

Monday, 28 August 2017

Singapore Exchange Securities Trading Limited
4 Shenton Way
#02-01, SGX Centre 2
Singapore 068807
Republic of Singapore

Dear Sir/Madam

MTN Programme

Issuer: Asciano Finance Limited

Securities: ASCIANO FINGBP300M5%N230919

Attached is the financial report for the year ended 30 June 2017 for Asciano Limited, the parent entity of Asciano Finance Limited.

Yours sincerely



Kate Bowman
General Counsel and Company Secretary
Pacific National

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Pacific National Pty Ltd
ACN 098 060 550

ASCIANO LIMITED
ABN 26 123 652 862

FINANCIAL REPORT
For the year ended 30 June 2017

**Pacific National comprises of Asciano Limited
and its controlled entities.**

Table of contents

Directors'	3
The lead auditor's independence declaration under section 307C of the Corporations Act 2001	7
Financial statements:	
Consolidated Statement of Profit or Loss	9
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	13
Notes to and forming part of the financial statements:	
Section 1: How we have this	14
Section 2: How we have performed this year	16
2.1 Segment reporting	16
2.2 Discontinued operations	20
2.3 Revenue and other income	23
2.4 Taxes	24
2.5 Provisions and contingent liabilities	27
2.6 Reconciliation of net operating cash flows	29
Section 3: Our business	30
3.1 Property, plant and equipment	30
3.2 Operating and finance leases	32
3.3 Capital and other commitments	33
3.4 Intangible assets	34
3.5 Inventories	37
Section 4: How we fund the business and risks	38
4.1 Financial risk management	38
4.2 Financial assets	40
4.3 Financial liabilities	42
4.4 Derivative financial instruments	45
4.5 Fair value of financial assets and liabilities	50
4.6 Finance income and expense	51
4.7 Dividends	52
4.8 Reserves	53
4.9 Contributed equity	54
4.10 Accumulated losses	54
Section 5: How we structure the business	55
5.1 Subsidiaries	55
5.2 Deed of cross guarantee	56
Section 6: How we remunerate our	58
6.1 Share-based payments	58
6.2 Employee benefits and superannuation	60
Section 7: Other	65
7.1 Related parties	65
7.2 Auditor's remuneration	65
7.3 Parent	66
7.4 Events subsequent to the reporting date	66
Directors' declaration	67
Independent Auditor's Report to the Members of Asciano Limited	68

Asciano Limited

ABN 26 123 652 862

Directors' Report

For the year ended 30 June 2017

The Directors present their report, together with the financial report of Asciano Limited ("Asciano" or "Company" or "Parent") and its controlled entities (collectively referred to as "Pacific National" or "the Group"), for the year ended 30 June 2017.

1. Directors

The Directors of Asciano Limited at any time during or since the end of the financial year were as follows:

Russell Smith	(appointed 19 August 2016)
Dean Dalla Valle	(appointed 15 July 2017)
David Irwin	(appointed 19 August 2016 and resigned 15 July 2017)
Jerry Divoky	(appointed 19 August 2016)
John Hextall	(appointed 12 October 2016)
Bruce Hogg	(appointed 19 August 2016)
Colin Mugglestone	(appointed 19 August 2016)
Deborah O'Toole	(appointed 8 October 2016)
Garry Pritchard	(appointed 19 August 2016)
Robert Stewart	(appointed 19 August 2016)
Paul Bernath	(appointed 5 October 2016 as alternate director)
Jeffrey Coates	(appointed 14 October 2016 as alternate director)
William Thomson	(appointed 17 November 2016 as alternate director)
Malcolm Broomhead	(resigned 19 August 2016)
John Mullen	(resigned 19 August 2016)
Chris Barlow	(resigned 19 August 2016)
Robert Edgar	(resigned 19 August 2016)
Peter George	(resigned 19 August 2016)
Shirley In't Veld	(resigned 19 August 2016)
Geoff Kleemann	(resigned 19 August 2016)
Ralph Waters	(resigned 19 August 2016)

2. Principal activities

The principal continuing activities of Asciano during the course of the financial year were the management of rail assets and associated operations and services.

Activities that changed significantly during the year include the sale of the Patrick businesses and its subsidiaries ("Patrick" or "Patrick businesses").

3. Operating and financial review

Overview

During the period, Pacific National began the process of developing key strategic objectives under the new ownership model for the medium to long-term. The primary elements of Pacific National's strategy are:

- Retaining key customers and leading market positions in strategic rail corridors;
- Leveraging our strategic assets and deep expertise in freight types and modes;
- Collaborating with diverse stakeholders to create and deliver solutions for our customers;
- Attracting, developing and inspiring talented and capable people;
- Continuing to improve the efficiency of fleet and labour resources through the Integrated Planning Service centre established in the 2016 financial year; and
- Innovating in partnership with customers to achieve differentiated performance within standalone and integrated supply chains.

Significant transactions during the year

On 15 March 2016, Asciano Limited announced to the ASX that it had entered into a binding agreement to sell 100% of its issued capital to the Rail Consortium¹. The agreement received the relevant approvals and was effective 29 July 2016. The Patrick businesses were sold by Asciano Limited to the Ports² and Brookfield Consortia on 18 August 2016, and the shares in Asciano Limited were transferred to the Rail Consortium on 19 August 2016. Following the sale, the primary business of Asciano Limited is the Pacific National rail business.

1. A consortium comprising affiliates of Global Infrastructure Management LLC (27%), Canada Pension Plan Investment Board (33%), CIC Capital Corporation (16%), GIC Private Limited (GIC) (12%) and British Columbia Investment Management Corporation ("bcIMC") (12%).
2. A consortium comprising affiliates of Brookfield Infrastructure Partners L.P., GIC Private Limited, British Columbia Investment Management Corporation and Qatar Investment Authority (together, the "Brookfield Consortium") and Qube Holdings Limited ("Qube").

Operating and financial review (continued)

Given the disposal of the Patrick businesses on 18 August 2016, the contribution to earnings of Patrick for the period from 1 July 2016 to 18 August 2016 has been presented as discontinued operations separately from continuing operations and the 2016 comparatives have been restated to remove Patrick's earnings.

Financing

Pacific National's funding consists of a mix of revolving bank credit facilities, US dollar denominated 7, 10 and 12 year bonds (swapped to Australian dollars), GBP denominated 10 year bonds (swapped to Australian dollars), AUD denominated 10 year bonds and working capital facility (currently partly drawn in the form of bank guarantees). Pacific National's loans and borrowings mature in the period between April 2018 and May 2027.

Pacific National had total committed bank credit facilities of \$1,375.0 million (30 June 2016: \$1,488.3 million) and nil drawn bank debt at 30 June 2017 (30 June 2016: \$408.9 million). Of the total committed credit facilities, \$58.0 million relating to bank guarantees were utilised, leaving undrawn credit facilities at 30 June 2017 of \$1,317.0 million (30 June 2016: \$1,010.4 million). Net debt at 30 June 2017 was \$2,715.6 million (30 June 2016: \$2,886.3 million).

Review and results of operations

Pacific National reported a net profit after tax from continuing operations ("NPAT") of Asciano Limited of \$550.0 million. The reported NPAT for the current reporting period included a material items (loss) of \$22.5 million for costs in connection with the restructuring of the Pacific National business (30 June 2016: material items (loss) of \$7.3 million) and a tax benefit of \$378.1 million in relation to the reset of tax cost bases due to tax consolidation following the Company's change in ownership.

A reconciliation of the reported NPAT and the underlying NPAT for continuing operations and for the various components of the after tax material items is provided in the table below:

	2017	RESTATED ¹ 2016
	\$M	\$M
Statutory NPAT attributable to the owners of Asciano Limited for continuing operations	550.0	239.0
Restructuring expenses (net of tax benefit)	22.5	7.3
Tax benefit from the reset of tax cost bases	(378.1)	—
Total material items after tax	(355.6)	7.3
Underlying NPAT attributable to the owners of Asciano Limited	194.4	246.3

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

Pacific National reported a 19.7% decrease in profit before tax for continuing operations to \$259.7 million. The result was impacted by several business interruptions to customers from weather, derailments, industrial disputes and a long wall collapse in Queensland. However, we do note that the results includes proceeds from business interruption insurance for Cyclone Debbie. Bulk haulage (excluding coal) experienced some softness in minerals volumes but this was largely offset by strong export grain volumes. Intermodal haulage experienced weaker East/West demand but stronger demand on the North/South corridor and steel also performed well.

3. Dividends

On 29 July 2016, the Board resolved to pay a fully franked special dividend of 87.0 cents per share with a record date of entitlement of 3 August 2016. The dividend was paid on 11 August 2016.

Following implementation of the Joint Consortium Scheme ("Scheme") on 19 August 2016, Australian Logistics Acquisition Investments Pty Limited ("ALAI"), a vehicle owned by the Rail Consortium, acquired 100% of the issued capital of Asciano.

Further dividends for the year ended 30 June 2017 include a dividend of 5.13 cents per share that was paid on 31 March 2017, and on 30 June 2017 the Board resolved to pay a final dividend of 0.85 cents per share (30 June 2016: 13.0 cents per share, fully franked interim dividend). The final dividend is shown as a liability as at 30 June 2017 and was paid on 4 July 2017.

4. Business strategies, prospects and likely developments

The operating and financial review sets out information on the business strategies and prospects for future financial years, and refers to likely developments in Pacific National's operations and the expected results of those operations in future financial years. Information is provided to enable stakeholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Information that could give rise to likely material detriment to Pacific National, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included. Other than the information set out above, information about other likely developments in Pacific National's operations and the expected results of these operations in future financial years has not been included.

5. Events subsequent to the reporting date

Subsequent to year-end, Pacific National entered into a binding agreement with Aurizon to purchase the Acacia Ridge Intermodal Terminal in Brisbane, Queensland. This transaction includes the transfer of 30 Aurizon employees, as well as assets, and commercial and operational arrangements.

Separately, Pacific National has signed a binding agreement to buy the Aurizon Queensland Intermodal business as part of a consortium with Linfox. This transaction includes the transfer of approximately 350 Aurizon employees, as well as assets, and commercial and operational arrangements to the Linfox and Pacific National consortium.

The parties are aiming to finalise these transactions by the end of the 2018 financial year. Both transactions are subject to approval by the Australian Competition & Consumer Commission and Foreign Investment & Review Board.

On 3 July 2017, Gerhard Ziems (former BHP Billiton executive) was appointed Chief Financial Officer of Pacific National.

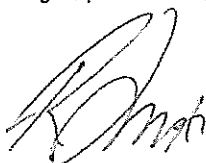
On 15 July 2017, Dean Dalla Valle (former BHP Billiton executive) was appointed Chief Executive Officer of Pacific National replacing David Irwin.

Other than for the items noted above, there has not arisen in the interval between 30 June 2017 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of Pacific National, the results of those operations, or the state of affairs of Pacific National in future financial years.

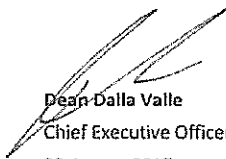
6. Rounding of amounts

Ascianno Limited is an entity of a kind referred to in Australian Securities and Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. In accordance with that Instrument, amounts in the Directors' Report and the financial statements have been rounded to the nearest one hundred thousand dollars unless otherwise stated.

Signed pursuant to a resolution of the Directors.



Russell Smith
Chairman
22 August 2017



Dean Dalla Valle
Chief Executive Officer
22 August 2017



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Asciano Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Steven Gatt
Partner

Sydney
22 August 2017

Asciano Limited
ABN 26 123 652 862

Financial Report
For the year ended 30 June 2017

Pacific National comprises Asciano Limited and its controlled entities.

Consolidated Statement of Profit or Loss
For the year ended 30 June 2017

		2017	RESTATED ¹
	Note	\$M	2016 \$M
Revenue from services rendered	2.3	2,289.1	2,333.7
Other income	2.3	63.2	35.3
Operating expenses excluding depreciation and amortisation:			
Employee benefits		(586.4)	(564.3)
Rail access		(488.3)	(466.8)
Fuel, oil and power		(193.4)	(188.5)
Repairs and maintenance		(169.7)	(170.8)
Lease and hire		(46.8)	(53.8)
Insurance		(9.9)	(6.5)
Other		(129.7)	(94.6)
Profit before depreciation, amortisation, net finance costs and tax		728.1	823.7
Depreciation		(257.2)	(234.2)
Amortisation		(28.3)	(47.4)
Profit before net finance costs and tax		442.6	542.1
Interest income	4.6	3.9	6.4
Interest expense		(184.2)	(197.6)
Other financing expenses		(15.6)	(15.5)
Credit value adjustment and fair value movements of unhedged derivatives		13.0	(11.9)
Finance expense	4.6	(186.8)	(225.0)
Net finance expense		(182.9)	(218.6)
Profit before tax		259.7	323.5
Tax benefit/(expense)	2.4	290.3	(84.5)
Profit from continuing operations		550.0	239.0
Profit from discontinued operations	2.2.2	557.4	34.6
Profit after tax		1,107.4	273.6
Attributable to:			
Owners of Asciano Limited	4.10	1,107.1	272.0
Non-controlling interests		0.3	1.6
		1,107.4	273.6

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

			RESTATED ¹
	Note	2017 \$M	2016 \$M
Profit after tax		1,107.4	273.6
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Defined benefit superannuation funds actuarial gains/(losses)	6.2	21.9	(20.0)
Income tax (expense)/benefit on items that will not be reclassified to profit or loss	6.2	(6.6)	6.0
Total items that will not be reclassified to profit or loss net of tax		15.3	(14.0)
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedge	4.6	(11.4)	16.6
Income tax expense on items that may be reclassified subsequently to profit or loss	4.6	(20.5)	(5.0)
Other comprehensive income arising from discontinued operations	2.2.2	0.3	1.1
Reserves reclassified to profit or loss on sale of Patrick	2.2.4	(8.0)	—
Total items that may be reclassified subsequently to profit or loss net of tax		(39.6)	12.7
Other comprehensive loss net of tax		(24.3)	(1.3)
Total comprehensive income		1,083.1	272.3
Total comprehensive income attributable to:			
Owners of Asciano Limited		1,082.8	270.7
Non-controlling interests		0.3	1.6
		1,083.1	272.3
Total comprehensive income attributable to owners of Asciano Limited from:			
Continuing operations		533.4	236.6
Discontinuing operations		549.7	35.7
		1,083.1	272.3

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 \$M	2016 ¹ \$M
Current assets			
Cash and cash equivalents	4.2	111.7	202.9
Trade and other receivables	4.2	289.1	472.9
Prepayments and other assets		7.6	36.7
Inventories	3.5	21.4	39.6
Derivative financial assets	4.4	278.8	25.1
Current tax assets	2.4	32.6	74.2
Total current assets		741.2	851.4
Non-current assets			
Property, plant and equipment	3.1	3,046.0	4,382.6
Intangible assets	3.4	923.8	2,767.8
Equity accounted investments		—	45.3
Loans to joint ventures	4.2	—	52.4
Trade and other receivables	4.2	0.5	0.2
Prepayments and other assets		0.3	1.0
Inventories	3.5	18.2	22.4
Derivative financial assets	4.4	242.1	617.4
Net deferred tax assets	2.4	247.8	—
Total non-current assets		4,478.7	7,889.1
Total assets		5,219.9	8,740.5
Current liabilities			
Trade payables	4.3	82.2	186.1
Other payables and accrued expenses	4.3	184.8	249.9
Provisions	2.5	27.2	56.4
Employee benefits	6.2	92.5	181.5
Loans and borrowings	4.3	975.2	0.6
Derivative financial liabilities	4.4	20.7	39.5
Total current liabilities		1,382.6	714.0
Non-current liabilities			
Other payables and accrued expenses	4.3	36.2	20.3
Provisions	2.5	37.4	35.1
Employee benefits	6.2	73.0	105.7
Loans and borrowings	4.3	2,327.6	3,723.6
Derivative financial liabilities	4.4	89.5	48.3
Deferred tax liabilities	2.4	—	5.1
Total non-current liabilities		2,563.7	3,938.1
Total liabilities		3,946.3	4,652.1
Net assets		1,273.6	4,088.4
Equity			
Contributed equity	4.9	5,618.8	8,586.7
Reserves	4.8	(2,022.8)	(1,440.1)
Accumulated losses	4.10	(2,322.4)	(3,066.4)
Equity attributable to owners of Asciano Limited		1,273.6	4,080.2
Non-controlling interests		—	8.2
Total equity		1,273.6	4,088.4

