

**ARTC Statement of  
Corporate Intent  
2017/18**

**A R T C**

# Statement of Corporate Intent 2017/18

## Chairman's Message

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

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

While there is evidence that certain aspects of the external economic environment are starting to improve, the strategies and targets set out in ARTC's Corporate Plan reflect ongoing expectations of soft conditions in the near term for the industries and sectors that underpin ARTC's freight volumes.

The Plan maintains ARTC's focus on safety, productivity, process improvement and high levels of service for our freight and passenger operator customers so as to position the company to meet policy outcomes and deliver better returns to our Shareholders within this low growth environment.

The Government announced in the 2016 Budget that it had decided to retain ownership of ARTC and that it would leverage ARTC's value, skills and experience to deliver Inland Rail in partnership with the private sector. Over the course of the 2016/17 financial year ARTC worked closely with its shareholding departments to consider and assess delivery and funding models for Inland Rail.

Following this work the Australian Government committed up to \$8.4 billion in equity funding for ARTC in the 2017 budget to support construction of Inland Rail. It also reiterated its intention that it be delivered through ARTC with the private sector also involved through a Public Private Partnership for the Gowrie – Kagaru section.

ARTC welcomes the Government's decision to proceed with Inland Rail and to strengthen the cohesion of the interstate network by retaining unified management of it through ARTC. The Company is well positioned to deliver Inland Rail having both the capability to deliver a major investment program and the depth of knowledge of the interstate rail business.

The Government has highlighted the importance of establishing new governance and oversight structures for delivery of Inland Rail, both within ARTC and jointly with Government. These will be supported by documentation clearly setting out ARTC's role in the delivery of Inland Rail and conditions associated with Government's funding of the project. This will be a key focus for the Company in 2017/18.

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

ARTC's Statement of Corporate Intent is prepared for paragraph 95(1) of the Public Governance, Performance and Accountability Act. It has been prepared for the 2017/18 financial year and covers the reporting period 2017/18 to 2021/22.

No other legislation has been identified as being specifically applicable to the preparation of ARTC's Corporate Plan. ARTC does not have any community service obligations and has not received any Ministerial directions.

**Helen Nugent AO**  
**Chairman**

## ARTC

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

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

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

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

ARTC’s mandate from Government is to increase the freight volume carried on our network while operating as a sustainable commercial enterprise. ARTC has a strong focus on volume growth through raising customer satisfaction and making rail a more appealing and viable option.

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

ARTC plays a critical role in the transport supply chain and in the overall economic development of Australia. Our rail network is used to move a range of commodities including general freight, coal, other bulk minerals and agricultural products. Interstate and inter-city passenger services are also key customers for the network and ARTC endeavours to ensure that their specific performance needs are recognised. Access to ARTC’s network, including price setting, is regulated through access undertakings with the ACCC.

## Business Strategy

The Australian economy appears to have largely completed its transition from the resources boom years and in the context of an improving world economy, the prospects for stronger growth are improving. However, within this context freight growth specifically remains soft, reinforcing the view that structural changes to the economy are leading to less freight intensive growth.

Intermodal volumes North South are up significantly. However, on the East West corridor, interstate volumes have shown few signs of growth. There is no evidence of material market share shifts, reinforcing a view that weakness in volumes reflects a contracting Western Australian economy.

The 2016/17 Statement of Corporate Intent noted that interstate freight volumes are closely tied to Australian manufacturing performance and that the Australian ‘performance of manufacturing’ index had moved to a growth position reflecting the increased competitiveness of the Australian dollar. The index continues to show evidence of an upturn in manufacturing, though at this stage there is no strong evidence of this flowing through to improved freight conditions. More positively, the threat of closure of either the Port Kembla or Whyalla steelworks appears to have receded, which has reduced this serious threat to revenue.

The entire network is benefiting from outstanding agricultural conditions, which have driven historically strong grain throughput and growth in export container volumes. Minerals volumes are also performing well ahead of the previous year, reflecting improvements in market conditions.

