

ARTC Statement of Corporate Intent

2016/17

ARTC

# Statement of Corporate Intent 2016/17

## Chairman's Message

ARTC's vision is to make rail the mode of choice in the national logistics chain. This is aligned to ARTC's mandate from Government to increase the freight volume carried on the network while recognising that volume growth is a key driver of ARTC's ongoing commercial sustainability.

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

The strategies and targets set out in ARTC's Corporate Plan reflect ongoing expectations of modest growth in the industries and sectors that underpin ARTC's freight volume expectations as the Australian economy transitions from the mining construction boom to more broadly based expansion.

The focus in ARTC's Corporate Plan on productivity, process improvement and customer service are all aimed at positioning the company to deliver better returns to Shareholders and reducing costs for our customers within this lower growth environment.

During 2015/16 ARTC's Shareholders undertook a scoping study on options for the future management, operations and ownership of ARTC.

The study also considered the implications of the Inland Rail project between Melbourne and Brisbane for the ARTC including the possible opportunity for ARTC to participate in any private sector financing, delivery and operation of the Inland Rail project.

The Company provided information for this work as requested, at the same time maintaining a clear focus on the ongoing management of the business.

The Australian Government announced in the 2016/17 Budget that the Inland Rail project would be delivered through ARTC, in partnership with the private sector.

The construction of the Inland Rail corridor between Brisbane and Melbourne is forecast to provide a significant boost to the productivity of the nation and deliver sustained growth in rail volumes for decades to come.

ARTC's Corporate Plan has been prepared consistent with ARTC's ongoing role as a Commonwealth Company and recognition of its role in relation to the delivery of the Inland Rail project.

ARTC's Statement of Corporate Intent is prepared for paragraph 95(1) of the Public Governance, Performance and Accountability Act. It has been prepared for the 2016/17 financial year and covers the reporting period 2016/17 to 2020/21. No other legislation has been identified as being specifically applicable to the preparation of ARTC's Corporate Plan.

**Helen Nugent AO**

**Chairman**

## ARTC

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

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

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

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

After commencing operations in 1998, the Company focussed on an infrastructure investment and modernisation program. The focus on extending, building and upgrading was important to bring many sections of the network up to a safe and reliable operating standard as well as to provide the capacity that the Interstate and Hunter Valley markets required. In more recent years ARTC has increasingly focussed on volume growth by raising customer satisfaction and increasing rail's competitiveness.

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

ARTC plays a critical role in the transport supply chain and in the overall economic development of Australia. The ARTC rail network is used to move a range of commodities including general freight, coal, other bulk minerals and agricultural products. The

network is also important in providing access for interstate and inter-city passenger services. Access to ARTC's network, including price setting, is regulated through access undertakings with the ACCC.

## Business Strategy

The Australian economy appears to be transitioning relatively well from the mining construction boom to broader based growth, but there are many areas of continuing challenge for the rail freight industry. Structural changes in the economy appear to be leading to economic growth that is not generating the same level of consistent freight growth as in the past.

Recent analysis by ARTC has highlighted the significance of manufacturing for intercapital freight volumes. Manufacturing has been declining in absolute terms for some years, particularly in New South Wales, Victoria and South Australia, and the changes in manufacturing output correlate well with actual rail volumes. On this basis there is reasonable certainty that ARTC's intercapital volumes in recent years reflect a level of weakness in the market and not a decline in the share of freight that is transported on the ARTC network.

While the Corporate Plan revenue forecasts assume that the market will grow more strongly than in recent years supported by a lower currency value, this assumption relies on an increase in manufacturing activity that is not assured.

The environment for the Hunter Valley coal business remains similar to last year. At current coal prices the industry is relatively stable. There continues to be a focus on productivity as producers seek to reduce their cost base and optimise operations for the current circumstances, which has included a small number of mine closures. At the same time, there are incremental increases in volume coming through existing development that have allowed overall volume to remain stable after years of significant export volume growth.