1. The comparatives include discontinued operations.

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

\$M	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interests	Total
Balance at 1 July 2015	8,604.5	(4,342.0)	(312.6)	3,949.9	18.6	3,968.5
Profit after tax	—	—	272.0	272.0	1.6	273.6
Other comprehensive income ("OCI"):						
Net movement in cash flow hedge reserve	—	16.1	—	16.1	—	16.1
Defined benefit superannuation funds actuarial losses	—	—	(20.0)	(20.0)	—	(20.0)
Foreign currency translation differences for foreign operations	—	1.0	0.4	1.4	—	1.4
Income tax benefit/(expense) on OCI	—	(4.8)	6.0	1.2	—	1.2
Total comprehensive income	—	12.3	258.4	270.7	1.6	272.3
Treasury shares allocated	3.2	—	—	3.2	—	3.2
Treasury shares acquired	(21.0)	—	—	(21.0)	—	(21.0)
Transactions with owners in their capacity as owners:						
Profits transferred to profit reserve	—	3,012.2	(3,012.2)	—	—	—
Dividends paid	—	(126.4)	—	(126.4)	(12.0)	(138.4)
Employee equity benefits	—	3.8	—	3.8	—	3.8
	—	2,889.6	(3,012.2)	(122.6)	(12.0)	(134.6)
Balance at 30 June 2016 and 1 July 2016	8,586.7	(1,440.1)	(3,066.4)	4,080.2	8.2	4,088.4
Profit after tax	—	—	1,107.1	1,107.1	0.3	1,107.4
Other comprehensive income:						
Net movement in cash flow hedge reserve	—	(10.6)	—	(10.6)	—	(10.6)
Defined benefit superannuation funds actuarial gains	—	—	21.9	21.9	—	21.9
Foreign currency translation differences for foreign operations	—	(0.2)	—	(0.2)	—	(0.2)
Reserves reclassified to profit or loss on sale of Patrick	—	(0.5)	—	(0.5)	(7.5)	(8.0)
Income tax benefit/(expense) on OCI	—	(20.8)	(6.6)	(27.4)	—	(27.4)
Total comprehensive income	—	(32.1)	1,122.4	1,090.3	(7.2)	1,083.1
Treasury shares allocated	23.7	—	—	23.7	—	23.7
Transactions with owners in their capacity as owners:						
Return of capital	(2,991.6)	—	—	(2,991.6)	—	(2,991.6)
Profits transferred to profit reserve	—	385.2	(385.2)	—	—	—
Dividends declared	—	(906.9)	—	(906.9)	(1.0)	(907.9)
Employee equity benefits	—	(22.1)	—	(22.1)	—	(22.1)
Reserves transferred to retained earnings	—	(6.8)	6.8	—	—	—
	(2,991.6)	(550.6)	(378.4)	(3,920.6)	(1.0)	(3,921.6)
Balance at 30 June 2017	5,618.8	(2,022.8)	(2,322.4)	1,273.6	—	1,273.6

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 \$M	2016 \$M
Operating cash flows			
Receipts from customers		2,877.0	4,047.7
Payments to suppliers and employees		(2,206.9)	(3,016.3)
Scheme costs		(75.2)	(88.0)
Interest and other costs of finance paid		(219.7)	(220.5)
Interest received		8.1	2.6
Dividends received from joint ventures		7.3	13.6
Net income tax receipts/(payments)		62.4	(122.6)
Net operating cash inflows	2.6	453.0	616.5
Investing cash flows			
Payments for property, plant and equipment and intangible assets		(177.8)	(290.8)
Proceeds from sale of property, plant and equipment and intangible assets		9.1	43.0
Proceeds from sale of Patrick	2.2	579.2	—
Proceeds from sale of Australian Amalgamated Terminals Pty Ltd ("AAT") joint venture	2.2	150.0	—
Proceeds from sale of 50% of Geelong Ports		25.0	—
Repayment of loans by joint ventures		0.1	3.8
Repayment of loans by related parties		—	1.9
Net investing cash inflows/(outflows)		585.6	(242.1)
Financing cash flows			
Treasury shares acquired	4.9	—	(21.0)
Payment of finance lease liabilities		—	(0.5)
Repayments of borrowings		(2,140.0)	(798.9)
Drawdown of borrowings		1,909.8	650.0
Dividends paid	4.7	(898.6)	(126.4)
Dividends paid to non-controlling interests		(1.0)	(12.0)
Loans from non-controlling interest		—	10.0
Net financing cash outflows		(1,129.8)	(298.8)
Net (decrease)/increase in cash and cash equivalents		(91.2)	75.6
Cash and cash equivalents at the beginning of the year		202.9	127.3
Cash and cash equivalents at the end of the year	4.2	111.7	202.9

The above Consolidated Statement of Cash Flows includes cash flows from both continuing and discontinuing operations and should be read in conjunction with the accompanying notes.

1 How we have prepared this report

This section describes the key accounting principles and policies that we have adopted in preparing the financial statements for the Group as a whole. Accounting policies specific to individual elements of the financial statements have been moved to the relevant section of the report where that element is disclosed. This section also analyses the impact of any newly endorsed accounting standards which will be effective for Pacific National in future years.

Reporting entity

Asciano Limited ("Asciano" or "Parent" or "the Company") is a for profit entity domiciled in Australia. Asciano is primarily involved in the management of rail assets and associated operations and services. This general purpose financial report ("report") comprises the consolidated financial statements of Asciano and its controlled entities (collectively referred to as "Pacific National" or "the Group"). The consolidated financial report was authorised for issue by the Board of Directors on 22 August 2017.

Basis of preparation

This report has been prepared in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations adopted by the Australian Accounting Standards Board ("AASB"), and the *Corporations Act 2001*. The consolidated financial statements of Asciano comply with the International Financial Reporting Standards ("IFRS") and the interpretations adopted by the International Accounting Standards Board.

Asciano sold the Patrick businesses effective 18 August 2016. Income, expenses and other comprehensive income for the Patrick businesses are presented as discontinued operations and prior year comparatives have been restated to show the discontinued operations separately from continuing operations. The consolidated statement of cash flows includes cash flows from both continuing and discontinued operations; refer to note 2.2 for the cash flows from discontinued operations.

Historical cost convention

The report has been prepared under the historical cost basis except for:

- derivative financial assets and liabilities which are measured at fair value in accordance with AASB 139 Financial Instruments: Recognition and Measurement; and
- a liability or asset in respect of defined benefit superannuation funds which is measured as the present value of the defined benefit obligation less the fair value of the superannuation fund's assets and any unrecognised past service cost in accordance with AASB 119 Employee Benefits.

Functional currency

The functional and presentation currency of the report is Australian dollars, which is the functional currency of Asciano, and all amounts have been rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest one hundred thousand dollars unless otherwise stated.

Going concern

Notwithstanding the existence of a net current asset deficiency, the financial statements have been prepared on a going concern basis as Asciano has significant undrawn financing facilities which can be drawn down to pay debts as they fall due.

Significant accounting policies

The significant accounting policies that have been adopted and that relate to the financial statements as a whole are set out below along with a summary of the impact of newly adopted accounting standards, amendments and interpretations, those that have not yet been adopted, and their expected impact on the reported results of the Group. A description of accounting policies specific to individual areas (e.g. revenue) have been included within the relevant note to the financial statements.

Foreign currency transactions

Transactions in foreign currencies are translated into Asciano's functional currency at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the respective entity's functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the statement of profit or loss or the statement of comprehensive income where appropriate.

Change in accounting policy

The Group has applied the following standards and amendments, including any consequential amendments to other standards for the first time for the annual reporting period commencing 1 July 2016.

- AASB 1057 Application of Australian Accounting Standards (as amended by AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs)
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

1 How we have prepared this report (continued)

- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

As a result of adopting the new accounting standards and amendments, the Group has made various changes to accounting policies which have had no material impact on the Group.

New accounting standards and interpretations

A number of new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
AASB 9 Financial Instruments	AASB 9, published in July 2014, replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group has not yet completed its assessment of the potential impact on its consolidated financial statements resulting from the application of AASB 9.
AASB 15 Revenue from Contracts with Customers	AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group has not yet assessed the impact of AASB 15.
AASB 16 Leases	AASB 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of a lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption will be permitted for entities that also adopt AASB 15 <i>Revenue from Contracts with Customers</i> .	The Group has not yet assessed the impact of AASB 16.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting estimates and judgements

In the preparation of this report, the Group was required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, and where necessary, revisions are recognised in the period in which the estimate is revised.

Significant areas of estimation and critical judgements include impairment, depreciation, taxation, provisions for employee entitlements and other obligations. Further details of the nature of these assumptions and conditions are found in the relevant note.

How we have prepared this report (continued)

Presentation of the financial statements and notes to the financial statements

Notes have been grouped under seven key headings:

- How we have prepared this report
- How we have performed this year
- Our business platform
- How we fund the business and manage risks
- How we structure the business
- How we remunerate our employees
- Other

Each section sets out the accounting policies applied in producing these notes together with any key judgements and estimates used. The purpose is to provide readers with a clear understanding of what drives financial performance and position of the Group.

2. How we have performed this year

This section focuses on the operating results and financial performance of the Group. This section includes disclosures relative to segmental financial information, discontinued operations, taxes, and provisions including the relevant accounting policies adopted in each area.

The Group's key operating measure, at a segment level, is underlying earnings before interest and tax (underlying EBIT) which excludes the impact of material items. This reflects the way the operating businesses are managed and assessed from a profit and loss perspective by the Chief Operating Decision-maker.

An item is considered to be a material item, and disclosed as such, if it is deemed to be of a one-off nature and of sufficient quantum that it would have a distorting impact on the understanding of the underlying performance of the business.

2.1 Segment reporting

Accounting policy

A segment is a distinguishable component of Asciano that participates in business activities from which it may earn revenues and incur expenses. The operating results of the segments are regularly reviewed by the entity's Chief Operating Decision-maker, enabling decisions about the allocation of resources to the segments and to assess their performance.

Segmental reporting structure

This segment note only presents continuing operations. The Patrick segment was discontinued during the year and is presented in note 2.2. Certain subsidiaries that had previously been included in the Corporate segment were sold with the Patrick businesses. These subsidiaries have also been presented in discontinued operations.

All prior year segment comparatives in this report have been restated to reflect this change.

As such, for the 2017 financial year, Asciano comprises Pacific National and the Corporate segment. Pacific National consists of two broad business activities: National Intermodal freight haulage and Bulk Haulage. The National Intermodal freight haulage business provides interstate containerised freight services, interstate break bulk freight (steel), regional freight rail services in Queensland and hook and pull services for passenger trains. The Bulk Haulage business hauls a range of bulk goods around Australia by rail including coal, grain for domestic and export markets, minerals concentrate and construction materials.

Preparation of segmental information

Asciano operates principally in Australia and has no single external customer for which revenues amount to 10% or more of total revenue.

Inter-segment revenue is determined on an arm's length basis and is generated mostly from rental income derived by Asciano Corporate from the various businesses that occupy premises owned by Asciano Corporate.

Segment results include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items in the profit or loss comprise mainly interest and financing income and expenses, certain corporate head office expenses, and income tax assets and liabilities.

Material items

Material items comprise items of income or expense which are considered to be relevant to explaining the performance of Asciano and are, either individually or in aggregate, material to Asciano. Such items are likely to include, but are not restricted to, gains or losses on the sale or termination of operations, the cost of significant Asciano-wide reorganisations or restructurings, accelerated depreciation charges to tangible assets and write-off of deferred establishment costs. This information assists the users of Asciano's financial statements in their understanding of the underlying business results.

2.1 Segment reporting (continued)

The segment results for the year reconciled to the Group profit after tax are set out in the following table:

2017 \$M	Pacific National	Corporate/ unallocated	Total
Revenue			
External revenue	2,289.0	0.1	2,289.1
Inter-segment revenue	0.9	(0.9)	—
	2,289.9	(0.8)	2,289.1
Other income	42.5	20.7	63.2
Revenue and other income	2,332.4	19.9	2,352.3
Operating expenses	(1,572.6)	(19.4)	(1,592.0)
Profit before depreciation, amortisation, net finance costs, material items and tax	759.8	0.5	760.3
Depreciation	(252.6)	(4.6)	(257.2)
Amortisation	(18.8)	(9.5)	(28.3)
Profit/(loss) before net finance costs, material items and tax	488.4	(13.6)	474.8
Finance income			3.9
Finance expense			(186.8)
Profit before material items and tax			291.9
Material items			
Pacific National restructure ¹	(32.2)	—	(32.2)
Profit before tax			259.7
Tax benefit ²			290.3
Profit after tax			550.0

Material items

1. The further restructure of the PN Rail business continued during the current reporting period with costs amounting to \$32.2 million (2016: \$10.4 million) comprising of \$11.0 million for additional labour redundancies, \$19.4 million of support costs for the Integrated Planning Service ("IPS") and other professional and transitional costs totalling \$1.8 million.
2. Includes a tax benefit of \$378.1 million in relation to the reset of tax cost bases on tax consolidation. Refer to note 2.4 for further details.

2.1 Segment reporting (continued)

2016 RESTATED ¹ \$M	Pacific National	Corporate/ unallocated	Total
Revenue			
External revenue	2,287.3	46.4	2,333.7
Inter-segment revenue	52.7	(52.7)	—
	2,340.0	(6.3)	2,333.7
Other income	33.9	1.4	35.3
Revenue and other income	2,373.9	(4.9)	2,369.0
Operating expenses	(1,508.1)	(26.8)	(1,534.9)
Profit/(loss) before depreciation, amortisation, net finance costs, material items and tax²	865.8	(31.7)	834.1
Depreciation	(228.9)	(5.3)	(234.2)
Amortisation	(31.4)	(16.0)	(47.4)
Profit/(loss) before net finance costs, material items and tax	605.5	(53.0)	552.5
Finance income			6.4
Finance expense			(225.0)
Profit before material items and tax			333.9
Material items			
Pacific National restructure ³	(10.4)	—	(10.4)
Profit before tax			323.5
Tax expense			(84.5)
Profit after tax			239.0

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

2. Includes \$39.3 million of non-recurring items consisting of sale of property (\$3.9 million), sale of inventories (\$14.8 million), UGL contract credit note (\$4.8 million) and valuation adjustment to travel pass provision (\$15.8 million gain).

Material items

3. The integration of the PN Coal and PN Rail businesses into a single Pacific National business resulted in material costs including employee restructuring costs recognised as part of the employee benefit expense, and project related labour and other costs of \$10.4 million.

2.1. Segment reporting (continued)

Accounting policy

Segment assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Unallocated items comprise mainly investments, loans and borrowings, corporate assets such as head office leasehold properties and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The segment contribution to Group assets and liabilities are set out below:

2017 \$M	Patrick ¹	Pacific National	Eliminations/ unallocated	Total
Segment assets	—	4,354.3	865.6	5,219.9
Segment liabilities	—	(1,046.3)	(2,900.0)	(3,946.3)
Net assets/(liabilities)	—	3,308.0	(2,034.4)	1,273.6
Capital expenditure	—	108.9	8.5	117.4
2016 RESTATED ² \$M	Patrick ¹	Pacific National	Eliminations/ unallocated	Total
Segment assets	3,385.5	4,284.0	1,066.2	8,735.7
Segment liabilities	(655.5)	(968.5)	(3,023.3)	(4,647.3)
Net assets/(liabilities)	2,730.0	3,315.5	(1,957.1)	4,088.4
Capital expenditure	83.2	189.1	18.1	290.4

1. The Patrick businesses were sold effective 18 August 2016. Patrick's assets and liabilities are presented here so that the total assets and liabilities reconcile to the statement of financial position. For further disclosure in relation to the sale of the Patrick businesses, refer to note 2.2.
2. The comparatives have been restated to reflect the segment assets and liabilities of the continuing group.

Pacific National operates principally in Australia and has no single external customer for which revenues amount to 10% or more of total revenue.

2.2 Discontinued operations

Accounting policy

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

2.2.1 Background

On 15 March 2016, Asciano Limited announced to the ASX that it had entered into a binding agreement to sell 100% of its issued capital to the Rail Consortium. The agreement received the relevant approvals and was effective 29 July 2016. Following the change in ownership, the Patrick businesses were sold by Asciano Limited to the Ports and Brookfield Consortia on 18 August 2016.

The comparative income, expenses and other comprehensive income have been restated to show the discontinued operations separately from continuing operations.

2.2.2 Financial performance and cash flow information

The financial performance and cash flow information are presented for the 49 day period ended 18 August 2016 (for the current financial year) and for the full reporting period ended 30 June 2016.

