January 2018 to 22 April 2018. In 2018 Peter Winder was paid an allowance in recognition of the temporary role he performed with Inland Rail and the amount is included in his base salary.

(v) Richard Wankmuller was appointed as a KMP on 23 April 2018.

# CORPORATE GOVERNANCE STATEMENT

The ARTC Board currently comprises seven members. The Board is chaired by an Independent Non-Executive Director and the roles of the Chairman 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 GOVERNANCE

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 |
|---|---|
| Principle 1:<br>**Lay solid foundations for management and oversight** | The Board, Board Committees, Accountability and Audit |
| Principle 2:<br>**Structure the Board to add value** | The Board, Board Committees |
| Principle 3:<br>**Act ethically and responsibly** | Governance Policies |
| Principle 4:<br>**Safeguard integrity in financial reporting** | The Board, Accountability and Audit, Board Committees |
| Principle 5:<br>**Make timely and balanced disclosure** | Our Shareholder |
| Principle 6:<br>**Respect the rights of security holders** | Our Shareholder |
| Principle 7:<br>**Recognise and manage risk** | Accountability and Audit |
| Principle 8:<br>**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 to facilitate Board and Management accountability to both the Group and its shareholders.

The major powers the Board has reserved for itself are approval of:

(a) Strategic plan for the Group;

(b) Significant business initiatives that require notification to Shareholder Ministers;

(c) Access agreements that do not comply with the Board agreed pricing and access principles and policies;

(d) Long term price paths for train operators;

(e) The framework for the Wholesale Sales Agreement;

(f) The framework for the Rail Access Agreement;

(g) All expenditure and property transaction contracts greater than $5 million not subject to a specific Board approval;

(h) Lease expenditure commitments in excess of $5 million (net present value) or in excess of 5 years duration;

(i) Employment contract for the Chief Executive Officer and the organisational structure for direct reports;

(j) Parameters for Workplace Enterprise Agreements;

(k) Senior Executive variable reward scheme; and

(l) Annual business plan and budget.

### 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 of eight Directors. The Board currently comprises six Non-Executive Directors and one Executive Director. The Directors of ARTC are listed with a brief description of their qualifications and experience on pages 71 to 74 of this Annual Report. Directors are appointed by the Shareholder Minister in accordance with the Company's Constitution and GBE Guidelines.

Government policy (Section 115(c), Cabinet Handbook 2016, 9th Edition) requires that due regard be paid to gender balance in appointments. The GBE Guidelines refer to the Cabinet Handbook as per section 2.13. Currently, the Board comprises two women and five 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 and recorded on the Statement of Interests Register.

### Chairman

Warren Truss, an Independent Non-Executive Director, has been Chairman of the Company since 21 April 2018. 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 requirements, ARTC conducts an annual review of the Board's performance.

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 at the Annual Shareholder Strategic Meeting.

### 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 in that capacity, is accountable to the Chairman of 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
- Inland Rail

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.

| Committee | Composition | Main Areas of Responsibility |
|---|---|---|
| **Audit and Compliance** | – At least 3 Non-Executive Directors appointed by the Board<br>– The Chair cannot be the Chair of the Company | The primary responsibility of the Committee is to assist the Board fulfil its responsibilities for corporate governance, probity, due diligence, effectiveness of internal control, management of financial risks and financial reporting. |
| **People, Policy and Remuneration** | – At least 2 Non-Executive Directors appointed by the Board<br>– CEO plus any other company executive or advisor attend by invitation | The primary responsibility of the Committee is to assist the Board fulfil 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 and Safety** | – At least 2 Non-Executive Directors appointed by the Board<br>– CEO plus any other company executive or advisor attend by invitation | The primary responsibility of the Committee is to assist the Board fulfil its responsibilities for the company's management of risks associated with its environment, 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 Committee** | – All Non-Executive members of the Board of Directors<br>– The CEO and other company executives attend by invitation | The primary responsibility of the Committee is to assist the company fulfil its responsibilities for corporate governance, by overseeing the way the company manages risk in accordance with its Risk Management Policy. |
| **Inland Rail Committee** | – At least 3 Non-Executive Directors appointed by the Board and the CEO and Managing Director<br>– CEO Inland Rail attends other than by agreement with the Chairman | The primary responsibility is to assist the Board in the effective discharge of its governance and oversight responsibilities relating to the delivery of Inland Rail, in more depth than time permits at regular Board meetings. |

## 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 updated and agreed annually. KPMG assisted Internal Audit to review and update the FY19 – FY21 Non-Safety Internal Audit Plan (Plan).

In May 2018 the Audit and Compliance Committee approved the revised FY19 – FY21 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 are lodged with ASIC.

ANAO has contracted with EY 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 EY. 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 the Hon Mathias Cormann, Minister for Finance and Deputy Prime Minister Michael McCormack, Minister for Infrastructure and Transport. 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.

## Conflicts of Interest

Under the ARTC Code of Conduct and the ARTC Conflict of Interest Policy, all staff are required to disclose any actual, perceived or potential conflicts of interest to the General Counsel and Company for subsequent evaluation and advice.

### 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 2018

| | Notes | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Access revenue | 5(a) | **712,941** | 713,757 |
| Interest revenue | | **7,172** | 5,399 |
| **Total revenue** | | **720,113** | 719,156 |
| **Other income** | | | |
| Incident and insurance recovery | 5(e) | **5,466** | 4,909 |
| Government grants | | **79,913** | 85,631 |
| Other income | | **25,472** | 17,072 |
| **Total other income** | | **110,851** | 107,612 |
| **Total revenue and other income** | | **830,964** | 826,768 |
| Employee benefits expense | 5(b) | **(169,109)** | (165,280) |
| Infrastructure maintenance | | **(169,956)** | (148,838) |
| Infrastructure costs | 5(c) | **(73,914)** | (50,734) |
| Depreciation and amortisation expense | 5(d) | **(185,476)** | (188,582) |
| (Recognition)/reversal of impairment | 5(h) | **(19,571)** | (1,101) |
| Incident costs | 5(e) | **(10,435)** | (18,891) |
| Operating lease | | **(6,637)** | (7,056) |
| Other expenses | | **(68,523)** | (65,968) |
| **Expenses, excluding finance costs** | | **(703,621)** | (646,450) |
| **Profit from operating activities** | | **127,343** | 180,318 |
| **Finance costs** | 5(f) | **(25,169)** | (30,759) |
| **Profit before income tax** | | **102,174** | 149,559 |
| **Income tax (expense)/benefit** | 5(g) | **(47,925)** | (27,078) |
| **Net Profit after tax** | | **54,249** | 122,481 |
| **Profit is attributable to:** | | | |
| **Equity holder of Australian Rail Track Corporation Ltd** | | **54,249** | 122,481 |

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 2018

| | | Consolidated | |
|---|---|---|---|
| | Notes | **2018 $'000** | 2017 $'000 |
| **Profit/(Loss) for the year** | | **54,249** | 122,481 |
| **Other comprehensive income/(loss)** | | | |
| *Items that may be reclassified to profit or loss – net of tax* | | | |
| Cash flow hedge charged to equity – foreign exchange | 8(b) | **9** | (28) |
| **Total items that may be reclassified subsequently to profit or loss** | | **9** | (28) |
| *Items that will not be reclassified to profit or loss – net of tax* | | | |
| Revaluation adjustment property plant and equipment | 8(b) | **31,341** | (98,841) |
| Re-measurement (losses)/gains on defined benefit plans | 8(c) | **762** | 2,117 |
| **Total items that will not be reclassified to profit or loss** | | **32,103** | (96,724) |
| **Other comprehensive income/(loss) for the year, net of tax** | | **32,112** | (96,752) |
| **Total comprehensive income/(loss) for the year, net of tax** | | **86,361** | 25,729 |
| **Total comprehensive income/(loss) for the year is attributable to:** | | | |
| **Equity holder of Australian Rail Track Corporation Ltd** | | **86,361** | 25,729 |

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

# CONSOLIDATED BALANCE SHEET

As at 30 June 2018

| | Notes | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6(a) | **61,554** | 108,236 |
| Trade and other receivables | 6(b) | **72,703** | 72,043 |
| Inventories | 7(a) | **36,186** | 29,532 |
| Properties held for sale | 7(b) | **2,776** | 2,776 |
| Current tax receivables | | **–** | 1,370 |
| Other assets | | **6,934** | 6,135 |
| **Total current assets** | 20(e) | **180,153** | 220,092 |
| **Non-current assets** | | | |
| Receivables | 6(b) | **9,862** | 645 |
| Other assets | | **5,140** | – |
| Property, plant and equipment | 7(c) | **4,425,407** | 4,289,850 |
| Deferred tax assets | 7(e) | **131,366** | 193,054 |
| Intangible assets | 7(d) | **78,800** | 84,521 |
| **Total non-current assets** | | **4,650,575** | 4,568,070 |
| **Total assets** | | **4,830,728** | 4,788,162 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 6(c) | **109,505** | 80,701 |
| Interest bearing liabilities | 6(d) | **65,042** | 215,289 |
| Derivative financial instruments | 11(a) | **–** | 19 |
| Provisions | 7(f) | **57,794** | 55,937 |
| Other liabilities | 6(e) | **93,293** | 42,758 |
| Deferred income – government grants | 7(h) | **73,191** | 70,577 |
| **Total current liabilities** | 20(e) | **398,825** | 465,281 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 6(d) | **299,578** | 299,384 |
| Deferred income – government grants | 7(h) | **423,566** | 425,537 |
| Provisions | 7(f) | **4,341** | 4,393 |
| Defined benefit plans | 7(g) | **9,468** | 11,069 |
| Other liabilities | 6(e) | **16,204** | 68,154 |
| **Total non-current liabilities** | | **753,157** | 808,537 |
| **Total liabilities** | | **1,151,982** | 1,273,818 |
| **Net assets** | | **3,678,746** | 3,514,344 |
| **EQUITY** | | | |
| Contributed equity | 8(a) | **2,827,656** | 2,684,226 |
| Reserves | 8(b) | **980,543** | 964,326 |
| Retained earnings | 8(c) | **(129,453)** | (134,208) |
| **Total equity** | | **3,678,746** | 3,514,344 |

