Annual Report 2005

AUSTRALIAN RAIL TRACK CORPORATION LTD

ARTC

Australian Rail Track Corporation

Australian Rail Track Corporation Ltd (ARTC) was incorporated in 1998 following an intergovernmental agreement (IGA) between the Australian Government and all mainland States to provide a one stop shop for access to the interstate rail network.

ARTC's shares are wholly owned by the Australian Government and its primary role is to provide access to train operators over that part of the interstate rail network managed by the company. ARTC is responsible for all operations relating to the greater part of the interstate network and the Hunter Valley rail network. This includes the provision of train control functions, the creation and selling of train paths to rail operators and the provision of capital and maintenance works over the network.

ARTC has undertaken the task of improving the interstate rail infrastructure to achieve a number of performance targets relating to reduced transit times, increased network capacity and improved reliability with the underlying aim of increasing the share of interstate freight carried by rail. Through targeted investment and improved management, ARTC has been able to achieve these targets.

Contents

Chairman's Report

On behalf of the Board of Directors, it is with pleasure that I present the 2004/05 Annual Report of the Australian Rail Track Corporation Ltd (ARTC).

On 5 September 2004, ARTC commenced management of the interstate and Hunter Valley rail networks in New South Wales as part of a national interstate network.

The 60 year lease covers the NSW interstate main lines, the Hunter Valley rail corridor, progressively taking up dedicated metropolitan freight lines to the Sydney ports, and a licence to construct the Southern Sydney Freight Line within the existing rail corridor. This historic agreement brings ARTC a major step closer to fulfilling its charter of providing a one stop shop for those seeking access to the entire standard gauge interstate network.

Management of the country branch rail network on behalf of the NSW Government will also be undertaken by ARTC, with the NSW Government retaining funding responsibility for these lines.

ARTC now owns or manages over 10,000 kilometres of track across four states.

A major challenge for management and staff was to ensure an orderly and safe transition of the NSW operations and staff to ARTC control. I am pleased to report that the take up of the New South Wales lease proceeded without any disruption or decline in operating performance.

The ARTC business case for the NSW lease is predicated upon growing North South intermodal volumes and increasing the capacity of the Hunter Valley coal network through a targeted investment program.

With special grants of $450 million and $100 million made available from the Australian Government and the previously announced $550 million AusLink funding for rail projects, ARTC took the opportunity during 2004/05 to undertake a comprehensive review of its forward investment program. To optimise its investment options, draft strategies were prepared for the North South corridor and the Hunter Valley, which take into account revised business forecasts and industry consultations.

Following the release of these strategies, an industry forum was held in June 2005 seeking prospective alliance partners to undertake the six major packages of works that will form the basis of the $1.4 billion (excluding AusLink funds) upgrading program over the next five years.

In May 2005, ARTC and Lockheed Martin entered into an agreement to develop the blueprint for a new Advanced Train Management System (ATMS). ARTC has been seeking a cost-effective replacement train control technology that will provide greater network capacity and enhanced safety across the network. The Australian Government will provide $20.3 million from its AusLink land transport fund for the development of this blueprint.

ARTC is also developing a single communications system based on Code Division Multiple Access (CDMA) technology to provide a fully interoperable, safe and cost effective system across the national and Hunter Valley rail networks. Adoption of a

single communications system will address a major inconsistency for interstate rail operators who previously have had to deal with up to nine different communications systems.

Strong traffic growth on ARTC's East West network continued with an 8.9% increase in gross tonne kilometres on the network. This is an excellent result when compared to growth of 5.1% recorded in 2003/04. This strong growth has resulted from a number of factors, including ARTC's past investment strategy, ongoing reform within the rail industry, and consolidation within the Australian transport industry.

I would like to personally acknowledge the determined efforts of all ARTC staff who contributed to the successful operations of the company during what has been a momentous year for the company. I commend all those involved for the positive approach shown to ensuring the transition process to ARTC management in New South Wales was progressed without major disruption, to meeting the challenge of integrating the East West and New South Wales cultures, and to forming a strong new organisation that is on track to achieve its goals over the next five years.

The next major challenge for the Board, management and employees will be to effectively implement the major investment programs planned over the next five years. The dedication of ARTC's employees and its contractors in ensuring the successful delivery of these programs, when combined with the support of our customers, has the potential to turn around rail's performance on the North South corridor, thereby providing sustainable transport solutions for business and the community.

I am pleased to advise shareholders that ARTC recorded a net profit from its ordinary activities for the year of $47.85 million, representing a 4.95% return on average capital employed. By arrangement with our shareholders, the company will reinvest all profits over the next five years into the network, and no dividends will be declared. The Board acknowledges the support of our shareholders in this regard, and looks forward to implementing the company's strategic initiatives to revitalise the rail system across Australia.

Barry Murphy
Chairman
Australian Rail Track Corporation Ltd.

Managing Director's Report

In June 2004, ARTC initiated a significant mobilisation program prior to commencement of the NSW lease that involved employing an additional 350 engineering and administrative staff and secondment of approximately 1,150 train control and infrastructure maintenance staff. New computer systems for payroll management, personnel and HR management, work orders, procurement and train management were developed and rolled out by ARTC along with a new infrastructure backbone for IT across NSW.

During the first 10 months of the lease, ARTC's primary focus has been to ensure a safe and reliable transition.

To support the achievement of key performance outcomes of the investment (improved transit time, reliability, capacity and above and below rail yield), ARTC will continue to work with customers, the industry and governments to reduce any barriers that might constrain market growth on the North South corridor.

On the ARTC network in SA, Victoria and part of WA (the East West Network), ARTC has sought to consolidate earlier gains made in the areas of product and asset quality, as well as strive to develop new market opportunities for rail and to develop the interstate network consistent with initial charter objectives.

During 2004/05, freight volume growth on the East West network was around 8.9% higher than last year following comparable growth over the previous two years. Intermodal growth East West was nearly 13% up on 2003/04. Rail's market share of east-west land freight continues at around 81%.

In 2005/06, ARTC will embark on a substantial investment program of $1.4 billion (excluding AusLink projects), which is focussed on repairing, renovating and rebuilding the rail infrastructure assets to address rail's performance on the North South corridor and its share in markets served by this corridor. ARTC's objectives for the works are to clearly achieve market performance requirements in the area of transit time, reliability, capacity and yield (above and below rail).

While an indicative scope of works was developed for the $450 million Commonwealth grant, there was also a need to subject it to rigorous analysis, to optimise the scope of works in the context of the available funding and an improved understanding of business needs. The Australian Government has also recently announced a further grant of $100 million made to ARTC, which ARTC intends to invest in the North South interstate corridors. ARTC's strategic investment review during 2004/05 has been carried out in consultation with rail operators and key stakeholders.

The table below details specific outcomes of the North South corridor investment strategy expected to accrue over the next five years.

At present, the Hunter Valley coal rail system into the Newcastle Port has an annual capacity of around 90 million tonnes per annum (mtpa). The coal industry forecasts that demand of 125 mtpa is anticipated in 2007 with a further potential rise to around 140 mtpa by 2009. The strategy ARTC is adopting is to address existing capacity bottlenecks in the short term and to then ensure that Hunter Valley capacity is delivered ahead of likely demand.

During 2004/05, ARTC reviewed its investment program in the Hunter Valley in consultation with coal industry partners in light of the rapid growth in coal demand over the last two years. ARTC has proposed to invest an estimated $270 million in the rail network to increase capacity in line with the anticipated demand. Coordinated investments in other parts of the supply chain will be needed to crystallise this capacity. The investment will be funded by regulated access fee payments and each project will be subject to industry approval.

North South Corridor Strategy Market Benefits

	Sydney Melbourne	Sydney Brisbane	Melbourne Brisbane
Capacity (each way services)	3	2	7
Reliability	High	High	High
Transit Time (hrs)	10.7 1500m) 11.5 (1800m)	15.5	26.2 (1500m) 27.0 (1800m)
Current (hrs)	13.5 (1500m)	19.3	35.8
Above rail cost	>6%	>7%	>8%

Note that Melbourne Brisbane trains can be used to service the intermediate markets

ARTC will adopt a similar implementation strategy to that used for the North South corridor investment strategy. Subject to industry support, it is expected that the Hunter Valley rail corridor investment strategy will be implemented over the next five years.

In summary, 2004/05 has been a significant year in putting the elements of a one stop shop national standard gauge network in place. The year has been a great challenge for ARTC.

ARTC staff have done a wonderful job in delivering the challenges of such a large structural change and laying the foundation for significant improvements over the next few years.

David Marchant
Managing Director
Australian Rail Track Corporation Ltd

2004/2005 Highlights

July

Commencement of significant recruitment program for NSW lease and Country Regional Network (CRN) management area.

September

Commencement of 60 year lease for the NSW interstate track and Hunter Valley rail network. Agreement signed for the management of the CRN by ARTC under contract to Rail Infrastructure Corporation (RIC).

October

Highest ever monthly tonnage moved over East West network of 3.181 billion gross tonne kilometres (GTK).

December

East West network carries 33.93 billion GTK for the 2004 calendar year, a 10.8% increase on the 2003 calendar year.

January

Record Hunter Valley coal haul – 280,000 tonnes carried in a 24-hour period, the equivalent of an annualised capacity of over 102 million tonnes per annum.

February

Temporary speed restrictions (TSRs) on the North Coast and Hunter Valley corridors at historically low levels.

Environmental Impact Assessment for $182 million Southern Sydney Freight Line announced.

March

Environmental Impact Statement for proposed $60 million passenger/freight and coal rail separation at Sandgate goes on display.

May

ARTC and Lockheed Martin sign an agreement to develop a blueprint for a new Advanced Train Management System (ATMS) to provide new communications and train control technology.

ARTC announces increased investment, up from $153 million to an estimated $270 million, for infrastructure upgrades and enhancements on the Hunter Valley coal network.

June

$100 million special grant received from the Commonwealth enabling further upgrades to the ARTC network.

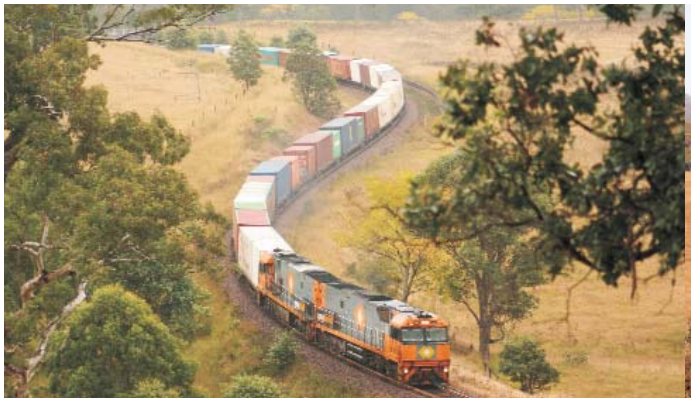
Industry briefing held for private sector to initiate a series of alliances to deliver ARTC's $1.4 billion (excluding AusLink funds) upgrade of the North South network.

Agreement signed with Telstra committing the parties to work towards the provision of CDMA coverage across the Interstate rail network and the Hunter Valley for improved communications.

New South Wales Lease

Since the commencement of the company's 60 year lease of the NSW interstate main lines and Hunter Valley rail network, ARTC's focus has been to ensure a safe and reliable transition of operations. It has not been ARTC's intention to effect major changes to existing practices from the outset, but to bring about change in a planned and orderly fashion. A key objective of ARTC's transition plan has been to provide continuity of service and organisational focus, whilst progressively introducing new management and systems. ARTC will take clear incremental steps during the remainder of the three year transition process to successively build upon preceding stages as the management framework and business processes are realigned.

A significant mobilisation program prior to lease commencement was undertaken involving the employment of an additional 350 engineering and administrative staff and secondment of approximately 1,150 train control and infrastructure



maintenance staff from Rail Infrastructure Corporation and State Rail Authority. Induction programs were developed and conducted for the entire ARTC workforce by ARTC senior management in order to align the workforce with company values and intentions, and these programs will be reinforced during 2005/06.

During the transition period, ARTC's objective was to minimise any disruption to customers' operations. Network management was transferred from the transition teams to ARTC management in December 2004. In order to meet annual coal haulage targets, ARTC has assumed an active role in Hunter Valley coal chain logistics management with a record daily haulage (55 trains) being achieved in January 2005. Across the network, ARTC has worked closely with customers to develop opportunities for service and capacity improvements.

A key management strategy has been to implement initial asset management and investment plans along with close control over expenditure in order to maintain current asset performance levels. During the initial transition, ARTC's understanding of existing asset condition and performance has been enhanced, leading to review of asset management plans where necessary. The requirements of the Year 1 maintenance plans were generally exceeded, and there were considerable improvements in asset condition achieved in 2004/05 especially in relation to the reduction in temporary speed restrictions. On the North Coast there was a 60% reduction in freight train time loss associated with temporary speed restrictions (TSRs) and historically low levels of TSRs were recorded in the Hunter Valley.

In consultation with industry and our customers, there has been extensive refinement of the North South interstate and Hunter Valley corridor investment strategies. In June 2005, this culminated with an industry briefing and initial release of Request for Proposal documents for the delivery of major parcels of the North South Corridor Investment Strategy.

The need to systematically develop or deploy systems to capture and manage the business was recognised and interim systems for asset, operations, safety, HR and financial management were adopted to meet initial business requirements. Where possible, the required asset, operations and HR data held by RIC, the previous track manager, was successfully migrated to ARTC. New computer systems for payroll management, personnel and HR management, work orders, procurement and train management were developed and rolled out by ARTC along with a new infrastructure backbone for IT across NSW. Relevant induction programs were developed and conducted for the entire ARTC workforce.

Planned measures to improve network and workforce safety were implemented including the 'Take 5' safety awareness regime throughout the organisation, and the carrying out of surveys of workforce culture and attitudes. New South Wales Safety Accreditation was approved by the NSW Rail Safety Regulator in September 2004.

Indicators

Tonnages moved across the East West network continued the strong growth trend that has been evident since ARTC commenced operations in 1998. During the 2004/2005 financial year, 34.55 billion gross tonne kilometres (GTK) were carried over the East West network representing substantial growth of 8.9% over the 2003/04 total of 31.91 billion GTK. East West intermodal growth increased by approximately 13% during 2004/05.

The highest monthly total to date was recorded in October 2004 with a record 3.19 billion GTK being moved over the network during a single month. The growth trend was most evident during the December quarter when 9.05 billion GTK was moved by train operators, an 11.9% increase on the December 2003 quarter.