	Note	Period ended 18 August 2016 \$M	2016 \$M
Revenue from services rendered		171.7	1,241.6
Other income ¹		145.6	23.0
Share of net profit of joint ventures		2.9	14.1
Operating expenses excluding depreciation and amortisation		(208.6)	(1,129.4)
Depreciation and amortisation		(13.2)	(101.4)
Net finance expense		(21.0)	(3.6)
Profit before tax		77.4	44.3
Tax benefit/(expense)		17.4	(9.7)
Profit after tax		94.8	34.6
Gain on sale of Patrick after tax	2.2.4	462.6	—
Profit from discontinued operations		557.4	34.6
Effective portion of changes in fair value of cash flow hedges		0.8	(0.5)
Foreign currency translation differences for foreign operations		(0.3)	1.4
Income tax (expense)/benefit on items that may be reclassified subsequently to profit or loss		(0.2)	0.2
Other comprehensive income from discontinued operations		0.3	1.1
Net cash (outflow)/inflow from operating activities		(29.8)	126.3
Scheme related expenses		(75.2)	(104.1)
Net cash inflow/(outflow) from investing activities		727.7	(91.0)
Net cash outflows from financing activities		(1.0)	(2.5)
Net increase/(decrease) in cash and cash equivalents from discontinued operations		621.7	(71.3)

1. Other income includes the gain on sale of AAT and GeelongPort Pty Ltd.

2.2 Discontinued operations (continued)

2.2.3 Discontinued material items

The following material items were included in the results from discontinued operations:

	Note	Period ended 18 August 2016 \$M	2016 \$M
Gain on sale of Patrick	2.2.4	462.6	—
Gain on sale of AAT joint venture ¹		98.2	—
Gain on sale of 50% of GeelongPort Pty Ltd ¹		46.2	—
Brookfield and Qube Consortium proposals ²		(84.3)	(162.4)
Swap de-designation ³		(0.8)	—
Patrick integration		—	(11.2)
Total discontinued material items		521.9	(173.6)

- On 17 August 2016, Pacific National sold its 50% interest in the AAT joint venture for \$150.0 million; and 50% of its ownership interest in the GeelongPort Pty Limited subsidiary for \$25.0 million. On deconsolidation of the subsidiary, a gain of \$23.1 million was recognised on the 50% interest sold, and a further gain of \$23.1 million arose on recognition of the remaining 50% holding as a joint venture investment at fair value.
- Costs incurred in relation to the Brookfield and Qube Consortium takeover proposals have been recognised as material items. For the current reporting period, these costs primarily include:
 - \$35.7 million of legal and other professional consulting fees;
 - \$10.8 million of transaction related redundancy costs as a result of the change in control of Asciano or completion of the Brookfield and Qube Consortium takeover proposals;
 - \$7.4 million for onerous contracts;
 - \$8.3 million for obsolete software; and
 - \$20.1 million of finance costs, including upfront costs and commitment fees, on bank facilities to enable the implementation of the Scheme.
- Realised loss on de-designation of NZD interest rate swap hedging the NZD bank facility paid out on implementation of the Scheme.

2.2.4 Gain on sale of Patrick businesses

	\$M
Cash consideration received	579.2
Promissory notes received	2,991.6
Total consideration received and receivable	3,570.8
Carrying amount of net assets sold	(3,116.2)
Gain on sale before tax and reclassification of reserves	454.6
Reclassification of non-controlling interest reserve to profit or loss	7.5
Reclassification of foreign currency translation reserve to profit or loss	1.2
Reclassification of hedging reserve to profit or loss	(0.7)
	8.0
Gain on sale of Patrick after tax	462.6

2.2 Discontinued operations (continued)

The carrying amounts of assets and liabilities of the Patrick businesses as at the date of sale were:

	\$M
Cash and cash equivalents	15.3
Trade and other receivables	205.4
Inventories	17.3
Equity accounted investments	53.3
Property, plant and equipment	1,191.3
Intangible assets	1,819.0
Deferred tax asset	24.1
Other assets	21.5
Total assets	3,347.2
Trade payables	(51.6)
Other payables and accrued expenses	(36.8)
Employee benefits	(89.0)
Loans and borrowings	(43.1)
Other liabilities	(10.5)
Total liabilities	(231.0)
Net assets	3,116.2

2.3 Revenue and other income

Accounting policy

Revenue is measured at the amount received or receivable from the customer, net of GST, for services rendered. Revenue recognition is not considered to be a critical area of judgement and estimate for the Group.

The material revenue streams and the recognition principles applied by the Group are as follows:

Rail haulage Rail haulage revenue is earned from the movement of containerised and bulk freight. Revenue is recognised when the risks and rewards are transferred to the customer, generally considered to be when the freight arrives at its intended destination. Revenue is presented net of any customer rebates, and includes the recoverable track access fees and fuel related costs when paid by Asciano on behalf of the customer.

Other Other revenue includes income from the provision of maintenance and terminal services.

	2017 \$M	RESTATED ¹ 2016 \$M
Revenue		
Rail haulage	2,233.9	2,271.7
Other	55.2	62.0
Total revenue	2,289.1	2,333.7
Other income		
Net gain on sale of property, plant and equipment	0.2	6.2
Net gain on sale of inventory	—	14.8
Lease rental income	13.2	13.7
Transitional services income and insurance proceeds	49.9	—
Other	(0.1)	0.6
Total other income	63.2	35.3

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

Other income

In the comparative period, the net gain from the sale of property, plant and equipment is inclusive of gains of \$3.9 million for the sale of land at the Adelaide Freight Terminal.

2.4 Taxes

Accounting policy

Tax expense comprises current and deferred tax and is recognised in the statement of profit or loss or the statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax in the Statement of Profit or Loss is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax in respect of previous years. Deferred tax expense represents the tax expense in respect of the future tax consequences of recovering or settling the carrying amount of an asset or liability. Both are calculated using tax rates for each jurisdiction, enacted or substantially enacted at the reporting date, and for deferred tax, those that are expected to apply when the asset is realised or the liability is settled.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

1. initial recognition of assets or liabilities, other than in a business combination, that affect neither accounting nor taxable profit;
2. recognition of goodwill; and
3. investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities in the Consolidated Statement of Financial Position are offset when there is a legally enforceable right to offset current tax assets and liabilities and they relate to the same taxable entity and the same taxation authority.

Asciano Limited and its wholly owned Australian resident entities are part of a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Australian Logistics Acquisition Holdings Pty Limited ("ALAH").

Current tax expense/income, deferred tax liabilities and deferred tax assets of the members of the tax consolidated group are recognised in the separate financial statements of the members using the "group allocation method", by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Assets or liabilities arising under tax funding arrangements are recognised as amounts receivable from or payable to other entities in the ALAH tax consolidated group, and are due and payable as requested by the head entity.

Critical accounting estimates and judgements

Interpretation and application of tax legislation

Asciano's accounting for income tax requires the Group's judgement as to the types of arrangements considered to be subject to tax. Judgement is also required in relation to the application of existing tax legislation, including the impact of Australian Taxation Office interpretation and ongoing Federal Government reviews of existing legislation.

Recoverability of deferred tax assets

On implementation of the Scheme, the remaining members of the Asciano tax consolidated group joined the ALAH tax consolidated group.

Deferred tax assets, including those arising from carried forward losses, capital losses and temporary differences, are recognised when it is considered more likely than not that they will be recovered. Recoverability is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on the ALAH tax consolidated group's estimates of future cash flows, which in turn depend on estimates of future sales volumes, operating costs, capital expenditure and other capital management transactions.

The Asciano tax consolidated group has \$133.2 million of unrecognised benefits (\$40.0 million deferred tax asset) relating to capital assets, which have not been recognised as it is not considered probable that there would be taxable income against which they could be utilised.

2.4 Taxes (continued)

The total taxation charge in the statement of profit or loss is analysed as follows:

	2017 \$M	RESTATED ¹ 2016 \$M
Current tax expense	27.3	97.2
Deferred tax benefit	(331.5)	(84.8)
Unders of deferred tax for prior periods	20.8	81.2
Overs of current tax for prior periods	(6.9)	(9.1)
Total income tax expense	(290.3)	84.5
Reconciliation of income tax expense to prima facie tax payable:		
Profit before tax	259.7	323.5
Income tax at 30% (2016: 30%)	77.9	97.1
Recognition and derecognition of temporary differences	0.6	0.8
Settlement of historical tax matter	—	(5.4)
Effect of tax bases being reset by the change in ownership ²	(378.1)	—
Derecognition of previously recognised revenue losses	8.0	—
Recognition of previously unrecognised capital losses	—	(15.8)
Other non-deductible impairment	—	7.8
Other deductible expenses	1.3	—
Income tax expense recognised in the profit or loss	(290.3)	84.5
Tax recognised directly in other comprehensive income		
Changes in fair value of cash flow hedge	(3.4)	5.0
Reset of cost base	23.9	—
Defined benefit superannuation funds actuarial gain/(losses)	6.6	(6.0)
	27.1	(1.0)

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.
2. On 18 August 2016, the ownership of Pacific National changed and as a result, the tax bases of various assets and liabilities were reset to market value at 18 August 2016. This resulted in an increase in tax bases from the previous tax written down values, creating a deferred tax benefit.

Effective tax rate for the Group

For the year ended 30 June 2017, the Group's effective tax rate was a benefit of 111.8% (2016: expense of 26.1%).

Asciano's effective tax rate has been calculated in accordance with AASB 112 by dividing the Group's income tax expense by the Group's accounting profit before tax.

As the Asciano income tax consolidated group has income in excess of \$100 million per annum, under provisions enacted in 2013 in the *Tax Administration Act 1953*, the Australian Taxation Office ("ATO") will publish certain key income tax statistics in relation to Asciano such as total income, taxable income and Australian income tax payable. It is expected that the statistics for the year ended 30 June 2016 will be published towards the end of the 2017 calendar year. For the 2017 financial year, the published information for the Asciano tax consolidated group will relate to the period from 1 July 2016 to 18 August 2016.

There are various reasons why the Group's accounting profit may differ from the taxable income published by the ATO, including:

- Asciano's consolidated financial statements include wholly and partially owned subsidiaries (including New Zealand subsidiaries) whereas the statistics published by the ATO relate only to Asciano Limited and its wholly owned Australian subsidiaries, which form the Asciano income tax consolidated group.
- It is common for accounting depreciation and tax depreciation/capital allowances to be calculated differently. This may be due to differences in effective lives, methods (straight line or diminishing value), cost bases, or eligibility criteria.
- There are various other differences in the timing of the recognition of income or deductions for accounting and tax purposes. A common example is the employee leave provisions which are deductible as paid for tax purposes and expensed on an accruals basis for accounting purposes.

2.4 Taxes (continued)

Similarly, income tax paid by a company in respect of a year of income will generally differ from the amount of tax paid in the company's cash flow statement for various reasons including that income tax payments that relate to an income year are generally not wholly paid within the financial year.

In the 2017 financial year, an income tax credit of \$378.1 million was recognised in relation to the reset in the tax cost base of assets upon creation of a new tax consolidated group on 18 August 2016.

Current tax assets and liabilities

The current tax asset of \$32.6 million (2016: \$74.2 million) represents the amount expected to be received from the ATO for the current financial period for the Asciano group.

Recognised deferred tax assets and liabilities

The nature and movements in deferred tax assets/liabilities during the year were as follows:

	Balance 1 July \$M	Patrick divestment \$M	Tax cost base reset in profit or loss \$M	Recognised in the statement of profit or loss \$M	Tax cost base reset in equity \$M	Recognised in equity \$M	Balance 30 June \$M	Assets \$M	Liabilities \$M
2017									
Property, plant and equipment	(178.6)	0.9	389.5	(48.8)	—	—	163.0	163.0	—
Intangible assets	(9.7)	5.7	—	3.0	—	—	(1.0)	—	(1.0)
Derivatives	28.5	—	(12.7)	2.5	(23.9)	3.4	(2.2)	—	(2.2)
Inventories	8.4	0.9	1.3	(5.1)	—	—	5.5	7.5	(2.0)
Annual leave	23.2	(9.3)	—	(1.8)	—	—	12.1	12.1	—
Long service leave	31.0	(12.2)	—	(0.9)	—	—	17.9	17.9	—
Other employee benefits	39.5	(5.4)	—	(5.2)	—	(6.6)	22.3	22.3	—
Restructuring provision	10.2	(0.3)	—	(4.5)	—	—	5.4	5.4	—
Other provisions	8.8	(3.9)	—	0.2	—	—	5.1	5.1	—
Other	33.6	(0.5)	—	(13.4)	—	—	19.7	35.0	(15.3)
Net tax (liabilities)/assets	(5.1)	(24.1)	378.1	(74.0)	(23.9)	(3.2)	247.8	268.3	(20.5)
2016									
Property, plant and equipment	(75.4)	—	—	(103.2)	—	—	(178.6)	29.5	(208.1)
Intangible assets	(18.4)	—	—	8.7	—	—	(9.7)	—	(9.7)
Derivatives	30.0	—	—	3.3	—	(4.8)	28.5	28.5	—
Inventories	11.2	—	—	(2.8)	—	—	8.4	8.4	—
Annual leave	26.1	—	—	(2.9)	—	—	23.2	23.2	—
Long service leave	33.3	—	—	(2.3)	—	—	31.0	31.0	—
Other employee benefits	38.5	—	—	(5.0)	—	6.0	39.5	39.5	—
Restructuring provision	10.1	—	—	0.1	—	—	10.2	10.2	—
Other provisions	5.8	—	—	3.0	—	—	8.8	8.8	—
Other ¹	9.4	(0.7)	—	24.9	—	—	33.6	42.6	(9.0)
Net tax assets/(liabilities)	70.6	(0.7)	—	(76.2)	—	1.2	(5.1)	221.7	(226.8)

1. In the 2016 financial year, Other included the reversal of deferred tax liabilities transferred to liabilities held for sale.

2.5 Provisions and contingent liabilities

Accounting policy

A provision is recognised in the statement of financial position if, as a result of a past event, Asciano has a present legal or constructive obligation, it is probable that cash will be paid to settle the obligation and that an amount can be estimated reliably. The amount to recognise is determined by discounting the expected future cash outflows by a rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

The unwinding of the discount is recognised as a finance cost.

Variances in any of the assumptions used in recognising provisions can have a material impact on the provision recorded in the following year and are recognised prospectively in profit or loss.

A liability that is not sufficiently certain to qualify for recognition as a provision and where uncertainty may exist regarding the outcome of future events is disclosed in these financial statements as a contingent liability where it is considered material to the user's understanding of the Asciano financial statements.

Critical accounting estimates and judgements

Workers compensation self-insurance

Where Asciano acts as a self-insurer for workers compensation claims under relevant federal, state and territory legislation, a provision is made for all individual workers compensation claims incurred and both reported and not reported claims up to \$1.0 million. Independent actuarial valuations are used to estimate the provision required. Individual claims over \$1.0 million are reinsured. The determination of the provision required is dependent on a number of assumptions including the total future cost to finalise existing open claims, wage increases that will impact existing claims, a discount rate that is based on Australian Corporate Bond yields as per the Milliman report, inflation, and the amount of claims that have been incurred but not yet reported.

Restructuring

A provision for restructuring is recognised when the business has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly and there is a valid expectation amongst those affected. The provision calculation includes several estimates and assumptions including the timing and cost of site closures, timing and cost of curtailment of operations and costs for incidental services such as legal and consulting. Estimates are also required of the likely number of employees who will exit the business, number of staff who may accept redeployment, final cost of property and site make-good, asset valuations and realisation from sale of discontinued assets.

Incident

Where Asciano is involved in an incident, such as a train derailment, and it is probable that Asciano will be held liable for the consequential damage, a provision equal to the estimated cost of third party claims is recognised.

Travel passes

The provision in respect of travel passes arises from Asciano's obligation to retired ex-employees of FreightCorp (the business acquired by an Asciano subsidiary in 2002), who held a life-long travel pass and ex-employees of FreightCorp, who became employees of Pacific National, who were expected to become entitled to a retiree pass on exiting the business.

A significant portion of the liability is in relation to retirees who were never employees of Asciano (the liability was assumed by Asciano as a result of the business combination in 2002). The provision is not treated as an employee benefit for reporting purpose, however, it continues to be measured as an employee benefit. Asciano has commenced voluntary buy-back of the travel passes. The provision represents the estimated cost of these passes over the next two years, including the associated fringe benefit tax, and is based on an independent actuarial assessment conducted by ABS (PL) Pty Limited taking into account estimates of the age of the pass holder, length of service, expected exit date, and life expectancy. The provision assumes all passes will be mandatorily bought back in two years and therefore includes cash flows associated with this assumption. Therefore the provision also does not account for any future FBT on these passes post buy back.