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 2017

| Consolidated | Notes | Contributed Equity $'000 |
|---|---|---|
| **Balance at 1 July 2016** | | 2,603,226 |
| Total profit for the year as reported in the financial statements | 8(c) | – |
| Re-measurement gains/(losses) on defined benefit plans – (net of tax) | 8(c) | – |
| Cash flow hedge foreign exchange – (net of tax) | 8(b) | – |
| Asset revaluation reserve adjustment – (net of tax) | 8(b) | – |
| **Total comprehensive income for the year** | | – |
| | | |
| Transfer to profit reserve | 8(b), 8(c) | – |
| Dividends provided for or paid | 8(b) | – |
| Asset disposal revaluation reserve adjustment | 8(b) | – |
| Contributions of equity, net of transaction costs and tax | 8 | 81,000 |
| **Balance at 30 June 2017** | | **2,684,226** |
| | | |
| **For the year ended 30 June 2018** | | |
| **Balance at 1 July 2017** | | 2,684,226 |
| Total profit for the year as reported in the Financial Statements | 8(c) | – |
| Re-measurement gains/(losses) on defined benefit plans – (net of tax) | 8(c) | – |
| Cash flow hedge foreign exchange – (net of tax) | 8(b) | – |
| Asset revaluation reserve adjustment – (net of tax) | 8(b) | – |
| **Total comprehensive income for the year** | | – |
| | | |
| Transfer to profit reserve | 8(b), 8(c) | – |
| Dividends provided for or paid | 8(b) | – |
| Asset disposal revaluation reserve adjustment | 8(b) | – |
| Contributions of equity, net of transaction costs and tax | 8(a) | 143,430 |
| **Balance at 30 June 2018** | | **2,827,656** |

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

| Attributable to owners of Australian Rail Track Corporation Ltd | | | | | |
|---|---|---|---|---|---|
| Property, plant and equipment revaluation reserve $'000 | Hedging reserve – cash flow hedge – foreign exchange $'000 | Profit reserve $'000 | Total Reserves $'000 | Retained Earnings $'000 | Total Equity $'000 |
| 792,678 | 19 | 231,148 | 1,023,845 | (136,642) | 3,490,429 |
| – | – | – | – | 122,481 | 122,481 |
| – | – | – | – | 2,117 | 2,117 |
| – | (28) | – | (28) | – | (28) |
| (98,841) | – | – | (98,841) | – | (98,841) |
| (98,841) | (28) | – | (98,869) | 124,598 | 25,729 |
| – | – | 122,481 | 122,481 | (122,481) | – |
| – | – | (82,814) | (82,814) | – | (82,814) |
| (317) | – | – | (317) | 317 | – |
| – | – | – | – | – | 81,000 |
| 693,520 | (9) | 270,815 | 964,326 | (134,208) | 3,514,344 |
| 693,520 | (9) | 270,815 | 964,326 | (134,208) | 3,514,344 |
| – | – | – | – | 54,249 | 54,249 |
| – | – | – | – | 762 | 762 |
| – | 9 | – | 9 | – | 9 |
| 31,341 | – | – | 31,341 | – | 31,341 |
| 31,341 | 9 | – | 31,350 | 55,011 | 86,361 |
| – | – | 54,249 | 54,249 | (54,249) | – |
| – | – | (65,389) | (65,389) | – | (65,389) |
| (3,993) | – | – | (3,993) | 3,993 | – |
| – | – | – | – | – | 143,430 |
| 720,868 | – | 259,675 | 980,543 | (129,453) | 3,678,746 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

| | Notes | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **801,701** | 808,439 |
| Payments to suppliers and employees | | **(549,389)** | (485,125) |
| Government grants – revenue | | **57,442** | 74,037 |
| | | **309,754** | 397,351 |
| Income taxes received/(paid) | | **1,370** | (72) |
| Interest received | | **7,172** | 5,399 |
| **Net cash inflow from operating activities** | 9(a) | **318,296** | 402,678 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(287,446)** | (264,150) |
| Payments for intangibles | | **(2,267)** | (3,257) |
| Proceeds from sale of property, plant and equipment | | **731** | 570 |
| **Net cash outflow from investing activities** | | **(288,982)** | (266,837) |
| **Cash flows from financing activities** | | | |
| Government grants – deferred | | **23,114** | 30,291 |
| Payments for transaction and interest costs relating to borrowings | | **(27,520)** | (34,413) |
| Proceeds (repayments)/from to interest bearing liabilities | 6(d) | **(149,631)** | (129,130) |
| Proceeds from equity funding | 8(a) | **143,430** | 81,000 |
| Dividends paid to Group's Shareholder | 10(b) | **(65,389)** | (82,814) |
| **Net cash (outflow) from financing activities** | | **(75,996)** | (135,066) |
| **Net (decrease)increase in cash and cash equivalents** | | **(46,682)** | 775 |
| Cash and cash equivalents at the beginning of the financial year | | **108,236** | 107,461 |
| **Cash and cash equivalents at end of year** | 6(a) | **61,554** | 108,236 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 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 2018 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 2018 was authorised for issue in accordance with a resolution of the Directors on 30 August 2018.

## 2 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 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, held for sale assets and derivatives which are measured at fair value.

Where applicable the significant accounting policies are contained in the notes to the financial statements to which they relate and note 20 (Other accounting policies).

The financial statements have been prepared on a going concern basis. See note 20(e).

## 3 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.

## 4 Significant accounting estimates and judgements

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 individual carrying amounts of assets and liabilities or may involve a higher degree of judgement or complexity within the next financial year are found in the following notes:

| | Note |
|---|---|
| Access revenue – Hunter Valley coal provision | 6 (e) |
| Fair value | 7 (c) |
| Deferred tax recognition | 7 (e) |
| Incident recognition | 7 (f) |
| Defined benefit plan | 7 (g) |

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

## 5 Income and expenses

### (a) Access revenue

| | Consolidated | |
|---|---|---|
| | **2018** **$'000** | 2017 $'000 |
| Hunter Valley | **430,516** | 428,106 |
| Interstate | **282,425** | 285,651 |
| | **712,941** | 713,757 |

**Accounting Policy**

*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.

*Access revenue*

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

### (b) Employee benefits expenses

| | Notes | Consolidated | |
|---|---|---|---|
| | | **2018** **$'000** | 2017 $'000 |
| Wages and salaries | | **165,923** | 162,010 |
| Workers compensation | | **2,268** | 2,215 |
| Defined benefit plan expense | 7(g) | **918** | 1,055 |
| | | **169,109** | 165,280 |

**Accounting policy**

*Employee benefits*

Accounting policies for employee benefits refer to note 7(f) and 7(g).

# 5 Income and expenses (continued)

## (c) Infrastructure costs

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Infrastructure costs | **73,914** | 50,734 |
| | **73,914** | 50,734 |

Infrastructure costs expensed reflect Inland Rail and Port Botany project costs that are not capital in nature, e.g. including pre construction concept and feasibility work.

## (d) Depreciation and Amortisation

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Depreciation | | |
| Buildings | **1,098** | 1,044 |
| Plant and equipment | **176,390** | 180,066 |
| | **177,488** | 181,110 |
| Amortisation | | |
| Computer software | **3,344** | 2,754 |
| Land rights | **872** | 946 |
| Other | **3,772** | 3,772 |
| | **7,988** | 7,472 |
| **Total** | **185,476** | 188,582 |

**Accounting policy**

*Depreciation and amortisation*

Accounting policies for depreciation and amortisation refer to note 7(c).

## (e) Net incident costs

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Expenses – Incident costs | **10,435** | 18,891 |
| Less: Other income – Incident and insurance recovery | **5,466** | 4,909 |
| | **4,969** | 13,982 |

**Accounting policy**

*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.

### (f) Finance costs

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Finance costs | **25,169** | 30,759 |
| | **25,169** | 30,759 |

**Accounting policy**

*Finance costs*

Borrowings are initially recognised at fair value, net of transaction costs incurred and thereafter at amortised cost.

Borrowing costs on Bonds, including fees paid on establishment, are recognised as they accrue using the effective interest method. This is a method of calculating the amortised cost of a financial 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 liability to the net carrying amount of the financial liability.

Syndicated Debt Facility borrowing costs are recognised as they accrue using the effective interest method; however the fees and interest applicable have different durations to the facility and the variable rates are linked to the market. As a result the shorter period is utilised to undertake the recognition of the individual components of the borrowing costs. As the duration is generally shorter than a year there is generally no difference between effective interest method and straight line recognition.

## 5 Income and expenses (continued)

### (f) Finance costs (continued)

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.

From time to time the Group may undertake short term borrowings such as bridging facilities for contingency or other purposes, and 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.

