

22 August 2018

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

Dear Sir/Madam

**EMTN Programme**

**Issuer:** Pacific National Finance Pty Ltd (formerly Asciano Finance Limited)  
**Securities:** ASCIANO FINGBP300M5%N230919  
ASCIANO FINUS\$400M4.75%N280322

Attached is the financial report for the year ended 30 June 2018 for Pacific National Holdings Pty Ltd (formerly Asciano Limited), the parent entity of Pacific National Finance Pty Ltd.

Yours faithfully



Kate Bowman  
**General Counsel and Company Secretary**  
**Pacific National**

**Sydney**

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Pacific National Pty Ltd  
ACN 098 060 550

**PACIFIC NATIONAL HOLDINGS PTY LTD (formerly ASCIANO LIMITED)**

**ABN 26 123 652 862**

**FINANCIAL REPORT**

**For the year ended 30 June 2018**

**Pacific National comprises of Pacific National Holdings Pty Ltd and its controlled entities**

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The Directors present their report, together with the financial report of Pacific National Holdings Pty Ltd ("the Company" or "Parent") and its controlled entities (collectively referred to as "Pacific National" or "the Group"), for the year ended 30 June 2018.

## 1. Directors

The Directors of Pacific National Holdings Pty Ltd at any time during or since the end of the financial year were as follows:

|                   |                           |
|-------------------|---------------------------|
| Russell Smith     |                           |
| Dean Dalla Valle  | (appointed 15 July 2017)  |
| Andrew Alley      | (appointed 05 April 2018) |
| Jerry Divoky      |                           |
| John Hextall      |                           |
| Colin Mugglestone |                           |
| Deborah O'Toole   |                           |
| Garry Pritchard   |                           |
| Robert Stewart    |                           |
| Jeffrey Coates    | (alternate director)      |
| Paul Bernath      | (alternate director)      |
| William Thomson   | (alternate director)      |
| Bruce Hogg        | (resigned 05 April 2018)  |
| David Irwin       | (resigned 15 July 2017)   |

## 2. Principal activities

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

## 3. Operating and financial review

### Overview

During the period, Pacific National continued the process of developing key strategic objectives under the new ownership model for the medium to long-term. Pacific National's vision is to be Australia's recognised leader for safe, innovative and sustainable rail freight solutions. Pacific National's strategy is to transform our business and the rail freight industry. There are three key pillars to this strategy:

- Operational and commercial excellence – radically improve the way we do business;
- Strengthen our core markets – build lasting partnerships; and
- Grow our business and the industry – create new growth opportunities.

### Significant transactions during the year

In July 2017 Pacific National entered into a binding agreement with Aurizon to purchase the Acacia Ridge Intermodal Terminal in Brisbane, Queensland. Separately, in August 2017 Pacific National also entered into a binding agreement to buy the Aurizon Queensland Intermodal Business as part of a consortium with Linfox. These transactions were subject to approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment Review Board. Total consideration for the two transactions was \$225.0 million, inclusive of \$5.0 million paid in February 2018 as the transactions had not yet completed within six months of signing. On 19 July 2018 the ACCC announced that it had formed the view that the proposed acquisitions of Aurizon's Acacia Ridge Terminal and Queensland Intermodal Business by Pacific National should not proceed and had commenced proceedings against Pacific National and Aurizon in relation to the proposed acquisitions. At the time of signing these financial statements, the Pacific National Group has not received any statement of claim from the ACCC. Pacific National refutes the allegations and will be vigorously defending the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. Also subsequent to the reporting date, Aurizon terminated the binding agreement to sell the Aurizon Queensland Intermodal Business to Pacific National and Linfox for \$20.0 million, which will result in Pacific National being refunded its \$10.0 million bid bond.

## Operating and financial review (continued)

### Financing

Pacific National's funding consists of a mix of revolving bank credit facilities, US dollar denominated 10 and 12 year bonds (swapped to Australian dollars), GBP denominated 10 year bonds (swapped to Australian dollars), AUD denominated 10 year bonds and a bank guarantee facility.

Pacific National issued \$400.0 million USD denominated 10 year fixed rate bonds at a discount on 22 March 2018 as a partial refinancing of the US dollar denominated 7 year bonds that matured on 9 April 2018. These new bonds will mature in March 2028. Pacific National's loans and borrowings mature in the period between September 2020 and March 2028.

In accordance with the Syndicated Facility Agreement, on 16 September 2016 Pacific National Holdings Pty Ltd entered into two new \$650.0 million tranches under the existing amended syndicated revolving debt facilities maturing in September 2019 and September 2021, and a \$75.0 million bank guarantee facility maturing in September 2021.

During the current reporting period the three year \$650.0 million syndicated revolving facility (due September 2019) was cancelled. Further, a new \$100.0 million bank guarantee facility entered into on 17 July 2017 and the \$75.0 million bank guarantee facility was cancelled on 22 August 2017.

Pacific National had total committed bank credit facilities of \$750.0 million (30 June 2017: \$1,375.0 million) and nil drawn bank debt at 30 June 2018 (30 June 2017: \$nil). Of the total committed credit facilities, \$47.1 million relating to bank guarantees were utilised, leaving undrawn credit facilities at 30 June 2018 of \$702.9 million (30 June 2017: \$1,317.0 million). Net debt at 30 June 2018 was \$2,438.8 million (30 June 2017: \$2,715.6 million).

### Review and results of operations

Pacific National reported a net profit after tax from continuing operations ("NPAT") of Pacific National Holdings Pty Ltd of \$229.0 million (30 June 2017: \$550.0 million). The reported NPAT for the current reporting period included material items (loss) of \$8.6 million for costs mainly in connection with the restructuring of the Pacific National business and costs borne with respect to the transactions with Aurizon (30 June 2017: material items (loss) of \$22.5 million).

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

|                                                                                                                 | 2018<br>\$M  | 2017<br>\$M    |
|-----------------------------------------------------------------------------------------------------------------|--------------|----------------|
| <b>Statutory NPAT attributable to the owners of Pacific National Holdings Pty Ltd for continuing operations</b> | 229.0        | 550.0          |
| Costs related to transactions with Aurizon (net of tax benefit)                                                 | 7.6          | —              |
| Pacific National restructure (net of tax benefit)                                                               | 1.0          | 22.5           |
| Tax benefit from the reset of tax cost bases                                                                    | —            | (378.1)        |
| <b>Total material items after tax</b>                                                                           | <b>8.6</b>   | <b>(355.6)</b> |
| <b>Underlying NPAT attributable to the owners of Pacific National Holdings Pty Ltd</b>                          | <b>237.6</b> | <b>194.4</b>   |

Pacific National reported a 25.9% increase in profit before tax to \$327.0 million. The result was mainly due to stronger volumes across coal and freight. The Group also achieved traction against many cost initiatives for the year including labour optimisation and procurement savings.

### 4. Dividends

Interim dividends declared and paid by the Company for the current reporting period ended 30 June 2018 include a dividend of 4.64 cents per share (\$45.3 million) paid on 31 August 2017, 0.52 cents per share (\$5.1 million) paid on 1 December 2017, 0.59 cents per share (\$5.7 million) paid on 1 March 2018 and 10.69 cents per share (\$104.3 million) paid on 31 May 2018 (30 June 2017: 87.0 cents per share, fully franked and 5.13 cents per share, unfranked).

### 5. 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.

## 6. Events subsequent to the reporting date

On 19 July 2018 the ACCC announced that it had formed the view that the proposed acquisitions of Aurizon's Acacia Ridge Terminal and Queensland Intermodal Business by Pacific National should not proceed and had commenced proceedings against Pacific National and Aurizon in relation to the proposed acquisitions. At the time of signing these financial statements, the Pacific National Group has not received any statement of claim from the ACCC. Pacific National refutes the allegations and will be vigorously defending the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. Also subsequent to the reporting date, Aurizon terminated the binding agreement to sell the Aurizon Queensland Intermodal Business to Pacific National and Linfox, which will result in Pacific National being refunded its \$10.0 million bid bond.

Apart from the above, there has not arisen in the period between 30 June 2018 and the date of this report any other 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.

## 7. Indemnification and insurance of officers and auditors

### *Indemnification*

Subject to the following, no indemnity was given or insurance premium paid during or since the end of the financial year for a person who is or has been an officer or auditor of the Company.

The Company's Constitution provides that a person who is or has been a Director or Secretary of the Company may be indemnified by the Company against any liability incurred by the person in that capacity in or arising out of conduct of the business of the Company or the wholly owned subsidiary (as the case may be) or in or arising out of the discharge of their duties as a Director or Secretary. The indemnity does not apply to the extent that the Company is forbidden by statute to indemnify the person or the indemnity would, if given, be made void by statute.

The Company has paid premiums for directors' and officers' liability insurance in respect of Directors, Secretaries and Executive Officers of the Pacific National Group as permitted by the Corporations Act 2001. The terms of the insurance policy prohibit disclosure of details of the nature of the liabilities covered by, and the amounts of the premiums payable under, that insurance policy.

In addition, each Director has entered into a Deed of Indemnity and Access which provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The deed also entitles the Director to access Company documents and records, subject to undertakings as to confidentiality.

To the extent permitted by law, the Company has agreed to indemnify its auditors, KPMG, as part of its standard terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount).

No payment with respect to such indemnity has been made to KPMG during or since the financial year.

### *Insurance premium*

During the financial year, the Company and its subsidiaries paid premiums of \$113,772 in respect of directors' and officers' liability and legal expenses insurance contracts for the year ended 30 June 2018 (2017: \$224,000 was paid by the Company and its subsidiaries in respect of director' and officers' liability and legal expenses insurance contracts and \$1,681,000 was paid for a seven year policy taken out for outgoing Directors following the change in ownership and was recorded as part of scheme related expense). Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Company.

The Directors have not included details of the nature of the liabilities covered in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

## 8. Environmental regulation

The Group's operations are subject to environmental regulation under both Commonwealth and State legislation in relation to fuel usage emission. Pacific National's vision is committed to conducting business activities in a way that minimises adverse environmental impacts and delivers continual improvement in environmental performance. To achieve this, Pacific National will:

- monitor and comply, at a minimum, with all applicable legal and other requirements and conduct activities in accordance with relevant industry codes and standards;
- systematically identify and proactively manage environmental risks to reduce the potential for harm to people, property, community or the environment;
- incorporate environmental considerations into decision-making and procurement processes;
- communicate openly and work with our stakeholders, including community, regulators, customers and others to identify areas for improvement and improve performance;
- set and review internal environmental objectives and targets, and implement programs to achieve these;
- measure and report on our environmental performance to our internal and relevant external stakeholders; and
- implement verification processes to ensure compliance with this policy and to drive continuous improvement of our environmental performance.

The board is not aware of any significant breaches during the period covered by this report.

## 9. Rounding of amounts

Pacific National Holdings Pty Ltd 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.

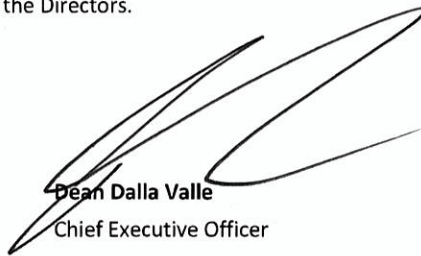
Signed pursuant to a resolution of the Directors.



**Russell Smith**

Chairman

22 August 2018



**Dean Dalla Valle**

Chief Executive Officer

22 August 2018



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

To the Directors of Pacific National Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Pacific National Holdings Pty Ltd for the financial year ended 30 June 2018 there have been:

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

A handwritten signature in black ink, appearing to read 'KMG' or 'SGatt'.

KPMG

A handwritten signature in black ink, appearing to read 'SGatt'.

Steve Gatt  
Partner

Sydney

22 August 2018

## Consolidated Statement of Profit or Loss

For the year ended 30 June 2018

|                                                                              | Note  | 2018<br>\$M    | 2017<br>\$M    |
|------------------------------------------------------------------------------|-------|----------------|----------------|
| Revenue from services rendered                                               | 2.3   | 2,457.6        | 2,289.1        |
| Other income                                                                 | 2.3   | 30.6           | 63.2           |
| Operating expenses excluding depreciation and amortisation:                  |       |                |                |
| Employee benefits                                                            |       | (564.3)        | (586.4)        |
| Rail access                                                                  |       | (529.1)        | (488.3)        |
| Fuel, oil and power                                                          |       | (228.6)        | (193.4)        |
| Repairs and maintenance                                                      |       | (163.3)        | (169.7)        |
| Lease and hire                                                               |       | (46.5)         | (46.8)         |
| Insurance                                                                    |       | (10.2)         | (9.9)          |
| Other                                                                        |       | (139.3)        | (129.7)        |
| <b>Profit before depreciation, amortisation, net finance costs and tax</b>   |       | <b>806.9</b>   | <b>728.1</b>   |
| Depreciation                                                                 |       | (253.0)        | (257.2)        |
| Amortisation                                                                 |       | (31.0)         | (28.3)         |
| <b>Profit before net finance costs and tax</b>                               |       | <b>522.9</b>   | <b>442.6</b>   |
| Interest income                                                              | 4.6   | 6.1            | 3.9            |
| Interest expense                                                             |       | (182.5)        | (184.2)        |
| Other financing expenses                                                     |       | (23.7)         | (15.6)         |
| Credit value adjustment and fair value movements of undesignated derivatives |       | 4.2            | 13.0           |
| Finance expense                                                              | 4.6   | (202.0)        | (186.8)        |
| <b>Net finance expense</b>                                                   |       | <b>(195.9)</b> | <b>(182.9)</b> |
| <b>Profit before tax</b>                                                     |       | <b>327.0</b>   | <b>259.7</b>   |
| Tax (expense)/benefit                                                        | 2.4   | (98.0)         | 290.3          |
| <b>Profit from continuing operations</b>                                     |       | <b>229.0</b>   | <b>550.0</b>   |
| (Loss)/profit from discontinued operations                                   | 2.2.2 | (18.0)         | 557.4          |
| <b>Profit after tax</b>                                                      |       | <b>211.0</b>   | <b>1,107.4</b> |
| <b>Attributable to:</b>                                                      |       |                |                |
| Owners of Pacific National Holdings Pty Ltd                                  | 4.10  | 211.0          | 1,107.1        |
| Non-controlling interests                                                    |       | —              | 0.3            |
|                                                                              |       | 211.0          | 1,107.4        |