Asciano used a discount rate based on Corporate Bond yields to determine the travel pass provision required.

Other provisions

Other provisions include, for example, the crane decommissioning provision, site restoration provision and legal provisions. Legal provisions represent an estimate of the cost of defending and/or settling any claims against Asciano. Timing of expenditure varies on a case-by-case basis.

2.5 Provisions and contingent liabilities (continued)

Provisions

The movements in provisions during the year are as follows:

2017 \$M	Workers compensation	Restructuring	Incident	Travel passes	Site restoration	Other	Total
Opening balance	24.8	37.7	9.2	9.6	5.1	5.1	91.5
Made	0.7	32.2	—	—	—	1.5	34.4
Utilised	(0.8)	(41.5)	(2.0)	(0.9)	—	(1.4)	(46.6)
Reversed	—	0.1	(1.0)	(0.6)	—	2.4	0.9
Disposals as a result of Patrick divestment	—	(7.7)	(3.0)	—	(0.4)	(5.1)	(16.2)
Discount unwind	0.4	—	—	0.2	—	—	0.6
Closing balance	25.1	20.8	3.2	8.3	4.7	2.5	64.6
Represented by:							
Current	3.9	19.3	3.2	0.8	—	—	27.2
Non-current	21.2	1.5	—	7.5	4.7	2.5	37.4
	25.1	20.8	3.2	8.3	4.7	2.5	64.6

Provisions made include \$32.2 million for restructuring costs which primarily relates to redundancies and other support costs for the centralised IPS. Provisions utilised during the year included \$41.5 million for the ongoing restructuring of IPS.

Contingent liabilities

Litigation

From time to time, Asciano is subject to claims and litigation during the normal course of business. The Board has given consideration to such matters which are or may be subject to litigation at year end and, subject to specific provisions raised, is of the opinion that no material liability exists.

The final purchase price adjustment from the sale of the Patrick businesses is currently underway, in accordance with the arrangements between the Consortium Investor Group¹. The timeline or quantum of the outcome is currently unknown. Any adjustment will be recognised against the gain on sale from the Patrick businesses in future periods.

Environmental liabilities

Asciano provides for all known environmental liabilities. While the Board believes that its provisions for environmental rehabilitation are adequate, there can be no assurance that material new provisions will not be required as a result of new information or regulatory requirements with respect to known sites, or identification of new remedial obligations at other sites.

1. Consisting of the Rail Consortium and the Ports and Brookfield Consortia.

2.6 Reconciliation of net operating cash flows

	2017 \$M	2016 \$M
Profit after tax	1,107.4	273.6
Adjustments for non-cash items:		
Depreciation	269.7	328.9
Amortisation of intangible assets	29.0	54.1
Amortisation of capitalised borrowing costs	5.5	4.7
Unwind of discount on long-term provisions	3.5	5.0
Borrowing costs capitalised	(21.6)	–
Share of joint ventures' profit net of distributions received	4.4	(0.5)
Net gain on sale of property, plant and equipment	(0.5)	(23.0)
Net gain on sale of inventory	–	(14.8)
Equity-settled share-based payment transactions	1.6	7.0
Defined benefits	(4.8)	(4.9)
Fair value movements of derivatives not designated in a hedge relationship	(12.0)	10.3
Credit value adjustment on derivatives	(1.0)	1.6
Restructuring expense	–	4.7
Gain on sale of Patrick	(462.6)	–
Gain on sale of AAT joint venture	(98.2)	–
Gain on sale of GeelongPort Pty Ltd	(46.2)	–
Impairment of equity accounted investments	–	23.9
Impairment of intangibles	–	4.8
Impairment of wagons	1.3	–
Other non-cash items	(10.0)	4.4
(Increase)/decrease in assets, net of effects from sale of Patrick		
Trade and other receivables	(18.3)	(29.0)
Inventories	5.1	18.2
Prepayments and other assets	8.2	(15.0)
Change in current tax assets	41.8	(74.2)
Change in net deferred tax assets	(298.0)	77.7
(Decrease)/increase in liabilities, net of effects from sale of Patrick		
Trade and other payables	(18.1)	30.8
Current tax liabilities	(0.2)	(30.7)
Provisions and employee benefits	(33.0)	(41.1)
Net operating cash flows	453.0	616.5

3. Our business platform

This section principally shows the physical assets used by the Group to generate profits and revenue. These largely comprise the rail heavy infrastructure assets (in section 3.1) that are utilised by Asciano to service Australia's import, export and domestic supply chains, as well as the long-term contractual commitments and leases that the Group has committed to and which help to protect our long-term position in the market.

This part of the report also includes sections covering intangible assets and inventory which also contribute to the business platform for generating profits and revenues.

3.1 Property, plant and equipment

Accounting policy

Items of property, plant and equipment are stated at the cost originally paid less accumulated depreciation and any impairment losses.

Cost recognition

The cost of self-constructed assets, includes the cost of materials, direct labour, other directly attributable costs, the future cost of dismantling and removing the items and restoring the sites on which they are located, and where applicable, capitalised borrowing costs.

Where parts of an item of property, plant and equipment have different useful lives, for example the constituent parts of a locomotive, they are accounted for as separate components of property, plant and equipment.

Subsequent costs of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to Asciano, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation methods and useful lives, as well as residual values, are reassessed annually.

The Group classifies items of property, plant and equipment into five major categories. The table below sets out a description of the type of assets within each category and the useful lives applied to each category:

Asset class	Description and example assets within class	Estimated useful life
Land	Asciano owns various real estate holdings used to operate its rail and port infrastructure businesses, such as the Chullora Freight Terminal in NSW or Nebo Train Support Facility in Queensland.	Indefinite
Buildings	Freehold buildings on land owned by Asciano.	20 to 40 years
Plant and equipment	Plant and equipment used by the Group to generate its revenues. Some of the larger items of plant and equipment include: • cranes; • locomotives; • wagons; and • rail provisioning and maintenance facilities.	3 to 45 years • 20 years • 30 years • 25 years • 20 to 40 years
Leasehold improvements	Leasehold improvements are all enhancements to leased space paid for by the Group that revert to the landlord upon termination of the lease. They include leasehold improvements for the four major container terminals operated under long-term leases and include any buildings at these terminals.	5 to 40 years
Work in progress	Work in progress comprises amounts spent on various capital projects including construction and capital improvement of locomotives, wagons and lifting equipment, and development works at various rail and port terminals.	Depreciation commences when assets are available for use

3.1 Property, plant and equipment (continued)

Critical accounting estimates and judgements

Property, plant and equipment that is subject to depreciation is reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indications of impairment may include changes in technology and business performance.

2016	Land \$M	Buildings \$M	Plant and equipment \$M	Leasehold improvements \$M	Work in progress \$M	Total \$M
Cost						
Opening balance	268.6	310.1	4,957.4	984.9	473.7	6,994.7
Acquisitions	—	—	11.8	—	295.1	306.9
Transfers ¹	8.1	32.7	498.4	44.2	(586.0)	(2.6)
Disposals	(22.4)	(6.6)	(43.6)	(2.7)	—	(75.3)
Closing balance	254.3	336.2	5,424.0	1,026.4	182.8	7,223.7
Accumulated depreciation and impairment losses						
Opening balance	—	(63.6)	(2,104.8)	(361.0)	—	(2,529.4)
Depreciation	—	(12.0)	(273.1)	(41.5)	—	(326.6)
Impairment	—	—	—	(2.2)	—	(2.2)
Disposals	—	2.3	12.6	2.2	—	17.1
Closing balance	—	(73.3)	(2,365.3)	(402.5)	—	(2,841.1)
2017						
Cost						
Opening balance	254.3	336.2	5,424.0	1,026.4	182.8	7,223.7
Acquisitions	—	—	—	—	124.8	124.8
Transfers	0.5	8.8	165.8	20.1	(195.2)	—
Disposals as a result of Patrick divestment	(34.6)	(57.4)	(929.2)	(937.4)	(28.7)	(1,987.3)
Other disposals	(0.3)	(0.6)	(51.8)	(4.1)	—	(56.8)
Closing balance	219.9	287.0	4,608.8	105.0	83.7	5,304.4
Accumulated depreciation and impairment losses						
Opening balance	—	(73.3)	(2,365.3)	(402.5)	—	(2,841.1)
Depreciation	—	(12.3)	(243.1)	(10.3)	—	(265.7)
Impairment	—	—	(4.0)	—	—	(4.0)
Disposals as a result of Patrick divestment	—	12.6	417.5	365.9	—	796.0
Other disposals	—	0.3	52.5	3.6	—	56.4
Closing balance	—	(72.7)	(2,142.4)	(43.3)	—	(2,258.4)
Carrying amounts						
At 1 July 2015	268.6	246.5	2,852.6	623.9	473.7	4,465.3
At 30 June 2016	254.3	262.9	3,058.7	623.9	182.8	4,382.6
At 30 June 2017	219.9	214.3	2,466.4	61.7	83.7	3,046.0

1. The comparative year included \$0.7 million of transfers of software from plant and equipment to intangible assets.

3.2 Operating and finance leases

Accounting policy

Where Asciano is a lessee and enters into a lease that transfers substantially all the risks and rewards of ownership of the asset to the Group, the lease is classified as a finance lease. On initial recognition at the commencement of the lease, the leased asset is recognised within property, plant and equipment and is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset set out in note 3.1.

The corresponding lease liability, which comprises the principal plus accrued interest, is also recognised within note 4.3 with lease payments allocated between the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to achieve a constant rate on the finance balance outstanding.

Other leases entered into by Asciano are classified as operating leases and the leased assets are not recognised on the statement of financial position. Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised in the profit or loss as an integral part of the total lease expense and spread over the lease term.

Critical accounting estimates and judgements

Determining whether a lease is a finance lease requires judgement as to whether substantially all of the risks and benefits of ownership have been transferred to the Group. Estimates used by the Group in making this assessment include the useful economic life of assets, the fair value of the asset and the discount rate applied to the total payments required under the lease.

Operating leases

At reporting date, the Group is contracted to make the following future minimum operating lease payments:

	2017	RESTATED ¹ 2016
	\$M	\$M
Non-cancellable operating lease rentals are payable as follows:		
Within one year	32.5	29.6
One year or later and no later than five years	102.2	100.7
Later than five years	325.9	341.9
	460.6	472.2

1. Comparatives have been restated to show only continuing operations.

Asciano leases property under non-cancellable operating leases expiring between one month and 41 years. Lease payments comprise a base amount plus an incremental contingent rental (if required). Contingent rentals are based on either movements in the CPI or operating criteria.

3.3 Capital and other commitments

Accounting policy/explanation

Asciano discloses capital and other commitments comprising contracted capital expenditure that will result in cash outflows in future years, but are not recognised as a liability at reporting date.

	2017 \$M	RESTATED ¹ 2016 \$M
Plant and equipment		
Contracted capital expenditure committed but not yet payable:		
Within one year	44.1	40.6
One year or later and no later than five years	36.9	26.5
Later than five years	1.2	—
	82.2	67.1
Maintenance commitments		
Non-cancellable maintenance contracts committed but not yet payable:		
Within one year	12.1	16.2
One year or later and no later than five years	10.9	23.0
	23.0	39.2
Other commitments		
Non-cancellable other contracts committed but not yet payable:		
Within one year	—	0.3
	—	0.3

1. Comparatives have been restated to show only continuing operations.

3.4 Intangible assets

Accounting policy

Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised when the Group undertakes business combinations. Goodwill is calculated as the excess of the cost of an acquisition over the fair value of Asciano's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Transaction costs incurred in connection with business combinations such as legal fees, due diligence fees and other professional services are expensed as incurred and not included in this calculation. Goodwill is recognised at cost less any accumulated impairment losses.

Goodwill is allocated to cash generating units ("CGUs") which represent the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of cash flows generated by other assets. Goodwill is not amortised but is tested at least annually for impairment.

In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill arising on an acquisition is recognised directly in the profit or loss.

3.4 Intangible assets (continued)

Accounting policy

Other intangible assets

Other intangible assets are those which are identifiable and can be sold separately or arise from legal rights. These can be acquired or internally generated.

Each class of intangible asset's valuation method on initial recognition, amortisation method and estimated useful life is set out in the table below:

Class of intangible asset	Valuation method	Amortisation methods	Estimated useful life
IT development software	Initially at cost and subsequently at cost less accumulated amortisation. Costs include external direct costs of materials and services, and direct payroll and payroll related costs of employees' time spent on the project.	Straight line	3 to 15 years
Customer contracts and relationships	Expected future cash flows from those contracts and relationships existing at the date of acquisition are estimated. These cash flows are then discounted back to present value.	Straight line	5 to 10 years
Other	Initially at cost and subsequently at cost less accumulated amortisation.	Straight line	3 to 44 years

Critical accounting estimates and judgements

Development costs

For internal IT projects to develop products or systems, judgement is involved in determining which costs relate to the research phase and which relate to the development phase of the project. Research costs are expensed to the profit or loss as incurred whereas IT development costs are capitalised to the statement of financial position where Asciano has an intention and ability to use the related asset.

3.4 Intangible assets (continued)

Set out below is the movement in the cost and accumulated amortisation and impairment of the Group's intangible assets:

	Goodwill \$M	IT development and software \$M	Customer contracts and relationships \$M	Brand name \$M	Other ¹ \$M	Total \$M
2016						
Cost						
Opening balance	3,590.7	178.0	461.0	25.0	51.9	4,306.6
Acquisitions	—	—	—	—	29.4	29.4
Transfers from property, plant and equipment	—	43.0	—	—	(40.4)	2.6
Disposals	—	(6.1)	—	—	(4.8)	(10.9)
Closing balance	3,590.7	214.9	461.0	25.0	36.1	4,327.7
Accumulated amortisation and impairment losses						
Opening balance	(962.9)	(134.6)	(411.2)	—	(1.7)	(1,510.4)
Amortisation	—	(23.4)	(30.1)	—	(0.8)	(54.3)
Disposals	—	4.8	—	—	—	4.8
Closing balance	(962.9)	(153.2)	(441.3)	—	(2.5)	(1,559.9)
2017						
Cost						
Opening balance	3,590.7	214.9	461.0	25.0	36.1	4,327.7
Transfers	—	13.9	—	—	(13.9)	—
Disposals as a result of Patrick divestment	(2,716.7)	(69.0)	(164.0)	(25.0)	(9.0)	(2,983.7)
Other disposals	—	(2.0)	—	—	4.1	2.1
Closing balance	874.0	157.8	297.0	—	17.3	1,346.1
Accumulated amortisation and impairment losses						
Opening balance	(962.9)	(153.2)	(441.3)	—	(2.5)	(1,559.9)
Amortisation	—	(16.6)	(11.6)	—	(0.8)	(29.0)
Disposals as a result of Patrick divestment	962.9	45.0	155.9	—	0.9	1,164.7
Other disposals	—	1.9	—	—	—	1.9
Closing balance	—	(122.9)	(297.0)	—	(2.4)	(422.3)
Carrying amounts						
At 1 July 2015	2,627.8	43.4	49.8	25.0	50.2	2,796.2
At 30 June 2016	2,627.8	61.7	19.7	25.0	33.6	2,767.8
At 30 June 2017	874.0	34.9	—	—	14.9	923.8

1. Other intangible assets comprise \$14.9 million of future track access rights.

3.4 Intangible assets (continued)

Critical accounting estimates and judgements

Impairment

Goodwill and intangible assets that have indefinite lives or that are not yet available for use are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Asciano assesses impairment by evaluating conditions specific to Asciano and to the particular asset, which may lead to impairment. These include technological, market, economic or legal environments in which Asciano operates. If an indicator of impairment exists, the recoverable amount of the asset is determined.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These calculations involve making an estimate of the recoverable amount of the cash-generating units ("CGUs") to which goodwill and intangible assets with indefinite useful lives have been allocated. The recoverable amounts of CGUs have been determined based on fair value less cost of disposal calculations. These calculations require the use of assumptions which are detailed below.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from those of other assets and groups. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of an impaired CGU are allocated first to reduce the carrying amount of any goodwill allocated to the impaired CGU and then to reduce the carrying amount of the other assets on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by independent valuations, valuation multiples, or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Allocation of goodwill to CGUs

	2017 \$M	2016 \$M
Bulk NSW	524.0	524.0
National Intermodal	350.0	350.0
Discontinued operations	—	1,753.8
Total goodwill	874.0	2,627.8

No goodwill is allocated to Bulk QLD CGU.

