



# 1617

ANNUAL REPORT

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## Our Vision

To be a world leading rail-based transport business that partners with customers for growth.

## Our Mission

We are an Australian rail-based transport business with a global orientation that creates value sustainably for our customers, shareholders, employees and the communities in which we operate.

## Our Values

**Safety:** Safety of ourselves and others is our number one priority. Safety is at the core of everything we do as we commit to **ZERO**Harm.

**People:** Diversity strengthens our capability. Our energy, courage, and passion motivate us to create extraordinary outcomes.

**Integrity:** We are honest, fair and conduct business with the highest ethical standards. We are respectful in all of our dealings.

**Customer:** Customers are at the heart of our business. We consistently deliver what we promise.

**Excellence:** We create value through collaboration and innovation. Our hallmarks are clear accountability, continuous improvement and disciplined execution.

# FY2017 in Review

## Financial headlines

(\$M)	FY2017	FY2016	VARIANCE %
Total revenue	3,452.3	3,457.9	0%
EBITDA - underlying	1,420.6	1,432.3	(1%)
EBIT - underlying	836.0	871.0	(4%)
Adjustments - Impairments	(811.2)	(527.6)	-
- Redundancy costs	(115.8)	-	-
EBIT - statutory	(91.0)	343.4	-
NPAT - underlying	461.0	510.0	(10%)
NPAT - statutory	(187.9)	72.4	-
Free cash flow (FCF)	634.2	340.2	86%
Final dividend (cps)	8.9	13.3	(33%)
Total dividend (cps)	22.5	24.6	(9%)
Earnings per share - underlying (cps)	22.5	24.4	(8%)
Return on invested capital (ROIC)	8.7%	8.6%	0.1ppt
EBITDA margin - underlying (%)	41.1%	41.4%	(0.3ppt)
Operating ratio (OR) - underlying (%)	75.8%	74.8%	(1ppt)
Total Above Rail volumes (mt)	259.4	270.9	(4%)
Operations net opex/NTK (excluding access) (\$/'000 NTK)	20.7	19.9	(4%)
Gearing (net debt/net debt + equity) (%)	39.6%	37.5%	(2.1ppt)

## Highlights

- › Underlying EBIT down 4% to \$836.0m
  - Cyclone Debbie impacted the business by approximately \$89m, \$20m in Above Rail and \$69m in Below Rail which is expected to be recovered in future years
  - Above Rail down \$33.3m (8%) due to cyclone and weaker Freight performance
  - Below Rail down \$15.5m (3%) due to cyclone offsetting true-up from the under-recovery of UT4 revenue from prior years
- › Significant increase in FCF to \$634.2m from working capital improvements, reduction in capital expenditure and the sale of Moorebank in 1HFY2017
- › Final dividend of 8.9cps (100% payout ratio on underlying NPAT), a decrease of 33% due to 2H impact of the cyclone. Full year dividend of 22.5cps down 9%
- › \$300.0m on market buy-back announced demonstrating surplus capital will be distributed to shareholders
- › Sale of the Queensland Intermodal business to a consortium of Pacific National (PN) and Linfox and sale of the Acacia Ridge terminal to PN. Total consideration for the two transactions is \$220.0m. The remaining Intermodal business, outside of Queensland, will be closed
- › Statutory EBIT of (\$91.0m) includes \$811.2m of asset impairments and \$115.8m of redundancy costs.

## Transformation

- › \$129.0m of benefits delivered, \$260.0m since 1 July 2015. On track for the \$380.0m transformation target. The exit of Intermodal contributes to transformation by permanently removing the financial loss
- › Benefits to be generated beyond FY2018 with the closure of the Rockhampton rollingstock workshop to be finalised CY2018 and changes to Queensland traincrew operations to be in place by the end of FY2018.

## Outlook

- › Providing earnings guidance for FY2018 is challenging due to the unknown UT5 outcome. Underlying EBIT \$900.0m - \$960.0m, key assumptions as follows:
  - Above Rail:
    - Coal volumes 215 - 225mt
    - Bulk losses reduced
    - Intermodal losses and associated costs excluded due to exit process
  - Below Rail:
    - Transitional tariffs assumed for the full year FY2018
    - FY2016 revenue cap (\$24m to be repaid to customers)
    - \$21m cyclone repair costs recovery
  - Group: Continued delivery of transformation benefits in remaining core business and no major weather impacts.

# Chairman's Report

## A message from the Chairman

Dear fellow shareholders,

The 2017 financial year (FY2017) was challenging for Aurizon. The challenges stemmed from the major operational and financial impacts from Cyclone Debbie and the continuing poor performance of our Bulk and Intermodal businesses. The Company has recognised asset impairments of \$840.5 million, largely in relation to these two businesses, which resulted in Aurizon recording a statutory Net Loss After Tax of \$187.9 million for FY2017. This is immensely frustrating to the Board and is not a true reflection of the Company's underlying business performance or the progress that has been made in transforming the Company.

The decision to exit Aurizon's Intermodal business is in response to the continued losses in this business and market dynamics, with sale proceeds and future capital able to be recycled into other profitable parts of the Company. The exit will allow Aurizon to focus on creating shareholder value through its core strengths and capabilities of heavy rail haulage operations and rail infrastructure management.

The category four tropical cyclone that hit Queensland during late March/early April allowed Aurizon to demonstrate its resilience and expertise in rail infrastructure management after about 70% of the Company's asset base was impacted. For the first time in the Company's history all four coal systems that make up the Central Queensland Coal Network were closed at the same time.

At Board level, we were impressed with the commitment and focus employees demonstrated in both the preparation and recovery process. While there is a net impact on earnings, the emphasis on restoring export supply chains quickly and efficiently for our customers is testament to Aurizon's position as a world-class rail network operator.

The total impact to Aurizon's Below Rail business was approximately \$69 million, however this lost revenue and repair costs are expected to be recovered in future years through the regulatory mechanisms available under our Access Undertaking with the Queensland Competition Authority (QCA). The impact on earnings for the Above Rail (haulage) business was approximately \$20 million.

Aurizon's results for FY2017 are aligned with the change to guidance announced in April. The Company's underlying Earnings Before Interest and Tax (EBIT) for the year was \$836 million, a decrease of 4% on the prior year.

The Board declared a final dividend of 8.9 cents per share (50% franked), giving a full-year dividend of 22.5 cents per share. The total dividend has decreased by 2.1 cents or 9% compared with the prior year. The final dividend is paying out 100% of the Company's underlying NPAT. The final dividend will be paid to shareholders on 25 September 2017.

Aurizon is in a strong financial position and, absent any inorganic growth opportunities, is entering a phase of good cash flow generation. As a result, the Board has resolved to implement a \$300 million share buy-back to be implemented during the next 12 months, subject to market conditions.

One of the key priorities for the Board this year was implementing the CEO succession plan to secure a successor for our inaugural Managing Director & Chief Executive Officer Lance Hockridge.

Following an extensive global search process, in September we announced the appointment of Andrew Harding as Managing Director & CEO from 1 December 2016. On behalf of the Board, I thank Lance for his leadership and contribution to the Company's achievements during his tenure.

Andrew Harding has brought global executive and operational experience to the Company, having managed complex and globally-significant supply chain operations in the mining sector. Andrew has industry insights into the market issues facing our customers and, since starting with Aurizon, has made significant changes to his leadership team and organisational structure to increase accountability and accelerate the Company's efficiency and performance.

The Board has supported the CEO's implementation of the new business unit structure and the renewal of his executive leadership team. Under Andrew's guidance, the Board is confident the Company's transformation program will enter a new phase and create more value for shareholders. Having already seen \$260 million of transformation benefits delivered during the past two years, the Board will continue its support of the executive leadership team as they implement greater efficiencies, improve customer service and increase productivity.

Sustainability is at the heart of Aurizon's mission and an area that the Board is committed to being involved in. The Board is proud of the Company's drive to improve on its sustainability priorities, which will deliver lasting value for all of our stakeholders. In our FY2016 Sustainability Report, our stakeholders identified safety, future of coal and business model as their top three important issues. Safety will always be our number one priority and in the coming year, we will change the way we measure our safety performance, benchmarking our performance against global and industry leaders in safety to help support our commitment to **ZERO**Harm.

Looking ahead, Aurizon has several key priorities for FY2018. The new regulatory period for our network asset, UT5, commenced on 1 July 2017. Despite significant work from our team on submissions to the QCA and stakeholder engagement, we have not yet received a draft decision from the QCA and an acceptable resolution is of great importance. The Company will also be focused on resolving the future of our Intermodal business, improving the performance of our Bulk business and achieving our transformation targets.

On the back of the Board's engagement with the renewed executive leadership team, we are confident our team is well equipped to deliver on the Company's key priorities and build future success for the Company.

On behalf of the Board, I would like to thank our employees for their dedication and hard work during a difficult year. We are also grateful to our customers and shareholders for your ongoing support.



**Tim Poole**  
Chairman  
14 August 2017

# Managing Director & CEO's Report

## A message from the Managing Director & CEO

Dear fellow shareholders,

Since joining Aurizon in December 2016, I have been consistently impressed by the capability of our employees and the potential of the core businesses within the Aurizon portfolio. Aurizon has a long and proud history, but is in its infancy as a publicly-listed company.

The underlying value of our business is very clear to me, so it is disappointing that Aurizon should report a statutory Net Loss After Tax of \$187.9 million in my first full-year financial result for the Company. The result underscores the commercial challenges we are confronted with and the need to continue transforming the business. Yet to some degree it also masks the fundamental strength of our core businesses, especially Network and Coal, and the opportunity to create value through the right decisions and disciplined execution.

Navigating Aurizon to reach its full potential for customers and for shareholders is an exciting prospect for me. I knew there would be many challenges to deal with and many changes to make. Certainly, the decisions made have grappled with a number of legacy issues and in particular the underperforming Intermodal and Bulk businesses. Following the review of our Freight business, we have made the decision to exit Intermodal by closing down our interstate operations and selling Queensland Intermodal and Acacia Ridge terminal. Initiatives are in place to turnaround the performance of our Bulk business following significant impairments in July.

Going forward, we will leverage our operational and commercial capability in heavy haulage operations and rail infrastructure to create value and certainty for shareholders.

Within weeks of my arrival, to support my goals of driving down costs and improving Aurizon's competitiveness and efficiency, I appointed Pam Bains as the Company's new Chief Financial Officer. A new business unit model has been implemented, led by a renewed executive leadership team who are responsible and accountable for their respective business units.

Collectively the new leadership team brings significant and relevant experience to their portfolios. In Network for example, Group Executive Michael Riches has extensive regulatory and legal experience in Australia. His first priority will be to finalise our fifth rail Access Undertaking (UT5) with the Queensland Competition Authority. Our Group Executive Coal, Ed McKeiver already has secured a number of important contracts for the business, overseen the commissioning of services for our newest customer in the Hunter Valley, AGL Macquarie, and brought a reinvigorated focus to the productivity and operating cost improvement agenda.

As I travelled around our national operations, my first impression was that Aurizon has high quality people – collaborative, diverse thinking and innovative. In particular the engineering and technical capability has impressed me and, as we continue to unlock new and smarter ways of doing business, it is these smarts that will drive Aurizon to its next level of performance. The use of technology, combined with the hard-work from our people, allowed us to swiftly recover from the biggest natural disaster in the Company's history – Cyclone Debbie. Despite the weather impacting our operations this year, we still achieved solid results, which reflects the quality of our people and the resilience of our business.

As I met with our people, one of the big stand outs was how employees live and breathe the Company's core value of safety. It is ingrained within the culture and how people go about their work. To raise the bar, and to continue to keep safety at the forefront of our operations, from next year we will broaden our injury definitions to be in line with our competitors, customers and industry leaders throughout the world.

Aurizon is currently implementing a number of reforms that are fundamental to improving customer service, increasing operational efficiency and reducing costs. We recognise that some of these changes have been tough for our employees, their families and the communities in which they live and work. The decision to close the Rockhampton workshops in Central Queensland by the end of 2018 was not made lightly, but change is necessary if the Company is to remain competitive and have a viable long-term future.

Markets change and while there remains sustained global demand for the major products we transport, including high-quality Australian resources, we operate in a very competitive market and need to be responsive to our customers' demands. Our customers have a choice in rail operators, so we will continue to work hard for them and build sustainable supply chain partnerships. Our customers rely on our Aurizon trains each day to deliver their products safely, reliably and on time.

During the year, I expanded the scope of the transformation program to include capital and revenue so that benefits can be realised beyond the FY2018 cost target. My leadership team is working across the business to deliver greater efficiencies, manage costs and improve productivity, while maintaining our commitment to customers and safety.

Looking ahead, the continued global demand for quality Australian resources and produce will sustain growth in our customers' businesses, providing strong economic opportunity for both Australia and our customers. As a supply chain partner for these sectors with a simplified portfolio, I am looking forward to leading Aurizon into its next phase, delivering for our customers and generating improved returns for shareholders.



**Andrew Harding**  
Managing Director & CEO  
14 August 2017

# Directors' Report

## Aurizon Holdings Limited For the year ended 30 June 2017

The Directors of Aurizon Holdings Limited present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively the **Consolidated Entity** or the **Group**) for the financial year ended 30 June 2017 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

## Board of Directors

The following people are Directors of the Company, or were Directors during the reporting period:

**T Poole**  
(Appointed 1 July 2015)  
(Chairman, Independent Non-Executive Director)

**A Harding**  
(Appointed 1 December 2016)  
(Managing Director & Chief Executive Officer)

**R Caplan**  
(Appointed 14 September 2010)  
(Independent Non-Executive Director)

**J Cooper**  
(Appointed 19 April 2012)  
(Independent Non-Executive Director)

**K Field**  
(Appointed 19 April 2012)  
(Independent Non-Executive Director)

**M Fraser**  
(Appointed 15 February 2016)  
(Independent Non-Executive Director)

**S Lewis**  
(Appointed 17 February 2015)  
(Independent Non-Executive Director)

**K Vidgen**  
(Appointed 25 July 2016)  
(Independent Non-Executive Director)

During the year Mr Hockridge resigned as Managing Director & Chief Executive Officer (1 December 2016).

Details of the experience, qualifications, special responsibilities and other Directorships of listed companies in respect to each of the Directors as at the date of this Directors' Report are set out in the pages following.

## T Poole

**Experience:** Mr Poole began his career in 1990 at PricewaterhouseCoopers before a long and successful period (1995 to 2007) helping to build Hastings Fund Management, where he became Managing Director in 2005. Hastings is a global investor in unlisted assets, predominantly equity and debt issued by infrastructure companies.

**Qualifications:** BCom, Member of the Institute of Chartered Accountants Australia.

**Special Responsibilities:** Chairman of Nomination & Succession Committee. Member of Remuneration Committee. Member of Safety, Health & Environment Committee.

## Australian Listed Company Directorships held in the past three years:

Chairman of Lifestyle Communities Limited (19 November 2007 - ongoing) and McMillan Shakespeare Limited (17 December 2013 - ongoing). Non-Executive Director of Reece Limited (28 July 2016 - ongoing). Formerly Non-Executive Director of Newcrest Mining Limited (14 August 2007 - 30 July 2015) and Japara Healthcare Limited (19 March 2014 - 1 September 2015).

## A Harding

**Experience:** Mr Harding became the Managing Director and CEO of Aurizon on 1 December 2016.

Mr Harding has extensive operational experience in the resource industry and in managing supply chains for the world's largest integrated portfolio of iron ore assets.

Mr Harding's 24-year executive career has been spent with Rio Tinto and in its subsidiary companies, with his most recent role before joining Aurizon being the global Chief Executive Iron ore.

Mr Harding was also the Global Practice Leader, Asset Management, Technology and Innovation group of Rio Tinto from 2005 to 2009.

Mr Harding has championed a number of workplace initiatives including improvements in safety, a commitment to diversity, and the strengthening of indigenous and community relationships.

Mr Harding is a member of the 2012 class of Henry Crown Fellows at the Aspen Institute.

**Qualifications:** B.Eng. (Mining Engineering), MBA.

**Special Responsibilities:** Director of Aurizon Network Pty Ltd. Member of Safety, Health & Environment Committee.

**Australian Listed Company Directorships held in the past three years:** None other than Aurizon Holdings Limited.

## R Caplan

**Experience:** Mr Caplan has extensive international experience in the oil and gas industry. In a 42-year career with Shell, he held senior roles in the upstream and downstream operations, and corporate functions in Australia and overseas. From 1997 to 2006, he had senior international postings in the UK, Europe and the USA. From 2006 to July 2010, he was Chairman of the Shell Group of Companies in Australia.

Mr Caplan is Chairman of the Melbourne and Olympic Parks Trust. He is a former Non-Executive Director of Woodside Petroleum Limited and former Chairman of Orica Limited and the Australian Institute of Petroleum.

**Qualifications:** LLB, FAICD, FAIM.

**Special Responsibilities:** Chairman of Remuneration Committee. Member of Audit, Governance & Risk Management Committee.

**Australian Listed Company Directorships held in the past three years:** Orica Limited – Non-Executive Director (1 October 2007 – 31 December 2015).

## J Cooper

**Experience:** Mr Cooper has 35 years' experience in the construction and engineering sector in Australia and overseas. Mr Cooper is currently Chairman of Sydney Motorway Corporation and a Non-Executive Director of Aurizon Holdings. Mr Cooper's previous positions include CEO and Managing Director of CMPS&F, a design engineering and project management organisation, and a management role with the Sydney Olympic Organising Committee. Mr Cooper has served on the International Board of Murray and Roberts Pty Ltd, the Board of NRW Holdings Limited, as Deputy Chairman of Clough Engineering Limited and Chairman of Southern Cross Electrical Engineering Pty Ltd.

**Qualifications:** BSc (Building) (Hons), FIE Aust, FAICD, FAIM.

**Special Responsibilities:** Non-Executive Director of Aurizon Network Pty Ltd. Member of Safety, Health & Environment Committee. Member of Nomination & Succession Committee.

**Australian Listed Company Directorships held in the past three years:** Southern Cross Electrical Engineering Limited – Chairman and Non-Executive Director (30 October 2007 – 5 May 2015), NRW Holdings Limited – Non-Executive Director (29 March 2011 – 23 November 2015), UGL Limited – Non-Executive Director (15 April 2015 – 28 October 2016).

# Directors' Report (continued)

## K Field

**Experience:** Mrs Field has more than three decades of experience in the mining industry in Australia and overseas, and has a strong background in human resources and project management.

Mrs Field is currently a Non-Executive Director of Sipa Resources and has held Non-Executive Directorships with the Water Corporation (Deputy Chairman), Centre of Sustainable Resource Processing, Electricity Networks Corporation (Western Power), MACA Limited and Perilya Limited. In addition, Mrs Field is a Director of a number of community-based organisations and the University of Western Australia's Centenary Trust for Women.

**Qualifications:** B Econ, FAICD.

**Special Responsibilities:** Chairman of Safety, Health & Environment Committee. Member of Audit, Governance & Risk Management Committee. Member of Nomination & Succession Committee.

**Australian Listed Company Directorships held in the past three years:** Sipa Resources Limited - Non-Executive Director (16 September 2004 - ongoing).

## M Fraser

**Experience:** Mr Fraser has more than 30 years' experience in the Australian energy industry. He has held various executive positions at AGL Energy culminating in his role as Managing Director and Chief Executive Officer for a period of seven years until February 2015.

Mr Fraser is currently a Non-Executive Director of the ASX listed APA Group. Mr Fraser is former Chairman of the Clean Energy Council, Elgas Limited, ActewAGL and the NEMMCo Participants Advisory Committee, as well as a former Director of Queensland Gas Company Limited, the Australian Gas Association and the Energy Retailers Association of Australia.

**Qualifications:** BComm, FCPA, FTIA, MAICD.

**Special Responsibilities:** Chairman of Aurizon Network Pty Ltd. Member of Remuneration Committee.

**Australian Listed Company Directorships held in the past three years:** APA Group - Non-Executive Director (1 September 2015 - ongoing), AGL Energy Limited - Managing Director & CEO (22 October 2007 - 11 February 2015).

## S Lewis

**Experience:** Ms Lewis has extensive financial experience, including as a lead auditor of a number of major Australian listed entities. Ms Lewis has significant experience working with clients in the manufacturing, consumer business and energy sectors, and in addition to external audits, has provided accounting and transactional advisory services to other major organisations in Australia. Ms Lewis' expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence. Ms Lewis is currently a Non-Executive Director and Chairman of the Audit & Compliance Committee of Orora Limited, Chairman of APRA's Audit Committee and member of APRA's Risk Committee, and a Non-Executive Director and Chairman of the Audit & Risk Committee of Nine Entertainment Co. Previously, Ms Lewis was an Assurance & Advisory partner from 2000 to 2014 with Deloitte Australia.

**Qualifications:** BA (Hons) EC, CA, ACA, GAICD.

**Special Responsibilities:** Chairman of Audit, Governance & Risk Management Committee. Non-Executive Director of Aurizon Network Pty Ltd.

**Australian Listed Company Directorships held in the past three years:** Orora - Non-Executive Director (1 March 2014 - ongoing), Nine Entertainment Co. (20 March 2017 - ongoing).

## K Vidgen

**Experience:** Ms Vidgen began her career as a banking, finance and energy lawyer at Malleson Stephen Jacques and in 1998 started in the Infrastructure advisory team within the Macquarie Group. During her time at Macquarie, Ms Vidgen has traversed a number of sectors with a focus on infrastructure, energy and resources. Ms Vidgen has also held a number of roles including heading up Macquarie Capital's coal advisory team in Australia and being Global Co-Head of Resources Infrastructure. Ms Vidgen remains an Executive Director at Macquarie Capital and is currently the Global Head of Principal in Resources. Ms Vidgen is also the Founding Chair of Quadrant Energy, a privately held oil and gas producer and explorer which is the single largest domestic gas supplier in the Western Australian market.

**Qualifications:** LLB (Hons), BA, GAICD.

**Special Responsibilities:** Non-Executive Director of Aurizon Network Pty Ltd. Member of Remuneration Committee.

**Australian Listed Company Directorships held in the past three years:** Nil.

## Company Secretary

Mr Dominic Smith was appointed Company Secretary of the QR Limited Group in May 2010 and to Aurizon Holdings Limited upon its incorporation on 14 September 2010.

Mr Smith has over 20 years' ASX listed company secretariat, governance, corporate legal and senior management experience across a range of industries.

Mr Smith holds a Masters of Laws degree from the University of Sydney and is a Fellow of both the Governance Institute of Australia and the Australian Institute of Company Directors.

**Qualifications:** BA, LLB, LLM, DipLegS, FGIA, FCSA, FCIS, FAICD.

## Principal activities

The principal activities of entities within the Group during the year were:

- › Integrated heavy haul freight railway operator
- › Rail transporter of coal from mine to port for export markets
- › Bulk, general and containerised freight businesses
- › Large-scale rail services activities.

## Coal

Transport of coal from mines in Queensland and New South Wales to end customers and ports.

## Freight

Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia, and containerised freight throughout Australia.

## Network

Provision of access to, and operation and management of, the Queensland coal network. Provision of design, construction, overhaul, maintenance and management services to the Group, as well as external customers.



## Review of operations

A review of the Group's operations for the financial year and the results of those operations, are contained in the Operating and Financial Review as set out on pages 10 to 22 of this report.

## Dividends

A final dividend of 13.3 cents per fully paid ordinary share (70% franked) was paid on 26 September 2016 and an interim dividend of 13.6 cents per fully paid ordinary share (70% franked) was paid on 27 March 2017.

Further details of dividends provided for or paid are set out in note 14 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 8.9 cents per fully paid ordinary share. The dividend will be 50% franked and is payable on 25 September 2017.

## State of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

## Events since the end of the financial year

The Directors are not aware of any events or developments which are not set out in this report or note 33 of the Financial Report that have, or would have, a significant effect on the Group's state of affairs, its operations or its expected results in future years.

## Likely developments

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report set out on page 2 of this report. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation and performance

Aurizon is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, Aurizon seeks to comply with all applicable environmental laws and regulations. Aurizon acknowledges the strong scientific consensus that climate change is occurring and supports the objective of the Paris Climate Agreement to find a pathway to limiting global warming to two degrees. In response to climate change the Company has set and is tracking progress toward its 2020 greenhouse gas (GHG) emissions intensity target, analysing climate change policy implications for Australia's thermal coal and preparing for, and adapting to, extreme weather events. In relation to our GHG emissions intensity target, FY2017 performance was higher than originally forecast for a number of reasons. The organisation is working to ensure it improves its performance in FY2018 to get back on track to achieving its 2020 target.

The *National Greenhouse and Energy Reporting Act 2007 (NGER) (Cth)* requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the *NGER Act*. Further details of the Company's environmental performance are set out in the Sustainability Report on the Aurizon website [aurizon.com.au/sustainability](http://aurizon.com.au/sustainability).

## Environmental prosecutions

There have been no environmental prosecutions during this financial year.

## Risk management

The Company is committed to managing its risks in an integrated, systematic and practical manner. The overall objective of risk management is to assist the Company to achieve its objectives by appropriately considering both threats and opportunities, and making informed decisions.

The Audit, Governance & Risk Management Committee oversees the process for identifying and managing risk in the Company (see page 41 of this Annual Report). The Company's Risk and Assurance Function is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the Managing Director & CEO and the Board.

The Company's risk management framework, responsibilities and accountabilities are aligned with the Company's business model where the individual businesses are accountable for demonstrating they are managing their risks effectively, and in accordance with the Board-approved risk management policy and framework.

The risk management framework has a strong focus on key organisational controls. A focus on the key organisational controls helps to shape the strategies, capabilities and culture of the organisation, identify and address vulnerabilities, strengthen the system of internal controls and build a more resilient organisation.

The Company also has a series of risk registers, with risk profiles and mitigations populated at the various layers of the organisation. Processes exist for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud.

# Directors' Report (continued)

TABLE 1 – DIRECTORS' MEETINGS AS AT 30 JUNE 2017

DIRECTOR	AURIZON HOLDINGS BOARD		AUDIT, GOVERNANCE & RISK MANAGEMENT COMMITTEE		REMUNERATION COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE		NOMINATION & SUCCESSION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
T Poole <sup>1</sup>	17	17	9	9	5	5	5	5	2	2
A Harding <sup>2</sup>	8	8	-	-	-	-	3	3	-	-
L Hockridge <sup>3</sup>	9	8	-	-	-	-	2	2	-	-
R Caplan	17	17	9	9	5	5	-	-	-	-
J Cooper	17	16	-	-	-	-	5	5	2	2
K Field	17	17	9	9	-	-	5	5	2	2
M Fraser	17	17	-	-	5	5	-	-	-	-
S Lewis	17	17	9	9	-	-	-	-	-	-
K Vidgen <sup>4</sup>	15	15	-	-	3	3	-	-	-	-

A Number of meetings held while appointed as a Director or Member of a Committee

B Number of meetings attended by the Director while appointed as a Director or Member of a Committee

1 In addition to the meetings above, a Committee of the Board comprising of Messrs T Poole and A Harding, and Messrs T Poole and L Hockridge met respectively on two occasions

2 A Harding commenced as MD & CEO of Aurizon Holdings Ltd on 1 December 2016

3 L Hockridge ceased being MD & CEO of Aurizon Holdings Ltd 1 December 2016

4 K Vidgen was appointed as a Member of the Remuneration Committee on 9 February 2017

## Directors' meetings

The number of Board meetings (including Board Committee meetings) and number of meetings attended by each of the Directors of the Company during the financial year are listed above.

During the year, the Aurizon Network Pty Ltd Board met on 8 occasions.

## Directors' interests

Directors' interests are as at 30 June 2017.

TABLE 2 – DIRECTORS' INTERESTS AS AT 30 JUNE 2017

DIRECTOR	NUMBER OF ORDINARY SHARES
T Poole	90,500
A Harding	Nil
R Caplan	82,132
K Field	40,458
J Cooper	85,000
S Lewis	33,025
M Fraser	40,000
K Vidgen	40,000

Only Mr Harding, Managing Director & CEO receives performance rights, details set out in the Remuneration Report.

## Non-audit services

During the year the Company's auditor PricewaterhouseCoopers (PwC), performed other services in addition to its audit responsibilities.

The Directors are satisfied that the provision of non-audit services by PwC during the reporting period did not compromise the auditor independence requirements set out in the *Corporations Act*.

All non-audit services were subject to the Company's Non-Audit Services Policy and do not undermine the general principles relating to auditor independence set out in APES 110 Code of *Ethics for Professional Accountants* as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, or jointly sharing risks and rewards.

No officer of the Company was a former Partner or Director of PwC and a copy of the auditor's independence declaration as required under the *Corporations Act 2001* is set out in, and forms part of, this Directors' Report.

Details of the amounts paid to the auditor of the Company and its related practices for non-audit services provided throughout the year are as set out below:

	2017 \$'000
<b>OTHER ASSURANCE SERVICES</b>	
Total remuneration for other assurance services	37
<b>TAXATION SERVICES</b>	
Total remuneration for taxation services	-
<b>OTHER SERVICES</b>	
Total remuneration for other services	718

## CEO and CFO declaration

The Managing Director & CEO and Chief Financial Officer (CFO) have provided a written statement to the Board in accordance with Section 295A of the *Corporations Act*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Managing Director & CEO and CFO that the declaration was founded on a sound system of risk management and internal control and that the system was operating effectively, in all material respects in relation to the reporting of financial risks.

## Indemnification and insurance of officers

The Company's Constitution provides that the Company may indemnify any person who is, or has been, an officer of the Group, including the Directors and Company Secretary, against liabilities incurred whilst acting as such officers to the maximum extent permitted by law.

The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

## Proceedings against the Company

The Directors are not aware of any current or threatened civil litigation proceedings, arbitration proceedings, administration appeals, or criminal or governmental prosecutions of a material nature in which Aurizon Holdings is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

## Remuneration Report

The Remuneration Report is set out on pages 23 to 36 and forms part of the Directors' Report for the financial year ended 30 June 2017.

## Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the *Corporations Act*, is set out on page 37. The Directors' Report is made in accordance with a resolution of the Directors of the Company.



**Tim Poole**  
Chairman  
14 August 2017

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Consolidated results

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measures. The non-IFRS financial information contained within this Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor Group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin (Statutory and Underlying), NPAT Underlying, Operating Ratio - underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 102.

### 1. Annual comparison

#### FINANCIAL SUMMARY

(\$M)		FY2017	FY2016	VARIANCE %
<b>Total revenue</b>		<b>3,452.3</b>	<b>3,457.9</b>	<b>0%</b>
<b>Operating costs</b>		<b>(2,031.7)</b>	<b>(2,025.6)</b>	<b>0%</b>
Employee benefits		(849.6)	(891.4)	5%
Energy and fuel		(268.4)	(245.4)	(9%)
Track access		(263.0)	(314.7)	16%
Consumables		(573.1)	(508.8)	(13%)
Other		(77.6)	(65.3)	(19%)
<b>EBITDA</b>	<b>- underlying</b>	<b>1,420.6</b>	<b>1,432.3</b>	<b>(1%)</b>
	- statutory	493.6	904.7	(45%)
Depreciation and amortisation		(584.6)	(561.3)	(4%)
<b>EBIT</b>	<b>- underlying</b>	<b>836.0</b>	<b>871.0</b>	<b>(4%)</b>
	- statutory	(91.0)	343.4	-
Net finance costs		(178.5)	(150.5)	(19%)
<b>Income tax expense</b>	<b>- underlying</b>	<b>(196.5)</b>	<b>(210.5)</b>	<b>7%</b>
	- statutory	81.6	(120.5)	-
<b>NPAT</b>	<b>- underlying</b>	<b>461.0</b>	<b>510.0</b>	<b>(10%)</b>
	- statutory	(187.9)	72.4	-
<b>Earnings per share<sup>1</sup></b>	<b>- underlying</b>	<b>22.5</b>	<b>24.4</b>	<b>(8%)</b>
	- statutory	(9.2)	3.5	-
Return on invested capital (ROIC) <sup>2</sup>		8.7%	8.6%	0.1ppt
<b>Operating ratio</b>		<b>75.8%</b>	<b>74.8%</b>	<b>(1ppt)</b>
Cash flow from operating activities		1,238.4	1,218.2	2%
Final dividend per share (cps)		8.9	13.3	(33%)
Gearing (net debt/net debt + equity) (%)		39.6%	37.5%	(2.1ppt)
Net tangible assets per share (\$)		2.4	2.7	(11%)
People (FTE)		5,609	6,287	11%

#### OTHER OPERATING METRICS

	FY2017	FY2016	VARIANCE %
Revenue/NTK (\$/'000 NTK)	50.0	48.3	4%
Labour costs/Revenue <sup>3</sup>	24.5%	24.6%	0.1ppt
NTK/FTE (MNTK)	12.3	11.4	8%
Operations net opex/NTK (excluding access) (\$/'000 NTK)	20.7	19.9	(4%)
NTK (bn)	69.0	71.6	(4%)
Tonnes (m)	259.4	270.9	(4%)

#### UNDERLYING EBIT BY SEGMENT

(\$M)	FY2017	FY2016	VARIANCE %
Below Rail - Network	490.4	505.9	(3%)
<b>Above Rail</b>	<b>401.7</b>	<b>435.0</b>	<b>(8%)</b>
Commercial & Marketing	2,718.2	2,877.8	(6%)
Operations	(2,316.5)	(2,442.8)	5%
Other	(56.1)	(69.9)	20%
<b>Group</b>	<b>836.0</b>	<b>871.0</b>	<b>(4%)</b>

1 Calculated on weighted average number of shares on issue - 2,051.7m FY2017 and 2,088.2m FY2016

2 ROIC is defined as underlying rolling twelve-month EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve-month average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles

3 FY2017 excludes \$121.1m redundancy costs (FY2016 excludes \$23.7m redundancy costs and \$15.7m cost of employee share gift)

## Group Performance Overview

Underlying EBIT reduced \$35.0m (4%) primarily due to the impact of the cyclone, which is estimated to have reduced EBIT by approximately \$89m. Approximately \$69m of this impact is in the Below Rail business which is expected to be recovered through established regulatory processes in future years.

The cyclone, and a deterioration in the financial performance of the Freight business, more than offset the realisation of sustainable transformation benefits of \$129.0m.

Group revenue was flat at \$3.45bn with increased Below Rail revenue from the UT4 regulatory true-up offset by lower Above Rail revenue from a 4% reduction in volumes.

Operating costs remain flat compared to the prior year with the transformation benefits being offset by higher energy and fuel costs, CPI impacts, recovery costs incurred due to the cyclone and the increased costs to serve in the Freight business.

Depreciation has increased \$23.3m (4%) primarily in Below Rail reflecting the high levels of asset renewal activity, new mechanised maintenance plant and the impact of the completion of the Wiggins Island Rail Project (WIRP) during FY2016.

Return on Invested Capital (ROIC) was stable at 8.7%.

Statutory EBIT was a loss of (\$91.0m) reflecting the impact of the \$811.2m in asset impairments and \$115.8m in redundancy costs as detailed below, which have been treated as a significant item due to materiality.

## Reconciliation to Statutory Earnings

Underlying earnings is a non-statutory measure and is the primary reporting measure used by management and the Group's chief operating decision making bodies for the purpose of managing and assessing the financial performance of the business. Underlying earnings is derived by adjusting statutory earnings for significant items as noted in the following table:

(\$M)	FY2017	FY2016
<b>Underlying EBIT</b>	<b>836.0</b>	<b>871.0</b>
<b>Significant items</b>	<b>(927.0)</b>	<b>(527.6)</b>
Asset impairments		
Intermodal	(162.2)	-
Freight Management Transformation project	(64.0)	-
Impairment of assets in exit of contracts	(10.2)	-
Transformation assets	(48.9)	-
Bulk	(525.9)	-
Investment in Associate	-	(225.9)
Strategic infrastructure projects and assets under construction	-	(124.7)
Rollingstock	-	(177.0)
Redundancy costs	(115.8)	-
<b>Statutory EBIT</b>	<b>(91.0)</b>	<b>343.4</b>
Net finance costs	(178.5)	(150.5)
<b>Statutory PBT</b>	<b>(269.5)</b>	<b>192.9</b>
Taxation benefit/(expense)	81.6	(120.5)
<b>Statutory NPAT</b>	<b>(187.9)</b>	<b>72.4</b>

Aurizon reviewed the carrying value of its assets as at 30 June 2017 and has recognised asset impairments and significant items of \$927.0m (pre-tax) as noted below. A further \$29.3m of assets were impaired during the period and are included in underlying earnings.