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 2018

|                                                                                                            | Note  | 2018<br>\$M  | 2017<br>\$M    |
|------------------------------------------------------------------------------------------------------------|-------|--------------|----------------|
| <b>Profit after tax</b>                                                                                    |       | <b>211.0</b> | <b>1,107.4</b> |
| <b>Other comprehensive income/(loss)</b>                                                                   |       |              |                |
| <b>Items that will not be reclassified to profit or loss:</b>                                              |       |              |                |
| Defined benefit superannuation funds actuarial gains/(losses)                                              | 6.1   | 2.3          | 21.9           |
| Income tax expense on items that will not be reclassified to profit or loss                                | 6.1   | (0.7)        | (6.6)          |
| Total items that will not be reclassified to profit or loss net of tax                                     |       | 1.6          | 15.3           |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                                      |       |              |                |
| Effective portion of changes in fair value of cash flow hedge                                              | 4.6   | (14.7)       | (11.4)         |
| Income tax benefit/(expense) on items that may be reclassified subsequently to profit or loss              | 4.6   | 4.5          | (20.5)         |
| Other comprehensive income arising from discontinued operations                                            | 2.2.2 | –            | 0.3            |
| 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                             |       | (10.2)       | (39.6)         |
| <b>Other comprehensive loss net of tax</b>                                                                 |       | <b>(8.6)</b> | <b>(24.3)</b>  |
| <b>Total comprehensive income</b>                                                                          |       | <b>202.4</b> | <b>1,083.1</b> |
| <b>Total comprehensive income attributable to:</b>                                                         |       |              |                |
| Owners of Pacific National Holdings Pty Ltd                                                                |       | 202.4        | 1,082.8        |
| Non-controlling interests                                                                                  |       | –            | 0.3            |
|                                                                                                            |       | 202.4        | 1,083.1        |
| <b>Total comprehensive income/(loss) attributable to owners of Pacific National Holdings Pty Ltd from:</b> |       |              |                |
| Continuing operations                                                                                      |       | 220.4        | 533.4          |
| Discontinuing operations                                                                                   |       | (18.0)       | 549.7          |
|                                                                                                            |       | 202.4        | 1,083.1        |

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 2018

|                                                                           | Note | 2018<br>\$M    | 2017<br>\$M    |
|---------------------------------------------------------------------------|------|----------------|----------------|
| <b>Current assets</b>                                                     |      |                |                |
| Cash and cash equivalents                                                 | 4.2  | 171.9          | 111.7          |
| Trade and other receivables                                               | 4.2  | 274.2          | 289.1          |
| Prepayments and other assets                                              |      | 18.5           | 7.6            |
| Inventories                                                               | 3.5  | 15.7           | 21.4           |
| Derivative financial assets                                               | 4.4  | 6.2            | 278.8          |
| Current tax assets                                                        | 2.4  | –              | 32.6           |
| <b>Total current assets</b>                                               |      | <b>486.5</b>   | <b>741.2</b>   |
| <b>Non-current assets</b>                                                 |      |                |                |
| Property, plant and equipment                                             | 3.1  | 2,970.5        | 3,046.0        |
| Intangible assets                                                         | 3.4  | 908.1          | 923.8          |
| Trade and other receivables                                               | 4.2  | –              | 0.5            |
| Prepayments and other assets                                              |      | 30.1           | 0.3            |
| Inventories                                                               | 3.5  | –              | 18.2           |
| Derivative financial assets                                               | 4.4  | 309.2          | 242.1          |
| Net deferred tax assets                                                   | 2.4  | 207.9          | 247.8          |
| <b>Total non-current assets</b>                                           |      | <b>4,425.8</b> | <b>4,478.7</b> |
| <b>Total assets</b>                                                       |      | <b>4,912.3</b> | <b>5,219.9</b> |
| <b>Current liabilities</b>                                                |      |                |                |
| Trade payables                                                            | 4.3  | 116.2          | 82.2           |
| Other payables and accrued expenses                                       | 4.3  | 185.2          | 184.8          |
| Provisions                                                                | 2.5  | 15.5           | 27.2           |
| Employee benefits                                                         | 6.1  | 82.9           | 92.5           |
| Loans and borrowings                                                      | 4.3  | –              | 975.2          |
| Derivative financial liabilities                                          | 4.4  | 44.5           | 20.7           |
| <b>Total current liabilities</b>                                          |      | <b>444.3</b>   | <b>1,382.6</b> |
| <b>Non-current liabilities</b>                                            |      |                |                |
| Other payables and accrued expenses                                       | 4.3  | 89.5           | 36.2           |
| Provisions                                                                | 2.5  | 35.6           | 37.4           |
| Employee benefits                                                         | 6.1  | 67.9           | 73.0           |
| Loans and borrowings                                                      | 4.3  | 2,910.3        | 2,327.6        |
| Derivative financial liabilities                                          | 4.4  | 49.1           | 89.5           |
| <b>Total non-current liabilities</b>                                      |      | <b>3,152.4</b> | <b>2,563.7</b> |
| <b>Total liabilities</b>                                                  |      | <b>3,596.7</b> | <b>3,946.3</b> |
| <b>Net assets</b>                                                         |      | <b>1,315.6</b> | <b>1,273.6</b> |
| <b>Equity</b>                                                             |      |                |                |
| Contributed equity                                                        | 4.9  | 5,618.8        | 5,618.8        |
| Reserves                                                                  | 4.8  | (4,999.4)      | (2,022.8)      |
| Retained earnings /(Accumulated losses)                                   | 4.10 | 696.2          | (2,322.4)      |
| <b>Equity attributable to owners of Pacific National Holdings Pty Ltd</b> |      | <b>1,315.6</b> | <b>1,273.6</b> |
| Non-controlling interests                                                 |      | –              | –              |
| <b>Total equity</b>                                                       |      | <b>1,315.6</b> | <b>1,273.6</b> |

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 2018

| \$M                                                             | Contributed equity | Reserves         | Retained earnings | Total          | Non-controlling interests | Total          |
|-----------------------------------------------------------------|--------------------|------------------|-------------------|----------------|---------------------------|----------------|
| Balance at 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)      |
| <b>Balance at 30 June 2017 and 1 July 2017</b>                  | <b>5,618.8</b>     | <b>(2,022.8)</b> | <b>(2,322.4)</b>  | <b>1,273.6</b> | <b>–</b>                  | <b>1,273.6</b> |
| Profit after tax                                                | –                  | –                | 211.0             | 211.0          | –                         | 211.0          |
| Other comprehensive income:                                     |                    |                  |                   |                |                           |                |
| Net movement in cash flow hedge reserve                         | –                  | (14.7)           | –                 | (14.7)         | –                         | (14.7)         |
| Defined benefit superannuation funds actuarial gains            | –                  | –                | 2.3               | 2.3            | –                         | 2.3            |
| Foreign currency translation differences for foreign operations | –                  | –                | –                 | –              | –                         | –              |
| Reserves reclassified to profit or loss on sale of Patrick      | –                  | –                | –                 | –              | –                         | –              |
| Income tax benefit/(expense) on OCI                             | –                  | 4.5              | (0.7)             | 3.8            | –                         | 3.8            |
| <b>Total comprehensive income</b>                               | <b>–</b>           | <b>(10.2)</b>    | <b>212.6</b>      | <b>202.4</b>   | <b>–</b>                  | <b>202.4</b>   |
| <b>Treasury shares allocated</b>                                | <b>–</b>           | <b>–</b>         | <b>–</b>          | <b>–</b>       | <b>–</b>                  | <b>–</b>       |
| Transactions with owners in their capacity as owners:           |                    |                  |                   |                |                           |                |
| Return of capital                                               | –                  | –                | –                 | –              | –                         | –              |
| Profits transferred to profit reserve                           | –                  | –                | –                 | –              | –                         | –              |
| Dividends declared                                              | –                  | (160.4)          | –                 | (160.4)        | –                         | (160.4)        |
| Employee equity benefits                                        | –                  | –                | –                 | –              | –                         | –              |
| Reserves transferred to retained earnings                       | –                  | (2,806.0)        | 2,806.0           | –              | –                         | –              |
|                                                                 | –                  | (2,966.4)        | 2,806.0           | (160.4)        | –                         | (160.4)        |
| <b>Balance at 30 June 2018</b>                                  | <b>5,618.8</b>     | <b>(4,999.4)</b> | <b>696.2</b>      | <b>1,315.6</b> | <b>–</b>                  | <b>1,315.6</b> |

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 2018

|                                                                                      | Note | 2018<br>\$M    | 2017<br>\$M      |
|--------------------------------------------------------------------------------------|------|----------------|------------------|
| <b>Operating cash flows</b>                                                          |      |                |                  |
| Receipts from customers                                                              |      | 2,889.2        | 2,877.0          |
| Payments to suppliers and employees                                                  |      | (2,056.9)      | (2,206.9)        |
| Scheme costs                                                                         |      | –              | (75.2)           |
| Interest and other costs of finance paid                                             |      | (196.4)        | (219.7)          |
| Interest received                                                                    |      | 6.0            | 8.1              |
| Dividends received from joint ventures                                               |      | –              | 7.3              |
| Net income tax receipts                                                              |      | 31.2           | 62.4             |
| <b>Net operating cash inflows</b>                                                    | 2.6  | <b>673.1</b>   | <b>453.0</b>     |
| <b>Investing cash flows</b>                                                          |      |                |                  |
| Payments for property, plant and equipment and intangible assets                     |      | (167.7)        | (177.8)          |
| Proceeds from sale of property, plant and equipment and intangible assets            |      | 0.7            | 9.1              |
| (Payment)/Proceeds on/from sale of Patrick                                           | 2.2  | (18.0)         | 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              |
| Deposit paid on acquisition of investments                                           |      | (40.0)         | –                |
| <b>Net investing cash inflows</b>                                                    |      | <b>(225.0)</b> | <b>585.6</b>     |
| <b>Financing cash flows</b>                                                          |      |                |                  |
| Repayments of borrowings                                                             | 2.7  | (727.7)        | (2,140.0)        |
| Proceeds from new bond issue, net of transaction costs                               | 2.7  | 503.0          | –                |
| Drawdown of borrowings                                                               |      | –              | 1,909.8          |
| Dividends paid                                                                       | 4.7  | (163.2)        | (898.6)          |
| Dividends paid to non-controlling interests                                          |      | –              | (1.0)            |
| <b>Net financing cash outflows</b>                                                   |      | <b>(387.9)</b> | <b>(1,129.8)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                          |      | <b>60.2</b>    | <b>(91.2)</b>    |
| Cash and cash equivalents at the beginning of the year                               |      | 111.7          | 202.9            |
| <b>Cash and cash equivalents at the end of the year</b>                              | 4.2  | <b>171.9</b>   | <b>111.7</b>     |

The above Consolidated Statement of Cash Flows includes cash flows from both continuing and discontinuing operations for the comparative year 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

Pacific National Holdings Pty Ltd ("Parent" or "the Company") is a for profit entity domiciled in Australia. The Company 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 the Company 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 2018.

### 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 the Company comply with the International Financial Reporting Standards ("IFRS") and the interpretations adopted by the International Accounting Standards Board.

Pacific National sold the Patrick businesses (Container Ports and Bulk and Automotive Ports Services businesses) effective 18 August 2016 with income, expenses and other comprehensive income for the Patrick businesses presented as discontinued operations in the comparative period. 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 the Company, 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

The financial statements have been prepared on a going concern basis as the Company 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 the Company'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 2017.

#### *AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to AASB 112)*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

## 1 How we have prepared this report (continued)

### *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 2.7.

### *AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle (Amendments to AASB 12)*

The amendments clarify that the disclosure requirements in AASB 12 *Disclosure of Interest in Other Entities*, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

#### *AASB 15 Revenue from Contracts with Customers*

AASB 15 was issued in December 2014, and amended in May 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

#### *Rendering of services*

The principal continuing activities of the Group are the management of rail assets and associated operations and services. These services are sold on their own in contracts with customers. Rail haulage revenue is recognised when the risks and rewards are transferred to the customer, generally considered to be when freight arrives at its intended destination. Other revenue is recognised upon provision of services such as maintenance and terminal services.

Under AASB 15, the transaction price should be allocated to each performance obligation based on the relative stand-alone selling prices of the services provided to customers. The Group's services are generally considered interdependent and therefore the accounting for these transactions will be on the basis that each contract has one performance obligation.

The Group has concluded that the services are satisfied over time given the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, under AASB 15, the Group would continue to recognise revenue for these service contracts over time rather than at a point in time.

#### *Variable consideration – growth/volume rebates*

The majority of contracts with customers provide for growth/volume rebates. Currently the Group recognises revenue from rendering the services at the fair value of the consideration received or receivable net of growth/volume rebates. The Group provides retrospective growth/volume rebates to its customers on the services provided certain threshold are exceeded as specified in the contract. Under its existing accounting policy, the Group estimates the expected growth/volume rebates using the probability-weighted average amount of rebates approach and includes them in the *Trade and other receivables*. These amounts are subsequently offset against the amounts payable by customer.

Under AASB 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group considered that the most likely amount method is an appropriate estimation of the variable consideration. Additionally, under AASB 15, the recognition of variable consideration is subject to the constraint that a significant reversal will not occur when the uncertainty is subsequently reduced.

#### *Presentation and disclosure requirements*

The presentation and disclosure requirements in AASB 15 are more detailed than under the current Australian Accounting Standards. The presentation requirements, represent a significant change from the current practice and significantly increases the volume of disclosures required in the Group's consolidated financial statements. Many of the disclosure requirements in AASB 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the consolidated financial statements will be expanded because of the disclosures of significant judgments made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures may be expected as a result of the other significant judgments made when assessing the contracts. In addition, as required by AASB 15, the group will disaggregate the revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

## 1 How we have prepared this report (continued)

### *Transition*

The new revenue standard will supersede all current revenue recognition requirements under Australian Accounting Standards. Either a full retrospective application or a modified retrospective application is required for annual period beginning on or after 1 January 2018. Early application is permitted. The Group will adopt the new standard on the required effective date. Based on the impact assessment undertaken by the Group, except for the aforementioned presentation and disclosure requirements above, the Group believes that application of AASB 15 will not have a material impact on its consolidated financial statements.