Recoverable amount have historically been performed based on value-in-use calculations using cash flows from each CGU's strategic business plans. However, in 2016, in light of the fact that Asciano had entered into a formal binding agreement with the Brookfield and Qube Consortia for the purchase of Asciano, the assessment of the recoverable amounts of goodwill for the current and 2016 financial year is based on calculations of fair value less costs of disposal.

3.4 Intangible assets (continued)

The carrying amounts of goodwill in the CGUs were fully supported as at the reporting date by using the fair value less costs of disposal of the underlying assets.

Asciano's fair valuation of its assets fall into Level 2 of the fair value hierarchy. The valuation of assets is based primarily on the valuations provided by the Brookfield and Qube Consortia. In its proposal, the Consortium has provided separate values for the Pacific National and the Patrick businesses. These values have been applied to the CGUs using their respective forecast EBITDAs for the 2018 to 2022 financial years.

3.5 Inventories

Accounting policy

Inventories consist predominantly of spare parts and consumables used in maintenance activities and are stated at the lower of cost and net realisable value.

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The cost of inventories includes all costs of purchases and other expenses incurred in bringing the inventories to their present location and condition. Costs are assigned to individual items of inventory on the basis of either weighted average cost or a first in, first out basis unless specific identification is possible.

Non-current inventories represents long life spare parts, also known as capital spares. This class of inventory represents major spare parts that can be cyclically overhauled and reused, and as such, are depreciated over the lower of their expected useful life and the expected useful life of the equipment they are used in, normally 8 to 30 years.

Specific obsolete items of inventory are written off.

The provision for obsolete and slow-moving items is assessed by particular inventory classes. The amount of provision is based on the value of stock identified as slow moving or excess to requirements.

	2017 \$M	2016 \$M
Current		
Inventories	23.5	44.1
Provision for obsolete and slow-moving items	(2.1)	(4.5)
	21.4	39.6
Non-current		
Inventories	42.1	45.4
Provision for obsolete items including depreciation of capital spares	(23.9)	(23.0)
	18.2	22.4

4. How we fund the business and manage risks

Asciano has exposure to credit, liquidity and market risks relating to its use of financial instruments and working capital. This section presents information about Asciano's exposure to each of these risks, Asciano's objectives, policies and processes for measuring and managing risk, and the management of capital.

4.1 Financial risk management

Risk management framework

The Board has overall responsibility for the establishment and oversight of Asciano's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring Asciano's risk management policies. The committee reports regularly to the Board on its activities.

Asciano's risk management policies are established to identify and analyse the risks faced by Asciano, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are reviewed to reflect changes in market conditions and Asciano's activities. Asciano, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how the Group monitors compliance with Asciano's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Asciano. The Audit and Risk Committee is assisted in its oversight role by internal audit. Internal audit undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

A description of each risk and how it is managed:

Risk	Exposure arising from	Management	Balances exposed
Credit risk	Credit risk is the risk of financial loss to Asciano if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Asciano's receivables from customers and from treasury activities.	Asciano's credit risk is managed within the limits set by the Board and they have established policies governing Asciano's treasury activities, including the monitoring and management of credit risks arising from the use of derivatives.	Trade and other receivables Cash and cash equivalents Derivatives
Liquidity risk	Liquidity risk is the risk that Asciano will not be able to meet its financial obligations as they fall due.	Asciano's policy in managing liquidity risk is to ensure that it always has sufficient liquidity to meet its financial obligations when due, as well as to accommodate unforeseen cash requirements over both the short and long term. Asciano's liquidity risk is managed through: • maintenance of at call access to funds in the form of cash balances or committed, available revolving credit facilities; • maintenance of rigorous and regular cash flow forecasts; • regular review of the adequacy of banking arrangements; and • centralisation of surplus cash balances, and management thereof in compliance with Asciano's credit risk policies.	Financial liabilities Cash and cash equivalents

4.1 Financial risk management (continued)

Risk	Exposure arising from	Management	Balances exposed
Market risk	Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and other market prices, impact on cash flows and the value of assets or liabilities, and as a consequence, on the value of Asciano. Market risk reflects interest rate risk, foreign exchange risk and other market risks.	The goal of Asciano's hedging activities is to manage and control, within acceptable parameters and in a cost effective manner, the potential adverse variations in Asciano's value due to movements in market prices or rates. Asciano uses derivative financial instruments to hedge market risks where appropriate. All hedging activity is subject to the financial risk management policies approved by the Board. The following principles govern Asciano's use of derivative instruments: • no speculative transactions are permitted; • only transactions involving approved instruments are allowed; and • transactions are not permitted unless in compliance with approved credit limits and delegated authorities.	
	(i) Interest rate risk Asciano borrows at floating rates of interest and holds cash or short-term investments that earn interest at floating rates, consequently cash flows are exposed to the impact of adverse changes in benchmark interest rates.	Asciano manages its interest rate exposures by maintaining a policy to combine fixed and floating rate liabilities, through the use of approved derivative instruments, such as interest rate and cross-currency interest rate swaps, and entry into fixed rate borrowings.	Loans and borrowings
	(ii) Foreign exchange risk Asciano is exposed to exchange rate risk where it has entered into transactions denominated in foreign currencies. The principal source of Asciano's foreign exchange exposure is the purchase of capital equipment and the issuance of US dollar bonds and GBP bonds. From time to time, exchange rate exposures may also arise from operational outgoings and receipts. The exchange rates to which Asciano is primarily exposed are US dollars and the GBP.	Asciano manages its exchange rate exposures through the use of derivative instruments (such as forward exchange contracts) in accordance with the policy approved by the Board.	Loans and borrowings
	(iii) Other market risks Asciano is exposed to market price risk on contracts for the purchase of fuel. Asciano manages its exposure by passing on the impact of fuel price movements, where possible and appropriate, to customers.	Given the objective of Asciano's financial risk management is to reduce the risk from potential adverse market price movements to acceptable levels on a cost effective basis, active management of this exposure via the use of approved derivative instruments is not considered necessary. This exposure is reviewed at least annually to ensure the treatment remains appropriate.	Trade payables

4.2 Financial assets

Accounting policy

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short-term bills and term deposits. Cash is deposited with creditworthy counterparties in accordance with Board approved credit limits.

Trade and other receivables exposure

Trade and other receivables are stated at their amortised cost using the effective interest method, less impairment losses. Trade receivables are generally due for settlement after 45 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment of trade receivables is established when there is objective evidence that Asciano will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable is impaired. Cash flows relating to short-term receivables are not discounted.

Other receivables

Loans to joint ventures and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Asciano provides cash or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the end of period date, which are classified as non-current assets.

Derivative financial assets

For accounting policy for derivative financial assets, refer to note 4.4.

The maximum exposure to credit risk at year-end is:

	Note	2017 \$M	2016 \$M
Current			
Cash and cash equivalents		111.7	202.9
Trade receivables (net of impairment)		194.8	385.9
Other receivables		94.3	87.0
Derivative financial assets	4.4	278.8	25.1
		679.6	700.9
Non-current			
Other receivables		0.5	0.2
Loans to joint ventures		—	52.4
Derivative financial assets	4.4	242.1	617.4
		242.6	670.0
Total financial assets		922.2	1,370.9

Exposure to counterparty credit risk

Trade and other receivables

Asciano's credit risk on trade and other receivables arises principally from the creditworthiness of individual customers. Asciano's customers are primarily large Australian and international companies of good credit standing. The vast majority of receivables are denominated in Australian dollars.

Asciano has established a credit policy under which each new customer is analysed individually for creditworthiness before Asciano's standard payment and delivery terms and conditions are offered, and credit limits are then established for each customer. Asciano's credit policy includes collection guidelines, such as the setting of collection targets, as well as follow-up procedures to manage overdue accounts and minimise collection risk.

4.2 Financial assets (continued)

Asciano's allowance for impairment represents its estimate of incurred losses in respect of trade and other receivables. The allowance comprises a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on analysis of historical data, including payment statistics for similar financial assets.

The maximum exposure to credit risk for trade receivables at year-end is:

Ageing profile of trade receivables	2017 \$M	2016 \$M
Current	185.2	348.9
31 to 60 days overdue	2.4	15.9
Over 61 days overdue	12.2	28.0
Impairment loss	(5.0)	(6.9)
	194.8	385.9

The allowance for impairment losses of \$5.0 million (2016: \$6.9 million) primarily relates to items aged over 61 days. All other receivables are current. The Group believes that the unimpaired amounts are still collectible in full based on historic payment patterns.

Other receivables for both the current and comparative period primarily consists of accrued income for services rendered and not yet invoiced and fuel excise rebate.

Cash and cash equivalents

The Group held cash and cash equivalents of \$111.7 million (2016: \$202.9 million) at year-end. The cash and cash equivalents are held with banks and financial institutions counterparties, which rate AA-, based on Standard & Poor's ratings.

Derivatives

The derivatives are entered into with banks and financial institutions counterparties, which are rated AA- to BBB+, based on Standard & Poor's ratings.

4.3 Financial liabilities

Accounting policy

Loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, these financial liabilities are stated at amortised cost, with any difference between fair value and issue price value being recognised in the profit or loss over the period of the loans and borrowings on an effective interest rate basis.

Trade and other payables

Trade and other payables are stated at their amortised costs. Trade payables are non-interest bearing.

The accounting policy in relation to derivative financial assets and liabilities is detailed in note 4.4 while the policy for capitalised borrowing costs is detailed in note 4.6.

The carrying amount of financial liabilities represents the maximum liquidity risk exposure. The maximum exposure to liquidity risk at year end was as follows:

	Note	2017 \$M	2016 \$M
Current			
Trade payables		82.2	186.1
Other payables and accrued expenses		182.0	249.9
Dividend payable to related parties		2.8	–
Derivative financial liabilities	4.4	20.7	39.5
Loans and borrowings:		975.2	0.6
Finance lease liabilities		–	0.6
US dollar bonds (net of discount)	4.3.2	975.2	–
		1,262.9	476.1
Non-current			
Other payables and accrued expenses		36.2	20.3
Derivative financial liabilities	4.4	89.5	48.3
Loans and borrowings:		2,327.6	3,723.6
Finance lease liabilities		–	0.1
Syndicated bank loan	4.3.1	–	580.0
NZ dollar cash advance facility	4.3.1	–	31.8
US dollar bonds (net of discount)	4.3.2	1,103.7	2,145.1
GBP bonds (net of discount)	4.3.3	507.0	534.7
AUD bonds (net of discount)	4.3.4	696.3	346.0
Unrealised fair value loss on US dollar bonds		42.1	93.5
Loan from related parties		–	10.0
Capitalised borrowing costs		(21.5)	(17.6)
		2,453.3	3,792.2
Total financial liabilities		3,716.2	4,268.3

On 8 August 2016, a \$500.0 million bridge facility was fully drawn to partially fund the payment of the special dividend on 11 August 2016. This facility was fully repaid and cancelled on 30 August 2016.

On 18 August 2016, the \$38.3 million NZD debt facility was repaid in full and the facility cancelled.

On 16 September 2016, Asciano Limited entered into two new \$650.0 million tranches under the existing amended syndicated revolving debt facilities maturing in September 2019 and September 2021, a \$2.5 billion bridge facility maturing in September 2018, and two \$75.0 million bank guarantee facilities both maturing in September 2021.

The \$2.5 billion bridge facility remained undrawn and \$864.0 million of the facility was cancelled on 18 November 2016. The remaining \$1,636.0 million facility balance was also cancelled on 9 December 2016. Of the two bank guarantee facilities, one was cancelled on 23 December 2016.

4.3 Financial liabilities (continued)

Pacific National issued \$350.0 million in AUD 10 year bonds on 12 May 2017, consisting of \$250.0 million of fixed rate notes and \$100.0 million of floating rate notes as a partial refinancing of the US dollar denominated 7 year bonds maturing in April 2018.

As at 30 June 2017, US dollar bonds, GBP bonds and AUD bonds were unsecured.

4.3.1 Bank facilities

The following table provides details of the components of the bank facilities and cash:

	Maturity	2017		2016	
		Facility	Utilised	Facility	Utilised
Syndicated revolving facility	September 2019	650.0	—	—	—
Syndicated revolving facility	September 2021	650.0	—	—	—
Syndicated revolving facility	September 2019	—	—	650.0	200.0
Syndicated revolving facility	October 2019	—	—	650.0	380.0
NZ dollar cash advance facility ¹	June 2019	—	—	38.3	31.8
		1,300.0	—	1,338.3	611.8
Less: cash and cash equivalents		—	(111.7)	—	(202.9)
Net bank debt		1,300.0	(111.7)	1,338.3	408.9
Bank guarantee facility	September 2021	75.0	58.0	—	—
Bank guarantee facility	December 2018	—	—	150.0	69.0
		1,375.0	(53.7)	1,488.3	477.9

1. Disposed of as part of Patrick divestment.

Asciano pays interest on its bank facilities at a margin above the bank bill swap rate.

4.3.2 US dollar bonds

The following table provides details of the components of the US dollar bonds:

\$M	Maturity	2017		2016	
		US\$	A\$ ¹	US\$	A\$
US dollar 7 year bonds ²	April 2018	750.0	975.2	750.0	1,006.6
US dollar 10 year bonds ³	September 2020	600.0	780.1	600.0	805.3
US dollar 12 year bonds ²	April 2023	250.0	325.1	250.0	335.5
US bonds (gross of discount)		1,600.0	2,080.4	1,600.0	2,147.4
Discount on US dollar bonds		(1.5)	(1.5)	(2.3)	(2.3)
US bonds (net of discount)		1,598.5	2,078.9	1,597.7	2,145.1

1. Australian dollar equivalent calculated at the spot rate on 30 June 2017.

2. As at 30 June 2017, Asciano's currency exposure on the US dollar 7 and 12 year bonds was hedged to 100% (2016: 100%) and Asciano's interest rate exposure for all the bonds was hedged to 52% (2016: 52%) through using a combination of fixed-for-floating cross-currency interest rate swaps and interest rate swaps.

3. As at 30 June 2017, Asciano's currency and interest rate exposure on the US dollar 10 year bonds was hedged to 100% (2016: 100%) through the use of fixed-for-fixed cross-currency interest rate swaps.

4.3.3 Sterling bonds

The following table provides details of the components of the GBP bonds:

\$M	Maturity	2017		2016	
		GB£	A\$ ¹	GB£	A\$
GBP 10 year bonds ²	September 2023	300.0	508.2	300.0	536.0
Discount on GBP bonds		(0.7)	(1.2)	(0.8)	(1.3)
GBP bonds (net of discount)		299.3	507.0	299.2	534.7

1. Australian dollar equivalent calculated at the spot rate on 30 June 2017.

2. As at 30 June 2017, Asciano's currency and interest rate exposure on the GBP bonds was hedged to 100% (2016: 100%) through the use of fixed-for-fixed cross-currency interest rate swaps.