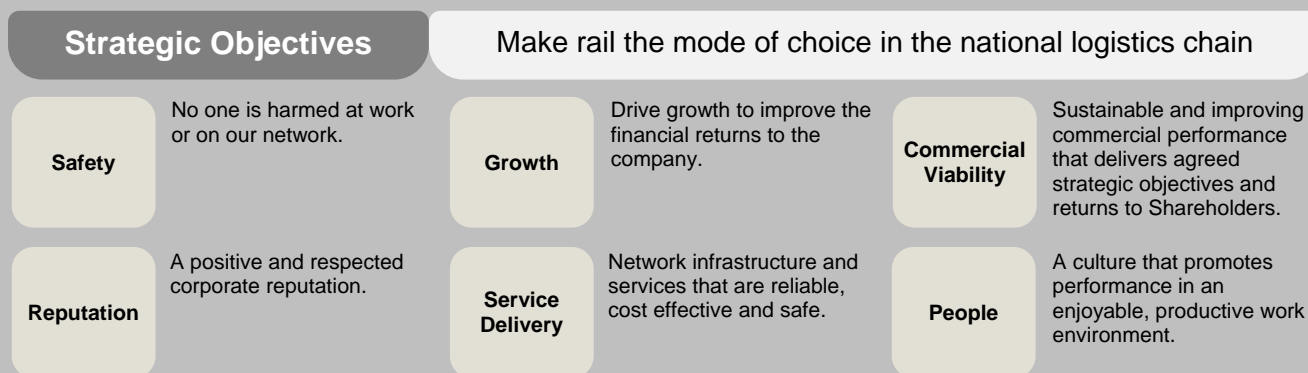
In the present circumstances there is little reason to anticipate a need for significant new investment in coal chain capacity. ARTC's focus is firmly on delivering productivity improvements to the industry. The main driver of this will be the application of technology in the signalling and train control area.

In this lower growth environment, ARTC continues to place a strong emphasis on internal business

**ARTC's Vision is to:**  
**Make Rail the Mode of Choice in**  
**the National Logistics Chain**

# Our Strategic Objectives

ARTC's six strategic objectives reflect the key focus areas for ARTC. They are aimed at providing long term value to our customers and Shareholders and remain unchanged from last year.



improvement initiatives through its Transformation program. ARTC remains committed to executing a disciplined program of transformation and operating reforms across the business to improve shareholder returns and to lower costs for customers. ARTC's focus is to embed transformation into the way work is conducted so as to build a strong company culture based on strong organisational values and to provide leadership throughout the business that delivers results.

Transforming the business will remain focussed on six key streams:

- Effectiveness & Efficiency
- Leadership
- Brand
- Customer experience
- Employee engagement
- Training and development

The transformation initiatives of these streams are aimed primarily at driving improved safety performance, increased customer satisfaction and boosting productivity.

## Key Initiatives

Within the context of ARTC's broader business strategy a number of key initiatives that have the potential to fundamentally change the capability and performance of ARTC, and the rail industry more broadly, are being pursued.

Over the past year ARTC has continued to work toward meeting the Government's objective to deliver **Inland Rail** over a 10 year time frame. A key milestone during the year was the finalisation of the Business Case. This was formally developed under the guidance of the Inland Rail Implementation Group (IRIG), which included representatives of the States and Commonwealth, and ARTC, with the Hon John Anderson as an independent Chair.

In the 2016/17 Budget, the Government announced that it would provide \$594m as equity to ARTC to allow planning and land acquisition for Inland Rail to progress, subject to reaching agreement with the ARTC Board. This is in addition to the existing \$300m commitment to Inland Rail. ARTC looks forward to working with the Government to progress this important project.

ARTC aims to take a leadership role in the rail freight industry particularly around **policy and advocacy**. In this context it is engaging with Governments to encourage policies that:

- Lower the unit cost of rail.
- Recognise the relative benefits of rail.
- Improve the end-to-end service offer for customers, and
- Improve competition and lower barriers to entry.