### *AASB 9 Financial Instruments*

In December 2014, the AASB issued the final version of AASB 9 that replaces AASB 139 *Financial Instruments: Recognition and Measurement* and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

### *Classification- Financial assets*

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value recognised in profit and loss (FVPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

### *Impairment – Financial assets and contract assets*

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

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investment in equity instruments, and to contract assets.

Under AASB 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are the ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

### *Classification – Financial liabilities*

AASB 9 largely retains the existing requirements in AASB 139 for the classification of financial liabilities. However, under AASB 139 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under AASB 9 these fair value changes are generally presented as follows:

- amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

### *Hedge accounting*

When initially applying AASB 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of AASB 139 instead the requirements in AASB 9.

AASB 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group’s risk management objectives and strategy to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. AASB 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

## 1 How we have prepared this report (continued)

Under AASB 139, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit and loss as reclassification adjustment in the same period as the hedged expected cash flows affect profit or loss. However, under AASB 9, for cash flows hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

### Disclosures

AASB 9 will require extensive new disclosures, in particular for hedge accounting, credit risk and ECLs.

### Transition

Changes in the accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, to instruments existing at the date of initial application.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Based on the impact assessment undertaken by the Group, except for the aforementioned presentation and disclosure requirements above, the Group believes that application of AASB 9 will not have a material impact on its consolidated financial statements.

### AASB 16 Leases

AASB 16 was issued in February 2016 and it replaces AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluation the Substance of Transactions Involving the Legal Form of a Lease*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of “low-value” assets (i.e. personal computers) and short-term leases (i.e. leases with lease term of 12 months or less). At the commencement date of the lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the liability upon the occurrence of certain events (i.e. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from today’s accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

AASB 16 also requires lessees and lessors to make more extensive disclosures than under AASB 117.

AASB 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies AASB 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

In 2019, the Group will continue to assess the potential effect of AASB 16 on its consolidated financial statements.

### Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements.

- AASB 2014-10 Amendments to Australian Accounting Standards – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Annual improvements to AASBs 2014-2016 Cycle – *Amendments to AASB 1 First-time adoption of Australian Accounting Standards – Deletion of short-term exemptions for first-time adopters and AASB 128 Investment in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit and loss is an investment-by-investment choice*
- AASB 2016-5 Amendments to Australian Accounting Standards – *Classification and Measurement of Share-based Payment Transactions (Amendments to AASB 2)*
- AASB 2016-6 Amendments to Australian Accounting Standards – *Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
- AASB 2017-2 Amendments to Australian Accounting Standards – *Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

## 1 How we have prepared this report (continued)

### 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.

### 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 the Group 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 in August 2016 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.

As such, for the 2018 financial year, the Group comprises of one reportable 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.

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

#### **Preparation of segmental information**

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

Other income is determined on an arm's length basis and is generated mostly from rental income derived by Pacific National Corporate from the various businesses that occupy premises owned by Group Corporate.

#### **Material items**

Material items comprise items of income or expense which are considered to be relevant to explaining the performance of the Group and are, either individually or in aggregate, material to the Group. 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 Group-wide reorganisations or restructurings, accelerated depreciation charges to tangible assets and write-off of deferred establishment costs. This information assists the users of the Group's financial statements in their understanding of the underlying business results.

## 2.1 Segment reporting (continued)

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

|                                                                                            | 2018<br>\$M    | RESTATED <sup>1</sup><br>2017<br>\$M |
|--------------------------------------------------------------------------------------------|----------------|--------------------------------------|
| <b>Revenue</b>                                                                             |                |                                      |
| External revenue                                                                           | 2,457.6        | 2,289.1                              |
| Other income                                                                               | 30.6           | 63.2                                 |
| <b>Revenue and other income</b>                                                            | <b>2,488.2</b> | <b>2,352.3</b>                       |
| Operating expenses                                                                         | (1,671.3)      | (1,592.0)                            |
| <b>Profit before depreciation, amortisation, net finance costs, material items and tax</b> | <b>816.9</b>   | <b>760.3</b>                         |
| Depreciation                                                                               | (253.0)        | (257.2)                              |
| Amortisation                                                                               | (31.0)         | (28.3)                               |
| <b>Profit before net finance costs, material items and tax</b>                             | <b>532.9</b>   | <b>474.8</b>                         |
| Finance income                                                                             | 6.1            | 3.9                                  |
| Finance expense                                                                            | (201.5)        | (186.8)                              |
| <b>Profit before material items and tax</b>                                                | <b>337.5</b>   | <b>291.9</b>                         |
| <b>Material items</b>                                                                      |                |                                      |
| Costs related to transactions with Aurizon                                                 | (9.1)          | —                                    |
| Pacific National restructure <sup>2</sup>                                                  | (1.4)          | (32.2)                               |
| <b>Profit before tax</b>                                                                   | <b>327.0</b>   | <b>259.7</b>                         |
| Tax (expense)/benefit <sup>3</sup>                                                         | (98.0)         | 290.3                                |
| <b>Profit after tax</b>                                                                    | <b>229.0</b>   | <b>550.0</b>                         |

1. The comparatives have been restated to show Pacific National and Corporate/unallocated as one segment.

### Material items

- Costs in the year ended 30 June 2018 relate to restructuring activities within Pacific National (2017: costs included \$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).
- Tax benefit in the year ended 30 June 2017 includes \$378.1 million in relation to the reset of tax cost bases on tax consolidation. Refer to note 2.4 for further details.

### Accounting policy

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:

|                            | 2018<br>\$M    | RESTATED <sup>1</sup><br>2017<br>\$M |
|----------------------------|----------------|--------------------------------------|
| Segment assets             | 4,912.3        | 5,219.9                              |
| Segment liabilities        | (3,596.7)      | (3,946.3)                            |
| <b>Net assets</b>          | <b>1,315.6</b> | <b>1,273.6</b>                       |
| <b>Capital expenditure</b> | <b>192.4</b>   | <b>117.4</b>                         |

1. The comparatives have been restated to show Pacific National and Corporate/unallocated as one segment

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, Pacific National Holdings Pty Ltd announced to the ASX that it had entered into a binding agreement to sell 100% of its issued capital to the Company's new Shareholders. The agreement received the relevant approvals and was effective 29 July 2016. Following the change in ownership, the Patrick businesses were sold by Pacific National Holdings Pty Ltd 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 in relation to the discontinued operations are presented below.

|                                                                                          | Note  | 2018<br>\$M   | Period ended<br>18 August 2016<br>\$M |
|------------------------------------------------------------------------------------------|-------|---------------|---------------------------------------|
| Revenue from services rendered                                                           |       | —             | 171.7                                 |
| Other income <sup>1</sup>                                                                |       | —             | 145.6                                 |
| Share of net profit of joint ventures                                                    |       | —             | 2.9                                   |
| Operating expenses excluding depreciation and amortisation                               |       | —             | (208.6)                               |
| Depreciation and amortisation                                                            |       | —             | (13.2)                                |
| Net finance expense                                                                      |       | —             | (21.0)                                |
| <b>Profit before tax</b>                                                                 |       | —             | <b>77.4</b>                           |
| Tax benefit                                                                              |       | —             | 17.4                                  |
| <b>Profit after tax</b>                                                                  |       | —             | <b>94.8</b>                           |
| (Loss)/gain on sale of Patrick after tax                                                 | 2.2.4 | (18.0)        | 462.6                                 |
| <b>(Loss)/profit from discontinued operations</b>                                        |       | <b>(18.0)</b> | <b>557.4</b>                          |
| Effective portion of changes in fair value of cash flow hedges                           |       | —             | 0.8                                   |
| Foreign currency translation differences for foreign operations                          |       | —             | (0.3)                                 |
| Income tax expense on items that may be reclassified subsequently to profit or loss      |       | —             | (0.2)                                 |
| <b>Other comprehensive income from discontinued operations</b>                           |       | —             | <b>0.3</b>                            |
| Net cash outflow from operating activities                                               |       | —             | (29.8)                                |
| Scheme related expenses                                                                  |       | —             | (75.2)                                |
| Net cash (outflow)/inflow from investing activities                                      |       | (18.0)        | 727.7                                 |
| Net cash outflows from financing activities                                              |       | —             | (1.0)                                 |
| <b>Net (decrease)/increase in cash and cash equivalents from discontinued operations</b> |       | <b>(18.0)</b> | <b>621.7</b>                          |

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

### 2.2.3 Discontinued material items

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

|                                                         | Note  | 2018<br>\$M   | Period ended<br>18 August<br>2016<br>\$M |
|---------------------------------------------------------|-------|---------------|------------------------------------------|
| (Loss)/gain on sale of Patrick                          | 2.2.4 | (18.0)        | 462.6                                    |
| Gain on sale of AAT joint venture <sup>1</sup>          |       | —             | 98.2                                     |
| Gain on sale of 50% of GeelongPort Pty Ltd <sup>1</sup> |       | —             | 46.2                                     |
| Brookfield and Qube Consortium proposals <sup>2</sup>   |       | —             | (84.3)                                   |
| Swap de-designation <sup>3</sup>                        |       | —             | (0.8)                                    |
| <b>Total discontinued material items</b>                |       | <b>(18.0)</b> | <b>521.9</b>                             |

- 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 the Company 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

|                                                                            | 2018<br>\$M   | Period ended<br>18 August 2016<br>\$M |
|----------------------------------------------------------------------------|---------------|---------------------------------------|
| Cash consideration received                                                | —             | 579.2                                 |
| Sale price adjustment                                                      | (18.0)        | —                                     |
| Promissory notes receivable                                                | —             | 2,991.6                               |
| <b>Total consideration (payable and paid) / received and receivable</b>    | <b>(18.0)</b> | <b>3,570.8</b>                        |
| Carrying amount of net assets sold                                         | —             | (3,116.2)                             |
| <b>(Loss)/gain on sale before tax and reclassification of reserves</b>     | <b>(18.0)</b> | <b>454.6</b>                          |
| 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                                   |
| <b>(Loss)/gain on sale of Patrick businesses after tax</b>                 | <b>(18.0)</b> | <b>462.6</b>                          |

## 2.2 Discontinued operations (continued)

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

|                                     | Period ended<br>18 August 2016<br>\$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                                  |
| <b>Total assets</b>                 | <b>3,347.2</b>                        |
| Trade payables                      | (51.6)                                |
| Other payables and accrued expenses | (36.8)                                |
| Employee benefits                   | (89.0)                                |
| Loans and borrowings                | (43.1)                                |
| Other liabilities                   | (10.5)                                |
| <b>Total liabilities</b>            | <b>(231.0)</b>                        |
| <b>Net assets</b>                   | <b>3,116.2</b>                        |

## 2.3 Revenue from services rendered 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 the Company on behalf of the customer.

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

Revenue recognised during the year is set out below:

|                                                     | 2018<br>\$M    | 2017<br>\$M    |
|-----------------------------------------------------|----------------|----------------|
| <b>Revenue</b>                                      |                |                |
| Rail haulage                                        | 2,398.9        | 2,233.9        |
| Other                                               | 58.7           | 55.2           |
| <b>Total revenue</b>                                | <b>2,457.6</b> | <b>2,289.1</b> |
| <b>Other income</b>                                 |                |                |
| Net gain on sale of property, plant and equipment   | 6.8            | 0.2            |
| Lease rental income                                 | 14.6           | 13.2           |
| Transitional services income and insurance proceeds | 9.0            | 49.9           |
| Other                                               | 0.2            | (0.1)          |
| <b>Total other income</b>                           | <b>30.6</b>    | <b>63.2</b>    |

## 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 are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of the taxable temporary difference is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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.

Pacific National Holdings Pty Ltd 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*

The Company'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 Pacific National Holdings Pty Ltd 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 Pacific National Holdings Pty Ltd tax consolidated group has \$444.9 million of unrecognised benefits asset (\$133.4 million deferred tax) relating to capital assets being land asset that have not been recognised as it is not considered probable that there would be taxable income against which they could be utilised (2017: \$133.2 million (\$40.0 million deferred tax)).

## 2.4 Taxes (continued)

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

|                                                                                   | 2018<br>\$M | 2017<br>\$M    |
|-----------------------------------------------------------------------------------|-------------|----------------|
| Current tax expense                                                               | 60.8        | 27.3           |
| Deferred tax expense/(benefit)                                                    | 36.6        | (331.5)        |
| Unders of deferred tax for prior periods                                          | 7.0         | 20.8           |
| Overs of current tax for prior periods                                            | (6.4)       | (6.9)          |
| <b>Total income tax expense/(benefit)</b>                                         | <b>98.0</b> | <b>(290.3)</b> |
| <b>Reconciliation of income tax expense/(benefit) to prima facie tax payable:</b> |             |                |
| Profit before tax                                                                 | 327.0       | 259.7          |
| Income tax at 30% (2017: 30%)                                                     | 98.2        | 77.9           |
| Recognition and derecognition of temporary differences                            | —           | 0.6            |
| Effect of tax bases being reset by the change in ownership <sup>1</sup>           | —           | (378.1)        |
| Derecognition of previously recognised revenue losses                             | —           | 8.0            |
| Non-assessable income                                                             | (1.6)       | —              |
| Adjustments of current tax for prior periods                                      | (6.4)       | —              |
| Adjustments of deferred tax for prior periods                                     | 7.0         | —              |
| Other non-deductible items                                                        | 1.0         | —              |
| Other deductible expenses                                                         | (0.2)       | 1.3            |
| <b>Income tax expense/(benefit) recognised in the profit or loss</b>              | <b>98.0</b> | <b>(290.3)</b> |
| <b>Tax recognised directly in other comprehensive income</b>                      |             |                |
| Changes in fair value of cash flow hedge                                          | (4.5)       | (3.4)          |
| Reset of cost base                                                                | —           | 23.9           |
| Defined benefit superannuation funds actuarial gain                               | 0.7         | 6.6            |
|                                                                                   | (3.8)       | 27.1           |

1. 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 2018, the Group's effective tax rate was 30% (2017: benefit of 111.8%).