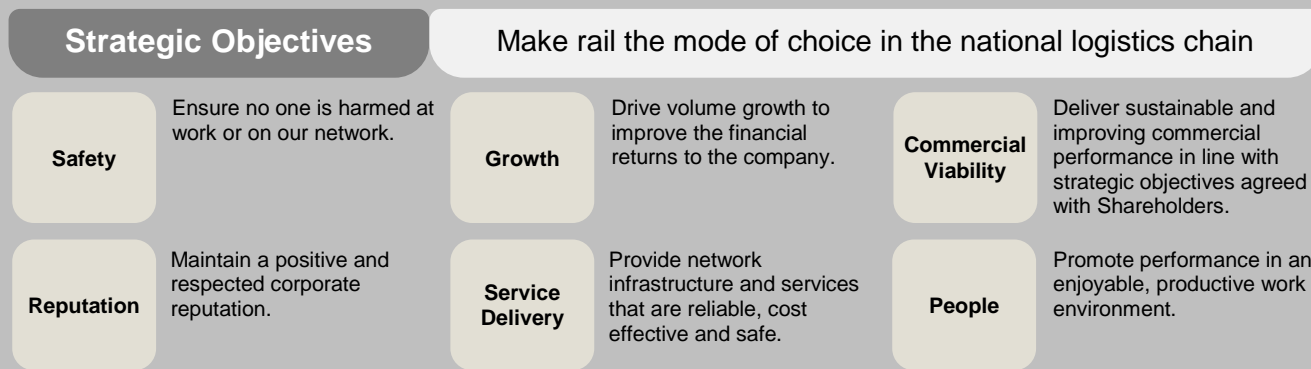
The environment for the Hunter Valley coal business has also improved over the last year with the thermal coal price firming. At current coal prices the industry remains relatively stable and there has been interest from a small number of producers in relation to incremental volume increases, particularly from the large-scale and highly efficient outlying mines on the Ulan and Gunnedah lines.

In these circumstances there continues to be little reason to anticipate a need for significant new investment in capacity. In the absence of additional capital investment, the regulatory asset base will progressively decrease in value in real terms, gradually reducing the proportion of ARTC’s revenue that is derived from the Hunter Valley.

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

# Our Strategic Objectives

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



ARTC's main focus in the Hunter Valley continues to be on delivering productivity improvements to the industry and the main driver for this will be the application of technology in the signalling and train control area. ARTC continues to firm up its initiatives in these areas. A key milestone was reached in early 2017 with industry endorsement of the ARTC Network Control Optimisation (ANCO) project moving to the delivery phase. The Advanced Train Management System (ATMS) also continues to make progress toward roll-out.

With the ongoing challenges of growth in the market ARTC remains committed to continuous improvement across the business to improve shareholder returns. ARTC's transformation has been embedded into the way we work, focussed on six key streams:

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

Through these initiatives we aim to drive improved safety performance, increased customer satisfaction and higher productivity. The Transformation program now forms a core function for relevant roles in the organisation, overseen and coordinated by the Executive.

## Key Initiatives

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

The Federal Government, through the 2017/18 Federal Budget, announced an additional \$8.4 billion

funding commitment to deliver **Inland Rail** via an equity investment in ARTC. Additionally, and consistent with the Government's announcement as part of last year's Federal Budget that ARTC would deliver Inland Rail in partnership with the private sector, the Government has also confirmed that the 126km section from Gowrie to Kagaru in Queensland will be delivered through a Public Private Partnership (PPP). ARTC's balance sheet will be used to finance the balance of the cost of Inland Rail.

ARTC has been working hard to get Inland Rail shovel ready with the \$894 million commitment the Government had made in previous Budgets, and welcomes this \$8.4 billion equity commitment to get on and build it in partnership with the private sector. ARTC is working closely with the Government to put in place appropriate governance arrangements, including a Statement of Expectations in regard to the delivery of Inland Rail.

Both in its own right and through the Freight on Rail Group (FORG) of major rail freight organisations, ARTC aims to provide leadership in influencing Government policy in support of good outcomes for the rail freight industry.

Particular areas of focus at present in this **policy and advocacy** role are long-term infrastructure planning, heavy vehicle charging reform, coastal shipping reform and environmental policy. The Commonwealth's National Freight and Supply Chain Strategy initiative is particularly welcome and ARTC will be working to contribute constructively to its development.

ARTC considers **technology and innovation** to be critical to rail's future competitiveness. It continues to successfully move forward with development of the ATMS and ANCO projects. These two projects between them will deliver communications based safeworking and automation of the train planning and live run train control process, significantly

# Our Values

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

## No Harm

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

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

## Future Thinking

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

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

increasing safety and productivity as they are rolled out.

The acquisition of a terminal development site at Bromelton during 2016/17 was a significant step in implementation of ARTC's strategy. ARTC continues to see its involvement in **terminal planning and development** as an important strategy to optimise the competitiveness of the intermodal rail business into the future and to thereby maximise the opportunity for ARTC's own commercial success.

Negotiation of a new Hunter Valley **Access Undertaking** to replace the Undertaking that expired in June 2016 has been a major challenge for ARTC. After engagement with its Hunter Valley customers, ARTC submitted an extension to the ACCC based on compromise commercial settings. This has been accepted by the ACCC. The approved rate of return and mine life will result in ARTC generating lower returns from the Hunter Valley business unit than were achieved in recent years. ARTC will be submitting a revised Undertaking in 2017 that reflects these commercial settings and addresses other administrative matters.

The Interstate Access Undertaking expires in July 2018 and ARTC is looking to use the opportunity to move toward greater flexibility in pricing and conditions of access, to allow it to better tailor these to market needs.