Significant asset impairments of \$811.2m:

- › Bulk \$525.9m (Bulk East \$163.5m and Bulk West \$362.4m) due to the ongoing clarity and visibility of financial performance provided by the Freight Review, the exit of certain contracts, the increase in financial losses in the bulk business and continued challenging market conditions. Following the impairment, the residual carrying value of the assets of the Bulk business is \$254.4m
- › Intermodal \$162.2m due to trading performance during the year being lower than expectation as disclosed in 1HFY2017
- › Freight Management Transformation (FMT) \$64.0m as disclosed in 1HFY2017
- › Freight Review Contract Exit \$10.2m as disclosed in 1HFY2017
- › Other transformation assets \$48.9m including \$30.1m in asset impairments in relation to the closure of the Rockhampton rollingstock workshop, with the announcement made during the second half of the financial year

Redundancy costs \$115.8m, 924 employees were made redundant across the business. This includes \$74.2m relating to the ongoing business transformation, predominately the Operations' regional restructure that occurred in the first half, \$14.3m for the Rockhampton rollingstock workshop closure and \$27.3m in relation to changes in Queensland traincrew operations announced in the second half of the financial year.

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### 2. Other financial information

#### BALANCE SHEET SUMMARY

(\$M)	30 JUNE 2017	30 JUNE 2016
Total current assets	729.4	843.9
Property, plant & equipment (PP&E)	8,835.0	9,719.2
Other non-current assets	281.5	305.9
<b>Total Assets</b>	<b>9,845.9</b>	<b>10,869.0</b>
Other current liabilities	(665.2)	(733.3)
Total borrowings	(3,376.2)	(3,490.1)
Other non-current liabilities	(782.4)	(932.0)
<b>Total Liabilities</b>	<b>(4,823.8)</b>	<b>(5,155.4)</b>
<b>Net Assets</b>	<b>5,022.1</b>	<b>5,713.6</b>
<b>Gearing (net debt/net debt plus equity) (%)</b>	<b>39.6%</b>	<b>37.5%</b>

#### Balance sheet movements

Total current assets decreased by \$114.5m largely due to:

- › Net decrease in assets held for sale of \$93.7m with the disposal of the investment in Moorebank
- › Net decrease in inventory of \$40.9m due to the impending closure of the Rockhampton site, improved inventory management and outsourcing of maintenance to Progress Rail
- › Net decrease in trade and other receivables of \$17.1m due to the collection of FY2016 GAPE fees, lower Bulk Freight trading and improved collections, partly offset by
  - Net increase in tax receivables of \$17.8m with a tax refund expected in FY2018
  - Net increase in cash held of \$19.5m

Total non-current assets decreased by \$908.6m largely due to a net decrease in PP&E of \$884.2m as a result of asset impairments previously mentioned and depreciation, offsetting capital expenditure.

Total current liabilities decreased \$68.1m due to a reduction in current tax liabilities, reduction in derivative financial instruments, partially offset by higher provisions relating to redundancies (traincrew and Rockhampton closure).

Total borrowings decreased by \$113.9m due to improved cashflow (refer cashflow commentary).

Other non-current liabilities have decreased by \$149.6m due to higher derivative financial instruments (additional interest rate swaps) partially offset by lower land rehabilitation provision (discount rates), lower workers' compensation provision and lower other liabilities relating to Below Rail Access Facilitation Deeds.

Gearing (net debt/net debt plus equity) was 39.6% as at 30 June 2017.

## CASH FLOW SUMMARY

(\$M)	FY2017	FY2016
<b>Statutory EBITDA</b>	<b>493.6</b>	<b>904.7</b>
Working capital and other movements	76.3	(85.2)
Non-cash adjustments asset impairments <sup>4</sup>	840.5	527.6
<b>Cash flows from operations</b>	<b>1,410.4</b>	<b>1,347.1</b>
Interest received	2.9	2.3
Income taxes paid	(174.9)	(131.2)
<b>Net cash inflow from operating activities</b>	<b>1,238.4</b>	<b>1,218.2</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment (PP&E) and associate	112.1	37.4
Payments for PP&E and intangibles	(540.1)	(771.4)
Interest paid on qualifying assets	(3.2)	(11.6)
Net distributions from investment in associates	-	5.7
<b>Net cash (outflow) from investing activities</b>	<b>(431.2)</b>	<b>(739.9)</b>
<b>Cash flows from financing activities</b>		
Net (repayments)/proceeds from borrowings	(55.3)	442.3
Payment for share buy-back and share based payments	(7.5)	(355.4)
Interest paid	(173.0)	(138.1)
Dividends paid to Company shareholders	(551.9)	(529.3)
<b>Net cash (outflow) from financing activities</b>	<b>(787.7)</b>	<b>(580.5)</b>
<b>Net increase/(decrease) in cash</b>	<b>19.5</b>	<b>(102.2)</b>
<b>Free Cash Flow (FCF)<sup>5</sup></b>	<b>634.2</b>	<b>340.2</b>

### Cash flow movements

Net cash inflow from operating activities increased by \$20.2m (2%) to \$1,238.4m, largely due to:

- › \$63.5m reduction in working capital relating to lower receivables and inventory, in addition to an increase in redundancy provision
- › Offset by a \$43.7m increase in income taxes paid

Net cash outflow from investing activities decreased by \$308.7m (42%) to \$431.2m, largely due to:

- › \$231.3m decrease in capital expenditure
- › \$74.7m increase in the proceeds from asset sales primarily relating to the sale of Moorebank

Net cash outflow from financing activities increased by \$207.2m (36%) to \$787.7m with a \$497.6m reduction in proceeds from borrowings, higher interest payments of \$34.9m and increased dividends of \$22.6m offset by a \$347.9m reduction in share buy-back and share based payments.

4 Total asset impairments of \$840.5m include \$811.2m of significant items excluded from underlying EBIT and \$29.3m of other asset impairments included in underlying EBIT

5 FCF - Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid.

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Funding

Aurizon is targeting a gearing level of -40% in FY2018.

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor, with Aurizon Network issuing its second bond in the Australian debt capital market, a seven year, \$425.0m A\$MTN priced in June 2017 with a coupon of 4% per annum. Proceeds were used to repay existing bank debt maturing in FY2019.

In respect of FY2017:

- › Weighted average debt maturity<sup>6</sup> tenor was 5.0 years. This was lower than FY2016 (5.8 years) due to the majority of the debt portfolio's duration reducing by 12 months
- › Interest cost on drawn debt was 5.0% (FY2016 4.7%)
- › Liquidity at 30 June 2017 \$1.18bn (undrawn facility + cash)
- › Group gearing as at 30 June 2017 was 39.6% (FY2016 37.5%).

### Dividend

The Board has declared a final dividend for FY2017 of 8.9cps (50% franked) based on a payout ratio of 100% in respect of underlying NPAT (i.e. after adjusting for significant items, including asset impairments).

The relevant final dividend dates are:

- › 28 August 2017 - ex-dividend date
- › 29 August 2017 - record date
- › 25 September 2017 - payment date.

### Tax

Underlying income tax expense for FY2017 was \$196.5m. The underlying effective tax rate<sup>7</sup> for FY2017 was 29.9%. The underlying cash tax rate<sup>8</sup> for FY2017 was 13.9% which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2018 is expected to be in the range of 28-30% and the underlying cash tax rate is expected to be less than 25% for the short to medium-term.

Aurizon publishes additional tax information in accordance with the voluntary Tax Transparency Code in its sustainability report. Please refer to [www.aurizon.com.au/sustainability/overview](http://www.aurizon.com.au/sustainability/overview) for a copy of Aurizon's sustainability report (including tax transparency disclosures).

### Segment review

#### Above Rail

'Above Rail' combines the Commercial & Marketing and Operations functions and represents the haulage operations for Aurizon's Coal, Freight and Iron Ore customers. The Strategy & Business Development function was managed within the Commercial & Marketing function during FY2017 however the associated costs remain within the Other segment, with attributable costs allocated to Commercial & Marketing consistent with prior years.

(\$M)	FY2017	FY2016	VARIANCE %
<b>Total revenue</b>	<b>2,981.2</b>	<b>3,146.1</b>	<b>(5%)</b>
Coal	1,795.0	1,881.4	(5%)
Above Rail	1,164.7	1,147.5	1%
Track Access <sup>9</sup>	630.3	733.9	(14%)
Freight	682.7	739.4	(8%)
Iron Ore	273.4	311.2	(12%)
Other	230.1	214.1	7%
<b>Operating costs</b>	<b>(2,289.2)</b>	<b>(2,412.1)</b>	<b>5%</b>
Employee benefits	(701.7)	(739.8)	5%
Energy and fuel	(127.5)	(120.7)	(6%)
Track access	(888.9)	(1,015.6)	12%
Consumables	(536.4)	(500.0)	(7%)
Other	(34.7)	(36.0)	4%
<b>Underlying EBITDA</b>	<b>692.0</b>	<b>734.0</b>	<b>(6%)</b>
Depreciation and amortisation	(290.3)	(299.0)	3%
<b>Underlying EBIT</b>	<b>401.7</b>	<b>435.0</b>	<b>(8%)</b>

<sup>6</sup> Weighted average debt maturity profile does not include working capital facility

<sup>7</sup> Underlying effective tax rate = income tax expense excluding the impact of significant items/underlying consolidated profit before tax

<sup>8</sup> Underlying cash tax rate = cash tax payable excluding the impact of significant items/underlying consolidated profit before tax

<sup>9</sup> An amount equal to Track Access revenue is included in Operation's costs, reflecting the pass-through nature of tariffs



## ABOVE RAIL REVENUE METRICS

(\$M)	FY2017	FY2016	VARIANCE %
<b>Coal</b>			
Total tonnes hauled (m)	198.2	206.8	(4%)
Queensland	150.5	163.0	(8%)
NSW	47.7	43.8	9%
% Volumes under new form contracts	96%	79%	17ppt
Contract utilisation	89%	92%	(3ppt)
Total NTK (bn)	47.6	49.7	(4%)
Queensland	38.6	41.4	(7%)
NSW	9.0	8.3	8%
Average haul length (km)	240	240	0%
Total revenue/NTK (\$/'000 NTK)	37.7	37.9	(1%)
Above Rail revenue/NTK (\$/'000 NTK)	24.5	23.1	6%
<b>Freight</b>			
Total tonnes hauled (m)	38.5	40.4	(5%)
Total TEUs ('000s)	405.2	372.6	9%
Total NTK (bn)	12.2	12.3	(1%)
Total revenue/NTK (\$/'000 NTK)	56.0	60.1	(7%)
<b>Iron Ore</b>			
Total tonnes hauled (m)	22.7	23.7	(4%)
Contract utilisation	100%	101%	(1ppt)
Total NTK (bn)	9.2	9.6	(4%)
Total revenue/NTK (\$/'000 NTK)	29.7	32.4	(8%)
Average haul length (km)	406	405	0%
<b>Total Above Rail tonnes hauled (m)</b>	<b>259.4</b>	<b>270.9</b>	<b>(4%)</b>

### Above Rail performance overview

Underlying EBIT declined \$33.3m (8%) to \$401.7m, due to the impact of Cyclone Debbie, lower Iron Ore earnings and a deterioration in the performance of the Freight businesses. Coal continued to improve despite the cyclone, with improved revenue quality and further benefits delivered from the transformation program. The EBIT impact as a result of the cyclone totalled approximately \$20m.

Revenue declined 5% (\$164.9m) due to lower pass-through access revenue and a 4% decline in volumes:

- › Coal track access revenue declined \$103.6m (14%) due to a major customer converting to an End User Access Arrangement (where access charges are paid direct to Aurizon Network) following the commencement of their new form contract. In addition, a \$30.0m credit was received from Queensland Rail due to the overpayment of access charges on the West Moreton system following the finalisation of the access undertaking. As access charges are passed through to customers, there is a commensurate reduction in operating costs as noted below
- › Coal Above Rail revenue was \$17.2m (1%) higher reflecting improved revenue quality offsetting the volume decline due to the cyclone
- › Freight revenue was down \$56.7m (8%) due to 5% reduction in volumes and a reduction in revenue quality
- › Iron Ore revenue declined \$37.8m (12%) due to lower volumes and the impact on average freight rates due to rate relief granted to key customer Karara Mining Limited (KML).

Coal volumes were down 8.6mt (4%) to 198.2mt. Queensland volumes were down 8% at 150.5mt reflecting the -11mt impact of the cyclone, expiry of BMA's GAPE contract and two customers being placed into care and maintenance (Baralaba Coal and Caledon Cook). NSW volumes were 3.9mt (9%) higher at 47.7mt reflecting increased spot tonnes and the continued ramp-up of the Whitehaven contract. Coal volumes hauled under new form contracts increased 17ppts to 96%, reflecting the new long-term performance contract for BMA/BMC which commenced 1 July 2016 in the Goonyella corridor. Coal Above Rail revenue per NTK improved 6% from lower contract utilisation as a result of the cyclone and customer mix benefits. As contract utilisation improves from increased volumes in FY2018, this is expected to reduce.

Freight volumes declined 1.9mt (5%) to 38.5mt with Bulk volumes down 5% primarily due to the closure of QNI in March 2016 and the Mt Isa Freightier ceasing in February 2017 partly offset by a 9% increase in Intermodal Twenty-Foot Equivalent Units (TEUs) following the commencement of the K&S Freighters contract in August 2016. Freight revenue per NTK declined 7% due to growth in Intermodal volumes which are typically longer and lower yielding hauls and the competitive pricing in the Intermodal market.

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

Iron ore volumes declined 1.0mt (4%) to 22.7mt, due to lower production from customers. Iron ore revenue per NTK declined 8% due to the impact of customer rate relief.

Operating costs reduced \$122.9m (5%) in FY2017. The transformation program continued to deliver lower costs with \$115.0m in FY2017 (\$94.0m in Above Rail and \$21.0m allocated from support functions) and access costs reduced by \$127.6m with a key customer directly contracting access in Coal as noted above and reduced volumes in Bulk Freight. However, this was offset by other cost increases including one-off cyclone impacts, labour and consumables escalation (\$34.0m), fuel price escalation (\$10.0m) and costs associated with the cessation of the FMT project (\$4.4m). In addition, \$24.4m in costs to support growth were incurred in NSW Coal (ramp up of tonnes), Intermodal (interstate TEU growth) and Bulk West. In addition, a change in the mix of work in Aurizon's Queensland Coal maintenance depots from capital works such as wagon overhauls (where associated costs are capitalised) to more routine maintenance activities (where costs are expensed), resulted in less capital recoveries during FY2017. With less costs to capitalise this year, labour and consumable expenses increased by \$15.8m. Depreciation reduced due to the lower fleet values following the impairment in FY2016.

Operational metrics were impacted by the cyclone in 2HFY2017 as well as other cost increases as noted above. Key operating metrics included a 4% deterioration in net operating costs per NTK (excluding access) but there was a 10% improvement in labour productivity. A detailed analysis of operating metrics is provided on page 17.

### Market update

#### Coal

Following on from the relaxation of policy that had previously limited domestic coal production in China throughout 2016, coal prices retreated at the start of 2HFY2017 with the hard coking coal spot price (Peak Downs Region) trading in March at an average of US\$160/t and the thermal coal spot price (Newcastle) trading at an average of US\$81/t, down 39% and 5% respectively from three months prior. Short-term scarcity created by the impact of the cyclone pushed the hard coking coal spot price back above US\$300/t in April before the resumption of supply returned the price to pre-cyclone levels from around mid-May.

The average hard coking coal price in FY2017 was US\$192/t (+132% on the previous year) and the average thermal coal price was US\$80/t (+49% on the previous year), providing relief to coal producers after subdued prices throughout FY2016. Australian metallurgical coal export volume in FY2017 was down 6% (to 177mt) compared to the previous year with the reduction primarily driven by the impact of the cyclone. Australian thermal coal export volume in FY2017 increased by 1% (to 202mt). At a global seaborne level, downward pressure has been placed on the Australian market share in both the metallurgical and thermal coal markets as increasing coal prices over the past 18 months have incentivised a resumption of export volume (higher cost) supply from competing coal producing nations.

Aurizon's coal business has a weighted average remaining contract length as at 30 June 2017 of 9.9 years.

#### Contract update

- › A new agreement was executed with Carborough Downs Coal Management for coal haulage from the Carborough Downs mine in the Goonyella corridor to be hauled through to Dalrymple Bay Coal Terminal, with the agreement replacing the previous contract which expired on 30 June 2017
- › Existing customer Yanzhou extended its contract for the Cameby Downs mine through to 2026 for volumes of up to 2.25mtpa
- › Batchfire Resources executed a long-term agreement for up to 6.7mtpa from the Callide mine, which ramps up in volumes over a period of 10 years, and commenced on 1 July 2017
- › An extension to the existing agreement with Queensland Alumina Limited was signed during the year, extending the 1.3mtpa contract to December 2023
- › Commencement of an eight year, 8.7mtpa contract with AGL Macquarie for the Bayswater and Liddell power stations occurred during July 2017.

#### Iron ore

Iron ore spot prices continued to increase early in the second half of FY2017, reaching US\$95/t in February, before retreating to US\$53/t in early June and closing at US\$63/t on 30 June 2017. Rising seaborne supply from Australia and Brazil, and weaker demand from Chinese steel mills due to increased use of scrap metal (excess supply in China at lower prices) in blast furnaces, placed downward pressure on iron ore prices. However, stronger Chinese steel margins in the short-term is expected to provide support to iron ore prices.

Aurizon continues to support the long-term viability of customers by driving efficiencies in the supply chain to optimise throughput. Aurizon hauled 22.7mt in FY17, 4% lower than the previous comparable period primarily due to lower volumes from Cliffs and Mt Gibson, partially offset by increased volumes from Karara. Mt Gibson volumes will continue through to contract end of December 2018, as Iron Hill volumes replace Extension Hill volumes. As at 30 June 2017, Aurizon's Iron Ore customers have a weighted average contract life of 7.7 years.

#### Freight

Aurizon's Freight business includes haulage of bulk commodities including base metals, minerals, grains and livestock in Queensland, New South Wales (East) and Western Australia (West) and Intermodal containerised freight and logistical solutions across Australia.

As previously noted, due to challenging market conditions and as a result of the deteriorating performance in the diversified Bulk business, combined with the change to the business unit structure, Aurizon has recognised non-cash asset impairments of \$525.9m relating to the Bulk business in FY2017.

#### Contract update Bulk

- › Both BP (0.15mtpa) and Caltex (0.1mtpa) extended their fuel haulage agreements in Western Australia for 3 years
- › Louis Dreyfus (New South Wales) extended its 0.3mtpa grain haulage contract for a further 12 months to December 2017.

#### Intermodal

Aurizon has entered into a binding agreement with a consortium of PN and Linfox to sell the Queensland Intermodal business. The transaction includes the transfer of employee positions, assets and commercial and operational arrangements. Aurizon is aiming to finalise the transaction by end of FY2018 and is subject to approval by the Australian Competition and Consumer Commission (ACCC) and the Foreign Investment Review Board (FIRB). Separately, Aurizon has signed a binding agreement with PN to sell the Acacia Ridge Intermodal terminal. This transaction includes the transfer of employee positions as well as assets, commercial and operational arrangements. It is also subject to approval by the ACCC and FIRB. Total consideration for the two transactions is \$220.0m. The remainder of Aurizon's Intermodal business (outside of Queensland) will be closed. This is expected to take effect by December 2017, contingent on finalising transitional and commercial arrangements with customers.

## Operations transformation update

### OPERATING METRICS

(\$M)	FY2017	FY2016	VARIANCE %
<b>Operations</b>			
Net opex <sup>10</sup> / NTK (\$/'000 NTK)	33.6	34.1	1%
Net opex <sup>11</sup> / NTK (excluding access) (\$/'000 NTK)	20.7	19.9	(4%)
Total tonnes hauled (m)	259.4	270.9	(4%)
Net tonne kilometres - NTK (bn)	69.0	71.6	(4%)
FTE (monthly average)	4,393	5,013	12%
Labour productivity (NTK/FTE)	15.7	14.3	10%
Locomotive productivity ('000 NTK/Active locomotive day)	371.0	375.7	(1%)
Active locomotives (as at 30 June)	516	508	(2%)
Wagon productivity ('000 NTK/Active wagon day)	14.2	14.7	(3%)
Active wagons (as at 30 June)	13,504	13,008	(4%)
National Payload (tonnes)	4,677	4,659	0%
Velocity (km/hr)	29.3	29.8	(2%)
Fuel consumption (l/d GTK)	3.11	3.10	0%

### Transformation initiatives

Aurizon's Above Rail business delivered \$115.0m in transformation benefits during FY2017. Productivity and transformation efforts were impacted by the cyclone in the fourth quarter. Despite this, significant transformation effort was undertaken throughout FY2017 in order to set up a pipeline of initiatives to deliver value through FY2018 and beyond.

#### Workforce

Aurizon's continued workforce rationalisation through key labour initiatives resulted in a substantial improvement in labour productivity (NTK/FTE) of 10% in FY2017 despite lower tonnes overall. Key labour transformation initiatives included:

- › Execution of Operations' regionalisation structure in 1HFY2017
  - Changes to the regional management structure in September 2016 resulted in the reduction of 143 positions including leadership and frontline staff, and reducing the management layer by one in most areas
- › Changes to operating mode
  - The introduction of nine hour single driver only operations in two key areas in Western Australia
  - Consultation with Queensland train crew commenced in late 2HFY2017 which will support a move away from traditional fixed labour models to one that can mirror fluctuating demand movements. Efforts will continue through FY2018 on creating the right balance of fixed and variable labour

#### › Centralisation of deployment into Brisbane

- This initiative consolidated the five Above Rail live run areas into a single centre in Brisbane. This consolidation has enabled cross skilling, capability uplift and stronger redundancy management

#### Fleet productivity

The cyclone had an impact on rollingstock productivity metrics in FY2017. Despite this, Aurizon continued its efforts to improve overall rollingstock productivity with the implementation of longer trains in both the Goonyella (126 wagon consist) and Newlands (124 wagon consist) corridors.

Active locomotive and wagons numbers increased 2% and 4% respectively during FY2017, with wagons being commissioned for ramp up tonnages for Whitehaven in New South Wales and an additional two coal consists to meet demand in Queensland.

#### Energy and fuel efficiency

FY2017 has seen a continued focus on energy and fuel efficiency through the nationalisation of regionally piloted improvements including trip optimiser, the driver assist system (DAS) and the substitution of standard for higher grade fuelling options. A renewed effort was undertaken in 2HFY2017 which is expected to realise benefits in FY2018.

#### Asset maintenance

With continued maintenance reform, including the deployment of technology and the outsourcing of heavy haul maintenance to Progress Rail (PRS), Aurizon announced the closure of its Rockhampton rollingstock workshop which will be completed by the end of 2018. This initiative is expected to deliver significant cost savings and efficiency benefits through:

- › Net reduction of 140 positions, which will take place during CY2018
- › -25% efficiency benefit for the 106t wagon overhaul capital program (overhaul of -5,500 wagons over 10 years) through more efficient wagon movements with the program moving from Rockhampton to Jilalan, due to occur in FY2019
- › Reduction in unit cost of overhauling key locomotive components with the transition of activity to PRS
- › Reduction in overhead costs once the site is exited at the end of CY2018.

<sup>10</sup> Net opex/NTK is calculated as Operations Underlying EBIT/NTK (i.e. this metric represents operational expenditure net of revenue). Net expenditure is used to measure Above Rail productivity, as Operations revenue includes intercompany revenue for services provided (and therefore costs incurred) for Network. In addition, Operations also incurs expenditure in generating revenue on commercial rollingstock and infrastructure maintenance contracts

<sup>11</sup> Net opex/NTK (excluding access) excludes track access costs in order to measure productivity net of access costs which are generally passed through to Above Rail customers (and shown in Commercial & Marketing revenue)

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

Further transformation continues including:

- › The roll out of wayside condition monitoring (WCM) with the successful deployment of a super site at Raglan in July 2017 which provides redundancy for the Blackwater system and also coverage of the North Coast Line traffic that passes the site. Further rollout of WCM is forecast to take place in the Hunter Valley during 1HFY2018. Additional condition monitoring technologies are being trialled in FY2018 with the aim of enhancing Aurizon's ability to understand rollingstock condition and improve the safety and efficiency of operations
- › Shopfloor II has entered the execution phase with the main phases of delivery and rollout within the next 12 months. This phase will integrate the condition monitoring systems directly with SAP Plant Maintenance enabling the automated creation of maintenance activities in SAP
- › The Locomotive and Operational Data Acquisition and Management (LODAM) project entered the trial phase in 2HFY2017 and rollout is expected across Aurizon's fleet commencing in 2018. This project will deliver a step change in both the quantity and quality of operational and sensor data in real-time allowing Aurizon to better optimise how the fleet is operated and managed. The harvesting of sensor data will further enhance Aurizon's ability to predict and manage rollingstock faults
- › The use of advanced data analytics to deliver insights into how Aurizon conducts business has commenced. This initiative is based on the rich, high quality data sets that have been or are being delivered by the Shopfloor II (SAP), WCM and the LODAM projects.

### Below Rail

Below Rail refers to the business of Aurizon Network Pty Ltd (Aurizon Network) which operates the 2,670km Central Queensland Coal Network (CQCN). The open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple customers from more than 40 mines to three ports. The CQCN includes four major coal systems (Moura, Blackwater, Goonyella and Newlands) and a connecting link (Goonyella to Abbot Point Expansion (GAPE)).

### BELOW RAIL FINANCIAL SUMMARY

(\$M)	FY2017	FY2016	VARIANCE %
<b>Total revenue</b>	<b>1,262.1</b>	<b>1,178.4</b>	<b>7%</b>
Access	1,199.9	1,135.9	6%
Services and other	62.2	42.5	46%
<b>Operating costs</b>	<b>(484.3)</b>	<b>(414.8)</b>	<b>(17%)</b>
Employee benefits	(118.6)	(116.7)	(2%)
Energy and fuel	(140.9)	(124.7)	(13%)
Consumables	(196.2)	(146.9)	(34%)
Other	(28.6)	(26.5)	(8%)
<b>Underlying EBITDA</b>	<b>777.8</b>	<b>763.6</b>	<b>2%</b>
EBITDA margin	61.6%	64.8%	(3.2ppt)
Depreciation and amortisation	(287.4)	(257.7)	(12%)
<b>Underlying EBIT</b>	<b>490.4</b>	<b>505.9</b>	<b>(3%)</b>

### BELOW RAIL METRICS

(\$M)	FY2017	FY2016	VARIANCE %
Tonnes (m)	210.8	225.9	(7%)
NTK (bn)	53.2	57.1	(7%)
Access revenue/NTK (\$/'000 NTK)	22.6	19.9	14%
Maintenance/NTK (\$/'000 NTK) (excluding rail renewals)	2.3	2.2	(5%)
Opex/NTK (\$/'000 NTK)	14.5	11.8	(23%)
Average haul length (km)	252	253	0%

### Below Rail performance overview

Underlying EBIT decreased \$15.5m (3%) to \$490.4m in FY2017, with increased revenues offset by higher consumable costs, mainly due to the cyclone and higher depreciation expense.

Access revenue increased \$64.0m (6%) primarily due to the UT4 true-up of regulatory revenue shortfall in FY2014 and FY2015 following the UT4 final decision issued by the Queensland Competition Authority (QCA) on 11 October 2016. The true-up amount is collected within tariffs based on volumes railed and Aurizon Network estimates it has collected \$80.0m of the \$89.0m true-up in FY2017, with the remainder to be recovered via the revenue cap mechanism in FY2019. Access revenue also includes GAPE one-off FY2016 true-up (\$5.6m, non-regulated), one off Access Facilitation Deed (AFD) rebates (\$5.8m), higher revenue attributable to electric traction, increases in operational and maintenance allowances and the Moura flood recovery (\$4.5m) from FY2015. This compares to FY2016 where Aurizon Network over-recovered \$23.6m in regulatory revenues, inclusive of WACC, which will be repaid in FY2018.

Services and other revenue increased \$19.7m (46%) due to the recognition of the Bandanna Group's \$15.3m bank guarantee held as security following the termination for insolvency of its WIRP Deed and a \$6.7m insurance claim recovery.

Operating costs increased \$69.5m (17%) primarily due to a \$16.2m increase in energy and fuel from higher wholesale electricity prices, and a \$49.3m increase in consumables from the alignment of the corporate cost allocation (\$26.4m) to the UT4 final decision (FY2014 and FY2015 true-up), and recovery works undertaken following the cyclone (approximately \$21m).

Depreciation increased \$29.7m (12%) reflecting high levels of asset and rail renewals, increased ballast undercutting, impact of new mechanised maintenance plant and the completion of WIRP in FY2016.

Volumes decreased 15.1mt to 210.8mt principally due to the impact of the cyclone in March and April (-16mt). Despite this, FY2017 still achieved strong railings with four of the twelve months recording all time monthly records including the highest ever monthly volume of 20.5mt in June 2017.

The Regulated Asset Base (RAB) roll-forward value is estimated to be \$5.8bn (excluding AFDs of \$0.4bn) at 30 June 2017, subject to QCA approval of the FY2016 and FY2017 capital claims.

### Regulation update

#### Access Undertaking 2016 (UT4)

- › On 11 October 2016, the QCA approved the UT4 Access Undertaking
- › The approval covers all elements of UT4 including:
  - Aurizon Network's Maximum Allowable Revenue (MAR) over the UT4 period (1 July 2013 to 30 June 2017) totalling \$3.9bn
  - The way in which Aurizon Network must provide and manage access to the CQCN.

#### Access Undertaking 2017 (UT5)

- › On 30 November 2016 Aurizon Network submitted the 2017 Draft Access Undertaking (UT5), covering the period 1 July 2017 to 30 June 2021 to the QCA for approval
- › Aurizon Network's UT5 draft proposed a MAR of \$4.9bn over the four-year regulatory period with a proposed 6.78% Vanilla Nominal Post Tax WACC. Primary MAR drivers are:
  - Inflation at the time of submission forecast rate was at 1.22% compared to 2.5% in UT4
  - Change in equity beta from 0.8 in UT4 to 1.0 affecting the return on capital building block
  - Change in gamma from 0.47 in UT4 to 0.25 affecting the tax building block
  - UT5 RAB now includes the majority of the WIRP capital expenditure with ~\$235m (which relates to the Blackwater system only) of the ~\$260m in capital deferred during UT4 included in the UT5 RAB for pricing purposes
- › The rate of inflation and risk free rate will be updated to reflect market based rates. This will result in both the WACC and the rate of inflation being updated from 6.78% and 1.22% to take into account the change in market based rates
- › Aurizon Network has adopted an approach that prudently reflects the Pricing Principles of the QCA Act. This includes highlighting that the inherent risks faced by the business are higher than what the QCA has determined in previous Access Undertakings due to:
  - The increasingly volatile operating environment of the coal industry
  - Fragmentation of the RAB by system which increases the risk of asset stranding
  - Revenue deferrals which have resulted in ~\$260m of expansion capital excluded from the RAB for pricing purposes in UT4 as part of WIRP

- › In February, the QCA received submissions from interested stakeholders in response to Aurizon Network's UT5 submission
- › These February submissions were then used as the basis for collaborative discussions with stakeholders to seek agreement on positions:
  - Aurizon Network was able to successfully agree positions with industry on eight policy matters, which were submitted to the QCA on 17 March 2017
  - Agreement with industry on matters affecting the Maximum Allowable Revenue was not achieved
- › The QCA is currently completing its detailed assessment of the complete UT5 proposal, taking into consideration the relevant submissions and agreed positions with industry
- › Timing for the draft decision on UT5 is not yet known

### Below Rail operational update Performance

Despite the adverse impact of the cyclone, compounded by the unseasonably wet winter in central Queensland, the network operational performance remained strong and four monthly railing records were achieved. Highlights include:

- › Effective planning, scheduling and maintenance programs resulted in a 26% reduction in system closure hours
- › Performance to plan declined from 92.1% to 86.8%, mainly due to the impact of the cyclone with over 1,000 cancellations in March and April. The underlying performance to plan result excluding the impact of the cyclone was 90.6%
- › Cancellations due to the Network remained low at 1.2%, which is an improvement against the five year average of 1.7%
- › Cycle velocity decreased 2.0% to average 23.5km/h, however remains above the five year average of 23.3km/h.

### Transformation Initiatives delivered

- › Tranche 1 of the Network Asset Management System went live in February 2017, delivering a core asset management system for civil assets, supported by a mobile solution to assist field staff. It is expected that the system will reduce the level of reactive maintenance from 51% of our total maintenance cost to 20%, as we move to maintaining our system in a more planned way. The remaining asset classes (control systems, electrical assets and mechanised production) will be captured in the second tranche of the project with go live to be achieved within 12 months

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

- › APEX – The first phase of Aurizon Network's advanced planning, scheduling and day of operations software went live in January 2017. This phase led to the digitisation of train control diagrams
- › Interpolation of wayside system data in particular wheel impact data has been provided to all Above Rail operators to enable them to proactively manage their wheel sets in order to reduce incidents on the network. This initiative is the primary factor in achieving a 30% reduction in cycle time delays related to rail defects
- › Advanced monitoring techniques have been employed for the high voltage transformer fleet which has enabled more targeted renewal and life extension works, resulting in a 22% reduction in unplanned corrective and emergency maintenance works
- › Innovative asset renewal approach to replacing aged corrugated metal pipe culverts using PVC spirally wound culvert liners has resulted in a 63% unit rate reduction whilst removing the need for track possessions, as this activity can be performed under live traffic
- › As a result of transformational initiatives in inventory management, inventory holdings decreased \$12.3m (19% from prior year).

### Wiggins Island Rail Project (WIRP)

- › The QCA in its UT4 Final Decision applied a revenue deferral for WIRP customers who were not expected to rail during the UT4 period resulting in ~\$260m of WIRP capital expenditure being excluded for pricing purposes from the UT4 MAR, on an NPV neutral basis
- › In its UT5 submission Aurizon Network proposes that ~\$235m of the deferred WIRP capital expenditure be included in the UT5 RAB for pricing purposes
- › Aurizon Network is confident that railings in the Moura system will increase in the medium-term to enable the remaining deferred WIRP capital expenditure to be included in the RAB for pricing purposes

- › Aurizon Network has received notices from WIRP customers purporting to exercise a right over the WIRP Deed to reduce their financial exposure in respect of the non-regulated relevant component of the charge payable by them to Aurizon Network. Aurizon Network maintains its position that the notices issued by the WIRP customers in relation to the commercial fee (WIRP fee) are not valid. As discussions with the customers failed to deliver a resolution, Aurizon Network issued proceedings in the Supreme Court of Queensland on 17 March 2016 to assert its rights under the WIRP Deed. The proceedings have been admitted to the Commercial List of the Supreme Court of Queensland, and the Court has made orders to prepare the matter for trial
- › Due to the ongoing dispute, no WIRP commercial fee revenue has been recognised during the period.

### Other

Other includes costs for the Managing Director & CEO, corporate finance, tax, treasury, internal audit, risk, governance and strategy. The percentage of corporate support costs allocated to the Above Rail and Below Rail businesses in FY2017 was 78% (FY2016 73%).

### Performance Overview

Underlying EBIT improved \$13.8m (20%) due to:

- › \$25.0m net decrease in operating costs mainly due to:
  - \$26.4m benefit from the UT4 corporate cost allocation true-up as noted in Below Rail
  - \$16.0m in favourable non-cash provision moves due to changes in discount rates
  - \$10.0m from the transformation program with lower FTEs and discretionary spending in all corporate areas, partly offset by
    - \$24.9m in asset write offs and minor inventory impairments
    - \$8.9m decrease in revenue mainly due to the sale of a warehouse at Forrestfield in FY2016.

Corporate support functions continue to deliver transformation initiatives with \$35.0m in savings achieved in FY2017:

- › \$23.0m labour productivity from a net FTE reduction of 11% (146 FTEs) driven by review of management and corporate services team structures
- › \$12.0m reduction in discretionary spend including professional services.

Note: \$21.0m of the support transformation benefits have been allocated to Above Rail consistent with the allocation of overheads.