This growth was achieved despite a below average grain harvest in Victoria and South Australia which impacted upon the number of ad hoc grain services run over ARTC tracks by train operators.

A new record for coal haulage over the ARTC Hunter Valley rail network was set on Saturday 22 January 2005, when more than 280,000 tonnes of export coal was carried to the Port of Newcastle in one 24-hour period. The current requirement is to transport a total of 84.3 million tonnes per annum for Hunter Valley export coal chain producers. A total of 55 coal services were managed by ARTC during the 24-hour period in addition to the other freight and passenger services running in the Hunter Valley, while at the same time two separate planned maintenance programs were undertaken.

Traffic Growth

During the year Queensland Rail, which had previously operated under the Interrail banner, streamlined its operations and was re-branded QRNational. It increased the frequency of its Brisbane to Melbourne intermodal services to six return trains per week and from 1st July 2005 commenced full coal haulage operations in the NSW

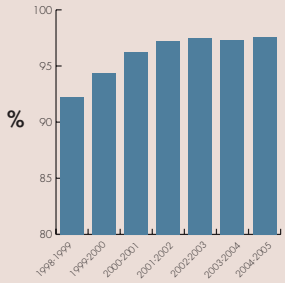
Hunter Valley, moving up to 10 million tonnes coal per annum from the Mount Arthur mine to the Port of Newcastle.

In May 2005, Australian Railroad Group commenced operation of a new daily return intermodal service between Swanson Dock (Melbourne) and Port Adelaide on behalf of P & O Ports. This new service provides a land bridging for import and export goods originating from or consigned for Adelaide. Capacity has also been made available to Freightlink on these services for intermodal traffic between Melbourne and Darwin.

In New South Wales intrastate general freight operations serving regional centres have continued to expand, mainly for the movement of intermodal export cargo through Port Botany. This has seen the emergence of several niche market rail operators providing flexible transport alternatives for NSW regional producers.

During 2005, Pacific National commenced hauling 'waste by rail'

Monthly Comparative Network GTKs (East West)



Percentage On Time Exit of Healthy Trains (East West)

from Clyde Yard in metropolitan Sydney to the former Woodlawn mine site at Tarago between Goulburn and Canberra. Pacific National has also restructured its premium East West services by replacing most of its fleet of road/rail trailers with a new fleet of low height intermodal five-pack wagons and conventional containers.

East West Reliability

During 2004/05, a total of 11,937 scheduled services operated over the ARTC East West network compared with 11,813 in 2003/4. This relates primarily to scheduled services and does not include ad hoc services such as those operated on behalf of the grain industry.

A total of 5,714 services commenced their journey over the ARTC network on schedule and of these 'healthy trains', 97.6% exited the ARTC network on time. This represents a slight improvement of 0.3% on the previous year's performance and compares favourably with ARTC's target of 98% for the on time exit of healthy trains.

There was further deterioration in the number of services that entered the network behind schedule or suffered operator related delays en route. Of those entering the network behind schedule, 93.9% suffered no further delay on the ARTC network and of these, 20.0% recovered sufficient time to exit the network on time.

During the year delays attributable to below rail causes accounted for 5.9% of the total delays encountered by all services during the year.

The combined percentage for all services departing the ARTC network on time for 2004/05 was 44.2%. This result was lower than previous years and this drop in reliability was largely attributable to late entry of trains on to the ARTC network.

Rail has maintained its market share of the land transport task on the East West corridor at 81% during the year. While the deterioration in on time running has had no visible impact on rail's market share or traffic volumes, ARTC continues to monitor the situation to ensure that the gains made by the rail industry are not adversely affected by any fall in the industry's level of reliability.

NSW Operations Performance

ARTC's operations focus in NSW was managing the transition phase to avoid disruption to train services. Feedback from freight and passenger customers indicates that there was no decline in operating performance during the initial transition period.

ARTC assumed responsibility for all train control management functions for the NSW lease network from 5 September 2004, principally in Orange, Broadmeadow and Junee. Train planning responsibility was assumed in full by ARTC in late November 2004, and in March 2005 new timetables prepared by ARTC were released for the interstate corridors in NSW.

Integrated planning, monitoring and billing IT systems were operational from commencement of the lease on 5 September 2004.

Regular performance review meetings are held with all customers.

The reporting of KPIs for performance and train management across the ARTC network is being reviewed with the aim of providing consolidated and individual data for the North South and East West jurisdictions to be in effect during 2005/06.

The number of TSRs in place on the North Coast and Hunter Valley corridors has been considerably reduced following commencement of ARTC's New South Wales lease.

In September 2004 there were eight TSRs in place on the Hunter Valley export coal network. By the end of February 2005 this had been reduced to only two TSRs, both of which are long term restrictions outside the immediate control of the local maintenance teams. This is the lowest recorded level of temporary speed restrictions for many years.

The reduction in TSRs has been a major factor in improved transit times and on time running for the multiple users of the Hunter Valley network. This includes Countrylink and Cityrail passenger services, coal trains, North Coast superfreighters and general freight services such as export grain and cotton.

The reduction in time lost due to TSRs has been a large factor in improved cycle times and the overall improved performance for Hunter Valley coal producers.

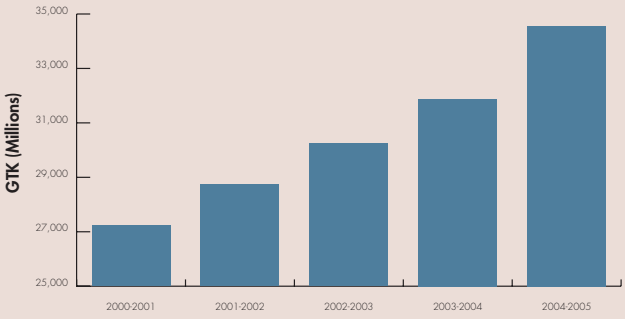
TSRs on the northern corridor (Maitland to Border Loop) reached their lowest level for twenty years in March 2005 resulting in improved reliability and faster transit for trains between Sydney and Brisbane. Within the first two months of the NSW lease commencing, all TSRs in the Taree area had been removed, some of which had been in place for the past seven years.

Victorian Network

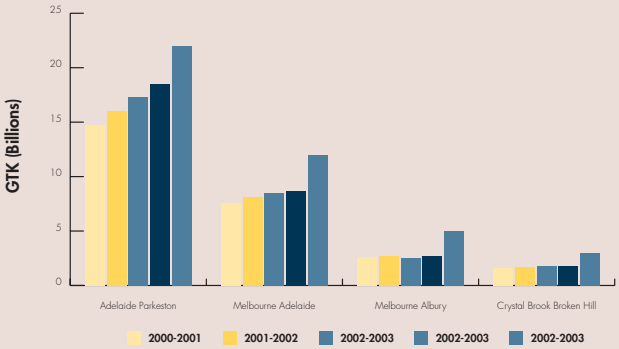
The North East corridor between Melbourne and Albury will see significant upgrading over the next five years as part of ARTC's North South corridor strategy to increase rail's market share between Melbourne, Sydney and Brisbane. The Western Line to the South Australian border is an integral part of ARTC's East West network and further capital works in 2006 and 2007 will see a direct link created at Sunshine between the East West and North South corridors.

During 2004/05 maintenance works on the North East line included face tamping between Tottenham and Albury, rail grinding at points and crossings and at 41 bridges along the route. Re-sleepering programs were completed between Chiltern and Benalla on the North Eastern Line and between Pyrenees and Maroona on the Western Line.

On the latter route almost 100 kms of spot tamping was carried out



Total Annual Network GTKs (East West)



Gross Tonne Kilometres by Corridor

to mitigate rough ride concerns raised by locomotive drivers. Further procedures were implemented to identify and record rough rides and treat them as priority track faults for repair.

Reduced services over the Christmas holiday period permitted a temporary rescheduling of trains paths on the Western line and allowed for major formation problems at nine sites to be addressed and the formation rebuilt, removing a number of long standing speed restrictions.

Between Dynon and Albury, maintenance works were carried out at several locations in anticipation of major upgrading work on the North South corridor scheduled to commence in the second half of 2005. Pending a final decision on the proposed rail bypass at Wodonga, essential maintenance works between Albury and Wodonga were undertaken including a special re-sleepering cycle plus the upgrading of points and level crossings.

Broken Hill Corridor

During 2004, a ballast retaining wall on a rail-deck culvert failed on the Broken Hill line. A review of the structural adequacy of all similar structures on the line was conducted, which identified that many of the existing culvert walls were showing signs of fatigue and could deteriorate further without intervention.

Temporary speed restrictions were immediately put in place at those locations deemed to exhibit the highest potential for failure.

Work was undertaken during 2004/05 to repair and reinforce the ballast walls. Repairs to those rail deck culverts with temporary speed restrictions applied have all now been completed and speed restrictions lifted. Further preventative upgrading is continuing on the remaining rail deck culverts.

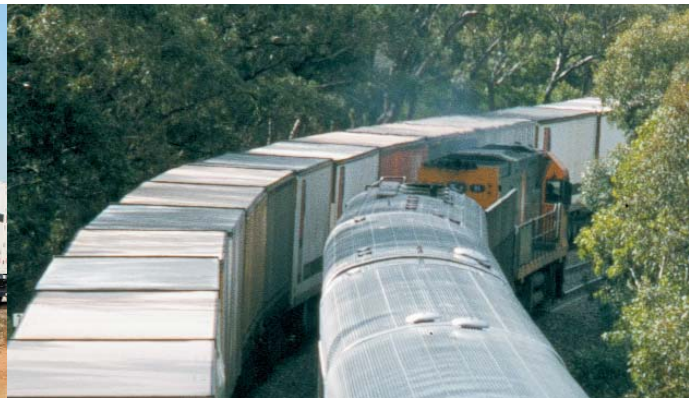
Country Regional Network (CRN)

In addition to its lease of the New South Wales interstate and Hunter Valley networks, ARTC is responsible for the New South Wales Country Regional

Network (CRN), which it manages on behalf of Rail Infrastructure Corporation (RIC) under the Country Regional Network Management Agreement (CRNMA). This includes responsibility for asset management, train control, access and property matters.

The CRN consists of 6,010 kms of land corridor of which 1,215 kms are used by passenger and freight traffic, 1,177 kms are dedicated freight lines and 718 kms are restricted lines used for the slow speed, seasonal transport of grain. The remaining 2,900 kms are disused track, which although not subject to rail traffic still requires maintenance of structures and bridges to meet safety requirements and statutory obligations. In addition there are a significant number of bridges (both under and over), signals, geo-technical structures (cuttings and embankments) and buildings requiring maintenance.

For the financial year 2004/05 ARTC had responsibility for a budget of approximately $95 million. With the announcement of extra funding for the



refurbishment of a number of the restricted grain lines, this will increase to approximately $150 million for the 2005/06 financial year.

ARTC Services Company Pty Ltd.

ARTC Services Company (ARTCSC) is a fully owned subsidiary of ARTC and was created in September 2003 to provide ARTC with signal and communications maintenance and construction services in the Western Jurisdiction.

The company maintains signalling and communications equipment across 2,755 rail kms of the East West network, including approximately 100 active level crossings.

Within ARTCSC, the Telecommunications group provides asset maintenance to 3,931 kms of rail corridor using a variety of UHF and VHF voice communications systems, including 500 kms of remote telemetry (CTC).

During 2004/05 the ARTCSC Projects & Support Group was responsible for a number of capital works projects on behalf of ARTC including the installation of self restoring points systems at the new Haig and Mungala Loops, the commissioning of signalling and alterations at Winninowie loop along with the replacement of neoprene cables and the pole line upgrading.

In August 2005 ARTCSC had its Enterprise Agreement ratified by the Industrial Relations Commission to be effective for three years which will cover all 33 ARTCSC employees.

Standard Gauge Company Pty Ltd.

The Standard Gauge Company is a wholly owned subsidiary of ARTC and was created in October 2000. The company's only activity is as a holder of 50% of the shares of Australian Inland Rail Expressway Pty Ltd (AIRE), with the remaining 50% held by Australian Transport and Energy Corridor Ltd (ATEC).

AIRE was established in April 2001 to manage the unincorporated joint venture between ARTC and ATEC to undertake a study into the technical, commercial and economic feasibility of an inland rail route from Melbourne to Brisbane.

Infrastructure Projects

During 2004/05, ARTC commenced work on a number of projects that will assist rail maintaining its position on the East West corridor and lay the foundations for increased efficiency, volume growth and new business opportunities.

Murray Bridge upgrade

The heritage listed bridge over the River Murray at Murray Bridge in South Australia received a $2 million upgrade funded by the Australian Government to allow increased axle loads and higher speeds across the bridge, which is the largest structure on the Melbourne to Adelaide rail corridor.

Project works comprise modifications to the existing structure to create a fully ballasted deck structure, including the removal of the existing jointed rail, plates and timber transoms and their replacement with new 60kg/m head hardened rail, guardrails and concrete sleepers. The upgrade, completed in June 2005, will extend the working life to 100 years, permit a structure rating of up to 30 tonne axle load, and track speed across the bridge will be raised to 60 km/h.

East West Crossing Loops

In response to increased traffic volumes and the need for additional capacity on the East West corridor, a total of $12 million was spent during 2004/05 to extend and create new crossing loops.

Two new 1800 metre crossing loops were constructed between Port Augusta and Kalgoorlie, at Mungala and Haig to extend the current capability to manage 1800 metre trains between Melbourne and Perth, improving flexibility for train management and increasing the reliability of freight movements.

To address the shortage of 1800 metre crossing loops on the East West corridor via Broken Hill, four crossing loops between Parkes and Crystal Brook, will be extended to 1800 metre standing length. Based on typical operations this has the potential to save between 15 and 20 minutes per train where a train is able to be progressed to one of the above locations.

In Cab Activation Points System

The In Cab Activation Points System (ICAPS) project has been developed to improve the efficiency of train movements at crossing loops on the Trans Australia railway between Port Augusta and Kalgoorlie. This builds on the existing Self Restoring System that sets the points back to the main line once a train has entered the crossing loop. SRS has already reduced the amount of dwell time for trains making crossing moves at loops on this corridor and ICAPS will provide further operational time savings. The new system provides the opportunity for train crews to operate the facing points from normal to reverse from the cab of a locomotive at a specified distance on the approach to a loop, rather than having to stop and exit the cab to manually set the points.

Outer Harbor Corridor Upgrade

ARTC infrastructure on the Lefevre Peninsula in South Australia will be upgraded as part of major works being undertaken to improve rail freight access to Port Adelaide and Outer Harbor.