Two areas that ARTC continues to have a particular focus on in its engagement with Governments are heavy vehicle charging reform and long-term infrastructure planning.

ARTC recognises the critical importance of **technology and innovation** to rail's future competitiveness and continues to successfully move forward with development of the Advanced Train Management System (ATMS), a communications based safeworking system that will significantly increase safety and productivity as it is rolled-out across the network.

ARTC is now also making significant progress on the ARTC Network Control Optimisation (ANCO) project, which at its heart will provide for the automation of the train planning and live run train control process. Automation of this process has the potential to significantly increase both the efficiency and execution of the train plan, thereby increasing track capacity, reducing running times and making the system more responsive to customer needs while reducing the size of the manual train management task.

# Our Values

ARTC's values and behaviours were created to excite and inspire our people and form the foundation on which we values and supports diverse and broad thinking, customer focused decision making, accountability and

## No Harm

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

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

## 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.

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

ARTC continues to be see involvement in **terminal planning and development** as an important strategy to optimise the competitiveness of the intermodal rail business into the future and to thereby maximise the opportunity for ARTC's own commercial success.

The terms and conditions of access, and in particular **access prices**, are critical drivers of ARTC's business success. The voluntary Undertakings to the ACCC for the Hunter Valley and Interstate Networks are central to the terms of access and 2016/17 will be an important year for the evolution of both of these.

Negotiation of a new Hunter Valley Access Undertaking to replace the Undertaking expiring in June 2016 has been a key focus for the Company over the past year and the finalisation and implementation of the new Undertaking will continue to be a key issue in 2016/17.

The expiration of ARTC's interstate Access Undertaking in July 2018 provides a good opportunity for a comprehensive review of the approach to access conditions and pricing structure with a view to optimising rail's competitive position in the transport market.

## Accountability & Reporting

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

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

ARTC will comply with the Commonwealth Government Business Enterprise Governance and Oversight Guidelines, the Public Governance

Performance and Accountability Act 2013, and meet the notification requirements under the agreed Commercial Freedoms Framework, as well as meet all relevant regulatory requirements.

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

## Human Resources Strategy

ARTC's human resources strategy over many years has had the key objective of the growth, efficiency and effectiveness of ARTC as a competitive, value-added element of the national land transport logistics network.

ARTC's human resources strategy is aimed at fostering a culture that promotes performance in an enjoyable, productive work environment.

This is achieved through recognition of the importance of providing our employees with a work environment that is both engaging and fulfilling.

ARTC seeks to continue to create an environment that attracts, motivates, develops and retains high performing employees.

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

In achieving these outcomes ARTC at all times complies with all relevant industrial related legislation in the development and execution of its industrial relations strategies. It is also acting in compliance with the Government's Workplace Bargaining Policy 2015.

## Risk Management

ARTC continues to support, promote and actively advance effective and cyclical risk management as a

are transforming the Company. Values influence behaviour, and we recognise that establishing a culture that responsibility is fundamental to achieving the strategies outlined in this Corporate Plan.

## Active Engagement

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

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

## Results

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.

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

crucial element of the organisation and an integral part of achieving its strategic objectives and corporate vision.

Risk management remains an important element of ARTC's ongoing operations, providing a near term view of challenges that might be impacting operational and/or strategic progress, coupled with a broader, medium and longer term picture of influences and challenges that may affect and impact the organisation's extended objectives.

ARTC is committed to, and actively applying, a continuous improvement framework for risk management that aligns with best practice principles and is consistent with the international Risk Management Standard ISO:31000 2009.

ARTC's goals for risk management are:

- To manage risk to enhance safety at work and to support efficient business operations and achievement of our strategic goals;
- To aim to reduce or eliminate where possible, the risks that impact the safety of our fellow employees, contractors, customers and members of the public, so far as is reasonably practicable; and
- To manage financial and business risks to ensure the commercial performance of the Company progresses toward corporate goals and continues to foster positive and productive relationships with stakeholders and Shareholders.