The support function continues its drive for transformation with key initiatives ongoing, including:

- › Ongoing consolidation of the property portfolio with the closure of South Townsville Yard
- › Outsourcing of the property facility service centre and contract management activities with a reduction of 10 FTEs in FY2017
- › Continued focus on discretionary spend in consumables and other procurement reform.

### Additional information

#### Senior management changes

Aurizon announced a change to its structure in March, moving to a business unit model effective 1 July 2017.

The move to the business unit model has seen the formation of the business units Network, Coal, Bulk and Intermodal with central support from Technical Services and Planning, Corporate and Finance and Strategy. As a result of these changes:

- › Ed McKeiver was appointed as the Group Executive Coal. Ed is well known to Aurizon's customers having served in several senior roles across Aurizon over the past seven years, including four years running Coal Service Delivery Operations
- › Clay McDonald was appointed as the Group Executive Freight. This includes the Diversified Bulk Freight and Iron Ore businesses. Clay has been with Aurizon for the past nine years and has served in several senior management roles including Vice President Network Commercial and Vice President Network Operations

### OTHER SUMMARY

(\$M)	FY2017	FY2016	VARIANCE %
<b>Total revenue</b>	6.5	15.4	(58%)
<b>Operating costs</b>	(55.7)	(80.7)	31%
Employee benefits	(29.3)	(34.9)	16%
Consumables	(8.6)	(36.0)	76%
Other	(17.8)	(9.8)	(82%)
<b>Underlying EBITDA</b>	(49.2)	(65.3)	25%
Depreciation and amortisation	(6.9)	(4.6)	(50%)
<b>Underlying EBIT</b>	(56.1)	(69.9)	20%

- › Michael Riches was appointed as the new Group Executive Network following the departure of Alex Kummant in June 2017. Michael is a very experienced executive with extensive regulatory and legal experience in Australia. Most recently he has held several senior roles at Alinta Energy. Prior to joining Alinta Energy, Michael spent over six years at Clayton Utz. Aurizon's regulated network business is a key part of the business portfolio and Michael's experience in negotiating regulatory outcomes will assist in driving reforms for the benefit of Aurizon and customers
- › Mike Carter was appointed as the Group Executive Technical Services and Planning which is responsible for the management of Aurizon's Above Rail assets and will provide key enterprise specialist services such as Engineering, Technology, Supply Chain and Procurement and Project Management
- › Tina Thomas joined Aurizon in March 2017 and was appointed as the Group Executive Corporate which consists of Human Resources, Safety, Corporate Affairs, Risk, Legal and Company Secretary. Tina is an experienced senior executive having spent twenty four years with Woodside Petroleum Limited in Western Australia including leading both corporate services and human resources functions
- › CFO Pam Bains will lead the Finance and Strategy team under the new structure
- › Andy Jakab continues to lead the Intermodal business until the completion of the disposal and shut down.

In April 2017 Executive Vice President Customer & Strategy Mauro Neves resigned to pursue a senior leadership role overseas in the resources sector.

## Risk

Aurizon operates a mature system of risk management that is focussed on delivering objectives and is aligned to international standards. Aurizon's Board is actively engaged in setting the tone and direction of risk management, with a clear articulation of risk appetite aligned to the Company strategy and risk management practices that support consistent delivery of expected outcomes.

The Board has confidence in the management of Aurizon's key risks however acknowledges that internal and external factors can influence financial results.

The most significant factors relating to future financial performance are:

### Product Demand, Commodity Prices and General Economic Conditions

Aurizon's customers in core markets are reliant on demand from large export markets such as Japan, China, South Korea and India. Increased volatility in the coal and iron ore markets due to factors such as material change in government policies or economic slowdown or the increasing use of renewable energy may cause fluctuations in demand, which in turn impact commodity prices, product volumes, and investment in growth projects. Aurizon references credible sources such as the International Energy Agency (IEA) in evaluating long-term demand for the key commodities of coal and iron ore. Whilst long-term demand is predicted to increase, in the short-term there may be variances in volumes, contract profitability and growth that impact on Aurizon's financial results.

### Customer Credit Risk

Aurizon's earnings are concentrated in commodity markets across a relatively small number of customers and may be impacted by deterioration in counterparty credit quality, mine sale to a lower tier party, mine profitability, contract renewals, supply chain disruptions and/or macro-industry issues.

All coal customers are currently estimated at positive cash margins. At current spot price levels, we expect the majority of Aurizon's volume is cash margin positive.

### Competition Risk

Aurizon may face competition from parties willing to compete at reduced margins and/or accept lower returns and greater risk positions than Aurizon. This may potentially negatively impact Aurizon's comparative competitiveness.

Aurizon's most significant customer contracts are secured on long-dated terms, however failure to win or retain customer contracts at commercial rates will always be a risk to future financial performance. Increased competition may be experienced from new entrants to Aurizon's core markets in both Above and Below Rail.

### Strategic Risk

Aurizon may adopt a strategy that does not deliver optimal performance outcomes for shareholders. Whilst Aurizon is confident in its strategic planning practices, the nature of planning for strategy in uncertainty leads to a possibility of sub-optimal strategic settings.

### Capital Investment Plans

When allocating sustaining and growth capital, Aurizon must predict the rate of return associated with each opportunity. Calculations are based on certain estimates and assumptions that may not be realised. Accordingly, the calculation of a potential rate of return may not be reflective of the actual returns.

### Strategic Freight Review

Decisions taken with respect to the Freight Review (including any potential divestment of business line) may lead to negative short-term financial impacts before longer term benefits are realised.

### Asset Impairment

Aurizon's assets are subject to impairment testing each year. For rollingstock, there is potential that reduced haulage volumes or continued improvements to asset productivity may require some assets to be impaired. For the Intermodal and Bulk East cash generating units (CGU) a change in the market value of assets could result in a change in the impairment recorded. For the Western Australia CGU, should any of the current major iron ore customers either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements, then the CGU may become further impaired.

### WIRP Non-Regulated Revenue Dispute

Aurizon has received notices from WIRP customers purporting to exercise a right under the WIRP Deed to reduce their financial exposure in respect of the non-regulated revenue component of the amounts payable by them to Aurizon Network. Aurizon Network maintains its position that the notices issued by WIRP customers in relation to the WIRP fee are not valid. Aurizon issued proceedings in the Supreme Court of Queensland to assert its contractual rights under the Project Deeds. The proceedings have been admitted to the Commercial List of the Supreme Court of Queensland and the Court has made orders to prepare the matter for trial. The risk is that the entire amount of the WIRP Fee is deemed not payable by the WIRP customers.

### Delivery of Transformation Program

Aurizon maintains a pipeline of transformation initiatives that are expected to deliver step change improvements in efficiency leading to reduced costs. Continued focus is required on these initiatives to ensure benefits are delivered as planned and flow through to improved financial performance.

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Regulatory Risk of the Access Undertaking (UT5)

Aurizon continues to work with the Queensland Competition Authority (QCA) and industry stakeholders to secure acceptable and sustainable regulatory outcomes for the CQCN in accordance with the processes set out in the relevant legislation. Not attaining appropriate pricing and policy regulatory settings may negatively impact revenue, operational complexity, capital investment and administrative overhead. In particular, Aurizon Network's Maximum Allowable Revenue (MAR) and the nominal (vanilla) weighted average cost of capital (WACC) used in deriving Aurizon Network's MAR is typically reset every four years as part of the access undertaking approval process with the QCA and the reference tariffs are reset annually based on projected system volumes and other variables. The WACC decided by the QCA may not adequately compensate Aurizon Network for its regulatory and commercial risks, which could lead to a material adverse impact on the Aurizon Network business, operational performance and financial results.

### Business Interruption

Aurizon may experience business interruption and consequential financial impact from a range of circumstances including, but not limited to:

- › Adverse weather events and climate change which could impact on Aurizon's operations, assets and customers
- › Cyber security incidents in relation to Aurizon's corporate and operational systems
- › Operational events such as safety incidents, industrial action or environmental activism
- › General Regulatory Risk.

Aurizon's operations and financial performance are subject to legislative and regulatory oversight. Unfavourable changes may be experienced with respect to access regimes, safety accreditation, taxation, carbon reduction, environmental and industrial (including occupational health and safety) regulation, government policy, and approval processes. These changes may have a material adverse impact on project investment, Aurizon's profitability and business in general as well as Aurizon's customers.

### Climate Change Risk

The long-term implications of climate change may impact Aurizon on several fronts. For example:

- › Increased regularity or severity of weather events causing disruptions to operations and significant damage to assets
- › Reduced appetite for funding either for Aurizon and/or for Aurizon's customers

- › Increased regulation and/or reduced 'licence to operate' in the community, making various approvals and licenses more cumbersome and costly to achieve.

These considerations are explicitly evaluated both in strategic planning and in the general management of risk within Aurizon.

Aurizon's climate change risks and opportunities are disclosed annually in our submission to the CDP (previously Carbon Disclosure Project) and in Aurizon's sustainability report (refer below under heading 'Sustainability' for details of the release of the FY2017 Sustainability Report).

For example, Aurizon seeks to integrate consideration of climate change risks and opportunities in the following ways:

- › Business model - understanding policy and its potential to impact Aurizon's business long-term
- › Future of coal - assessing greenhouse gas emission reduction benefits from Australia's high quality thermal coal
- › Operational efficiency - Aurizon's progress in reducing locomotive energy use and associated greenhouse gas emissions
- › Customer partnerships - preparing for, and adapting to, extreme weather events that impact the Network and rail haulage business
- › Regulatory environment - assessing greenhouse gas emission reduction benefits from moving freight from road to rail.

### Sustainability

In October 2016, Aurizon released its third sustainability report. The report details how Aurizon takes into account social, environmental and economic considerations related to its operations. The FY2017 Sustainability Report is due to be released in October 2017, and will incorporate recommendations from the *Final Report: Recommendation of the Task Force on Climate related Financial disclosures*, released in June 2017.

A brief summary of Aurizon's performance in connection with safety, environment and people is outlined below.

### Safety

Aurizon's commitment to safety ensured another period of sustained focus on improving Aurizon's performance. At 30 June 2017, Total Recordable Injury Frequency Rate (TRIFR) was 2.69, a 37% improvement on FY2016 however, Lost Time Injury Frequency Rate (LTIFR) has risen to 0.59.

Aurizon can also report steady improvement in operational safety metrics in FY2017. Running Line Signal Passed at Danger (SPAD) frequency has improved 31%, while Running Line Derailment frequency has improved 19%.

This improvement is driven by targeted initiatives designed and implemented by Communities of Competence, groups of subject matter experts in these key risk areas.

Aurizon remains committed to **ZERO**Harm with significant focus on line management visibility through Safety Pauses, Safety Interactions, Efficiency Testing, High Consequence Activity monitoring, and intensifying the "STOP, Take Time & Switch On" safety initiative. Aurizon is also enhancing its efforts on integrating robust safety controls by improving the work processes through the use of technology, standardisation and lean principles.

One such example is the introduction of in vehicle monitoring across all of Aurizon's motor vehicle fleet. This has seen a significant improvement in the number of motor vehicle incidents and infringements recorded in FY2017.

In order to continue the journey to becoming world leading in safety, Aurizon has reviewed its injury definitions and implemented a new set of definitions effective 1 July 2017. The key changes are the inclusion of contractors in all injury metrics and widening the scope of total recordable injuries to include all restricted work injuries. Previously, Aurizon has used a set of metrics and injury definitions benchmarked against the rail industry. These new definitions have been benchmarked against a broader set of global transport and resource organisations, including many of Aurizon's customers.

### Environment

Aurizon delivers environmental value through effective management of material environmental risks and improved enterprise environmental performance. We continue to work with industry peers to progress the implementation of a voluntary diesel Standard and Code of Practice recognising that although our contribution to localised air quality impacts are small, we have a role to play in ensuring the communities we operate in maintain their world class air quality. Our contribution to improving air quality principally aligns with reducing our direct emissions at source and through the net environmental gains realised by the utilisation of rail freight.

### People

Aurizon believes its greatest asset is the collective capability of its people to safely and efficiently operate complex supply chains. A key focus has been the change to a business unit structure which has enabled a number of key executive and senior leadership talent moves building the capability required to deliver on transformation goals. Leadership, people-centred change and diversity remain a focus. For detailed information, please refer to Aurizon's 2016 Sustainability Report.



# Directors' Report (continued)

## REMUNERATION REPORT

Dear Fellow Shareholders,

On behalf of the Board, we are pleased to present Aurizon's Financial Year (FY) 2017 Remuneration Report.

The past 12 months have continued to be challenging for Aurizon, with Underlying Earnings Before Interest and Tax (EBIT) again deteriorating.

Against this backdrop, the Company is undergoing major renewal. The Board's leadership succession program saw Andrew Harding commence as Managing Director & CEO on 1 December 2016. Andrew swiftly implemented changes to his Executive Leadership team and organisation structure and re-invigorated the transformation program to improve customer service, identify revenue opportunities and reduce costs. The Freight Review was also launched in August 2016 to address the under-performing Intermodal and Bulk businesses.

As foreshadowed last year, Fixed Remuneration for the MD & CEO and new Key Management Personnel appointments have been reduced compared to their predecessors and more weighting has been given to the Long Term Incentive component of their packages, as appropriate for a long asset life infrastructure business.

The Company's FY2017 earnings were affected by significant asset impairments resulting from the Freight Review and the ongoing transformation program. Earnings were also affected by the impact of Cyclone Debbie throughout our Queensland operations in March and April. In this regard, the Board commends Aurizon employees for their outstanding efforts in recovery works and in re-establishing vital coal export supply chains for our customers and for the Queensland coal industry.

In assessing the FY2017 Short Term Incentive, the Board acknowledges the Below Threshold outcomes for the Underlying EBIT and Transformation components and recognises the continued improvements in Safety and Diversity. We are conscious that this is a new management team and despite the disappointing financial outcomes, we want to provide some reward to them for their efforts this year in reshaping Aurizon for future success. Accordingly, the Board has determined to award an STI payment, set just above the Threshold level.

Aurizon's FY2017 performance resulted in minimal vesting of Long Term Incentive Awards.

In August 2016, 27.5% of the 2013 Award vested. As provided in the Award scheme, the portion that did not vest last year was retested. No part of the Earnings Per Share or Operating Ratio components vested and these rights lapsed. The relative Total Shareholder Return (TSR) portion, retested over the period FY2014 - FY2017, ranked at the median and therefore an additional 12.9% will vest in August 2017.

The 2014 Award was tested and no portion of the Return on Invested Capital, Operating Ratio or relative TSR components vested. Under the terms of this Award, the Board may decide to extend the performance period for one year, with the retest being at higher hurdles. The Board will consider this matter in FY2018.

The Board considers that these remuneration outcomes strike an appropriate balance between reflecting shareholder outcomes and recognising the value adding contribution of the new team.

As previously advised to shareholders, the Board has continued to implement improvements to the Remuneration Framework, including the removal of retesting from the 2016 Award onward.

We will continue to review the Remuneration Framework to ensure it remains effective in driving the required performance.

As always, we are grateful for your ongoing support and we value your feedback. We look forward to welcoming you to our 2017 Annual General Meeting.

Yours faithfully,



**Tim Poole**  
Chairman



**Russell Caplan**  
Chairman, Remuneration Committee

# Directors' Report (continued)

## REMUNERATION REPORT

### 1. Remuneration Report Introduction

Aurizon's remuneration practices are aligned with the Company's strategy of providing Executive rewards that drive and reflect the creation of shareholder value whilst attracting and retaining Executives with the right capability to achieve results.

The Remuneration Report for the year ended 30 June 2017 is set out as per Table 1. The information in this Report has been audited.

**TABLE 1 - TABLE OF CONTENTS**

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### 2. Directors and Executives

The Key Management Personnel (KMP) of the Group (being those whose remuneration must be disclosed in this Report) include the Non-Executive Directors and those Executives who have the authority and responsibility for planning, directing and controlling the activities of Aurizon.

The Non-Executive Directors and Executives that formed part of the KMP for the Financial Year (FY) as at 30 June 2017 are identified in Table 2.

Table 3 identifies other persons who were KMP at some time during FY2017.

**TABLE 2 - KEY MANAGEMENT PERSONNEL**

NAME	POSITION
<b>NON-EXECUTIVE DIRECTORS</b>	
T Poole	Chairman, Independent Non-Executive Director
R Caplan	Independent Non-Executive Director
J Cooper	Independent Non-Executive Director
M Fraser	Independent Non-Executive Director
K Field	Independent Non-Executive Director
S Lewis	Independent Non-Executive Director
K Vidgen <sup>1</sup>	Independent Non-Executive Director
<b>EXECUTIVE KMP</b>	
A Harding <sup>2</sup>	Managing Director & Chief Executive Officer
P Bains <sup>3</sup>	Executive Vice President & Chief Financial Officer
M Carter	Acting Executive Vice President, Operations
E McKeiver <sup>4</sup>	Acting Executive Vice President, Customer & Strategy

1 K Vidgen was appointed a Director on 25 July 2016

2 A Harding was appointed Managing Director & Chief Executive Officer on 1 December 2016

3 P Bains was appointed Executive Vice President & Chief Financial Officer on 19 December 2016

4 E McKeiver was appointed Acting Executive Vice President, Customer & Strategy on 18 April 2017 and appointed Group Executive Coal on 1 July 2017 to align with the business unit structure

**TABLE 3 - FORMER KEY MANAGEMENT PERSONNEL**

NAME	POSITION
<b>FORMER EXECUTIVE KMP</b>	
L E Hockridge <sup>1</sup>	Managing Director & Chief Executive Officer
A Kummant <sup>2</sup>	Executive Vice President, Network
K Neate <sup>3</sup>	Executive Vice President & Chief Financial Officer
M Neves De Moraes <sup>4</sup>	Executive Vice President, Customer & Strategy

1 L E Hockridge ceased in the role on 30 November 2016 and with the Company on 16 December 2016

2 A Kummant ceased in the role on 30 June 2017 and with the Company on 28 July 2017

3 K Neate ceased in the role on 16 December 2016 and with the Company on 31 December 2016

4 M Neves De Moraes ceased in the role and with the Company on 13 April 2017

#### Managing Director & Chief Executive Officer transition

Lance Hockridge ceased as Managing Director & Chief Executive Officer (MD & CEO) and upon ceasing employment received termination benefits in accordance with the provisions of his contract of employment as described in Table 14. Mr Hockridge did not receive an STIA payment for FY2017 and any unvested rights awarded under the LTIA will remain on foot on a pro-rata basis as described in Table 13. Any outstanding awards will continue to be governed by the performance conditions and plan rules.

As announced on 2 September 2016, Andrew Harding was appointed MD & CEO on 1 December 2016. Mr Harding's Fixed Remuneration and Total Potential Remuneration are 13% and 8% less respectively than his predecessor.

#### Key Management Personnel from FY2018

During the year a review of the KMP was conducted. Given the change in business unit reporting from FY2018, the Board determined that from 1 July 2017 the MD & CEO, Chief Financial Officer & Group Executive Strategy, Group Executive Coal, Group Executive Network and Group Executive Bulk will fulfil the definition of the KMP.

### 3. Remuneration Framework Components

#### Total Potential Remuneration

Aurizon's Remuneration Framework for each Executive comprises three components:

- › **Fixed remuneration** (not 'at risk') that comprises salary and other benefits, including superannuation
- › **STIA** ('at risk' component, awarded on the achievement of performance conditions over a 12-month period) that comprises both a cash component and a component deferred for 12 months into equity
- › **LTIA** ('at risk' component, awarded on the achievement of performance conditions over three and four year periods) that comprises only an equity component.

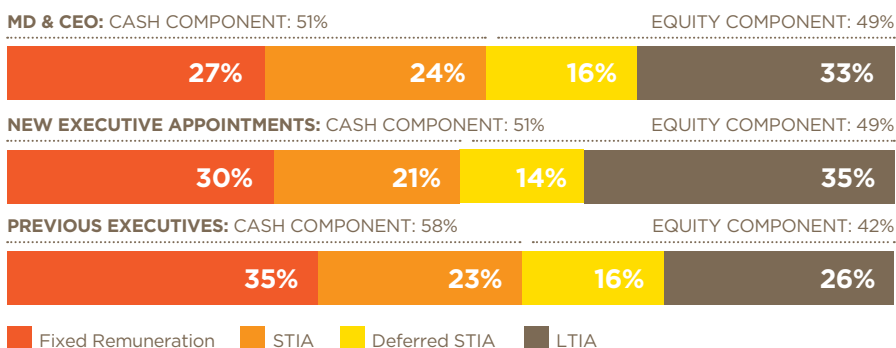
The structure is intended to provide an appropriate mix of fixed and variable remuneration, and provide a combination of incentives intended to drive performance against the Company's short and longer-term business objectives.

The mix of potential remuneration components for FY2017 for the MD & CEO and Executive KMP is set out in Figure 1: Total Potential Remuneration Financial Year 2017. The diagram demonstrates the revised remuneration mix for Executive appointments, which has a greater proportion of the total potential remuneration weighted towards the LTIA.

#### Executive Remuneration Governance

Figure 2 represents Aurizon's remuneration governance framework. Details on the composition of the Remuneration Committee (Committee) are set out on page 8 of this report. The Committee's Charter is available in the Governance section of the Company's website at [www.aurizon.com.au](http://www.aurizon.com.au)

**FIGURE 1 - TOTAL POTENTIAL REMUNERATION FINANCIAL YEAR 2017<sup>1</sup>**



<sup>1</sup> Assumes achievement of the stretch performance hurdle outcomes for STIA, full vesting of the Deferred STIA and LTIA at a value equal to the original award i.e. assuming no share price appreciation

**FIGURE 2 - REMUNERATION GOVERNANCE FRAMEWORK**



# Directors' Report (continued)

## REMUNERATION REPORT

### Remuneration Framework and objectives Financial Year 2017

As referenced in the FY2016 Remuneration Report, Aurizon has implemented changes to the Remuneration Framework. These changes are summarised in Figure 3.

FIGURE 3 - REMUNERATION FRAMEWORK AND OBJECTIVES FOR FINANCIAL YEAR 2017

	PERFORMANCE MEASURE	STRATEGIC OBJECTIVES AND LINK TO PERFORMANCE	FY2017 FRAMEWORK CHANGES
<b>FIXED REMUNERATION</b>	<p><b>Considerations:</b></p> <ul style="list-style-type: none"> <li>› Experience and qualifications</li> <li>› Role and responsibility</li> <li>› Retain key capability</li> <li>› Reference to remuneration paid by similar sized companies in similar industry sectors</li> <li>› Internal and external relativities</li> </ul>	<ul style="list-style-type: none"> <li>› To attract and retain Executives with the right capability to achieve results</li> </ul>	
<b>SHORT TERM INCENTIVE AWARD</b>	<ul style="list-style-type: none"> <li>› Safety, Environment and Female Representation (17.5%)</li> <li>› Enterprise Transformation Program (17.5%)</li> <li>› Underlying EBIT (35%)</li> <li>› Individual (30%)</li> </ul> <p>Measured over a one-year performance period</p> <p><b>STIA at Risk:</b> MD &amp; CEO: Target 100% of Fixed Remuneration and maximum 150% of Fixed Remuneration Other Executive KMP: Target 75% of Fixed Remuneration and maximum 112.5% of Fixed Remuneration</p>	<p>The non-financial and financial performance measures were chosen because:</p> <ul style="list-style-type: none"> <li>› <b>Safety, Environment and Female Representation</b> captures the need to continuously improve safety, reduce our environmental footprint across all aspects of a heavy industry business and increase representation of females</li> <li>› <b>Transformation</b> captures the need for our people and our assets to operate more efficiently</li> <li>› <b>Underlying EBIT</b> delivers direct financial benefits to shareholders</li> </ul> <p>Note: Participation levels set with reference to the appropriate levels of short-term incentive offered by our peers in the market</p>	<ul style="list-style-type: none"> <li>› Transformation measure aligned to the Enterprise Transformation Program and identifies annual cost-out and capital management saving target</li> <li>› Safety &amp; Environment measures adjusted to include Female Representation</li> <li>› Reward for <i>Threshold</i> performance removed for some Safety &amp; Environment measures (Total Reportable Injury Frequency Rate, Environmental Incidences and Safety Interactions)</li> </ul>
<b>LONG TERM INCENTIVE AWARD</b>	<ul style="list-style-type: none"> <li>› Relative Total Shareholder Return (TSR) (35%)</li> <li>› Return on Invested Capital (ROIC) (50%)</li> <li>› Operating Ratio Improvement (OR) (15%)</li> </ul> <p>Measured over a three-year performance period. There will be no retesting in relation to the 2016 Award and subsequent awards</p> <p><b>LTIA at Risk (Maximum):</b> MD &amp; CEO: 120% of Fixed Remuneration <b>New Executive appointments:</b> 112.5% of Fixed Remuneration <b>Previous Executives:</b> 75% of Fixed Remuneration</p>	<ul style="list-style-type: none"> <li>› <b>Relative TSR</b> is a measure of the return generated for Aurizon's shareholders over the performance period relative to a peer group of companies (ASX100)</li> <li>› <b>ROIC</b> reflects the fact that Aurizon operates a capital intensive business and our focus should be on maximising the level of return generated on the capital we invest</li> <li>› <b>OR Improvement</b> is a measure of the profit earned from each dollar of revenue generated</li> </ul> <p>Note: Minimum shareholding requirements for Executives encourages retention of shares and alignment with shareholder interests</p>	<ul style="list-style-type: none"> <li>› The weighting of the LTIA within the remuneration mix has been increased whilst not increasing the total potential remuneration</li> <li>› A greater portion of the award has been weighted towards ROIC (from 2016 Award) and relative TSR (from 2017 Award)</li> <li>› Property trusts (from 2016 Award) and telecommunications companies (from 2017 Award) will no longer be excluded from the peer group</li> <li>› Retesting has been removed (from 2016 Award)</li> <li>› The performance period will be extended from three to four years (from 2017 Award)</li> </ul>

#### Total remuneration

Overall, Executive remuneration is designed to support delivery of superior shareholder returns by placing a significant proportion of an Executive's total potential remuneration at risk and awarding a significant portion of at risk pay in equity

#### 4. Company Performance Financial Year 2017

EBIT and Net Profit After Tax (NPAT) were significantly impacted by the operating conditions described in the Chairman's Report (page 2) and the impact of the asset impairments. Despite these challenges, Aurizon has continued to transform and has delivered a further \$129 million in transformation benefits but did not achieve its internal FY2017 target. However, Aurizon remains on track to achieve its three year target of \$380 million by FY2018. By addressing surplus capacity, decreasing operating footprint, reviewing maintenance practices, changing business models and improving efficiency through innovation, Aurizon has delivered 68% of cost-out targets in two-thirds of the program timeframe.

Figure 4 shows historical Company performance across a range of key metrics with further detail related to performance against the FY2017 STIA performance measures provided in Table 5 (page 29). Table 7 (page 30) provides additional information related to the LTIA performance outcomes.

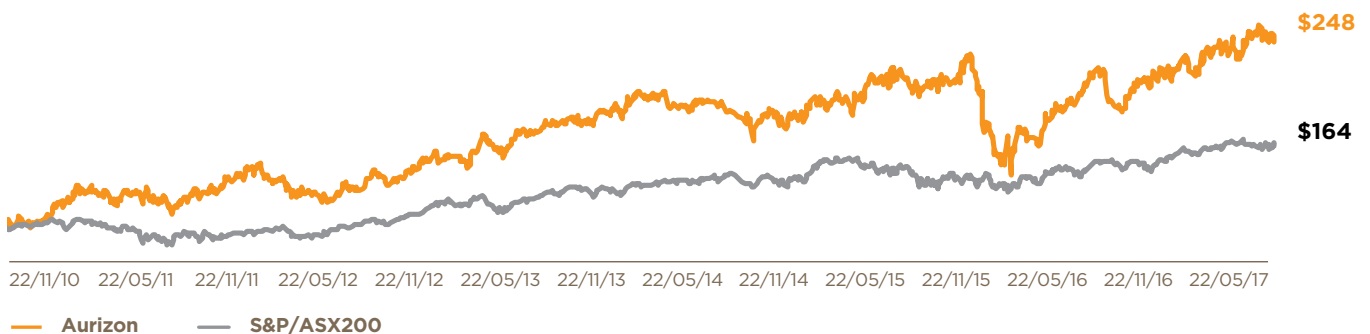
A key benefit for Aurizon shareholders is the share price appreciation since IPO. Figure 5 shows the movement in both the Aurizon share price and ASX200 index value over the period from listing date 22 November 2010 to 30 June 2017. The diagram assumes that a shareholder starts with an initial investment of \$100 in each of Aurizon and the ASX200 index and shows the change in the value of those investments over the period assuming dividend reinvestment. For Aurizon, the diagram assumes a starting price of \$2.45, being the initial retail share price.

FIGURE 4 - HISTORICAL COMPANY PERFORMANCE



<sup>1</sup> Unaudited

FIGURE 5 - INVESTMENT RETURN FROM AURIZON HOLDINGS (AZJ) AND ASX200 ACCUMULATION INDEX (22 NOVEMBER 2010 TO 30 JUNE 2017)



# Directors' Report (continued)

## REMUNERATION REPORT

### 5. Take Home Pay

Table 4 identifies the actual remuneration earned during FY2017.

The table has not been prepared in accordance with accounting standards but has been provided to ensure shareholders are able to clearly understand the remuneration outcomes for Executive KMP and Former Executive KMP. Executive remuneration outcomes, which are prepared in accordance with the accounting standards, are provided in Section 10 (page 36).

The remuneration outcomes identified in Table 4 are directly linked to the Company performance described in Section 6 (page 29) and Section 7 (page 30).

The actual STIA is dependent on Aurizon and individual performance as described in Section 6. Mixed performance across our key measures is also reflected directly in the payments for our Executive KMP, which range from 33% to 42% of their potential maximum.

The actual vesting of the LTIA is dependent on Aurizon's performance and the outcomes are further described in Section 7. The unvested components of the 2013 Award and all three components of the 2014 Award were tested in FY2017.

Aurizon's performance for FY2017 has resulted in minimal LTIA vesting outcomes.

No portion of the Return on Invested Capital (ROIC), Operating Ratio (OR) or relative Total Shareholder Return (TSR) components awarded in 2014 (FY2015 - FY2017) vested. These unvested components may be subject to a discretionary retest in FY2018 and, in order for any rights to vest on the later date, stronger performance is required.

The Board has not yet determined whether the 2014 Award will be retested next year for either current or former Executives.

The portions of the 2013 Award which did not vest last year were retested in FY2017. Relative TSR was retested over the period FY2014 - FY2017. This portion ranked at the median and therefore an additional 12.9% will vest in August 2017. No portion of the Earnings Per Share (EPS) or OR components vested and these rights lapsed.

**TABLE 4 - REMUNERATION EARNED IN FINANCIAL YEAR 2017**

NAME	FIXED REMUNERATION <sup>1</sup> \$'000	NON- MONETARY BENEFITS <sup>2</sup> \$'000	STIA CASH <sup>3</sup> \$'000	STIA	LTIA		CONTRACTUAL TERMINATION BENEFITS \$'000	ACTUAL FY2017 REMUNERATION OUTCOMES \$'000
				DEFERRED FROM PRIOR YEAR <sup>4</sup> \$'000	VESTING <sup>5</sup> \$'000	SHARE PRICE APPRECIATION <sup>6</sup> \$'000		
<b>EXECUTIVE KMP</b>								
A Harding	958	-	316	-	-	-	-	1,274
P Bains	588	-	152	-	31	6	-	777
M Carter	860	1	191	-	73	14	-	1,139
E McKeiver	500	-	161	-	37	7	-	705
<b>FORMER EXECUTIVE KMP</b>								
L E Hockridge	906	6	-	-	252	47	1,950	3,161
A Kummant	860	3	298	-	81	15	730	1,987
K Neate	433	1	-	-	71	13	430	948
M Neves De Moraes	665	1	-	-	-	-	-	666

1 The amount represents FY2017 actual earnings and is not reflective of the period in the KMP role only

2 The amount relates to reportable fringe benefits

3 The amount relates to the cash component (60%) of the FY2017 STIA which will be paid in September 2017. A Kummant's contract of employment terminated on 28 July 2017 and E McKeiver was not remunerated as an EVP for FY2017 therefore their STIA will be awarded entirely as cash

4 The amount relates to the deferred component (40%) of the FY2016 STIA which would have been awarded in performance rights and become unrestricted in September 2017. As no FY2016 STIA was made to the Executive KMP there was no component deferred into equity

5 The amount is the number of rights which vest in August 2017 (i.e. a portion of the retested 2013 Award) multiplied by the Aurizon share price at the start of the performance period (calculation assumes a share price of \$4.51)

6 The amount is the number of rights which vest in August 2017 multiplied by the increase in the Aurizon share price over the performance period ended 30 June 2017 (calculation assumes share price appreciation of \$0.85)

## 6. Short Term Incentive Award

### What is the STIA and who participates?

The STIA is 'at risk' remuneration subject to the achievement of pre-defined Company and individual performance hurdles which are set annually by the Board at the beginning of the performance period. For each component of the STIA, three performance levels are set:

- › *Threshold*, below which no STIA is paid for that component
- › *Target*, which typically reflects an improvement on historical achievement or a business improvement targeted outcome, in both cases in line with relevant corporate plans and budgets
- › *Stretch*, which is materially better than Target.

The STIA applies in a similar manner to all non-enterprise agreement employees.

For the MD & CEO, Executive KMP and the remaining Executive Committee (direct reports to the MD & CEO) a portion (40%) will be deferred into equity for a period of 12 months, subject to the Board's ability to claw-back.

### What are the Company performance measures?

The performance measures which apply to all participants are Underlying EBIT, Transformation, Safety, Environment and Female Representation. The measures capture the need to continuously improve safety across all aspects of the business, reduce our environmental footprint, strengthen and grow our current business and the need to create a more diverse workforce. This is achieved through a focus on people and asset efficiencies whilst at the same time, delivering benefits to shareholders. Individual performance hurdles relate to each specific role and measure an individual's contribution.

### What is the amount that participants can earn through an STIA?

The employment agreements specify a target STIA, expressed as a percentage of Fixed Remuneration (100% for the MD & CEO and 75% for the remaining Executive KMP). Each participant can earn between 0% up to a maximum of 150% of this target percentage, depending on performance and subject to Board discretion. Depending on performance assessed at year end, participants may earn for each enterprise measure: 0% for performance below *Threshold*, 50% at *Threshold* (for measures other than Underlying EBIT, for which *Threshold* earnings are 30%; Safety and Environment (excluding TAR), for which no payment is made at *Threshold*) with a linear scale up to 100% at *Target* performance; and a further linear scale to 200% at *Stretch* performance.

### What are the outcomes for FY2017?

Table 5 identifies the performance measures, relevant weightings and outcomes for FY2017. The FY2017 actual outcomes for Executive KMP are identified within Table 6.