### (g) Income tax expense/(benefit)

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Current tax expense | **–** | – |
| **Deferred tax relates to the following:** | | |
| Tax losses and offsets available for offsetting against future taxable income | **1,665** | 2,024 |
| **Origination or reversal of temporary differences in relation to the following items:** | | |
| Property, plant and equipment | **45,146** | 25,800 |
| Other receivables | **991** | (839) |
| Other | **123** | 93 |
| **Total income tax expense/(benefit)** | **47,925** | 27,078 |
| **Less movements in temporary differences recognised in deferred tax expense:** | | |
| Property, plant and equipment | **(45,146)** | (25,800) |
| Other amounts accrued | **(1,114)** | 746 |
| (Recognition)/utilisation tax losses and offsets | **(1,665)** | (2,024) |
| **Total deferred tax expense** | **(47,925)** | (27,078) |
| **Income tax payable in respect of financial year** | **–** | – |

The Group's current tax expense for the year ended 30 June 2018 is nil (2017: 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.

### Reconciliation of Tax Expense to Income Tax Payable

The tax law and accounting standards contain different rules around the timing of when amounts may be assessable or deductible. These differences give rise to temporary differences which are recognised in deferred tax expense.

The deductible temporary differences in relation to property, plant and equipment exist as a result of ARTC's ability to claim tax depreciation on its leased assets in NSW under Division 58 of the *Income Tax Assessment Act (1997)* in addition to the cumulative impact of impairments and fair value reductions to the accounting value of infrastructure assets.

**Accounting policy**

*Income tax*

Accounting policies related to income tax refer to note 7(e).

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

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Profit from continuing operations before income tax expense | **102,174** | 149,559 |
| Tax at the Group's statutory tax rate of 30% | **30,652** | 44,868 |
| Unrecognised temporary differences | **17,238** | (17,667) |
| Amendments and prior year adjustments | **57** | (25) |
| Research and development income tax offset | **(68)** | (127) |
| Non-taxable items | **46** | 29 |
| Total income tax expense | **47,925** | 27,078 |

ARTC had an Effective Tax Rate (ETR) of 46.9% as a result of the deferred tax asset recognition issue. Excluding the deferred tax asset recognition issue, the nominated ETR is 30.00%.

# 5 Income and expenses (continued)

## (g) Income tax expense/(benefit) (continued)

### Amounts charged or credited directly to equity

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Deferred income tax related to items charged directly to equity | | |
| Net (loss)/gain on net revaluation of infrastructure assets | **13,431** | (42,360) |
| Net (loss)/gain on defined benefit plan | **326** | 907 |
| Net (loss)/gain on foreign exchange hedge | **4** | (12) |
| | **13,761** | (41,465) |
| Deferred income tax charge included in equity comprises: | | |
| (Decrease)/increase in deferred tax liabilities | **23,888** | (43,704) |
| (Increase)/decrease in deferred tax assets | **(10,127)** | 2,239 |
| | **13,761** | (41,465) |

The income tax charged directly to equity of $13.4m (2017: ($42.4m) is the tax effect of the net revaluations of $44.8m (2017: $141.2m), see note 7(c). The income tax charged directly to equity of $0.3m (2017: $0.9m) is the tax effect of the defined benefit amount included in other comprehensive income $1.1m (2017: $3.0m), see note 7(g).

## (h) Recognition/(reversal) of impairment

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Impairment – property, plant and equipment (refer to note 7(c)) | **19,571** | 1,082 |
| Impairment – shares held at cost | **–** | 19 |
| | **19,571** | 1,101 |

**Accounting policy**

*Impairment*

Accounting policies for impairment refer to note 7(c).

## 6 Financial assets and financial liabilities

### (a) Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| **Current assets** | | |
| Cash at bank and in hand | **21,502** | 28,155 |
| Funds on deposit | **40,052** | 80,081 |
| | **61,554** | 108,236 |

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 11.

### (b) Trade and other receivables

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Trade receivables | **55,142** | **–** | **55,142** | 59,552 | – | 59,552 |
| Provision for doubtful receivables | **(188)** | **–** | **(188)** | (114) | – | (114) |
| Other receivables | **17,749** | **9,862** | **27,611** | 12,605 | 645 | 13,250 |
| | **72,703** | **9,862** | **82,565** | 72,043 | 645 | 72,688 |

Information on credit risk, impairment and fair value of trade and other receivables can be found in note 11.

## 6 Financial assets and financial liabilities (continued)

### (c) Trade and other payables

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| **Current liabilities** | | |
| Trade payables | **106,498** | 74,847 |
| Other payables | **3,007** | 5,854 |
| | **109,505** | 80,701 |

Information about the Group's exposure to financial risk is set out in note 11.

**Accounting policy**

*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.

### (d) Interest bearing liabilities

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Bonds – maturing: | | | | | | |
| 20 December 2017 | **–** | **–** | **–** | 200,288 | – | 200,288 |
| 5 December 2019 | **–** | **175,216** | **175,216** | – | 175,110 | 175,110 |
| 11 December 2024 | **–** | **124,362** | **124,362** | – | 124,274 | 124,274 |
| Syndicated debt facility | **65,042** | **–** | **65,042** | 15,001 | – | 15,001 |
| | **65,042** | **299,578** | **364,620** | 215,289 | 299,384 | 514,673 |

The cashflow movement of $149.6m (2017: $129.1m) differs from the variance between the balances above due to the impact of effective interest.

### (e) Other liabilities

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Other liabilities | **93,293** | **16,204** | **109,497** | 42,758 | 68,154 | 110,912 |
| | **93,293** | **16,204** | **109,497** | 42,758 | 68,154 | 110,912 |

Other liabilities is primarily comprised of a liability in respect of the over recovery of constrained network coal revenue arising from Compliance Assessments which remain open pending final ACCC determination. See note 5(a).

**Significant accounting estimate and judgements**

*Access Revenue – Hunter Valley Coal liability*

The timing of the ACCC approved Hunter Valley Access Undertaking Agreement (HVAU) process requires that a liability is held at the close of each reporting period for Compliance Assessments which remain open pending final ACCC determination. As at 30 June 2018 Compliance Assessments which remain open relate to Calendar Years 2015, 2016, 2017 and H1 2018 (which is not due for lodgement until 2019).

## 6 Financial assets and financial liabilities (continued)

### (f) Changes in liabilities

| Consolidated | 1 July $'000 | Cashflow $'000 | Non-cash changes: Change in fair value $'000 | Non-cash changes: Transfer $'000 | Non-cash changes: Other $'000 | 30 June $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **2018** | | | | | | |
| **Current** | | | | | | |
| Interest bearing liabilities | **215,289** | **(149,631)** | **–** | **–** | **(616)** | **65,042** |
| **Non-Current** | | | | | | |
| Interest bearing liabilities | **299,384** | **–** | **–** | **–** | **194** | **299,578** |
| | **514,673** | **(149,631)** | **–** | **–** | **(422)** | **364,620** |
| 2017 | | | | | | |
| **Current** | | | | | | |
| Interest bearing liabilities | – | – | – | 215,000 | 289 | 215,289 |
| **Non-Current** | | | | | | |
| Interest bearing liabilities | 644,131 | (129,130) | – | (215,000) | (617) | 299,384 |
| | 644,131 | (129,130) | – | – | (328) | 514,673 |

## 7 Non-financial assets and liabilities

### (a) Inventories

| | Consolidated | |
|---|---|---|
| | **2018** **$'000** | 2017 $'000 |
| **Current assets** | | |
| Raw materials – at cost | 36,186 | 29,532 |
| | 36,186 | 29,532 |

**Accounting policy**

*Inventories*

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

### (b) Properties held for sale

| | Consolidated | |
|---|---|---|
| | **2018** **$'000** | 2017 $'000 |
| **Current assets** | | |
| Properties held for sale | 2,776 | 2,776 |
| | 2,776 | 2,776 |

All properties held for sale are expected to be sold within the next 12 months. Gain or losses on the sale of the assets are recognised in the consolidated income statement under profit/(loss) on sale of assets. The prior year property was expected to settle within 12 months as at 30 June 2017, settlement was actively pursued however took longer than 12 months, settling in July 2018.

## 7 Non-financial assets and liabilities (continued)

### (c) Property, plant and equipment

**Non-Current Assets**

| Consolidated | Construction in progress $'000 | Freehold land $'000 | Freehold buildings $'000 |
|---|---|---|---|
| **At 1 July 2016** | | | |
| Cost or fair value | 252,858 | 7,397 | 17,427 |
| Accumulated depreciation | – | – | (4,747) |
| **Net book amount** | **252,858** | **7,397** | **12,680** |
| **Year ended 30 June 2017** | | | |
| Opening net book amount | 252,858 | 7,397 | 12,680 |
| Additions | – | 16,088 | 476 |
| Transfers to properties held for sale | – | (2,776) | – |
| Impairment expense | – | (2,100) | – |
| Borrowing costs capitalised | 3,326 | – | – |
| Additions into capital works in progress | 253,540 | – | – |
| Depreciation charge | – | – | (520) |
| Transfers out of capital work in progress | (220,678) | – | – |
| Written down value of assets disposed | – | – | – |
| Reversal of revaluation of assets | – | – | – |
| Revaluation of assets | – | – | – |
| Transfer to land usage rights | – | (2,175) | – |
| **Closing net book amount** | **289,046** | **16,434** | **12,636** |
| **At 30 June 2017** | | | |
| Cost or fair value | 289,046 | 16,434 | 17,903 |
| Accumulated depreciation | – | – | (5,267) |
| **Net book amount** | **289,046** | **16,434** | **12,636** |
| **Year ended 30 June 2018** | | | |
| Opening net book amount | 289,046 | 16,434 | 12,636 |
| Additions | – | 69 | 474 |
| Impairment expense | (7,882) | – | – |
| Borrowing costs capitalised | 1,929 | – | – |
| Additions into capital works in progress | 288,116 | – | – |
| Depreciation charge | – | – | (535) |
| Transfers out of capital work in progress | (214,903) | – | – |
| Written down value of assets disposed | – | – | – |
| Reversal of revaluation of assets | – | – | – |
| Revaluation of assets | – | – | – |
| **Closing net book amount** | **356,306** | **16,503** | **12,575** |
| **At 30 June 2018** | | | |
| Cost or valuation | 356,306 | 16,503 | 18,378 |
| Accumulated depreciation | – | – | (5,803) |
| **Net book amount** | **356,306** | **16,503** | **12,575** |

