2012-13

2012-13 ANNUAL REPORT

AURIZON®

Aurizon is Australia's largest rail freight operator with almost 150 years of experience. Each day the Company moves on average more than 700,000 tonnes of coal, iron ore and other minerals as well as agricultural and general freight across the nation.

Aurizon operates a coal network made up of approximately 2,670 kilometres of heavy haul rail infrastructure in Central Queensland. The Company also provides a range of specialist services in rail design, engineering, construction, management and maintenance, and offers large-scale supply chain solutions to a diverse range of customers Australia-wide.

Aurizon has played a critical role in the economic development and growth of the minerals-rich state of Queensland, providing the transport backbone for one of the world's largest coal supply chains. Over recent years Aurizon has extended its business focus beyond its Queensland heritage and applied its expertise and capabilities to coal and iron ore opportunities in New South Wales and Western Australia, as well as intermodal freight across the nation.

Aurizon's business comprises four major product lines – Coal, Iron Ore, Intermodal & Bulk and Network. The Company's performance and future growth is linked to the key demand drivers of the Australian resources sector and ongoing strength of the Australian economy. Aurizon is well placed to benefit from the continued long-term growth in demand for coal and iron ore, particularly from fast growing Asian economies such as China and India.

Our Vision

Grow our People. Grow with our Customers. Grow the Nation.

Our Mission

To be a world leading transport business, to partner with customers for growth and to double the value of the Company every five years, while becoming the safest transport company in the world.

Our Employee Promise

To build a diverse, collaborative and creative workplace where people know what they are accountable to do and can count on having what they need to succeed.

Our Values

Safety – Safety of ourselves and others is our number one priority.

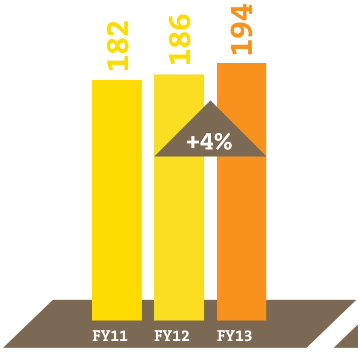
Integrity – We are honest and fair and conduct business with the highest ethical standards.

Leadership, Passion & Courage – We are passionate about leading change. We deliver results with energy and conviction.

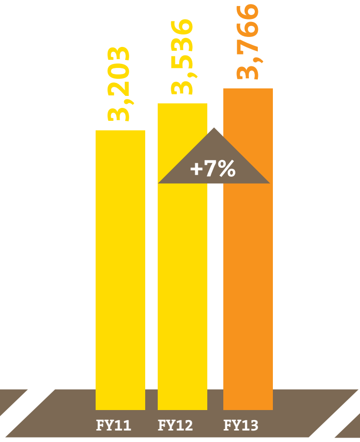
World Class Performance – We deliver world class performance and superior value for our shareholders, customers and staff.

Contents

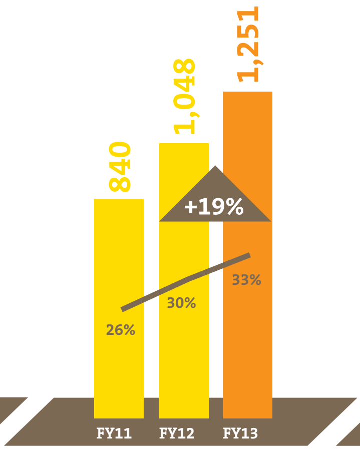
On track for **75%** Operating Ratio in respect of FY15.



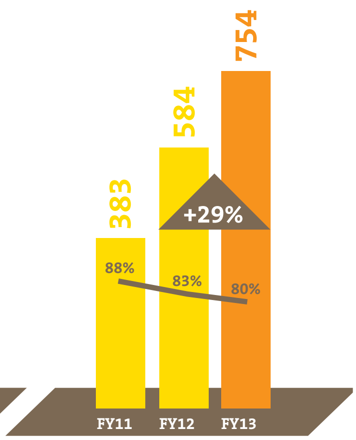
Coal volumes (mt)



Revenue ($m)



EBITDA[1] ($m)
EBITDA Margin



EBIT[1] ($m)
Operating Ratio

[1] Underlying, which adjusts for significant items.