**TABLE 5 - SHORT TERM INCENTIVE AWARD FINANCIAL YEAR 2017 OBJECTIVES**

DESCRIPTION	WEIGHTING	TARGET	OUTCOME
<b>EBIT:</b> Underlying EBIT delivers financial benefits to shareholders through growth in underlying operating earnings	35%	\$925m	<b>\$836m<sup>1</sup></b> Below <i>Threshold</i>
<b>Safety, Environment and Female Representation:</b> The measures capture the need to continuously improve and maintain safety across all aspects of the Company, reduce our environmental footprint and to create a more diverse workforce, measured through equally weighted parameters which included: <ul style="list-style-type: none"> <li>› Total accident rate (TAR) (derailments and rollingstock collisions)</li> <li>› Total reportable injury frequency rate (TRIFR)</li> <li>› Total environmental notifiable incidents (ENI)</li> <li>› Safety interactions per employee per month (SI)</li> <li>› Aurizon's female representation</li> </ul>	17.5%	<ul style="list-style-type: none"> <li>› 10% reduction in TAR</li> <li>› 30% reduction in TRIFR</li> <li>› Maintain ENI at 1</li> <li>› At least 1.48 SI per employee per month</li> <li>› Increase female representation to 20%</li> </ul>	<ul style="list-style-type: none"> <li>› <b>45%</b> reduction TAR</li> <li>› <b>37%</b> reduction TRIFR</li> <li>› <b>2</b> ENI</li> <li>› <b>2.07</b> SI</li> <li>› <b>19.8%</b> female employees</li> </ul> Between <i>Target</i> and <i>Stretch</i>
<b>Transformation:</b> Our priority to transform Aurizon continues to be a strategic imperative. For FY2017, this objective was aligned to the Enterprise Transformation Program, which identifies cost-outs and capital management savings targeted over three years	17.5%	\$165m	<b>\$129m</b> Below <i>Threshold</i>
<b>Aggregate Enterprise Outcome</b> (Sub-total)	<b>70%</b>		
<b>Individual:</b> Performance hurdles for the Executive KMP are established on an annual basis by the MD & CEO. In the case of the MD & CEO the individual hurdles are established by the Chairman after consultation with the Board. For FY2017 the MD & CEO's individual performance parameters included: <ul style="list-style-type: none"> <li>› Support and guidance to regulatory process</li> <li>› Review and implement effective organisational structure and leadership team</li> <li>› Strategic review of Intermodal and Bulk Transformation</li> </ul>	<b>30%</b>	Individual performance targets vary for each specific role	Personal outcomes for KMP varied between <i>Threshold</i> and <i>Stretch</i> depending on performance against individual KPIs

1 The Board has considered and determined that no adjustment for impairments or weather events will be made to the Underlying earnings for remuneration purposes as an adjustment would not have affected the result. No STIA participant will be rewarded for this component (below *Threshold*)

**TABLE 6 - SHORT TERM INCENTIVE AWARDED IN FINANCIAL YEAR 2017**

NAME	TARGET STIA \$'000	MAXIMUM POTENTIAL STIA (\$'000)	AWARDED FY2017 (\$'000)				% OF TARGET STIA	% OF MAXIMUM STIA <sup>2</sup>
			CASH COMPONENT	DEFERRED SHARE COMPONENT <sup>1</sup>	TOTAL STIA PAYMENT			
<b>EXECUTIVE KMP</b>								
A Harding <sup>3</sup>	958	1,437	316	211	527	55	37	
P Bains <sup>3</sup>	405	608	152	102	254	63	42	
M Carter	645	968	191	127	318	49	33	
E McKeiver <sup>4</sup>	300	450	161	-	161	54	36	
<b>FORMER EXECUTIVE KMP</b>								
A Kummant <sup>5</sup>	645	968	298	-	298	46	31	

1 A portion (40%) awarded in the form of rights to shares, which vest on the first anniversary of payment of the cash component subject to Board's ability to 'clawback'

2 Executives have forfeited between 58% to 69% of their maximum potential outcome

3 Pro-rata outcomes apply for Executives who were appointed after the performance year commenced (1 July 2016) which take into account variations in Fixed Remuneration and Target STIA percentages

4 E McKeiver was not remunerated as an EVP for FY2017 therefore his STIA will be awarded entirely as cash

5 A Kummant ceased with the Company on 28 July 2017 and remained eligible for an STIA payment awarded entirely as cash. All other former Executive KMP ceased prior to the end of the financial year and were therefore not eligible

# Directors' Report (continued)

## REMUNERATION REPORT

### 7. Long Term Incentive Award

#### What is the LTIA and who participates?

The LTIA is the component of Total Potential Remuneration linked to providing long-term incentives for selected Executives whom the Board has identified as being able to contribute directly to the generation of long-term shareholder returns. This includes the MD & CEO, Executive KMP, the remaining Executive Committee (direct reports to the MD & CEO), and the direct reports to the Executive Committee.

#### How is the LTIA determined?

The number of performance rights issued under the LTIA to each Executive is calculated by dividing their respective LTIA potential remuneration (expressed as a percentage of Fixed Remuneration) by the five day Volume Weighted Average Price (VWAP) of Aurizon shares at the time of their award.

Each performance right is a right to receive one share in Aurizon upon vesting. The number of performance rights that vest is determined by performance outcomes compared with predetermined company hurdles as described in Table 7 and Table 8.

#### What happens when performance rights vest?

Performance rights awarded under the LTIA vest subject to the satisfaction of company hurdles. Rights vest and the resulting shares are transferred to the Executive at no cost to the Executive. Company performance against LTIA subject to testing in FY2017 is identified in Table 7.

#### What is the amount that Executives can earn through an LTIA?

The maximum potential remuneration (expressed as a percentage of Fixed Remuneration) available through the LTIA is 120% in the case of the MD & CEO, 112.5% for Executive KMP appointed during FY2017 and 75% for the previous Executive KMP.

#### What is the performance period?

From the 2017 Award, company hurdles will be measured over an extended performance period, increasing from a three-year to a four-year performance period. In order to manage the transition on a value neutral basis for the Company, two LTIA grants will be made in FY2018. Both grants will be reduced, issued at 75% of the maximum vesting opportunity.

In the event that a hurdle is not achieved in relation to the 2014 and 2015 Awards, the performance period may be extended for a further year at the discretion of the Board. In the event of a performance period extension, in order for any additional performance rights to vest on the later date, Aurizon has to achieve stronger performance than that required for the original performance period in the final year.

There will be no retesting in relation to the 2016 and subsequent Awards.

TABLE 7 - COMPANY PERFORMANCE AGAINST LONG TERM INCENTIVE AWARDS SUBJECT TO TESTING IN FINANCIAL YEAR 2017

COMPANY HURDLE AND PERFORMANCE MEASUREMENT PERIOD		WEIGHTING	RESULT	% VESTED	% FOR RETESTING	% LAPSED
<b>2013 AWARD: RETEST 01 JULY 2013 - 30 JUNE 2017</b>						
<b>Relative TSR:</b> against peer group within ASX100 Index	50% of rights vest at the 50th percentile, up to 100% at the 75th percentile	25%	<i>Below median (FY2016)</i>	0%	100% of this component was subject to a single retest in FY2017	
			<i>Between median &amp; top quartile (FY2017)</i>	52%	48%	
<b>OR Improvement<sup>1</sup></b>	50% of rights will vest with a FY2017 OR of 73%, up to 100% at 71%	50%	74.8% (FY2016)	55%	45% of this component was subject to a single retest in FY2017	
			75.8% (FY2017)	0%	45%	
<b>EPS:</b> average annual EPS growth from FY2013 - FY2017	50% of rights vest with an average annual growth rate of 7.5%, up to 100% at an average annual growth rate of 10%	25%	-52% (FY2013 - FY2016)	0%	100% of this component was subject to a single retest in FY2017	
			-6.6% (FY2013 - FY2017)	0%	100%	
<b>2014 AWARD: 01 JULY 2014 - 30 JUNE 2017</b>						
<b>Relative TSR:</b> against peer group within ASX100 Index	30% of rights vest at the 50th percentile, 75% of rights vest at the 62.5th percentile up to 100% at the 75th percentile	33%	<i>Below median (FY2017)</i>	0%	100% of this component may be subject to a retest in FY2018 <sup>3</sup>	
<b>ROIC:</b> average annual ROIC FY2015 - FY2017	50% of the rights will vest with an average ROIC of 10.5%, up to 100% at 11.5%	33%	9% <sup>2</sup>	0%	100% of this component may be subject to a retest in FY2018 <sup>3</sup>	
<b>OR Improvement<sup>1</sup></b>	50% of rights will vest with a FY2017 OR of 73%, up to 100% at 71.5%	34%	75.9%	0%	100% of this component may be subject to a retest in FY2018 <sup>3</sup>	

1 OR targets set after the change in accounting policy in FY2013 have been set consistent with the current accounting policy with diesel fuel rebate offset against the diesel fuel costs

2 ROIC for remuneration purposes has been adjusted to reflect asset impairments which have occurred during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements, and is 8.8%

3 The entire unvested Award is subject to a discretionary retest with more stringent performance levels. The retesting hurdles are 70% for OR in the fourth year, top quartile performance for relative TSR over the four year period and 12.5% average for ROIC over the four year period. The Board has not yet determined whether the 2014 Award will be retested next year for either current or former Executives



**TABLE 8 - LONG TERM INCENTIVE AWARD PERFORMANCE OVERVIEW AND HURDLES**

<b>TSR</b>	<p>The vesting of rights for relative TSR growth is conditional on Aurizon's TSR performance relative to a peer group of companies in the ASX100 index (approximately 70) that are broadly comparable to Aurizon (i.e. with which Aurizon competes for capital and/or capability). Property trusts (from 2016 Award) and telecommunications companies (from 2017 Award) will no longer be excluded from the comparator group. Financial, healthcare, biotechnology, casinos and gaming companies are excluded from the comparator group.</p> <p>TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. The TSR of Aurizon over the performance period will be compared to the TSR of all of the companies in the peer group which are still listed at the end of the performance period. The relevant share prices will be determined by reference to a VWAP over a period to smooth any short-term 'peaks' or 'troughs'. Relative TSR performance is monitored by an independent expert at the end of each Financial Year.</p>
<b>ROIC</b>	<p>ROIC, for the purposes of the LTIA, will be calculated on the same basis as the published ROIC except to the extent of the differences explained in this section. Essentially, ROIC is Underlying EBIT divided by Invested Capital. For the purposes of LTIA, invested capital will not include major (infrastructure investments with an approved budgeted capital expenditure over \$250m) assets under construction (AUC) until these investments are planned to generate income, subject to Board discretion (for example, in the case of a delay judged to be outside the control of management and not able to be foreseen or mitigated). ROIC for remuneration purposes will be adjusted to reflect asset impairments which occur during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements. Hurdles for awards issued in 2017 reflect the latest expected performance of the Above Rail business and assumes the continued use of the Queensland Competition Authority (QCA) transitional tariffs, which extends UT4 until the approval of UT5.</p>
<b>OR</b>	<p>OR improvement essentially measures the operating cost as a percentage of revenue. Aurizon is committed to reducing OR through further implementation of transformation initiatives, growth initiatives and continued tight operational and financial discipline. The Board determined that OR will no longer form part of the LTIA from the 2017 Award. It was always intended that the use of OR had a finite life-span. Whilst OR will continue to be managed and improved it will no longer be used for remuneration purposes with the balance of future awards weighted towards TSR and ROIC which are better aligned to a long asset life infrastructure company.</p>

PERFORMANCE PERIOD (01/07/2016 - 30/06/2019) <sup>1</sup>				
2016 AWARD	WEIGHTING	MINIMUM VESTING POINT		MAXIMUM VESTING POINT
<b>Relative TSR:</b> against peer group within ASX100 Index <sup>2</sup>	35%	30% of the rights will vest at the 50 <sup>th</sup> percentile	75% of the rights will vest at the 62.5 <sup>th</sup> percentile	100% of the rights will vest at the 75 <sup>th</sup> percentile
<b>ROIC:</b> average annual ROIC FY2017 - FY2019	50%	50% of the rights will vest with an average ROIC of 10.5%		100% of the rights will vest with an average ROIC of 11.5%
<b>OR Improvement</b>	15%	50% of the rights will vest with an OR of 70%		100% of the rights will vest with an OR of 68.5%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

PERFORMANCE PERIOD (01/07/2017 - 30/06/2020) <sup>1,4</sup>				
2017 AWARD (3 YEAR)	WEIGHTING	MINIMUM VESTING POINT		MAXIMUM VESTING POINT
<b>Relative TSR:</b> against peer group within ASX100 Index <sup>3</sup>	50%	30% of the rights will vest at the 50 <sup>th</sup> percentile	75% of the rights will vest at the 62.5 <sup>th</sup> percentile	100% of the rights will vest at the 75 <sup>th</sup> percentile
<b>ROIC:</b> average annual ROIC FY2018 - FY2020 <sup>5</sup>	50%	50% of the rights will vest with an average ROIC of 10.5%		100% of the rights will vest with an average ROIC of 11.5%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

PERFORMANCE PERIOD (01/07/2017 - 30/06/2021) <sup>1,4</sup>				
2017 AWARD (4 YEAR)	WEIGHTING	MINIMUM VESTING POINT		MAXIMUM VESTING POINT
<b>Relative TSR:</b> against peer group within ASX100 Index <sup>3</sup>	50%	30% of the rights will vest at the 50 <sup>th</sup> percentile	75% of the rights will vest at the 62.5 <sup>th</sup> percentile	100% of the rights will vest at the 75 <sup>th</sup> percentile
<b>ROIC:</b> average annual ROIC FY2018 - FY2021 <sup>5</sup>	50%	50% of the rights will vest with an average ROIC of 10.5%		100% of the rights will vest with an average ROIC of 11.5%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

1 In the event that performance is not achieved, the performance period will not be extended, as retesting no longer forms part of the LTIA from the 2016 Award

2 From the 2016 Award, property trusts were no longer excluded from the peer group

3 From the 2017 Award, telecommunication companies will no longer be excluded from the peer group

4 From the 2017 Award, company hurdles will be measured over an extended performance period, increasing from a three-year performance period to a four-year performance period. In order to facilitate this transition, two awards will be issued

5 ROIC hurdles have been set with reference to the QCA transitional tariff which extends UT4 to 31 December 2017. The transitional tariffs remain in place until the approval of UT5. The Board may apply discretion should the UT5 outcome result in a material tariff difference

### How does Aurizon utilise Retention awards?

In some circumstances, as approved by the Board, Management may recommend the issuance of retention awards to key Executives where the services of an individual are considered critical to Aurizon over the short-to-medium term and the existing remuneration arrangements are thought to be insufficient to retain those services. Retention awards may be time-based or project-based and are governed by stringent performance conditions and may be cash-based or equity-based.

During FY2017, one equity-based retention and six cash-based awards were issued. Additionally, one equity-based retention award vested and two project-based awards lapsed. The awards which were issued and vested during the year pertained to two externally targeted Executives whom have now been appointed to the Executive Committee (CFO & Group Executive Strategy and Group Executive Bulk). The remaining six awards were issued to retain the services of other management (non KMP) required to complete the Freight Review process. Further information is available in Section 28 of the Financial Report (page 88).

# Directors' Report (continued)

## REMUNERATION REPORT

### 8. Executive Service Agreements

#### Executive Service Agreements

Remuneration and other terms of employment for the MD & CEO and Executive KMP are formalised in a Service Agreement as summarised in Table 9.

#### Minimum shareholding policy for Executives

To align Directors and Executives with shareholders, the Company requires that Directors and Executives accumulate share ownership, which requires:

- › Non-Executive Directors to accumulate and maintain one year's Directors' fees of shares in the Company
- › the MD & CEO to accumulate and maintain one year's Fixed Remuneration of shares in the Company
- › the remaining Executive KMP and Executive Committee to accumulate and maintain 50% of one year's Fixed Remuneration of shares in the Company.

This is to be achieved within six years of the date of their appointment. This will be calculated with reference to the Directors' fees and Executives' Fixed Remuneration during the period divided by the number of years.

Details of KMP shareholdings as at 30 June 2017 are set out in Table 10.

#### Hedging and margin lending policies

Aurizon has in place a policy that prohibits Executives from hedging economic exposure to unvested rights that have been issued pursuant to a Company employee share plan. The policy also prohibits margin loan arrangements for the purpose of purchasing Aurizon shares. Adherence to this policy is monitored regularly and involves each Executive signing an annual declaration of compliance with the policy.

TABLE 9 - SERVICE AGREEMENTS

NAME	DURATION OF SERVICE AGREEMENT	FIXED REMUNERATION AT END OF FINANCIAL YEAR 2017 <sup>1</sup>	NOTICE PERIOD <sup>2</sup>	
			BY EXECUTIVE	BY COMPANY <sup>3</sup>
<b>EXECUTIVE KMP</b>				
A Harding	Ongoing	\$1,700,000	6 months	12 months
P Bains	Ongoing	\$ 700,000	3 months	6 months
M Carter	Ongoing	\$ 860,000	3 months	6 months
E McKeiver <sup>4</sup>	Ongoing	\$ 500,000	3 months	6 months

1 Fixed remuneration includes a superannuation component

2 Post employment restraints in any competitor business in Australia is aligned to the notice period

3 Any termination payment will be subject to compliance with the Corporations Act and will not exceed 12 months

4 E McKeiver was appointed acting EVP Commercial & Strategy on 18 April 2017. No adjustment was made to his remuneration package during the acting period

TABLE 10 - KMP SHAREHOLDING AS AT 30 JUNE 2017

NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON VESTING	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	% OF FIXED REMUNERATION <sup>1</sup>
<b>NON-EXECUTIVE DIRECTORS</b>					
T Poole	45,500	-	45,000	90,500	102%
R Caplan <sup>2</sup>	82,132	-	-	82,132	232%
J Cooper	70,000	-	15,000	85,000	240%
M Fraser	40,000	-	-	40,000	113%
K Field	40,458	-	-	40,458	114%
S Lewis	33,025	-	-	33,025	93%
K Vidgen	-	-	40,000	40,000	113%
<b>EXECUTIVE KMP</b>					
A Harding	-	-	-	-	0%
P Bains	1,850	14,634	-	16,484	13%
M Carter <sup>2</sup>	316,990	82,516	(225,581)	173,925	108%
E McKeiver	-	17,562	-	17,562	19%

1 Assumes Directors' fees and Fixed Remuneration as at 30 June 2017 and the calculation assumes a share price of \$5.36

2 KMP required to meet the minimum shareholding requirement due to length of service being longer than six years

## 9. Non-Executive Director Remuneration

Fees for Non-Executive Directors are set at a level to attract and retain Directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for Aurizon.

The Directors' fee is a composite fee and covers all responsibilities of the respective members including Board and Committee duties. The fee is also a total fee in that it covers both cash and any contributions to a fund for the purposes of superannuation benefits.

There are no other retirement benefits in place for Non-Executive Directors. Non-Executive Directors do not receive performance-based pay.

### What are the aggregate fees approved by shareholders?

\$2.5 million. The cap does not include remuneration for performing additional or special duties for Aurizon at the request of the Board or reasonable travelling, accommodation and other expenses of Directors in attending meetings and carrying out their duties.

The current annual base fees for the Non-Executive Directors are set out in Table 11. There has been no increase applied to the Directors' fees since 1 July 2012.

### How are individual fees determined?

Within the aggregate cap, remuneration for Non-Executive Directors is reviewed by the Committee and set by the Board, taking into account recommendations from an external expert. Fees and payments to Non-Executive Directors are reviewed annually by the Board and reflect the demands which are made on, and the responsibilities of, the Directors.

The Chairman's fees are determined independently to the fees of Non-Executive Directors, based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

The actual remuneration for the Non-Executive Directors of the Company is summarised in Table 12.

TABLE 11 - DIRECTORS' FEES

DIRECTORS	TERM	SERVICE AGREEMENT SUMMARY
Chairman	Directors' fees (inclusive of all responsibilities and superannuation)	\$475,000
Other Non-Executive Directors	Directors' fees (inclusive of all responsibilities and superannuation)	\$190,000

TABLE 12 - NON-EXECUTIVE DIRECTORS' REMUNERATION

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	TOTAL REMUNERATION \$'000
		SALARY AND FEES <sup>1</sup> \$'000	NON-MONETARY BENEFITS <sup>2</sup> \$'000	SUPERANNUATION \$'000	
<b>NON-EXECUTIVE DIRECTORS<sup>3</sup></b>					
T Poole	2017	455	-	20	475
	2016	403	-	18	421
R Caplan	2017	174	-	16	190
	2016	174	-	16	190
J Cooper	2017	174	-	16	190
	2016	174	-	16	190
M Fraser	2017	174	-	16	190
	2016	63	-	6	69
K Field	2017	174	-	16	190
	2016	174	-	16	190
S Lewis	2017	174	-	16	190
	2016	174	-	16	190
K Vidgen	2017	160	-	15	175
<b>FORMER NON-EXECUTIVE DIRECTORS</b>					
J B Prescott AC	2016	80	24	4	108
J Atkin	2016	110	-	10	120
G T John AO	2016	66	-	6	72
G T Tilbrook	2016	110	-	10	120
<b>Total</b>	<b>2017</b>	<b>1,485</b>	<b>-</b>	<b>115</b>	<b>1,600</b>
	2016	1,528	24	118	1,670

1 Salary and fees include any salary sacrificed benefits. FY2016 has been restated to be comparable with new classification in FY2017

2 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective FBT year ending 31 March

3 Appointment dates for Directors are provided in Table 2 on page 24

# Directors' Report (continued)

## REMUNERATION REPORT

### 10. Executive Remuneration Financial Year 2017

The table below details the number and value of movements in equity awards during FY2017.

**TABLE 13 - RIGHTS GRANTED AS COMPENSATION**

NAME	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR <sup>1</sup>	VALUE OF RIGHTS GRANTED IN YEAR	VESTED IN YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	FORFEITED IN YEAR
		NO.	NO.	\$'000	%	NO.	NO.	%
<b>EXECUTIVE KMP</b>								
A Harding <sup>3</sup>	2016	-	463,636	1,429	-	-	-	-
P Bains	2012	1,990	-	-	-	-	(1,990)	100
	2013 <sup>4</sup>	53,216	-	-	27.5	(14,634)	-	-
	2014 <sup>4</sup>	49,382	-	-	-	-	-	-
	2015	46,066	-	-	-	-	-	-
	2016 - Ret <sup>5</sup>	-	25,000	119	-	-	-	-
M Carter	2016	-	60,776	209	-	-	-	-
	2012	6,717	-	-	-	-	(6,717)	100
	2013 <sup>4</sup>	124,723	-	-	27.5	(34,299)	-	-
	2014 <sup>4</sup>	129,630	-	-	-	-	-	-
	2015 STIAD <sup>6</sup>	48,217	-	-	100	(48,217)	-	-
E McKeiver	2015	120,921	-	-	-	-	-	-
	2016	-	139,009	479	-	-	-	-
	2012	3,439	-	-	-	-	(3,439)	100
	2013 <sup>4</sup>	63,859	-	-	27.5	(17,562)	-	-
	2014 <sup>4</sup>	59,260	-	-	-	-	-	-
<b>FORMER EXECUTIVE KMP</b>	2015	55,279	-	-	-	-	-	-
	2016	-	64,656	223	-	-	-	-
	L E Hockridge <sup>7</sup>	2012	23,284	-	-	-	(23,284)	100
	2013 <sup>4</sup>	432,373	-	-	27.5	(118,902)	-	-
	2014 <sup>4</sup>	401,234	-	-	-	-	(72,222)	18
A Kummant <sup>7</sup>	2015 STIAD <sup>6</sup>	152,699	-	-	100	(152,699)	-	-
	2015	374,280	-	-	-	-	(190,883)	51
	2012	7,523	-	-	-	-	(7,523)	100
	2013 <sup>4</sup>	139,690	-	-	27.5	(38,415)	-	-
	2014 <sup>4</sup>	129,630	-	-	-	-	-	-
K Neate <sup>7</sup>	2015 STIAD <sup>6</sup>	44,720	-	-	100	(44,720)	-	-
	2015	120,921	-	-	-	-	(120,921)	100
	2016	-	139,009	479	-	-	(139,009)	100
	2012	3,726	-	-	-	-	(3,726)	100
	2013 <sup>4</sup>	121,397	-	-	27.5	(33,384)	-	-
M Neves De Moraes <sup>8</sup>	2014 <sup>4</sup>	112,654	-	-	-	-	(19,151)	17
	2015 STIAD <sup>6</sup>	41,386	-	-	100	(41,386)	-	-
	2015	120,921	-	-	-	-	(60,460)	50
	2016	-	139,009	479	-	-	(115,841)	83
	2013 <sup>4</sup>	124,722	-	-	27.5	(34,298)	(90,424)	73
De Moraes <sup>8</sup>	2014	115,740	-	-	-	-	(115,740)	100
	2015 STIAD <sup>6</sup>	41,357	-	-	100	(41,357)	-	-
	2015	107,966	-	-	-	-	(107,966)	100
2016	-	139,009	479	-	-	(139,009)	100	

1 The number of performance rights awarded, as described in Section 7, is a function of the market price (5 day VWAP) at the time of the award, that is, 'face value'. For remuneration purposes, Aurizon does not use fair value to determine LTI Awards

2 Date on which grant vests will be adjusted for awards eligible for retest. Retesting has been removed from the 2016 Award onwards

3 A Harding grant subject to Shareholder approval at the 2017 Annual General Meeting

4 Details of the vesting outcomes are described in Table 7. As described in Table 7, the Board has not yet determined whether the 2014 Award will be retested in FY2018 for either current or former Executives

5 Retention Award as described in Section 7

6 Deferred STIA component as described in Section 3 and Section 5 of this report and Table 6 in the FY2015 Remuneration Report

7 Reflects LTIA balance which remains on foot on a pro-rata basis

8 Rights awarded under LTIA lapsed upon resignation

VALUE OF RIGHTS FORFEITED IN YEAR	BALANCE AT END OF YEAR	WEIGHTED FAIR VALUE PER RIGHT AT GRANT DATE	GRANT DATE	DATE ON WHICH GRANT VESTS <sup>2</sup>	EXPIRY DATE
\$'000	NO.	\$			
-	463,636	3.08	-	7-Sep-19	31-Dec-19
4	-	2.06	23-Aug-12	23-Aug-16	31-Dec-16
-	38,582	3.74	16-Aug-13	16-Aug-17	31-Dec-17
-	49,382	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	46,066	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	25,000	4.74	1-Jul-16	30-Jun-18	7-Jan-19
-	60,776	3.45	7-Oct-16	7-Oct-19	31-Dec-19
14	-	2.06	23-Aug-12	23-Aug-16	31-Dec-16
-	90,424	3.74	16-Aug-13	16-Aug-17	31-Dec-17
-	129,630	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	-	5.08	21-Sep-15	21-Sep-16	21-Sep-16
-	120,921	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	139,009	3.45	7-Oct-16	7-Oct-19	31-Dec-19
7	-	2.06	23-Aug-12	23-Aug-16	31-Dec-16
-	46,297	3.74	16-Aug-13	16-Aug-17	31-Dec-17
-	59,260	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	55,279	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	64,656	3.45	7-Oct-16	7-Oct-19	31-Dec-19
48	-	2.06	23-Aug-12	23-Aug-16	31-Dec-16
-	313,471	3.74	16-Aug-13	16-Aug-17	31-Dec-17
257	329,012	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	-	5.08	21-Sep-15	21-Sep-16	21-Sep-16
763	183,397	4.00	17-Aug-15	17-Aug-18	31-Dec-19
15	-	2.06	23-Aug-12	23-Aug-16	31-Dec-16
-	101,275	3.74	16-Aug-13	16-Aug-17	31-Dec-17
-	129,630	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	-	5.08	21-Sep-15	21-Sep-16	21-Sep-16
484	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19
479	-	3.45	7-Oct-16	7-Oct-19	31-Dec-19
8	-	2.06	23-Aug-12	23-Aug-16	31-Dec-16
-	88,013	3.74	16-Aug-13	16-Aug-17	31-Dec-17
68	93,503	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	-	5.08	21-Sep-15	21-Sep-16	21-Sep-16
242	60,461	4.00	17-Aug-15	17-Aug-18	31-Dec-19
399	23,168	3.45	7-Oct-16	7-Oct-19	31-Dec-19
360	-	4.07	1-Jan-14	16-Aug-17	31-Dec-17
413	-	3.56	18-Aug-14	18-Aug-17	18-Aug-18
-	-	5.08	21-Sep-15	21-Sep-16	21-Sep-16
432	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19
479	-	3.45	7-Oct-16	7-Oct-19	31-Dec-19

# Directors' Report (continued)

## REMUNERATION REPORT

Details of the remuneration paid to Executives are set out below and has been prepared in accordance with the accounting standards.

**TABLE 14 - EXECUTIVE REMUNERATION**

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS					POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	EQUITY-SETTLED SHARE-BASED PAYMENTS	CONTRACTUAL TERMINATION BENEFITS \$'000	TOTAL \$'000	PROPORTION OF COMPENSATION PERFORMANCE RELATED <sup>7</sup> % (B+H)/J	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR % (H/J)
		CASH SALARY AND FEES \$'000 <sup>1</sup>	CASH BONUS \$'000	ANNUAL LEAVE <sup>2</sup> \$'000	NON-MONETARY BENEFITS <sup>3</sup> \$'000	OTHER <sup>4</sup> \$'000							
		A	B	C	D	E	F	G	H	I	J	K	L
<b>EXECUTIVE KMP</b>													
A Harding	2017 <sup>8</sup>	947	316	19	-	25	11	7	387	-	1,712	41	23
P Bains	2017 <sup>9</sup>	321	98	9	-	-	42	7	137	-	614	38	22
M Carter	2017	763	191	1	1	-	97	25	451	-	1,529	42	29
	2016 <sup>10</sup>	393	-	(66)	2	-	25	7	176	-	537	33	33
E McKeiver	2017 <sup>11</sup>	90	33	10	-	-	4	3	46	-	186	42	25
<b>FORMER EXECUTIVE KMP</b>													
L E Hockridge	2017 <sup>12</sup>	895	-	(73)	6	11	11	22	1,033	1,950	3,855	27	27
	2016	1,931	-	(94)	10	-	18	19	1,314	-	3,198	41	41
A Kummant	2017 <sup>13</sup>	815	298	(5)	3	208	19	(38)	176	730	2,206	21	8
	2016	821	-	21	9	106	19	15	419	-	1,410	30	30
K Neate	2017 <sup>14</sup>	422	-	(6)	1	-	11	(62)	397	430	1,193	33	33
	2016	821	-	33	5	-	19	23	354	-	1,255	28	28
M Neves De Moraes	2017 <sup>15</sup>	649	-	(11)	1	79	16	(21)	7	-	720	1	1
	2016	723	-	-	5	79	19	14	418	-	1,258	33	33
J M Franczak	2016 <sup>16</sup>	763	-	(20)	2	306	-	(23)	(13)	750	1,765	(1)	(1)
<b>Total</b>	<b>2017</b>	<b>4,902</b>	<b>936</b>	<b>(56)</b>	<b>12</b>	<b>323</b>	<b>211</b>	<b>(57)</b>	<b>2,634</b>	<b>3,110</b>	<b>12,015</b>	<b>30</b>	<b>22</b>
<b>Executive KMP compensation (group)</b>	2016	5,452	-	(126)	33	491	100	55	2,668	750	9,423	28	28

1 Cash salary and fees include any salary sacrifice benefits. FY2016 has been restated to be comparable with new classification in FY2017

2 Annual leave (C) amount represents annual leave accrued or utilised during the financial year. Negative amounts represent the utilisation of annual leave. Previously disclosed as non-monetary benefits (D)

3 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March

4 Other short-term employee benefits include travel benefits, repatriation and relocation assistance

5 Superannuation (F) amounts represent employers' contribution to superannuation

6 The accounting expense recognised in relation to rights granted in the year is the fair value independently calculated at grant date using an expected outcome model. This was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period. Refer to note 28 for further details regarding the fair value of Rights. These values may not represent the future value that the Executive will receive, as the vesting of the Rights is subject to the achievement of performance conditions. This includes the cost of deferred short-term incentives and long-term incentives. For Former Executives who retained Rights, the future expenses related to those Rights have been accelerated and included in the current year remuneration. The retained Rights are disclosed in Table 13. No expenses (or Remuneration) was recorded in the current year for the Rights forfeited

7 The short-term incentives (cash bonus), deferred short-term incentives and long-term incentives (equity-settled share-based payments) represent the at risk performance related remuneration

8 Rights (H) to be issued to A Harding are subject to Shareholder approval at the 2017 Annual General Meeting

9 P Bains was appointed EVP & Chief Financial Officer from 19 December 2016. The cash salary and fees (column A) and cash bonus (column B) reflect the salary and bonus attributable to the EVP & Chief Financial Officer role

10 M Carter was appointed Acting EVP Operations from 1 January 2016. The cash salary and fees (column A) reflect the salary attributable to the EVP Operations role

11 E McKeiver was appointed Acting EVP Customer & Strategy from 18 April 2017. The cash salary and fees (column A) and cash bonus (column B) reflect the salary and bonus attributable to the EVP Customer & Strategy role

12 L E Hockridge ceased in the role of MD & CEO effective 30 November 2016 and continued to receive his normal Fixed Remuneration and contractual benefits until 16 December 2016. Upon cessation L E Hockridge received \$1.95m in termination payments. He did not receive any remuneration associated with the FY2017 STIA

13 A Kummant ceased in the role of EVP Network from 30 June 2017 and continued to receive his normal Fixed Remuneration and contractual benefits until 28 July 2017. Upon cessation A Kummant received \$730,000 in termination payments. As he worked for the full financial year he did receive remuneration associated with the FY2017 STIA

14 K Neate ceased in the role of EVP & Chief Financial Officer from 16 December 2016 and continued to receive his normal Fixed Remuneration and contractual benefits until 31 December 2016. Upon cessation K Neate received \$430,000 in termination payments. He did not receive any remuneration associated with the FY2017 STIA

15 M Neves De Moraes resigned from the EVP Customer & Strategy role effective 13 April 2017. Upon cessation M Neves De Moraes received no termination payment and did not receive any remuneration associated with the FY2017 STIA. The Rights value reflects the forfeitures of awards upon termination

16 J M Franczak ceased in the EVP Operations role effective 31 December 2015 and continued to receive his normal Fixed Remuneration and contractual benefits until 31 March 2016. Upon cessation J M Franczak received \$750,000 in termination payments in addition to repatriation costs from Australia to Canada. He did not receive any remuneration associated with the FY2016 STIA. The Rights value reflects the forfeiture of awards upon termination



## Auditor's Independence Declaration

As lead auditors for the audit of Aurizon Holdings Limited for the year ended 30 June 2017, we declare that to the best of our knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aurizon Holdings Limited and the entities it controlled during the period.

Nadia Carlin  
Partner  
PricewaterhouseCoopers

Brisbane  
14 August 2017

Simon Neill  
Partner  
PricewaterhouseCoopers

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# Corporate Governance Statement

Aurizon Holdings Limited and the entities it controls (Aurizon Holdings or Company) believe corporate governance is a critical pillar on which business objectives and, in turn, shareholder value must be built.

The Board has adopted a suite of charters and key corporate governance documents which articulate the policies and procedures followed by Aurizon Holdings.

These documents are available in the Governance section of the Company's website, [aurizon.com.au](http://aurizon.com.au). These documents are reviewed regularly to address any changes in governance practices and the law.

This Statement explains how Aurizon Holdings complies with the ASX *Corporate Governance Council's 'Corporate Governance Principles and Recommendations - 3rd Edition'* (ASX Principles or Recommendations), and all the practices outlined in this Statement unless otherwise stated, have been in place for the full reporting period.

This Statement was adopted by the Board on 11 August 2017.

## Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>1.1 Role of Board and management</b>	<p>The Board has established a clear distinction between the functions and responsibilities reserved for the Board and those delegated to management, which are set out in the Aurizon Holdings Limited Board Charter (Charter). The Charter also provides an overview of the roles of the Chairman, individual Directors, the Managing Director &amp; CEO and the Company Secretary.</p> <p>A copy of the Charter is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>1.2 Information regarding election and re-election of Director candidates</b>	<p>Aurizon carefully considers the character, experience, education, skill set as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate prior to their appointment.</p> <p>During the financial year the Board used a professional search firm to assist in appointing a Non-Executive Director (Kate Vidgen) and Managing Director (Andrew Harding). As part of this search, the Board received assurance on the background of the Directors who were subsequently appointed to the Board.</p> <p>Aurizon has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in the Notice of Meeting provided to shareholders.</p>	✓
<b>1.3 Written contracts of appointment</b>	<p>In addition to being set out in the Charter, the roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment. The letters of appointment specify the term of appointment, time commitment envisaged, expectations in relation to committee work or any other special duties attaching to the position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies, such as the Securities Dealing Policy.</p> <p>A copy of the key governance policies can be found on the Company's website <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>Each Senior Executive enters into a service contract which sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements and termination rights and entitlements.</p> <p>Contract details of senior executives who are Key Management Personnel can be found on page 32 of the Annual Report.</p>	✓
<b>1.4 Company Secretary</b>	<p>The Company Secretary is directly accountable to the Board, through the Chairman, for facilitating and advising on the Company's corporate governance processes and on all matters to do with the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary. The Board Charter also sets out the responsibilities of the Company Secretary.</p> <p>In accordance with the Company's Constitution, the appointment or removal of the Company Secretary is a matter for the Board as a whole. Details of the Company Secretary's experience and qualifications are set out on page 6 of the Annual Report.</p>	✓



RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
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<b>1.5 Diversity &amp; inclusion</b>	<ul style="list-style-type: none"> <li>Aurizon Holdings has adopted and reviewed its Diversity Policy which sets out its objectives and reporting practices with respect to diversity and inclusion and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</li> <li>The measurable objectives for gender diversity, agreed by the Aurizon Holdings Board for FY2017, are set out below:</li> </ul>	✓
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ENTERPRISE MEASURES	FY17 TARGET	FY17 ACTUAL
Female representation on Board	1	3
Female representation - Enterprise	20%	19.8%

Other targets monitored and regularly reported include female representation in leadership roles and Indigenous representation.