AusLink funding from the Australian Government will contribute to a new rail bridge across the Port River enabling a dedicated access for freight trains to the expanding port facilities, including the new bulk handling terminal for ABB Grain, at Outer Harbor.

Track upgrading will allow track speeds to be lifted to 60 km/h for 23 tonne axle load trains from the current 25 km/h for 21 tonne axle load trains. Works will also include the construction of approximately five kilometres of dual gauge track and installation of CTC signalling to increase capacity through the creation of two bi-directional running lines between Birkenhead and the new bulk loading terminal. A new 1500 metre crossing loop will be built at Wingfield between Dry Creek and Port Adelaide.

$1.4 billion Investment to Revitalise Rail

Over the next five years, ARTC will embark on a $1.4 billion investment program to upgrade the infrastructure on the major rail corridor between Melbourne and Brisbane and in the Hunter Valley. A further $550 million will be provided through the Australian Government's AusLink land transport funding program for a number of Australia-wide rail projects that will augment some of the ARTC investment in the North South corridor, Hunter Valley and East West corridors.

In response to additional funds having been made available since the initial New South Wales lease investment package was prepared, ARTC has taken the opportunity during 2004/05 to re-evaluate the proposed improvements for the North South corridor and Hunter Valley, and released Draft Corridor Strategies for comment. This has been undertaken to optimise the scope of works in the context of increased investment and the release of the AusLink funding program to gain an improved understanding of

business needs following consultation with train operators and other stakeholders.

In parallel with a market evaluation of the North South corridor, an extensive review was carried out of the existing infrastructure and operating patterns on the Melbourne-Sydney-Brisbane corridor to clearly define the current situation and to provide a set of indicators by which future improvements can be measured.

The North South Corridor Strategy has been developed with four key operational objectives to improve the performance of rail freight on the corridor. These are:

- reduction of transit times to facilitate commercially efficient Melbourne - Sydney - Brisbane transits;
- improvements in the reliability to provide freight forwarders with greater certainty of reliable delivery;
- increase in actual line capacity to accommodate projected medium term rail traffic growth;
- reduced above rail operating costs and below rail cost, and gain an acceptable yield for ARTC from an upgraded North South corridor.

There remains significant potential for modal transfer on the North South corridor and ARTC will continue work on currently identified market development opportunities and seek out further opportunities for rail growth. The achievement of infrastructure and operational improvements associated with the NSW lease will be a critical element in the development of the North South rail freight market.

In parallel with the North South Strategy, a similar exercise was undertaken to review the investment program for the Hunter Valley. There is rapid growth in worldwide coal demand and a forecast increase of over 50% in export coal volumes through the Port of Newcastle within the next four years. In light of this, a Hunter Valley Strategy was developed in consultation with the coal industry and key stakeholders. ARTC's

strategy will be predicated on keeping network capacity ahead of anticipated demand, which is estimated by the coal producers to increase from the current capacity of 90 million tonnes per annum (mtpa) to 140 million mtpa by the end of 2009.

North South Rail Strategy for Growth

It has long been recognised that the performance of the North South rail axis linking Melbourne, Sydney and Brisbane has not performed to the requirements of the freight forwarding market. The ARTC Strategy is directed at repairing, renovating and rebuilding the rail infrastructure assets on the North South corridor to redress rail performance and market share.

The North South corridor can be divided into three distinct market segments and by reducing transit times over each segment, increasing network capacity, improving reliability and reducing above rail costs for operators, it is estimated that rail can achieve a market share on this corridor of over 30% of the land transport task. This

translates to a more than doubling of the current rail task on the eastern seaboard.

Investment benefits from the North South Strategy in relation to capacity are directed to achieving three trains each way Sydney to Melbourne (per 24 hours), two each way Sydney to Brisbane and seven each way Melbourne to Brisbane. The strategy will see significant improvements from current performance levels and enhanced outcomes compared to the original NSW business case. Above rail savings are projected to be greater than 6% for Sydney to Melbourne, greater than 7% Sydney to Brisbane and greater than 8% Melbourne to Brisbane.

The planned reductions in transit times for 1500 metre superfreighters over each segment are:

- Melbourne to Brisbane
  35 hrs 46 mins to 26 hrs 10 mins (9hrs 36 mins)
- Sydney to Melbourne
  13 hrs 30 mins to 10 hrs 40 mins (2 hrs 50 mins)
- Sydney to Brisbane
  19 hrs 22 mins to 15 hrs 30 mins (3 hrs 52 mins)

Between Sydney and Melbourne, it will be possible to operate longer trains with a reduction in transit time for a typical 1800 metre superfreighter from 13 hrs 30 mins to 11 hours 30 minutes.

Melbourne to Sydney

Approximately $730 million will be spent on the Main South line between Sydney and Melbourne to reduce transit times and lift performance that will meet the market demand for late afternoon departure and early morning arrival from the intercapital terminals.

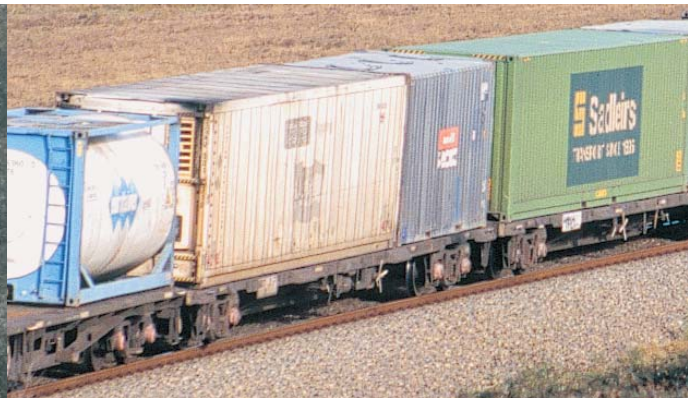
The Melbourne to Sydney freight market is estimated at 11 million net tonnes per annum making it by far the largest general freight market in Australia. Currently, rail has only about a 10% share of this market and uncompetitive transit times are

a major contributor to this low figure. Loading and unloading time, combined with the Sydney metropolitan rail access curfew, restrict rail's ability to provide a competitive transit time. Market size means relatively small changes in market share would translate into significant volume growth.

The investment programme for the Melbourne to Sydney segment will deliver a reliable transit time of less than 11 hours that can meet the market demand for late afternoon departure and early morning arrival and will also result in material above rail cost savings.

Between Sydney and Melbourne the investment strategy has been developed to remove loop length as a constraint on train length. In the future, the main limiting factors in train length will be train braking distances and in-train forces.

Major projects as part of the investment between Sydney and Melbourne will include:



- the construction of 16 new passing lanes (each between 10 and 15 kilometres in length) with high speed turnouts and bi-directional signalling between Junee and Melbourne at an estimated cost of $248 million. This will result in the construction of over 220 kilometres of track. The passing lanes offer the optimal solution to providing increased capacity, improved transit time and greater operational flexibility (trains up to 1800 metres in length) on what is currently a single track with crossing loops.
- installation of eight facing cross overs on the existing double track between Sydney and Junee to allow bi-directional running for greater operational flexibility and a reduction in the impact of maintenance and upgrading works.
- a $15 million replacement of the current life expired structure over the Murrumbidgee River at Wagga Wagga with a new rail bridge. The speed restriction on the existing structure has been an impediment to efficient train operations on the corridor.
- the progressive re-sleepering of curves with concrete sleepers to allow maximum train speeds to be increased, improve transit times and reduce ongoing maintenance costs.
- the replacement of the remaining manually operated signal boxes on the corridor along with the progressive automation and consolidation of all train control functions to the Junee Network Control Centre will be carried out at a cost of $45 million. This investment will increase track capacity, while at the same time improve train control efficiency and safety.
- $113 million will be spent over 4 years on a range of works to

improve track condition so that it will be maintained to national code of practice standards to minimise life-cycle track maintenance costs.

- the $190 million, 36kms dedicated Southern Sydney Freight line adjacent to the Main South Line will connect the existing ARTC rail network at Macarthur with the metropolitan freight only network at Sefton and provide direct independent access to Enfield, Chullora and Port Botany. It will eliminate the present limitations on freight being carried to Chullora and the Port of Botany arising from restriction on freight train access to Railcorp passenger lines during the commuter peaks. Community consultation and an Environmental Impact Assessment were ongoing throughout 2005.

In addition to its $730 million investment, ARTC will also assist RailCorp with the $110 million Main North Amplification Project to provide additional train paths between Strathfield and Hornsby with funding provided to the NSW Government through the AusLink program.

Improved Freight Connections for Melbourne

As part of the Melbourne Sydney corridor improvements, $55 million will be invested in new track and infrastructure in the Melbourne metropolitan area to increase access to and from the Port of Melbourne, and reduction of the current bottleneck restricting access into and out of the Port of Melbourne between Dynon and Tottenham Yard.

Track will be rebuilt and upgraded between Tottenham Junction and Bunbury Tunnel, including track amplification to provide three bi-directional tracks between Tottenham and the west end of Bunbury Street Tunnel. This will increase capacity on the approach to the Dynon terminal and the Melbourne port precincts and provide the ability to stage trains.

Between Brooklyn and Sunshine a direct standard gauge track connection will be built which will provide direct access between the North South and East West rail freight corridors.

Sydney to Brisbane

Between Sydney and Brisbane, $422 million will be invested to rehabilitate and expand the infrastructure on this corridor thereby assisting the rail industry lift its market share on this route segment to over 30%.

Rail has an estimated 19% share of the freight market on the corridor. Investment for this segment will significantly reduce the transit time to 15 hours 30 minutes aligning rail more closely with market demand for late afternoon departure and early morning arrival with improved cut-off and availability times. With this investment the rail freight task on this segment is estimated to grow by over 118% in the next decade.

Major works between Maitland and Brisbane will include:

- a $78 million project between Maitland and Brisbane to extend 11 of the existing crossing loops to accommodate trains up to 1500 metres in length and the building of four new 1500 metre crossings loops.
- $12 million will be allocated to the upgrading of the remaining 18 crossing loops on this section which can already handle 1500 metre trains. This will increase the capacity of the corridor through the removal of current constraints on the operation of longer trains and will also contribute to a reduction in transit times derived from more frequently spaced crossing loops.
- concrete re-sleepering of all curves of less than 800 metres radius using some 220,000 sleepers to improve cant and super-elevation will be undertaken at a cost of $39 million allowing for increased train speeds and further reducing transit times.
- the antiquated electric train staff safeworking system between Casino and Greenbank will be replaced with a Centralised Train Control system (CTC) at a cost of $14 million. This will eliminate 30 minutes per train of transit time delay due to current manual crossing procedures and it will reduce train operating costs due to unnecessary stopping.
- over $50 million has been allocated for other improvements to track and formation to lift the overall reliability of the corridor and minimise ongoing maintenance costs. This will include bridge rehabilitation and level crossing upgrades along with works forming the basis of ARTC's 5-step holistic approach, used successfully elsewhere on the interstate network including drainage, grinding, tamping and ballasting works.

Melbourne to Brisbane

The combined investment programs on the North South corridor will deliver a nine and a half hour reduction in transit time between Melbourne and Brisbane for 1500 metre superfreighters, from the present 35 hours 46 minutes to 26 hours 10 minutes.

While the Melbourne to Brisbane corridor is the smallest market sector on the corridor, at around five million net tonnes of freight per annum, volume growth on this segment should generate double the gross tonne kilometres of the other two North South markets.

The number of available train paths will be substantially increased and the strategy will provide for an operating pattern that meets needs of the market by building on rail's existing cost and transit time competitiveness with road. Better asset utilisation and greater capacity across the corridor will lead to estimated cost savings of more than 8 per cent for train operators.

Hunter Valley Corridor Capacity Improvement Strategy

In May 2005, ARTC announced increased investment, from $153 million to an estimated $270 million, over the next five years for infrastructure upgrades and enhancements on the Hunter Valley coal rail network. The additional capital expenditure is directed at meeting the rapid growth in coal export demand by ensuring that track capacity remains ahead of demand and at increasing operating efficiency and safety over the Hunter Valley network.

The investment will be targetted at lifting the network capacity from the current 90 mpta to around 140 mtpa by 2009. The project schedule has been developed so that as individual projects are completed, each would increase the overall capacity of the network ahead of projected demand.

A major capacity enhancement project is the construction of a grade separation at Sandgate. Work on the $60 million project is expected to commence before

Projected Coal Capacity and Demand Sandgate to Ulan 2009

the end of 2005 and this will eliminate the current conflict and resultant delays between coal trains accessing the Kooragang coal export terminal and other rail services on adjacent tracks.

Further capacity increases will be derived from track upgrades and major signalling improvements in the Singleton area. These will enable trains to approach the grades at Nundah and Minimbah at a track speed of 80km/h, rather than the current 60 km/h, thereby increasing capacity through the reduction in time that a given section of track is occupied by an individual train. This will enable longer and heavier trains to operate at no more than 10 minutes headway throughout the Lower Hunter.

Junction remodelling will take place at Whittingham (including grade separation), Newdell and Drayton Junctions to improve the signalling and entry speeds for trains entering the network from the colliery branches.

The outdated electric staff signalling system on the Ulan line will be replaced with CTC eliminating the need for crews to stop at every crossing loop for safe working purposes. The track layout at Muswellbrook will be remodelled and an additional crossing loop will be provided on the Ulan Line to increase the number of available train paths on this line.

Other projects included in the investment package include the provision of bidirectional signalling over much of the Hunter Valley network, a third track on both Nundah and Minimbah banks and progressive duplication of the section between Antiene and Muswellbrook. These works will provide greater operational flexibility and reduce the need for track shutdowns during major maintenance programmes.

The timing of these projects will be subject to the coal industry demands and approval for incorporating in the regulated asset base.

Network Integration

The NSW lease represents a significant step forward towards achievement of ARTC's vision for a one-stop shop on the interstate rail network. The company has continued to explore opportunities to achieve greater integration of the remaining parts of the interstate network.

Rail's market share on North South corridors currently stands at 21% (Melbourne-Brisbane), 19% (Sydney-Brisbane) and 11% (Melbourne-Sydney) and, unlike East West corridors has shown little or no improvement over a number of years. Critical to ARTC and the rail industry generally, is the attainment of the market outcomes, and modal shift, associated with the implementation of ARTC's North South investment strategy

To support the achievement of key performance outcomes of the investment ARTC will continue to work with customers, the industry and governments to

reduce barriers that might constrain market growth on North South corridors.

