ARTC

17 February 2017

Grant Kari
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Australian Competition and Consumer ACCC
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By email: grant.kari@accc.gov.au

Dear Grant

RE: Remaining Mine Life (RML) Equation

As per recent discussions, ARTC is pleased to provide a copy of the RML equation underpinning its position in respect of the determination of RML and hence depreciation under the 2017 HVAU.

The RML Equation is represented as:

RML (at July 2016) = Max (Average Mine Life, 16.5 years)

Where:

Average Mine Life is calculated by the sum of the weighted mine life for every identified mine (total of n) based on the formula outlines below:

$$\text{Average Mine Life} = \sum_{j=1}^{n} (\text{wt of mine reserve}_j \text{ x Remaining mine life}_j)$$

Where:

"wt of mine reserve" is calculated for each individual mine(j) as follows:

$$wt\ of\ mine\ reserve = \frac{Reserves}{Total\ Reserves}$$

"Remaining mine life" is calculated as follows:

$$Remaining\ mine\ life = Min\ (License\ Life, \frac{Reserves}{Production})$$

For the purposes of the above:

"License Life" is equal to the years from the expiry Year of the longest dated lease on the mine and July 2016

"Reserves" reflect marketable reserves and is calculated as follows:

$$Reserves = (P1 * P1\ Certainty + P2 * P2\ Certainty) * Yield * (1 - End\ of\ life\ factor)$$

Where:

(i)   P1 = Proven Reserves, calculated in accordance with below

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(ii)   P1 Certainty = 0.925

(iii)   P2 = Probable Reserves, calculated in accordance with below

(iv)   P2 Certainty = 0.825

(v)

$$Yield = \frac{Saleable\ Coal}{Production}$$

(vi)   End of Life Reduction = 0.1

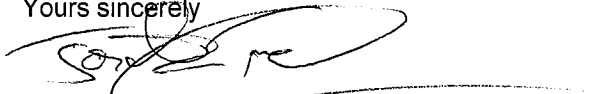"Production" is the greater of the average yearly production for that mine based on:

(i)   the tonnage calculated by reference to the Path Usages and Service Assumptions for the mine under its Access Holder Agreement with ARTC; or

(ii)   the Access Holder's highest level of actual production between the 2016 contract year and the year in which the weighted average mine life calculation is made.

"Proven Reserves" and "Probable Reserves" will be determined for each mine using relevant publicly available information reported pursuant to the requirements of a recognised stock exchange (including depreciation rates included in such reports or accounts). If no such information referred to above is publicly available, any reasonable estimates provided by the owner of the mine, the accuracy of which the owner warrants to ARTC.

Note the applicable date for such reporting will need to be adjusted to reflect the calculation date of 1 July 2016. For example, if the Reserves statements were made as at December 31, 2015, 0.5 years would be required to be deducted from the outcome of the equation to ensure the figure is representative of the application date.

For further information regarding this information, please don't hesitate to contact me on (08) 8217 4248 or by email jteubner@artc.com.au.

Yours sincerely

Jonathan Teubner
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