MEASURE	FY17 TARGET	FY17 ACTUAL
<b>Females in leadership</b>		
Executive Leadership Team	25%	20%
Manager of Managers	20%	22.5%
Manager of Others	20%	20.8%
Indigenous representation	5%	4.8%

Further details on the Company's diversity performance and activities can be found on the Company website [aurizon.com.au](http://aurizon.com.au).

<b>1.6 Board reviews</b>	<p>A performance review is undertaken annually in relation to the Board and the Board Committees. In addition to individual evaluation sessions between the Chairman and individual Directors, a formal self-evaluation questionnaire is used to facilitate the annual performance review process. Periodically the Board also engages a professional independent consultant experienced in Board reviews to conduct a review of the Board and its Committees, and the effectiveness of the Board as a whole.</p> <p>During the year a review and evaluation of the performance of the Board, the Chairman, each Director and each Board Committee was conducted in accordance with the internal assessment process described above.</p>	✓
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<b>1.7 Management reviews</b>	<p>Each year the Board sets financial, operational, management and individual targets for the Managing Director &amp; CEO. The Managing Director &amp; CEO (in consultation with the Board) in turn, sets targets for direct reports.</p> <p>Performance against these targets is assessed periodically throughout the year, and a formal performance evaluation for senior management is completed for the year-end.</p>	✓
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## Principle 2: Structure the Board to add value

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
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<b>2.1 Nominations committee</b>	<p>The Nomination &amp; Succession Committee comprises three members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Nomination &amp; Succession Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Nomination &amp; Succession Committee during the financial year are set out on page 8 of the Directors' Report within the Annual Report.</p> <p>The Charter governing the conduct of the Nomination &amp; Succession Committee is reviewed annually and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
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RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
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<b>2.2 Board skills</b>	<p>The skills listed below have been identified as the optimum skills Aurizon Holdings seeks to achieve across its Board membership. The Aurizon Holdings Board currently possesses a good blend of these skills. During FY2015 and FY2016 the Aurizon Board underwent significant change, including a change in Chairman. During FY2017 one additional Director was appointed and since that time the Board has been consolidating the recent changes. Whilst comfortable with the current size, the Board is prepared to expand by one to accommodate a candidate with strong operational skills in the transport, resources or industrial sector that will complement the skills and experience of the current Board.</p>	✓
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# Corporate Governance Statement (continued)

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS		
	<b>General</b> <ul style="list-style-type: none"> <li>› Board experience</li> <li>› Senior management experience</li> <li>› ASX listed company governance</li> <li>› Risk management</li> </ul> <b>Industry</b> <ul style="list-style-type: none"> <li>› Transport and logistics</li> <li>› Mining and resources</li> <li>› Government relations</li> <li>› Safety, health and environment</li> </ul>	<b>Technical</b> <ul style="list-style-type: none"> <li>› Finance and accounting</li> <li>› Regulatory</li> <li>› Corporate strategy</li> <li>› Capital allocation including acquisitions and divestments</li> <li>› Information and operational technology</li> <li>› Capital markets</li> <li>› Engineering</li> <li>› Human resources</li> </ul>	✓
	Further details regarding the skills and experience of each Director are included on pages 4 to 6 of the Report.		
<b>2.3 Disclose independence and length of service</b>	Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.		✓
<b>2.4 Majority of Directors independent</b>	In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director & CEO is not considered independent, by virtue of the role being an Executive of the Company. Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.		✓
<b>2.5 Chair independent</b>	The Chairman, Tim Poole, is an Independent Non-Executive Director. The role of CEO is performed by another Director. Further details regarding the Directors are set out on pages 4 to 6 of the Annual Report.		✓
<b>2.6 Induction and professional development</b>	<p>An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.</p> <p>In addition to peer review, interaction and networking with other Directors and industry leaders, Aurizon Holdings' Directors participate, from time-to-time, in Aurizon Holdings' leadership forums and actively engage with Aurizon Holdings' employees by visiting operational sites to gain an understanding of the Company's operating environment.</p> <p>During the year Directors receive accounting policy updates, especially around the time when the Board considers the half-year and full-year financial statements.</p> <p>The Board also includes education sessions from time-to-time on legal, accounting, regulation, developments in communication and human resource management.</p> <p>Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices and sites in different locations. During the financial year, Directors made visits to operational sites in Queensland, Western Australia and Victoria.</p>		✓

## Principle 3: Act ethically and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS		
<b>3.1 Code of Conduct</b>	The Board has established a Code of Conduct for its Directors, senior executives and employees, a copy of which is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a> .		✓

## Principle 4: Safeguard integrity in corporate reporting

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>4.1 Audit Committee</b>	<p>The Audit, Governance &amp; Risk Management Committee comprises three members, all of whom are Independent Non-Executive Directors. Details of the membership of the Audit, Governance &amp; Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.</p> <p>In addition to the Audit, Governance &amp; Risk Management Committee members, the Chairman of the Company, the Managing Director &amp; CEO, CFO, Head of Internal Audit &amp; Enterprise Risk, external auditors and Company Secretary regularly attend the Audit, Governance &amp; Risk Management Committee meetings.</p> <p>The number of meetings held and attended by each member of the Audit, Governance &amp; Risk Management Committee during the financial year are set out on page 8 of the Annual Report.</p> <p>The Audit, Governance &amp; Risk Management Committee Charter is reviewed annually and is available on the Aurizon Holdings website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>4.2 CEO and CFO certification of financial statements</b>	<p>The Board has obtained a written assurance from the Managing Director &amp; CEO and CFO that the declaration provided under section 295A of the Corporations Act (and for the purposes of Recommendation 4.2) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting and material business risks.</p>	✓
<b>4.3 External auditor at AGM</b>	<p>Aurizon Holdings' external audit function is performed by PricewaterhouseCoopers (PwC). Representatives of PwC will attend the Annual General Meeting (AGM) and be available to answer shareholder questions regarding the audit.</p>	✓

## Principle 5: Make timely and balanced disclosure

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>5.1 Disclosure and Communications Policy</b>	<p>Aurizon Holdings has adopted a Disclosure and Communications Policy which sets out the processes and practices to ensure compliance with the continuous disclosure requirements under the ASX Listing Rules and the Corporations Act.</p> <p>Aurizon Holdings has also established guidelines to assist officers and employees of the Company with complying with the Company's Disclosure and Communications Policy. A copy of the policy and guidelines are available on the Aurizon Holdings' website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓

## Principle 6: Respect the rights of security holders

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>6.1 Information on website</b>	<p>Aurizon Holdings keeps investors informed of its corporate governance, financial performance and prospects via announcements to the ASX and our website. Investors can access copies of all announcements to the ASX, notices of meetings, annual reports, investor presentations, webcasts and/or transcripts of those presentations and a key event calendar via the 'Investors' tab. Investors can access general information regarding the Company and the structure of its business under the 'About Us', 'Our Services', 'Networks', 'Projects' and 'Sustainability' tabs.</p>	✓
<b>6.2 Investor relations programs</b>	<p>Aurizon Holdings conducts regular market briefings including interim and full year results announcements, investor days, site visits, and attends regional and industry specific conferences in order to facilitate effective two-way communication with investors and other financial markets participants. Access to Executive and Operational Management is provided to investors and analysts at these events, with separate one-on-one or group meetings offered whenever possible.</p> <p>The presentation material provided at these events is sent to the ASX prior to commencement and subsequently posted on Aurizon Holdings' Investor Centre website, including the webcast and transcript if applicable.</p>	✓
<b>6.3 Facilitate participation at meetings of security holders</b>	<p>Aurizon Holdings uses technology to facilitate the participation of security holders in meetings including webcasting of the AGM.</p> <p>Shareholders are encouraged to participate and are given an opportunity to ask questions of the Company and its auditor at the AGM.</p>	✓
<b>6.4 Facilitate electronic communications</b>	<p>Aurizon provides its investors the option to receive communications from, and send communications to, the Company and the share registry electronically.</p>	✓

# Corporate Governance Statement (continued)

## Principle 7: Recognise and manage risk

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
7.1 Risk committee	<p>Aurizon Holdings' Audit, Governance &amp; Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Risk Management, Compliance &amp; Assurance Policy (Risk Policy). A copy of the Risk Policy is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.</p>	✓
7.2 Annual risk review	<p>The Board has mandated the Company's internal audit group to provide independent assurance on the effectiveness of the Company's risk management practices and report its findings to the Audit, Governance &amp; Risk Management Committee. The purpose of the review is to confirm the Company's governance processes and practices continue to be sound and that the Company manages risk within the Board-approved risk appetite.</p> <p>Internal audit conducted its review during the financial year, utilising a specialist third party and concluded that controls over risk management processes were adequate and effective.</p>	✓
7.3 Internal audit	<p>The Company has an internal audit function that operates under a Board-approved Internal Audit Charter.</p> <p>The internal audit function is independent of management and the external auditor and is overseen by the Audit, Governance &amp; Risk Management Committee. In accordance with the Committee Charter, the appointment or removal of the Head of Internal Audit &amp; Enterprise Risk is a matter for this Committee.</p> <p>The Head of Internal Audit &amp; Enterprise Risk provides ongoing internal audit reports to the Audit, Governance &amp; Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures.</p>	✓
7.4 Sustainability risks	<p>Aurizon Holdings identifies and manages material exposures to economic, environmental and social sustainability risks in accordance with its enterprise risk management framework incorporating the Board-approved risk appetite.</p> <p>The Company's sustainability aspiration is to deliver world-leading performance underpinned by three sustainability commitments:</p> <ul style="list-style-type: none"> <li>› The Company is committed to building a long-term sustainable business that delivers lasting value for our shareholders, customers, employees and communities</li> <li>› The Company aims to take the safest, most efficient and least resource-intensive approach to the services we provide</li> <li>› The Company applies a balanced view when assessing risk and making decisions, encompassing social, environmental and economic considerations.</li> </ul> <p>In our operations, we continue to make progress on a number of sustainability aspects, including our safety performance, our operational efficiency and environmental management. A key element of our approach is the ongoing reduction in resource use across all of our operations with a strong focus on longer trains, higher-density trains, increased reliability and improved average train velocity.</p> <p>During FY2017, the Company published its second Sustainability Report for the period ended 30 June 2016. A copy of this report is available in the Sustainability section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>The Company's previous Sustainability Report identified areas of focus and priority that relate to the Company's ability to create or preserve value for shareholders over the short, medium and long-term, and outlined how the Company manages or intends to manage the material risks identified. The Company has set appropriate benchmarks against which we will measure and report FY2017 performance and material economic, environmental and social sustainability risks.</p> <p>The Company's FY2017 Sustainability Report is intended to be released in October 2017. Consistent with the previous reports, it will be based on the GRI G4 Sustainability Reporting Guidelines and will describe the impact of the Company's operations against the core elements of economic, environmental, social and governance performance. It will also identify those issues that reflect the organisation's significant economic, environmental and social impacts or that substantially influence assessments and decisions of stakeholders.</p>	✓

## Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>8.1 Remuneration Committee</b>	<p>Aurizon Holdings' remuneration function is performed by the Remuneration Committee, comprising four members all of whom are Independent Non-Executive Directors. Details of the membership of the Remuneration Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Remuneration Committee during the financial year are set out on page 8 of the Annual Report.</p> <p>The Charter governing the conduct of the Remuneration Committee is reviewed annually and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>8.2 Disclosure of Executive and Non-Executive Director remuneration policy</b>	<p>The Company seeks to attract and retain high performing Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required. It reviews requirements for additional capabilities at least annually.</p> <p>Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and a performance-based component.</p> <p>Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by Aurizon Holdings to a fund for the purposes of superannuation benefits for a Director. No other retirement benefits schemes are in place in respect to Non-Executive Directors.</p> <p>The Company has in place a Share Holding and Retention Policy which applies to Non-Executive Directors, the Managing Director &amp; CEO and the direct reports of the Managing Director &amp; CEO.</p> <p>Further details regarding remuneration and share retention policies and the remuneration of Executive and Non-Executive Directors, are set out on pages 23 to 36 of the Annual Report.</p>	✓
<b>8.3 Policy on hedging equity incentive schemes</b>	<p>Aurizon Holdings' Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or, once exercised, while the securities are subject to a transfer restriction.</p> <p>For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Executive' is broadly defined to include the Managing Director &amp; CEO and his direct reports, Directors and any other person entitled to participate in an Aurizon Holdings performance rights plan.</p> <p>Further details regarding the Company's hedging policy are set out in the Company's Securities Dealing Policy which is available on the Governance section of the website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓

# Financial Report

30 June 2017

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Results for the year	Operating assets and liabilities	Capital and financial risk management	Group structure	Other information	Unrecognised items
1. Segment information	7. Trade and other receivables	14. Capital risk management	20. Associates and joint arrangements	24. Reconciliation of profit after income tax to net cash inflow from operating activities	31. Contingencies
2. Revenue and other income	8. Inventories	15. Dividends	21. Material subsidiaries	25. Assets classified as held for sale	32. Commitments
3. Expenses	9. Property, plant and equipment	16. Equity and reserves	22. Parent disclosures	26. Related party transactions	33. Events occurring after the reporting period
4. Impairment of non-financial assets	10. Intangible assets	17. Borrowings	23. Deed of cross guarantee	27. Key Management Personnel compensation	
5. Income tax	11. Trade and other payables	18. Financial risk management		28. Share-based payments	
6. Earnings per share	12. Provisions	19. Derivative financial instruments		29. Remuneration of auditors	
	13. Other liabilities			30. Summary of other significant accounting policies	

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# Consolidated income statement

## for the year ended 30 June 2017

	Notes	2017 \$m	2016 \$m
Revenue from continuing operations	2(a)	<b>3,452.3</b>	3,457.8
Other income		-	0.1
<b>Total revenue and other income</b>		<b>3,452.3</b>	<b>3,457.9</b>
Employee benefits	3	<b>(965.4)</b>	(891.4)
Energy and fuel		<b>(268.4)</b>	(245.4)
Track access		<b>(263.0)</b>	(314.7)
Consumables	3	<b>(573.1)</b>	(508.8)
Depreciation and amortisation	3	<b>(584.6)</b>	(561.3)
Impairment losses	4	<b>(840.5)</b>	(301.7)
Other expenses		<b>(48.2)</b>	(78.6)
<b>Operating (loss)/profit</b>		<b>(90.9)</b>	556.0
Share of net profit of associates and joint venture partnerships accounted for using the equity method		<b>(0.1)</b>	13.3
Impairment loss of investment in associates	20(b)	-	(225.9)
<b>Share of net loss from associates and joint venture partnerships accounted for using the equity method after impairment loss</b>		<b>(0.1)</b>	(212.6)
Finance income		<b>2.8</b>	2.3
Finance expenses	3	<b>(181.3)</b>	(152.8)
<b>Net finance costs</b>		<b>(178.5)</b>	(150.5)
<b>(Loss)/profit before income tax expense</b>		<b>(269.5)</b>	192.9
Income tax benefit/(expense)	5	<b>81.6</b>	(120.5)
<b>(Loss)/profit for the year attributable to owners of Aurizon Holdings Limited</b>		<b>(187.9)</b>	<b>72.4</b>
		Cents	Cents
<b>(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:</b>			
Basic (loss)/earnings per share	6	<b>(9.2)</b>	3.5
Diluted (loss)/earnings per share	6	<b>(9.2)</b>	3.5

The above consolidated income statement should be read in conjunction with the accompanying notes

# Consolidated statement

## of comprehensive income

### for the year ended 30 June 2017

	Notes	2017 \$m	2016 \$m
<b>(Loss)/profit for the year</b>		<b>(187.9)</b>	72.4
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	16(b)	<b>45.5</b>	(5.4)
Income tax relating to these items	5(d)	<b>(13.5)</b>	1.6
Share of other comprehensive income of an associate using equity account method	16(b)	-	(1.8)
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>32.0</b>	(5.6)
<b>Total comprehensive (expense)/income for the year attributable to owners of Aurizon Holdings Limited</b>		<b>(155.9)</b>	<b>66.8</b>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

# Consolidated balance sheet

as at 30 June 2017

	Notes	2017 \$m	2016 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		88.7	69.2
Trade and other receivables	7	496.8	513.9
Inventories	8	111.8	152.7
Derivative financial instruments	19	0.1	0.2
Current tax receivables		17.8	-
Prepayments		6.9	6.9
Assets classified as held for sale	25	7.3	101.0
<b>Total current assets</b>		<b>729.4</b>	<b>843.9</b>
<b>Non-current assets</b>			
Inventories	8	35.5	36.3
Derivative financial instruments	19	73.6	77.0
Property, plant and equipment	9	8,835.0	9,719.2
Intangible assets	10	170.0	190.2
Investments accounted for using the equity method	20	2.4	2.4
<b>Total non-current assets</b>		<b>9,116.5</b>	<b>10,025.1</b>
<b>Total assets</b>		<b>9,845.9</b>	<b>10,869.0</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	309.7	297.2
Borrowings	17	79.0	6.0
Derivative financial instruments	19	0.3	27.6
Current tax liabilities		-	80.0
Provisions	12	314.5	275.2
Other liabilities	13	40.7	53.3
<b>Total current liabilities</b>		<b>744.2</b>	<b>739.3</b>
<b>Non-current liabilities</b>			
Borrowings	17	3,297.2	3,484.1
Derivative financial instruments	19	70.9	23.0
Deferred tax liabilities	5(f)	426.8	589.2
Provisions	12	78.7	93.0
Other liabilities	13	206.0	226.8
<b>Total non-current liabilities</b>		<b>4,079.6</b>	<b>4,416.1</b>
<b>Total liabilities</b>		<b>4,823.8</b>	<b>5,155.4</b>
<b>Net assets</b>		<b>5,022.1</b>	<b>5,713.6</b>
<b>EQUITY</b>			
Contributed equity	16(a)	1,206.6	1,206.6
Reserves	16(b)	3,473.0	3,424.7
Retained earnings		342.5	1,082.3
<b>Total equity</b>		<b>5,022.1</b>	<b>5,713.6</b>

The above consolidated balance sheet should be read in conjunction with the accompanying notes



# Consolidated statement of changes in equity

## for the year ended 30 June 2017

	Notes	Attributable to owners of Aurizon Holdings Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 1 July 2015		1,508.3	3,457.9	1,539.2	6,505.4
Profit/(loss) for the year		-	-	72.4	72.4
Other comprehensive income	16(b)	-	(5.6)	-	(5.6)
<b>Total comprehensive income for the year</b>		-	(5.6)	72.4	66.8
<b>Transactions with owners in their capacity as owners:</b>					
Buy-back of ordinary shares	16(a)	(301.7)	(0.3)	-	(302.0)
Dividends provided for or paid	15(a)	-	-	(529.3)	(529.3)
Share-based payments	16(b)	-	(27.3)	-	(27.3)
		(301.7)	(27.6)	(529.3)	(858.6)
Balance at 30 June 2016		1,206.6	3,424.7	1,082.3	5,713.6
<b>Balance at 1 July 2016</b>		<b>1,206.6</b>	<b>3,424.7</b>	<b>1,082.3</b>	<b>5,713.6</b>
Profit/(loss) for the year		-	-	(187.9)	(187.9)
Other comprehensive income	16(b)	-	32.0	-	32.0
<b>Total comprehensive income for the year</b>		-	32.0	(187.9)	(155.9)
<b>Transactions with owners in their capacity as owners:</b>					
Dividends provided for or paid	15(a)	-	-	(551.9)	(551.9)
Share-based payments	16(b)	-	16.3	-	16.3
		-	16.3	(551.9)	(535.6)
<b>Balance at 30 June 2017</b>		<b>1,206.6</b>	<b>3,473.0</b>	<b>342.5</b>	<b>5,022.1</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 2017

	Notes	2017 \$m	2016 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		<b>3,877.8</b>	3,767.0
Payments to suppliers and employees (inclusive of GST)		<b>(2,467.4)</b>	(2,419.9)
Interest received		<b>2.9</b>	2.3
Income taxes paid		<b>(174.9)</b>	(131.2)
<b>Net cash inflow from operating activities</b>	<b>24</b>	<b>1,238.4</b>	<b>1,218.2</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<b>(475.9)</b>	(691.6)
Proceeds from property, plant and equipment		<b>13.8</b>	37.4
Payments for intangibles		<b>(64.2)</b>	(79.8)
Interest paid on qualifying assets	3	<b>(3.2)</b>	(11.6)
Proceeds from sale of an associate	25	<b>98.3</b>	-
Payments for investment in associates		-	(4.0)
Distributions received from associates		-	9.7
<b>Net cash (outflow) from investing activities</b>		<b>(431.2)</b>	<b>(739.9)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>422.1</b>	1,278.2
Repayment of borrowings		<b>(477.0)</b>	(828.0)
Payment of transaction costs related to borrowings		<b>(0.4)</b>	(7.9)
Payments for share buy-back		-	(301.7)
Payments for shares acquired for share-based payments	16(b)	<b>(7.5)</b>	(53.7)
Dividends paid to Company's shareholders	15(a)	<b>(551.9)</b>	(529.3)
Interest paid		<b>(173.0)</b>	(138.1)
<b>Net cash (outflow) from financing activities</b>		<b>(787.7)</b>	<b>(580.5)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>19.5</b>	(102.2)
Cash and cash equivalents at the beginning of the financial year		<b>69.2</b>	171.4
<b>Cash and cash equivalents at the end of the financial year</b>		<b>88.7</b>	<b>69.2</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

# Notes to the consolidated financial statements

## 30 June 2017

### About this report

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purposes of preparing the financial statements. The financial statements are for the consolidated entity consisting of Aurizon Holdings Limited (the Company) and its subsidiaries and together are referred to as the Group or Aurizon.

The financial statements were approved for issue by the Directors on 14 August 2017. The Directors have the power to amend and reissue the financial statements.

The financial statements are general purpose financial statements which:

- › Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- › Have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value
- › Are presented in Australian dollars, with all amounts in the financial report being rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars, unless otherwise indicated
- › Where necessary, comparative information has been restated to conform with changes in presentation in the current year
- › Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016
- › Equity account for associates listed at note 20

#### The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- › The amount in question is significant because of its size or nature
- › It is important for understanding the results of the Group
- › It helps to explain the impact of significant changes in the Group's business – for example, acquisitions and impairment write downs
- › It relates to an aspect of the Group's operations that is important to its future performance.

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

#### KEEPING IT SIMPLE

The "Keeping it simple" explanations are designed to provide a high-level overview of the accounting treatment of the more complex sections of the financial statements. Disclosures in the notes to the financial statements provide information required by the Accounting Standards or ASX Listing Rules. The notes provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

#### SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Details of the following judgements and estimates which are material to the financial statements can be found in the following notes:

	Note
Revenue	2
Impairment	4
Income tax	5
Depreciation	9
Associates and joint arrangements	20

### Key events and transactions for reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

#### (a) Access revenue

##### Access Undertaking

The Queensland Competition Authority (QCA) approved the 2016 Access Undertaking (UT4) on 11 October 2016 with a Maximum Allowable Revenue (MAR) of \$1,171.5 million for the year ended 30 June 2017, which includes true-ups of \$89.0 million related to regulatory access revenue for years ended 30 June 2014 and 30 June 2015 (net of revenue cap of \$31.7 million relating to the year ended 30 June 2015). Revenue recognised for the year is based on the approved UT4 tariffs, applied to actual volumes railed.

For the year ended 30 June 2016 regulated access revenue was recognised in line with the UT4 Final Decision (released April 2016).

#### (b) Weather event – Cyclone Debbie

As a result of Cyclone Debbie and localised flooding during March and April 2017, the four coal systems (Newlands, Goonyella, Blackwater and Moura), which are part of the Central Queensland Coal Network (CQCN) were closed to rail traffic while inspections and repairs were completed. Aurizon's Newlands system (connecting into Abbot Point Coal Terminal) closed on 28 March and reopened on 13 April. The Goonyella system (connecting into Dalrymple Bay Coal Terminal and Hay Point Coal Terminal) experienced significant damage at multiple sites. However, it reopened on 26 April with speed restrictions and reduced capacity. The Blackwater system (connecting into the Port of Gladstone) closed on 29 March and reopened on 31 March. However, due to further flooding in Rockhampton and surrounding areas it closed again – with the exception of the North Coast Line portion of the system which remained open – on 1 April reopening again on 10 April. The Moura system (connecting into the Port of Gladstone) closed on 29 March and reopened on 12 April.

Due to the period of time the CQCN was unavailable for haulage, Above Rail coal tonnes for FY2017 were reduced by approximately 11 million tonnes. As a result, Earnings Before Interest and Tax (EBIT) in the Above Rail businesses were impacted by approximately \$20 million. This includes a minor impact to the Bulk and Intermodal business.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

Below Rail access revenue in FY2017 was impacted as a result of the cyclone related volume reduction of 16 million tonnes carried by all rail operators on the CQCN. This resulted in a reduction of approximately \$48 million of access revenue in FY2017. Under established regulatory mechanisms any shortfall in access revenue net of Take-or-Pay will be recovered through the revenue cap process, subject to QCA approval, in FY2019. Flood repair costs (including losses on disposal of assets) were approximately \$28 million of which approximately \$21 million were classified as operating costs impacting EBIT. The majority of the repair costs and capital expenditure will be recovered in future years as part of the established recovery processes, subject to QCA approval. As a result, EBIT in the Below Rail businesses in FY2017 has been impacted by approximately \$69 million.

The impact to Group EBIT is a reduction of approximately \$89 million as a result of Cyclone Debbie impacts, of which approximately \$69 million will be recovered through regulatory processes in future years, subject to QCA approval.

<b>Tropical Cyclone Debbie – EBIT impact</b>	\$m
<b>Above Rail</b>	
Commercial & Marketing	(16)
Operations	(4)
<b>Total Above Rail</b>	<b>(20)</b>
<b>Below Rail</b>	
Access revenue	(48)
Flood repair costs	(21)
<b>Total Below Rail</b>	<b>(69)</b>
<b>Total Group</b>	<b>(89)</b>

### (c) Impairment (refer to note 4)

#### Bulk

The implementation of Aurizon's new business unit structure on 1 July 2017 resulted in the creation of a standalone Bulk business. This restructure, coupled with changed business practices relating to asset and cost allocations, resulted in a change to the cash generating units (CGUs), with Queensland now separated into the Coal Queensland and Bulk East CGUs. In addition, the ongoing clarity and visibility of financial performance provided by the Freight Review, the exit of certain contracts, the increase in financial losses in Bulk and continued challenging market conditions have led to reassessment of the future revenues and cashflows. These factors have resulted in an impairment of \$163.5 million for the Bulk East CGU and \$362.4 million for the Western Australia CGU.

#### Intermodal

An impairment to the carrying value of the Intermodal CGU of \$162.2 million was recorded at 31 December 2016 due to trading performance being lower than expectations.

#### Contract exit asset impairment

As a result of the decision by Glencore to not renew its existing contract with Aurizon to haul mine inputs and outputs between Mt Isa and Townsville, a decision was made to cease to operate this daily multi-customer freight service from the contract expiry date of 31 January 2017. As a result, \$10.2 million of assets including rollingstock, plant and equipment, and associated facilities were impaired at 31 December 2016.

### Freight Management Transformation (FMT) project impairment

Following a review, it was decided to terminate the FMT project and as a result an impairment charge of \$64.0 million was recorded at 31 December 2016. An amount of \$26.9 million of the total project investment of \$90.9 million remains capitalised on the balance sheet in relation to software and licences, which are currently in use.

### Transformation – asset impairments

A number of changes to the Queensland operations were announced on 1 June 2017 including the staged closure of the Rockhampton rollingstock workshop in 2018. This resulted in an asset impairment of \$30.1 million being recorded for the year ended 30 June 2017.

Further, as part of the ongoing transformation program, \$15.0 million of property, plant and equipment was impaired, along with a further \$3.8 million relating to various projects no longer proceeding and assets identified as surplus to requirements.

### (d) Transformation – redundancy costs

As part of the ongoing business transformation 574 employees were made redundant which predominantly related to Operations resulting in redundancy expense of \$74.2 million.

The staged closure of the Rockhampton rollingstock maintenance workshops by late 2018 has resulted in redundancy costs of \$14.3 million with a reduction of an estimated 165 roles. Aurizon also announced changes to the traincrewing operations by the end of FY2018 resulting in \$27.3 million for redundancy costs with a reduction of an estimated 185 permanent traincrew roles.

Total redundancy costs recognised as a significant item for the year ended 30 June 2017 were \$115.8 million.

### (e) Business unit restructure

On 23 March 2017 Aurizon announced the transition to a new organisational structure effective from 1 July 2017. The organisational structure will move from a functional based model to a business unit model designed along the core areas of the business – Coal, Bulk (including Iron Ore), Intermodal and Network, as well as central support and planning functions. This new structure has not impacted the segment reporting for the year ended 30 June 2017 as the business was still managed in line with the old organisational structure for the entire financial year. However, the new segment structure will be reported from FY2018, with comparative information restated.

### (f) Sale of Moorebank

On 2 August 2016 Aurizon announced the sale of its 33.33% equity holding in the proposed Moorebank Intermodal Terminal project for \$98.3 million (net of transaction costs) to Qube Holdings Limited group entities. The sale completed on 22 December 2016 and a \$3.0 million gain on sale was recognised.

# Results for the year

## IN THIS SECTION

**Results for the year provides segment information and a breakdown of individual line items in the consolidated income statement that the Directors consider most relevant, including a summary of the accounting policies, judgements and estimates relevant to understanding these line items.**

1	Segment information	Page 52
2	Revenue and other income	Page 54
3	Expenses	Page 56
4	Impairment of non-financial assets	Page 57
5	Income tax	Page 59
6	Earnings per share	Page 61

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 1 Segment information

#### **KEEPING IT SIMPLE**

Segment reporting requires presentation of financial information based on the information that is internally provided to the Managing Director and the Executive Committee (chief operating decision makers).

For FY2017, Aurizon determines and presents operating segments on a functional basis reflecting how the results are reported internally and how the business is managed. The Managing Director and the Executive Committee assess the performance of the Group based on the Underlying Earnings Before Interest and Tax (Underlying EBIT).

Segments from 1 July 2017 will change as a result of the business unit restructure. The segments will be Network, Coal, Bulk, Intermodal and Other.

#### **(a) Description of segments**

The following summary describes the operations in each of the Group's reportable segments:

##### **Network**

Provision of access to, operation and management of the CQCN.  
Provision of overhaul and maintenance of rail network assets.

##### **Commercial & Marketing**

The key interface between customers and Aurizon (excluding Network access customers), responsible for the commercial negotiation of sales contracts and customer relationship management.

##### **Operations**

Responsible for the national delivery of all coal, iron ore, bulk and intermodal haulage services. This includes yard operations, fleet maintenance, operations, engineering and technology, engineering program delivery, and safety, health and environment.

##### **Other**

Includes costs for Managing Director & CEO, corporate finance, tax, treasury, internal audit, risk, governance and strategy.

##### **Intersegment transactions**

Sales between segments are carried out at arm's length and are eliminated on consolidation. Revenue from external customers is measured in the same way as in the consolidated income statement.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 1 Segment information (continued)

#### (b) Segment information

	Network \$m	Commercial & Marketing \$m	Operations \$m	Other \$m	Eliminations \$m	Total continuing operations \$m
<b>2017</b>						
External revenue	632.8	2,742.4	70.6	6.5	-	3,452.3
Internal revenue	629.3	8.7	159.5	-	(797.5)	-
<b>Total functional revenue</b>	<b>1,262.1</b>	<b>2,751.1</b>	<b>230.1</b>	<b>6.5</b>	<b>(797.5)</b>	<b>3,452.3</b>
<b>Functional costs</b>						
Employee benefits	(118.6)	(25.5)	(676.2)	(29.3)	-	(849.6)
Energy and fuel	(140.9)	-	(127.5)	-	-	(268.4)
Track access	-	-	(888.9)	-	625.9	(263.0)
Consumables	(196.2)	(1.9)	(534.5)	(8.6)	168.1	(573.1)
Other	(28.6)	(2.3)	(32.4)	(17.8)	3.5	(77.6)
<b>Total functional costs excluding depreciation and amortisation</b>	<b>(484.3)</b>	<b>(29.7)</b>	<b>(2,259.5)</b>	<b>(55.7)</b>	<b>797.5</b>	<b>(2,031.7)</b>
EBITDA (underlying)*	777.8	2,721.4	(2,029.4)	(49.2)	-	1,420.6
Depreciation and amortisation	(287.4)	(3.2)	(287.1)	(6.9)	-	(584.6)
<b>EBIT (underlying)*</b>	<b>490.4</b>	<b>2,718.2</b>	<b>(2,316.5)</b>	<b>(56.1)</b>	<b>-</b>	<b>836.0</b>
Significant adjustments (note 1(c))						(927.0)
<b>EBIT*</b>						<b>(91.0)</b>
Net finance costs						(178.5)
<b>Loss before income tax</b>						<b>(269.5)</b>
Income tax benefit						81.6
<b>Loss for the year</b>						<b>(187.9)</b>
<b>2016</b>						
External revenue	476.4	2,924.9	41.2	15.4	-	3,457.9
Internal revenue	702.0	7.1	172.9	-	(882.0)	-
<b>Total functional revenue</b>	<b>1,178.4</b>	<b>2,932.0</b>	<b>214.1</b>	<b>15.4</b>	<b>(882.0)</b>	<b>3,457.9</b>
<b>Functional costs</b>						
Employee benefits	(116.7)	(29.4)	(710.4)	(34.9)	-	(891.4)
Energy and fuel	(124.7)	-	(120.7)	-	-	(245.4)
Track access	-	-	(1,015.6)	-	700.9	(314.7)
Consumables	(146.9)	(6.4)	(493.6)	(36.0)	174.1	(508.8)
Other	(26.5)	(14.2)	(21.8)	(9.8)	7.0	(65.3)
<b>Total functional costs excluding depreciation and amortisation</b>	<b>(414.8)</b>	<b>(50.0)</b>	<b>(2,362.1)</b>	<b>(80.7)</b>	<b>882.0</b>	<b>(2,025.6)</b>
EBITDA (underlying)*	763.6	2,882.0	(2,148.0)	(65.3)	-	1,432.3
Depreciation and amortisation	(257.7)	(4.2)	(294.8)	(4.6)	-	(561.3)
<b>EBIT (underlying)*</b>	<b>505.9</b>	<b>2,877.8</b>	<b>(2,442.8)</b>	<b>(69.9)</b>	<b>-</b>	<b>871.0</b>
Significant adjustments (note 1(c))						(527.6)
<b>EBIT*</b>						<b>343.4</b>
Net finance costs						(150.5)
<b>Profit before income tax</b>						<b>192.9</b>
Income tax expense						(120.5)
<b>Profit for the year</b>						<b>72.4</b>

\* Refer to page 102 for Non-IFRS information

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 1 Segment information (continued)

#### (c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	2017 \$m	2016 \$m
Intermodal impairment	162.2	-
Bulk impairment	525.9	-
Contract exit asset impairment	10.2	-
Freight Management Transformation (FMT) impairment	64.0	-
Transformation - asset impairment	48.9	-
Transformation - redundancy costs	115.8	-
Strategic infrastructure projects and assets under construction impairment	-	124.7
Aquila impairment	-	225.9
Rollingstock impairment	-	177.0
<b>Total significant adjustments</b>	<b>927.0</b>	<b>527.6</b>

#### Impairment

For further disclosure on the impairment write-downs for the year ended 30 June 2017 and the comparative period refer to note 4.

#### Redundancy costs

As part of the ongoing business transformation 924 employees were made redundant which predominantly related to Operations. This resulted in a redundancy expense of \$115.8 million being recorded for the year ended 30 June 2017. Refer to key events and transactions for the reporting period for further details.

#### (d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. Two customers each contribute more than 10% of the Group's total revenue as detailed below.

	2017 \$m	2016 \$m	2017 credit rating	2016 credit rating
Customer 1	511.5	515.0	A	A
Customer 2	413.2	384.6	BBB	BBB-
<b>Total</b>	<b>924.7</b>	<b>899.6</b>		

### 2 Revenue and other income

#### KEEPING IT SIMPLE

Aurizon recognises revenue from the provision of access to the Central Queensland Coal Network (CQCN) and the provision of freight haulage services across Australia.