The 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 Company 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 the Company such as total income, taxable income and Australian income tax payable.

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

- 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

There is nil current tax asset at 30 June 2018 (30 June 2017: \$32.6 million). The current tax asset at 30 June 2017 related to the Pacific National Group was received in full from the ATO during the financial year.

### Recognised deferred tax assets and liabilities

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

|                                     | Balance<br>1 July<br>\$M | Patrick<br>divestment<br>\$M | Tax cost<br>base<br>reset in<br>profit or<br>loss<br>\$M | Recognised<br>in the<br>statement<br>of profit or<br>loss<br>\$M | Tax cost<br>base<br>reset in<br>equity<br>\$M | Recognised<br>in equity<br>\$M | Balance<br>30 June<br>\$M | Assets<br>\$M | Liabilities<br>\$M |
|-------------------------------------|--------------------------|------------------------------|----------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------|--------------------------------|---------------------------|---------------|--------------------|
| <b>2018</b>                         |                          |                              |                                                          |                                                                  |                                               |                                |                           |               |                    |
| Property, plant and equipment       | 163.0                    | —                            | —                                                        | (36.6)                                                           | —                                             | —                              | 126.4                     | 126.4         | —                  |
| Intangible assets                   | (1.0)                    | —                            | —                                                        | (0.3)                                                            | —                                             | —                              | (1.3)                     | —             | (1.3)              |
| Derivatives                         | (2.2)                    | —                            | —                                                        | 10.8                                                             | —                                             | 4.5                            | 13.1                      | 13.1          | —                  |
| Inventories                         | 5.5                      | —                            | —                                                        | (19.6)                                                           | —                                             | —                              | (14.1)                    | 0.5           | (14.6)             |
| Annual leave                        | 12.1                     | —                            | —                                                        | (0.2)                                                            | —                                             | —                              | 11.9                      | 11.9          | —                  |
| Long service leave                  | 17.9                     | —                            | —                                                        | (1.1)                                                            | —                                             | —                              | 16.8                      | 16.8          | —                  |
| Other employee benefits             | 22.3                     | —                            | —                                                        | 5.5                                                              | —                                             | (0.7)                          | 27.1                      | 27.1          | —                  |
| Restructuring provision             | 5.4                      | —                            | —                                                        | (4.0)                                                            | —                                             | —                              | 1.4                       | 1.4           | —                  |
| Other provisions                    | 5.1                      | —                            | —                                                        | (5.1)                                                            | —                                             | —                              | —                         | 5.8           | (5.8)              |
| Other                               | 19.7                     | —                            | —                                                        | 6.9                                                              | —                                             | —                              | 26.6                      | 28.3          | (1.7)              |
| <b>Net tax assets/(liabilities)</b> | <b>247.8</b>             | <b>—</b>                     | <b>—</b>                                                 | <b>(43.7)</b>                                                    | <b>—</b>                                      | <b>3.8</b>                     | <b>207.9</b>              | <b>231.3</b>  | <b>(23.4)</b>      |
| <b>2017</b>                         |                          |                              |                                                          |                                                                  |                                               |                                |                           |               |                    |
| 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)             |
| <b>Net tax assets/(liabilities)</b> | <b>(5.1)</b>             | <b>(24.1)</b>                | <b>378.1</b>                                             | <b>(74.0)</b>                                                    | <b>(23.9)</b>                                 | <b>(3.2)</b>                   | <b>247.8</b>              | <b>268.3</b>  | <b>(20.5)</b>      |

## 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, the Company 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 Company financial statements.

### Critical accounting estimates and judgements

#### *Workers compensation self-insurance*

Where the Company 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 the Company is involved in an incident, such as a train derailment, and it is probable that the Company 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 the Company'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 the Company (the liability was assumed by the Company 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. The Company 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.

The Company 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 the Company. 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:

| 2018<br>\$M            | Workers<br>compensation | Restructuring | Incident   | Travel<br>passes | Site<br>restoration | Other    | Total       |
|------------------------|-------------------------|---------------|------------|------------------|---------------------|----------|-------------|
| Opening balance        | 25.1                    | 20.8          | 3.2        | 8.3              | 4.7                 | 2.5      | 64.6        |
| Made                   | 6.0                     | 3.9           | 8.5        | –                | –                   | 1.0      | 19.4        |
| Utilised               | (4.7)                   | (12.3)        | (6.5)      | (0.5)            | –                   | (2.7)    | (26.7)      |
| Reversed               | –                       | (6.0)         | –          | (0.2)            | –                   | (0.8)    | (7.0)       |
| Transfers              | –                       | 0.2           | –          | –                | –                   | –        | 0.2         |
| Discount unwind        | 0.4                     | –             | –          | 0.2              | –                   | –        | 0.6         |
| <b>Closing balance</b> | <b>26.8</b>             | <b>6.6</b>    | <b>5.2</b> | <b>7.8</b>       | <b>4.7</b>          | <b>–</b> | <b>51.1</b> |
| Represented by:        |                         |               |            |                  |                     |          |             |
| Current                | 4.1                     | 6.6           | 4.0        | 0.8              | –                   | –        | 15.5        |
| Non-current            | 22.7                    | –             | 1.2        | 7.0              | 4.7                 | –        | 35.6        |
|                        | 26.8                    | 6.6           | 5.2        | 7.8              | 4.7                 | –        | 51.1        |

Provisions made include \$3.9 million (2017: \$32.2 million) for restructuring costs which primarily relates to redundancies and other support costs for the centralised Integrated Planning Services (“IPS”). Provisions utilised during the year included \$12.3 million (2017: \$41.5 million) for the ongoing restructuring of the Company.

### Contingent liabilities

#### Litigation

From time to time, the Company 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. On 19 July 2018 the ACCC announced that it has commenced proceedings against Pacific National and Aurizon in relation to Pacific National's proposed acquisitions of Aurizon's Acacia Ridge Terminal and Queensland Intermodal Business (as set out in Note 7.4). At the time of signing these financial statements, the Pacific National Group has not received any statement of claim from the ACCC. Pacific National refutes the allegations and will be vigorously defending the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. The transactions with Aurizon are further described in Note 3.3 and Note 7.4.

#### Environmental liabilities

The Company 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.

## 2.6 Reconciliation of net operating cash flows

|                                                                                           | 2018<br>\$M  | 2017<br>\$M  |
|-------------------------------------------------------------------------------------------|--------------|--------------|
| Profit after tax                                                                          | 211.0        | 1,107.4      |
| <b>Adjustments for non-cash items:</b>                                                    |              |              |
| Depreciation                                                                              | 249.6        | 269.7        |
| Amortisation of intangible assets                                                         | 31.0         | 29.0         |
| Amortisation of capitalised transaction costs                                             | 9.7          | 5.5          |
| Unwind of discount on long-term provisions                                                | 5.3          | 3.5          |
| Transaction costs capitalised                                                             | (7.4)        | (21.6)       |
| Share of joint ventures' profit net of distributions received                             | –            | 4.4          |
| Net gain on sale of property, plant and equipment                                         | (6.8)        | (0.5)        |
| Equity-settled share-based payment transactions                                           | –            | 1.6          |
| Defined benefits                                                                          | (6.7)        | (4.8)        |
| Fair value movements of derivatives not designated in a hedge relationship                | (4.7)        | (12.0)       |
| Credit value adjustment on derivatives                                                    | 0.4          | (1.0)        |
| Loss/(Gain) on sale of Patrick                                                            | 18.0         | (462.6)      |
| Gain on sale of AAT joint venture                                                         | –            | (98.2)       |
| Gain on sale of GeelongPort Pty Ltd                                                       | –            | (46.2)       |
| Impairment                                                                                | 3.4          | 1.3          |
| Other non-cash items                                                                      | –            | (10.0)       |
| <b>(Increase)/decrease in assets, net of effects from sale of Patrick businesses</b>      |              |              |
| Trade and other receivables                                                               | 25.7         | (18.3)       |
| Inventories                                                                               | 12.8         | 5.1          |
| Prepayments and other assets                                                              | (0.6)        | 8.2          |
| Change in current tax assets                                                              | 32.6         | 41.8         |
| Change in net deferred tax assets                                                         | 39.9         | (298.0)      |
| <b>(Decrease)/increase in liabilities, net of effects from sale of Patrick businesses</b> |              |              |
| Trade and other payables                                                                  | 88.1         | (18.1)       |
| Current tax liabilities                                                                   | –            | (0.2)        |
| Provisions and employee benefits                                                          | (28.2)       | (33.0)       |
| <b>Net operating cash flows</b>                                                           | <b>673.1</b> | <b>453.0</b> |

## 2.7 Changes in liabilities arising from financing activities

|                                                            | US dollar<br>bonds (net<br>of discount)<br>\$M | GBP bonds<br>(net of<br>discount)<br>\$M | AUD bonds<br>(net of<br>discount)<br>\$M | Syndicated<br>Debt<br>\$M | Capitalised<br>borrowing<br>costs<br>\$M | Unrealised<br>fair value<br>loss on USD<br>Bonds<br>\$M | Total<br>\$M   |
|------------------------------------------------------------|------------------------------------------------|------------------------------------------|------------------------------------------|---------------------------|------------------------------------------|---------------------------------------------------------|----------------|
| <b>2017</b>                                                |                                                |                                          |                                          |                           |                                          |                                                         |                |
| Opening balance                                            | 2,145.1                                        | 534.7                                    | 346.0                                    | 580.0                     | (17.6)                                   | 93.5                                                    | 3,681.7        |
| Proceeds from Bond issue, net                              | —                                              | —                                        | 349.8                                    | —                         | —                                        | —                                                       | 349.8          |
| Repayment of syndicated debt                               | —                                              | —                                        | —                                        | (2,140.0)                 | —                                        | —                                                       | (2,140.0)      |
| Drawdown of syndicated debt                                | —                                              | —                                        | —                                        | 1,560.0                   | —                                        | —                                                       | 1,560.0        |
| Mark to Market valuation movement                          | (66.9)                                         | (27.9)                                   | —                                        | —                         | —                                        | —                                                       | (94.8)         |
| New bond discount unwind                                   | —                                              | —                                        | 0.2                                      | —                         | —                                        | —                                                       | 0.2            |
| Discount unwind                                            | 0.7                                            | 0.2                                      | 0.3                                      | —                         | —                                        | —                                                       | 1.2            |
| Movement in capitalised transaction costs                  | —                                              | —                                        | —                                        | —                         | (3.9)                                    | —                                                       | (3.9)          |
| Movement in Unrealised fair value loss on USD dollar bonds | —                                              | —                                        | —                                        | —                         | —                                        | (51.4)                                                  | (51.4)         |
| Closing balance                                            | 2,078.9                                        | 507.0                                    | 696.3                                    | —                         | (21.5)                                   | 42.1                                                    | 3,302.8        |
| <b>2018</b>                                                |                                                |                                          |                                          |                           |                                          |                                                         |                |
| Opening balance                                            | 2,078.9                                        | 507.0                                    | 696.3                                    | —                         | (21.5)                                   | 42.1                                                    | 3,302.8        |
| Proceeds from Bond issue, net                              | 506.3                                          | —                                        | —                                        | —                         | (3.3)                                    | —                                                       | 503.0          |
| Repayment of Bonds                                         | (727.7)                                        | —                                        | —                                        | —                         | —                                        | —                                                       | (727.7)        |
| Mark to Market valuation movement                          | (175.7)                                        | 27.0                                     | —                                        | —                         | —                                        | —                                                       | (148.7)        |
| Discount unwind                                            | 0.9                                            | 0.2                                      | 0.5                                      | —                         | —                                        | —                                                       | 1.6            |
| Movement in capitalised transaction costs                  | —                                              | —                                        | —                                        | —                         | 9.1                                      | —                                                       | 9.1            |
| Movement in Unrealised fair value loss on USD dollar bonds | —                                              | —                                        | —                                        | —                         | —                                        | (29.8)                                                  | (29.8)         |
| <b>Closing balance</b>                                     | <b>1,682.7</b>                                 | <b>534.2</b>                             | <b>696.8</b>                             | <b>—</b>                  | <b>(15.7)</b>                            | <b>12.3</b>                                             | <b>2,910.3</b> |

### 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 the Company 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 the Company, 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                   | The Company 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 the Company.                                                                                                                                                                                                                                                      | 20 to 40 years                                                                                                                                  |
| Plant and equipment    | Plant and equipment used by the Group to generate its revenues.<br>Some of the larger items of plant and equipment include: <ul style="list-style-type: none"> <li>• cranes;</li> <li>• locomotives;</li> <li>• wagons; and</li> <li>• rail provisioning and maintenance facilities.</li> </ul>       | 3 to 45 years<br><ul style="list-style-type: none"> <li>• 20 years</li> <li>• 30 years</li> <li>• 25 years</li> <li>• 20 to 40 years</li> </ul> |
| 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.