4.3 Financial liabilities (continued)

4.3.4 Australian dollar bonds

The following table provides details of the components of the AUD bonds:

\$M	Maturity	2017	2016
		A\$	A\$
AUD 10 year bonds	May 2027	350.0	—
AUD 10 year bonds	May 2025	350.0	350.0
Discount on AUD bonds		(3.7)	(4.0)
AUD bonds (net of discount)		696.3	346.0

Exposure to liquidity risk

The following table provides a comparison between the financial liabilities carrying amount and the undiscounted contractual cash flows:

	Carrying amount \$M	Less than 1 year \$M	1 to 2 year(s) \$M	2 to 5 years \$M	Over 5 years \$M	Total \$M
2017						
Non-derivatives						
US dollar bonds (gross of discount)	2,080.4	1080.0	55.7	892.6	344.6	2,372.9
Unrealised loss on US bonds	42.1	—	—	—	—	—
GBP bonds (gross of discount)	508.2	25.4	25.4	76.2	559.0	686.0
AUD bonds (gross of discount)	700.0	133.1	31.8	95.7	722.7	983.3
Trade payables	82.2	82.2	—	—	—	82.2
Other payables and accrued expenses	218.2	182.0	36.2	—	—	218.2
Dividend payable to related parties	2.8	2.8	—	—	—	2.8
Derivatives						
Forward exchange contracts	2.0	39.4	0.4	—	—	39.8
Interest rate swaps	14.4	7.1	3.2	5.5	(1.0)	14.8
Cross-currency swaps	(427.1)	(241.0)	24.4	(83.4)	(71.7)	(371.7)
Total financial liabilities	3,223.2	1,311.0	177.1	986.6	1,553.6	4,028.3
2016						
Non-derivatives						
Syndicated bank loans	580.0	19.1	19.9	428.2	202.3	669.5
NZ dollar cash advance facility	31.8	1.1	1.1	32.9	—	35.1
US dollar bonds (gross of discount)	2,147.4	107.7	1,114.7	958.7	375.7	2,556.8
Unrealised loss on US bonds	93.5	—	—	—	—	—
GBP bonds (gross of discount)	536.0	26.8	26.8	80.4	616.4	750.4
AUD bonds (gross of discount)	350.0	18.4	18.4	55.2	423.5	515.5
Trade payables	186.1	186.1	—	—	—	186.1
Other payables and accrued expenses	270.2	249.9	20.3	—	—	270.2
Loans from related parties	10.0	0.6	10.6	—	—	11.2
Derivatives						
Forward exchange contracts	0.4	26.8	1.6	—	—	28.4
Interest rate swaps	27.5	8.6	8.7	8.3	4.5	30.1
Cross-currency swaps	(582.6)	4.0	(277.5)	(106.4)	(108.9)	(488.8)
Total financial liabilities	3,650.3	649.1	944.6	1,457.3	1,513.5	4,564.5

4.3 Financial liabilities (continued)

In addition to the principal amounts under syndicated bank loans, interest is accrued at a floating rate. In addition to the principal amounts of US dollar bonds, GBP bonds and AUD bonds, interest is accrued at fixed coupon rates. The weighted average cost of debt as at 30 June 2017 was 6.0% (2016: 5.0%) per annum across the US dollar, GBP bonds and AUD bonds.

4.4 Derivative financial instruments

Accounting policy

Derivative financial instruments

Asciano enters into derivative financial instruments from time to time to hedge its interest rate and foreign currency risk exposures.

At the inception of the hedging transaction, Asciano documents the type of hedge, the hedged item or transaction, the hedging instrument, the nature of the risk being hedged, the relationship between the hedging instrument and hedged item, as well as its risk management objective and strategy for undertaking the relevant hedge transaction. Asciano's hedge documentation also demonstrates, both at hedge inception and on an ongoing basis that the hedge has been and is expected to continue to be highly effective.

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

Derivatives that qualify for hedge accounting

Fair value hedges

For a derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability, the gain or loss on the derivative or financial instrument is recognised in the profit or loss immediately, together with the loss or gain on the hedged asset or liability that is attributable to the hedge risk.

Cash flow hedges

Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in other comprehensive income to the extent that the hedge is highly effective. To the extent that the hedge is not highly effective, changes in fair value are recognised immediately in the profit or loss within finance income or expense.

If the derivative no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the underlying forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to the profit or loss in the same period that the hedged item affects the profit or loss.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit or loss.

The following table shows the notional value of the derivative instruments held by Asciano, the nature of the hedge relationship with the underlying debt instrument and their fair values as at reporting date:

Derivative instrument	Nature of hedge	2017 \$M			2016 \$M		
		Notional amount	Asset	Liability	Notional amount	Asset	Liability
Forward exchange contracts	Cash flow hedge	39.8	—	2.0	28.4	0.6	1.0
Interest rate swaps	Cash flow hedge	100.0	—	0.8	228.7	—	2.4
	Not in hedge	500.0	—	13.6	500.0	—	25.1
Cross-currency interest rate swaps	Fair value hedge	970.1	41.6	—	970.1	92.9	—
	Cash flow hedge	1,157.2	479.3	93.8	1,157.2	549.0	59.3
		2,767.1	520.9	110.2	2,884.4	642.5	87.8

4.4 Derivative financial instruments (continued)

Forward exchange contracts

There has been no material hedge ineffectiveness during the period between designation of these forward exchange rate contracts and the reporting date. The movement in fair value over the life of the instrument was a cumulative loss of \$1.4 million (2016: loss of \$0.3 million) after tax, which has been deferred in the hedge reserve and will be released to the comprehensive income when the anticipated transaction occurs.

Interest rate swaps

During the period between designation of these interest rate swaps in the hedge relationships and the reporting date, there was no ineffective portion of movements in fair value (2016: \$nil). The fair value includes an adjustment for the impact of credit.

The effective portion of movements in fair value over the life of the interest rate swaps designated as cash flow hedge was a cumulative liability of \$0.8 million (2016: \$2.4 million cumulative liability) after tax. This was deferred in the hedge reserve to be released to the profit or loss either over the life of the syndicated bank loan or when the anticipated transaction occurs.

Cross-currency interest rate swaps

The fair value movement of the cross-currency interest rate swaps was a gain of \$13.0 million (2016: \$10.3 million). In relation to all cross-currency interest rate swaps, a credit adjustment of \$2.4 million was recorded in profit or loss for the year as a gain (2016: loss of \$1.6 million).

Derivative assets and liabilities designated as cash flows and fair value hedges

The following table indicates the periods in which the cash flows associated with cash flow and fair value hedges are expected to occur and the carrying amounts of the related hedging instruments.

		Carrying amount	Notional amount \$M	Less than 1 year \$M	Expected cash flows			Total \$M
					1 to 2 year(s) \$M	2 to 5 years \$M	Over 5 years \$M	
2017								
Forward exchange contracts	Cash flow hedge	(2.0)	39.8	(2.0)	—	—	—	(2.0)
Interest rate swaps	Cash flow hedge	(0.8)	100.0	(0.9)	(0.8)	(0.8)	1.9	(0.6)
Cross-currency interest rate swaps	Fair value hedge	41.6	970.1	24.4	6.4	14.9	3.9	49.6
	Cash flow hedge	385.5	1,157.2	216.5	(30.8)	68.5	67.8	322.0
Total		424.3	2,267.1	238.0	(25.2)	82.6	73.6	369.0
2016								
Forward exchange contracts	Cash flow hedge	(0.4)	28.4	(0.4)	—	—	—	(0.4)
Interest rate swaps	Cash flow hedge	(2.4)	228.7	(2.7)	(0.3)	(0.2)	—	(3.2)
Cross-currency interest rate swaps	Fair value hedge	92.9	970.1	33.2	30.7	25.7	14.0	103.6
	Cash flow hedge	489.7	1,157.2	(37.2)	246.8	80.7	94.9	385.2
Total		579.8	2,384.4	(7.1)	277.2	106.2	108.9	485.2

4.4 Derivative financial instruments (continued)

Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial assets and liabilities is:

	2017 \$M	2016 \$M
Fixed rate instruments		
Financial assets (Loans to joint ventures and related parties)	–	2.6
Financial liabilities (US dollar bonds, AUD bonds and GBP bonds)	(3,288.6)	(3,033.4)
Financial liabilities (Finance lease liability)	–	(0.7)
	(3,288.6)	(3,031.5)
Effect of derivative contracts in a hedge relationship	385.5	489.7
	(2,903.1)	(2,541.8)
Variable rate instruments		
Financial assets (Cash and cash equivalents)	111.7	202.9
Financial liabilities (Syndicated bank loan, NZ dollar cash advance facility, and loan from related parties)	–	(621.8)
	111.7	(418.9)
Effect of derivative contracts in a hedge relationship	40.8	90.5
	152.5	(328.4)

Fair value sensitivity analysis for fixed interest rate instruments

As at 30 June 2017, Asciano had US dollar fixed interest rate borrowings recorded at amortised cost. At inception, these were designated into fair value hedge relationships whereby the fair value impact for changes in interest rates of the hedged item were offset by the fair value change of the hedging instruments. Consequently, a change in interest rates at the reporting date would not have a material net impact on the profit or loss.

Cash flow sensitivity analysis for variable interest rate instruments

A 1.0% (100 basis points) per annum change in interest rates at the reporting date would have increased/(decreased) interest expense and equity by the amounts shown below assuming that all other variables remain constant.

	Profit or loss		Equity	
	1% pa increase \$M	1% pa decrease \$M	1% pa increase \$M	1% pa decrease \$M
2017				
Interest rate swaps	11.3	(11.3)	9.8	(9.8)
	11.3	(11.3)	9.8	(9.8)
2016				
Variable interest rate instruments	5.8	(5.8)	–	–
Interest rate swaps	16.3	(16.3)	1.5	(1.5)
	22.1	(22.1)	1.5	(1.5)

4.4 Derivative financial instruments (continued)

Currency sensitivity analysis

The profit or loss impact of a 10% per annum change in the Australian dollar, against the US dollar, would be \$nil during the period between designation and the reporting date as no ineffective portion of movements in fair value was identified by Asciano's hedge effectiveness testing. A 10% per annum change in the Australian dollar against the following currencies at 30 June 2017 would have (increased)/decreased equity by the amounts shown in the table below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2017		2016	
	10% pa increase \$M	10% pa decrease \$M	10% pa increase \$M	10% pa decrease \$M
US dollar	(1.9)	3.1	(1.5)	2.4

The following significant exchange rates applied during the financial year:

	2017		2016	
	Average rate	Year end rate 30 June	Average rate	Year end rate 30 June
US dollar	0.754	0.769	0.729	0.745
GBP	0.595	0.590	0.492	0.560
NZD	1.058	1.049	1.090	1.044

Exposure to foreign currency risk

The notional value of foreign exchange contracts at balance sheet date were as follows:

	2017		2016	
	USD	GBP	USD	GBP
Forward exchange contracts	29.2	—	20.8	—
Cross-currency interest rate swaps	1,600.0	300.0	1,600.0	300.0

Master netting or similar agreements

Asciano enters into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because Asciano does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments (on an instrument by instrument basis) that are subject to the above agreements and provides a reconciliation of derivative disclosures per the statement of financial position.

4.4 Derivative financial instruments (continued)

2017	Gross and net amounts of financial instruments in the Consolidated Statement of Financial Position \$M	Amounts subject to master netting agreement \$M	Net exposure \$M
Financial assets			
Cross-currency interest rate swaps	460.0	32.9	427.1
	460.0	32.9	427.1
Financial liabilities			
Interest rate swaps	14.4	—	14.4
Forward exchange contracts	2.0	—	2.0
Cross-currency interest rate swaps	32.9	32.9	—
	49.3	32.9	16.4
Net balance	410.7	—	410.7
2016			
Financial assets			
Forward exchange contracts	0.6	—	0.6
Cross-currency interest rate swaps	586.4	3.8	582.6
	587.0	3.8	583.2
Financial liabilities			
Interest rate swaps	27.5	—	27.5
Forward exchange contracts	1.0	—	1.0
Cross-currency interest rate swaps	3.8	3.8	—
	32.3	3.8	28.5
Net balance	554.7	—	554.7

The following table provides a reconciliation of recognised financial instruments that are subject to the master netting or similar agreements to derivative disclosures per the Consolidated Statement of Financial Position.

Gross and net amounts of financial instruments in the Consolidated Statement of Financial Position	2017 \$M	2016 \$M
Total gross assets	460.0	587.0
Total gross liabilities	49.3	32.3
	410.7	554.7
Reconciliation to Consolidated Statement of Financial Position		
Derivative financial assets – current	278.8	25.1
Derivative financial assets – non-current	242.1	617.4
Derivative financial assets	520.9	642.5
Derivative financial liabilities – current	(20.7)	(39.5)
Derivative financial liabilities – non-current	(89.5)	(48.3)
Derivative financial liabilities	(110.2)	(87.8)
Net balance	410.7	554.7

4.5 Fair value of financial assets and liabilities

Accounting classification and fair value

All derivative financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

All of Asciano's financial assets and liabilities fall into Level 2 of the fair value hierarchy. The carrying amount approximates the fair value of all financial assets and liabilities, with the exception of GBP, US dollar and Australian dollar bonds.

The fair values of the GBP, US dollar and Australian dollar bonds are shown below:

	2017		2016	
	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
US dollar bonds, gross of discount and unrealised fair value loss	2,122.5	2,166.1	2,240.9	2,227.7
GBP bonds, gross of discount	508.2	566.3	536.0	569.0
AUD bonds, gross of discount	700.0	722.5	350.0	361.9

Valuation techniques of financial assets and liabilities measured at fair value

Type	Valuation technique
Debt securities	Discounted cash flows using a contract cash flows and a market related discount rate
Interest rate swaps and cross-currency swaps	Discounted cash flows
Forward exchange contracts	Calculated using spot foreign exchange market rates and market forward curves for each currency pair at the end of period date
Other derivative financial instruments	Calculated based on broker quotes which are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the measurement date
Other financial liabilities	Discounted cash flows using the current market interest rate that is available to Asciano for similar instruments

Interest rates used in determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the Australian dollar, US dollar and GBP yield curves at the reporting date and were as follows:

	2017 % pa	2016 % pa
Australian dollar derivatives	1.7 to 2.3	2.0 to 2.2
US dollar derivatives and fair value adjustments to US dollar bonds	1.3 to 2.3	0.7 to 1.4
GBP derivatives and fair value adjustments to GBP bonds	0.3 to 1.1	0.6 to 1.0

4.6 Finance income and expense

Accounting policy

Finance income comprises interest income on funds invested, mainly cash, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings, deferred loan origination fees, unwinding of the discount on provisions, losses on hedging instruments that are recognised in profit or loss and impairment losses recognised on financial assets, other than trade receivables.

Interest on borrowings is expensed as incurred using the effective interest method. Borrowing costs incurred in relation to the financing of qualifying assets, which are assets or significant construction projects that take generally more than 12 months to commission, are capitalised as part of the cost of the asset or project and amortised over the life of the asset or project.

Borrowing costs associated with the issuance of debt instruments such as various fees and commissions paid to banks, lawyers and others, as well as purchase premiums and discounts on loans, are capitalised as part of the liability and amortised to the income statement over the life of the underlying debt instrument.

Finance income and expense is reconciled to the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income as follows:

	2017 \$M	RESTATED ¹ 2016 \$M
Recognised directly in the Consolidated Statement of Profit or Loss		
Interest income	3.9	6.4
Net finance income	3.9	6.4
Interest expense	(184.2)	(197.6)
Amortisation of capitalised borrowing costs	(5.6)	(4.7)
Guarantee and commitment fees	(6.5)	(5.9)
Unwind of discount on long-term provisions	(3.5)	(4.9)
Credit value adjustment recognised in the profit or loss	1.0	(1.6)
Net change in fair value of derivatives not designated in a hedge relationship	12.0	(10.3)
Finance expense	(186.8)	(225.0)
Recognised directly in the Consolidated Statement of Comprehensive Income		
Effective portions of changes in fair value of cash flow hedges	(11.4)	16.6
Tax on finance income and finance costs recognised in the Consolidated Statement of Comprehensive Income	3.4	(5.0)
Reset of tax cost base recognised in the Consolidated Statement of Comprehensive Income	(23.9)	–
Finance (expense)/income recognised directly in the Consolidated Statement of Comprehensive Income, net of tax	(31.9)	11.6

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

4.7 Dividends

Accounting policy

Once resolved to be paid, dividends are a liability of Asciano and, to the extent they are not paid at the reporting date, are accounted for as other financial liabilities.

The following dividends were paid by the Company in the 2017 financial year:

	Cents per share	Total amount \$M	Franked/ unfranked	Date of payment
Special dividend	87.0	848.6	Fully franked	11 August 2016
Interim dividend	5.13	50.0	n/a	31 March 2017

Franked dividends paid during the year were franked at the tax rate of 30%.

On 15 March 2016, Asciano announced that it had entered into a binding documentation with the Brookfield and Qube Consortia in relation to the Scheme including an implementation deed and sale agreements in relation to the Patrick container terminal and Bulk & Automotive Port Services Business ("BAPS") businesses. Following implementation of the Scheme on 19 August 2016, ALAL, a vehicle owned by the Rail Consortium, acquired 100% of the issued capital of Asciano at \$9.15 cash per Asciano share.

On 29 July 2016, the Board resolved to pay a fully franked special dividend of 87.0 cents per share with a record date for entitlement of 3 August 2016. As a consequence of the payment of the special dividend, the consideration payable to Asciano shareholders on implementation of the Scheme was reduced to \$8.28 per Asciano share.

An interim dividend of 5.13 cents per share was paid by Asciano Limited on 31 March 2017.

On 30 June 2017, the Board resolved to pay a final dividend of 0.85 cents per share. The final dividend is shown as a liability as at 30 June 2017 and was paid on 4 July 2017 (30 June 2016: 13.0 cents per share, fully franked interim dividend).