| Leasehold buildings $'000 | Leasehold Improvements – infrastructure $'000 | Plant and Equipment – infrastructure $'000 | Plant and Equipment – Other $'000 | Total $'000 |
|---|---|---|---|---|
| 17,363 | 3,615,966 | 726,552 | 87,165 | 4,724,728 |
| (4,237) | (266,957) | (50,717) | (36,080) | (362,738) |
| **13,126** | **3,349,009** | **675,835** | **51,085** | **4,361,990** |
| | | | | |
| 13,126 | 3,349,009 | 675,835 | 51,085 | 4,361,990 |
| 714 | 168,769 | 28,575 | 6,134 | 220,756 |
| – | – | – | – | (2,776) |
| – | 915 | 103 | – | (1,082) |
| – | – | – | – | 3,326 |
| – | – | – | – | 253,540 |
| (524) | (142,165) | (29,989) | (7,912) | (181,110) |
| – | – | – | – | (220,678) |
| – | (695) | – | (45) | (740) |
| – | (142,841) | – | – | (142,841) |
| – | – | 1,640 | – | 1,640 |
| – | – | – | – | (2,175) |
| **13,316** | **3,232,992** | **676,164** | **49,262** | **4,289,850** |
| | | | | |
| 18,077 | 3,483,778 | 731,880 | 92,496 | 4,649,614 |
| (4,761) | (250,786) | (55,716) | (43,234) | (359,764) |
| **13,316** | **3,232,992** | **676,164** | **49,262** | **4,289,850** |
| | | | | |
| 13,316 | 3,232,992 | 676,164 | 49,262 | 4,289,850 |
| 391 | 108,515 | 99,827 | 5,627 | 214,903 |
| – | (10,920) | (769) | – | (19,571) |
| – | – | – | – | 1,929 |
| – | – | – | – | 288,116 |
| (563) | (137,464) | (30,496) | (8,430) | (177,488) |
| – | – | – | – | (214,903) |
| – | – | (2,105) | (96) | (2,201) |
| – | (21,982) | (12,873) | – | (34,855) |
| – | 79,627 | – | – | 79,627 |
| **13,144** | **3,250,768** | **729,748** | **46,363** | **4,425,407** |
| | | | | |
| 18,467 | 3,521,538 | 786,303 | 96,800 | 4,814,295 |
| (5,323) | (270,770) | (56,555) | (50,437) | (388,888) |
| **13,144** | **3,250,768** | **729,748** | **46,363** | **4,425,407** |

## 7 Non-financial assets and liabilities (continued)

### (c) Property, plant and equipment (continued)

*(i) Basis of valuation*

At 30 June 2018 the Group undertook a fair value assessment using 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. Property, plant and equipment discount cash flow reviews are undertaken annually to ensure significant movements are identified and accounted for.

The 30 June 2018 assessment resulted in an downward revaluation of the Interstate business unit's assets. The result of this year's assessment is a $34.9m valuation decrement (2017: $4.5m valuation increment). An additional impairment expense of $9.5m (2017: $1.0m impairment benefit) has been recognised in the income statement.

The Hunter Valley business unit assets were previously revalued. The result of this year's assessment is a $79.6m valuation increment (2017: $145.7m valuation decrement). For further details on the calculation refer to note 11(d).

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

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| **Infrastructure assets** | | |
| **Plant and Equipment** | | |
| Cost | **918,363** | 821,894 |
| Accumulated depreciation | **(261,787)** | (237,796) |
| **Net book amount** | **656,576** | 584,098 |
| **Leasehold Improvements** | | |
| Cost | **3,822,782** | 3,714,133 |
| Accumulated depreciation | **(845,641)** | (717,242) |
| **Net book amount** | **2,977,141** | 2,996,891 |

At 30 June 2018 the Group undertook an impairment assessment on the assets and capital works in progress directly related to the Inland Rail project. The expenditure has been assessed on an individual asset basis and compared to market values. In some cases market values were not available for the expenditure and this has resulted in an impairment of $10.0m (2017: $nil).

### Significant accounting estimates and judgements

*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 this note and note 11(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 11(d)(iv) and (v) contains further detail on the process and valuation technique.

### Accounting policy

*Property, plant and equipment*

Infrastructure is valued on a fair value basis while all non-infrastructure is on a cost basis and therefore is subject to an impairment/revaluation assessment at each reporting date.

#### 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 not applied to non-infrastructure assets on the basis that these assets 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 2018 as a result of the fair value assessment. Infrastructure assets are shown at fair value (inclusive of revaluations and impairments) less accumulated depreciation. 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.

## 7 Non-financial assets and liabilities (continued)

### (c) Property, plant and equipment (continued)

*(i) Basis of valuation (continued)*

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 elected that the deemed cost of assets on hand at 30 June 2005 was the revalued amount of those assets. Any accumulated depreciation as at the revaluation date was eliminated against the gross carrying amount of the asset and the net amount was 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, deferred tax assets and infrastructure 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 assessment to asset groupings including most non-financial assets, the carrying value of non-infrastructure assets will be comparable to the fair value which is the estimated recoverable amount and therefore a separate impairment calculation is not required. See note 4 (i).

**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.

### Accounting policy

*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 100 years
- Culverts 100 years
- Rail 110 years
- Sleepers 70 years
- Signals and Communications 30 years
- Turnouts 60 years
- Tunnels 100 years

*Non-Infrastructure assets*

- Buildings 50 years
- IT and Other equipment 4 years
- Motor vehicles 5 years
- Other equipment 40 years

As at 30 June 2018 less than 5% of the assets are being depreciated at the maximum useful life applicable to their relevant class.

* 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 end and adjusted if required.

*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.

# 7 Non-financial assets and liabilities (continued)

## (d) Intangible assets

| Consolidated | Computer Software $'000 | Land Rights $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| **At 1 July 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** |
| **Year ended 30 June 2017** | | | | |
| Opening net book amount as at 1 July | 5,469 | 39,610 | 41,482 | 86,561 |
| Additions into asset register | 3,109 | 148 | – | 3,257 |
| Amortisation charge | (2,754) | (945) | (3,773) | (7,472) |
| Transfers from land | – | 2,175 | – | 2,175 |
| **Closing net book amount** | **5,824** | **40,988** | **37,709** | **84,521** |
| **At 30 June 2017** | | | | |
| Cost | 17,600 | 44,735 | 55,000 | 117,335 |
| Accumulated amortisation | (11,776) | (3,747) | (17,291) | (32,814) |
| **Net book amount** | **5,824** | **40,988** | **37,709** | **84,521** |
| **Consolidated** | | | | |
| **Year ended 30 June 2018** | | | | |
| Opening net book amount as at 1 July | 5,824 | 40,988 | 37,709 | 84,521 |
| Additions into asset register | 2,267 | – | – | 2,267 |
| Amortisation charge | (3,344) | (872) | (3,772) | (7,988) |
| **Closing net book amount** | **4,747** | **40,116** | **33,937** | **78,800** |
| **At 30 June 2018** | | | | |
| Cost | 19,512 | 44,735 | 55,000 | 119,247 |
| Accumulated amortisation | (14,765) | (4,619) | (21,063) | (40,447) |
| **Net book amount** | **4,747** | **40,116** | **33,937** | **78,800** |

Note: impairment is not applicable on the above assets.

### Accounting policy

*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.

ARTC recognises land usage rights when costs are incurred to obtain land which ARTC does not retain title but through leasing rights has the ability to utilise the land. Under lease arrangements, ARTC may provide funds to other government 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. These rights have a finite useful life and amortisation is calculated using the straight line method to allocate cost over the estimated useful life.

## 7 Non-financial assets and liabilities (continued)

### (e) Deferred tax balances

*(i) Deferred tax assets*

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Property plant and equipment | **325,128** | 348,323 |
| Income tax losses and non-refundable offsets | **186** | 1,851 |
| Defined benefit plan | **2,841** | 3,321 |
| Other current assets | **57** | 31 |
| | **328,212** | 353,526 |
| **Movements:** | | |
| Opening balance at 1 July | **353,526** | 375,379 |
| (Charged)/credited to the consolidated income statement related to tax losses and offsets | **(1,665)** | (1,914) |
| (Charged)/credited to the consolidated income statement related to property plant and equipment | **(33,652)** | (17,607) |
| (Charged)/credited to the consolidated income statement, other | **(123)** | (93) |
| (Charged)/credited to equity related to property, plant and equipment | **10,456** | (1,344) |
| (Charged)/credited to equity related to defined benefit plan | **(326)** | (907) |
| (Charged)/credited related to cash flow hedge | **(4)** | 12 |
| **Closing balance at 30 June before set off** | **328,212** | 353,526 |
| Set off of deferred tax liabilities | **(196,846)** | (160,472) |
| **Net deferred tax asset** | **131,366** | 193,054 |

At 30 June 2018, the Group has unrecognised deferred tax assets in relation to temporary differences of $264.6m (2017: $247.4m) associated with the Group's ability to claim tax depreciation on NSW lease assets utilising Division 58 of the *Income Tax Assessment Act 1997* and also due to the cumulative impacts of impairment of assets on the North South corridor within the Interstate rail network.