## Investment Strategy

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

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

*Interstate:* To achieve a step-change in rail's competitiveness in the North South intermodal

market and to maintain rail's strong competitive position in the East West market.

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

ARTC has undertaken a substantial expansion and upgrade program, investing over \$6 billion since the integration of the business with the New South Wales Interstate and Hunter Valley networks in 2004.

ARTC's investment program has been funded by a combination of grant, Australian Government equity and commercial borrowings. The program has been delivered to meet increased demand for coal exports in the Hunter Valley and to both enable increased growth on the Interstate Network and to establish this network at an appropriate mainline standard. This process is now largely complete. With the downturn in the general freight market, the loss of iron ore traffic and stabilising demand in the Hunter Valley, ARTC has also slowed its forward capacity investment program. As such, ARTC does not project a significant capital investment program driven by capacity to be required for implementation in the five years of the Corporate Plan period. During the Corporate Plan period the advancement of Inland Rail will be critical to support volume growth in the medium term.

The focus of ARTC's forward capital is now primarily directed toward improving asset condition and train productivity with Inland Rail also being a key element of this focus.

Key projects that ARTC is continuing to progress are:

### *Hunter Valley*

- Completion of the Kooragang Arrival Road stage 2 project currently under construction including signalling upgrades Hexham – Kooragang recommended by the HVCCC to increase network reliability in the KCT terminal area.



- Roll-out of ATMS, subject to development of a business case based on productivity benefits that are attractive to the coal industry.
- The ARTC network control optimisation (ANCO) project to increase productivity through upgraded network control and train information systems.

#### Interstate

- Five loop extensions to 1800 metres between Melbourne and Adelaide at a cost of \$15 million to provide adequate capacity for the introduction of unrestricted operation of 1800 metre trains.
- Roll-out of ATMS, subject to the development of funding solutions.
- Port Botany Rail Line upgrade phase 3, a \$75 million project primarily focussed on remediating poor track condition following ARTC's take-up of the line in late 2013, funded through the Infrastructure Investment Program.
- Rerailing between Adelaide and Tarcoola, as announced by the Commonwealth Government in March 2016, subject to finalisation of funding arrangements and achieving suitable commercial terms.

#### Inland Rail

- Design and program development in accordance with the Australian Government's

request for ARTC to develop the Inland Rail project with a view to its construction within 10 years, with grant funding of \$142 million having been released by the Government.

- Land acquisition in accordance with a refined alignment, with funding through the \$594 m equity injection.

## Capital Management

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

In support of past investment, ARTC issued \$A bonds on the Australian Domestic Market and established Syndicated Debt Facilities.

It is anticipated that ARTC will receive an injection of additional equity in support of the Inland Rail and Adelaide – Tarcoola rerailing projects.

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

## Financial Results

Key financial results for 2014/15 and forecast results for 2015/16 are shown in the table below.

FINANCIAL RESULTS <sup>1</sup>	2014/15 Actual	2015/16 Forecast <sup>2</sup>
Operating Revenue (\$m)	773.6	778.6
EBITDAI <sup>3</sup> (\$m)	433.5	414.4
Net Profit After Tax before Dividend (\$m)	134.6	162.8
Dividend <sup>4</sup> (\$m)	57.4	91.3
Net Assets (\$m)	3,606.9	3,676.4
Return on Capital Employed	6.3%	6.0%

<sup>1</sup> Forecast end of year result based on April 2016 management accounts.

<sup>2</sup> 2015/16 does not include any Fair Value or Impairment adjustments as these are only determined at financial year end as part of annual audited accounts preparation. Forecasts include the effect of the ACCC Hunter Valley revenue allocation review, which has reduced revenue in 2015/16 by \$69.5 m. This revenue is expected to be recouped in future years.

<sup>3</sup> EBITDAI = Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment.

<sup>4</sup> Dividends are calculated by reference to Adjusted Net Profit After Tax whereby Net Profit After Tax before Dividend is adjusted to exclude the impact of movements in Fair Value assessments and deferred tax assets or liabilities.