|                                                       | Land<br>\$M  | Buildings<br>\$M | Plant and<br>equipment<br>\$M | Leasehold<br>improvements<br>\$M | Work in<br>progress<br>\$M | Total<br>\$M     |
|-------------------------------------------------------|--------------|------------------|-------------------------------|----------------------------------|----------------------------|------------------|
| <b>2017</b>                                           |              |                  |                               |                                  |                            |                  |
| <b>Cost</b>                                           |              |                  |                               |                                  |                            |                  |
| 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          |
| <b>Accumulated depreciation and impairment losses</b> |              |                  |                               |                                  |                            |                  |
| 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)        |
| <b>2018</b>                                           |              |                  |                               |                                  |                            |                  |
| <b>Cost</b>                                           |              |                  |                               |                                  |                            |                  |
| Opening balance                                       | 219.9        | 287.0            | 4,608.8                       | 105.0                            | 83.7                       | 5,304.4          |
| Acquisitions <sup>1</sup>                             | —            | —                | —                             | —                                | 192.4                      | 192.4            |
| Transfers and reclassification                        | —            | 0.8              | 164.8                         | 3.5                              | (185.0)                    | (15.9)           |
| Other disposals                                       | (0.8)        | (0.3)            | (30.2)                        | —                                | —                          | (31.3)           |
| <b>Closing balance</b>                                | <b>219.1</b> | <b>287.5</b>     | <b>4,743.4</b>                | <b>108.5</b>                     | <b>91.1</b>                | <b>5,449.6</b>   |
| <b>Accumulated depreciation and impairment losses</b> |              |                  |                               |                                  |                            |                  |
| Opening balance                                       | —            | (72.7)           | (2,142.4)                     | (43.3)                           | —                          | (2,258.4)        |
| Depreciation                                          | —            | (12.1)           | (228.0)                       | (6.9)                            | —                          | (247.0)          |
| Transfers                                             | —            | —                | (0.1)                         | —                                | —                          | (0.1)            |
| Impairment                                            | —            | —                | (3.5)                         | —                                | —                          | (3.5)            |
| Other disposals                                       | —            | 0.3              | 29.6                          | —                                | —                          | 29.9             |
| <b>Closing balance</b>                                | <b>—</b>     | <b>(84.5)</b>    | <b>(2,344.4)</b>              | <b>(50.2)</b>                    | <b>—</b>                   | <b>(2,479.1)</b> |
| <b>Carrying amounts</b>                               |              |                  |                               |                                  |                            |                  |
| At 1 July 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          |
| <b>At 30 June 2018</b>                                | <b>219.1</b> | <b>203.0</b>     | <b>2,399.0</b>                | <b>58.3</b>                      | <b>91.1</b>                | <b>2,970.5</b>   |

1. Acquisitions includes \$17.0 million of non-cash additions in relation to locomotives.

## 3.2 Operating and finance leases

### Accounting policy

Where the Company 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 the Company 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:

|                                                                        | 2018<br>\$M  | 2017<br>\$M  |
|------------------------------------------------------------------------|--------------|--------------|
| <b>Non-cancellable operating lease rentals are payable as follows:</b> |              |              |
| Within one year                                                        | 34.9         | 32.5         |
| One year or later and no later than five years                         | 96.7         | 102.2        |
| Later than five years                                                  | 358.0        | 325.9        |
|                                                                        | <b>489.6</b> | <b>460.6</b> |

The Company leases property under non-cancellable operating leases expiring between one month and 39 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

The Company 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.

|                                                                      | 2018<br>\$M | 2017<br>\$M |
|----------------------------------------------------------------------|-------------|-------------|
| <b>Plant and equipment</b>                                           |             |             |
| Contracted capital expenditure committed but not yet payable:        |             |             |
| Within one year                                                      | 25.5        | 44.1        |
| One year or later and no later than five years                       | –           | 36.9        |
| Later than five years                                                | –           | 1.2         |
|                                                                      | <b>25.5</b> | <b>82.2</b> |
| <b>Maintenance commitments</b>                                       |             |             |
| Non-cancellable maintenance contracts committed but not yet payable: |             |             |
| Within one year                                                      | –           | 12.1        |
| One year or later and no later than five years                       | –           | 10.9        |
|                                                                      | <b>–</b>    | <b>23.0</b> |
| <b>Other commitments</b>                                             |             |             |
| Non-cancellable other contracts committed but not yet payable:       |             |             |
| Within one year                                                      | 4.3         | –           |
| One year or later and no later than five years                       | 2.3         | –           |
|                                                                      | <b>6.6</b>  | <b>–</b>    |

#### Other commitments

In July 2017 Pacific National entered into a binding agreement with Aurizon to purchase the Acacia Ridge Intermodal Terminal in Brisbane, Queensland. Separately, in August 2017 Pacific National also entered into a binding agreement to buy the Aurizon Queensland Intermodal Business as part of a consortium with Linfox. These arrangements include a terminal services agreement that require annual payments that are not included as lease commitments in note 3.2. These transactions were subject to approval by the ACCC and Foreign Investment Review Board (FIRB). Total consideration for the two transactions was \$225.0 million, inclusive of \$5.0 million paid in February 2018 as the transactions had not yet completed within six months of signing. On 19 July 2018 the ACCC announced that it had formed the view that the proposed acquisitions of Aurizon's Acacia Ridge Terminal and Queensland Intermodal Business by Pacific National should not proceed and had commenced proceedings against Pacific National and Aurizon in relation to the proposed acquisitions. Also subsequent to the reporting date, Aurizon terminated the binding agreement to sell the Aurizon Queensland Intermodal Business to Pacific National and Linfox for \$20.0 million, which will result in Pacific National being refunded its \$10.0 million bid bond. The remaining consideration payable by Pacific National for the \$205.0 million purchase of the Acacia Ridge Intermodal Terminal is \$170.0 million if this transaction completes, subject to the approval of the ACCC and FIRB. These transactions with Aurizon are further described in Note 2.5 and Note 7.4.

### 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 the Company'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.

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.

#### 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 the Company 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<br>\$M | IT<br>development<br>and software<br>\$M | Customer<br>contracts and<br>relationships<br>\$M | Brand<br>name<br>\$M | Other <sup>1</sup><br>\$M | Total<br>\$M   |
|-------------------------------------------------------|-----------------|------------------------------------------|---------------------------------------------------|----------------------|---------------------------|----------------|
| <b>2017</b>                                           |                 |                                          |                                                   |                      |                           |                |
| <b>Cost</b>                                           |                 |                                          |                                                   |                      |                           |                |
| 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        |
| <b>Accumulated amortisation and impairment losses</b> |                 |                                          |                                                   |                      |                           |                |
| 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)        |
| <b>2018</b>                                           |                 |                                          |                                                   |                      |                           |                |
| <b>Cost</b>                                           |                 |                                          |                                                   |                      |                           |                |
| Opening balance                                       | 874.0           | 157.8                                    | 297.0                                             | –                    | 17.3                      | 1,346.1        |
| Transfers and reclassification                        | –               | 15.4                                     | –                                                 | –                    | 1.1                       | 16.5           |
| Other disposals                                       | –               | –                                        | (297.0)                                           | –                    | –                         | (297.0)        |
| <b>Closing balance</b>                                | <b>874.0</b>    | <b>173.2</b>                             | <b>–</b>                                          | <b>–</b>             | <b>18.4</b>               | <b>1,065.6</b> |
| <b>Accumulated amortisation and impairment losses</b> |                 |                                          |                                                   |                      |                           |                |
| Opening balance                                       | –               | (122.9)                                  | (297.0)                                           | –                    | (2.4)                     | (422.3)        |
| Amortisation                                          | –               | (30.7)                                   | –                                                 | –                    | (0.4)                     | (31.1)         |
| Transfers and reclassification                        | –               | (1.1)                                    | –                                                 | –                    | –                         | (1.1)          |
| Other disposals                                       | –               | –                                        | 297.0                                             | –                    | –                         | 297.0          |
| <b>Closing balance</b>                                | <b>–</b>        | <b>(154.7)</b>                           | <b>–</b>                                          | <b>–</b>             | <b>(2.8)</b>              | <b>(157.5)</b> |
| <b>Carrying amounts</b>                               |                 |                                          |                                                   |                      |                           |                |
| At 1 July 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          |
| <b>At 30 June 2018</b>                                | <b>874.0</b>    | <b>18.5</b>                              | <b>–</b>                                          | <b>–</b>             | <b>15.6</b>               | <b>908.1</b>   |

1. Other intangible assets comprise \$14.0 million (2017: \$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. The Company assesses impairment by evaluating conditions specific to the Company and to the particular asset, which may lead to impairment. These include technological, market, economic or legal environments in which the Company 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

|                       | 2018<br>\$M  | 2017<br>\$M  |
|-----------------------|--------------|--------------|
| Bulk NSW              | 524.0        | 524.0        |
| National Intermodal   | 350.0        | 350.0        |
| <b>Total goodwill</b> | <b>874.0</b> | <b>874.0</b> |

No goodwill is allocated to Bulk QLD CGU. The Goodwill recorded in Bulk NSW relates to the Coal business.

The carrying amounts of goodwill in the CGUs at the current reporting date were fully supported by using the value-in-use methodology adopting cash flows from each CGU's strategic business plans.

### 3.5 Inventories

#### Accounting policy

Inventories consist predominantly of 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.

|                                                                       | 2018<br>\$M | 2017<br>\$M |
|-----------------------------------------------------------------------|-------------|-------------|
| <b>Current</b>                                                        |             |             |
| Inventories                                                           | 17.7        | 23.5        |
| Provision for obsolete and slow-moving items                          | (2.0)       | (2.1)       |
|                                                                       | <b>15.7</b> | <b>21.4</b> |
| <b>Non-current</b>                                                    |             |             |
| Inventories                                                           | –           | 42.1        |
| Provision for obsolete items including depreciation of capital spares | –           | (23.9)      |
|                                                                       | <b>–</b>    | <b>18.2</b> |

## 4. How we fund the business and manage risks

The Company has exposure to credit, liquidity and market risks relating to its use of financial instruments and working capital. This section presents information about the Company's exposure to each of these risks, the Company'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 the Company's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 the Company's activities. The Company, 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 the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. 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 the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and from treasury activities. | The Company's credit risk is managed within the limits set by the Board and they have established policies governing the Company's treasury activities, including the monitoring and management of credit risks arising from the use of derivatives.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Trade and other receivables<br>Cash and cash equivalents<br>Derivatives |
| Liquidity risk | Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.                                                                                                                                               | The Company'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.<br>The Company's liquidity risk is managed through: <ul style="list-style-type: none"> <li>• maintenance of at call access to funds in the form of cash balances or committed, available revolving credit facilities;</li> <li>• maintenance of rigorous and regular cash flow forecasts;</li> <li>• regular review of the adequacy of banking arrangements; and</li> <li>• centralisation of surplus cash balances, and management thereof in compliance with the Company's credit risk policies.</li> </ul> | Financial liabilities<br>Cash and cash equivalents                      |

#### 4.1 Financial risk management (continued)

| Risk        | Exposure arising from                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Management                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Balances exposed     |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Market risk | <p>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 the Company.</p> <p>Market risk reflects interest rate risk, foreign exchange risk and other market risks.</p>                                                                                                                                                              | <p>The goal of the Company's hedging activities is to manage and control, within acceptable parameters and in a cost effective manner, the potential adverse variations in the Company's value due to movements in market prices or rates. The Company 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 the Company's use of derivative instruments:</p> <ul style="list-style-type: none"> <li>• no speculative transactions are permitted;</li> <li>• only transactions involving approved instruments are allowed; and</li> <li>• transactions are not permitted unless in compliance with approved credit limits and delegated authorities.</li> </ul> |                      |
|             | <p>(i) Interest rate risk<br/>The Company 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.</p>                                                                                                                                                                                                                                             | <p>The Company 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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Loans and borrowings |
|             | <p>(ii) Foreign exchange risk<br/>The Company is exposed to exchange rate risk where it has entered into transactions denominated in foreign currencies. The principal source of the Company'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 the Company is primarily exposed are US dollars and the GBP.</p> | <p>The Company 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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Loans and borrowings |
|             | <p>(iii) Other market risks<br/>The Company is exposed to market price risk on contracts for the purchase of fuel. The Company manages its exposure by passing on the impact of fuel price movements, where possible and appropriate, to customers.</p>                                                                                                                                                                                                                                                          | <p>Given the objective of the Company'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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                         | 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 the Company 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

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company 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 | 2018<br>\$M  | 2017<br>\$M  |
|---------------------------------------|------|--------------|--------------|
| <b>Current</b>                        |      |              |              |
| Cash and cash equivalents             |      | 171.9        | 111.7        |
| Trade receivables (net of impairment) |      | 197.2        | 194.8        |
| Other receivables                     |      | 77.0         | 94.3         |
| Derivative financial assets           | 4.4  | 6.2          | 278.8        |
|                                       |      | 452.3        | 679.6        |
| <b>Non-current</b>                    |      |              |              |
| Other receivables                     |      | –            | 0.5          |
| Derivative financial assets           | 4.4  | 309.2        | 242.1        |
|                                       |      | 309.2        | 242.6        |
| <b>Total financial assets</b>         |      | <b>761.5</b> | <b>922.2</b> |

### Exposure to counterparty credit risk

#### Trade and other receivables

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

The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered, and credit limits are then established for each customer. The Company'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)

The Company'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 | 2018<br>\$M | 2017<br>\$M |
|-------------------------------------|-------------|-------------|
| Current                             | 196.4       | 185.2       |
| 31 to 60 days overdue               | 0.1         | 2.4         |
| Over 61 days overdue                | 5.0         | 12.2        |
| Allowance for impairment            | (4.3)       | (5.0)       |
|                                     | 197.2       | 194.8       |

The allowance for impairment losses of \$4.3 million (2017: \$5.0 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 \$171.9 million (2017: \$111.7 million) at year-end. The cash and cash equivalents are held with banks and financial institutions counterparties, which rate AA- to A, 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 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 transaction 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  | 2018<br>\$M    | 2017<br>\$M    |
|-----------------------------------------------|-------|----------------|----------------|
| <b>Current</b>                                |       |                |                |
| Trade payables                                |       | 116.2          | 82.2           |
| Other payables and accrued expenses           |       | 185.2          | 182.0          |
| Dividend payable to related parties           |       | —              | 2.8            |
| Derivative financial liabilities              | 4.4   | 44.5           | 20.7           |
| Loans and borrowings:                         |       | —              | 975.2          |
| US dollar bonds (net of discount)             | 4.3.2 | —              | 975.2          |
|                                               |       | 345.9          | 1,262.9        |
| <b>Non-current</b>                            |       |                |                |
| Other payables and accrued expenses           |       | 89.5           | 36.2           |
| Derivative financial liabilities              | 4.4   | 49.1           | 89.5           |
| Loans and borrowings:                         |       | 2,910.3        | 2,327.6        |
| Syndicated bank loan                          | 4.3.1 | —              | —              |
| US dollar bonds (net of discount)             | 4.3.2 | 1,682.7        | 1,103.7        |
| GBP bonds (net of discount)                   | 4.3.3 | 534.2          | 507.0          |
| AUD bonds (net of discount)                   | 4.3.4 | 696.8          | 696.3          |
| Unrealised fair value loss on US dollar bonds |       | 12.3           | 42.1           |
| Loan from related parties                     |       | —              | —              |
| Capitalised transaction costs                 |       | (15.7)         | (21.5)         |
|                                               |       | 3,048.9        | 2,453.3        |
| <b>Total financial liabilities</b>            |       | <b>3,394.8</b> | <b>3,716.2</b> |

In accordance with the Syndicated Facility Agreement, on 16 September 2016 Pacific National Holdings Pty Ltd entered into two new \$650.0 million tranches under the existing amended syndicated revolving debt facilities maturing in September 2019 and September 2021, and a \$75.0 million bank guarantee facility maturing in September 2021.