The Group has an unrecognised deferred tax asset in relation to a carried forward capital loss of $0.7m (2017: $0.7m). It is not recognised on the basis that there are no forecast future capital gains against which the loss could be utilised.

*(ii) Deferred tax liabilities*

| | Consolidated | |
|---|---|---|
| | **2018** | 2017 |
| | **$'000** | $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Property, plant and equipment | **193,681** | 158,299 |
| Other receivables | **3,165** | 2,173 |
| **Deferred tax liabilities** | **196,846** | 160,472 |

| | **2018** | 2017 |
|---|---|---|
| | **$'000** | $'000 |
| **Movements:** | | |
| Opening balance at 1 July | **160,472** | 196,712 |
| Charged/(credited) to the consolidated income statement related to property, plant and equipment | **11,495** | 8,303 |
| Charged/(credited) to the consolidated income statement related to other receivables | **991** | (839) |
| Charged/(credited) to equity related to property, plant and equipment | **23,888** | (43,704) |
| **Closing balance at 30 June before set off** | **196,846** | 160,472 |
| Set off to deferred tax assets | **(196,846)** | (160,472) |
| **Net deferred tax liability** | **–** | – |

### Tax Strategy, Risk Management and Governance

ARTC has developed a Board approved Tax Governance Policy to guide the way in which the Group manages its tax obligations and is consistent with the Group's corporate governance framework reflecting the ASX "Corporate Governance Principles and Recommendations" and the Group's low risk appetite.

The Policy is supported by tax related procedures and processes which ensure ARTC effectively manages its tax risk.

ARTC's approach to taxation aligns with the Group's business strategy, code of conduct and values. As a Government Business Enterprise, ARTC is governed by the *Public Governance, Performance and Accountability Act (2013)* [PGPA Act] and Government Business Enterprise [GBE] Guidelines. ARTC considers the interests of its Shareholder in the adoption of low risk tax strategies and avoidance of non-compliant tax practices.

ARTC seeks to uphold the reputation of the Group and its Shareholder by giving due consideration to its social and corporate responsibility to pay the right amount of tax, at the right time, in the right jurisdiction and be transparent in the conduct of its tax affairs.

# 7 Non-financial assets and liabilities (continued)

## (e) Deferred tax balances (continued)

### *(ii) Deferred tax liabilities (continued)*

#### Tax Planning and Relationship with Tax Authorities

ARTC does not undertake transactions of a contrived or artificial nature for the purpose of obtaining a tax benefit. All transactions are undertaken in the context of the commercial needs of the company, which are of primary importance.

ARTC engages in Tax Planning in order to legitimately achieve the best after tax outcomes, that is, through claiming available deductions, tax rebates, offsets and credits. ARTC is committed to observing all applicable tax laws, rulings and regulations in meeting its tax compliance obligations in all jurisdictions where ARTC operates.

Professional opinions are obtained from reputable external advisors on matters where the amount of the tax involved is significant and the tax treatment is complex or relates to non-routine transactions. Where management considers it appropriate, ARTC engages with the tax authorities to obtain formal guidance (including private binding rulings) in relation to the taxation consequences of complex or non-routine transactions or where there is uncertainty in the application of the tax laws.

**Significant accounting estimates and judgements**

*Deferred tax recognition*

The Group has recognised a net deferred tax asset as set out in this note 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.

**Accounting policy**

*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 periods 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*

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.

## 7 Non-financial assets and liabilities (continued)

### (f) Provisions

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Employee benefits | **43,245** | **4,341** | **47,586** | 40,187 | 4,393 | 44,580 |
| Incident provision | **14,549** | **–** | **14,549** | 15,750 | – | 15,750 |
| | **57,794** | **4,341** | **62,135** | 55,937 | 4,393 | 60,330 |

#### *(i) Information about individual provisions and significant estimates*

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:

| **2018** | **Employee benefits $'000** | **Incident $'000** | **Total $'000** |
|---|---|---|---|
| Carrying amount at 1 July | 44,580 | 15,750 | 60,330 |
| Additional provisions recognised | 26,149 | 10,435 | 36,584 |
| Amounts used during the year | (23,143) | (11,636) | (34,779) |
| **Carrying amount at 30 June** | **47,586** | **14,549** | **62,135** |

**Significant accounting estimates and judgements**

*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.

**Accounting policy**

*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 the high quality corporate bond rates when discounting employee benefit liabilities.

*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.

## 7 Non-financial assets and liabilities (continued)

### (g) 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 2016** | (41,844) | 27,376 | (14,468) |
| **Included in consolidated income statement** | | | |
| Current service cost | (571) | – | (571) |
| Interest (expense)/income | (1,443) | 959 | (484) |
| | **(2,014)** | **959** | **(1,055)** |
| **Included in other comprehensive income** | | | |
| Re-measurements | | | |
| Return on plan assets, excluding amounts included in interest (expense)/income | – | 1,578 | 1,578 |
| (Loss)/gain from change in financial assumptions | 3,176 | – | 3,176 |
| Experience gains/(losses) | (1,730) | – | (1,730) |
| | **1,446** | **1,578** | **3,024** |
| Contributions: | | | |
| Employers | – | 1,430 | 1,430 |
| Plan participants | (290) | 290 | – |
| Payments from plan: | | | |
| Payments from plan | 1,996 | (1,996) | – |
| | **1,706** | **(276)** | **1,430** |
| **Balance as at 30 June 2017** | **(40,706)** | **29,637** | **(11,069)** |
| **Balance sheet as at 1 July 2017** | **(40,706)** | **29,637** | **(11,069)** |
| **Included in consolidated income statement** | | | |
| Current service cost | (478) | – | (478) |
| Interest (expense)/income | (1,691) | 1,251 | (440) |
| | **(2,169)** | **1,251** | **(918)** |

| | Present value of obligation $'000 | Fair value of plan assets $'000 | Net amount $'000 |
|---|---|---|---|
| **Included in other comprehensive income** | | | |
| Re-measurements | | | |
| Return on plan assets, excluding amounts included in interest (expense)/income | – | 1,282 | 1,282 |
| (Loss)/gain from change in demographic assumptions | (1,276) | – | (1,276) |
| (Loss)/gain from change in financial assumptions | (385) | – | (385) |
| Experience gains/(losses) | 1,468 | – | 1,468 |
| | **(193)** | **1,282** | **1,089** |
| Contributions: | | | |
| Employers | – | 1,430 | 1,430 |
| Plan participants | (281) | 281 | – |
| Payments from plan: | | | |
| Payments from plan | 2,186 | (2,186) | – |
| | **1,905** | **(475)** | **1,430** |
| **Balance as at 30 June 2018** | **(41,163)** | **31,695** | **(9,468)** |

### *(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 three defined benefit funds listed below. As part of that arrangement ARTC is required to make an annual contribution that covers all three schemes to assure that the schemes are sufficiently funded.

#### 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 which means that benefits are based on a specified formula, and as such are not affected by investment returns. SSS members contribute towards units of fortnightly pension throughout their membership.

## 7 Non-financial assets and liabilities (continued)

### (g) Non-current liabilities – Defined benefit plans (continued)

#### *(ii) Superannuation plan (continued)*

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 and therefore will not match the balance of ARTC fair value of plan assets as disclosed in g(i).

| The major category of plan assets are as follows: | Consolidated 2018 Quoted $m | Consolidated 2018 Un-quoted $m | Consolidated 2018 Total $m | Consolidated 2017 Quoted $m | Consolidated 2017 Un-quoted $m | Consolidated 2017 Total $m |
|---|---|---|---|---|---|---|
| Equity instruments | 17,219 | 2,944 | **20,163** | 17,981 | 3,519 | 21,500 |
| Property | 788 | 2,923 | **3,711** | 926 | 2,527 | 3,453 |
| Short term securities | 2,185 | 2,216 | **4,401** | 3,077 | 10 | 3,087 |
| Fixed interest securities | 50 | 3,581 | **3,631** | 1 | 2,981 | 2,982 |
| Alternatives | 421 | 9,474 | **9,895** | 391 | 8,675 | 9,066 |
| | **20,663** | **21,138** | **41,801** | **22,376** | **17,712** | **40,088** |

| | Consolidated 2018 % | Consolidated 2017 % |
|---|---|---|
| Equity instruments | **48** | 54 |
| Property | **9** | 9 |
| Short term securities | **10** | 8 |
| Fixed interest securities | **9** | 7 |
| Alternatives | **24** | 22 |
| | **100** | 100 |

### *(iv) Actuarial assumptions and sensitivity*

Actuarial assessment undertaken by Mercer as at 30 June 2018 contains the following significant independent actuarial assumptions (expressed as weighted averages):

| | Consolidated 2018 | Consolidated 2017 |
|---|---|---|
| Discount rate | **4.2%** | 4.3% |
| Rate of CPI increase | **2.5%** | 2.5% |
| Future salary increases | **3.2%** | 3.2% |

Scenarios related to changes to the discount rate (effectively investment return), 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.