ARTC is participating actively in the North South Rail Corridor Study This study is to assess all future options for improvement of the North South corridor.

Next Generation Train Management

Australia has an ageing train management and signalling system. With much of the existing train control technology requiring replacement over the next 10 years, there is a need to create a network-wide technology that will generate the maximum benefits from uniform and consistent operating conditions.

ARTC and Lockheed Martin entered into an agreement on 5 May 2005 to develop a blueprint for a new Advanced Train Management System (ATMS) which will provide next generation train control and communications technology for ARTC's national and Hunter Valley rail networks. The Australian government will provide $20.3 million from its AusLink land transport fund for the development of the ATMS blueprint.

Stage 1 of the ATMS project, to be undertaken during 2005/06, involves defining a blueprint for development of ATMS, including a scoping study to assess the full cost of implementing a new generation network train control system for the interstate track.

This will include evaluation of the present network for the application of ATMS and the development of a systems specification to establish the costs and the scope of work necessary for full implementation. Operational models required to deliver the system will be developed in full consultation with train operators, and other track owners will also be consulted on the methods of interfacing their communications with the ATMS system, especially on urban networks.

ATMS has the potential to provide the rail network with a new state of the art train control technology that will provide additional network capacity through reduced train headways and more flexible train pathing and allow more efficient, faster operation of trains across the network with higher levels of safety.

ATMS has the potential when fully implemented to provide computerised in-cab signalling to replace the current trackside system, land occupancy location technology with accuracy to within three metres and a computerised warning system to alert drivers of impending dangers. The ATMS blueprint will provide a customised technology for Australian conditions and will build upon development of a new communications system based on the use of CDMA mobile phone technology.

CDMA Communications Upgrade

ARTC is developing a communications media based on Code Division Multiple Access (CDMA) technology for a fully interoperable, safe and cost effective communications system across the national rail network. The $42 million project is to be funded by the Australian Government through the AusLink land transport funding programme.

Adoption of a single consistent communications system across the

interstate rail network will address a major inconsistency that has caused difficulties for interstate rail freight operators who previously have had to deal with up to nine different communications systems. CDMA will provide greater bandwidth, which is consistent with the data centric requirements of the next generation train control and train management technology.

The project includes the construction of an extra 42 communication towers and the associated equipment in locomotives and at train control centres.

CDMA meets the functional requirements specified by the rail industry through a working group established by the Australasian Railways Association (ARA).

Wayside Detection

Derailments caused by poor wheel and bogie condition can create major disruption, delays and costs for train operators. ARTC is continuing to roll out new wayside monitoring systems aimed at reducing the incidence of derailments and the impact of rolling stock faults on track quality.

ARTC convenes regular meetings of a Wayside Steering Committee comprising ARTC and Operator representatives to develop an agreed predictive wayside monitoring and measuring strategy. The key to this co-operative strategy is to quantify the cost/benefits of early intervention resulting in a measurable improvement in the health of the rolling stock, less wear of the rail, an improvement in the safety condition of the track and fleet operations and the consequent reduction in the number and cost of derailments and other incidents.

In partnership with train operators, ARTC is embarking on an expansion of its current wayside monitoring capabilities using the following technologies.

- Bearing Acoustic Monitors (RailBAM), similar to the existing system already in use at Nectar Brook (SA) will be installed at up to four additional locations to monitor wheel bearing condition. This is aimed at reducing bearing fault related derailments and also provides increased rolling stock reliability due to significantly reduced vehicle pullouts during journeys.
- Wheel Profile measuring equipment will be installed at several locations to provide for early identification of worn and out of profile wheel sets that can lead to derailments and excessive rail wear. Operators will benefit from reduced inspection costs and

Rolling Surface Defect Levels RailBAM Nectar Brook

improved wheel demand forecasting, purchase planning and budgeting.

- Bogie Angle of Attack and Hunting Detectors will be installed to identify poorly tracking bogies which will result in reduced rail wear and assist in identifying problem bogies responsible for excessive wheel squeal.
- ARTC already employs Wheel Impact Load Detectors (WILD) at a number of locations on its network and further monitoring units will be installed to identify "bad actors" (eg wheel flats) that present a high risk of derailment. It will also assist in reducing hazardous operational practices by identifying axle overloading, incorrect train loading and incorrect train consist makeup.
- an acoustic monitoring system (RailSQAD) is being installed to monitor wheel squeal in the Adelaide Hills.
- Dragging Equipment Sensors will also be installed at a number of locations.

ARTC is developing for the use by train operators, a new centralised database and defect trending software which will be implemented to warn of short term rolling stock component issues and provide grouped sensors analysis ratings for individual wagons. This will allow multiple defects to be repaired during a single maintenance stop which would assist train operators to further reduce costs and increase resource utilisation.

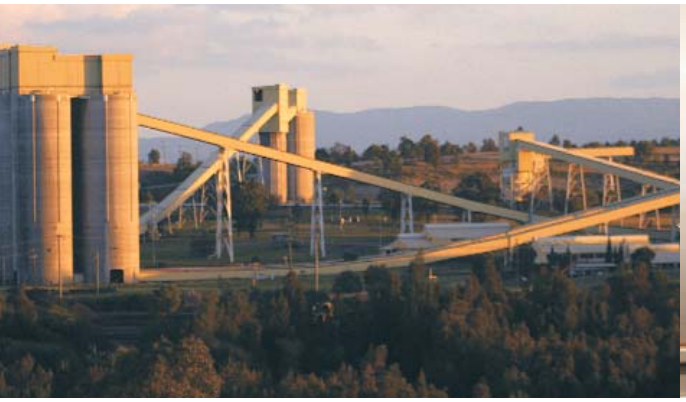
Hunter Valley Coal Chain (HVCC) Logistics Team

ARTC is member of the Hunter Valley Coal Chain (HVCC) Logistics Team. Other members are Pacific National, QRNational, Railcorp, Port Waratah Coal Services (PWCS) and The Port of Newcastle.

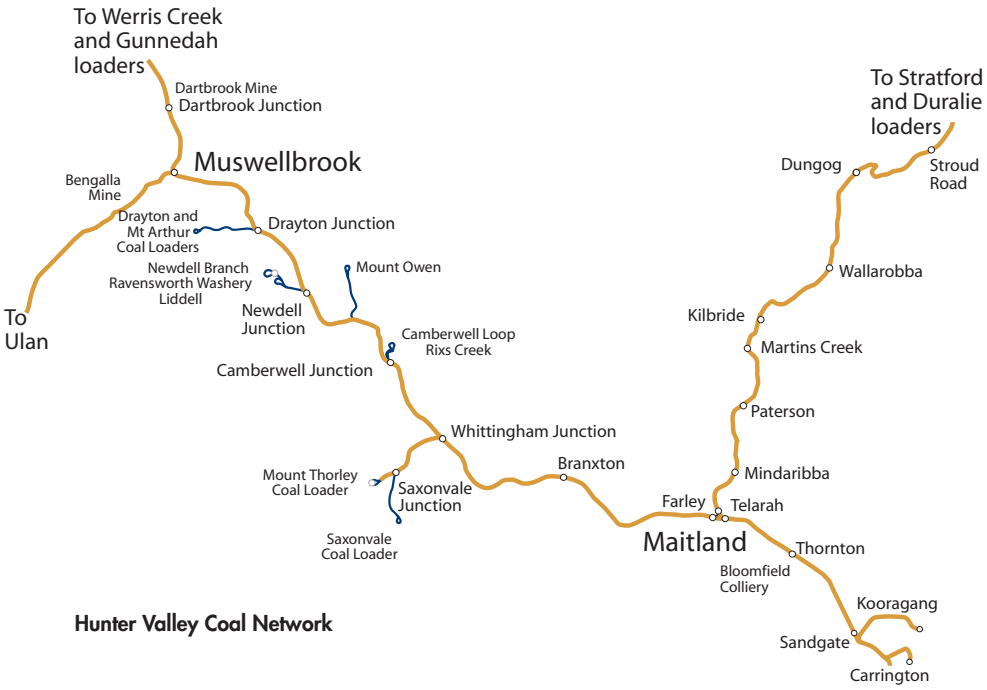
The HVCC Logistics Team has been established to conduct the coordinated planning and scheduling of coal services in the northern coalfield region.

Its charter is to maximise throughput of the HVCC at minimum total logistics cost through the effective and efficient use of each member's assets. It will also identify future capacity constraints and propose and encourage investment within the HVCC.

With demand for Hunter Valley coal estimated to increase by over 60% in the next four years, every aspect of the HVCC will be required to optimise the operations of all components of the coal chain.



An Industry Reference Group will provide an opportunity for the exchange of information between the Logistics Team and a broad group of stakeholders who have a commercial interest in the operations of the HVCC.



Hunter Valley Coal Network

Responsible Management

Corporate Governance

From the Board level to the individual employee, corporate governance is an essential element of ARTC's day to day business operations. The process encompasses authority, accountability, stewardship, direction and control within the company.

ARTC's corporate governance policy provides for transparency of corporate structures and operation, the implementation of effective risk management and internal control systems, the accountability of the Board to shareholders through clear, accurate and timely disclosure and an ongoing process of improvement and review.

ARTC fosters a culture of compliance and has assurance processes in place to ensure all affected personnel are competent and alert to their obligations. ARTC's policy is to protect whistleblowers and to encourage all employees and contractors to express concerns and report contraventions without fear of recrimination. ARTC is formalising a procedure to reflect this policy.

Regular monthly Board meetings were held throughout 2004/05 along with regular meetings of the Board Committees. In the period immediately after commencement of the NSW lease, the structure of the Board Committees was modified to reflect the increased scope and complexity of the business. The new structure includes the Audit & Compliance Committee, the People & Workplace Policy Committee and the Environment, Health & Safety Committee. In addition, the Board recently resolved to form a Committee of the Whole Board for Risk.

ARTC is adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) with an implementation program well under way. The financial report included in this Annual Report includes disclosures about the impacts on the financial report had it been prepared using AIFRS.

People

In September 2004, ARTC assumed responsibility for the management of approximately 1,150 seconded NSW State Government infrastructure maintenance workers, train control and signalling staff and a small number of administrative employees. A successful program of recruitment was initiated to fill an additional 350 positions in NSW and Adelaide, with most key positions filled prior to take-up.

A challenge for ARTC on take-up of the NSW lease has been to address the critical shortages of Train Control and Signaller employees. A recruitment program was initiated to engage external trainee signallers on a temporary basis and internally recruiting additional Train Controllers and High Grade Signallers, to alleviate the situation.

During the year, employees attended a number of business strategy workshops to discuss and reinforce ARTC's corporate goals and direction. Induction sessions were also held for all seconded NSW State Government employees.

A significant amount of training was undertaken including the implementation of the 'Take 5' initiative which is aimed at increasing general safety awareness through risk identification and assessment. Over 2,300 individual attendances at courses were recorded for the year.

Culture Surveys were conducted to establish ARTC employee attitudes during a period of major change, prior to and after NSW operations commenced. The first was conducted in August 2004 and the second in March 2005. Both surveys were a useful tool to gauge the general culture and have validated new and existing projects including development programs for managers and increased corporate communication.

The Rail Skills and Career Council (RSCC) (part of the Australasian Railway Association) was formed in July 2004 to oversee programs to ensure the long term skills and people needs of an industry where the ageing workforce and skills shortages

pose a significant challenge. ARTC is an Executive member of the RSCC and, along with other major rail operators, is championing potential joint initiatives including an industry graduate and mentoring programs.

Occupational Health and Safety

OHS Management System (OHSMS)

The OHSMS developed by ARTC for the take-up of the NSW lease in September 2004 was audited by the Rail Infrastructure Corporation (RIC) (a requirement of the Labour Services Agreement) and found to be fully compliant with the relevant Australian Standards. RIC has since undertaken a program of external audits of the implementation of ARTC's OHSMS commencing in December 2004. The audits have proved useful in identifying opportunities for OHS improvement. The Corporation's business units have since developed action plans to address the audit findings.

Injury Reporting

The injury frequency rates reflect the challenges associated with the expansion of the workforce over the past year, including a dramatic increase in the number of staff engaged in infrastructure maintenance. Lost time injury numbers and frequency rates are as follows:

	Lost Time Injuries (LTIs)	LTI Frequency Rate
Direct ARTC Employees	3	4
Seconded Employees	50	29
Alliance Partners	2	4

The Company has acknowledged the challenge associated with improving performance and aims to decrease the injury frequency rates, particularly for Seconded Employees, through a range of OHS improvement initiatives including more effective consultation, improved incident investigation and statistical analysis, and more effective injury management.

Rail Safety

The delivery of a rail network that is both safe and efficient for all stakeholders including the community is of paramount importance for ARTC.

ARTC believes that safety and risk can be managed effectively within an environment where:

- safety and risk management are understood to be a core value and component of all business activities.
- methods, procedures and standards are logical, practical, understood, and documented.
- communications are direct and unambiguous between those who issue instructions and those who execute instructions.
- there is corporate support (in terms of technology, equipment, and procedure) for those who must deliver safety and manage risk.

ARTC staff are encouraged to take individual responsibility for safety, and are being given the tools that they need to address problems immediately, and communicate directly with those with whom they must work.

ARTC's efforts and investment is providing improved technology, better systems, and unified standards across the entire ARTC network. As this investment gathers pace, the effect on safety outcomes will be felt by all who work on and use the ARTC network.

ARTC has extended its safety philosophy into NSW following the take up of the lease of the interstate and Hunter Valley networks in 2004. ARTC achieved full NSW Rail Safety Accreditation in September 2004.

During the year, ARTC has continued its involvement in the process managed by the National Transport Commission to develop nationally consistent rail safety legislation. The draft legislation is expected to be released for public comment towards the end of 2005.

Concurrent with that process, ARTC is working with the Australasian Railway Association's Code Management Company to develop the Codes of Practice to be used in support of the legislation. Rail safety legislators in Victoria and South Australia have already agreed to the introduction of a nationwide Code of Practice for track and infrastructure.

Risk Management

ARTC has developed risk identification and assessment mechanisms at a number of levels throughout the company. These range from high-level risk inventory approaches to specific change management assessments and daily worksite risk reviews.

During the year ARTC has refined its top-down assessment process to move from a risk inventory approach to a more process driven assessment framework.

The Board meets twice yearly in a 'Committee of the Whole Board for Risk', to review risk exposure, risk mitigation and risk management within the corporation.