During the current reporting period the three year \$650.0 million syndicated revolving facility (due September 2019) was cancelled. Further, a new \$100.0 million bank guarantee facility entered into on 14 July 2017 and the \$75.0 million bank guarantee facility was cancelled on 22 August 2017.

Pacific National issued \$400.0 million USD denominated 10 year fixed rate bonds at a discount on 22 March 2018 as a partial refinancing of the US dollar denominated 7 year bonds that matured on 9 April 2018. These new bonds will mature in March 2028.

Transaction costs in relation to the issuance of the bond amounted to \$3.4 million.

### 4.3 Financial liabilities (continued)

As at 30 June 2018, all syndicated revolving credit facilities, working capital facilities, 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       | 2018         |                | 2017           |                |
|---------------------------------|----------------|--------------|----------------|----------------|----------------|
|                                 |                | Facility     | Utilised       | Facility       | Utilised       |
| Syndicated revolving facility   | September 2021 | 650.0        | –              | 650.0          | –              |
| Syndicated revolving facility   | September 2019 | –            | –              | 650.0          | –              |
|                                 |                | 650.0        | –              | 1,300.0        | –              |
| Less: cash and cash equivalents |                | –            | (171.9)        | –              | (111.7)        |
| <b>Net bank debt</b>            |                | <b>650.0</b> | <b>(171.9)</b> | <b>1,300.0</b> | <b>(111.7)</b> |
| Bank guarantee facility         | July 2020      | 100.0        | 47.1           |                |                |
| Bank guarantee facility         | September 2021 | –            | –              | 75.0           | 58.0           |
|                                 |                | <b>750.0</b> | <b>(124.8)</b> | <b>1,375.0</b> | <b>(53.7)</b>  |

Pacific National pays interest on its bank facilities at a margin above the bank bill swap rate. For the current reporting period to 30 June 2018 the syndicated bank loan remained undrawn.

#### 4.3.2 US dollar bonds

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

| \$M                                  | Maturity       | 2018           |                  | 2017           |                |
|--------------------------------------|----------------|----------------|------------------|----------------|----------------|
|                                      |                | US\$           | A\$ <sup>1</sup> | US\$           | A\$            |
| US dollar 7 year bonds <sup>2</sup>  | April 2018     | –              | –                | 750.0          | 975.2          |
| US dollar 10 year bonds <sup>3</sup> | September 2020 | 600.0          | 810.3            | 600.0          | 780.1          |
| US dollar 10 year bonds <sup>4</sup> | March 2028     | 400.0          | 540.2            | –              | –              |
| US dollar 12 year bonds <sup>2</sup> | April 2023     | 250.0          | 337.6            | 250.0          | 325.1          |
| <b>US bonds (gross of discount)</b>  |                | <b>1,250.0</b> | <b>1,688.1</b>   | <b>1,600.0</b> | <b>2,080.4</b> |
| Discount on US dollar bonds          |                | (4.4)          | (5.4)            | (1.5)          | (1.5)          |
| <b>US bonds (net of discount)</b>    |                | <b>1,245.6</b> | <b>1,682.7</b>   | <b>1,598.5</b> | <b>2,078.9</b> |

1. Australian dollar equivalent calculated at the spot rate on 30 June 2018.

2. As at 30 June 2018, the Company's currency exposure on the US dollar 12 year bonds was hedged to 100% (2017: 100%) and the Company's interest rate exposure for all the bonds was hedged to 62% (2017: 52%) through a combination of fixed-for-floating cross-currency interest rate swaps and interest rate swaps.

3. As at 30 June 2018, the Company's currency and interest rate exposure on the US dollar 10 year bonds was hedged to 100% (2017: 100%) through fixed-for-fixed cross-currency interest rate swaps.

4. As at 30 June 2018, the Company's currency and interest rate exposure on the new US dollar 10 year bonds was hedged to 100% through 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       | 2018         |                  | 2017         |              |
|------------------------------------|----------------|--------------|------------------|--------------|--------------|
|                                    |                | GB£          | A\$ <sup>1</sup> | GB£          | A\$          |
| GBP 10 year bonds <sup>2</sup>     | September 2023 | 300.0        | 535.2            | 300.0        | 508.2        |
| Discount on GBP bonds              |                | (0.6)        | (1.0)            | (0.7)        | (1.2)        |
| <b>GBP bonds (net of discount)</b> |                | <b>299.4</b> | <b>534.2</b>     | <b>299.3</b> | <b>507.0</b> |

1. Australian dollar equivalent calculated at the spot rate on 30 June 2018.

2. As at 30 June 2018, the Company's currency and interest rate exposure on the GBP bonds was hedged to 100% (2017: 100%) through 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 | 2018         | 2017         |
|------------------------------------|----------|--------------|--------------|
|                                    |          | A\$          | A\$          |
| AUD 10 year bonds                  | May 2027 | 350.0        | 350.0        |
| AUD 10 year bonds                  | May 2025 | 350.0        | 350.0        |
| Discount on AUD bonds              |          | (3.2)        | (3.7)        |
| <b>AUD bonds (net of discount)</b> |          | <b>696.8</b> | <b>696.3</b> |

#### Exposure to liquidity risk

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

|                                     | Carrying<br>amount<br>\$M | Less than<br>1 year<br>\$M | 1 to 2<br>year(s)<br>\$M | 2 to 5<br>years<br>\$M | Over<br>5 years<br>\$M | Total<br>\$M   |
|-------------------------------------|---------------------------|----------------------------|--------------------------|------------------------|------------------------|----------------|
| <b>2018</b>                         |                           |                            |                          |                        |                        |                |
| <b>Non-derivatives</b>              |                           |                            |                          |                        |                        |                |
| US dollar bonds (gross of discount) | 1,688.1                   | 76.9                       | 76.5                     | 1,284.4                | 495.0                  | 1,932.8        |
| Unrealised loss on US bonds         | 12.3                      | —                          | —                        | —                      | —                      | —              |
| GBP bonds (gross of discount)       | 535.2                     | 26.8                       | 26.8                     | 80.2                   | 561.9                  | 695.7          |
| AUD bonds (gross of discount)       | 700.0                     | 133.0                      | 31.9                     | 95.6                   | 690.8                  | 951.3          |
| Trade payables                      | 116.2                     | 116.2                      | —                        | —                      | —                      | 116.2          |
| Other payables and accrued expenses | 274.7                     | 185.2                      | 89.5                     | —                      | —                      | 274.7          |
| <b>Derivatives</b>                  |                           |                            |                          |                        |                        |                |
| Forward exchange contracts          | 0.7                       | 24.3                       | —                        | —                      | —                      | 24.3           |
| Interest rate swaps                 | 10.6                      | 2.5                        | 3.0                      | 6.7                    | (1.0)                  | 11.2           |
| Cross-currency swaps                | (233.1)                   | 21.4                       | 22.0                     | (233.0)                | (61.5)                 | (251.1)        |
| <b>Total financial liabilities</b>  | <b>3,104.7</b>            | <b>586.3</b>               | <b>249.7</b>             | <b>1,233.9</b>         | <b>1,685.2</b>         | <b>3,755.1</b> |
| <b>2017</b>                         |                           |                            |                          |                        |                        |                |
| <b>Non-derivatives</b>              |                           |                            |                          |                        |                        |                |
| 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            |
| <b>Derivatives</b>                  |                           |                            |                          |                        |                        |                |
| 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)        |
| <b>Total financial liabilities</b>  | <b>3,223.2</b>            | <b>1,311.0</b>             | <b>177.1</b>             | <b>986.6</b>           | <b>1,553.6</b>         | <b>4,028.3</b> |

### 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 2018 was 6.6% (2017: 6.0%) per annum across the US dollar, GBP bonds and AUD bonds.

### 4.4 Derivative financial instruments

#### Accounting policy

##### Derivative financial instruments

The Company 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, the Company 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. The Company'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 the Company, the nature of the hedge relationship with the underlying debt instrument and their fair values as at reporting date:

| Derivative instrument              | Nature of hedge  | 2018<br>\$M     |       |           | 2017<br>\$M     |       |           |
|------------------------------------|------------------|-----------------|-------|-----------|-----------------|-------|-----------|
|                                    |                  | Notional amount | Asset | Liability | Notional amount | Asset | Liability |
| Forward exchange contracts         | Cash flow hedge  | 24.3            | 0.4   | 1.1       | 39.8            | —     | 2.0       |
| Interest rate swaps                | Cash flow hedge  | 100.0           | —     | 1.7       | 100.0           | —     | 0.8       |
|                                    | Not in hedge     | 150.0           | —     | 8.9       | 500.0           | —     | 13.6      |
| Cross-currency interest rate swaps | Fair value hedge | 242.5           | 14.1  | —         | 970.1           | 41.6  | —         |
|                                    | Cash flow hedge  | 1,668.2         | 300.9 | 81.9      | 1,157.2         | 479.3 | 93.8      |
|                                    |                  | 2,185.0         | 315.4 | 93.6      | 2,767.1         | 520.9 | 110.2     |

#### 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 gain of \$0.9 million (2017: loss of \$1.4 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 (2017: \$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 \$1.7 million (2017: \$0.8 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 loss of \$0.3 million (2017: gain \$13.0 million). In relation to all cross-currency interest rate swaps, a credit adjustment of \$0.4 million was recorded in profit or loss for the year as a loss (2017: gain of \$2.4 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.

|                                       |                  | Expected cash flows |                           |                            |                          |                        |                        |              |
|---------------------------------------|------------------|---------------------|---------------------------|----------------------------|--------------------------|------------------------|------------------------|--------------|
|                                       |                  | Carrying<br>amount  | Notional<br>amount<br>\$M | Less than<br>1 year<br>\$M | 1 to 2<br>year(s)<br>\$M | 2 to 5<br>years<br>\$M | Over<br>5 years<br>\$M | Total<br>\$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<br>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        |
| 2018                                  |                  |                     |                           |                            |                          |                        |                        |              |
| Forward exchange contracts            | Cash flow hedge  | (0.7)               | 24.3                      | (0.7)                      | –                        | –                      | –                      | (0.7)        |
| Interest rate swaps                   | Cash flow hedge  | (1.7)               | 100.0                     | (0.7)                      | (0.7)                    | (1.3)                  | 1.0                    | (1.7)        |
| Cross-currency interest<br>rate swaps | Fair value hedge | 14.1                | 242.5                     | 4.3                        | 2.7                      | 7.3                    | –                      | 14.3         |
|                                       | Cash flow hedge  | 219.0               | 1,668.2                   | (25.7)                     | (24.7)                   | 225.6                  | 61.4                   | 236.6        |
| Total                                 |                  | 230.7               | 2,035.0                   | (22.8)                     | (22.7)                   | 231.6                  | 62.4                   | 248.5        |

#### 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:

|                                                                  | 2018<br>\$M | 2017<br>\$M |
|------------------------------------------------------------------|-------------|-------------|
| <b>Fixed rate instruments</b>                                    |             |             |
| Financial liabilities (US dollar bonds, AUD bonds and GBP bonds) | (2,823.4)   | (3,188.6)   |
|                                                                  | (2,823.4)   | (3,188.6)   |
| Effect of derivative contracts in a hedge relationship           | 219.1       | 385.5       |
|                                                                  | (2,604.3)   | (2,803.1)   |
| <b>Variable rate instruments</b>                                 |             |             |
| Financial liabilities (AUD bonds)                                | (100.0)     | (100.0)     |
| Financial assets (Cash and cash equivalents)                     | 171.9       | 111.7       |
|                                                                  | 71.9        | 11.7        |
| Effect of derivative contracts in a hedge relationship           | 12.4        | 40.8        |
|                                                                  | 84.3        | 52.5        |

##### Fair value sensitivity analysis for fixed interest rate instruments

As at 30 June 2018, the Company 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<br>\$M | 1% pa decrease<br>\$M | 1% pa increase<br>\$M | 1% pa decrease<br>\$M |
| 2017                |                       |                       |                       |                       |
| Interest rate swaps | 11.3                  | (11.3)                | 9.8                   | (9.8)                 |
| <b>2018</b>         |                       |                       |                       |                       |
| Interest rate swaps | 8.8                   | (8.8)                 | 7.2                   | (7.1)                 |

#### 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 the Company's hedge effectiveness testing. A 10% per annum change in the Australian dollar against the following currencies at 30 June 2018 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.

|           | 2018                   |                        | 2017                   |                        |
|-----------|------------------------|------------------------|------------------------|------------------------|
|           | 10% pa increase<br>\$M | 10% pa decrease<br>\$M | 10% pa increase<br>\$M | 10% pa decrease<br>\$M |
| US dollar | (1.5)                  | 2.3                    | (1.9)                  | 3.1                    |

The following significant exchange rates applied during the financial year:

|           | 2018            |                          | 2017            |                          |
|-----------|-----------------|--------------------------|-----------------|--------------------------|
|           | Average<br>rate | Year end rate<br>30 June | Average<br>rate | Year end rate<br>30 June |
| US dollar | 0.775           | 0.740                    | 0.754           | 0.769                    |
| GBP       | 0.576           | 0.561                    | 0.595           | 0.590                    |
| NZD       | 1.085           | 1.094                    | 1.058           | 1.049                    |

##### Exposure to foreign currency risk

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

|                                    | 2018    |       | 2017    |       |
|------------------------------------|---------|-------|---------|-------|
|                                    | USD     | GBP   | USD     | GBP   |
| Forward exchange contracts         | 17.5    | —     | 29.2    | —     |
| Cross-currency interest rate swaps | 1,250.0 | 300.0 | 1,600.0 | 300.0 |