## 7 Non-financial assets and liabilities (continued)

### (g) Non-current liabilities – Defined benefit plans (continued)

*(iv) Actuarial assumptions and sensitivity (continued)*

The sensitivity of the total defined benefit obligation as at 30 June 2018 under several scenarios is shown below.

| | Impact on defined benefit obligation | | | | |
|---|---|---|---|---|---|
| | Change in assumption | Increase in assumption | | Decrease in assumption | |
| | | **2018 $'000** | 2017 $'000 | **2018 $'000** | 2017 $'000 |
| Discount rate | 1.0% | 4,700 | 3,694 | (3,840) | (4,499) |
| Salary growth rate | 0.5% | 908 | (1,054) | (874) | 1,007 |
| Rate of CPI increase | 0.5% | 1,228 | (1,006) | (1,122) | 919 |
| Pensioner mortality rate | Higher mortality** /Lower mortality* | 435 | (158) | (204) | 366 |

* Assumes the short term pensioner mortality improvement factors for years 2018–2023 also apply for years after 2023

** Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for years 2018 to 2023

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 AASB 1056 “Superannuation Entities” 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 2019 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 3 years and be subject to ongoing review.

The weighted average duration of the defined benefit obligation is 13.1 years (2017: 12.9 years).

### *(vii) Amounts recognised in consolidated income statement*

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

| | Consolidated | |
|---|---|---|
| | **2018 $’000** | 2017 $’000 |
| Current service cost | **478** | 571 |
| Interest cost on benefit obligation | **440** | 484 |
| | **918** | 1,055 |

### *(viii) Amounts recognised in other comprehensive income*

| | Consolidated | |
|---|---|---|
| | **2018 $’000** | 2017 $’000 |
| Actuarial gains/(losses) on liabilities | **193** | (1,446) |
| Actual return on Fund assets less interest income | **(1,282)** | (1,578) |
| | **(1,089)** | (3,024) |

# 7 Non-financial assets and liabilities (continued)

## (g) Non-current liabilities – Defined benefit plans (continued)

### *(vii) Amounts recognised in other comprehensive income (continued)*

**Significant accounting estimates and judgements**

*Defined benefit plan*

Various actuarial assumptions are required when determining the Group's defined benefit obligations that are highlighted in this note above.

**Accounting policy**

*Defined benefit plan*

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 high quality corporate bond rates have been utilised when discounting employee benefit liabilities as of 30 June 2018.

## (h) Liabilities – Deferred income government grants

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Deferred income – government grants | **73,191** | **423,566** | **496,757** | 70,577 | 425,537 | 496,114 |
| | **73,191** | **423,566** | **496,757** | 70,577 | 425,537 | 496,114 |

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.

**Accounting policy**

*Government grants*

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.

## 8 Equity

### (a) Contributed equity

*(i) Share capital*

| | **2018 Shares** | 2017 Shares | **2018 $'000** | 2017 $'000 |
|---|---|---|---|---|
| Ordinary shares – fully paid | **2,735,905,100** | 2,511,475,100 | **2,827,656** | 2,603,226 |
| Equity contribution received but not yet issued | **–** | – | **–** | 81,000 |
| | **2,735,905,100** | 2,511,475,100 | **2,827,656** | 2,684,226 |

Equity injections for Inland Rail of $83.43m (2017: $0m) and Adelaide to Tarcoola Re-Railing Project of $60.0m (2017: $81m) have been received throughout the year.

*(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.

## 8 Equity (continued)

### (a) Contributed equity (continued)

*(i) Share capital (continued)*

**Accounting policy**

*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.

### (b) Reserves

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Asset revaluation reserve | **720,868** | 693,520 |
| Cash flow hedging reserve – foreign exchange | **–** | (9) |
| Profit reserves | **259,675** | 270,815 |
| | **980,543** | 964,326 |

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| **Movements:** | | |
| *Revaluation surplus – Property, plant and equipment* | | |
| Opening balance at 1 July | **693,520** | 792,678 |
| Revaluation on asset revaluation reserve – (net of tax) | **31,341** | (98,841) |
| Asset revaluation reserve – asset disposal | **(3,993)** | (317) |
| **Balance as at 30 June** | **720,868** | 693,520 |
| *Profit reserve* | | |
| Opening balance at 1 July | **270,815** | 231,148 |
| Profit transferred into the reserve | **54,249** | 122,481 |
| Dividend paid | **(65,389)** | (82,814) |
| **Balance as at 30 June** | **259,675** | 270,815 |
| *Cash flow hedges* | | |
| Opening balance at 1 July | **(9)** | 19 |
| Hedge reserve – foreign exchange | **9** | (28) |
| **Balance as at 30 June** | **–** | (9) |
| | **980,543** | 964,326 |

### *(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 | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Balance at 1 July | **(134,208)** | (136,642) |
| Net profit/(loss) for the year after tax | **54,249** | 122,481 |
| Re-measurement (losses)/gains on defined benefit plans – (net of tax) | **762** | 2,117 |
| Asset revaluation reserve – asset disposal | **3,993** | 317 |
| Transfer to profit reserve | **(54,249)** | (122,481) |
| **Balance as at 30 June** | **(129,453)** | (134,208) |

## 9 Cash flow information

### (a) Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| **Net profit/(loss) for the year after tax** | **54,249** | 122,481 |
| Adjustments for: | | |
| Depreciation | **177,488** | 181,110 |
| Amortisation | **7,988** | 7,472 |
| Recognition of impairment (reversal)/expense | **19,571** | 1,101 |
| Recognition of government grant income attributable to financing activities | **(22,471)** | (11,594) |
| Net loss/(gain) on sale of non-current assets | **1,488** | 183 |
| Finance costs | **25,169** | 30,759 |
| Income tax expense | **47,925** | 27,078 |
| **Operating profit before changes in working capital and provisions** | **311,407** | 358,590 |
| Change in operating assets and liabilities: | | |
| Change in trade debtors and other receivables | **(8,507)** | (7,953) |
| Change in inventories | **(6,654)** | (438) |
| Change in other current assets | **(5,939)** | (934) |
| Change in trade and other payables | **27,598** | 9,220 |
| Change in other liabilities | **(1,414)** | 36,242 |
| Change in provisions | **1,805** | 7,951 |
| **Net cash inflow from operating activities** | **318,296** | 402,678 |

## 10 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 20(e)), so that it 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 2018 the Group's objective was to maintain a gearing ratio under 40% (2017: 40%). The gearing ratios were as follows:

| | | Consolidated | |
|---|---|---|---|
| | Notes | **2018 $'000** | 2017 $'000 |
| Total Borrowings | 6(c), 6(d) | **474,125** | 595,374 |
| Less cash and cash equivalents | 6(a) | **(61,554)** | (108,236) |
| Adjusted net debt | | **412,571** | 487,138 |
| Total equity | | **3,678,746** | 3,514,344 |
| Adjusted equity | | **4,091,317** | 4,001,482 |
| **Net debt to adjusted equity ratio** | | **10.1%** | 12.2% |

Total borrowings include trade and other payables and the impact of amortised interest and fees. Adjusted equity equates to equity as reported plus adjusted net debt as calculated above.

### (b) Dividends – Ordinary shares

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Final dividend for the year ended 30 June 2018 of 0.89 cents (2017: 1.19 cents) per fully paid share | **22,409** | 29,893 |
| Interim dividend for the year ended 30 June 2018 of 1.71 cents (2017: 2.04) per fully paid share | **42,980** | 52,921 |
| | **65,389** | 82,814 |

## 11 Financial risk management

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 and interest rate risk), credit risk and liquidity risk. Note the Group's current activities do not expose it to price 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 fixed rate debt instruments, 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 predominantly in USD purchases. 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 2018 there was a reclassification of cash flow hedge from equity to the income statement of $0.054m (2017: $(0.016m)) due to the maturing of the hedges. There was hedge ineffectiveness of $0.019m in the current year that was expensed to the income statement. (2017: $0.016m)

At 30 June 2018 (2017: $0.019m) the Group has no outstanding effective cash flow hedge maturing, or any forward contracts. Treasury will continue to assess and mitigate the Group's foreign exchange risk.

*(ii) Interest rate risk*

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 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. For the year ended 30 June 2018 there were no interest rate hedges established therefore there was no impact on the financial statements. Refer to the accounting policy at the end of this note.

*(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.

## 11 Financial risk management (continued)

### (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 2018** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | (216) | (216) | 216 | 216 |
| **Total increase/(decrease) in financial assets** | (216) | (216) | 216 | 216 |

| | Interest rate risk | | | |
|---|---|---|---|---|
| | -0.5% | | +0.5% | |
| | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **30 June 2017** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | (379) | (379) | 379 | 379 |
| **Total increase/(decrease) in financial assets** | (379) | (379) | 379 | 379 |

This analysis assumes all other variables are constant. All current bonds are issued at fixed rates. Foreign currency derivatives balances were low or nil in both the current and previous financial periods and therefore excluded from the above sensitivity analysis.

### (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 trade and other receivables and a very minimal amount from cash and cash equivalents. The Group does not hold any credit derivatives to offset its credit exposure.

The Group's Treasury Policy mitigates credit risk including that related to cash and cash equivalents by outlining 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 generally utilises large A-1/AAA rated banks and therefore as a result credit risk is very minimal on cash and cash equivalents.

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. 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 2018 are listed below and include $7.5m (2017: $8.7m) 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 $47.7m (2017: $50.8m) 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 | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| Neither past due nor impaired | **47,679** | 50,803 |
| Past due but not impaired | | |
| 30 – 60 days | **5,870** | 8,319 |
| 61 – 90 days | **1,457** | 320 |
| > 90 days | **136** | 110 |
| **Total** | **55,142** | 59,552 |

As at 30 June 2018 there was an allowance of impairment in trade and other receivables of the Group of $0.188m (2017: $0.114m). The individually impaired items primarily 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 (2017: nil).