#### (a) Revenue from continuing operations

Revenue by commodity is as follows:

**Network revenue:** Provision of access to, and operation and management of, the CQCN.

**Coal revenue:** Transport of coal from mines in Queensland and New South Wales to end customers and ports.

**Iron Ore revenue:** Transport of iron ore from mines in Western Australia to ports.

**Freight revenue:** Transport of bulk mineral commodities, agricultural products, mining and industrial inputs and general freight throughout Queensland, New South Wales and Western Australia, and containerised freight throughout Australia.

**Other revenue:** Items of revenue of a corporate nature, ineffective hedging gains and losses and minor operations within the Group including third-party Above Rail provision of overhaul and maintenance services to external customers.



# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 2 Revenue and other income (continued)

#### (a) Revenue from continuing operations (continued)

	Network \$m	Coal \$m	Iron Ore \$m	Freight \$m	Other \$m	Total \$m
<b>2017</b>						
<b>External revenue</b>						
<b>Revenue from external customers</b>						
Services revenue						
Track access	574.0	630.3	-	0.5	-	1,204.8
Freight transport	-	1,156.8	273.4	631.4	-	2,061.6
Other services	4.3	0.3	-	31.2	46.4	82.2
Other revenue	54.5	-	-	18.5	30.7	103.7
<b>Total revenue from external customers</b>	<b>632.8</b>	<b>1,787.4</b>	<b>273.4</b>	<b>681.6</b>	<b>77.1</b>	<b>3,452.3</b>
<b>Internal revenue</b>						
Services revenue						
Track access	625.9	-	-	-	-	625.9
Freight transport	-	1.7	-	1.1	0.7	3.5
Other services	3.4	5.9	-	-	158.8	168.1
<b>Total internal revenue</b>	<b>629.3</b>	<b>7.6</b>	<b>-</b>	<b>1.1</b>	<b>159.5</b>	<b>797.5</b>
<b>Total revenue</b>	<b>1,262.1</b>	<b>1,795.0</b>	<b>273.4</b>	<b>682.7</b>	<b>236.6</b>	<b>4,249.8</b>
Internal elimination						(797.5)
<b>Consolidated revenue and other income</b>						<b>3,452.3</b>
<b>2016</b>						
<b>External revenue</b>						
<b>Revenue from external customers</b>						
Services revenue						
Track access	435.1	733.9	-	0.5	-	1,169.5
Freight transport	-	1,142.5	310.9	673.1	-	2,126.5
Other services	4.4	-	-	41.4	39.9	85.7
Other revenue	36.4	3.7	-	16.3	19.7	76.1
<b>Total revenue from external customers</b>	<b>475.9</b>	<b>1,880.1</b>	<b>310.9</b>	<b>731.3</b>	<b>59.6</b>	<b>3,457.8</b>
<b>Internal revenue</b>						
Services revenue						
Track access	700.8	-	-	0.1	-	700.9
Freight transport	-	-	-	7.0	-	7.0
Other services	1.2	-	-	-	172.9	174.1
<b>Total internal revenue</b>	<b>702.0</b>	<b>-</b>	<b>-</b>	<b>7.1</b>	<b>172.9</b>	<b>882.0</b>
<b>Total revenue</b>	<b>1,177.9</b>	<b>1,880.1</b>	<b>310.9</b>	<b>738.4</b>	<b>232.5</b>	<b>4,339.8</b>
Other income	0.5	1.3	0.3	1.0	(3.0)	0.1
<b>Total revenue and other income</b>	<b>1,178.4</b>	<b>1,881.4</b>	<b>311.2</b>	<b>739.4</b>	<b>229.5</b>	<b>4,339.9</b>
Internal elimination						(882.0)
<b>Consolidated revenue and other income</b>						<b>3,457.9</b>

Other services includes \$31.2 million (2016: \$41.4 million) from the State of Queensland for Transport Service Contracts for regional freight and livestock.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 2 Revenue and other income (continued)

#### SIGNIFICANT JUDGEMENTS

##### Take-or-Pay revenue

The calculation of access Take-or-Pay revenue is based on an assessment of access charges from contracted railings that have not been achieved, subject to an adjustment for Aurizon Network (Below Rail) cause. The estimate of Take-or-Pay revenue is based on management's judgement of Below Rail cause versus Above Rail operator or mine cancellations and is recognised in the year in which the contractual railings have not been achieved.

Take-or-Pay revenue of \$42.3 million has been accrued at 30 June 2017. Take-or-Pay revenue of \$3.1 million was accrued at 30 June 2016.

##### Recognition and measurement

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities using the methods outlined below:

##### (i) Track access

Track access revenue includes revenue from regulated rail access services and non-regulated services.

Access revenue generated from the regulated rail network, the CQCN, is recognised as services are provided and is calculated on a number of operating parameters, including the volume hauled and regulator approved tariffs. The tariffs are determined by the total allowable revenue, applied to the regulatory approved annual volume forecast for each system.

Where annual actual volumes railed are less than the regulatory forecast, annual Take-or-Pay may become operative. Take-or-Pay is recognised in the year that the contractual railings were not achieved.

The majority of access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its system allowable revenue over the regulatory period. A revenue cap event results in the under or over recovery of regulatory access revenues (net of Take-or-Pay revenue) for a financial year being recognised in the accounting revenues in the second financial year following the event.

During the transitional period, revenue is determined based on the most relevant and reliable information available.

The impacts on revenue have been included within key events and transactions for the reporting period, (a) Access revenue.

##### (ii) Freight transport

Revenue from freight transport services is calculated based on the rates agreed with customers on a tonnes per delivery basis either by way of long-term contract or on an ad-hoc basis. Revenue is recognised once the service has been provided.

### 3 Expenses

(Loss)/profit before income tax includes the following specific expenses:

	2017 \$m	2016 \$m
<b>Employee benefits expenses</b>		
Defined benefit superannuation	13.3	17.9
Defined contribution superannuation	63.0	63.5
Redundancies*	121.1	23.7
Salaries, wages and allowances including on-costs	768.0	786.3
	<b>965.4</b>	891.4
* \$115.8 million of redundancy costs are transformation-related as described in note 1(c).		
<b>Consumables</b>		
Repairs and maintenance	300.3	313.3
Other	272.8	195.5
	<b>573.1</b>	508.8
<b>Depreciation and amortisation expense</b>		
Depreciation	567.9	550.4
<b>Amortisation of intangibles</b>	16.7	10.9
	<b>584.6</b>	561.3
<b>Impairment losses*</b>		
Inventory	12.6	29.6
Property, plant and equipment	760.0	267.1
Intangibles	67.9	-
Other	-	5.0
	<b>840.5</b>	301.7
* Refer to note 4 for impairment information		
<b>Finance costs</b>		
Interest and finance charges paid/payable	173.5	153.4
Provisions: unwinding of discount	-	0.3
Amortisation of capitalised borrowing transaction costs	8.0	9.9
Counterparty credit risk adjustments	3.0	0.8
	<b>184.5</b>	164.4
Amount capitalised to qualifying assets	(3.2)	(11.6)
	<b>181.3</b>	152.8

#### SIGNIFICANT JUDGEMENTS

The significant judgements in relation to depreciation and impairment have been explained on page 65 of this report.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 4 Impairment of non-financial assets

	2017 \$m	2016 \$m
Intermodal impairment (i)	162.2	-
Bulk impairment (ii)	525.9	-
Impairment of assets in exit of contracts (iii)	10.2	-
Freight Management Transformation impairment (iv)	64.0	-
Transformation – asset impairment (v)	48.9	-
Other (vi)	29.3	-
Rollingstock impairment (vii)	-	177.0
Strategic infrastructure projects and assets under construction impairment (viii)	-	124.7
	<b>840.5</b>	<b>301.7</b>

#### (a) Impairment of non-financial assets

##### Current period

##### (i) Intermodal (\$162.2 million)

Indicators of impairment were identified for the Intermodal CGU due to trading performance during the first half being lower than expectations. As a result an impairment test was completed as at 31 December 2016 and updated at 30 June 2017. The recoverable amount used in the impairment test was based on a fair value less costs of disposal (FVLCTD) methodology and has resulted in a pre-tax impairment charge of \$162.2 million. The fair value has been determined by reference to external valuations for property and internal valuations for rollingstock, plant and equipment, assets under construction and consideration of the Intermodal Transaction as set out in note 33. In relation to rollingstock we have considered the ability to redeploy assets across the Group when determining the fair value.

The impairment write-down of \$162.2 million has been allocated to rollingstock (\$100.3 million), land, buildings and infrastructure (\$32.6 million), plant and equipment (\$15.5 million), assets under construction (\$12.6 million) and intangibles (\$1.2 million).

Following the impairment, the residual carrying value of the assets of the Intermodal business as at 30 June 2017 is \$169.9 million.

##### (ii) Bulk impairment (\$525.9 million)

##### Western Australia (\$362.4 million)

The impairment assessment of the Western Australia CGU is dependent on Iron Ore customers continuing to operate and comply with contractual arrangements. The terminal year EBITDA used in the impairment model calculation has been adjusted for iron ore customers whose mines are expected to close just beyond the corporate plan period. The iron ore and bulk market in general remains volatile and challenging. The low long-term iron ore price together with high cash operating costs for our customers, the challenging and competitive bulk markets, deterioration in our operating performance and the changed business structure resulting in changes in cost allocations have led to a review of the operating cashflows in particular the terminal year EBITDA. This review has resulted in a pre-tax impairment charge of \$362.4 million.

The recoverable amount used in the impairment test is based on a value in use methodology based on the Board-approved corporate plan, a terminal growth rate of 1.5% and a pre-tax discount rate of 11.9%.

The impairment write-down of \$362.4 million has been allocated to rollingstock (\$245.1 million), land, buildings and infrastructure (\$96.4 million), and plant and equipment (\$20.9 million).

Following the impairment, the residual carrying value of the assets of the Western Australia CGU as at 30 June 2017 is \$207.8 million. Should any of the current major Iron Ore customers either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements then the CGU may become further impaired.

##### Bulk East (\$163.5 million)

Due to the organisational restructure from a functional to a business unit model, the change to direct allocation of rollingstock assets to business units and new segments from 1 July 2017, the Group's CGUs have been re-assessed with the Queensland CGU now separated into Bulk East and Coal Queensland. This change in CGU together with operational performance issues and loss of specific contracts experienced by the Bulk East CGU has resulted in impairment testing being required to be completed.

The recoverable amount used in the impairment test is based on a FVLCTD methodology and has resulted in a pre-tax impairment charge of \$163.5 million. The fair value has been determined by reference to external valuations for property and internal valuations for rollingstock, plant and equipment, and assets under construction. In relation to rollingstock we have considered the ability to redeploy assets across the Group when determining the fair value.

The impairment write-down of \$163.5 million has been allocated to rollingstock (\$124.6 million), land, buildings and infrastructure (\$27.0 million), plant and equipment (\$6.0 million), and assets under construction (\$5.9 million).

Following the impairment, the residual carrying value of the assets of the Bulk East CGU as at 30 June 2017 is \$46.6 million.

#### Measurement of fair values for the Bulk East and Intermodal CGUs

##### Fair value hierarchy

The non-recurring fair value measurement for the Bulk East and Intermodal CGUs have been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

##### Valuation technique and significant unobservable inputs

Data	Valuation technique	Significant unobservable inputs
Property	External valuations of material Intermodal and Bulk East land and buildings at key sites have been completed under an in use and alternate use basis	Valuations are based on comparable market transactions, market yield and assume disposal costs of 5%
Rollingstock	Internal valuations of rollingstock have been completed based on highest and best use of assets given there is not considered to be an active market for rollingstock. Therefore, rollingstock assets have been valued based on scrap metal prices after consideration of the redeployment of assets	<ul style="list-style-type: none"> <li>➢ Determination of the best use of respective rollingstock assets across the enterprise fleet</li> <li>➢ Scrap metal prices obtained from metal market participants</li> <li>➢ Costs of disposal and scrap values</li> </ul>

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 4 Impairment of non-financial assets (continued)

#### (iii) Asset impairment as a result of contract exits (\$10.2 million)

As a result of the decision by Glencore to not renew its existing contract with Aurizon to haul mine inputs and outputs between Mt Isa and Townsville, a decision was made to cease to operate this daily multi-customer freight service from the contract expiry date of 31 January 2017. As a result, \$10.2 million of assets including rollingstock, plant and equipment, and associated facilities were impaired at 31 December 2016.

#### (iv) Freight Management Transformation (FMT) (\$64.0 million)

Following a review, it was decided to terminate the project and as a result an impairment charge of \$64.0 million was recorded. An amount of \$26.9 million of the total project investment of \$90.9 million remains capitalised on the balance sheet in relation to software and licences, which are currently in use.

#### (v) Transformation – asset impairment (\$48.9 million)

As a result of the changes to the Queensland operations an asset impairment of \$30.1 million has been recognised. Further, as part of the ongoing transformation program, \$15.0 million of property, plant and equipment was impaired, along with a further \$3.8 million relating to various projects no longer proceeding and assets identified as surplus to requirements.

#### (vi) Impairment of other assets (\$29.3 million)

A number of minor assets and projects which are not expected to proceed were impaired as a result of normal operations resulting in \$29.3 million of impairment for the year ended 30 June 2017. These asset impairments were not classified as significant items.

#### Prior period

#### (vii) Impairment of rollingstock (\$177.0 million)

Due to the continued improvements in rollingstock efficiency and productivity coupled with a lower volume outlook, the Enterprise Rollingstock Master Plan, which forecasts the requirements of the locomotives and wagons for the next 10 years, has been revised. This review of fleet has resulted in 121 locomotives and 1,641 wagons being identified as surplus to the current requirements of the Group. Rollingstock identified as surplus and associated inventory has been impaired by \$177.0 million to net realisable value.

#### (viii) Strategic infrastructure projects impairment (\$124.7 million)

##### West Pilbara Infrastructure Project (\$82.8 million)

As a result of the uncertainty surrounding the timing of the development as well as current market conditions, \$82.8 million of project costs were fully impaired. The carrying value of the project is now nil.

##### Galilee Basin (\$29.9 million)

An impairment of \$29.9 million was recorded in relation to the brownfield expansion of the CQCN. The amount represents directly attributable development costs such as engineering designs, environmental and building approvals, which could be recovered through the regulatory process at a future date. However, a decision has been made to impair these costs due to uncertainty surrounding the project's timing and the current market outlook. The carrying value of the project is now nil.

##### Other projects (\$12.0 million)

Other projects totalling \$12.0 million have also been impaired which primarily relate to CQCN expansion projects that are no longer expected to proceed.

### SIGNIFICANT JUDGEMENTS

The Group considers annually whether there have been any indicators of impairment and then tests whether non-current assets have suffered any impairment, in accordance with the accounting policy stated in note 9.

#### Cash generating units

The recoverable amounts of CGUs for 30 June 2017 have been determined based on value in use calculations except for Intermodal and Bulk East, which are valued using FVLCTD. The value in use is calculated based on a three-year Board-approved corporate plan, a terminal growth rate of 1.5% per annum (2016: 2.5%) and a pre-tax discount rate ranging from 11.5% – 11.9% (2016: 11.9% – 12.3%). The value in use calculations indicate headroom to the carrying value of CGUs, with the exception of Intermodal, Bulk East and Western Australia. For the year ended 30 June 2017, the Intermodal, Bulk East and Western Australia CGUs had indicators of impairment due to decline in market conditions, and reduced revenue and profitability compared to the corporate plan.

As a result, an impairment test was completed. The key assumptions used in the estimation of the recoverable amount of the Intermodal, Bulk East and Western Australia CGUs are set out in note 4(a)(i-ii).

Following the impairment loss recognised in the Intermodal, Bulk East and Western Australia CGUs for the year ended 30 June 2017, the recoverable amount is equal to the carrying amount. For Intermodal and Bulk East CGUs, a change in assumption regarding the market values of assets may result in a change to the impairment recorded. For Western Australia a change in assumption regarding the forecast cashflows may result in a change to the impairment recorded.

#### Individual non-current assets

Each period the Group is required to assess the recoverability of non-current assets. Each period the Enterprise Rollingstock Master Plan is reviewed. This is a 10-year plan and judgement has been applied to estimate forecast volumes and productivity, as well as the required level of contingent fleet, in determining the level of rollingstock required for the foreseeable future. Any further changes to volumes and productivity, or a change in management's view as to the level of contingent fleet required, could result in further reduction or reversal of previous impairment required in the future. The application of this judgement will continue to be assessed at each reporting date.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 5 Income tax

#### KEEPING IT SIMPLE

This note provides an analysis of the Group's income tax expense/benefit (including a reconciliation of income tax expense to accounting profit), deferred tax balances and income tax recognised directly in equity.

Differences between Australian tax law and Australian accounting standards result in non-temporary (permanent) and temporary (timing) differences between tax and accounting income. Income tax expense is equal to net profit before tax multiplied by the applicable tax rate, adjusted for non-temporary differences. Temporary differences do not adjust income tax expense as they reverse over time. Until they reverse, a deferred tax asset or liability must be recognised on the balance sheet. This note also includes details of income tax recognised directly in equity.

The Group recognises a significant net deferred tax liability and a current cash tax position significantly lower than the applicable tax rate. This is primarily due to accelerated fixed asset tax depreciation and is common for entities operating in a capital-intensive environment.

The tax treatment of the impairments is dependent on the nature of the asset being impaired. As the current year impairment predominantly relates to tax depreciable assets (which continue to be used by the business), the impairment does not result in a tax deduction in the current year and will only be recognised for tax purposes when Aurizon disposes of the assets. Accordingly, the impairment will merely change the temporary difference (and associated deferred tax asset or liability) recognised in respect of the impaired asset.

#### (a) Income tax expense

	2017 \$m	2016 \$m
Current tax	<b>86.2</b>	122.0
Deferred tax	<b>(166.4)</b>	1.4
Current tax relating to prior periods	<b>(9.1)</b>	12.5
Deferred tax relating to prior periods	<b>7.7</b>	(15.4)
	<b>(81.6)</b>	120.5

Income tax expense is attributable to:

(Loss)/profit from continuing operations	<b>(81.6)</b>	120.5
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (note 5(e))	<b>13.4</b>	6.7
Decrease in deferred tax liabilities (note 5(f))	<b>(172.1)</b>	(20.6)
	<b>(158.7)</b>	(13.9)

#### (b) Numerical reconciliation of income tax expense/ (benefit) to prima facie tax payable

	2017 \$m	2016 \$m
(Loss)/profit before income tax expense	<b>(269.5)</b>	192.9
Tax at the Australian tax rate of 30% (2016: 30%)	<b>(80.9)</b>	57.9
Tax effect of amounts which are not (taxable) deductible in calculating taxable income:		
Entertainment	<b>0.2</b>	0.2
Research and development	<b>(1.6)</b>	(1.8)
Non-assessable income	<b>0.1</b>	(1.1)
Other	<b>2.0</b>	0.4
Adjustments for tax of prior periods	<b>(1.4)</b>	(2.9)
Impairment of an associate for which no deferred tax asset is recognised	-	67.8
	<b>(81.6)</b>	120.5

#### (c) Amounts recognised directly in equity

	2017 \$m	2016 \$m
Aggregate deferred tax arising in the reporting period and directly credited to equity	<b>17.2</b>	1.3

#### (d) Tax expense/(benefit) relating to items of other comprehensive income

	2017 \$m	2016 \$m
Cash flow hedges	<b>13.5</b>	(1.6)

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 5 Income tax (continued)

#### (e) Deferred tax assets

	2017 \$m	2016 \$m
<b>Total deferred tax assets</b>	<b>191.6</b>	201.3
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(191.6)</b>	(201.3)
<b>Net deferred tax assets</b>	<b>-</b>	-

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax assets:

Movements	Provisions/ accruals \$m	Customer contracts \$m	Unearned revenue \$m	Financial instruments \$m	Other \$m	Total \$m
At 1 July 2015	132.2	45.9	1.3	18.8	6.9	205.1
(Charged)/credited						
- to profit or loss	(6.5)	(13.1)	(1.0)	17.9	(4.0)	(6.7)
- to other comprehensive income	-	-	-	1.6	-	1.6
- directly to equity	-	-	-	-	1.3	1.3
At 30 June 2016	125.7	32.8	0.3	38.3	4.2	201.3
<b>At 1 July 2016</b>	<b>125.7</b>	<b>32.8</b>	<b>0.3</b>	<b>38.3</b>	<b>4.2</b>	<b>201.3</b>
(Charged)/credited						
- to profit or loss	5.1	(10.3)	(0.3)	(0.6)	(7.3)	(13.4)
- to other comprehensive income	-	-	-	(13.5)	-	(13.5)
- directly to equity	-	-	-	-	17.2	17.2
<b>At 30 June 2017</b>	<b>130.8</b>	<b>22.5</b>	<b>-</b>	<b>24.2</b>	<b>14.1</b>	<b>191.6</b>

#### (f) Deferred tax liabilities

	2017 \$m	2016 \$m
<b>Total deferred tax liabilities</b>	<b>618.4</b>	790.5
Set-off of deferred tax assets pursuant to set-off provisions (note 5(e))	<b>(191.6)</b>	(201.3)
<b>Net deferred tax liabilities</b>	<b>426.8</b>	589.2

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax liabilities:

Movements	Non- current assets \$m	Consumables and spares \$m	Accrued income \$m	Financial instruments \$m	Other \$m	Total \$m
At 1 July 2015	789.0	11.7	3.3	5.9	1.2	811.1
Charged/(credited)						
- to profit or loss	(32.7)	(1.4)	(3.0)	17.3	(0.8)	(20.6)
At 30 June 2016	756.3	10.3	0.3	23.2	0.4	790.5
<b>At 1 July 2016</b>	<b>756.3</b>	<b>10.3</b>	<b>0.3</b>	<b>23.2</b>	<b>0.4</b>	<b>790.5</b>
Charged/(credited)						
- to profit or loss	(168.0)	(5.1)	2.3	(1.1)	(0.2)	(172.1)
<b>At 30 June 2017</b>	<b>588.3</b>	<b>5.2</b>	<b>2.6</b>	<b>22.1</b>	<b>0.2</b>	<b>618.4</b>

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 5 Income tax (continued)

#### SIGNIFICANT JUDGEMENTS

The deferred tax asset of \$67.8 million, attributable to the impairment of the investment in an associate has not been recognised as it is not considered probable that it will be recovered in the foreseeable future. The recoverability of the deferred tax asset is dependent on the sale of shares in the associate.

#### Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted for the changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities, and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

To the extent that an item is recognised in other comprehensive income or directly in equity, the deferred tax is also recognised in other comprehensive income or directly in equity.

### 6 Earnings per share

#### KEEPING IT SIMPLE

Earnings per share (EPS) is the amount of post-tax profit attributable to each share.

#### (a) Basic earnings per share

Basic EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding.

	2017 Cents	2016 Cents
Total basic (loss)/earnings per share attributable to the ordinary equity holders of the Company	<b>(9.2)</b>	3.5

#### (b) Diluted earnings per share

Diluted EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	2017 Cents	2016 Cents
Total diluted EPS attributable to the ordinary equity holders of the Company	<b>(9.2)</b>	3.5

#### (c) Weighted average number of shares used as denominator

	2017 Number '000	2016 Number '000
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	<b>2,051,745</b>	2,088,213
Adjustments for calculation of diluted EPS:		
Rights	<b>496</b>	3,221
<b><i>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted EPS</i></b>	<b>2,052,241</b>	2,091,434

# Operating assets and liabilities

## IN THIS SECTION

**Operating assets and liabilities provides information about the working capital of the Group and major balance sheet items, including the accounting policies, judgements and estimates relevant to understanding these items.**

7	Trade and other receivables	Page 63
8	Inventories	Page 63
9	Property, plant and equipment	Page 64
10	Intangible assets	Page 66
11	Trade and other payables	Page 67
12	Provisions	Page 67
13	Other liabilities	Page 68



# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 7 Trade and other receivables

	2017 \$m	2016 \$m
<b>Current</b>		
Trade receivables	<b>350.7</b>	382.5
Provision for impairment of receivables	<b>(27.2)</b>	(30.8)
Net trade receivables	<b>323.5</b>	351.7
Other receivables*	<b>173.3</b>	162.2
	<b>496.8</b>	513.9

\* Other receivables predominantly relate to accrued revenue.

#### Past due but not impaired

These trade receivables relate to a number of customers for whom there is no recent history of default and there is no expectation that they will default. The ageing of past due but not impaired trade receivables are as follows:

	2017 \$m	2016 \$m
Up to three months	<b>9.4</b>	42.0
Three to six months	<b>0.5</b>	1.5
Over six months	<b>1.5</b>	19.5
	<b>11.4</b>	63.0

#### Recognition and measurement

Trade receivables generally have credit terms ranging from seven to 31 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables. Trade receivables have not had a significant increase in credit risk since they were originated.

### 8 Inventories

	2017 \$m	2016 \$m
<b>Current</b>		
Raw materials and stores - at cost	<b>135.8</b>	169.5
Work in progress - at cost	<b>2.2</b>	4.6
Provision for inventory obsolescence	<b>(26.2)</b>	(21.4)
	<b>111.8</b>	152.7
<b>Non-current</b>		
Raw materials and stores - at cost	<b>47.4</b>	52.6
Provision for inventory obsolescence	<b>(11.9)</b>	(16.3)
	<b>35.5</b>	36.3

#### Recognition and measurement

Inventories include infrastructure and rollingstock items held in centralised stores, workshops and depots. Inventories are measured at the lower of cost and net realisable value. Cost is determined predominantly on an average cost basis.

Items expected to be consumed after more than one year are classified as non-current.

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure and rollingstock maintenance items. The amount of the provision is based on a proportion of the value of damaged stock, slow-moving stock and stock that has become obsolete during the reporting period.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 9 Property, plant and equipment

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure \$m	Total \$m
<b>2017</b>							
Opening net book amount	385.4	160.5	340.9	389.6	2,823.4	5,619.4	9,719.2
Additions	468.3	-	-	-	-	-	468.3
Transfers between asset classes	(634.2)	1.9	32.8	117.5	193.9	288.1	-
Disposals	-	(1.8)	(2.8)	(6.1)	(3.5)	(8.8)	(23.0)
Impairment (note 3 and 4)	(34.7)	(0.9)	(75.1)	(58.9)	(483.5)	(106.9)	(760.0)
Asset classified as held for sale	-	-	(1.4)	-	-	(0.2)	(1.6)
Depreciation/amortisation (note 3)	-	-	(20.9)	(65.1)	(201.1)	(280.8)	(567.9)
<b>Closing net book amount</b>	<b>184.8</b>	<b>159.7</b>	<b>273.5</b>	<b>377.0</b>	<b>2,329.2</b>	<b>5,510.8</b>	<b>8,835.0</b>
Cost or fair value	184.8	159.7	526.2	793.4	5,140.2	7,266.3	14,070.6
Accumulated depreciation	-	-	(252.7)	(416.4)	(2,811.0)	(1,755.5)	(5,235.6)
<b>Net book amount</b>	<b>184.8</b>	<b>159.7</b>	<b>273.5</b>	<b>377.0</b>	<b>2,329.2</b>	<b>5,510.8</b>	<b>8,835.0</b>
Owned	184.8	135.9	264.4	377.0	2,329.2	968.5	4,259.8
Leased	-	23.8	9.1	-	-	4,542.3	4,575.2
	184.8	159.7	273.5	377.0	2,329.2	5,510.8	8,835.0
<b>2016</b>							
Opening net book amount	769.2	159.8	335.3	370.1	3,102.5	5,163.4	9,900.3
Additions	652.9	-	-	11.0	-	1.3	665.2
Transfers between asset classes	(917.1)	1.7	24.2	64.8	91.4	735.0	-
Disposals	-	(2.6)	(1.2)	(7.1)	(3.7)	(18.1)	(32.7)
Impairment (note 3 and 4)	(119.6)	-	-	(0.3)	(147.2)	-	(267.1)
Assets classified as held for sale	-	1.6	2.1	-	-	0.2	3.9
Depreciation/amortisation (note 3)	-	-	(19.5)	(48.9)	(219.6)	(262.4)	(550.4)
Closing net book amount	385.4	160.5	340.9	389.6	2,823.4	5,619.4	9,719.2
Cost	385.4	160.5	505.3	722.0	4,921.3	7,032.9	13,727.4
Accumulated depreciation and impairment	-	-	(164.4)	(332.4)	(2,097.9)	(1,413.5)	(4,008.2)
Net book amount	385.4	160.5	340.9	389.6	2,823.4	5,619.4	9,719.2
Owned	385.4	141.7	331.0	389.6	2,823.4	1,047.5	5,118.6
Leased	-	18.8	9.9	-	-	4,571.9	4,600.6
	385.4	160.5	340.9	389.6	2,823.4	5,619.4	9,719.2

Following a review there has been a reclassification between owned and leased assets of \$387.4 million to more accurately reflect the nature of these assets. This reclassification predominantly relates to infrastructure assets.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 9 Property, plant and equipment (continued)

#### SIGNIFICANT JUDGEMENTS

##### (i) Depreciation

The Group estimates the useful lives and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. The Group reviews useful life assumptions on an annual basis having given consideration to variables including historical and forecast usage rates, technological advancements and changes in legal and economic conditions. Any change in useful lives and residual values of property, plant and equipment is accounted for prospectively.

##### (ii) Impairment

Refer to note 4 for the significant judgements relating to impairment.

#### Recognition and measurement

##### (i) Initial recognition and measurement

###### Land, buildings, plant and equipment, rollingstock and assets under construction

Buildings, plant and equipment, and rollingstock are carried at cost less accumulated depreciation. Non-corridor land owned by the Group and assets under construction are carried at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Costs attributable to assets under construction are only capitalised when it is probable that future economic benefits associated with the asset will flow to the Group and the costs can be measured reliably. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment, and capitalised interest.

Corridor land owned by the State is leased to Aurizon Network Pty Ltd at a rental of \$1 per year if demanded. The leases expire on 30 June 2109.

###### Leased coal infrastructure

Coal infrastructure assets are owned by (a) the State, with respect to the CQCN and (b) Queensland Rail, with respect to the North Coast Line (each referred to as the Infrastructure Lessor). Under each infrastructure lease the infrastructure is leased to Aurizon Network Pty Ltd, a wholly-owned subsidiary. The term of each lease is 99 years (at a rate of \$1 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years. The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99-year term. This has been accounted for as a finance lease.

##### (ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

##### (iii) Depreciation and amortisation

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed or manufactured assets, from the time an asset is completed and held ready for use.

Buildings, infrastructure, rollingstock, and plant and equipment are depreciated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives. Motor vehicles are depreciated using the diminishing value method (percentages range from 13.6% to 35.0%). Land and assets under construction are not depreciated.

The Group builds mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. Infrastructure controlled by the Group under these deeds is depreciated over the term of the deed, except where economic benefits are expected to flow to the Group after the end of the term of the deed.

The depreciation and amortisation rates used during the year were based on the following range of useful lives:

- Owned and leased infrastructure	7-100 years
- Buildings	10-40 years
- Rollingstock	8-35 years
- Plant and equipment	3-20 years
- Leased property	3-40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

##### (iv) Derecognition

An item of property, plant and equipment is derecognised when it is disposed of or no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

##### (v) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cashflows which are largely independent of the cashflows from other assets or groups of assets (CGUs).

The recoverable amount is the greater of an asset's FVLCTD and value in use. In assessing value in use, the estimated future cashflows 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.

Impairment losses are recognised in the income statement. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. Impairment losses, if any, recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting period.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 10 Intangible assets

	Software \$m	Key customer contracts \$m	Software under development \$m	Total \$m
<b>2017</b>				
Opening net book amount	61.0	0.6	128.6	190.2
Additions	-	1.0	63.4	64.4
Transfers	79.8	-	(79.8)	-
Amortisation expense (note 3)	(16.3)	(0.4)	-	(16.7)
Impairment charge (note 4)	(1.5)	(1.2)	(65.2)	(67.9)
<b>Closing net book amount</b>	<b>123.0</b>	<b>-</b>	<b>47.0</b>	<b>170.0</b>
Cost	260.9	2.5	47.0	310.4
Accumulated amortisation and impairment	(137.9)	(2.5)	-	(140.4)
<b>Net book amount</b>	<b>123.0</b>	<b>-</b>	<b>47.0</b>	<b>170.0</b>
<b>2016</b>				
Opening net book amount	20.9	1.3	105.2	127.4
Additions	-	-	73.7	73.7
Transfers	50.3	-	(50.3)	-
Amortisation expense (note 3)	(10.2)	(0.7)	-	(10.9)
Closing net book amount	61.0	0.6	128.6	190.2
Cost	177.0	7.6	128.6	313.2
Accumulated amortisation and impairment	(116.0)	(7.0)	-	(123.0)
Net book amount	61.0	0.6	128.6	190.2

#### Recognition and measurement

##### (i) Software and software under development

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and services, employee costs and an appropriate portion of relevant overheads.

Software under development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful life which varies from three to 11 years.

##### (ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits, and costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services and direct labour. Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 11 Trade and other payables

	2017 \$m	2016 \$m
<b>Current liabilities</b>		
Trade payables	<b>273.8</b>	279.3
Other payables	<b>35.9</b>	17.9
	<b>309.7</b>	297.2

#### Recognition and measurement

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days or within the terms agreed with the supplier.

### 12 Provisions

	2017 \$m	2016 \$m
<b>Current</b>		
Employee benefits (a)	<b>277.5</b>	250.0
Provision for insurance claims	<b>2.2</b>	5.3
Litigation and workers' compensation provision	<b>24.6</b>	17.6
Other	<b>10.2</b>	2.3
	<b>314.5</b>	275.2
<b>Non-current</b>		
Employee benefits (a)	<b>20.7</b>	23.4
Litigation and workers' compensation provision	<b>11.5</b>	18.4
Decommissioning/make good and other provisions	<b>6.0</b>	3.5
Land rehabilitation	<b>40.5</b>	47.7
	<b>78.7</b>	93.0
<b>Total provisions</b>	<b>393.2</b>	368.2

#### (a) Employee benefits

	2017 \$m	2016 \$m
Annual leave	<b>59.7</b>	65.8
Long service leave	<b>127.8</b>	152.0
Other*	<b>110.7</b>	55.6
	<b>298.2</b>	273.4

\* Included in other employee benefits are bonuses, retirement allowances, termination benefits and payroll tax on leave.

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, bonuses and redundancy provision. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of \$95.7 million (2016: \$109.5 million) that is not expected to be taken or paid within the next 12 months.

#### Details of employee benefits

##### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave and leave loading that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The short-term employee benefit obligations are recognised in the provision for employee benefits.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 12 Provisions (continued)

#### (ii) Other long-term employee benefit obligations

The liabilities for retirement allowance, long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

#### (iii) Bonus plans

The Group recognises a liability for bonuses based on a formula that takes into consideration the Group and individual key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### (iv) Termination benefits

Termination benefits are payable when the Group decides to terminate the employment, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

#### (v) Superannuation

The Group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to the Public Sector Superannuation (QSuper) scheme.

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a whole of Government basis and reported in the whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund at least every three years. The latest valuation was completed as at 30 June 2015 and the State Actuary found the fund was in surplus from a whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the QSuper Defined Benefit Fund. The State of Queensland has provided Aurizon with an indemnity if the Treasurer requires Aurizon to pay any amounts required to meet the potential deficit/surplus. The indemnity is subject to Aurizon not taking any unilateral action, other than with the approval of the State that causes a significant increase in unfunded liabilities.

The Group also makes superannuation guarantee payments into the QSuper Accumulation Fund (Non-Contributory) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office and to other complying Superannuation Funds designated by employees nominating Choice of Fund.

#### Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The weighted average pre-tax discount rates for employee benefits are based on Australian corporate bond rates of 2.7% (2016: 2.8%).

To measure the estimated costs to remediate contaminated land an inflation rate of 2.6% (2016: 2.3%) has been applied, based on remediation dates ranging between five to 40 years. A weighted average discount rate of 3.2% (2016: 2.3%) has been used in determining present value, based on the interest rate which reflects the maturity profile of the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

The provision for insurance claims is raised for insurance claims external to the Group and represents the aggregate deductible component in relation to loss or damage to property, plant and equipment, and rollingstock.