FINANCIAL RESULTS SUMMARY		FY13	FY12	VARIANCE
Total revenue[1]		3,766	3,536	7 %
EBITDA	- Statutory	1,182	1,057	12 %
	- Underlying[2]	1,251	1,048	19 %
EBIT	- Statutory	685	593	16 %
	- Underlying[2]	754	584	29 %
Net finance costs		(103)	(39)	(164 %)
Tax expense	- Statutory	(135)	(113)	(19 %)
	- Underlying[2]	(164)	(125)	(31 %)
NPAT	- Statutory	447	441	1 %
	- Underlying[2]	487	420	16 %
EPS[3]	- Statutory	19.8	18.1	9 %
	- Underlying[2]	21.6	17.2	26 %

[1] FY12 revenue has been adjusted to reflect reclassification of diesel fuel rebate
[2] Underlying adjusts for significant items
[3] EPS calculated on weighted average number of shares on issue 2,257,248,177 in FY2013 and 2,440,000,000 in FY2012

OPERATING HIGHLIGHTS	FY13	FY12	VARIANCE
Revenue / NTK ($/000 NTK)	55.8	56.0	0 %
Labour Costs / Revenue	29 %	32 %	3ppt
NTK / employee (MNTK)	8.4	7.0	20 %
Opex / NTK ($/000 NTK)	44.5	46.7	5 %
Operating Ratio[4]	79.8 %	83.4 %	3.6ppt
ROIC	8.0 %	6.7 %	1.3ppt
NTK (bn)	67.0	62.9	7 %
Tonnes (m)	267.7	252.2	6 %
People[5]	7,969	8,969	11 %
Final dividend (cps)	8.2	4.6	78 %
Gearing	26.7 %	13.1 %	(13.6ppt)

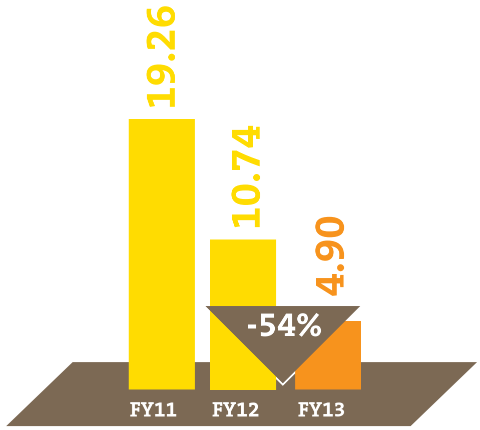
[4] FY2012 Operating Ratio restated to reflect reclassification of diesel fuel rebate
[5] The 11 % variance in FY2013 vs. FY2012 for people, reflects the favourable impact of the voluntary redundancy program on headcount

SEGMENT SUMMARY – UNDERLYING EBIT	FY13	FY12	VARIANCE
Network	424	334	27 %
Coal	320	257	25 %
Iron Ore	97	32	203 %
Freight	23	68	(66 %)
Unallocated	(110)	(107)	(3 %)
Group	754	584	29 %

Image: Mario Marinelli and Heather Swinson at the Mt Arthur coal loading station, Hunter Valley NSW

Highlights

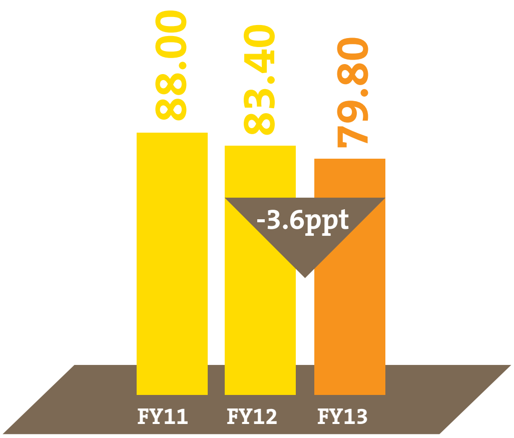
Lost Time Injury Frequency Rate (per million man-hours worked)



Medically Treated Injury Frequency Rate (per million man-hours worked)

60% reduction in the Lost Time Injury Rate.