##### Master netting or similar agreements

The Company 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 the Company 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)

|                                    | Gross and net amounts<br>of financial<br>instruments in the<br>Consolidated<br>Statement of Financial<br>Position<br>\$M | Amounts subject to<br>master netting<br>agreement<br>\$M | Net exposure<br>\$M |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------|
| <b>2017</b>                        |                                                                                                                          |                                                          |                     |
| <b>Financial assets</b>            |                                                                                                                          |                                                          |                     |
| Cross-currency interest rate swaps | 460.0                                                                                                                    | 32.9                                                     | 427.1               |
|                                    | 460.0                                                                                                                    | 32.9                                                     | 427.1               |
| <b>Financial liabilities</b>       |                                                                                                                          |                                                          |                     |
| 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                |
| <b>Net balance</b>                 | <b>410.7</b>                                                                                                             | <b>–</b>                                                 | <b>410.7</b>        |
| <b>2018</b>                        |                                                                                                                          |                                                          |                     |
| <b>Financial assets</b>            |                                                                                                                          |                                                          |                     |
| Forward exchange contracts         | 0.4                                                                                                                      | –                                                        | 0.4                 |
| Cross-currency interest rate swaps | 245.9                                                                                                                    | 12.8                                                     | 233.1               |
|                                    | <b>246.3</b>                                                                                                             | <b>12.8</b>                                              | <b>233.5</b>        |
| <b>Financial liabilities</b>       |                                                                                                                          |                                                          |                     |
| Interest rate swaps                | 10.6                                                                                                                     | –                                                        | 10.6                |
| Forward exchange contracts         | 1.1                                                                                                                      | –                                                        | 1.1                 |
| Cross-currency interest rate swaps | 12.8                                                                                                                     | 12.8                                                     | –                   |
|                                    | <b>24.5</b>                                                                                                              | <b>12.8</b>                                              | <b>11.7</b>         |
| <b>Net balance</b>                 | <b>221.8</b>                                                                                                             | <b>–</b>                                                 | <b>221.8</b>        |

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<br>Financial Position | 2018<br>\$M  | 2017<br>\$M  |
|-------------------------------------------------------------------------------------------------------|--------------|--------------|
| Total gross assets                                                                                    | 246.3        | 460.0        |
| Total gross liabilities                                                                               | 24.5         | 49.3         |
|                                                                                                       | 221.8        | 410.7        |
| <b>Reconciliation to Consolidated Statement of Financial Position</b>                                 |              |              |
| Derivative financial assets – current                                                                 | 6.2          | 278.8        |
| Derivative financial assets – non-current                                                             | 309.2        | 242.1        |
| Derivative financial assets                                                                           | 315.4        | 520.9        |
| Derivative financial liabilities – current                                                            | (44.5)       | (20.7)       |
| Derivative financial liabilities – non-current                                                        | (49.1)       | (89.5)       |
| Derivative financial liabilities                                                                      | (93.6)       | (110.2)      |
| <b>Net balance</b>                                                                                    | <b>221.8</b> | <b>410.7</b> |

## 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 the Company'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:

|                                                                   | 2018                   |                   | 2017                   |                   |
|-------------------------------------------------------------------|------------------------|-------------------|------------------------|-------------------|
|                                                                   | Carrying amount<br>\$M | Fair value<br>\$M | Carrying amount<br>\$M | Fair value<br>\$M |
| US dollar bonds, gross of discount and unrealised fair value loss | 1,688.1                | 1,711.2           | 2,122.5                | 2,166.1           |
| GBP bonds, gross of discount                                      | 535.2                  | 598.2             | 508.2                  | 566.3             |
| AUD bonds, gross of discount                                      | 700.0                  | 729.8             | 700.0                  | 722.5             |

### 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 the Company 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:

|                                                                     | 2018<br>% pa | 2017<br>% pa |
|---------------------------------------------------------------------|--------------|--------------|
| Australian dollar derivatives                                       | 2.1 to 2.8   | 1.7 to 2.3   |
| US dollar derivatives and fair value adjustments to US dollar bonds | 2.4 to 2.9   | 1.3 to 2.3   |
| GBP derivatives and fair value adjustments to GBP bonds             | 0.7 to 1.5   | 0.3 to 1.1   |

## 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. Transaction 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.

Transaction 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:

|                                                                                                                | 2018<br>\$M    | 2017<br>\$M    |
|----------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Recognised directly in the Consolidated Statement of Profit or Loss</b>                                     |                |                |
| Interest income                                                                                                | 6.1            | 3.9            |
| <b>Finance income</b>                                                                                          | <b>6.1</b>     | <b>3.9</b>     |
| Interest expense                                                                                               | (182.5)        | (184.2)        |
| Amortisation of capitalised transaction costs                                                                  | (9.7)          | (5.6)          |
| Guarantee and commitment fees                                                                                  | (8.8)          | (6.5)          |
| Unwind of discount on long-term provisions                                                                     | (5.3)          | (3.5)          |
| Credit value adjustment recognised in the profit or loss                                                       | (0.4)          | 1.0            |
| Net change in fair value of derivatives not designated in a hedge relationship                                 | 4.7            | 12.0           |
| <b>Finance expense</b>                                                                                         | <b>(202.0)</b> | <b>(186.8)</b> |
| <b>Recognised directly in the Consolidated Statement of Comprehensive Income</b>                               |                |                |
| Effective portions of changes in fair value of cash flow hedges                                                | (14.7)         | (11.4)         |
| Tax on finance income and finance costs recognised in the Consolidated Statement of Comprehensive Income       | 4.5            | 3.4            |
| Reset of tax cost base recognised in the Consolidated Statement of Comprehensive Income                        | –              | (23.9)         |
| <b>Finance (expense) recognised directly in the Consolidated Statement of Comprehensive Income, net of tax</b> | <b>(10.2)</b>  | <b>(31.9)</b>  |

## 4.7 Dividends

### Accounting policy

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

The following dividends were declared and paid by the Company in the 2018 financial year:

|                  | Cents<br>per share | Total amount<br>\$M | Franked/<br>unfranked | Date of payment |
|------------------|--------------------|---------------------|-----------------------|-----------------|
| Interim dividend | 4.64               | 45.3                | Unfranked             | 31 August 2017  |
| Interim dividend | 0.52               | 5.1                 | Unfranked             | 1 December 2017 |
| Interim dividend | 0.59               | 5.7                 | Unfranked             | 1 March 2018    |
| Interim dividend | 10.69              | 104.3               | Unfranked             | 31 May 2018     |

### Dividend Franking Account

Following the acquisition of Pacific National Holdings Pty Ltd by the Company's now Shareholders, Pacific National Holdings Pty Ltd and all its wholly owned Australian subsidiaries joined the ALAH tax consolidated group. As a result, no franking account is held by the Company as at 30 June 2018 (2017: nil).

## 4.8 Reserves

Movement in reserves:

|                                            | Common<br>control<br>\$M | Translation<br>\$M | Hedge<br>\$M | Employee<br>equity<br>benefits<br>\$M | Corporatisation<br>\$M | Profit<br>\$M | Total<br>\$M |
|--------------------------------------------|--------------------------|--------------------|--------------|---------------------------------------|------------------------|---------------|--------------|
| 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 declared                         | —                        | —                  | —            | —                                     | —                      | (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)    |
| 2018                                       |                          |                    |              |                                       |                        |               |              |
| Opening balance                            | (4,911.2)                | —                  | (78.0)       | —                                     | —                      | 2,966.4       | (2,022.8)    |
| Other comprehensive income                 | —                        | —                  | (10.2)       | —                                     | —                      | —             | (10.2)       |
| Profits transferred from retained earnings | —                        | —                  | —            | —                                     | —                      | —             | —            |
| Dividends declared                         | —                        | —                  | —            | —                                     | —                      | (160.4)       | (160.4)      |
| Employee equity benefits                   | —                        | —                  | —            | —                                     | —                      | —             | —            |
| Reserves transferred to retained earnings  | —                        | —                  | —            | —                                     | —                      | (2,806.0)     | (2,806.0)    |
| Closing balance                            | (4,911.2)                | —                  | (88.2)       | —                                     | —                      | —             | (4,999.4)    |

### Common control reserve

As a result of the Company'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 the Company shares as traded on 15 June 2007 over the initial carrying value of the businesses transferred from Toll to the Company at the time of the demerger.

## 4.8 Reserves (continued)

### 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 in 2017.

### 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.

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 in 2017.

### 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 at the beginning of 2017.

### Profit reserve

The profit reserve was established to record profits from which franked and unfranked 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 the Company's own equity instruments ("treasury shares") are not recognised as financial assets regardless of the reason for which they are reacquired. If the Company 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 the Company'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<br>\$ | Number of fully paid ordinary shares | \$M            |
|----------------------------------------|---------------------|-----------------------|--------------------------------------|----------------|
| <b>2017</b>                            |                     |                       |                                      |                |
| Balance at                             | 1 July 2016         |                       | 975,385,664                          | 8,586.7        |
| Treasury shares allocated <sup>1</sup> |                     | 8.19                  |                                      | 23.7           |
| Return of capital <sup>2</sup>         |                     | —                     |                                      | (2,991.6)      |
| Balance at                             | 30 June 2017        |                       | 975,385,664                          | 5,618.8        |
| <b>2018</b>                            |                     |                       |                                      |                |
| <b>Parent</b>                          |                     |                       |                                      |                |
| Balance at                             | 1 July 2017         |                       | 975,385,664                          | 5,618.8        |
| <b>Balance at</b>                      | <b>30 June 2018</b> |                       | 975,385,664                          | <b>5,618.8</b> |

1. Treasury shares consisted of shares held in trust for Pacific National employees in relation to equity compensation plans. These shares transferred to the participating executives on satisfaction of the relevant time and/or performance-based conditions.
2. 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 Retained earnings / Accumulated losses

|                                                                              | 2018<br>\$M  | 2017<br>\$M      |
|------------------------------------------------------------------------------|--------------|------------------|
| Opening balance                                                              | (2,322.4)    | (3,066.4)        |
| Profit after tax attributable to owners of Pacific National Holdings Pty Ltd | 211.0        | 1,107.1          |
| Other comprehensive income                                                   | 1.6          | 15.3             |
| Profits transferred to profit reserve                                        | —            | (385.2)          |
| Reserves transferred to retained earnings                                    | 2,806.0      | 6.8              |
| <b>Closing balance</b>                                                       | <b>696.2</b> | <b>(2,322.4)</b> |

## 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 the Company 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.

##### ***Non-controlling interests***

Other non-controlling interests are interests in partly owned subsidiaries, which are not held either directly or indirectly by Pacific National Holdings Pty Ltd.

#### **Significant subsidiaries**

All significant operating subsidiaries as at 30 June 2018 listed below were incorporated in Australia.

Pacific National Finance Pty Ltd<sup>1</sup>

Pacific National Services Pty Limited<sup>2</sup>

Pacific National (NSW) Pty Limited

Pacific National (QLD) Pty Limited

Pacific National (Queensland Coal) Pty Limited

1. Formerly Asciano Finance Limited

2. Formerly Asciano Services 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 2018 are as follows:

|                                                            |                                                               |
|------------------------------------------------------------|---------------------------------------------------------------|
| Pacific National Executive Services Pty Ltd <sup>1</sup>   | Pacific National Holdings (Executive) Pty Ltd <sup>6</sup>    |
| Pacific National Holdings (Corporate) Pty Ltd <sup>2</sup> | Pacific National Holdings (Properties) Pty Ltd <sup>7</sup>   |
| Pacific National Holdings (Rail) Pty Ltd <sup>3</sup>      | Pacific National Properties (Operations) Pty Ltd <sup>8</sup> |
| Pacific National Properties Pty Ltd <sup>4</sup>           | Pacific National Rail Holdings Pty Ltd <sup>9</sup>           |
| Pacific National Services Pty Ltd <sup>5</sup>             | 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 <sup>10</sup>              |
| 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. Formerly Asciano Executive Services Pty Ltd
2. Formerly Asciano Holdings (Corporate) Pty Ltd
3. Formerly Asciano Holdings (Rail) Pty Ltd
4. Formerly Asciano Properties Pty Ltd
5. Formerly Asciano Services Pty Ltd
6. Formerly Asciano Holdings (Executive) Pty Ltd
7. Formerly Asciano Holdings (Properties) Pty Ltd
8. Formerly Asciano Properties (Operations) Pty Ltd
9. Formerly Asciano Rail Holdings Pty Ltd
10. Formerly Pacific National (Bulk Rail) Pty Ltd

## 5.2 Deed of cross guarantee (continued)

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 2018 are set out as follows:

|                                                                            | 2018<br>\$M  | 2017<br>\$M      |
|----------------------------------------------------------------------------|--------------|------------------|
| Consolidated Statement of Comprehensive Income                             |              |                  |
| Revenue from services rendered                                             | 2,457.6      | 2,289.1          |
| Other income                                                               | (118.2)      | (31.5)           |
| Operating expenses excluding depreciation and amortisation                 | (1,681.0)    | (1,624.2)        |
| <b>Profit before depreciation, amortisation, net finance costs and tax</b> | <b>658.4</b> | <b>633.4</b>     |
| Depreciation                                                               | (253.0)      | (257.2)          |
| Amortisation                                                               | (31.1)       | (28.3)           |
| <b>Profit before net finance costs and tax</b>                             | <b>374.3</b> | <b>347.9</b>     |
| Net finance expense                                                        | (47.3)       | (69.2)           |
| <b>Profit before tax</b>                                                   | <b>327.0</b> | <b>278.7</b>     |
| Tax (expense)/benefit                                                      | (98.0)       | 453.4            |
| <b>Profit after tax</b>                                                    | <b>229.0</b> | <b>732.1</b>     |
| Other comprehensive (loss)                                                 | (18.0)       | (38.9)           |
| <b>Profit for the period</b>                                               | <b>211.0</b> | <b>693.2</b>     |
| Accumulated losses at beginning of year                                    | (2,459.6)    | (2,623.8)        |
| Dividends paid                                                             | —            | 906.9            |
| Transfers from / (to) reserves                                             | 2,813.9      | (1,435.9)        |
| <b>Accumulated (losses) at end of the year</b>                             | <b>565.3</b> | <b>(2,459.6)</b> |