## 11 Financial risk management (continued)

### (b) Credit risk (continued)

*(ii) Credit quality (continued)*

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

| | Consolidated | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| At 1 July | **(114)** | (31) |
| Provision for impairment charged to other expenses during the financial year | **(242)** | (108) |
| Receivables written off during the year as impaired trade receivables | **168** | 25 |
| **At 30 June** | **(188)** | (114) |

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 2018 $65m of the $450m syndicated debt facility has been utilised (2017: $15m). The Group has a $1,500m Australian Dollar Domestic Note programme of which $300m is issued. (note 6(d)). The Group also has access to business card facilities of $2m (2017: $2m).

### 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.

| | Less than 6 months | 6–12 months | Between 1 and 5 years | Over 5 years | Total cash-flows |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| 30 June 2018 | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 61,554 | – | – | – | 61,554 |
| Trade and other receivables | 72,703 | – | 9,614 | 248 | 82,565 |
| **Total financial assets** | **134,257** | **–** | **9,614** | **248** | **144,119** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 109,505 | – | – | – | 109,505 |
| Bond issue | 6,094 | 6,094 | 206,406 | 127,813 | 346,407 |
| Borrowings | 65,042 | – | – | – | 65,042 |
| **Total financial liabilities** | **180,641** | **6,094** | **206,406** | **127,813** | **520,954** |
| 30 June 2017 | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 108,236 | – | – | – | 108,236 |
| Trade and other receivables | 72,001 | 42 | 374 | 271 | 72,688 |
| **Total financial assets** | 180,237 | 42 | 374 | 271 | 180,924 |
| **Financial liabilities** | | | | | |
| Trade and other payables | 80,701 | – | – | – | 80,701 |
| Bond issue | 213,344 | 6,094 | 207,344 | 139,063 | 565,845 |
| Borrowings | 15,001 | – | – | – | 15,001 |
| Derivatives financial liabilities – foreign exchange | 19 | – | – | – | 19 |
| Other liabilities | 110,415 | 6 | 49 | 442 | 110,912 |
| **Total financial liabilities** | 419,480 | 6,100 | 207,393 | 139,505 | 772,478 |

## 11 Financial risk management (continued)

### (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.

| | | | Fair Value | | | |
|---|---|---|---|---|---|---|
| | Notes | Carrying Value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| **30 June 2018** | | | | | | |
| **Non-financial assets** | | | | | | |
| *Measured at fair value* | | | | | | |
| Leasehold improvements – infrastructure assets | 7(c) | 3,250,768 | – | – | 3,250,768 | 3,250,768 |
| Plant and equipment – infrastructure assets | 7(c) | 729,748 | – | – | 729,748 | 729,748 |
| **Total non-financial assets** | | **3,980,516** | **–** | **–** | **3,980,516** | **3,980,516** |
| **Financial assets** | | | | | | |
| *Loans and receivables* | | | | | | |
| Trade and other receivables | 6(b) | 82,565 | – | – | – | 82,565 |
| Cash and cash equivalents | 6(a) | 61,554 | – | – | – | 61,554 |
| **Total financial assets** | | **144,119** | **–** | **–** | **–** | **144,119** |
| **Financial liabilities** | | | | | | |
| *Other financial liabilities* | | | | | | |
| Interest bearing liabilities | 6(d) | 364,620 | – | – | – | 364,620 |
| Trade payables | 6(c) | 109,505 | – | – | – | 109,505 |
| **Total financial liabilities** | | **474,125** | **–** | **–** | **–** | **474,125** |
| **30 June 2017** | | | | | | |
| **Non-financial assets** | | | | | | |
| *Measured at fair value* | | | | | | |
| Leasehold improvements – infrastructure assets | 7(c) | 3,232,992 | – | – | 3,232,992 | 3,232,992 |
| Plant and equipment – infrastructure assets | 7(c) | 676,164 | – | – | 676,164 | 676,164 |
| *Available for sale* | | | | | | |
| **Total non-financial assets** | | 3,909,156 | – | – | 3,909,156 | 3,909,156 |

| | Notes | Carrying Value $'000 | Fair Value Level 1 $'000 | Fair Value Level 2 $'000 | Fair Value Level 3 $'000 | Fair Value Total $'000 |
|---|---|---|---|---|---|---|
| **30 June 2017 (continued)** | | | | | | |
| **Financial assets** | | | | | | |
| *Loans and receivables* | | | | | | |
| Trade and other receivables | 6(b) | 72,688 | – | – | – | 72,688 |
| Cash and cash equivalents | 6(a) | 108,236 | – | – | – | 108,236 |
| **Total financial assets** | | 180,924 | – | – | – | 180,924 |
| **Financial liabilities** | | | | | | |
| *Fair value – hedging instruments* | | | | | | |
| Foreign exchange contracts | | 19 | – | – | – | 19 |
| *Other financial liabilities* | | | | | | |
| Interest bearing liabilities | 6(d) | 514,673 | – | – | – | 514,673 |
| Trade payables | 6(c) | 80,701 | – | – | – | 80,701 |
| **Total financial liabilities** | | 595,393 | – | – | – | 595,393 |

**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.

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.

## 11 Financial risk management (continued)

### (d) Fair value measurements (continued)

*(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.

*(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 2017 and 30 June 2018 for the Group:

| | **$'000** |
|---|---|
| **Opening balance 1 July 2016** | **4,024,844** |
| Additions | 197,346 |
| Reversal of impairment included in expenses | 1,018 |
| Depreciation | (172,156) |
| Disposals | (695) |
| Change in fair value included in other comprehensive income | (141,201) |
| **Closing balance 30 June 2017** | **3,909,156** |
| Additions | 208,342 |
| Impairment included in expenses | (11,689) |
| Depreciation | (167,960) |
| Disposals | (2,105) |
| Change in fair value included in other comprehensive income | 44,772 |
| **Closing balance 30 June 2018** | **3,980,516** |

*(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:<br>The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.<br>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 asset group 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 2018 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 corridors, 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 ACCC approved remaining mine life for Hunter Valley or 20 years for the Interstate network.
- 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.

## 11 Financial risk management (continued)

### (d) Fair value measurements (continued)

*(v) Valuation processes (continued)*

- 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 2.2% to 4.5% (2017: 1.6% to 4.5%).
- An external expert is used to determine a nominal post-tax weighted average cost of capital range that reflects current market assessments of the time value of money and the risks specific to the relevant business units. As at 30 June 2018 the range determined across all business units is 5.9% – 7.3% (2017: 6.5% – 7.5%). The rates applied were selected from within the range applicable to each business unit.

#### 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** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Increase $'000's** | **Decrease $'000's** | Increase $'000's | Decrease $'000 |
| Annual revenue (1% revenue movement p.a.) | **142,984** | **(142,984)** | 163,454 | (163,454) |
| Maintenance and capital expenditure (1% cost movement p.a.) | **(52,260)** | **52,260** | (53,173) | 53,173 |
| Discount rate (+/- 100bps movement) | **(667,658)** | **1,026,708** | (504,943) | 716,075 |

The impact of the above sensitivities as the infrastructure asset value in percentage terms would be as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Increase %** | **Decrease %** | Increase % | Decrease % |
| Annual revenue (1% revenue movement p.a.) | **3.6** | **(3.6)** | 4.2 | (4.2) |
| Maintenance and capital expenditure (1% cost movement p.a.) | **(1.3)** | **1.3** | (1.4) | 1.4 |
| Discount rate (+/- 100bps movement) | **(16.8)** | **25.8** | (12.9) | 18.3 |

## Accounting policy

### *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, 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.

## 11 Financial risk management (continued)

**Accounting policy (continued)**

*Derivative financial instruments (continued)*

Derivatives are recognised initially at fair value, any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, cashflow hedged 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.

## 12 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.

| | | Equity holding | |
|---|---|---|---|
| Name of subsidiary | Country of incorporation | 2018 % | 2017 % |
| ARTC Services Company Pty Ltd | Australia | **100** | 100 |
| Standard Gauge Company Pty Ltd | Australia | **100** | 100 |

### Accounting policy

*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 each balance date 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.

## 13 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.

## 14 Commitments

### (a) Capital commitments

At 30 June 2018, the Group has commitments in the order of $212.6m (2017: $121.4m) relating to the investment program that the Group will be undertaking in the Interstate, Hunter Valley and Inland Rail business units in the coming years.

The scope of the work includes Inland Rail project construction and a range of projects across the existing operating network. Corridor works focus on renovating and rebuilding the rail infrastructure assets to address rail's performance on the corridor.

## 14 Commitments (continued)

### (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 | |
|---|---|---|
| | **2018 $'000** | 2017 $'000 |
| **Commitments in relation to leases contracted for at the end of each reporting period but not recognised as liabilities, payable:** | | |
| Within one year | **9,912** | 9,007 |
| Later than one year but not later than five years | **16,432** | 18,366 |
| Later than five years | **3,076** | 3,132 |
| | **29,420** | 30,505 |

**Accounting policy**

*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. 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.

### (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 | |
|---|---|---|
| | **2018** **$'000** | 2017 $'000 |
| **Commitments in relation to leases contracted for at the end of each reporting period but not recognised as assets, receivable:** | | |
| Within one year | **4,969** | 6,198 |
| Later than one year but not later than five years | **10,449** | 9,195 |
| Later than five years | **9,338** | 9,450 |
| | **24,756** | 24,843 |

**Accounting policy**

*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.