Dividend Franking Account

Following the acquisition of Asciano Limited by the Rail Consortium, Asciano Limited and all its wholly owned Australian subsidiaries joined the ALAH tax consolidated group. As a result, no franking account is held by Asciano as at 30 June 2017 (2016: \$351,720,196).

The New Zealand imputation account related to the BAPS business that was sold on 18 August 2016. As a result no New Zealand franking account is held by Asciano as at 30 June 2017 (2016: \$A14,388,379).

4.8 Reserves

Movement in reserves:

	Common control \$M	Translation \$M	Hedge \$M	Employee equity benefits \$M	Corporatisation \$M	Profit \$M	Total \$M
2016							
Opening balance	(4,911.2)	0.3	(58.5)	15.8	9.3	602.3	(4,342.0)
Other comprehensive income	—	1.0	11.3	—	—	—	12.3
Profits transferred from retained earnings	—	—	—	—	—	3,012.2	3,012.2
Dividends paid	—	—	—	—	—	(126.4)	(126.4)
Employee equity benefits	—	—	—	3.8	—	—	3.8
Closing balance	(4,911.2)	1.3	(47.2)	19.6	9.3	3,488.1	(1,440.1)
2017							
Opening balance	(4,911.2)	1.3	(47.2)	19.6	9.3	3,488.1	(1,440.1)
Other comprehensive income	—	(1.3)	(30.8)	—	—	—	(32.1)
Profits transferred from retained earnings	—	—	—	—	—	385.2	385.2
Dividends paid	—	—	—	—	—	(906.9)	(906.9)
Employee equity benefits	—	—	—	(22.1)	—	—	(22.1)
Reserves transferred to retained earnings	—	—	—	2.5	(9.3)	—	(6.8)
Closing balance	(4,911.2)	—	(78.0)	—	—	2,966.4	(2,022.8)

Common control reserve

As a result of Asciano's formation through a combination of entities under common control, an equity account was created as a component of equity, called the common control reserve. The balance of the account represents the excess of the fair value of Asciano shares as traded on 15 June 2007 over the initial carrying value of the businesses transferred from Toll to Asciano at the time of the demerger.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of liabilities that hedge the net investment loans in foreign operations. All foreign operations were disposed of upon disposal of the Patrick businesses.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of tax, related to hedged transactions that have not yet occurred.

Employee equity benefits reserve

The employee equity benefits reserve was previously used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. The initial fair value attributed to the awards at grant date is recognised on a straight line basis over the vesting period. Refer to note 6.1 for further details of the rights issued under the Asciano Rights Plan. The treasury share reserve, also part of the employee equity benefits reserve, was previously used to record the value of the rights issued under the Asciano Rights Plan share-based payments which are provided to employees, including KMP, as part of their remuneration.

The Asciano Rights Plan was terminated as part of the implementation of the Scheme arrangement on 19 August 2016, and accordingly the employee equity benefits reserve was transferred to retained earnings during the year.

Corporatisation reserve

The Asciano Finance Trust became a member of the Asciano tax consolidated group on corporatisation. The corporatisation reserve relates to deferred tax amounts which have been recognised on entry by the Trust to the Asciano tax consolidated group. This was transferred to retained earnings during the year.

Profit reserve

The profit reserve was established to record profits from which franked dividends can be paid.

4.9 Contributed equity

Accounting policy

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in contributed equity as a deduction, net of tax, from the proceeds of issue.

Treasury shares

The acquisition of Asciano's own equity instruments ("treasury shares") are not recognised as financial assets regardless of the reason for which they are reacquired. If Asciano reacquires its own equity instruments, the amount of consideration paid for those instruments is recognised as a deduction from equity. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of Asciano's own equity instruments. Such treasury shares may be acquired and held by the Parent or by other members of the consolidated group. Consideration paid or received for the transfer of treasury shares is recognised directly in equity.

There is no "par value" for ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Movement in number of issued shares:

	Date	Price per share \$	Number of fully paid ordinary shares	\$M
2016				
Balance at	1 July 2015		975,385,664	8,604.5
Treasury shares acquired		8.45		(21.0)
Treasury shares allocated		6.42		3.2
Balance	30 June 2016		975,385,664	8,586.7
2017				
Parent				
Balance at	1 July 2016		975,385,664	8,586.7
Treasury shares allocated		8.19		23.7
Return of capital		—		(2,991.6)
Balance	30 June 2017		975,385,664	5,618.8

Treasury shares consist of shares held in trust for Asciano employees in relation to equity compensation plans. These shares will transfer to the participating executives on satisfaction of the relevant time and/or performance-based conditions.

At 30 June 2017, no shares (2016: 2,899,994) were held in trust and classified as treasury shares.

The sale of the Patrick businesses on 18 August 2016 was partially funded by promissory notes (refer to note 2.2.4). On 19 August 2016, Pacific National distributed these promissory notes to its shareholders as a return of capital.

4.10 Accumulated losses

	2017 \$M	2016 \$M
Opening balance	(3,066.4)	(312.6)
Profit after tax attributable to owners of Asciano Limited	1,107.1	272.0
Transfer of foreign currency translation differences for foreign operations to accumulated losses	—	0.4
Other comprehensive income	15.3	(14.0)
Profits transferred to profit reserve	(385.2)	(3,012.2)
Reserves transferred to retained earnings	6.8	—
Closing balance	(2,322.4)	(3,066.4)

5. How we structure the business

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole. In particular, there is information about:

- changes to the structure that occurred during the year as a result of business combinations;
- significant subsidiaries;
- interests in joint ventures; and
- parties to the deed of cross guarantee under which each company guarantees the debts of the others.

5.1 Subsidiaries

Accounting policy

Subsidiaries

Subsidiaries are those entities over which Asciano has the power, directly or indirectly, to govern the financial and operating policies generally accompanied by an equity holding of more than half the voting rights. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control of the subsidiary commences until the date that control ceases.

Inter-entity transactions, balances and unrealised gains on transactions between Group entities are eliminated.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated to the functional currency at exchange rates applicable at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

Non-controlling interests

Other non-controlling interests are interests in partly owned subsidiaries, which are not held either directly or indirectly by Asciano Limited.

Significant subsidiaries

All significant operating subsidiaries as at 30 June 2017 listed below were incorporated in Australia.

Asciano Finance Limited

Asciano Services Pty Limited

Pacific National (NSW) Pty Limited

Pacific National (QLD) Pty Limited

Pacific National (Queensland Coal) Pty Limited

5.2 Deed of cross guarantee

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, the wholly owned subsidiaries of the Parent listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the Instrument that the Parent and each of the wholly owned subsidiaries enter into a deed of cross guarantee. The effect of the deed is that the Parent guarantees to each creditor payment in full of any debt in the event of the winding up of any of the wholly owned subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Parent will only be liable in the event that after six months any creditor has not been paid in full. The wholly owned subsidiaries have also given similar guarantees in the event that the Parent is wound up.

The subsidiaries subject to the deed as at 30 June 2017 are as follows:

Asciano Executive Services Pty Ltd	Asciano Holdings (Executive) Pty Ltd
Asciano Holdings (Corporate) Pty Ltd	Asciano Holdings (Properties) Pty Ltd
Asciano Holdings (Rail) Pty Ltd	Asciano Properties Operations Pty Ltd ¹
Asciano Properties Pty Ltd	Asciano Rail Holdings Pty Ltd
Asciano Services Pty Ltd	Asciano (Employee Share Plans) Pty Ltd
ATN Access Pty Limited	National Rail Consortium (Insurance) Pty Ltd
Pacific National (NSW) Pty Ltd	Pacific National Bulk Rail Pty Ltd ²
Pacific National (Queensland Coal) Pty Ltd	Pacific National (QLD) Pty Ltd
Pacific National (Tasmania) Pty Limited	Pacific National (Queensland Coal Holdco) Pty Ltd
PN Tas (Services) Pty Limited	Pacific National Pty Ltd
Terminals Australia Pty Limited	PN Tas (Operations) Pty Limited
	ACN 106 978 330 Pty Ltd

1. As trustee for Asciano Properties Trust.

2. Formerly Pacific National (Bulk Rail) Pty Ltd.

A Consolidated Statement of Comprehensive Income, a summary of accumulated losses, and a Consolidated Statement of Financial Position, comprising the Parent and controlled entities that are a party to the deed of cross guarantee, after eliminating all transactions between parties to the deed, at 30 June 2017 are set out as follows:

	2017 \$M	2016 ¹ \$M
Consolidated Statement of Comprehensive Income		
Revenue from services rendered	2,289.1	3,164.9
Other income	(31.5)	(35.4)
Share of net profit of joint ventures	–	14.7
Operating expenses excluding depreciation and amortisation	(1,624.2)	(2,369.4)
Profit before depreciation, amortisation, net finance costs and tax	633.4	774.8
Depreciation	(257.2)	(307.8)
Amortisation	(28.3)	(54.0)
Profit before net finance costs and tax	347.9	413.0
Net finance expense	(69.2)	(39.3)
Profit before tax	278.7	373.7
Tax credit/(expense)	453.4	(96.2)
Profit after tax	732.1	277.5
Other comprehensive (loss)/income	(38.9)	2.1
Profit for the period	693.2	279.6
Accumulated losses at beginning of year	(2,623.8)	(125.2)
Dividends paid	906.9	126.4
Transfers to reserves	(1,435.9)	(2,904.6)
Accumulated losses at end of the year	(2,459.6)	(2,623.8)

1. The comparatives include discontinued operations.

5.2 Deed of cross guarantee (continued)

Consolidated Statement of Financial Position	2017 \$M	2016 ¹ \$M
Current assets		
Cash and cash equivalents	111.5	203.0
Trade and other receivables	280.0	429.2
Prepayments and other assets	7.4	31.0
Inventories	21.4	38.4
Derivative financial assets	278.8	25.0
Current tax assets	32.6	74.4
Total current assets	731.7	801.0
Non-current assets		
Property, plant and equipment	3,046.0	4,071.4
Intangible assets	923.8	2,563.3
Equity accounted investments	—	45.3
Loans to joint ventures	—	52.4
Trade and other receivables	0.5	0.2
Prepayments and other assets	0.3	0.9
Inventories	18.2	22.4
Net deferred tax assets	262.8	—
Derivative financial assets	242.1	2,196.6
Total non-current assets	4,493.7	8,952.5
Total assets	5,225.4	9,753.5
Current liabilities		
Trade and other payables	211.8	370.3
Provisions and employee benefits	119.7	223.4
Loans and borrowings	—	0.6
Derivative financial liabilities	20.6	39.5
Current tax liabilities	—	(0.2)
Total current liabilities	352.1	633.6
Non-current liabilities		
Other payables and accrued expenses	136.7	106.3
Provisions and employee benefits	48.2	49.5
Loans and borrowings	3,456.1	3,801.3
Derivative financial liabilities	89.5	48.4
Net deferred tax liabilities	—	185.1
Total non-current liabilities	3,730.5	4,190.6
Total liabilities	4,082.6	4,824.2
Net assets	1,142.8	4,929.3
Equity		
Contributed equity	5,618.8	9,622.8
Reserves	(2,016.8)	(2,070.0)
Other comprehensive income	0.4	0.3
Accumulated losses	(2,459.6)	(2,623.8)
Total equity	1,142.8	4,929.3

1. The comparatives include discontinued operations.

6. How we remunerate our employees

This section presents information in relation to remuneration paid by Asciano to its employees including information in relation to payments to key management personnel, issued share-based payment awards and other employee benefits including superannuation.

6.1 Share-based payments

Accounting policy

Share-based payment transactions

The Asciano Limited Executive Incentive Plan allows executives and selected employees to acquire shares in the Company. The fair value of rights granted is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the rights. The fair value of the rights granted is measured using the Monte Carlo and Binomial methods, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of rights that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The fair value of the Asciano employee rights plan is measured using the Monte Carlo simulation methodology and Binomial tree methodology. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends, and the risk-free interest rate (based on Australian Corporate Bonds as per the Milliman report). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

This plan was terminated as part of the implementation of the Scheme arrangement on 19 August 2016.

(a) Asciano Short Term Incentive (STI) Plan

Under Asciano's STI Plan, certain participating employees receive 75% of the annual STI achieved in cash and 25% in the form of STI rights to shares of Asciano. The rights automatically convert into one ordinary share each on vesting at an exercise price of nil. The participating employees do not receive any dividends and are not entitled to vote in relation to the deferred shares during the vesting period. If the participating employee ceases to be employed by the Group within this period, the rights will be forfeited, except in limited circumstances that are approved by the Board on a case-by-case basis.

The shares are acquired on market as required and, prior to each vesting date, are held as treasury shares until such time as they are vested. Forfeited shares are reallocated in subsequent grants.

Set out below are the key terms of the STI rights granted under the STI Plan.

Following STI rights granted in previous years vested on 27 July 2016:

Grant date	Vesting date	Risk-free interest rate %	Share price at grant date \$	Expected price volatility %	Expected dividend yield %	Time-based condition	
						Fair value \$	Number of STI rights
13 August 2014	27 July 2016	2.56	5.89	25	2.6	5.58	93,401
20 August 2014	27 July 2016	2.54	6.02	25	2.6	5.71	7,668
1 October 2014	27 July 2016	2.60	6.09	25	3.7	5.67	140,673
14 August 2015	27 July 2016	1.96	8.11	22	3.3	7.83	33,309
14 August 2015	27 July 2016	1.92	8.11	22	3.3	7.58	33,308
17 August 2015	27 July 2016	1.96	8.11	22	3.3	7.84	45,113
17 August 2015	27 July 2016	1.92	8.11	22	3.3	7.58	45,112
1 September 2015	27 July 2016	1.81	8.47	22	3.3	8.19	83,882
1 September 2015	27 July 2016	1.73	8.47	22	3.3	7.93	83,861

The number of rights to be granted is determined based on the dollar value of the achieved STI divided by the weighted average price at which the Company's shares are traded on the ASX during the week up to and including the date of the grant.

The fair value of the rights at grant date was estimated based on market price of the Company's shares on that date, with downward adjustment to take into account the present value of dividends that will not be received by executives on their rights during the two year vesting period.

6.1 Share-based payments (continued)

On 27 July 2016, all STI rights on-foot vested when all the necessary regulatory approvals for the Joint Consortium Scheme and related transactions were received.

As at 30 June 2017, the balance of the STI rights was nil (2016: 473,655). For the year ended 30 June 2017, there is no expense for STI rights in respect of the 2017 financial year.

The Asciano STI Plan was terminated as part of the implementation of the Scheme arrangement on 19 August 2016.

(b) Asciano LTI Plan

The Asciano LTI Plan was established to provide LTIs for executives and selected employees. Under the LTI Plan, participants are granted rights that only vest if certain time-based and performance-based vesting conditions are met. Participation in the LTI Plan is at the Board's discretion and no individual has a contractual right to participate in the LTI Plan or to receive any guaranteed benefits.

The number of rights granted to executives is based upon their target LTI. This target LTI is determined based upon the executive's level of seniority and contribution to the profitability of Asciano.

The rights vest over a three year period and are subject to two equally weighted performance hurdles, being Asciano's relative TSR performance against companies in the S&P/ASX 100 Index (excluding resources and financial companies) and the ROCE hurdle. The rights are equity-settled.

Grant date	Vesting date	Risk-free interest rate %	Share price at grant date \$	Expected price volatility %	Expected dividend yield %	Non-market performance condition		Market performance condition	
						Fair value \$	Number of rights to shares	Fair value \$	Number of rights to shares
10 November 2015	27 July 2016	2.01-2.02	8.99	22	3.1	8.28	158,614	7.69	158,615
17 August 2015	27 July 2016	1.96	8.11	22	3.3	7.38	167,463	6.53	167,465
12 November 2014	27 July 2016	2.58-2.59	6.28	25	3.5	5.73	209,117	4.34	209,117
20 August 2014	27 July 2016	2.64-2.66	6.02	25	2.6	5.59	50,768	3.99	50,767
13 August 2014	27 July 2016	2.66-2.67	5.89	25	2.6	5.46	226,621	3.95	226,620
18 February 2014	27 July 2016	3.00-3.04	5.74	25	2.6	5.39	4,351	3.90	4,351
12 November 2013	27 July 2016	3.00-3.04	5.81	25	2.6	5.42	236,674	3.97	236,674
20 August 2013	27 July 2016	2.75-2.79	5.23	25	2.3	4.90	303,287	3.36	303,293

The non-market performance condition tranche refers to the rights subject to the ROCE hurdle and the market performance condition tranche refers to the rights subject to the relative TSR hurdle. The rights subject to the ROCE hurdle have been valued using the Binomial model and their value is exclusive of market performance hurdles while the rights subject to the TSR hurdle have been valued using a Monte Carlo simulation that takes into account the relative TSR hurdle.