A provision is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. Estimates are made based on the average number of claims and average claim payments over a specified period of time. Claims Incurred But Not Reported are also included in the estimate.

A provision for onerous contracts is recognised by the Group when the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits to be received. It is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

### 13 Other liabilities

	2017 \$m	2016 \$m
<b>Current</b>		
Income received in advance	<b>39.3</b>	49.4
Other current liabilities	<b>1.4</b>	3.9
	<b>40.7</b>	53.3
<b>Non-current</b>		
Income received in advance	<b>203.4</b>	221.6
Other non-current liabilities	<b>2.6</b>	5.2
	<b>206.0</b>	226.8

Income received in advance primarily represents amounts received from customers as prepayment of future rentals under agreements for customer specific rail infrastructure. These amounts are deferred and earned over the term of the agreements.

# Capital and financial risk management

## IN THIS SECTION

**Capital and financial risk management provides information about the capital management practices of the Group and shareholder returns for the year and discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance, and what the Group does to manage these risks.**

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15	Dividends	Page 70
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17	Borrowings	Page 72
18	Financial risk management	Page 72
19	Derivative financial instruments	Page 78

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 14 Capital risk management

#### KEEPING IT SIMPLE

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business.

The Group and the Company monitor its capital structure by reference to its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is total equity plus net debt. There were no changes in the Group's approach to capital and financial risk management during the year. Refer to note 18 for further details.

	Notes	2017 \$m	2016 \$m
Total borrowings	17	<b>3,376.2</b>	3,490.1
Less: cash and cash equivalents		<b>(88.7)</b>	(69.2)
Net debt		<b>3,287.5</b>	3,420.9
Total equity		<b>5,022.1</b>	5,713.6
<b>Total capital</b>		<b>8,309.6</b>	9,134.5
<b>Gearing ratio</b>		<b>39.6%</b>	37.5%

### 15 Dividends

#### (a) Ordinary shares

	2017 \$m	2016 \$m
Interim dividend for the year ended 30 June 2017 of 13.6 cents 70% franked (2016: 11.3 cents 70% franked) per share, paid 27 March 2017	<b>279.0</b>	234.4
Final dividend for the year ended 30 June 2016 of 13.3 cents 70% franked (2015: 13.9 cents 30% franked) per share, paid 26 September 2016	<b>272.9</b>	294.9
	<b>551.9</b>	529.3

#### (b) Dividends not recognised at the end of the reporting period

	2017 \$m	2016 \$m
Since 30 June 2017, the Directors have recommended the payment of a final dividend of 8.9 cents per fully paid ordinary share 50% franked (2016: 13.3 cents 70% franked). The aggregate amount of the proposed dividend expected to be paid on 25 September 2017 out of retained earnings, but not recognised as a liability at year end is:	<b>182.6</b>	272.9

#### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2017 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ending 30 June 2018.

	2017 \$m	2016 \$m
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2016: 30%)	<b>2.8</b>	91.4

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

### 16 Equity and reserves

#### KEEPING IT SIMPLE

Issued capital represents the amount of consideration received for securities issued by Aurizon.

When the Company purchases its own shares, as a result of the share-based payment plans and share buy-back, the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

#### (a) Contributed equity

##### (i) Issued capital

	2017 Shares '000	2016 Shares '000	2017 \$m	2016 \$m
Ordinary shares - fully paid	<b>2,051,745</b>	2,051,745	<b>1,206.6</b>	1,206.6

##### (ii) Movements in ordinary share capital

Details	Number of shares '000	\$m
At 1 July 2015	2,122,010	1,508.3
On-market share buy-back	(70,265)	(301.7)
At 30 June 2016	2,051,745	1,206.6
<b>At 30 June 2017</b>	<b>2,051,745</b>	<b>1,206.6</b>

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.



# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 16 Equity and reserves (continued)

#### (b) Reserves

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2016		(1.8)	(34.1)	(7.2)	3,467.8	3,424.7
Fair value gains taken to equity		-	45.7	-	-	45.7
Fair value losses transferred to property, plant and equipment		-	(0.2)	-	-	(0.2)
Deferred tax		-	(13.5)	-	-	(13.5)
Other comprehensive income		-	32.0	-	-	32.0
Transactions with owners in their capacity as owners						
Share-based payments expense	28(b)	-	-	6.6	-	6.6
Employee share trust to employees		-	-	(7.5)	-	(7.5)
Deferred tax		-	-	17.2	-	17.2
<b>At 30 June 2017</b>		<b>(1.8)</b>	<b>(2.1)</b>	<b>9.1</b>	<b>3,467.8</b>	<b>3,473.0</b>

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2015		-	(30.3)	20.1	3,468.1	3,457.9
Fair value losses taken to equity		-	(2.7)	-	-	(2.7)
Fair value losses transferred to property, plant and equipment		-	(2.7)	-	-	(2.7)
Deferred tax		-	1.6	-	-	1.6
Share of an associate's other comprehensive income		(1.8)	-	-	-	(1.8)
Other comprehensive income		(1.8)	(3.8)	-	-	(5.6)
Transactions with owners in their capacity as owners						
On-market share buy-back		-	-	-	(0.3)	(0.3)
Share-based payments expense	28(b)	-	-	25.1	-	25.1
Employee share trust to employees		-	-	(53.7)	-	(53.7)
Deferred tax		-	-	1.3	-	1.3
At 30 June 2016		(1.8)	(34.1)	(7.2)	3,467.8	3,424.7

#### Nature and purpose of reserves

##### Cash flow hedges

The hedging reserve is used to record gains or losses on hedging instruments that are designated cash flow hedges and are recognised in other comprehensive income, as described in note 19(i). Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

##### Share-based payments

Share-based payments represent the fair value of share-based remuneration provided to employees.

##### Capital reserves

Capital reserves represents capital contributions from Queensland State Government pre-IPO less cumulative share buy-backs charged to this account.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 17 Borrowings

#### KEEPING IT SIMPLE

The Group borrows money through bank debt facilities and through the issuance of debt securities in capital markets.

The carrying amount of the Group's borrowings is as follows:

	2017 \$m	2016 \$m
<b>Current - Unsecured</b>		
Working capital facilities	79.0	6.0
	<b>79.0</b>	6.0
<b>Non-current - Unsecured</b>		
Medium-term notes	2,441.7	2,085.9
Syndicated facilities	865.0	1,415.0
Capitalised borrowing costs	(9.5)	(16.8)
	<b>3,297.2</b>	3,484.1
<b>Total borrowings</b>	<b>3,376.2</b>	3,490.1

The Group's unsecured syndicated facilities contain financial covenants. Both the syndicated facilities and medium-term notes contain general undertakings including negative pledge clauses which restrict the amount of security that the Group can provide over assets in certain circumstances. The Group has complied with all required covenants and undertakings throughout the reporting period.

The Group manages its exposure to interest rate risk as set out in note 18(a). Risk is managed in accordance with Board-approved Treasury Policies.

In June 2017 the Group issued a seven-year Australian Medium-Term Note (AMTN) with a coupon of 4% per annum and a face value of \$425.0 million.

Details of the Group's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 18(c).

#### Recognition and measurement

##### (i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity.

Establishment costs have been capitalised and are amortised over the life of the related borrowing less one year, with the expectation that borrowings will be refinanced within the year prior to maturity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

##### (ii) Borrowing costs

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings, excluding working capital facilities, during the year of 5.0% (2016: 4.7%).

### 18 Financial risk management

#### KEEPING IT SIMPLE

The Group has exposure to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Risk is managed by a central Treasury function within guidelines defined in Board-approved Treasury Policies. Trading for speculation is strictly prohibited.

Compliance with the Treasury Policies is monitored on an ongoing basis through regular reporting to the Board.

##### (a) Market risk

Market risk is the risk that adverse movements in foreign exchange and/or interest rates will affect the Group's financial performance or the value of its holdings of financial instruments. The Group monitors and measures market risk using cash flow at risk. The objective of risk management is to manage the market risks inherent in the business to protect profitability and return on assets.

##### (i) Foreign exchange risk

###### Exposure to foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in or related to a currency that is not the Group's functional currency. The Group's foreign exchange exposure relates largely to the Euro (€) denominated medium-term note borrowings issued in September 2014 (EMTN 1) and May 2016 (EMTN 2). The Group also has exposure to movements in foreign currency exchange rates through anticipated purchases of parts and equipment.

###### Risk management

###### Cross currency interest rate swap agreements

To mitigate the risk of adverse movements in foreign exchange and interest rates in relation to borrowings denominated in foreign currency, the Group enters into cross currency interest rate swap (CCIRS) agreements through which it replaces the related foreign currency principal and interest liability payments with Australian Dollar principal and interest payments. These cross currency interest rate swap agreements are designated into cash flow and fair value hedge relationships.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Foreign exchange risk (continued)

###### Foreign exchange contracts

The Group uses forward contracts to manage its foreign exchange risk arising from anticipated purchases of parts and equipment. These contracts are hedging highly probable forecast foreign currency exposures and are denominated in the same currency as the highly probable future purchases. The forward contracts are designated as cash flow hedges and are timed to mature when foreign currency payments are scheduled to be made. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

As at the reporting date, the Group's exposure to foreign exchange risk after taking into consideration hedges of foreign currency borrowings and forecast foreign currency transactions is not considered material.

##### (ii) Interest rate risk

###### Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and operating cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings which expose the Group to cash flow interest rate risk.

At the reporting date, the Group has exposure to the following variable rate borrowings and interest rate swaps:

	30 June 2017		30 June 2016	
	Weighted average interest rate %	Balance \$m	Weighted average interest rate %	Balance \$m
Variable rate borrowings	3.9	2,432.8	3.6	2,909.8
Interest rate swaps (including debt margins)	4.9	(2,125.0)	4.8	(1,875.0)
<b>Net exposure to interest rate risk</b>		<b>307.8</b>		<b>1,034.8</b>

#### Risk management

The Group manages cash flow interest rate risk by using interest rate swaps. CCIRS have been put in place to remove any exposure to Euro interest rates and associated foreign exchange from the EMTN issuances.

Interest rate swaps currently in place cover approximately 87% (2016: 64%) of the variable rate exposure. The weighted average maturity of the outstanding swaps is approximately 3.8 years (2016: 1.3 years).

The International Swaps and Derivatives Association (ISDA) agreements held with counterparties allow for the netting of payments and receipts with respect to settlements for interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was \$27.5 million (2016: loss of \$23.2 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which have been recognised in interest expense.

##### (iii) Sensitivity on interest rate risk

The following table summarises the gain/(loss) impact of interest rate changes, relating to existing borrowings and financial instruments, on net profit and equity before tax. For the purpose of this disclosure, sensitivity analysis is isolated to a 100 basis points increase/decrease in interest rates, assuming hedge designations and effectiveness and all other variables remain constant.

	Effect on profit (before tax)		Effect on equity (before tax)	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>100 bps movement in interest rates</b>				
100 bps decrease in interest rates	2.2	10.1	(12.2)	(9.4)
100 bps increase in interest rates	(2.3)	(10.1)	11.7	8.6

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement

The impact of hedging instruments designated in hedging relationships on the consolidated balance sheet of the Group is as follows:

	Notional amount		Carrying amount assets/ (liability) refer to note 19 \$m		Change in fair value used for measuring ineffectiveness for the year \$m	
	2017	2016	2017	2016	2017	2016
<b>Cash flow hedges</b>						
<b>Foreign exchange risk</b>						
Forward contracts	<b>US\$7.4m</b>	US\$13.8m	<b>(0.2)</b>	(0.2)	<b>(0.2)</b>	-
Forward contracts	<b>€18.5m</b>	-	<b>(0.2)</b>	-	<b>(0.2)</b>	-
<b>Foreign exchange and interest rate risks</b>						
CCIRS - EMTN 1	<b>€500.0m</b>	€500.0m	<b>(1.2)</b>	(9.5)	<b>(0.9)</b>	0.9
CCIRS - EMTN 2	<b>€500.0m</b>	€500.0m	<b>(13.0)</b>	(9.3)	<b>(1.9)</b>	(8.8)
<b>Interest rate risk</b>						
Interest rate swaps	<b>A\$2,125.0m</b>	A\$1,875.0m	<b>11.4</b>	(27.5)	<b>11.4</b>	15.8
<b>Fair value hedges</b>						
<b>Foreign exchange and interest rate risks</b>						
CCIRS - EMTN 1	<b>€500.0m</b>	€500.0m	<b>63.1</b>	86.4	<b>(25.9)</b>	76.1
CCIRS - EMTN 2	<b>€500.0m</b>	€500.0m	<b>(57.4)</b>	(13.3)	<b>(26.4)</b>	(13.8)

The impact of hedged items designated in hedging relationships on the consolidated balance sheet is as follows:

	Carrying amount** \$m	Accumulated fair value adjustment \$m	Cash flow hedge reserve \$m		Change in fair value used for measuring ineffectiveness for the year \$m	
			2017	2016	2017	2016
<b>Cash flow hedges (before tax)</b>						
<b>Foreign exchange risk</b>						
Firm commitments			<b>0.3</b>	0.3	<b>0.3</b>	0.3
<b>Foreign exchange and interest rate risks</b>						
EMTN 1			<b>(0.2)</b>	14.7	<b>0.9</b>	(0.3)
EMTN 2			<b>14.4</b>	5.9	<b>1.9</b>	8.8
<b>Interest rate risk</b>						
Forecast floating interest payments			<b>(11.5)</b>	27.7	<b>(11.4)</b>	(15.8)
<b>Fair value hedges (before tax)</b>						
<b>Foreign exchange and interest rate risks</b>						
EMTN 1*	<b>(777.2)</b>	(812.0)	<b>(66.6)</b>	(101.3)	<b>25.9</b>	(76.1)
EMTN 2*	<b>(730.4)</b>	(764.4)	<b>47.8</b>	13.8	<b>26.4</b>	13.8

\* Non-current liabilities (borrowings).

\*\* Carrying amount also includes effect of discounts being amortised over the life of the CCIRS, less one year.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement (continued)

The hedging relationships (on page 74) affected other comprehensive income as follows:

	Hedging gain/(loss) recognised in comprehensive income \$m	
	2017	2016
<b>Cash flow hedges (before tax)</b>		
<b>Foreign exchange risk</b>		
Forward contracts	-	(1.1)
<b>Interest rate risk</b>		
Interest rate swaps	39.1	15.4
<b>Foreign exchange and interest rate risk</b>		
CCIRS	6.4	(19.7)
	<b>45.5</b>	<b>(5.4)</b>

There was no material ineffectiveness related to cash flow hedges and fair value hedges recognised in the consolidated income statement during the year.

#### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with financial institutions and receivables from customers.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees received from certain parties.

Historically, there has been no significant change in customers' credit risk. Other than the one-off event in relation to QNI in FY16, the lifetime expected loss assessment of the Group remains unchanged. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

- › External credit rating (as far as available)
- › Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- › Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- › The financial position of customers, past experience and other factors (macroeconomic information).

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables, the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note 18(d) for further details.

The Group has policies in place to ensure that sales of services are only made to customers with an appropriate credit profile or where appropriate security is held. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit quality of the customer is assessed, taking into account its financial position, past experience and other factors.

Credit risk on cash transactions and derivative contracts is managed through the Board-approved Group Treasury Policies which restricts the Group's exposure to financial institutions by credit rating band. The Policy limits the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are regularly monitored.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, sufficient liquidity is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

#### Financing arrangements

The Group has access to the following arrangements at the end of the reporting period:

	Security	Maturity	Utilised*		Facility limit	
			2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Aurizon Finance</b>						
Working capital facility	Unsecured	Jun-18	102.4	43.4	150.0	150.0
Syndicated facility	Unsecured	Jul-19	300.0	200.0	300.0	300.0
Syndicated facility	Unsecured	Jul-20	75.0	300.0	500.0	500.0
			<b>477.4</b>	543.4	<b>950.0</b>	950.0
<b>Aurizon Network</b>						
Working capital facility	Unsecured	Jun-18	6.7	7.6	100.0	100.0
Syndicated facility	Unsecured	Jul-18	-	425.0	525.0	525.0
Syndicated facility	Unsecured	Jul-21	490.0	490.0	490.0	490.0
AMTN 1	Unsecured	Oct-20	525.0	525.0	525.0	525.0
AMTN 2	Unsecured	Jun-24	425.0	-	425.0	-
EMTN 1**	Unsecured	Sept-24	710.6	710.6	710.6	710.6
EMTN 2**	Unsecured	Jun-26	778.2	778.2	778.2	778.2
			<b>2,935.5</b>	2,936.4	<b>3,553.8</b>	3,128.8
<b>Total Group financing arrangements</b>			<b>3,412.9</b>	3,479.8	<b>4,503.8</b>	4,078.8

\* Amount utilised includes bank guarantees of \$30.0 million (2016: \$44.9 million) but excludes capitalised borrowing costs of \$9.5 million (2016: \$16.8 million) and discounts on medium-term notes of \$16.0 million (2016: \$15.5 million).

\*\* Amount utilised also excludes accumulated fair value adjustments of \$66.6 million (2016: \$101.3 million) for EMTN 1 and -\$47.8 million (2016: -\$13.8 million) for EMTN 2.

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling \$250.0 million (2016: \$250.0 million) which may be utilised in the form of short-term working capital funding and the issuance of bank guarantees. At the end of the reporting period, the Group utilised \$30.0 million (2016: \$44.9 million) for financial bank guarantees.

The Group has complied with externally imposed capital debt covenants during the 2017 and 2016 reporting periods.

The following table (page 77) summarises the contractual timing of undiscounted cash flows, including estimated interest payments, of financial liabilities and derivative instruments, expressed in Australian dollars. The contractual amount assumes current interest rates and foreign exchange rates estimated using forward curves applicable at the end of the reporting period.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (c) Liquidity risk (continued)

	Less than 1 year \$m	Between 1 and 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets)/ liabilities* \$m
<b>2017</b>					
<b>Non-derivatives</b>					
Trade payables	309.7	-	-	309.7	309.7
Borrowings*	223.7	1,924.4	2,246.3	4,394.4	3,384.7
Financial guarantees	30.0	-	-	30.0	-
	<b>563.4</b>	<b>1,924.4</b>	<b>2,246.3</b>	<b>4,734.1</b>	<b>3,694.4</b>
<b>Derivatives</b>					
Interest rate swaps	5.5	(17.8)	-	(12.3)	(11.4)
Foreign exchange contracts	-	-	-	-	0.4
- (inflow)	(17.0)	(20.1)	-	(37.1)	-
- outflow	17.2	21.5	-	38.7	-
	<b>5.7</b>	<b>(16.4)</b>	<b>-</b>	<b>(10.7)</b>	<b>(11.0)</b>
<b>2016</b>					
<b>Non-derivatives</b>					
Trade payables	297.2	-	-	297.2	297.2
Borrowings*	163.7	2,057.8	2,358.1	4,579.6	3,435.8
Financial guarantees	44.9	-	-	44.9	-
	<b>505.8</b>	<b>2,057.8</b>	<b>2,358.1</b>	<b>4,921.7</b>	<b>3,733.0</b>
<b>Derivatives</b>					
Interest rate swaps	26.6	(0.8)	-	25.8	27.6
Foreign exchange contracts	-	-	-	-	(0.2)
- (inflow)	(15.5)	(1.6)	-	(17.1)	-
- outflow	15.7	1.5	-	17.2	-
	<b>26.8</b>	<b>(0.9)</b>	<b>-</b>	<b>25.9</b>	<b>27.4</b>

\* Borrowings include the effect of CCIRS derivatives which have a carrying amount of \$61.9 million (non-current asset) and \$70.4 million (non-current liability) (2016: \$76.9 million non-current asset and \$22.6 million non-current liability).

#### (d) Fair value measurements

The fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- > Forward foreign exchange contracts
- > Interest rate swaps
- > CCIRS.

The fair value of forward foreign exchange contracts has been determined as the unrealised gain/(loss) at balance date by reference to market rates. The fair value of interest rate swaps has been determined as the net present value of contracted cashflows.

These values have been adjusted to reflect the credit risk of the Group and relevant counterparties, depending on whether the instrument is a financial asset or a financial liability. The existing exposure method, which discounts estimated future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted for both forward foreign exchange contracts and interest rate swaps.

The fair value of CCIRS has been determined as the net present value of contracted cash flows. The future probable exposure method is applied to the estimated future cash flows to reflect the credit risk of the Group and relevant counterparties.

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ended 30 June 2017, the borrowing rates were determined to be between 2.6% to 4.8%, depending on the type of borrowing (30 June 2016: 2.8% to 5.8%).

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (d) Fair value measurements (continued)

	Notes	Carrying amount		Fair value	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Financial assets carried at fair value</b>					
Foreign exchange contracts	19	0.1	0.2	0.1	0.2
CCIRS - EMTN 1	19	61.9	76.9	61.9	76.9
Interest rate swaps	19	11.7	0.1	11.7	0.1
		<b>73.7</b>	77.2	<b>73.7</b>	77.2
<b>Financial assets carried at amortised cost</b>					
Cash and cash equivalents		88.7	69.2	88.7	69.2
Trade and other receivables	7	496.8	513.9	496.8	513.9
		<b>585.5</b>	583.1	<b>585.5</b>	583.1
<b>Financial liabilities carried at fair value</b>					
Foreign exchange contracts	19	(0.5)	(0.4)	(0.5)	(0.4)
Interest rate swaps	19	(0.3)	(27.6)	(0.3)	(27.6)
CCIRS - EMTN 2	19	(70.4)	(22.6)	(70.4)	(22.6)
		<b>(71.2)</b>	(50.6)	<b>(71.2)</b>	(50.6)
<b>Financial liabilities carried at amortised cost</b>					
Trade and other payables	11	(309.7)	(297.2)	(309.7)	(297.2)
Borrowings	17	(3,376.2)	(3,490.1)	(3,556.5)	(3,495.1)
		<b>(3,685.9)</b>	(3,787.3)	<b>(3,866.2)</b>	(3,792.3)
<b>Off-balance sheet</b>					
<b>Unrecognised financial assets</b>					
Third party guarantees		-	-	20.4	98.0
Bank guarantees		-	-	281.3	341.0
Insurance company guarantees		-	-	9.1	8.0
<b>Unrecognised financial liabilities</b>					
Bank guarantees		-	-	(30.0)	(44.9)
		-	-	<b>280.8</b>	402.1

On 25 January 2017, as a residual obligation under the project documents with Moorebank Intermodal Company (MIC) Aurizon provided a Parent Company Guarantee (PCG) in favour of MIC in relation to 50% of the cost to complete construction of the Terminal Works and 25% of the contract sum for design and construction of the Rail Access. The estimated maximum exposure under the guarantee is \$102.0 million, however Aurizon has obtained a 100% cross indemnity guarantee from Qube Holdings Ltd in respect of any call under the Aurizon PCG.

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- › Level 1: quoted prices (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)
- › Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

	Notes	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>30 June 2017</b>					
Derivative financial assets	19	-	73.7	-	73.7
Derivative financial liabilities	19	-	(71.2)	-	(71.2)
<b>Net financial instruments measured at fair value</b>		-	2.5	-	2.5
<b>30 June 2016</b>					
Derivative financial assets	19	-	77.2	-	77.2
Derivative financial liabilities	19	-	(50.6)	-	(50.6)
Net financial instruments measured at fair value		-	26.6	-	26.6

### 19 Derivative financial instruments

#### KEEPING IT SIMPLE

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. The Group holds derivative financial instruments to economically hedge its foreign currency and interest rate exposures in accordance with the Group's financial risk management policy (refer to note 18).



# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 19 Derivative financial instruments (continued)

	2017 \$m	2016 \$m
<b>Current assets</b>		
Foreign exchange contracts	0.1	0.2
<b>Non-current assets</b>		
Interest rate swaps	11.7	0.1
CCIRS - EMTN 1	61.9	76.9
<b>Total derivative financial instrument assets</b>	<b>73.7</b>	<b>77.2</b>
<b>Current liabilities</b>		
Foreign exchange forward contracts	0.3	0.4
Interest rate swaps	-	27.2
<b>Non-current liabilities</b>		
Foreign exchange forward contracts	0.2	-
CCIRS - EMTN 2	70.4	22.6
Interest rate swaps	0.3	0.4
<b>Total derivative financial instrument liabilities</b>	<b>71.2</b>	<b>50.6</b>

#### (a) Offsetting derivative financial instruments

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2017 and 30 June 2016. The column 'net amount' shows the impact on the Group's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts \$m	Gross amounts set-off in the balance sheet \$m	Net amounts presented in the balance sheet \$m	Amounts subject to master netting arrangements \$m	Net amount* \$m
<b>2017</b>					
<b>Financial assets</b>					
Derivative financial instruments	73.7	-	73.7	(14.5)	59.2
<b>Financial liabilities</b>					
Derivative financial instruments	(71.2)	-	(71.2)	14.5	(56.7)
<b>2016</b>					
<b>Financial assets</b>					
Derivative financial instruments	77.2	-	77.2	(4.5)	72.7
<b>Financial liabilities</b>					
Derivative financial instruments	(50.6)	-	(50.6)	4.5	(46.1)

\* No financial instrument collateral.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 19 Derivative financial instruments (continued)

#### Master netting arrangement

Derivative transactions are administered under ISDA Master Agreements. Under the terms of these agreements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off between different transaction types, these amounts have not been offset in the balance sheet, but have been presented separately in the table on page 79.

#### Recognition and measurement

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of the cashflows of recognised assets and liabilities, and highly probable forecast transactions (cashflow hedges). The Group has established a 100% hedge relationship against the identified exposure, therefore the hedge ratio is 1:1.

At inception, the Group documents the relationship between hedging instruments and hedged items, the risk management objective and the strategy for undertaking various hedge transactions. The Group, at inception and on an ongoing basis, documents its assessment of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting future cashflows of hedged items. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The fair values of derivative financial instruments used for hedging purposes are disclosed in this section. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### (i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, and accumulated in reserves in equity limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. Ineffectiveness may arise where the timing of the transaction changes from what was originally estimated or differences arise between credit risk inherent within the hedged item and the hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing.

#### (ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity using a recalculated effective interest rate.

#### (iii) Derivatives that do not qualify for hedge accounting

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

# Group structure

## IN THIS SECTION

**Group structure provides information about particular subsidiaries and associates and how changes have affected the financial position and performance of the Group.**

20 Associates and joint arrangements	Page 82
21 Material subsidiaries	Page 82
22 Parent disclosures	Page 83
23 Deed of cross guarantee	Page 84

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 20 Associates and joint arrangements

#### KEEPING IT SIMPLE

Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

	2017 \$m	2016 \$m
<b>Non-current assets</b>		
Interest in joint ventures (b)	<b>2.4</b>	2.4

#### (a) Investments in associates

The Group has an interest in the following associates:

Name	Country of operation	Ownership interest		Principal activity
		2017 %	2016 %	
Moorebank Industrial Property Trust*	Australia	-	33	Land and potential intermodal development
Aquila Resources Limited**	Australia	<b>15</b>	15	Exploration and mining

\* Aurizon sold its 33.33% equity holding in the proposed Moorebank Intermodal Terminal project on 22 December 2016.

\*\* Aquila Resources Limited is accounted for as an associated company because the Group has significant influence primarily through representation on its Board of Directors.

#### (b) Investments in joint ventures

The Group has an interest in the following joint ventures, which are equity accounted, contributed \$0.1 million to the Group results, have net assets of \$2.4 million and are not considered material to the Group.

Name	Country of operation	Ownership interest		Principal activity
		2017 %	2016 %	
CHCQ	China-Hong Kong	<b>15</b>	15	Construction
Chun Wo/CRGL	China-Hong Kong	<b>17</b>	17	Construction
KMQR Sdn Bhd	Malaysia	-	30	Liquidated
ARG Risk Management Limited	Bermuda	<b>50</b>	50	Insurance
Integrated Logistics Company Pty Ltd	Australia	<b>14</b>	14	Consulting

### SIGNIFICANT JUDGEMENTS

#### Investment in associates

The recoverable amount of the Group's 15% interest in Aquila is dependent on the development and viability of Aquila's mining projects. Key judgements applied in determining the recoverable amount of the investment in Aquila include the long-term iron ore and metallurgical coal prices, the timing of the development of these projects, discount rates and foreign exchange rates. This resulted in an impairment of \$225.9 million for the year ended 30 June 2016. The impairment provided for all known exposures, including Aquila's contractual obligations in respect of power and port access arrangements, and resulted in Aurizon's investment being fully written down.

#### Recognition and measurement

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in note 9(v). The recoverable amount of the investment in Aquila is dependent on judgements made in relation to the long-term foreign exchange rates, metallurgical coal and iron ore prices.

### 21 Material subsidiaries

The Group's material subsidiaries that were controlled during the year are set out below.

Name of entity	Country of incorporation	Equity holding %
Aurizon Operations Limited	Australia	100
Interail Australia Pty Ltd	Australia	100
Australia Eastern Railroad Pty Ltd	Australia	100
Australia Western Railroad Pty Ltd	Australia	100
Aurizon Network Pty Ltd	Australia	100
Aurizon Property Pty Ltd	Australia	100
Aurizon Terminal Pty Ltd	Australia	100
Aurizon Finance Pty Ltd	Australia	100
Iron Horse Insurance Company Pte Ltd	Singapore	100

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 21 Material subsidiaries (continued)

#### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at reporting date and the results of all subsidiaries for the year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date that the operation was discontinued.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

#### Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are classified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### 22 Parent disclosures

The parent and ultimate parent entity within the Group is Aurizon Holdings Limited.

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts below.

	2017 \$m	2016 \$m
Current assets	15.9	79.9
Non-current assets	6,092.6	6,093.6
<b>Total assets</b>	<b>6,108.5</b>	6,173.5
Current liabilities	(14.8)	(79.6)
Non-current liabilities	(1,428.2)	(1,425.8)
<b>Total liabilities</b>	<b>(1,443.0)</b>	(1,505.4)
<b>Net assets</b>	<b>4,665.5</b>	4,668.1
<b>Shareholders' equity</b>		
Contributed equity	1,206.6	1,206.6
Retained earnings	0.9	2.7
Reserves	3,458.0	3,458.8
<b>Total equity</b>	<b>4,665.5</b>	4,668.1

	2017 \$m	2016 \$m
Profit for the year	550.1	532.5
<b>Total comprehensive income</b>	<b>550.1</b>	532.5

The parent entity has several employees. All costs associated with these employees are borne by a subsidiary of the parent entity and are not included in the above disclosures.

#### (b) Guarantees entered into by the parent entity

There are cross guarantees given by Aurizon Holdings Limited and its subsidiaries as listed in note 23.

#### (c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2017 or 30 June 2016. For information about guarantees given by the parent entity, please see above.

#### (d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2017, the parent entity did not have any contractual commitments for the acquisition of property, plant and equipment (2016: nil).

#### Recognition and measurement

The financial information for the parent entity, Aurizon Holdings Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### (i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Aurizon Holdings Limited. Dividends received from associates are recognised in the parent entity's income statement, rather than being deducted from the carrying amount of these investments.

#### (ii) Tax consolidation legislation

Aurizon and its wholly-owned Australian entities elected to form a tax consolidation group with effect from 22 November 2010 and are therefore taxed as a single entity. The head entity of the tax consolidated group is Aurizon Holdings Limited.

The head entity, Aurizon Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Aurizon also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into tax sharing and tax funding agreements. The tax funding agreement sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset or deferred tax asset arising from unused tax losses and tax credits assumed by the head entity from a subsidiary member.

These tax funding arrangements result in the head entity recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 22 Parent disclosures (continued)

#### (ii) Tax consolidation legislation (continued)

The tax sharing agreement limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

#### (iii) Employee benefits – share-based payments

The grant by the Company of rights over its equity instruments to the employees of subsidiaries are treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in the corresponding subsidiaries.

### 23 Deed of cross guarantee

Aurizon Holdings Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Property Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Operations Limited, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Aurizon Resource Logistics Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd and Australian Railroad Group Employment Pty Ltd are parties to a Deed of Cross Guarantee, under which each company guarantees the debts of the others. By entering into the cross guarantee, the wholly-owned entities have been relieved from the requirement to prepare separate Financial and Directors' Reports under ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

#### (a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The Aurizon Deed Parties represent the 'closed group' for the purposes of the Class Order, and as there are no other parties to the cross guarantee that are controlled by Aurizon Holdings Limited, they also represent the 'extended closed group'.

	2017 \$m	2016 \$m
<b>Income statement</b>		
Revenue from continuing operations	2,984.1	3,082.4
Other income	216.5	273.3
Consumables	(1,536.8)	(1,610.0)
Employee benefits expense	(843.4)	(774.7)
Depreciation and amortisation expense	(298.2)	(304.4)
Impairment losses	(835.0)	(293.8)
Other expenses	(28.3)	(51.9)
Share of net profits of associates and joint venture partnerships accounted for using the equity method	(0.1)	(222.1)
Finance costs	(21.1)	(10.0)
Finance income	1.6	1.2
<b>(Loss)/profit before income tax</b>	<b>(360.7)</b>	90.0
Income tax benefit/(expense)	182.7	(12.5)
<b>(Loss)/profit for the year</b>	<b>(178.0)</b>	77.5

	2017 \$m	2016 \$m
<b>Statement of comprehensive income</b>		
<b>(Loss)/profit for the year</b>	<b>(178.0)</b>	77.5
<b>Other comprehensive income</b>		
Items that may be reclassified to profit or loss		
- Share of other comprehensive income of associates and joint ventures	-	(2.0)
- Change in the foreign currency translation reserve	(0.1)	-
- Changes in the fair value of cash flow hedges	(3.7)	(2.0)
- Income tax relating to components of other comprehensive income	1.1	1.0
<b>Other comprehensive expense for the year, net of tax</b>	<b>(2.7)</b>	(3.0)
<b>Total comprehensive (expense)/income for the year</b>	<b>(180.7)</b>	74.5
<b>Summary of movements in consolidated retained earnings</b>		
<b>Retained earnings at the beginning of the financial year</b>	<b>446.3</b>	898.1
(Loss)/profit for the year	(178.0)	77.5
Dividends provided for or paid	(551.9)	(529.3)
<b>Retained (losses)/earnings at the end of the financial year</b>	<b>(283.6)</b>	446.3

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 23 Deed of cross guarantee (continued)

#### (b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented below.

	2017 \$m	2016 \$m
<b>Current assets</b>		
Cash and cash equivalents	48.7	60.8
Trade and other receivables	400.6	473.1
Inventories	76.5	108.5
Prepayments	24.4	6.0
Assets classified as held for sale	6.7	5.7
<b>Total current assets</b>	<b>556.9</b>	<b>654.1</b>
<b>Non-current assets</b>		
Inventories	26.6	21.9
Derivative financial instruments	3.4	-
Property, plant and equipment	3,475.2	4,313.9
Intangible assets	89.3	125.2
Investments accounted for using the equity method	2.4	2.4
Other receivables	-	61.9
Other financial assets*	1,222.6	1,222.7
Deferred tax assets	165.5	-
<b>Total non-current assets</b>	<b>4,985.0</b>	<b>5,748.0</b>
<b>Total assets</b>	<b>5,541.9</b>	<b>6,402.1</b>
<b>Current liabilities</b>		
Trade and other payables	365.8	314.2
Current tax liabilities	74.0	79.5
Provisions	246.7	236.3
Other liabilities	4.7	9.6
<b>Total current liabilities</b>	<b>691.2</b>	<b>639.6</b>
<b>Non-current liabilities</b>		
Borrowings	373.7	497.0
Deferred tax liabilities	-	56.9
Provisions	70.5	91.2
Other liabilities	7.7	6.2
<b>Total non-current liabilities</b>	<b>451.9</b>	<b>651.3</b>
<b>Total liabilities</b>	<b>1,143.1</b>	<b>1,290.9</b>
<b>Net assets</b>	<b>4,398.8</b>	<b>5,111.2</b>
<b>Equity</b>		
Contributed equity	1,206.6	1,206.6
Reserves	3,475.8	3,458.3
Retained (losses)/earnings	(283.6)	446.3
<b>Total equity</b>	<b>4,398.8</b>	<b>5,111.2</b>

\* Other financial assets represent investments in entities outside of the deed group.