54% reduction in the Medically Treated Injury Frequency Rate.



Operating Ratio

Return on Invested Capital (ROIC)

3.6ppt reduction in the group Operating Ratio.

1.3ppt increase in return on invested capital.

Chairman's Report

Image: Linkin Quakawoot and Kaio Kris manual welding on the Northern Missing Link Project

25.26% Total Shareholder Return.

The completion of Aurizon's second full financial year as a publicly listed company is another important milestone in our history of almost 150 years. Over the last year we have continued to focus on shareholder wealth, cost reductions and improving efficiency for long-term growth.

In December 2012, QR National adopted the new name Aurizon. Aurizon is a combination of Australia and horizon. The new name conveys the geographical scope of the Company's operations as well as the long-term growth opportunities on the horizon and beyond.

At Aurizon we strive to be a world class company that global investors want to invest in; a company that values its people and keeps them safe; and, that delivers outstanding service to customers with rail and road transportation services in the coal, iron ore and bulk freight markets.

The Board regularly reviews the Company strategy.

Significant work has been undertaken to better define and articulate Aurizon's three strategic pillars to success:

1. Developing a world class core business
2. Operating, developing and integrating bulk supply chains
3. Maximising the value of freight and logistics.

The first pillar of this strategy is all about achieving the core capabilities and level of performance to put us among the world's best. These are fundamental drivers of company performance, including having a competitive cost base; a safety and performance-driven culture; deep engagement with our customers; and strength in technology.

The second pillar means we will leverage our core business and competitive strengths to take advantage of medium to long-term growth opportunities. Good examples can be seen in the business development work we're doing in the Bowen and Galilee Basins, the Hunter Valley and iron ore in the Pilbara, Western Australia.

The third and final pillar is how Aurizon maximises the value from freight and logistics. We believe there's a range of options for the Company to be more involved in the Australian general freight and logistics market, including linehaul and terminal work, partnering with major logistics players and encouraging a broader modal shift from road to rail.

Our focus on our strategy is unwavering. An intense round of work is underway across the Company, with scores of separate initiatives, to execute the strategy. This is a work in progress through to 2015 and beyond.

Solid results in challenging conditions

The past year has seen an increasingly difficult domestic economic environment as well as continuing volatility in global markets. Companies continue to rein in costs, curb growth expectations and seek more efficiency from existing assets and supply chains. Again our customers experienced significant impacts on coal tonnages caused by flood-related events in Queensland. These factors have combined to present Aurizon with some very real operational and commercial challenges. Despite this environment, we have delivered a solid financial result and achieved considerable gains with our transformation and growth programs.

The Company has posted a 1% increase in net profit after tax to $447 million. Underlying Earnings Before Interest and Tax (**EBIT**) was $754 million, a 29% increase over the prior year, and earned on revenues of $3.77 billion.

The Board has agreed to amend the company's dividend guidance from a payout ratio of 50% to a range of 60-70%. The payout ratio for the FY2013 Final Dividend has been increased to 65%.

The Aurizon Board declared a 90% franked final dividend of 8.2 cents per share, giving a full-year dividend of 12.3 cents per share. This represents an increase of 4.0 cents, or 48% over the prior year.

Aurizon's Total Shareholder Returns for the year was 25.26% outperforming the S&P/ASX 200 index by 3.66%.

The financial performance for the 2012-13 year is set out in detail on pages 57-98.

Safety and sustainability

At Aurizon, safety is a core value and the Company's number one priority. Providing a safe environment for our stakeholders, particularly our 8,000 employees from around Australia, is our most important responsibility.

While significant improvements across all aspects of safety have been made, we can never be satisfied with anything less than ***ZERO***HARM, which means no injuries to anyone, ever.