The Board has approved a risk tolerability framework that is aligned with the company's strategic priorities and is consistent with the principles set out in the Australian Risk Management Standard AS/NZS 4360. The Board relies on a range of internal and external assurance providers, to test the integrity of the risk management

controls and strategies for controlling material risks, and to monitor the effectiveness of the risk management process.

Environmental

There were no significant environmental issues affecting ARTC's business in South Australia or Victoria during 2004/05. In South Australia ARTC continued to monitor the issue of 'wheel squeal' in the Adelaide Hills which will be further addressed in 2005/06 with the installation of trackside RailSQAD monitoring equipment.

In New South Wales it is a requirement of the Protection of the Environment and Operations Act 1997 (POEO) that ARTC hold an Environment Protection Licence (EPL). The NSW Department of Environment & Conservation (formerly the NSW Environment Protection Authority – EPA) has issued ARTC a licence (Licence 3142) to operate the NSW Leased and Country Regional Network.

NSW State Environmental Planning Policy (SEPP) allows ARTC to 'determine' its own projects under the NSW Environmental & Planning Assessment Act. ARTC is required to prepare and have approved by the NSW Minister for Planning, an Environmental Code of Practice. The Code requires ARTC to classify all infrastructure activities and then consider the environmental management procedures required to fully address potential impacts. The Code is presently being concluded for submission to the Minister.

ARTC is refining an Environmental Management System (EMS) for its operational activities within New South Wales. This will form part of ARTC's overall environmental management system. The EMS will provide consistency for ARTC to address environmental risks through the allocation of resources, assignment of responsibilities, and ongoing evaluation. The EMS will also incorporate the structure and elements of the Code.

Rail Heritage in New South Wales

The preparation of a strategic heritage asset management plan for the NSW country rail network was commenced during 2004/05.

As a condition of the New South Wales lease, ARTC accepted responsibility under the NSW Heritage Act 1977 for management of 265 heritage assets that had previously been listed on the s.170 Heritage and Conservation Registers of the NSW rail authorities.

In accordance with legislative requirements, ARTC has developed and maintains an s.170 Heritage and Conservation Register of assets in NSW. The Register also lists 407 heritage assets still under the control of the NSW rail authorities but managed by ARTC as part of the Country Regional Network Management Agreement.

During the year field inspections were undertaken to validate data contained in the s.170 Register, and to check and record the condition of heritage listed assets. A program to address maintenance and repairs to buildings and structures was prepared during 2004/05 for implementation in 2005/06.

Summary of ARTC managed heritage assets at 30 June 2005

	ARTC responsibility	Managed for NSW rail authorities
Total number of heritage items in s.170 Register	265	407
Assets listed on the State Heritage Register	123	250
Condition of items on s.170 Register		
Satisfactory	217	306
Fair, requiring some attention	45	88
Unknown at this time	3	13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Directors' Report

from left:

R I McCutcheon	Non-executive Director
R B Maher	Non-executive Director
M D F Pop	Non-executive Director
B K Murphy	Chairman
A H D Budd	Non-executive Director
G D Walters	Non-executive Director
S R Gray	Company Secretary
D W Marchant	Managing Director

The Board of Directors of the Australian Rail Track Corporation Limited ("ARTC") has pleasure in submitting the Directors' Report in respect of the year ended 30 June 2005.

Directors

The following persons were Directors of the ARTC during the whole of the financial year and up to the date of this report unless otherwise stated.

B K Murphy
A H D Budd
R B Maher
R I McCutcheon
M D F Pop
D W Marchant
G D Walters (appointed on 16 August 2004)
R T Balderstone (retired on 15 August 2004)

Qualifications, experience and special responsibilities

Barry Kevin Murphy B.Sc.App., B.E.(Chem), CSci, MBA, PgDip.Env.Stud., PgDip.En.Stud., FIChemE, FAICD (non-executive Chairman)
B K Murphy joined ARTC in 1999 as non-executive Chairman and continues in that role, also serving since 2004 as Chair of the new People & Workplace Policy Committee.

Alfred Hamilton Dale Budd OBE, B.E., FAICD, FCILT (non-executive Vice Chairman)
Since 2001 when he joined the company, A H D Budd has combined his public and private sector consultancy work with his role as a non-executive Director. He was appointed Vice Chairman in 2004, also serving with the Audit & Compliance Committee, and has special responsibility for engineering and asset sustainability.

Raymond Ian McCutcheon BE, GAICD
Since 2001 when he joined the company, R I McCutcheon has combined his export advisory work with his role as a non-executive Director, also serving since 2004 as Chair of the new Environment, Health & Safety Committee. Prior to joining the company, he was Chief Executive of a large engineering firm. He has special responsibility for advanced technology and major project oversight.

Robert Brooker Maher AM, BA
Since 2001 when he joined the company, R B Maher has combined his strategic and business planning consultancy work with his role as a non-executive Director. In 2004, he became a member of the Environment, Health & Safety Committee. He has special responsibility for government and community relations.

Martine Daniele Francoise Pop PhD EEC Commercial Law (Paris Pantheon)
Since 2001 when she joined the company, M D F Pop has combined her risk consultancy work with her role as a non-executive Director. In 2004, she became a member of the new People & Workplace Policy Committee. She has special responsibility for risk management.

Graham Douglas Walters AM, FCA
G D Walters joined the Board on 16 August 2004. Mr Walters is a professional Director and a fellow of the Institute of Chartered Accountants, and also serves as the Chair of the Audit & Compliance Committee.

David William Marchant
D W Marchant was appointed Chief Executive Officer and Managing Director in June 1998. Prior to this appointment, David held a range of positions in utility groups and government agencies.

Richard Tyree Balderstone
R T Balderstone is a merchant banker and acted as a non-executive Director from 1998 until 15 August 2004.

Company Secretary

Simon Royston Gray LL.B., GAICD
S R Gray was appointed company secretary on 30 July 2004. He joined the company in 1998 and is also the corporate legal counsel.

Geoffrey Atkinson
G Atkinson served as company secretary from 1998 until 30 July 2004.

Principal activities

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

Dividends - Australian Rail Track Corporation Limited

A dividend of $6,990,000 declared during the prior years was paid in the period ended 30 June 2005. No dividends have been declared by the Directors in the current year.

Review of operations

The review of operations of the ARTC is contained in the Managing Director's Report.

Group structure

ARTC is the ultimate holding company for two entities, ARTC Services Company Pty Ltd and Standard Gauge Company Pty Ltd. References in this report to "the Group" and to "the consolidated entity" relate to these three entities.

Significant changes in the state of affairs

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

(a) On 5 September 2004, a 60 year lease with the NSW Government commenced for ARTC to operate the NSW interstate main lines, the Hunter Valley rail corridor and dedicated metropolitan freight lines to the Sydney ports. In addition, a licence was granted to construct the Southern Sydney Freight line within the existing rail corridor, the total length of these tracks is approximately 3,400 kilometres. ARTC will have full responsibility for these corridors, including investment decisions and train control. As a consequence of this agreement, approximately 1,200 employees were seconded to ARTC during the year.

In addition, on 5 September 2004 ARTC took responsibility for the New South Wales Country Regional Network (CRN) which it manages on behalf of Rail Infrastructure Corporation (RIC) under the Country Regional Network Management Agreement (CRNMA). This includes responsibility for asset management, train control, access and property matters.

The CRN consists of approximately 6,000kms of track of which approximately 3,100kms are used by various passenger and freight traffic, while the remaining 2,900kms are disused track, which although not subject to rail traffic still requires maintenance. In addition there are a significant number of bridges, signals, geo-technical structures and buildings requiring maintenance.

(b) A special government grant of $100m was received from the Commonwealth on 30 June 2005. The grant will enable the ARTC to develop and implement a program to improve the rail network in Australia.

(c) ARTC's South Australian and Western Australian owned infrastructure assets were re-valued as at 30 June 2005, and follow the previous valuation in June 2000. The South Australian and Western Australian assets were revalued using a discounted cash flow approach to provide an estimate of the "Value in Use" of the SA/WA assets for Australian Generally Accepted Accounting Principles and Australian Equivalents to International Financial Reporting Standards. The increase in the value of these assets to the Group as reflected in the asset revaluation reserve is $99.1m.

Likely developments and expected results of operations

Likely developments and the expected results of operations of the ARTC are contained in the Managing Director's Report.

Environmental regulation

ARTC holds licences from both the Environmental Protection Authority of South Australia and the Environmental Protection Authority of NSW. In South Australia, the licence is held under Part 6 of the Environmental Protection Act, 1993 to undertake the activity of a "Railway System". The licence is due to expire on 31 January 2007 and an application for renewal will be lodged at that time.

In New South Wales, the licence is held under Section 55 of the Protection of the Environment Operations Act 1997 to undertake "Railway Activities". The licence expired on 5 September 2005 and an application for renewal has been lodged.

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 licenced.

Meetings of Directors

The number of meetings of the company's Board of Directors and of each Board Committee held during the year ended 30 June 2005, and the number of meetings attended by each Director were:

	Directors' Meeting		Audit & Compliance Committee *		People & Workplace Policy Committee *		Environment Health & Safety Committee	
	A	B	A	B	A	B	A	B
B K Murphy	11	11	1	1	5	5	–	–
A H D Budd	11	11	7	7	–	–	–	–
R B Maher	10	11	–	–	2	2	1	1
R I McCutcheon	11	11	–	–	2	2	1	1
M D F Pop	10	11	1	2	3	3	–	–
G D Walters	9	10	5	5	–	–	–	–
D W Marchant	11	11	7	7	4	5	1	1
R T Balderstone	1	1	1	1	–	–	–	–

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

Committee membership

* During the reporting period, the Board Committee structure was modified as follows;

- Audit & Risk Management Committee was reconstituted as the Audit & Compliance Committee.
- Remuneration & Staff Policy Committee was reconstituted as the People & Workplace Policy Committee.

- New Environment Health & Safety Committee created.

In addition, the Board resolved to form a Committee of the Whole Board for Risk.

Members acting on the Committees of the Board during the year were:

Present Committees:
(* denotes Chairman)

Audit & Compliance	People & Workplace Policy	Environment Health & Safety
A H D Budd	B K Murphy *	R B Maher
G D Walters *	M D F Pop	R I McCutcheon *

Former Committees

Audit & Risk Management	Remuneration & Staff Policy
A H D Budd	B K Murphy *
M D F Pop	R B Maher
R T Balderstone *	R I McCutcheon

The Chief Executive Officer is normally invited to attend Committee meetings along with representatives of management as appropriate.

Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated otherwise under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Indemnification of Officers

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

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

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

Auditor Independence

The Directors received the following declaration from the Company's auditor:

Auditor's Independence Declaration to the Directors of Australian Rail Track Corporation Limited

In relation to our audit of the financial report of Australian Rail Track Corporation Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Australian National Audit Office

Richard Rundle

Richard Rundle
Executive Director For the Auditor-General
Signed in Canberra on the 5th October 2005

Signed in accordance with a resolution of the Directors

B K Murphy
Director
Signed in Sydney on the 4th October 2005

D W Marchant
Director
Signed in Sydney on the 4th October 2005

Statement of Financial Performance
for the year ended 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Revenue from ordinary activities	4	389,898	107,740	389,859	107,732
Less :					
Depreciation and amortisation	5	(15,069)	(11,097)	(15,027)	(11,085)
Employee benefits expense		(116,230)	(12,539)	(113,818)	(10,921)
Incident costs		(9,424)	(3,807)	(9,424)	(3,807)
Infrastructure maintenance		(138,575)	(33,991)	(142,775)	(36,957)
Insurance		(9,232)	(5,179)	(9,230)	(5,177)
Legal fees		(2,128)	(3,180)	(2,128)	(3,180)
Motor vehicle expenses		(4,353)	(414)	(3,726)	(38)
Operating lease expenses		(5,664)	(3,061)	(5,652)	(3,043)
Project and development expenses		(8,376)	(7,957)	(8,375)	(7,957)
Service agreements		(3,710)	(7)	(3,710)	(7)
Train control communications		(1,964)	(1,861)	(1,964)	(1,861)
Communication expenses		(5,131)	(346)	(5,077)	(280)
Other expenses		(22,192)	(4,691)	(21,359)	(4,331)
Profit from ordinary activities before related income tax expense		47,850	19,610	47,594	19,088
Income tax expense	1(c)	–	–	–	–
Profit from ordinary activities after related income tax expense		47,850	19,610	47,594	19,088
Special Government Grant		100,000	450,000	100,000	450,000
Net profit attributable to members of ARTC	16(b)	147,850	469,610	147,594	469,088
Net increase (decrease) in asset revaluation reserve	1(f)	99,061	–	99,061	–
Total changes in equity attributable to members of ARTC other than those resulting from transactions with owners as owners	17	246,911	469,610	246,655	469,088

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Current assets					
Cash assets	6,18	820,623	665,461	820,084	665,084
Receivables	7,18	68,425	10,432	68,490	10,811
Inventories	8	7,710	3,303	7,710	3,004
Other	9	2,818	1,763	2,818	1,763
Total current assets		899,576	680,959	899,102	680,662
Non-current assets					
Investments	25	–	–	123	123
Receivables	10	48	–	48	–
Property, plant and equipment	11	315,913	193,040	315,673	192,783
Total non-current assets		315,961	193,040	315,844	192,906
Total assets		1,215,537	873,999	1,214,946	873,568
Current liabilities					
Payables	12,18	56,734	11,790	57,340	12,191
Provisions	13	65,795	17,751	65,567	17,589
Total current liabilities		122,529	29,541	122,907	29,780
Non-current liabilities					
Provisions	14	2,980	1,341	2,789	1,193
Total non-current liabilities		2,980	1,341	2,789	1,193
Total liabilities		125,509	30,882	125,696	30,973
Net assets		1,090,028	843,117	1,089,250	842,595
Equity					
Contributed equity	15	235,126	235,126	235,126	235,126
Reserves	16(a)	175,891	76,830	175,891	76,830
Retained profits	16(b)	679,011	531,161	678,233	530,639
Total equity		1,090,028	843,117	1,089,250	842,595

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows
for the year ended 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Cash flows from operating activities					
Receipts from customers		273,541	115,337	273,488	115,225
Government Grants – other		20,527	–	20,527	–
Payments to suppliers and employees		(228,963)	(89,497)	(229,425)	(89,444)
		65,105	25,840	64,590	25,781
Interest received		37,789	3,951	37,767	3,943
Net cash inflow from operating activities	27	102,894	29,791	102,357	29,724
Cash flows from investing activities					
Payments for property, plant and equipment		(40,742)	(13,751)	(40,717)	(13,599)
Loans to subsidiary		–	–	–	(462)
Repayment of loan to subsidiary		–	–	350	–
Purchase of controlled entity	25	–	(123)	–	(123)
Net cash (outflow) from investing activities		(40,742)	(13,874)	(40,367)	(14,184)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		–	143,375	–	143,375
Special Government Grant		100,000	450,000	100,000	450,000
Dividends paid		(6,990)	–	(6,990)	–
Net cash inflow from financing activities		93,010	593,375	93,010	593,375
Net increase in cash held		155,162	609,292	155,000	608,915
Cash at the beginning of the financial year		665,461	56,169	665,084	56,169
Cash at the end of the financial year	6	820,623	665,461	820,084	665,084

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

Note 1. **Summary of significant accounting policies**

The Australian Accounting Standards Board (AASB) is adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) for application to reporting periods beginning on or after 1 January 2005. For a detailed summary of the impact on the ARTC of adopting AIFRS, refer to note 28 of the financial statements.