# Other information

## IN THIS SECTION

**Other information provides information on other items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements however are not considered critical in understanding the financial performance or position of the Group.**

24	Reconciliation of profit after income tax to net cash inflow from operating activities	Page 87
25	Assets classified as held for sale	Page 87
26	Related party transactions	Page 87
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# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 24 Reconciliation of profit after income tax to net cash inflow from operating activities

	2017 \$m	2016 \$m
(Loss)/profit for the year	<b>(187.9)</b>	72.4
Depreciation and amortisation	<b>584.6</b>	561.3
Impairment of non-financial assets	<b>840.5</b>	301.7
Interest expense	<b>181.3</b>	152.8
Non-cash employee benefits expense – share-based payments	<b>6.6</b>	25.1
Net loss on sale of assets	<b>6.2</b>	2.7
Non-cash tax adjustment on share-based payment	-	0.6
Share of profits of associates and joint venture partnership	<b>0.1</b>	(13.3)
Impairment loss of investment in associate	-	225.9
Net exchange differences	-	0.1
Change in operating assets and liabilities:		
Decrease in trade and other receivables	<b>17.0</b>	26.4
Decrease in inventories	<b>29.1</b>	7.4
Decrease in prepayments	-	3.5
Increase (Decrease) in trade and other payables	<b>25.8</b>	(27.4)
Decrease in other liabilities	<b>(33.4)</b>	(32.0)
(Decrease) Increase in current tax liabilities	<b>(97.8)</b>	4.0
Decrease in deferred tax liabilities	<b>(158.7)</b>	(15.4)
Increase (Decrease) in provisions (note 12)	<b>25.0</b>	(77.6)
<b>Net cash inflow from operating activities</b>	<b>1,238.4</b>	1,218.2

### 25 Assets classified as held for sale

	2017 \$m	2016 \$m
Property, plant and equipment	<b>7.3</b>	5.7
Investment in an associate	-	95.3
	<b>7.3</b>	101.0

On 2 August 2016 Aurizon announced the sale of its 33.33% equity holding in the proposed Moorebank Intermodal Terminal project for \$98.3 million (net of transaction costs) to Qube Holdings Limited group entities. The sale completed on 22 December 2016.

### Recognition and measurement

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and FVLCTD, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment property that are carried at fair value and contractual rights under insurance contracts which are specifically exempt from this requirement.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

### 26 Related party transactions

#### (a) Transactions with Directors and Key Management Personnel

There were no Key Management Personnel (KMP) related party transactions during the year.

#### (b) Transactions with other related parties

There were no transactions with other related parties during the year.

#### (c) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them and intra-group transactions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parent and its subsidiaries. All loans are non interest bearing. Outstanding balances are unsecured.

### 27 Key Management Personnel compensation

	2017 \$'000	2016 \$'000
Short-term employee benefits	<b>7,602</b>	7,402
Post-employment benefits	<b>326</b>	218
Long-term benefits	<b>(57)</b>	55
Termination benefits	<b>3,110</b>	750
Share-based payments	<b>2,634</b>	2,668
	<b>13,615</b>	11,093

Short-term employee benefits include cash salary, at-risk performance incentives and fees, non-monetary benefits and other short-term benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided, motor vehicle lease payments and annual leave accrued or utilised during the financial year. Other short-term benefits include sign-on bonus and relocation assistance.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 28 Share-based payments

#### KEEPING IT SIMPLE

The share-based payments schemes described in this section were established by the Board of Directors to provide long-term incentives to the Group's senior executives based on shareholder returns taking into account the Group's financial and operational performance. Eligible executives may be granted rights on terms and conditions determined by the Board from time to time. The fair value of rights granted under the schemes is recognised as an employee benefits expense with a corresponding increase in equity.

#### (a) Performance rights plan

Performance rights are granted by the Company for nil consideration. Participation in the plan is at the Board's discretion so that no individual has a contractual right to be awarded rights under the plan or to receive any guaranteed benefits. Each right is a right to receive one fully-paid ordinary share in Aurizon Holdings Limited at no cost if the vesting conditions are satisfied. Rights granted under the plan carry no dividend or voting rights.

The Board will determine the exercise price payable on exercise of a vested right and the exercise period of a right. The Board may, in its discretion, determine that early vesting of a right will occur if there is a takeover bid, scheme of arrangement or some other change of control transaction of the Group. The Board may also accelerate the vesting of some or all of the rights held by an executive in specified circumstances. These include but are not limited to death, total and permanent disablement, or cessation of employment.

The share-based payment schemes are described as follows:

#### Short Term Incentive Awards (STIA)

A portion of any STIA for the Managing Director & CEO as well as the executive management team will be awarded in rights to ordinary shares and 40% is deferred for a period of one year. The rights will vest after one year and become exercisable provided that the executive remains employed by the Group at the vesting date, unless otherwise determined by the Board.

#### Long Term Incentive Award (LTIA)

Performance rights are granted to senior executives as part of the Group's LTIA. The first grant of LTIA rights was in November 2010. The rights are subject to employment service conditions and satisfying market based performance hurdles of Total Shareholder Return (TSR), non-market based Earnings Per Share (EPS) and Operating Ratio (OR). In 2015, the EPS hurdle was replaced with Return on Invested Capital (ROIC). In the event that company hurdles are not achieved, in relation to the 2014 and 2015 awards, the performance period may be extended for a further year at the discretion of the Board. Retesting will no longer form part of the LTIA from the 2016 award.

#### Retentions

At the Board's discretion, eligible executives may be granted retention rights that may vest at the end of the specified retention period or project provided that the executive remains employed by the Group at the vesting date.

Set out below are summaries of rights granted under the plans:

	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year Number '000
<b>2017</b>					
STIAD	419	-	(419)	-	-
LTIA	11,922	3,229	(1,127)	(3,562)	10,462
Retentions	125	25	(40)	(85)	25
Total	12,466	3,254	(1,586)	(3,647)	10,487
<b>2016</b>					
STIAD	188	419	(188)	-	419
LTIA	15,931	3,714	(6,814)	(909)	11,922
Retentions	113	179	(167)	-	125
Total	16,232	4,312	(7,169)	(909)	12,466

At 30 June 2017, there were no vested but unexercised rights (2016: nil).

The weighted average exercise price of rights granted during the year was nil (2016: nil), as the rights have no exercise price. The weighted average share price at the date of exercise for rights exercised during the period was \$4.65 (2016: \$5.33). The weighted average remaining contractual life of share rights outstanding at 30 June 2017 was 1.5 years (2016: 1.0 year).

#### Fair value of rights granted

In determining the fair value, market techniques for valuation were applied in accordance with AASB 2. The fair value of the portion of LTIA rights, that are subject to non-market based performance conditions, was \$4.09 (2016: \$4.53), determined by the share price at grant date less an adjustment for estimated dividends payable during the vesting period. An additional grant of LTIA rights was made at a fair value of \$3.76. There were no STIA granted in the year (2016: \$5.08). The fair value of the LTIA rights subject to the TSR market based performance condition has been calculated using the Monte-Carlo simulation techniques based on the inputs disclosed in the table below:

	2017		2016
Scheme	LTIA*	LTIA	LTIA
Grant date	7 Sep 2016	7 Oct 2016	17 Aug 2015
Vesting date	30 Jun 2019	30 Jun 2019	30 Jun 2018
Expiry date	31 Dec 2019	31 Dec 2019	31 Dec 2019
Share price at grant date	\$4.43	\$4.79	\$5.24
Expected life	3.5 years	3.5 years	3.5 years
Company share price volatility	32.75%	32.25%	23.00%
Risk free rate	1.45%	1.65%	2.00%
Dividend yield	5.85%	5.75%	5.10%
Fair value	\$1.83	\$2.25	\$2.92

\* These rights are subject to shareholder approval at the AGM.

The Company share price volatility is based on the Company's average historical share price volatility to the grant date.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 28 Share-based payments (continued)

#### (b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense was \$6.559 million (2016: \$25.133 million).

#### Recognition and measurement

The fair value of rights granted under the Performance Rights Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Share-based compensation is settled by making on-market purchases of the Company's ordinary shares.

### 29 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

#### PwC Australia

##### Audit and other assurance services

	2017 \$'000	2016 \$'000
Audit and other assurance services		
Audit and review of financial statements	1,388	1,466
Other assurance services		
Other assurance services	37	204
<b>Total remuneration for audit and other assurance services</b>	<b>1,425</b>	<b>1,670</b>
Taxation services		
Tax advisory services	-	91
Other services		
Advisory services	718	275
<b>Total remuneration of PwC Australia</b>	<b>2,143</b>	<b>2,036</b>

### 30 Summary of other significant accounting policies

Other significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

#### (a) Basis of preparation

##### (i) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 materially affect the amounts recognised in the current period or any prior period and are not likely to affect future periods. The Group has not early adopted any amendments, standards or interpretations that have been issued but are not yet effective in the current year.

The Group early adopted AASB 9 Financial Instruments in the year ended 30 June 2015.

##### (ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group, other than AASB 9 as outlined above. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 15 "Revenue from Contracts with Customers" is mandatory for financial year beginning 1 July 2018 and AASB 16 "Leases" is mandatory for financial year beginning 1 July 2019.

The Group is currently evaluating the impact of these pronouncements. This work is ongoing and additional impacts may be identified later in the implementation process.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 30 Summary of other significant accounting policies (continued)

#### (a) Basis of preparation (continued)

#### (ii) New accounting standards and interpretations not yet adopted (continued)

Title of standard	Nature of change	Impact	Mandatory application date
AASB 15 Revenue from Contracts with Customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services, and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.	Management is currently assessing the effects of applying the new standard on the Group's financial statements. Work to date has focused on Coal, Iron Ore and Network contracts as these together account for 78% of the Group's sales revenue. In FY18, further review of contracts will be undertaken across all business units. To date, no material measurement differences have been identified between AASB 118 and AASB 15.	Mandatory for financial years commencing on or after 1 January 2018, but available for early adoption. Expected date of adoption by the Group: 1 July 2018 for FY19.
AASB 16 Leases	AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.	Management is currently assessing the effects of applying the new standard on the Group's financial statements. Work to date has focused on system requirements to capture required data.	Mandatory for financial years commencing on or after 1 January 2019, but available for early adoption. Expected date of adoption by the Group: 1 July 2019 for FY20.

#### (b) Cash and cash equivalents

Cash and cash equivalents includes cash on hand; deposits held 'at call' with financial institutions; and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (c) Foreign currency and commodity transactions

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

##### (ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and market interest rates, it enters into financial arrangements to reduce these exposures. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 30 Summary of other significant accounting policies (continued)

#### (d) Leases

##### Operating leases on property, plant and equipment

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Rental revenue from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. Where a sale and lease back transaction has occurred, the lease is classified as either a finance lease or operating lease based on whether risks and rewards of ownership are transferred or not.

#### (e) Financial instruments

##### (i) Non-derivative financial assets

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

##### (ii) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using effective interest method and net of any impairment loss, if:

- › The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows; and
- › The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

##### (iii) Non-derivative liabilities

The Group initially recognises loans and debt securities issued on the date when they are originated. Other financial liabilities are initially recognised on the trade date. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

##### (f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

The Company and its subsidiaries are grouped for GST purposes. Therefore, any intercompany transactions within the Group do not attract GST.

# Unrecognised items

## IN THIS SECTION

**Unrecognised items provide information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance.**

31 Contingencies	Page 93
32 Commitments	Page 93
33 Events occurring after the reporting period	Page 93

# Notes to the consolidated financial statements

## 30 June 2017 (continued)

### 31 Contingencies

#### KEEPING IT SIMPLE

Contingencies relate to the outcome of future events and may result in an asset or liability, but due to current uncertainty, do not qualify for recognition.

#### (a) Contingent liabilities

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosure in the financial statements, other than as set out below.

#### Guarantees and letters of credit

For information about guarantees, including Moorebank parent company guarantee, and letters of credit given by the Group, refer to note 18(d).

#### (b) Contingent assets

#### Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 18(d).

### 32 Commitments

#### (a) Capital commitments

	2017 \$m	2016 \$m
Property, plant and equipment		
Within one year	<b>131.7</b>	76.5

#### (b) Lease commitments

	2017 \$m	2016 \$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	<b>55.9</b>	47.2
Later than one year but not later than five years	<b>85.6</b>	92.3
Later than five years	<b>38.7</b>	63.6
	<b>180.2</b>	203.1

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to 10 years, generally provide the Group with a right of renewal at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

### 33 Events occurring after the reporting period

#### Closure and sale of Intermodal

On the 14th August 2017, Aurizon Holdings Limited (Aurizon) announced the intention to exit its Intermodal business through a combination of closure and sale.

Subsequent to year end, Aurizon signed a binding agreement with Pacific National to sell its Acacia Ridge Intermodal Terminal. That transaction includes the transfer of approximately 30 employee positions, as well as assets, commercial and operational arrangements.

Subsequent to year end, Aurizon signed a binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National. The transaction includes the transfer of approximately 350 employee positions as well as assets, commercial and operational arrangements to the Linfox and Pacific National consortium.

Aurizon is aiming to finalise the transactions by the end of FY2018, subject to:

- › Approval by the Australian Competition & Consumer Commission; and
- › Approval by the Foreign Investment & Review Board.

Total consideration for the two transactions is \$220.0 million. If the Acacia Ridge transaction is not complete within six months then Pacific National will pay Aurizon an additional \$5.0 million.

The remainder of Aurizon's Intermodal business (outside of Queensland) will be closed. This is expected to take effect by December 2017, contingent on finalising transitional and commercial arrangements with customers. Approximately 250 employee positions will be affected by the closure of the interstate business.

The financial impacts of the transactions are currently being worked through.

#### On-market share buy-back

On 14 August 2017, Aurizon announced an on-market share buy-back of 60 million shares or approximately \$300 million, over a 12-month period. This is equivalent to 3% of its issued share capital.

# Directors' Declaration

## 30 June 2017

In accordance with a resolution of the Directors of the Company, I state that:

In the opinion of the Directors of the Company:

(a) the financial statements and notes set out on pages 44 to 93 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*,
- (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date, 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) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23.

Page 49 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director & Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.



**T Poole**  
Chairman

Brisbane  
14 August 2017





## *Independent auditor's report*

To the shareholders of Aurizon Holdings Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Aurizon Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

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

#### *What we have audited*

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

#### *Basis for opinion*

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

#### *Independence*

We are independent of the Group in accordance with the auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

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### Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>• For the purpose of our audit we used overall Group materiality of \$32 million, which represents approximately 5% of the Group's adjusted profit before tax.</li> <li>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>• We chose Group profit before tax because, in our view, it is a benchmark against which the performance of the Group is commonly measured. To calculate materiality, we adjusted profit before tax for significant unusual items, such as impairment. These adjustments were tested separately using a specific materiality level.</li> <li>• We selected 5% based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>• The Group is a large rail-based freight operator and transports coal, iron ore and other bulk commodities across Australia with a centralised accounting function in Brisbane. The Group also owns and operates a coal rail network made up of approximately 2,670 kilometres in central Queensland.</li> <li>• Our audit work was performed predominantly at the Group's corporate office in Brisbane along with site visits to Rockhampton and Forresterfield depots to perform audit procedures on inventory.</li> </ul>	<ul style="list-style-type: none"> <li>• Amongst other relevant topics, we communicated the following key audit matters to the Audit Governance and Risk Management Committee (AGRMC):               <ul style="list-style-type: none"> <li>– Impairment assessment of the Western Australian cash generating unit (CGU)</li> <li>– Impairment assessment of the Intermodal CGU</li> <li>– Impairment assessment of the Bulk East CGU</li> <li>– Recoverability of rollingstock</li> </ul> </li> <li>• These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of the Western Australian (WA) Cash Generating Unit (CGU)</b></p> <p>The WA CGU markets are volatile and a number of customers have experienced and continue to face high operating costs and low forecast long term iron ore prices.</p> <p>This is an indicator of impairment and the Group therefore performed an impairment assessment of the carrying value of the WA CGU.</p> <p>This resulted in a pre-tax impairment of \$362.4 million with the remaining carrying value of the WA CGU (\$207.8 million) determined using a Value in Use (VIU) methodology utilising a discounted cashflow model (the model).</p> <p>The key judgements by the Group in determining the remaining carrying value and the quantum of the impairment mainly related to:</p> <ul style="list-style-type: none"> <li>• Iron ore customers continuing to operate to the end of expected mine life.</li> <li>• No change to current contractual arrangements with current customers.</li> <li>• Locomotives remaining in service post cessation of major contracts will remain within the WA CGU.</li> <li>• The terminal year EBITDA and cashflows reflecting the impact of the cessation of the contracts aligned to the expected end of mine lives.</li> </ul> <p>Given these judgements and the magnitude of the impairment, we considered this to be a key audit matter.</p> <p><i>Refer to Note 4 Impairment of non-financial assets in the consolidated annual financial report for further details.</i></p>	<p>To evaluate the Group's assessment of the recoverable amount of the WA CGU, we performed a number of procedures including the following:</p> <ul style="list-style-type: none"> <li>• Assessing whether the carrying value of the WA CGU included all assets, liabilities and cash flows directly attributable to the CGU and an appropriate allocation of overheads.</li> <li>• Considering if VIU was the highest basis upon which to infer the value of the CGU.</li> <li>• Comparing the forecast financial performance in the model to the financial performance in 2017 and budget and considering the historical accuracy of actual results compared to historical budgets.</li> <li>• Evaluating terminal value EBITDA and cashflow assumptions in the model including considering the impact of cessation of certain customer contracts with reference to externally available information such as mine lives.</li> <li>• Evaluating the forecast revenue in the model for selected significant customers with reference to contractual terms and long term forecasts of commodity prices.</li> <li>• Evaluating the assumptions on the highest and best use of rollingstock post cessation of certain customer contracts in the model.</li> <li>• With assistance from PwC valuation experts, assessing the forecast long term growth rate of 1.5% in the model to economic forecasts; the discount rate applied of 11.8% (pre-tax nominal) in the model; and checking the mathematical accuracy of the model.</li> </ul>



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Impairment assessment of the Intermodal CGU</i></b></p> <p>During the first half of 2017, the Group's Intermodal CGU experienced lower than forecast operational performance, which adversely affected the forecast assumptions and outlook to FY2020.</p> <p>This is an indicator of impairment and the Group therefore performed an impairment assessment of the carrying value of the CGU.</p> <p>This resulted in a pre-tax impairment of \$162.2 million with the remaining carrying value of the CGU (\$169.9 million) determined using a fair value less cost of disposal (FVLCD) methodology.</p> <p>The key judgements by the Group in determining the remaining carrying value and the quantum of the impairment mainly related to:</p> <ul style="list-style-type: none"> <li>• Determining fair values of individual assets within the CGU based on external and internal valuations. Individual assets were valued on a highest and best use basis, assisted by external valuations for property assets and internal valuations for rollingstock, plant and equipment and assets under construction assets.</li> <li>• Identifying the ability to redeploy assets within the Group in relation to rollingstock. The highest and best use of rollingstock was determined using a combination: <ul style="list-style-type: none"> <li>• consideration of the best use of locomotives within the Group's rollingstock fleet</li> <li>• scrap value for rollingstock assets for which there is no secondary market.</li> </ul> </li> </ul> <p>Since balance date the Group decided to exit the Intermodal business through a combination of closure and sale. The Group entered into agreements to dispose of the Acacia Ridge Intermodal Terminal and Queensland Intermodal business for an aggregate amount of \$220.0 million. The remainder of the Intermodal business will be closed.</p> <p>Given these judgements and the magnitude of the impairment, we considered this to be a key audit matter.</p> <p><i>Refer to Note 4 Impairment of non-financial assets and Note 33 Events occurring after the reporting period in the consolidated annual financial report for further details.</i></p>	<p>To evaluate the Group's assessment of the recoverable amount of the Intermodal CGU, we performed a number of procedures including the following:</p> <ul style="list-style-type: none"> <li>• Assessing whether the carrying value of the Intermodal CGU included all assets and liabilities directly attributable to the CGU.</li> <li>• Considering if estimating FVLCD was the highest basis upon which to infer the value of the CGU.</li> <li>• Assessing the competency of the external valuer and evaluating the external property valuations obtained by the Group by assessing the key assumptions used in the valuations in determining the fair values assigned to the individual property assets.</li> <li>• Evaluating the Group's determination of the highest and best use of rollingstock by assessing the Group's plan for asset re-deployment within the CGUs.</li> <li>• Assessing the Group's internal valuation of rollingstock that would not be re-deployed to other CGUs.</li> <li>• Comparing the Group's estimates of costs of disposal to recent market transactions. We assessed whether the resulting fair value included the transaction costs associated with the disposal of the individual assets of the Intermodal CGU.</li> <li>• Considering the carrying value with reference to the post balance date decisions to: <ul style="list-style-type: none"> <li>• close the Intermodal business; and</li> <li>• accept binding offers to divest the Acacia Ridge Intermodal Terminal and Queensland Intermodal business.</li> </ul> </li> </ul>



**Key audit matter**

**How our audit addressed the key audit matter**

**Impairment assessment of the Bulk East CGU**

Due to the organisational restructure from a functional model to a business unit model, the change to direct allocation of rollingstock assets to CGUs and new segments from 1 July 2017, the Group's CGUs have been re-assessed and aligned with the business units.

This change in CGUs together with operational performance issues and loss of specific contracts experienced by the Bulk East CGU has resulted in an impairment of \$163.5 million.

The Group's key judgement in determining the recoverable amount of the Bulk East CGU under a FVLCD methodology and quantum of the impairment recognised related to:

- determining fair values of individual assets within the CGU based on external and internal valuations.
- Individual assets were valued on a highest and best use basis, assisted by external valuations for property assets and internal valuations for rollingstock, plant and equipment and assets under construction.
- Rollingstock assets were valued based on scrap value where there is no secondary market.

Given these judgements and the magnitude of the impairment, we considered this to be a key audit matter.

*Refer to Note 4 Impairment of non-financial assets in the consolidated annual financial report for further details.*

**Recoverability of rollingstock**

The Group continually reviews its Enterprise Rollingstock Master Plan (ERSMP) which compares rollingstock assets (\$2.32 billion at 30 June 2017, consisting of locomotives and wagons) and their haulage capacity against forecast volume demand over a 10 year period.

Developing the ERSMP and assessing recoverability of rollingstock involves significant judgement by the Group in:

We assessed the Group's new CGUs in light of the operating restructure from 1 July 2017 as well as the allocation of rollingstock assets within the Group by:

- Evaluating whether the new CGUs generate largely independent cash flows under the new operating model
- Considering the basis and methodology of direct asset allocation to CGUs
- Assessing the specific assets and associated carrying values (on a sample basis) allocated to the respective CGUs.

To evaluate the Group's assessment of the recoverable amount of the Bulk East CGU, we performed a number of procedures including the following:

- Assessing whether the carrying value of the Bulk East CGU included all assets, liabilities and cash flows directly attributable to the CGU.
- Considering if estimating FVLCD was the highest basis upon which to infer the value of the CGU.
- Assessing the competency of the external valuer and evaluating the external property valuations obtained by the Group by assessing the key assumptions used in the valuations in determining the fair values assigned to the individual property assets.
- Evaluating the Group's internal valuation of rollingstock based on external scrap metal prices, given no active secondary market exists for the sale of rollingstock.
- Comparing the Group's estimates of costs of disposal to recent market transactions.

We developed an understanding of the Group's ERSMP process, including the:

- stakeholders involved
- sources of inputs used
- process for determining surplus assets and the subsequent review and approval of those assets.

This involved discussions with management of the Group in the divisions of fleet planning, engineering and maintenance, service design, procurement and supply chain.



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<ul style="list-style-type: none"> <li>estimating future haulage demand for the next 10 years;</li> <li>determining on-going productivity improvements and the resulting impact on the rollingstock fleet requirements; and</li> <li>considering the required level of contingent fleet to maintain operational performance.</li> </ul> <p>Given these judgements, the assessment of the recoverability of the carrying value of rollingstock is considered to be a key audit matter.</p> <p><i>Refer to Note 4 Impairment of non-financial assets in the consolidated annual financial report for further details.</i></p>	<p>To assess the recoverability of rollingstock, we performed a number of procedures including the following:</p> <ul style="list-style-type: none"> <li>Comparing the forecast volume growth used in the ERSMP to external industry reports.</li> <li>Comparing the forecast haulage demand and rollingstock requirements included in the ERSMP to the board approved corporate plan.</li> <li>Evaluating the level of contingent fleet and previously impaired rollingstock retained in service included in the ERSMP.</li> <li>Comparing the key assumptions used in the CGU impairment assessments regarding the fleet requirements including the highest and best use of rollingstock to the assumptions in the ERSMP.</li> </ul>

### *Other information*

The directors are responsible for the other information. The other information comprises the FY2017 in Review, Chairman’s Report, Director’s Report, Corporate Governance Statement, Non-IFRS information, Shareholder Information, Glossary and Corporate Information included in the Group’s annual report for the year ended 30 June 2017 but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the



going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the 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/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 23 to 36 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

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#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Nadia Carlin  
Partner

Brisbane  
14 August 2017

PricewaterhouseCoopers

Simon Neill  
Partner

# Non-IFRS Financial Information in 2016-17 Annual Report

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin - Underlying, Operating Ratio - Underlying, NPAT - Underlying, Return On Invested Capital ("ROIC"), Net debt and Net gearing ratio. These measurements are not defined under IFRS and are, therefore, termed "Non-IFRS" measures.

EBIT - Statutory is defined as Group profit before net finance costs and tax while EBITDA - Statutory is Group profit before net finance costs, tax, depreciation and amortisation. EBIT - Underlying can differ from EBIT - Statutory due to exclusion of significant items that permits a more appropriate and meaningful analysis of the underlying performance on a comparative basis. EBITDA margin is calculated by dividing underlying EBITDA by the total revenue. These measures are considered to be useful measures of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and/or amortisation.

NPAT - Underlying represents the underlying EBIT less finance costs less tax expense excluding tax impact of significant adjustments.

Operating Ratio - is defined as one less underlying EBIT divided by total revenue. The Operating Ratio is the key measure of the operating cost of earning each dollar of revenue and it is used as one of the key performance measures of the Key Management Personnel.

ROIC is defined as underlying rolling 12-month underlying EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling 12-month average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles. This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net gearing ratio is defined as Net debt divided by Shareholders Equity plus Net debt. Net debt and Net gearing ratio are measures of the Group's indebtedness and provides an indicator of the balance sheet strength.

These above-mentioned measures are commonly used by management, investors and financial analysts to evaluate company performance.

A reconciliation of the non-IFRS measures and specific items to the nearest measure prepared in accordance with IFRS is included in the table. The non-IFRS financial information contained within this Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards.

	Notes	2017 \$m	2016 \$m
<b>(Loss)/profit before income tax</b>		<b>(269.5)</b>	192.9
Finance costs (net)		<b>178.5</b>	150.5
<b>EBIT - Statutory</b>		<b>(91.0)</b>	343.4
Significant adjustments:	1(c)		
- Intermodal impairment		<b>162.2</b>	-
- Bulk impairment		<b>525.9</b>	-
- Contract exit asset impairment		<b>10.2</b>	-
- Freight Management Transformation (FMT) impairment		<b>64.0</b>	-
- Transformation - asset impairment		<b>48.9</b>	-
- Transformation - redundancy costs		<b>115.8</b>	-
- Impairment of investment in associates		-	225.9
- Strategic infrastructure project and assets under construction impairment		-	124.7
- Rollingstock impairment		-	177.0
<b>EBIT - Underlying</b>		<b>836.0</b>	871.0
Depreciation and amortisation		<b>584.6</b>	561.3
<b>EBITDA - Underlying</b>		<b>1,420.6</b>	1,432.3
<b>Operating Ratio</b>		<b>75.8%</b>	74.8%
<b>Average invested capital</b>		<b>9,650</b>	10,086
<b>ROIC</b>		<b>8.7%</b>	8.6%
Borrowings - Current		<b>79.0</b>	6.0
Borrowings - Non-current		<b>3,297.2</b>	3,484.1
Total borrowings		<b>3,376.2</b>	3,490.1
Cash and cash equivalents		<b>(88.7)</b>	(69.2)
<b>Net debt</b>		<b>3,287.5</b>	3,420.9
<b>Net gearing ratio</b>		<b>39.6%</b>	37.5%



# Shareholder Information

## RANGE OF FULLY PAID ORDINARY SHARES AS AT 7 AUGUST 2017

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 - 1,000	19,514	12,399,579	0.60
1,001 - 5,000	24,182	53,269,848	2.60
5,001 - 10,000	2,953	21,374,459	1.04
10,001 - 100,000	2,044	40,775,228	1.99
100,001 Over	111	1,923,926,371	93.77
<b>Total</b>	<b>48,804</b>	<b>2,051,745,485</b>	<b>100.00</b>

## UNMARKETABLE PARCELS

MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum \$500.00 parcel at \$5.18 per unit	97	623

The number of shareholders holding less than the marketable parcel of shares is 623 (shares: 18,261).

## SUBSTANTIAL HOLDERS OF 5% OR MORE OF FULLY PAID ORDINARY SHARES AS AT 7 AUGUST 2017\*

NAME	NOTICE DATE	SHARES
HSBC Holdings	18 May 2016	151,013,818
JP Morgan Chase & Co. and its affiliates	21 June 2017	149,582,908
TCI Fund Management Limited	15 July 2015	112,207,436
UBS Group AG and its related bodies corporate	18 May 2017	106,022,934
Blackrock Group	28 May 2017	105,643,028

\* As disclosed in substantial shareholder notices received by the Company.

## INVESTOR CALENDAR

2017 DATES	DETAILS
12 February 2018	Half Year results and interim dividend announcement
26 March 2018	Interim dividend payment date
13 August 2018	Full Year results and final dividend announcement
24 September 2018	Final dividend payment date
18 October 2018	Annual General Meeting

The payment of a dividend is subject to the Corporations Act and Board discretion. The timing of any event listed above may change. Please refer to the Company website, [aurizon.com.au](http://aurizon.com.au), for an up-to-date list of upcoming events.

## ASX code: AZJ

### Contact details

Aurizon  
GPO Box 456  
Brisbane QLD 4001

For general enquiries, please call 13 23 32 within Australia. If you are calling from outside Australia, please dial +61 7 3019 9000.

[aurizon.com.au](http://aurizon.com.au)

## Investor Relations

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit [investorcentre.com](http://investorcentre.com).

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 1127 or email: [investor.relations@aurizon.com.au](mailto:investor.relations@aurizon.com.au).

TOP 20 HOLDERS OF FULLY PAID ORDINARY SHARES AS AT 7 AUGUST 2017

NAME	UNITS	% OF UNITS
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	726,623,297	35.41
CITICORP NOMINEES PTY LIMITED	378,556,519	18.45
J P MORGAN NOMINEES AUSTRALIA LIMITED	315,506,025	15.38
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	122,494,955	5.97
NATIONAL NOMINEES LIMITED	93,341,462	4.55
QUEENSLAND TREASURY HOLDINGS PTY LTD	54,926,186	2.68
NATIONAL NOMINEES LIMITED <N A/C>	50,745,022	2.47
BNP PARIBAS NOMS PTY LTD <DRP>	25,252,736	1.23
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	18,372,100	0.90
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	16,641,661	0.81
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	15,404,220	0.75
ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	14,115,751	0.69
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	11,076,497	0.54
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,977,264	0.29
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	5,554,463	0.27
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	5,400,093	0.26
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <HARVESTER ETF>	5,386,011	0.26
BUTTONWOOD NOMINEES PTY LTD	5,200,000	0.25
AMP LIFE LIMITED	4,780,827	0.23
SHARE DIRECT NOMINEES PTY LTD <10026 A/C>	3,500,000	0.17
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)</b>	<b>1,878,855,089</b>	<b>91.57</b>
<b>Total Remaining Holders Balance</b>	<b>172,890,396</b>	<b>8.43</b>

# Glossary

Some terms and abbreviations used in this document, together with industry specific terms, have defined meanings.

These terms and abbreviations are set out in this glossary and are used throughout this document.

A reference to dollars, \$ or cents in this document is a reference to Australian currency unless otherwise stated. Any reference to a statute, ordinance, code or other law includes regulations and any other instruments under it and consolidations, amendments, re-enactments or replacements of any of them. Any reference to Annual Report is a reference to this document.

## **ABN**

Australian Business Number

## **Above Rail**

Rollingstock – including locomotives and wagons and associated infrastructure (e.g. maintenance and operational depots)

## **ACN**

Australian Company Number

## **ASIC**

Australian Securities and Investments Commission

## **ASX**

Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691)

## **ASX Listing Rules**

The official listing rules of ASX

## **Aurizon**

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

## **Below Rail**

Track, electric infrastructure, signalling and associated rail infrastructure

## **Board**

The Board of Directors of Aurizon Holdings Limited

## **CAGR**

Compound Annual Growth Rate, expressed as a percentage per year

## **CAPEX**

Capital Expenditure

## **CGT**

Capital Gains Tax

## **Coal**

The Above Rail coal haulage operating division of Aurizon Holdings Limited

## **Company or Aurizon Holdings**

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

## **Company Secretary**

The Company Secretary of Aurizon Holdings Limited

## **Constitution**

The constitution of Aurizon Holdings Limited

## **Corporations Act**

*Corporations Act 2001 (Cth)*

## **CPS**

Cents Per Share

## **CQCN**

Central Queensland Coal Network

## **CQIRP**

Central Queensland Integrated Rail Project

## **DTC**

Deficit Tonnage Charges

## **EBIT**

Earnings Before Interest and Tax

## **EBITDA**

Earnings Before Interest, Tax, Depreciation and Amortisation

## **EBIT Margin**

Underlying Earnings Before Interest and Tax divided by total revenue and other income

## **EEO**

Energy Efficiency Opportunity

## **EEO Act**

*Energy Efficiency Opportunity Act 2006 (Cth)*

## **EPS**

Earnings Per Share

## **Freight**

The Above Rail freight haulage operating division of Aurizon Holdings Limited

## **FMT**

Freight Management Transformation

## **FY**

Financial Year ended 30 June, as the context requires

## **GAP**

Goonyella to Abbot Point

**GAPE**

Goonyella to Abbot Point Expansion

**GAAP**

Generally Accepted Accounting Principles

**IBNR**

Incurred But Not Reported

**IFRS**

International Financial Reporting Standards

**km**

Kilometre

**LTIA**

Long Term Incentive Awards

**LTIFR**

Lost Time Injury Frequency Rate, being a measure of the number of lost time injuries per million hours worked over a 12-month period

**M**

Million

**MTIFR**

Medically Treated Injury Frequency Rate, being a measure of the number of medically treated injuries per million hours worked over a 12-month period

**MAR**

Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN across the term of an access undertaking

**mt**

Millions of tonnes

**mtpa**

Millions of tonnes per annum

**Network**

Aurizon Network Pty Ltd (ACN 132 181 116) a wholly-owned subsidiary of Aurizon Holdings

**NGER**

National Greenhouse Energy Reporting

**NGER Act**

*National Greenhouse Energy Reporting Act 2007 (Cth)*

**ntk**

Net tonne kilometre, unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons

**OP – Operating Ratio**

1 – EBIT margin, expressed as a percentage

**OPEX**

Operating Expense including depreciation and amortisation

**PPT**

Percentage Point

**QCA**

Queensland Competition Authority

**Queensland Rail**

Queensland Rail Limited (ACN 132 181 090) – this entity is owned by the State and operates the core public rail passenger business

**RAB**

Regulated Asset Base, the value of the asset base on which pricing is determined by the price regulator

**ROIC**

Return on Invested Capital

**Share**

A fully paid ordinary share in Aurizon Holdings

**STIA**

Short Term Incentive Award

**tonne**

One metric tonne, being 1,000 kilograms

**tonne kilometres**

The product of tonnes and distance

**TSC**

Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services

**WACC**

Weighted Average Cost of Capital, expressed as a percentage

**WICET**

Wiggins Island Coal Export Terminal

**WIRP**

Wiggins Island Rail Project

# Corporate Information

**Aurizon Holdings Limited**  
**ABN 14 146 335 622**

**Directors**

Tim Poole  
Andrew Harding  
Russell Caplan  
John Cooper  
Karen Field  
Michael Fraser  
Samantha Lewis  
Kate Vidgen

**Company Secretary**

Dominic D Smith

**Registered Office**

Level 17, 175 Eagle Street  
Brisbane QLD 4000

**Auditors**

PricewaterhouseCoopers

**Share Registry**

Computershare Investor Services Pty Limited  
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(or +61 3 9938 4376)



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