## 15 Directors and Key Management Personnel disclosures

### Remuneration of Directors and Key Management Personnel

| | Consolidated | |
|---|---|---|
| | **2018** **$** | 2017 Restated $ |
| Short-term employee benefits | **4,150,477** | 3,480,763 |
| Post-employment benefits | **192,062** | 175,553 |
| Other long-term benefits | **91,049** | 66,766 |
| | **4,433,588** | 3,723,082 |

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

## 15 Directors and Key Management Personnel disclosures (continued)

### Remuneration of Directors and Key Management Personnel (continued)

In line with the updated Remuneration Report that meets the new GBE guidelines under RMG 126 Commonwealth GBE governance and oversight guidance a full review of the definition of Key Management Personnel (KMP) and the associated reporting requirements has been undertaken. This has resulted in an overall increase of personnel considered as KMP's. The 2017 balance has been updated to accurately reflect those changes.

## 16 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 | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| *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 EY for auditing the financial report of the entity in the Group | **335,500** | 267,949 |
| 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 EY relating to fees for Infrastructure Investment Grant Audit | **11,000** | 11,000 |
| **Total remuneration for audit and other assurance services** | **346,500** | 278,949 |
| *Other services* | | |
| Other non-audit services – asset management practices review | **133,162** | – |

## 17 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 of significant influence of a Director or his/her related parties.

There were no related party transactions with Directors at year end (2017: $ nil).

There were no loans to Directors at year end (2017: nil).

## 18 Significant events after the balance date

No other events have occurred after the balance sheet date that should be brought to account or disclosed in the year ended 30 June 2018 financial statements.

## 19 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:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | 173,130 | 213,069 |
| Non-current assets | 4,650,575 | 4,568,070 |
| **Total assets** | 4,823,705 | 4,781,139 |
| Current liabilities | 398,825 | 465,281 |
| Non-current liabilities | 753,157 | 808,537 |
| **Total liabilities** | 1,151,982 | 1,273,818 |
| **Net assets** | 3,671,723 | 3,507,321 |
| ***Shareholders' equity*** | | |
| Contributed equity | 2,827,656 | 2,684,226 |
| Reserves | 980,543 | 964,326 |
| Retained earnings | (136,476) | (141,231) |
| **Capital and reserves attributable to owners of Australian Rail Track Corporation Ltd** | 3,671,723 | 3,507,321 |
| Total revenue and other income | 830,964 | 826,768 |
| Total expenses | (703,621) | (646,450) |
| Finance costs | (25,169) | (30,759) |
| Income tax (expense)/benefit | (47,925) | (27,078) |
| **Profit/(Loss) for the year** | 54,249 | 122,481 |
| **Other comprehensive income, net of tax** | | |
| Revaluation/(devaluation) property plant and equipment | 31,341 | (98,841) |
| Re-measurement gains/(losses) on defined benefit fund obligations | 762 | 2,117 |
| Net changes in the fair value of cashflow hedges transferred to profit and loss | 9 | (28) |
| **Other comprehensive income for the year, net of tax** | 32,112 | (96,752) |
| **Total comprehensive income, net of tax** | 86,361 | 25,729 |

### (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 2018, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $212.6m (2017: $121.4m). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

**Accounting policy**

*Parent entity financial information*

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

## 20 Other accounting policies

### (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 2017:

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107, and
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 cycle

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

The amendments to AASB 107 require disclosure of changes in liabilities arising from financing activities, see note 6(f).

## 20 Other accounting policies (continued)

### (b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 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 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement.

AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

ARTC plans to adopt the new standard on 1 July 2018 and comparative information will be restated.

ARTC has performed a detailed impact assessment of all three aspects of AASB 9. This assessment is based on currently available information and may be subject to changes arising from further information made available to ARTC between adopting AASB 9 and preparing its first financial statements under AASB 9 for the year ended 30 June 2019.

Overall, ARTC expects no significant impact on its statement of financial position and equity. ARTC does expect a minor increase in the loss allowance resulting in a negative impact on equity. In addition, ARTC will implement changes in classification of certain financial instruments.

(a) Classification and measurement

ARTC does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of AASB 9. Financial assets currently held at fair value will continue to be measured at fair value. Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. ARTC concluded that they meet the criteria for amortised cost measurement under AASB9. Therefore, reclassification for these instruments is not required.

AASB 9 largely retains the existing requirements in AASB 139 for the classification of financial liabilities. The assessment did not indicate any material impact regarding the classification of financial liabilities at 1 July 2018.

#### (b) Impairment

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECL's, which will be determined on a probability weighted basis.

ARTC will apply the simplified approach and record lifetime expected losses on all trade receivables. Provision losses are likely to have minor increase and become more volatile for assets in the scope of AASB 9.

The loss allowance is estimated to increase by $24,950.

#### (c) Hedge accounting

ARTC has determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under AASB 9. ARTC has chosen not to retrospectively apply AASB 9 on transition to the hedges where ARTC excluded the forward points from the hedge designation under AASB 139. As AASB 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of AASB 9 will not have a significant impact on ARTC's financial statements.

#### (d) Disclosures

AASB 9 will require extensive new disclosures in the financial year 2019, in particular about hedge accounting, credit risk and expected credit loss provision.

### *(ii) AASB 15 Revenue from Contracts with Customers*

AASB 15 Revenue From Contracts With Customers establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supercede the current revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of AASB 15 is that an entity should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

## 20 Other accounting policies (continued)

### (b) New accounting standards and interpretations (continued)

*(ii) AASB 15 Revenue from Contracts with Customers (continued)*

The principles in AASB 15 are applied using a five-step model:

1: Identify the contract(s) with a customer

2: Identify the performance obligations in the contract

3: Determine the transaction price

4: Allocate the transaction price to the performance obligations in the contract

5: Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances, when applying each step of the model to contracts with their customers.

In the current year, ARTC undertook a detailed review of the AASB 15 requirements and the existing revenue contracts held by the Group. Impact assessments were prepared for the key revenue streams: Track Access Revenue and Other Revenue.

The assessments concluded that there will be an adjustment of approximately $0.207m to retained earnings on 1 July 2018, on adoption of AASB 15. This is as a result of a change in the revenue recognition policy for revenue from trains in transit over year end. Revenue will be reallocated between performance obligations satisfied prior to cut off, and performance obligations satisfied after cut off.

ARTC intends to use the full retrospective method of transition to AASB 15 and has implemented the new standard effective from 1 July 2018.

*(iii) AASB 16 Leases*

AASB 16 replaces existing leases guidance, including AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases-Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 on or before the date of initial application of AASB 16. ARTC does not plan to early adopt this standard.

AASB 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e lessors continue to classify leases as finance or operating leases.

ARTC has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including ARTC's borrowing rate at 1 July 2019, the composition of ARTC's lease portfolio at that date, ARTC's latest assessment of whether it will exercise any lease renewal options and the extent to which ARTC chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that ARTC will recognise new assets and liabilities for its operating leases of Property, plant and equipment. As at 30 June 2018, ARTC's future minimum lease payments under non-cancellable operating leases amounted to $29.4m, on an undiscounted basis (see Note 14(b)).

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

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) 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.

### (d) 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.

## 20 Other accounting policies (continued)

### (e) 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 see note 6(d) and other amounts payable.

At 30 June 2018, the Group has a net deficiency of current assets of $180.2m (2017: $220.1m) to current liabilities of $398.8m (2017: $465.3m) of $218.7m (2017: $245.2m). 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 2018

- The Group has net assets of $3,679m (2017: $3,514m)
- The Group generated cash from operating activities of $318m (2017: $403m)
- The Group expects to continue to generate positive cash flows from operating activities in the next twelve months
- The Group has $385m (2017: $485m) of unutilised funds available through a Syndicated Debt Facility Agreement (as detailed in note 11(c)). The Board is confident that this facility will be suitably refinanced ahead of its expiring in late December 2018
- 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 11)
- The Group has entered into an Equity Funding Agreement with the Commonwealth Government in relation to progressive funding to support the Inland Rail construction project.

# DIRECTORS' DECLARATION

## DIRECTORS' DECLARATION 30 JUNE 2018

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 94 to 164 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 2018 and of its performance for the year ended on that date, and

(b) the financial statements and notes set out on pages 94 to 164 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.

**W Truss**
Director

Signed in Sydney on the 30th day of August 2018

# INDEPENDENT AUDITOR'S REPORT

Australian National Audit Office

### To the members of Australian Rail Track Corporation Limited

### Opinion

In my opinion, the financial report of Australian Rail Track Corporation Limited and its subsidiaries (together the consolidated entity) for the year ended 30 June 2018 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 2018 and of its performance for the year then ended; and

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

The financial report of the consolidated entity, which I have audited, comprises the following statements as at 30 June 2018 and for the year then ended:

- Consolidated income statement;
- Consolidated statement of comprehensive income;
- Consolidated balance sheet;
- Consolidated statement of changes in equity;
- Consolidated statement of cash flows;
- Notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information; and
- Directors' declaration.

### Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the consolidated entity in accordance with the *Corporations Act 2001* and the relevant ethical requirements for financial report audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code.

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I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Rail Track Corporation Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the director's report for the year ended 30 June 2018 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Directors' Responsibility for the Financial Report

The directors of Australian Rail Track Corporation Limited 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 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.

In preparing the financial report, the directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the directors either intend to liquidate the consolidated entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

My objective is to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

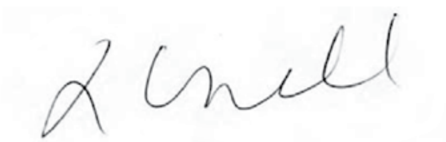
## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Obtain an understanding of internal control relevant to the audit 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 consolidated entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the consolidated entity audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Australian National Audit Office



**Lesa Craswell**
Executive Director

Delegate of the Auditor-General

Canberra
30 August 2018

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# COMPLIANCE INDEX