(a) Basis of accounting

The financial statements have been prepared as a general purpose financial report in accordance with Australian Accounting Standards, the Corporations Act (2001) and Urgent Issues Group Consensus Views (UIG). The financial statements have been prepared on an accrual basis and do not take account of changes in either the general purchasing power of the dollar or in the prices of specific assets, except for certain assets, which are recorded at valuation.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the ARTC ("the company" or "parent entity") as at 30 June 2005 and the results of the controlled entities for the year then ended. ARTC and its controlled entities together 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.

Where control of an entity is obtained during a financial year, its results are included in the consolidated Statement of Financial Performance from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

(c) Income tax

The financial statements apply the principles of tax-effect accounting. The income tax expense represents the tax on the pre-tax accounting profit adjusted for income and expenses not assessed or allowed for taxation purposes. The future income tax benefit and provision for deferred tax accounts represent the tax effect of differences between income and expense items recognised in different years for book and tax purposes, calculated at the tax rates expected to apply when the differences reverse. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

The passing of Division 58 of the Income Tax Assessment Act 1997 ("Division 58"), with Royal Assent on 16 July 1999, has entitled the consolidated entity to value assets, for taxation purposes, using the pre-existing audited book values. This effectively means the value of rail infrastructure and related assets for taxation purposes is as recorded in the accounts of the Australian National Railways Commission and as recorded in the accounts of the New South Wales State Rail Authority and Rail Infrastructure Corporation before they were transferred to or leased by the consolidated entity (as applicable). This results in a significant permanent difference which will ensure the consolidated entity is not liable for tax during the current reporting period and gives rise to likely significant income tax benefits in future years. However, as the tax losses arising from this permanent difference are not considered virtually certain of recovery, under the applicable tax effect accounting standard, the income tax benefits have not been recognised in the current year financial statements.

Further, due to differences in the depreciation rates used to depreciate the track infrastructure and related assets for tax and accounting purposes, a provision for deferred income tax arises. However, due to the magnitude of the tax losses arising from the passing of Division 58, the resultant tax benefit more than offsets any deferred tax liability in the current year.

Note 1. **Summary of significant accounting policies (continued)**

Tax Consolidation

Effective 1 July 2003, for the purposes of income taxation, ARTC and its 100% owned subsidiaries decided to form a tax consolidated group. Members of the Group are subject to a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is the ARTC.

(d) Revenue recognition

Access revenue recorded in the Statement of Financial Performance comprises amounts received and receivable by the consolidated entity granting operators access to the rail network during the year. Interest revenue is recorded on an effective yield basis.

(e) Inventories

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

(f) Revaluations of non-current assets

The Group's South Australian and Western Australian owned assets were re-valued as at 30 June 2005, and follow the previous valuation in June 2000. The South Australian and Western Australian assets were revalued using a discounted cash flow approach to provide an estimate of the "Value in Use" of the SA/WA assets for both Australian Generally Accepted Accounting Principles (AGAAP) and Australian International Financial Reporting Standards (AIFRS). The cash flow forecasts associated with the Group's SA/WA assets relate only to the revenues and expenses incurred from the continuing use of the existing assets. Accordingly, the cash flows do not include cash inflows or outflows relating to improvements or enhancements to the respective assets. The valuation was determined by external financial advisors and thereafter approved by the Board.

Revaluations are made with sufficient regularity to ensure that the carrying amount of each piece of land, building and plant and equipment does not differ materially from its fair value at the reporting date.

(g) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter.

(h) Dividends

Provision is made for the amount of any dividend declared, determined, or publicly recommended by the Directors on or before the end of the financial year, but not distributed at balance date.

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable, from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Note 1. **Summary of significant accounting policies (continued)**

(i) Goods and services tax (continued)

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

(j) Employee benefits

Provision has been made in the financial statements for benefits accruing to employees in relation to annual leave and long service leave.

Applicable on-costs, including payroll tax, workers compensation and superannuation, are included in the determination of provisions. Long service leave is accrued from the time of employment.

(k) Rail infrastructure assets

The rail infrastructure assets vested in the Group at 1 July 1998 covered all interstate mainline track and associated land, trackside and related assets under Commonwealth jurisdiction, and include rail, sleepers, ballast, designated crossing loops, turnouts, signals and communications equipment, bridges, culverts, tunnels, and specified rolling stock.

(l) Assessment of recoverable amounts

The value of the business is reviewed on a periodic basis to determine whether the carrying amount of non-current assets requires adjustment to their recoverable amount. Recoverable amount is determined using future net cash flows discounted to present values.

Capital gains tax has not been taken into account in determining the carrying amounts of these assets as they are integral to the Group's operations and it has no intention to sell these assets.

(m) Capital works 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 works 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.

(n) Depreciation

All infrastructure assets are depreciated on a straight line basis over the estimated economic useful life of the assets as follows:

Maximum Economic Useful Life *	
Ballast	60 years
Bridges	40 years
Buildings	50 years
Culverts	100 years
IT & Other Equipment	4 years
Motor Vehicles	5 years
Rail	109 years
Sleepers	50 years
Signals & Communications	10 years
Turnouts	12 years
Tunnels	50 years

* Depending on the age and location of particular assets, the economic life may vary.

Note 1. **Summary of significant accounting policies (continued)**

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

Income attributable to insurance or other recoveries arising from rail access related incidents is not recognised until received. Costs of rectification are recognised when incurred.

Where the consolidated entity has suffered damage to its rail network due to other parties, the recourses of commercial negotiation and, if not successful, legal proceedings are initiated, as appropriate.

Contingent liabilities and assets are reviewed throughout the year and finalised at balance date for inclusion in the financial statement. Inclusion of liabilities or assets relating to rail access related incidents occurs where the Group is reasonably certain of costs or recoveries.

(p) Financial instruments included in assets, liabilities and equity

Cash, money market deposits, and commercial bills held by the Group are recorded at nominal value. The carrying amount of financial assets approximates fair value.

All trade debtors are recorded at the amount due based on a pricing regime agreed with train operators. The amounts are reviewed on an ongoing basis and a provision for doubtful debts is created based on specific debts and if it is considered that the debt may not be collectable.

Trade debtors are generally non-interest bearing and on 30 day terms.

Trade creditors and other amounts are carried at cost. The carrying amount of financial liabilities approximates fair value. Trade creditors are generally non-interest bearing and settled on 30 day terms.

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

(q) Major periodic maintenance

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 values. Major periodic maintenance may include significant corrective works, component replacement programs, and similar activities and these costs are expensed in the consolidated entity's accounts.

Note 2. **Changes in accounting policy**

The accounting policies adopted are consistent with those of the previous year.

Note 3. **Segment information**

The company operates predominantly in one industry segment, the rail industry, and in one geographical segment, Australia.

Note 4. Revenue

		Consolidated		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
Revenue from operating activities					
Access Revenue		238,717	100,411	238,717	100,411
		238,717	100,411	238,717	100,411
Revenue from outside the operating activities					
Country Regional Network revenue		87,756	–	87,756	–
Government Grants - other		20,527	–	20,527	–
Insurance and other recoveries		164	1,675	164	1,675
Interest income		38,268	3,916	38,246	3,908
Other revenue		4,466	1,738	4,449	1,738
		151,181	7,329	151,142	7,321
Revenue from ordinary activities		389,898	107,740	389,859	107,732
Revenue from Special Government Grant	note (a)	100,000	450,000	100,000	450,000
Total Revenue		489,898	557,740	489,859	557,732

(a) On 30 June 2005, the ARTC received a $100m special government grant from the Commonwealth that will enable it to develop and implement a program to improve the rail network in Australia. A similar grant of $450m was provided in 2004. Due to the nature of the grants, each has been treated as non-assessable for taxation purposes.

Note 5. Expenses

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Expenses				
Depreciation and amortisation				
Buildings	64	224	64	224
Leasehold plant and equipment	2,952	1,708	2,952	1,708
Plant and equipment	12,053	9,165	12,011	9,153
Total depreciation	15,069	11,097	15,027	11,085

Note 5. **Expenses (continued)**

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Other expense items				
Employee benefits expense	116,230	12,539	113,818	10,921
Incident costs	9,424	3,807	9,424	3,807
Infrastructure maintenance	138,575	33,991	142,775	36,957
Insurance	9,232	5,179	9,230	5,177
Legal fees	2,128	3,180	2,128	3,180
Motor vehicle expenses	4,353	414	3,726	38
Operating lease expense	5,664	3,061	5,652	3,043
Project and development expenses	8,376	7,957	8,375	7,957
Service agreements	3,710	7	3,710	7
Train control communications	1,964	1,861	1,964	1,861
Communication expenses	5,131	346	5,077	280
Other expenses	22,192	4,691	21,359	4,331
Total other expense items	326,979	77,033	327,238	77,559

Note 6. **Current assets – Cash assets**

		Consolidated		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
Cash on deposit	note (a)	619,868	658,739	619,868	658,739
ANZ Cash Plus Fund	note (b)	175,353	–	175,353	–
Call deposits with banks		1,297	3,305	1,297	3,305
Cash on hand		24,105	3,417	23,566	3,040
		820,623	665,461	820,084	665,084

(a) Cash on deposit

The "cash on deposit" at balance date reflects the receipt of the Special Government Grant of $100m (refer note 4) received 30 June 2005, in addition to cash flows generated from operations throughout the year. Due to the pending investment in rail infrastructure upgrades and related activities, these funds have been placed on deposit with major Australian banking institutions and across a spread of short-term commercial papers in accordance with Board approved treasury investment policy.

(b) ANZ Cash Plus Fund

As at 30 June 2005, the Group held a balance of 171,523,327.90 units in the ANZ Cash Plus Fund, with a market value of $175.4m.

Note 7. **Current assets – Receivables**

		Consolidated		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
Trade debtors		35,948	10,336	35,945	10,296
Other debtors	note (a)	32,477	96	32,434	54
Amounts due from subsidiaries		–	–	111	461
		68,425	10,432	68,490	10,811

(a) Other debtors

These amounts generally arise from transactions outside the Group's usual operating activities. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

Other debtors includes a balance of $24.9m relating to annual and long service leave transferred across for employees under a labour services agreement with the New South Wales government. These employees are seconded to the Group for both the New South Wales leased network and the New South Wales Country Regional network from the State Rail Authority and the Rail Infrastructure Corporation, such that when the leave is taken by the seconded employee, the Group is entitled to recover certain costs back from the Rail Infrastructure Corporation and the State Rail Authority that had accrued prior to secondment to the Group.

Note 8. **Current assets – Inventories**

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Inventories – at cost	7,710	3,303	7,710	3,004
	7,710	3,303	7,710	3,004

Note 9. **Current assets – Other**

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Prepayments	2,590	1,645	2,590	1,645
Other current assets	228	118	228	118
	2,818	1,763	2,818	1,763

Note 10. **Non current assets – Receivables**

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Other debtors	48	–	48	–
	48	–	48	–

Note 11. **Non-current assets – Property, plant & equipment**

		Consolidated		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
Land & Buildings					
Land					
At cost		10	–	10	–
Total land		10	–	10	–
Buildings					
At cost		6,689	950	6,689	950
Less: Accumulated depreciation		(952)	(895)	(952)	(895)
		5,737	55	5,737	55
Leasehold improvements – buildings		188	–	188	–
Less: Accumulated depreciation		(7)	–	(7)	–
		181	–	181	–
Total buildings		5,918	55	5,918	55
Total land and buildings		5,928	55	5,928	55
Plant and equipment					
Plant & equipment					
At Directors' valuation 2005	note (a)	261,816	–	261,816	–
		261,816	–	261,816	–
Plant & equipment					
At Directors' valuation 2000		–	181,989	–	181,989
Less: Accumulated depreciation		–	(32,014)	–	(32,014)
		–	149,975	–	149,975
At fair value		294	18,297	–	18,028
Less: Accumulated depreciation		(54)	(5,756)	–	(5,744)
		240	12,541	–	12,284
Leasehold improvements – plant and equipment					
At cost		24,175	19,237	24,175	19,237
Less: Accumulated amortisation		(5,580)	(2,628)	(5,580)	(2,628)
		18,595	16,609	18,595	16,609
Plant and equipment in the course of construction		29,334	13,860	29,334	13,860
Total plant and equipment		309,985	192,985	309,745	192,728
		315,913	193,040	315,673	192,783

(a) Basis of Directors' Valuation – 2005

Plant and equipment represents the fair value of the Group's South Australian and Western Australian owned assets, based on an independent valuation as at 30 June 2005 adopted by the Board of ARTC. The valuation was performed by Equity & Advisory Pty Ltd. Equity & Advisory used a discounted cash flow approach to provide an estimate of the "Value in Use" of the ARTC SA/WA assets for both AGAAP and AIFRS.