One tranche of FY 2013 LTI rights vested on 22 July 2016 as a result of the satisfaction of certain TSR based performance hurdles. The balance of the rights that became vested had a vesting date of 27 July 2016 when all the necessary regulatory approvals for the Joint Consortium Scheme and related transactions were received.

The Asciano LTI Plan was terminated as part of the implementation of the Scheme arrangement on 19 August 2016.

(c) Expenses arising from share-based payment transactions

Total expenses from continuing operations arising from share-based payment transactions recognised during the financial year as part of employee benefits expense were as follows:

	2017 \$M	RESTATED ¹ 2016 \$M
Rights issued under the Asciano Rights Plan	0.8	3.3

1. The comparatives have been restated to show only continuing operations as discontinued operations are disclosed separately in note 2.2.

The amortisation of the rights in relation to the STI and LTI plans were accelerated through to the vesting date. The incremental change of \$0.8 million is included in material items in discontinuing operations.

6.2 Employee benefits and superannuation

Accounting policy

Long-term service benefits

Asciano's net obligation in respect of long-term service benefits, other than superannuation, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Australian Corporate Bonds as generated in the Milliman report that have maturity dates approximating the terms of Asciano's obligations.

Long service leave is classified as current where the leave has vested, or will vest within the next 12 months, in accordance with the relevant state legislation under which the employee operates.

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the profit or loss as incurred.

Defined benefit superannuation funds

Asciano's net obligation in respect of defined benefit superannuation funds is calculated separately for each fund by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any fund assets and any unrecognised past service cost is deducted.

The discount rate is the yield at the end of period date on the Australian Corporate Bonds as generated in the Milliman report that have maturity dates approximating to the terms of Asciano's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, periods of service and taxes.

When the benefits of a fund are improved, the portion of the increased benefit relating to past service by employees is recognised in the profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit or loss. Actuarial gains and losses are recognised directly in other comprehensive income.

Asciano determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset) after taking into account contributions and benefit payments during the period. Consequently, the net interest recognised in the statement of profit or loss comprises:

- interest cost on the defined benefit obligation at the start of the period; and
- interest income on plan assets during the period.

The difference between the actual return on plan assets for the year and the interest income on plan assets is recognised as part of remeasurement within other comprehensive income.

Short-term employee benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are due within 12 months of the reporting date represent present obligations resulting from employees' services provided at the reporting date. These balances are calculated at undiscounted amounts based on remuneration wage and salary rates that Asciano expects to pay as at the reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits (such as parking and mobile telephone expenses) are expensed based on the net marginal cost to Asciano as the benefits are taken by the employees.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when the employee accepts voluntary redundancy in exchange for these benefits. Asciano recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of reporting date are discounted to present value.

Defined benefit superannuation funds

A liability or asset in respect of defined benefit superannuation funds is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation less the fair value of the superannuation fund's assets and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Assumptions have been made as to expected future wage and salary levels, experience of employee departures and periods of service

6.2 Employee benefits and superannuation (continued)

Provisions in relation to employee benefits are as follows:

	2017 \$M	2016 \$M
Current		
Long service leave	50.0	86.6
Annual leave	40.4	77.5
Other employee entitlements	2.1	17.4
	92.5	181.5
Non-current		
Defined benefit plan liability	62.2	88.9
Long service leave	9.5	16.8
Other long-term incentive	1.3	—
	73.0	105.7

Defined contribution funds

Asciano contributes to a number of defined contribution funds on behalf of employees. Under current legislation, employees are able to choose the fund into which these contributions are made, and Asciano pays contributions into the various funds in accordance with the employees' instructions. Contributions made to the funds were \$41.5 million (2016: \$48.3 million).

Victorian State Superannuation Fund

Asciano also contributes on behalf of certain employees to defined benefit schemes that are part of the Victorian State Superannuation Fund ("VSSF"). Certain employees of V/Line Freight Corporation, which was acquired by Freight Victoria Limited (subsequently renamed Pacific National (Victoria) Limited) on 1 May 1999, elected to continue their membership of the defined benefit schemes at acquisition. Membership of the defined benefit schemes had been closed to new members prior to 1 May 1999. As at 30 June 2017, there were 15 (2016: 17) employees still in the defined benefit schemes.

The State Government of Victoria retains liability for investment risk in the VSSF while Asciano's exposure is in relation to future contribution rates only. Contribution rates may increase above current rates where the level of salary and wage increases exceeds that assumed by the actuary. The level of contributions in respect of these funds is determined by the VSSF's board based on advice from the actuary. For accounting purposes, the State Government of Victoria recognises the unfunded superannuation liability in respect of the Emergency Services Superannuation Scheme ("ESSS") (of which the VSSF is a sub scheme) in its financial statements.

David Knox (BA, PhD, FIA, FIAA), the actuary who prepares the AASB 119 Employee Benefits liabilities for the State Government of Victoria, has advised that given the nature of the ESSS, the State Government of Victoria's commitment to the ESSS, the pooling of risk and the difficulties in reliably allocating the benefit liabilities and assets between entities, it is appropriate for Asciano to use the defined contribution reporting approach available under the multi employer fund provisions of AASB 119. This approach is also consistent with the treatment of Asciano's contribution in the calculation of the State Government of Victoria's balances.

Defined benefit funds

Asciano is a sponsor of a number of pooled defined benefit funds relating to employees it took over from closed New South Wales public sector entities. The funds include the State Superannuation Scheme ("SSS"), the State Authorities Superannuation Scheme ("SASS") and the State Authorities Non-Contributory Superannuation Scheme ("SANCS"). These schemes are all defined benefit schemes and at least one component of the final benefit is derived from a multiple of member salary and years of membership. There were 306 (2016: 354) employees and former employees in these defined benefit funds as at 30 June 2017. In accordance with various trust deeds, where a deficit exists in the funds, the trustee may request additional contributions by employers in order to manage down the deficit over time. At the request of the trustee, Asciano made additional contributions of \$9.3 million (2016: \$8.9 million) in the 2017 financial year. An additional contribution of \$9.5 million is forecast for the 2018 financial year.

In accordance with AASB 119, Asciano reflects actuarial gains and losses, after tax, directly in other comprehensive income. Other gains and losses are reflected in the current period profit or loss.

All fund assets are invested at arm's length through independent fund managers.

6.2 Employee benefits and superannuation (continued)

	2017 \$M	2016 \$M
Fund assets comprise:		
Australian equities	37.2	43.8
Overseas equities	47.5	54.4
Australian fixed interest securities	9.9	12.2
Overseas fixed interest securities	1.9	3.8
Property	13.6	16.4
Cash	12.2	9.2
Other	35.7	32.0
	158.0	171.8
Movement in the present value of fund assets		
Balance at the beginning of the financial period	171.8	187.2
Contributions paid into the funds – employer	11.0	11.0
Contributions paid into the funds – plan participants	1.8	1.7
Benefits paid by the funds	(42.5)	(30.7)
Expected return on fund assets	5.7	8.2
Actuarial gains/(losses) recognised in other comprehensive income	10.2	(5.6)
Balance at the end of the financial year	158.0	171.8
Movement in the present value of the defined benefit obligation		
Balance at the beginning of the financial year	260.7	260.4
Contributions paid into the funds	1.8	1.7
Benefits paid by the funds	(42.5)	(30.7)
Current service costs and interest	11.9	14.3
Actuarial (gains)/losses recognised in other comprehensive income	(11.7)	15.0
Balance at the end of the financial year	220.2	260.7
Expenses recognised in the profit or loss		
Current service costs	3.2	3.0
Interest cost	8.7	11.3
Expected return on fund assets	(5.7)	(8.2)
Total included in employee benefits expense	6.2	6.1
Actual return on fund assets	10.2	(5.6)
Actuarial gains and losses recognised directly in other comprehensive income		
Balance at the beginning of the financial year	(106.8)	(92.8)
Gains/(losses) recognised directly in other comprehensive income	21.9	(20.0)
Tax thereon	(6.6)	6.0
Other comprehensive income, net of tax	15.3	(14.0)
Balance at the end of the financial year	(91.5)	(106.8)

6.2 Employee benefits and superannuation (continued)

	2017 % pa	2016 % pa
Actuarial assumptions		
Discount rate	4.2	3.6
Future salary increases	2.5	2.5
Rate of Consumer Price Index ("CPI") increase	2.0	2.3
Expected rate of return on assets	7.4	7.8

The sensitivity of the defined benefit obligation to changes in the significant assumptions is:

	Change in in assumptions	2017 Impact on defined benefit obligation		2016 Impact on defined benefit obligation	
		Increase	Decrease	Increase	Decrease
Actuarial assumptions					
Discount rate	1.0%	(20.9)	26.0	(24.8)	30.8
Future salary increases	0.5%	6.0	(5.6)	7.1	(6.7)
Rate of Consumer Price Index ("CPI") increase	0.5%	5.9	(5.3)	6.9	(6.3)
Pensioner mortality	5.0%	(1.0)	1.0	(1.2)	1.2

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the statement of financial position.

Employer contributions

Employer contributions to the funds are based on recommendations by the funds' actuaries. Actuarial assessments are made on an annual basis and the last such assessment was conducted as at 30 June 2017.

6.2 Employer benefits and superannuation (continued)

Historical information

	SSS \$M	SASS \$M	SANCS \$M	Total \$M
2017				
Defined benefit obligation	(2.7)	(203.1)	(14.4)	(220.2)
Fund assets	7.2	131.1	19.7	158.0
Net surplus/(deficit)	4.5	(72.0)	5.3	(62.2)
Experience adjustments – fund liabilities	(0.1)	2.1	0.4	2.4
2016				
Defined benefit obligation	(3.1)	(238.9)	(18.7)	(260.7)
Fund assets	6.5	144.4	20.9	171.8
Net surplus/(deficit)	3.4	(94.5)	2.2	(88.9)
Experience adjustments – fund liabilities	0.1	0.8	0.4	1.3
2015				
Defined benefit obligation	(2.5)	(236.6)	(21.3)	(260.4)
Fund assets	6.5	158.9	21.8	187.2
Net surplus/(deficit)	4.0	(77.7)	0.5	(73.2)
Experience adjustments – fund liabilities	(0.1)	2.3	(1.9)	0.3
2014				
Defined benefit obligation	(3.2)	(281.8)	(27.6)	(312.6)
Fund assets	5.9	164.5	21.4	191.8
Net surplus/(deficit)	2.7	(117.3)	(6.2)	(120.8)
Experience adjustments – fund liabilities	0.6	(14.0)	(0.9)	(14.3)
2013				
Defined benefit obligation	(3.3)	(272.2)	(27.9)	(303.4)
Fund assets	5.3	158.7	20.4	184.4
Net surplus/(deficit)	2.0	(113.5)	(7.5)	(119.0)
Experience adjustments – fund liabilities	0.5	(15.1)	(0.4)	(15.0)
Experience adjustments – fund assets	0.6	18.1	2.3	21.0

7. Other

This section provides information that is not directly related to specific line items in the financial statements, including information about related party transactions, auditor's remuneration, events after the reporting period and other statutory information.

7.1 Related parties

Accounting policy

All undertakings with related parties are on an arm's length basis and recognised in line with accounting standards.

(a) Parent and ultimate controlling party

On implementation of the Scheme on 19 August 2016, all of Asciano Limited's shares were acquired by ALAI. As a result, the new ultimate controlling entity of the Group is ALAH.

(b) Key management personnel compensation

Key management personnel compensation comprised the following:

	2017 \$000	2016 \$000
Remuneration elements		
Short-term employee benefits	7,369.3	7,367.3
Post-employment benefits	265.7	87.0
Other long-term employee benefits	166.2	86.8
Cash-settled benefits	1,269.7	1,251.0
Share-based payments	—	4,940.5
Termination payments	1,128.7	2,770.6
Total remuneration	10,199.6	16,503.2

(c) Transactions with related parties

During the financial year, the continuing operations paid dividends to ALAI and had liabilities as at 30 June 2017 of \$2.8 million for dividends payable to ALAI and \$17.2 million for tax payable to ALAH by the ALAH tax group members.

7.2 Auditor's remuneration

KPMG is the auditor of Asciano. Amounts received or due and receivable by KPMG are detailed below:

	2017 \$000	2016 \$000
Audit services		
Audit and review of financial reports – KPMG Australia	1,092.0	1,561.0
Audit and review of financial reports – KPMG New Zealand	—	68.0
Other services – KPMG Australia		
Other assurance related services	161.0	725.0
	1,253.0	2,354.0

7.3 Parent

As at, and throughout the 2017 financial year, the parent company of Pacific National was Asciano Limited.

	2017 \$M	2016 \$M
Result of the Parent		
Profit after tax	385.3	3,012.6
Other comprehensive income	31.9	(11.6)
Total comprehensive income	417.2	3,001.0
Financial position		
Current assets	431.3	255.5
Non-current assets	6,083.9	10,471.4
Total assets	6,515.2	10,726.9
Current liabilities	28.3	44.1
Non-current liabilities	2,828.0	3,478.4
Total liabilities	2,856.3	3,522.5
Net assets	3,658.9	7,204.4
Equity		
Contributed equity	6,655.0	9,646.6
Reserves	2,887.9	3,441.8
Accumulated losses	(5,884.0)	(5,884.0)
Total equity	3,658.9	7,204.4

The Parent has net current assets of \$403.0 million as at 30 June 2017 (2016: \$211.4 million).

Capital commitments for acquisition of property, plant and equipment

The Parent did not have any capital commitments for acquisition of property, plant and equipment at 30 June 2017 or 30 June 2016.

Capital guarantees in respect of debts of certain subsidiaries

The Parent has entered into a deed of cross guarantee with the effect that the Parent guarantees debts in respect of wholly owned subsidiaries. Under the deed of cross guarantee, the subsidiaries provide financial security to the Parent.

Further details of the deed of cross guarantee and the wholly owned subsidiaries subject to the deed, are disclosed in note 5.2.

Parent contingent liabilities

There are no contingent liabilities in the Parent.

The contributed equity in the Parent differs to the contributed equity in the consolidated financial statements due to the elimination of the treasury shares and the corporatisation adjustment which arose from the acquisition of the Asciano Finance Trust.

7.4 Events subsequent to the reporting date

Subsequent to year-end, Pacific National entered into a binding agreement with Aurizon to purchase the Acacia Ridge Intermodal Terminal in Brisbane, Queensland. This transaction includes the transfer of 30 Aurizon employees, as well as assets, and commercial and operational arrangements.

Separately, Pacific National has signed a binding agreement to buy the Aurizon Queensland Intermodal business as part of a consortium with Linfox. This transaction includes the transfer of approximately 350 Aurizon employees, as well as assets, and commercial and operational arrangements to the Linfox and Pacific National consortium.

The parties are aiming to finalise these transactions by the end of the 2018 financial year. Both transactions are subject to approval by the Australian Competition & Consumer Commission and Foreign Investment & Review Board.

On 3 July 2017, Gerhard Ziems (former BHP Billiton executive) was appointed Chief Financial Officer of Pacific National.

On 15 July 2017, Dean Dalla Valle (former BHP Billiton executive) was appointed Chief Executive Officer of Pacific National replacing David Irwin.

Other than for the items noted above, there has not arisen in the period between the end of the 2017 financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of Asciano or the results of those operations.

Directors' declaration

For the year ended 30 June 2017

In the opinion of the Directors of Asciano Limited ("Company"):

- (a) the consolidated financial statements and notes set out on pages 9 to 66 are in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; 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; and
- (c) there are reasonable grounds to believe that the Company and the Group entities identified in note 5.2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the deed of cross guarantee between the Company and those Group entities pursuant to ASIC Corporations Instrument 2016/785.

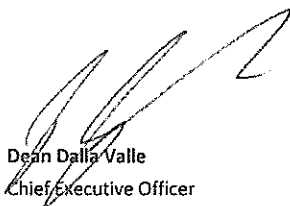
The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.

The Directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with IFRS.

Signed in accordance with a resolution of the Directors:



Russell Smith
Chairman
22 August 2017



Dean Dalla Valle
Chief Executive Officer
22 August 2017



Independent Auditor's Report

To the shareholders of Asciano Limited

Opinion

We have audited the **Financial Report** of Asciano Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Asciano Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information. Other information includes the *Directors Report*.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

Steven Gatt
Partner

Sydney
22 August 2017