## 5.2 Deed of cross guarantee (continued)

| Consolidated Statement of Financial Position | 2018<br>\$M    | 2017<br>\$M    |
|----------------------------------------------|----------------|----------------|
| <b>Current assets</b>                        |                |                |
| Cash and cash equivalents                    | 171.8          | 111.5          |
| Trade and other receivables                  | 264.4          | 280.0          |
| Prepayments and other assets                 | 18.4           | 7.4            |
| Inventories                                  | 15.7           | 21.4           |
| Derivative financial assets                  | 6.2            | 278.8          |
| Current tax assets                           | —              | 32.6           |
| <b>Total current assets</b>                  | <b>476.5</b>   | <b>731.7</b>   |
| <b>Non-current assets</b>                    |                |                |
| Property, plant and equipment                | 2,970.5        | 3,046.0        |
| Intangible assets                            | 908.1          | 923.8          |
| Trade and other receivables                  | —              | 0.5            |
| Prepayments and other assets                 | 30.0           | 0.3            |
| Inventories                                  | —              | 18.2           |
| Net deferred tax assets                      | 184.0          | 262.8          |
| Derivative financial assets                  | 309.2          | 242.1          |
| Other assets                                 | 0.1            | —              |
| <b>Total non-current assets</b>              | <b>4,406.4</b> | <b>4,493.7</b> |
| <b>Total assets</b>                          | <b>4,882.9</b> | <b>5,225.4</b> |
| <b>Current liabilities</b>                   |                |                |
| Trade and other payables                     | 248.9          | 211.8          |
| Provisions and employee benefits             | 98.4           | 119.7          |
| Loans and borrowings                         | —              | —              |
| Derivative financial liabilities             | 44.5           | 20.6           |
| <b>Total current liabilities</b>             | <b>391.8</b>   | <b>352.1</b>   |
| <b>Non-current liabilities</b>               |                |                |
| Other payables and accrued expenses          | 147.1          | 136.7          |
| Provisions and employee benefits             | 50.4           | 48.2           |
| Loans and borrowings                         | 3,059.8        | 3,456.1        |
| Derivative financial liabilities             | 49.1           | 89.5           |
| Net deferred tax liabilities                 | —              | —              |
| <b>Total non-current liabilities</b>         | <b>3,306.4</b> | <b>3,730.5</b> |
| <b>Total liabilities</b>                     | <b>3,698.2</b> | <b>4,082.6</b> |
| <b>Net assets</b>                            | <b>1,184.7</b> | <b>1,142.8</b> |
| <b>Equity</b>                                |                |                |
| Contributed equity                           | 5,618.8        | 5,618.8        |
| Reserves                                     | (4,999.4)      | (2,016.8)      |
| Other comprehensive income                   | —              | 0.4            |
| Retained earnings / (Accumulated losses)     | 565.3          | (2,459.6)      |
| <b>Total equity</b>                          | <b>1,184.7</b> | <b>1,142.8</b> |

## 6. How we remunerate our employees

This section presents information in relation to remuneration paid by the Company 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 Employee benefits and superannuation

#### Accounting policy

##### *Long-term service benefits*

The Company'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 the Company'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*

The Company'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 the Company'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.

The Company 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 the Company 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 the Company 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. The Company 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.

## 6.1 Employee benefits and superannuation (continued)

### 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

Provisions in relation to employee benefits are as follows:

|                                | 2018<br>\$M | 2017<br>\$M |
|--------------------------------|-------------|-------------|
| <b>Current</b>                 |             |             |
| Long service leave             | 41.1        | 50.0        |
| Annual leave                   | 39.6        | 40.4        |
| Other employee entitlements    | 2.2         | 2.1         |
|                                | 82.9        | 92.5        |
| <b>Non-current</b>             |             |             |
| Defined benefit plan liability | 53.2        | 62.2        |
| Long service leave             | 14.7        | 9.5         |
| Other long-term incentive      | –           | 1.3         |
|                                | 67.9        | 73.0        |

### Defined contribution funds

The Company 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 the Company pays contributions into the various funds in accordance with the employees' instructions. Contributions made to the funds were \$34.1 million (2017: \$41.5 million).

#### Victorian State Superannuation Fund

The Company 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 2018, there were 14 (2017: 15) employees still in the defined benefit schemes.

The State Government of Victoria retains liability for investment risk in the VSSF while the Company'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 the Company 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 the Company's contribution in the calculation of the State Government of Victoria's balances.

### Defined benefit funds

The Company 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 188 (2017: 306) employees and former employees in these defined benefit funds as at 30 June 2018. 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, the Company made additional contributions of \$9.7 million (2017: \$9.3 million) in the 2018 financial year. An additional contribution of \$11.0 million is forecast for the 2019 financial year.

## 6.1 Employee benefits and superannuation (continued)

In accordance with AASB 119, the Company 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.

|                                                                                     | 2018<br>\$M   | 2017<br>\$M   |
|-------------------------------------------------------------------------------------|---------------|---------------|
| <b>Fund assets comprise:</b>                                                        |               |               |
| Australian equities                                                                 | 34.8          | 37.2          |
| Overseas equities                                                                   | 40.9          | 47.5          |
| Australian fixed interest securities                                                | 8.4           | 9.9           |
| Overseas fixed interest securities                                                  | 5.2           | 1.9           |
| Property                                                                            | 13.9          | 13.6          |
| Cash                                                                                | 16.5          | 12.2          |
| Other                                                                               | 37.1          | 35.7          |
|                                                                                     | <b>156.8</b>  | <b>158.0</b>  |
| <b>Movement in the present value of fund assets</b>                                 |               |               |
| Balance at the beginning of the financial period                                    | 158.0         | 171.8         |
| Contributions paid into the funds – employer                                        | 10.9          | 11.0          |
| Contributions paid into the funds – plan participants                               | 1.5           | 1.8           |
| Benefits paid by the funds                                                          | (26.8)        | (42.5)        |
| Expected return on fund assets                                                      | 6.3           | 5.7           |
| Actuarial gains recognised in other comprehensive income                            | 6.9           | 10.2          |
| <b>Balance at the end of the financial year</b>                                     | <b>156.8</b>  | <b>158.0</b>  |
| <b>Movement in the present value of the defined benefit obligation</b>              |               |               |
| Balance at the beginning of the financial year                                      | 220.2         | 260.7         |
| Contributions paid into the funds                                                   | 1.5           | 1.8           |
| Benefits paid by the funds                                                          | (26.8)        | (42.5)        |
| Current service costs and interest                                                  | 10.5          | 11.9          |
| Actuarial losses/(gains) recognised in other comprehensive income                   | 4.6           | (11.7)        |
| <b>Balance at the end of the financial year</b>                                     | <b>210.0</b>  | <b>220.2</b>  |
| <b>Expenses recognised in the profit or loss</b>                                    |               |               |
| Current service costs                                                               | 1.8           | 3.2           |
| Interest cost                                                                       | 8.7           | 8.7           |
| Expected return on fund assets                                                      | (6.3)         | (5.7)         |
| <b>Total included in employee benefits expense</b>                                  | <b>4.2</b>    | <b>6.2</b>    |
| <b>Actual return on fund assets</b>                                                 | <b>6.9</b>    | <b>10.2</b>   |
| <b>Actuarial gains and losses recognised directly in other comprehensive income</b> |               |               |
| Balance at the beginning of the financial year                                      | (91.5)        | (106.8)       |
| Gains recognised directly in other comprehensive income                             | 2.3           | 21.9          |
| Tax thereon                                                                         | (0.7)         | (6.6)         |
| Other comprehensive income, net of tax                                              | 1.6           | 15.3          |
| <b>Balance at the end of the financial year</b>                                     | <b>(89.9)</b> | <b>(91.5)</b> |

## 6.1 Employee benefits and superannuation (continued)

|                                               | 2018<br>% pa | 2017<br>% pa |
|-----------------------------------------------|--------------|--------------|
| <b>Actuarial assumptions</b>                  |              |              |
| Discount rate                                 | 4.1          | 4.2          |
| Future salary increases                       | 2.5          | 2.5          |
| Rate of Consumer Price Index ("CPI") increase | 2.5          | 2.0          |
| Expected rate of return on assets             | 7.4          | 7.4          |

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

|                                                  | Change in<br>in assumptions | 2018<br>Impact on defined<br>benefit obligation |              | 2017<br>Impact on defined<br>benefit obligation |              |
|--------------------------------------------------|-----------------------------|-------------------------------------------------|--------------|-------------------------------------------------|--------------|
|                                                  |                             | \$M Increase                                    | \$M Decrease | \$M Increase                                    | \$M Decrease |
| <b>Actuarial assumptions</b>                     |                             |                                                 |              |                                                 |              |
| Discount rate                                    | 1.0%                        | (20.0)                                          | 24.8         | (20.9)                                          | 26.0         |
| Future salary increases                          | 0.5%                        | 5.7                                             | (5.4)        | 6.0                                             | (5.6)        |
| Rate of Consumer Price Index ("CPI")<br>increase | 0.5%                        | 5.6                                             | (5.1)        | 5.9                                             | (5.3)        |
| Pensioner mortality                              | 5.0%                        | (1.0)                                           | 1.0          | (1.0)                                           | 1.0          |

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 2018.

## 6.1 Employee benefits and superannuation (continued)

### Historical information

|                                           | SSS<br>\$M | SASS<br>\$M   | SANCS<br>\$M | Total<br>\$M  |
|-------------------------------------------|------------|---------------|--------------|---------------|
| 2018                                      |            |               |              |               |
| Defined benefit obligation                | (2.8)      | (194.7)       | (12.5)       | (210.0)       |
| Fund assets                               | 7.7        | 128.2         | 20.9         | 156.8         |
| <b>Net surplus/(deficit)</b>              | <b>4.9</b> | <b>(66.5)</b> | <b>8.4</b>   | <b>(53.2)</b> |
| Experience adjustments – fund liabilities | (0.1)      | (3.5)         | (0.3)        | (3.9)         |
| 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 Pacific National Holdings Pty Ltd'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:

|                                   | 2018<br>\$000   | 2017<br>\$000   |
|-----------------------------------|-----------------|-----------------|
| <b>Remuneration elements</b>      |                 |                 |
| Short-term employee benefits      | 10,642.3        | 7,369.3         |
| Post-employment benefits          | 164.6           | 265.7           |
| Other long-term employee benefits | 156.7           | 166.2           |
| Cash-settled benefits             | —               | 1,269.7         |
| Termination payments              | 644.5           | 1,128.7         |
| <b>Total remuneration</b>         | <b>11,608.1</b> | <b>10,199.6</b> |

#### (c) Transactions with related parties

During the financial year, the continuing operations paid dividends to ALAI and had liabilities of nil as at 30 June 2018 (2017: \$2.8 million) for dividends payable to ALAI and \$72.3 million (2017: \$17.2 million) for tax payable to ALAH by the ALAH tax group members.

### 7.2 Auditor's remuneration

KPMG is the auditor of Pacific National Holdings Pty Ltd. Amounts received or due and receivable by KPMG are detailed below:

|                                       | 2018<br>\$000 | 2017<br>\$000  |
|---------------------------------------|---------------|----------------|
| <b>Audit services</b>                 |               |                |
| Audit and review of financial reports | 697.3         | 1,092.0        |
| <b>Other services</b>                 |               |                |
| Other assurance related services      | 101.8         | 161.0          |
|                                       | <b>799.1</b>  | <b>1,253.0</b> |

### 7.3 Parent

As at, and throughout the 2018 financial year, the parent company of Pacific National was Pacific National Holdings Pty Ltd.

|                             | 2018<br>\$M    | 2017<br>\$M    |
|-----------------------------|----------------|----------------|
| <b>Result of the Parent</b> |                |                |
| (Loss)/profit after tax     | (161.9)        | 417.2          |
| <b>Financial position</b>   |                |                |
| Current assets              | 195.8          | 431.3          |
| Non-current assets          | 6,145.9        | 6,083.9        |
| Total assets                | 6,341.7        | 6,515.2        |
| Current liabilities         | 49.4           | 28.3           |
| Non-current liabilities     | 2,955.7        | 2,828.0        |
| Total liabilities           | 3,005.1        | 2,856.3        |
| <b>Net assets</b>           | <b>3,336.6</b> | <b>3,658.9</b> |
| <b>Equity</b>               |                |                |
| Contributed equity          | 6,655.0        | 6,655.0        |
| Reserves                    | (88.2)         | 2,887.9        |
| Accumulated losses          | (3,230.2)      | (5,884.0)      |
| <b>Total equity</b>         | <b>3,336.6</b> | <b>3,658.9</b> |

The Parent has net current assets of \$146.4 million as at 30 June 2018 (2017: \$403.0 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 2018 or 30 June 2017.

#### 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

On 19 July 2018 the ACCC announced that it had formed the view that the proposed acquisitions of Aurizon's Acacia Ridge Terminal and Queensland Intermodal Business by Pacific National should not proceed and had commenced proceedings against Pacific National and Aurizon in relation to the proposed acquisitions. At the time of signing these financial statements, the Pacific National Group has not received any statement of claim from the ACCC. Pacific National refutes the allegations and will be vigorously defending the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. Also subsequent to the reporting date, Aurizon terminated the binding agreement to sell the Aurizon Queensland Intermodal Business to Pacific National and Linfox, which will result in Pacific National being refunded its \$10.0 million bid bond. The transactions with Aurizon are further described in Note 2.5 and Note 3.3.

Apart from the above, there has not arisen in the period between 30 June 2018 and the date of this report any other 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.

**Directors' declaration****For the year ended 30 June 2018**

In the opinion of the Directors of Pacific National Holdings Pty Ltd:

- (a) the consolidated financial statements and notes set out on pages 8 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 2018 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards 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 (Wholly owned Companies) Instrument 2016/785*.

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 2018



**Dean Dalia Valle**

Chief Executive Officer

22 August 2018



# Independent Auditor's Report

To the shareholders of Pacific National Holdings Pty Ltd

## Opinion

We have audited the **Financial Report** of Pacific National Holdings Pty Ltd (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 2018 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 2018
- Consolidated statement of profit and loss, Consolidated statement of 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 Pacific National Holdings Pty Ltd'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.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or 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 and Company'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 and Company 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\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our Auditor's Report.

KPMG

Steve Gatt  
Partner

Sydney

22 August 2018