Note 11. **Non-current assets – Property, plant & equipment (continued)**

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Buildings at cost	Buildings at leasehold	Land	Leasehold improvements plant and equipment	Plant and equipment	In course of construction
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated						
Carrying amount at 1 July 2004	55	–	–	16,609	162,516	13,860
Transfer of foundation asset (Note 13(b))	–	–	–	(1,861)	–	–
Additions into asset register from capital work in progress	5,739	188	10	6,799	12,532	–
Addition due to Directors' revaluation	–	–	–	–	99,061	–
Additions into capital work in progress	–	–	–	–	–	40,742
Transfers out of capital work in progress	–	–	–	–	–	(25,268)
Depreciation/amortisation expense (Note 5)	(57)	(7)	–	(2,952)	(12,053)	–
Carrying amount at 30 June 2005	5,737	181	10	18,595	262,056	29,334

	Buildings at cost	Buildings at leasehold	Land	Leasehold improvements plant and equipment	Plant and equipment	In course of construction
	$'000	$'000	$'000	$'000	$'000	$'000
Parent Entity						
Carrying amount at 1 July 2004	55	–	–	16,609	162,259	13,860
Transfer of foundation asset (Note 13(b))	–	–	–	(1,861)	–	–
Additions into asset register from capital work in progress	5,739	188	10	6,799	12,507	–
Addition due to Directors' revaluation	–	–	–	–	99,061	–
Additions into capital work in progress	–	–	–	–	–	40,717
Transfers out of capital work in progress	–	–	–	–	–	(25,243)
Depreciation/amortisation expense (Note 5)	(57)	(7)	–	(2,952)	(12,011)	–
Carrying amount at 30 June 2005	5,737	181	10	18,595	261,816	29,334

Note 12. Current liabilities – Payables

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Trade creditors	55,892	11,053	56,498	11,454
Other payables	842	737	842	737
	56,734	11,790	57,340	12,191

Note 13. Current liabilities – Provisions

		Consolidated		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
Provisions – dividends payable		–	6,990	–	6,990
Provisions – annual leave		12,063	1,691	11,835	1,529
Provisions – long service leave		26,930	1,362	26,930	1,362
Provisions – other employee entitlements		3,526	553	3,526	553
Environmental Provision	note (a)	600	604	600	604
ARIF Provision	note (b)	–	1,861	–	1,861
Incident Provision	note (c)	10,928	4,534	10,928	4,534
Coal Provision	note (d)	5,889	–	5,889	–
Provisions – other	note (e)	5,859	156	5,859	156
		65,795	17,751	65,567	17,589

(a) Environmental Provision

The environmental provision in the prior year represents the balance of funds made available by the Commonwealth on the transfer of track assets to the organisation from the Australian National Railways Commission for the rehabilitation of assets to the required environmental standard. During the financial year, the Group performed a review of the provision and established that the provision was above the current requirements and subsequently wrote back into profit an amount of $608,000 in total.

(b) Australian Railway Infrastructure Foundation Provision

The Australian Railway Infrastructure Foundation ("the Foundation") was established by the ARTC, for which the Commonwealth was the sole contributor, to finance capital projects approved by the Commonwealth Minister for Transport and Regional Services. The Foundation had as its main objective the improvement of standard gauge interstate rail track to accommodate greater carrying capacity, speed, reliability of trains and lower transit times.

Due to the availability of additional funds earned as interest by the Foundation and utilised by the ARTC on projects undertaken by the Foundation, the Group established this provision in a prior year to provide for the transfer of an asset recorded by the Group to the Foundation so that it forms a part of the Foundation's capital projects. This transfer was approved by the Commonwealth in 2005 and the asset transferred. Accordingly, the provision is no longer required as at 30 June 2005 (note 11).

(c) Incident Provision

The incident provision recognises the Group's potential obligations with respect to costs associated to damage caused with incidents such as derailments occurring during use of the Group's rail infrastructure.

Note 13. **Current liabilities – Provisions (continued)**

(d) Coal provision

This provision relates to the Hunter Valley coal revenue, where the Group has provided for regulatory uncertainty and for the possible transfer of funds to train operators upon final completion and negotiations of the coal 'Unders and Overs' calculation under the regulatory pricing regime.

(e) Provisions – other

Comprises:

- provision for access fee revenue related to items in dispute;
- provision for a proposed settlement on behalf of Rail Infrastructure Corporation, relating to disputes with train operators regarding certain costs of expenditure on the Group's rail network; and
- provision for the consolidation of the Islington plan room into the framework of the Group.

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

	Dividends payable $'000	Annual leave $'000	Long service $'000	Other employee entitlements $'000	Environmental $'000	Foundation $'000
Consolidated						
Carrying amount at start of year	6,990	1,691	1,362	553	604	1,861
Additional provisions recognised	–	4,729	3,709	7,187	–	–
Provisions on transfer of RIC/SRA employees on take up of NSW lease	–	7,010	22,004	–	–	–
Payments/other sacrifices of economic benefits/write backs	(6,990)	(1,367)	(145)	(4,214)	(4)	(1,861)
Carrying amount at end of year	–	12,063	26,930	3,526	600	–

	Incident $'000	Coal $'000	Other $'000
Consolidated			
Carrying amount at start of year	4,534	–	156
Additional provisions recognised	15,818	5,889	6,455
Provision on transfer of RIC/SRA employees on take up of NSW lease	–	–	–
Payments/other sacrifices of economic benefits/write backs	(9,424)	–	(752)
Carrying amount at end of year	10,928	5,889	5,859

Note 13. Current liabilities – Provisions (continued)

	Dividends payable $'000	Annual leave $'000	Long service $'000	Other employee entitlements $'000	Environmental $'000	Foundation $'000
Parent Entity						
Carrying amount at start of year	6,990	1,529	1,362	553	604	1,861
Additional provisions recognised	–	4,584	3,709	7,187	–	–
Provision on transfer of RIC/SRA employees on take up of NSW lease	–	7,010	22,004	–	–	–
Payments/other sacrifices of economic benefits/write backs	(6,990)	(1,288)	(145)	(4,214)	(4)	(1,861)
Carrying amount at end of year	**–**	**11,835**	**26,930**	**3,526**	**600**	**–**

	Incident $'000	Coal $'000	Other $'000
Parent Entity			
Carrying amount at start of year	4,534	–	156
Additional provisions recognised	15,818	5,889	6,455
Provision on transfer of RIC/SRA employees on take up of NSW lease	–	–	–
Payments/other sacrifices of economic benefits/write backs	(9,424)	–	(752)
Carrying amount at end of year	**10,928**	**5,889**	**5,859**

Note 14. Non–current liabilities – Provisions

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Provisions – long service leave	2,980	737	2,789	589
Environmental Provision (Note13(a))	–	604	–	604
	2,980	**1,341**	**2,789**	**1,193**

	Long service leave $'000	Environmental $'000
Consolidated		
Carrying amount at 1 July 2004	737	604
Additional provisions recognised	929	–
Provisions on transfer of RIC/SRA employees on take up of NSW lease	1,314	–
Payments/other sacrifices of economic benefits/write backs	–	(604)
Carrying amount at 30 June 2005	**2,980**	**–**

Note 14. **Non–current liabilities – Provisions (continued)**

	Long service leave $'000	Environmental $'000
Parent Entity		
Carrying amount at 1 July 2004	589	604
Additional provisions recognised	886	–
Provisions on transfer of RIC/SRA employees on take up of NSW lease	1,314	–
Payments/other sacrifices of economic benefits/write backs	–	(604)
Carrying amount at 30 June 2005	2,789	–

(a) Environmental Provision

The environmental provision represents the balance of funds made available by the Commonwealth on the transfer of track assets to the Group from the Australian National Railways Commission for the rehabilitation of assets to the required environmental standard. During the financial year, the Group performed a review of the provision and established that the provision was above the current requirements and subsequently wrote back into profit an amount of $608,000 in total.

Note 15. **Contributed equity**

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
(a) Share capital				
Ordinary shares				
Issued and paid up capital	235,126	235,126	235,126	235,126

(b) Ordinary shares

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.

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.

(c) Reconciliation of movement in share capital

	2005		2004	
	Number of Shares	$'000	Number of Shares	$'000
Opening balance 1 July 2004	143,375,100	235,126	100	91,751
Share capital issued during the year	–	–	143,375,000	143,375
Issued and paid up capital as at 30 June	143,375,100	235,126	143,375,100	235,126

Note 16. Reserves and retained profits

		Consolidated		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
(a) Reserves					
Asset Revaluation Reserve					
Opening balance		76,830	76,830	76,830	76,830
Asset revaluation	note (a)	99,061	–	99,061	–
Closing balance		**175,891**	**76,830**	**175,891**	**76,830**

(a) For details on the revaluation refer to Note 1(f)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
(b) Retained profits				
Retained profits at the beginning of the financial year	531,161	68,541	530,639	68,541
Net profit for the year	147,850	469,610	147,594	469,088
Dividends provided for or paid	–	(6,990)	–	(6,990)
Retained profits at the end of the financial year	**679,011**	**531,161**	**678,233**	**530,639**

Note 17. Equity

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Total equity at the beginning of the financial year	843,117	237,122	842,595	237,122
Total changes in equity recognised in the Statements of Financial Performance	246,911	469,610	246,655	469,088
Transactions with owners as owners:				
Contributions of equity, net of transaction costs (Note 15(c))	–	143,375	–	143,375
Dividends provided for or paid	–	(6,990)	–	(6,990)
Total equity at the end of the financial year	**1,090,028**	**843,117**	**1,089,250**	**842,595**

Note 18. **Financial instruments**

(a) Credit risk exposures

The consolidated entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

(b) Interest rate risk exposures

The consolidated entity had no borrowings at balance date. Trade debtors and creditors were not subject to interest providing payment was within agreed terms. The average interest rate for cash on hand for the year was 5.05% (2004: 4.95%), and for cash on deposit the average for the year was 5.62% (2004: 5.29%).

Note 19. **Directors' disclosures**

Directors

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

Chairman – non executive
B K Murphy

Executive Directors
D W Marchant (Chief Executive Officer)

Non–executive Directors
R T Balderstone (retired as a Director on 15 August 2004)
A H D Budd
R B Maher
R I McCutcheon
M D F Pop
G D Walters (appointed as a Director on 16 August 2004)

Remuneration of Directors

The number of Directors of the Group who were paid, or were due to be paid, remuneration (including brokerage, commissions, bonuses, and salaries, but excluding any payments in connection with their retirement), directly or indirectly, from the Group are shown in the table below. The total of all remuneration paid, or due and payable, directly or indirectly, from the Group to Directors was $682,934 (2004: $513,230).

The number of Directors whose total income for the reporting period are also shown in the table below as per the relevant bands.

Remuneration of Directors	2005	2004
Directors of ARTC		
$0–9,999	1	–
$20,000–29,999	–	5
$30,000–39,999	2	–
$40,000–49,999	3	–
$60,000–69,999	–	1
$80,000–89,999	1	–
$320,000–329,999	–	1
$390,000–399,999	1	–
The aggregate of the remuneration of the Directors above was:	$682,934	$513,230

Note 20. Remuneration of auditors

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
The following total remuneration was received or is due and receivable, by the Australian National Audit Office in respect of services performed by their contractors Ernst & Young:				
Auditing the financial report of the entity and any other entity in the consolidated group;	161,366	73,000	161,366	73,000
The following remuneration was received by Ernst & Young for the following services provided:				
Preparation and completion of income tax returns and general taxation advice	104,366	50,305	104,366	50,305
Preparation for the introduction of the Australian Equivalents to International Financial Reporting Standards	48,740	–	48,740	–
Total	314,472	123,305	314,472	123,305

Fees for audit services paid to the Company's auditor in relation to the statutory audit are borne by the parent entity.

Note 21. Contingent liabilities and contingent assets

The consolidated 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 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 certain.

Note 22. Commitments for expenditure

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable				
Within one year	2,420	2,372	2,420	2,372
Later than one year but not later than 5 years	9,680	9,488	9,680	9,488
Later than 5 years	9,680	11,860	9,680	11,860
	21,780	23,720	21,780	23,720

Note 23. Employee benefits

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Employee benefits and related on–cost liabilities				
Provision for employee entitlements – current (Note 13)	42,519	3,606	42,291	3,444
Provision for employee entitlements – non current (Note 14)	2,980	737	2,789	589
Aggregate employee benefit and related on–costs liabilities	**45,499**	**4,343**	**45,080**	**4,033**

Employee numbers

	Consolidated Number		Parent Entity Number	
	2005	2004	2005	2004
Number of employees as at 30 June 2005	1,559	131	1,527	103

Note 24. Related party disclosures

Directors' related transactions

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.

This entity must be under joint or overall control or significant influence of a Director or his/her related parties.

Other than as noted below, there were no transactions with Directors, or Directors' related entities during the year.

ARTC Director, Mr. R I McCutcheon, undertakes occasional consultancy work for Westinghouse Signals Australia (a division of Invensys Rail Systems Australia Limited), a firm that the Group has a commercial relationship with. This consultancy work does not relate to matters associated with the Group. The Group deals with Westinghouse Signals Australia under normal commercial terms and conditions.

ARTC Director, Mr. A H D Budd, has a representational role with Mercer Human Resource Consulting, a firm that the Group has a commercial relationship with. This representational role does not relate to matters associated with the Group. The Group deals with Mercer Human Resource Consulting under normal commercial terms and conditions.

There were no loans to Directors outstanding at year end (2004: $ nil).

Other related parties including shareholders

There were no other related party transactions.

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.

Note 25. **Investments**

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Investment in subsidiaries	–	–	123	123

	Equity holding		Cost of Parent Entity's investment	
	2005	2004	2005	2004
	%	%	$'000	$'000
ARTC Services Company Pty Ltd	100	100	123	123
Standard Gauge Company Pty Ltd	100	100	–	–
			123	123

Note 26. **Economic dependency**

A significant level of the Group's track access revenue relates to a single rail operator. If not for this revenue, the Group would find it difficult to maintain the current level of revenue and profit.

Note 27. **Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities**

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Profit from ordinary activities after income tax	47,850	19,610	47,594	19,088
Depreciation and amortisation	15,069	11,097	15,027	11,085
Movement in provisions	58,534	347	58,425	329
Change in operating assets and liabilities:				
Decrease (increase) in trade debtors	(58,041)	97	(58,077)	181
Decrease (increase) in inventories	(4,407)	107	(4,706)	107
Decrease (increase) in other assets	(1,055)	183	(1,055)	183
Increase (decrease) in trade creditors	44,944	(1,650)	45,149	(1,249)
Net cash inflow from operating activities	102,894	29,791	102,357	29,724

Note 28. **Impact of adopting Australian Equivalents to IFRS**

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group (UIG) has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretation Committee. These Australian equivalents to IFRS are referred to hereafter as "AIFRS". The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the year ending 30 June 2006.

Note 28. **Impact of adopting Australian Equivalents to IFRS (continued)**

The Group is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to AIFRS which will be applicable for the year ended 30 June 2006.

In 2004, the Group allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS.