## Accountability & Reporting

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

- A Corporate Plan on an annual basis to cover a minimum period of four years;
- Quarterly progress reports;
- Other reports as requested by the Shareholders; and

- An Annual Report in accordance with the Corporations Act.

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

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

## Human Resources Strategy

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

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

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

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

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

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

## Active Engagement

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

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

## Results

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

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

## Risk Management

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

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

ARTC's goals for risk management are:

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

## Investment Strategy

ARTC's investment programs have been structured around the business intent of its corridors, together with a strategy for complementary terminal investment and an overarching network-wide plan for systems. The program objectives are:

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

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

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

*Terminals:* To encourage efficient and well located terminals to be developed at the appropriate time to support rail competitiveness in the intermodal market.

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

ARTC has undertaken a substantial expansion and upgrade program, investing over \$6 billion since 2004 to ensure adequate capacity for the needs of the Hunter Valley coal and interstate markets while addressing a long period of neglect of the condition of the network.

The announcement of the decision to proceed with Inland Rail begins a new phase of ARTC's investment in the rail network. Inland Rail will transform rail's service offering in the North South corridor and trigger significant modal share shift in the intermodal and agricultural markets.

At the same time ARTC will continue to progress the ATMS project, which will also deliver significant improvements in rail's competitiveness and is complimentary to Inland Rail.

In the Hunter Valley the focus will remain on delivering improved efficiency through ATMS and ANCO, though with emerging interest from producers in incremental increases in volume, some additional capacity projects, particularly new crossing loops, may emerge in the program within the Corporate Plan period.

ARTC's investment program since its creation has been funded by a combination of grants, Australian Government equity, and commercial borrowings. The Inland Rail funding structure is consistent with this approach and it is expected that the other forthcoming projects will be progressed with a similar mix of funding sources.

Specific major projects that ARTC expects to progress over the Corporate Plan period are:

#### *Hunter Valley*

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

#### *Interstate*

- Roll-out of ATMS, subject to the development of funding solutions.
- Port Botany Rail Line upgrade phase 3, a \$75 million project primarily focussed on remediating poor track condition following ARTC's take-up of the line in late 2013, funded through the Infrastructure Investment Program.
- Rerailing between Adelaide and Tarcoola,
- Construction of a new loop at Cabramatta on the SSFL to support growth in cross-metro container shuttles, subject to an appropriate funding mechanism.
- Upgrading of the Victorian North East line in accordance with the Commonwealth commitment to funding of \$100 m through the regional rail initiative.

#### *Inland Rail*

Design, development and delivery of Inland Rail with key elements including:

- Land acquisition.
- Upgrading of existing corridors Parkes – Narramine and Narrabri – North Star.

- Greenfield construction Narramine – Narrabri and North Star – Gowrie.
- Delivery of the greenfield Gowrie – Kagaru section through a public-private partnership.
- Clearance for double stacking Melbourne – Parkes and Kagaru – Acacia Ridge.

This will be subject to agreement being reached on track alignment and negotiation of Intergovernmental Agreements with the States.

## **Capital Management**

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

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

Looking forward ARTC will receive significant injections of additional equity in support of the Inland Rail and Adelaide – Tarcoola rerailing projects. The Company will also be undertaking further debt raising to cover the full cost of the forward capital program.

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

## **Financial Results**

Key financial results for 2015/16 and forecast results for 2016/17 are shown in the table below. 2016/17 revenue recognises a reduced rate of return for the Hunter Valley in line with the expected outcome of the Access Undertaking.

| <b>FINANCIAL RESULTS<sup>1</sup></b>     | <b>2015/16<br/>Actual</b> | <b>2016/17<br/>Forecast<sup>2</sup></b> |
|--|---------------------------|---|
| Operating Revenue (\$m)                  | 772.6                     | 735.1                                   |
| EBITDAI <sup>3</sup> (\$m)               | 410.4                     | 365.4                                   |
| Depreciation Expense (\$m)               | (189.8)                   | (196.0)                                 |
| Net Profit before Interest and Tax (\$m) | 223.6                     | 169.4                                   |
| Dividend <sup>4</sup> (\$m)              | 91.3                      | 82.8                                    |
| Net Assets (\$m)                         | 3,490.4                   | 3,546.1                                 |
| Return on Capital Employed               | 6.3%                      | 4.8%                                    |

<sup>1</sup> Forecast end of year result based on May 2017 management accounts.

<sup>2</sup> 2016/17 does not include any Fair Value or Impairment adjustments as these are only determined at financial year end as part of annual audited accounts preparation. Forecasts assume Hunter Valley revenue based on a 5.38% rate of return and 23 year mine life.

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

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



Refer to ARTC's website for more information on ARTC including Annual Reports.

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