As a result, the Group set up a project team to manage the transition to AIFRS, to ensure systems were in place to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports regularly to the Audit & Compliance Committee. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Group's transition date to AIFRS. This will form the basis for accounting AIFRS in the future, and is required when the Group prepares it first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from management's estimates as at 30 June 2005 as disclosed above due to (a) ongoing work being undertaken by the AIFRS project team; (b) potential amendments to AIFRS and interpretations thereof being issued by the Standard setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

		Consolidated		Parent Entity	
		30 June 2005** $'000	1 July 2004* $'000	30 June 2005** $'000	1 July 2004* $'000
Total Equity under AGAAP		1,090,028	843,117	1,089,250	842,595
Recognition in defined benefit superannuation scheme	note (i)	712	–	712	–
Total Equity under AIFRS		1,090,740	843,117	1,089,962	842,595

* This column represents the adjustments as at the date of transition to AIFRS

** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

Total Equity under AIFRS

(i) Under AASB 119 Employee Benefits the impact to the Group would be to recognise the defined benefit superannuation scheme as an asset on transition to AIFRS.

(b) AASB 116 Property, Plant and Equipment

The Group is not required to make any changes to property, plant and equipment in 2005 to the accounts under AIFRS to that under AGAAP, as the consolidated entity will use the previous valuation performed in 2000 as deemed cost on transition.

As at 30 June 2005, due to the asset revaluation being both AGAAP and AIFRS compliant, there will be no effect on the balance for property, plant and equipment.

Note 28. **Impact of adopting Australian Equivalents to IFRS (continued)**

(c) AASB 112 Income taxes

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Statement of Financial Position and their associated tax bases. This would result in the recognition of a deferred tax liability in relation to the revalued assets.

However, due to the magnitude of the tax losses arising from Division 58 of the Income Tax Assessment Act 1997 and the fact that the Directors consider it too early to determine whether it is probable that those losses will be recovered and that the likely amount of tax losses will substantially exceed the deferred tax liability in relation to the revalued assets, no adjustments are expected to be made at this stage in relation to taxation balances as a result of the transition to AIFRS.

(d) Reconciliation of net profit under AGAAP to that under AIFRS

Year Ended 30 June 2005		Consolidated $'000	Parent Entity $'000
Net profit as reported under AGAAP		147,850	147,594
Recognition in defined benefit superannuation scheme	note (i)	712	712
Net profit under AIFRS		148,562	148,306

(i) The defined benefit superannuation scheme recognised by the Group under AIFRS would result in an increase in profit for the year under AIFRS. Refer also to Note 28(a)(i) above.

(e) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

Directors' Declaration 30 June 2005

The Directors declare that the financial statements and notes set out on pages 37 to 59:

(a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001 including sections 296 and 297*; and

(b) there are reasonable grounds to believe that the company 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 the Directors.

B K Murphy
Director
Signed in Sydney on the 4th of October 2005

INDEPENDENT AUDIT REPORT

To the members of the Australian Rail Track Corporation Limited.

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of the Australian Rail Track Corporation Limited and the consolidated entity for the year ended 30 June 2005. The company's directors are responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial report named below. It does not provide an opinion on any other information that may have been hyperlinked to/from the audited financial report.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report in the company's and the consolidated entity's annual report.

Scope

The financial report and directors' responsibility

The financial report comprises:

- Directors' Declaration;
- Statements of Financial Performance, Financial Position and Cash Flows; and
- Notes to and forming part of the Financial Report

for both the Australian Rail Track Corporation Limited and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with accounting standards and other mandatory reporting requirements in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

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I have performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by management.

Independence

Independence requirements of the Australian professional ethical pronouncements and the Corporations Act 2001 have been met. I have given to the directors of the company a written Auditor's Independence Declaration [a copy of which is included in the Directors' Report]. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed.

Audit Opinion

In my opinion, the financial report of the Australian Rail Track Corporation Limited and the consolidated entity is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

(ii) complying with accounting standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Australian National Audit Office

Richard Rundle

Richard Rundle
Executive Director

For the Auditor-General

Canberra
Date: 5 October 2005

Key Performance Indicators

East West 2004 - 2005

	Sep Qtr		Dec Qtr	
Number of Services	**3,105**		**2,957**	
Total Healthy Services	1,087	35.01%	819	27.70%
Total Unhealthy Services	2,001	64.44%	2,124	71.83%
Total Services affected by Force Majeure	17	0.55%	14	0.47%
Ontime exit of healthy services	1,070	98.44%	804	98.17%
Ontime exit of unhealthy services	462	23.09%	396	18.64%
Number Services with On Time Entry	1,597	51.43%	1,262	42.68%
Number Services with On Time Exit	1,532	49.61%	1,200	40.77%
Undeteriorated unhealthy services	1,935	96.70%	2,025	95.34%
Number Services Exit <1 hr late	2,149	69.21%	1,695	57.32%

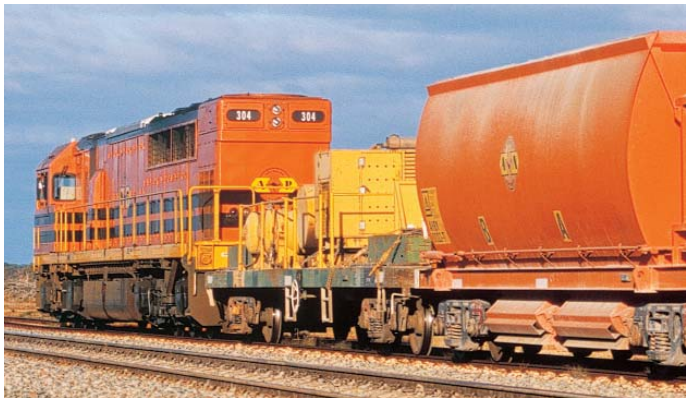
Total Delays (minutes)	**282,016**		**413,615**	
Total ARTC delays (minutes)	**14,073**	**4.99%**	**15,520**	**3.75%**
Track	3780	26.86%	5084	32.76%
Signals and Comms	7313	51.96%	7822	50.40%
Train Management	394	2.80%	555	3.58%
Other	2586	18.38%	2059	13.27%
Total Operator Delays (minutes)	**262,276**	**93.00%**	**379,098**	**91.65%**
Late arrival	140608	53.61%	194866	51.40%
Yard	12307	4.69%	16465	4.34%
Personnel	8655	3.30%	19702	5.20%
Locomotives	12714	4.85%	17004	4.49%
Rolling Stock	7810	2.98%	9409	2.48%
Other	80182	30.57%	121652	32.09%
Force Majeure or Thirty Party Delays (minutes)	**5,667**	**2.01%**	**18,997**	**4.59%**
Kilometres of Track	**3609**		**3609**	
Track under speed Restriction – Total	104.02	2.88%	87.82	2.43%
Track Quality Index ARTC Owned Network (SA/WA)	**23.7**		**24.4**	
Track Quality Index Victorian Network	**35.1**		**37.0**	

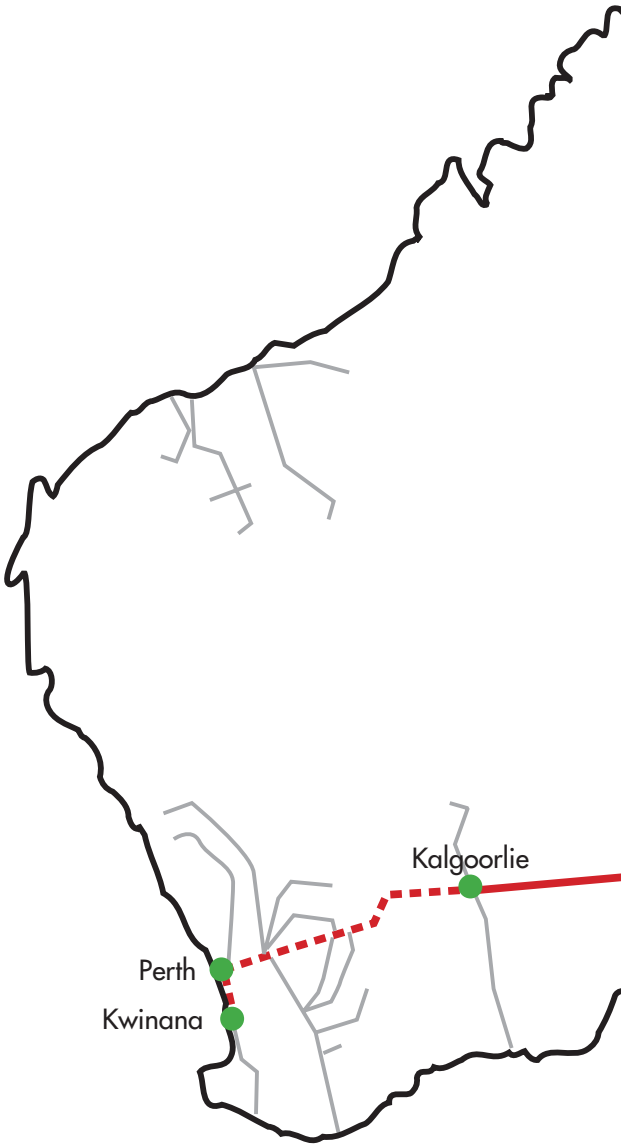
Note 1: Does not include unscheduled services e.g. grain trains.

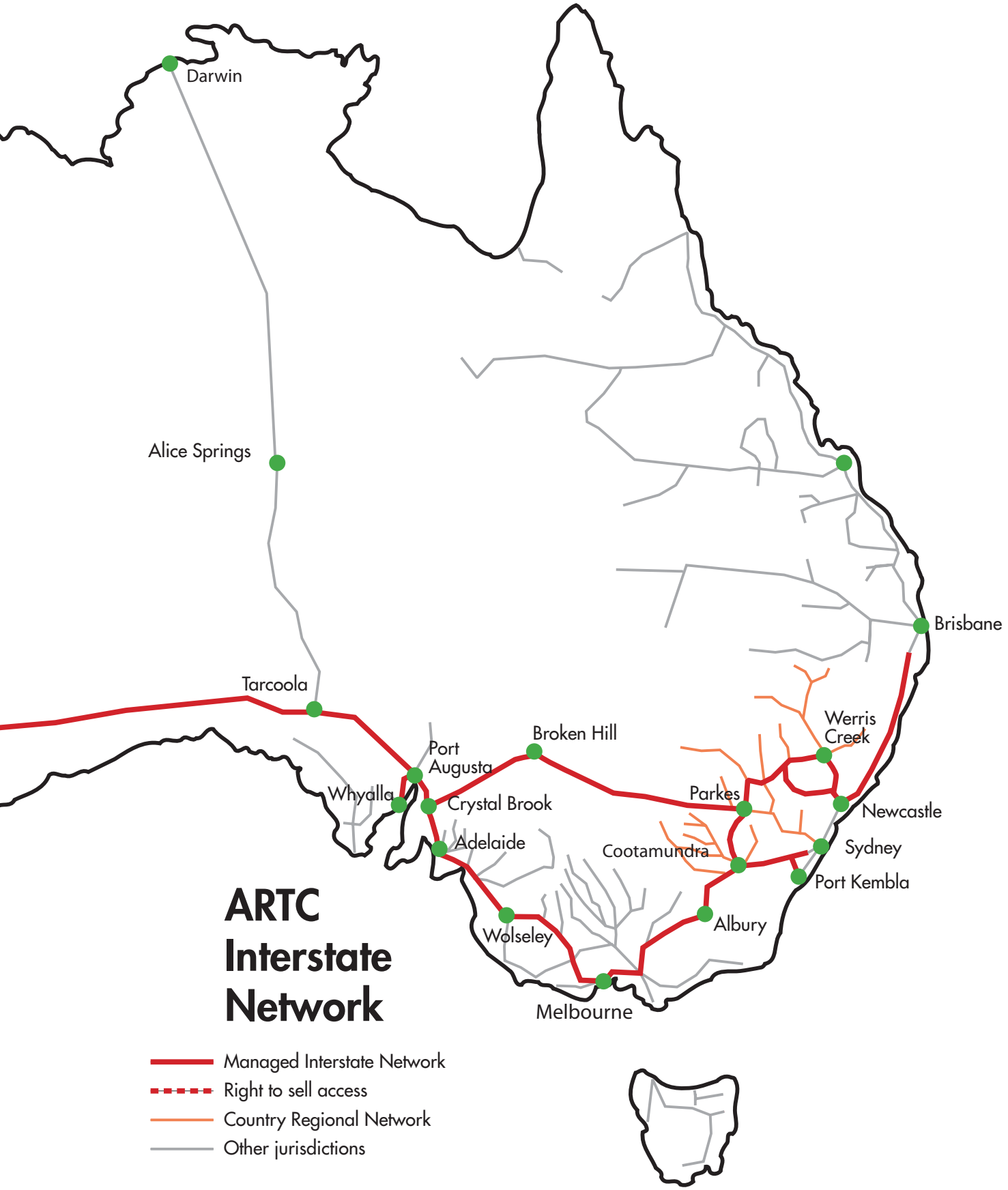
Mar Qtr		Jun Qtr		Total	
2,764		**3,111**		**11,937**	
674	24.38%	1,125	36.16%	3,705	31.04%
2,074	75.04%	1,960	63.00%	8,159	68.35%
16	0.58%	26	0.84%	73	0.61%
649	96.29%	1,093	97.16%	3,616	97.60%
350	16.88%	415	21.17%	1,623	19.89%
1,173	42.44%	1,682	54.07%	5,714	47.87%
999	36.35%	1,508	48.88%	5,239	44.16%
1,888	91.03%	1,817	92.70%	7,665	93.95%
1,572	56.87%	2,110	67.82%	7,526	63.44%

412,101		**323,635**		**1,431,367**	
27,861	**6.76%**	**26,418**	**8.16%**	**83,872**	**5.86%**
15287	54.87%	15733	59.55%	39,884	47.55%
9482	34.03%	6851	25.93%	31,468	37.52%
376	1.35%	405	1.53%	1,730	2.06%
2716	9.75%	3429	12.98%	10,790	12.86%
360,516	**87.48%**	**287,174**	**88.73%**	**1,289,064**	**90.06%**
189970	52.69%	154303	53.73%	679,747	52.73%
17953	4.98%	13579	4.73%	60,304	4.68%
16124	4.47%	10689	3.72%	55,170	4.28%
15714	4.36%	13320	4.64%	58,752	4.56%
7363	2.04%	7853	2.73%	32,435	2.52%
113392	31.45%	87430	30.44%	402,656	31.24%
23,724	**5.76%**	**10,043**	**3.10%**	**58,431**	**4.08%**
3609		**3609**		**3609**	
139.03	3.85%	116.68	3.23%	3.10%	
25.7		**25.1**		**24.7**	
36.6		**37.3**		**36.5**	

Index



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