In 2012-13 we improved across all the key safety metrics, in particular Lost Time Injury Frequency Rate (**LTIFR**) and Medically Treated Injury Frequency Rate (**MTIFR**).

These achievements and the positive cultural change we are progressing make Aurizon a better place to work and a better company to partner with.

Our commitments and progress in the areas of safety, environment, community and people are discussed in detail on pages 16-21 of this report.

Capital management

The year has seen a number of very significant capital management initiatives that have both diversified the shareholder base and provided the platform for an effective long-term capital structure for Aurizon.

In August 2012, we announced an on-market share buy-back program in which 14.5 million shares were bought back at a cost of around $54 million. In October, Aurizon advised its proposed participation in a selective buy-back of $1.1 billion of Queensland Treasury Holdings' (**QTH**) shareholding (subsequently approved by shareholders at an Extraordinary General Meeting). QTH held the shares on behalf of the Queensland Government. At the same time, QTH sold $500 million of shares through an institutional placement to investors. In March 2013, QTH undertook a similar placement of $806 million of shares. The net effect of these initiatives was a reduction of the Queensland Government shareholding in Aurizon from 34% to 8.9%.

In May 2013, we announced completion of a review to determine an effective long-term capital structure for Aurizon. This was aligned with the Company's ongoing debt strategy to balance the diversity and maturity of funding sources and the cost of financing while delivering funding flexibility to Aurizon and its shareholders. In June 2013, we completed a major refinancing program, including implementing stand alone debt facilities at both Aurizon Group (through its finance vehicle Aurizon Finance Pty Ltd) and Aurizon Network Pty Ltd (a wholly-owned subsidiary of Aurizon), creating a transparent and sustainable financial structure with debt placed appropriately against the regulated Central Queensland Coal Network (**CQCN**) and with the ability to further diversify funding sources in the future.

The new financial structure also delivers the flexibility to introduce a minority equity interest in Aurizon Network if desired, allowing redeployment of capital from the regulated business into either capital management initiatives or long-term growth projects where appropriate.

Outlook

As we enter 2013-14, there are mixed views on the relative strength and growth trajectory of the Australian economy and its place as an enduring source of global commodities. What is clear is that resource sector investment has peaked and broader economic growth expectations have moderated.

That said, Aurizon remains confident in the medium to long-term global demand for Australian resources, particularly coal and iron ore. The extraordinary period of mining investment is giving way to a period of solid growth as new assets start producing and improvements to installed capacity take effect.

Resources are fundamentally a cyclical, long-run sector. While we've put intense focus on costs during the down cycle, the Company will not lose sight of long-term growth opportunities and value creation for shareholders. Aurizon will continue to invest prudently Australia-wide through the cycle as we did in 2012-13 and strategically position ourselves for the decades ahead.

In doing so, we will continue to collaborate with our customers on supply chain solutions across our business; notably for coal infrastructure assets in Queensland and New South Wales, and new assets for the growing iron ore business in Western Australia. This will support organic growth from well-established businesses.

During the year, the Company also achieved significant milestones for potential future expansions in the Bowen and Galilee Basins in Queensland, as well iron ore infrastructure and haulage opportunities in the Pilbara. You can read more about our projects on pages 14-15.

Fundamentally, we're positioning your Company alongside major Australian and global names in mining for the long-term future growth of Australian resource exports. The Board also remains confident in the outlook for rail freight generally, given the underlying strength and resilience of the domestic economy and the progress being made to lift the Company's competitiveness.

Acknowledgements

The Board and I would like to express our collective appreciation to Aurizon's shareholders, employees and contractors for their ongoing commitment during the year.

Our appreciation goes to the executive team, led by Managing Director & CEO Lance Hockridge, for the significant progress made over the past 12 months in transforming your Company.

I look forward to welcoming you at the Company's Annual General Meeting on 13 November 2013 at the Brisbane Convention & Exhibition Centre.

John B Prescott AC
Chairman

Managing Director & CEO's Report

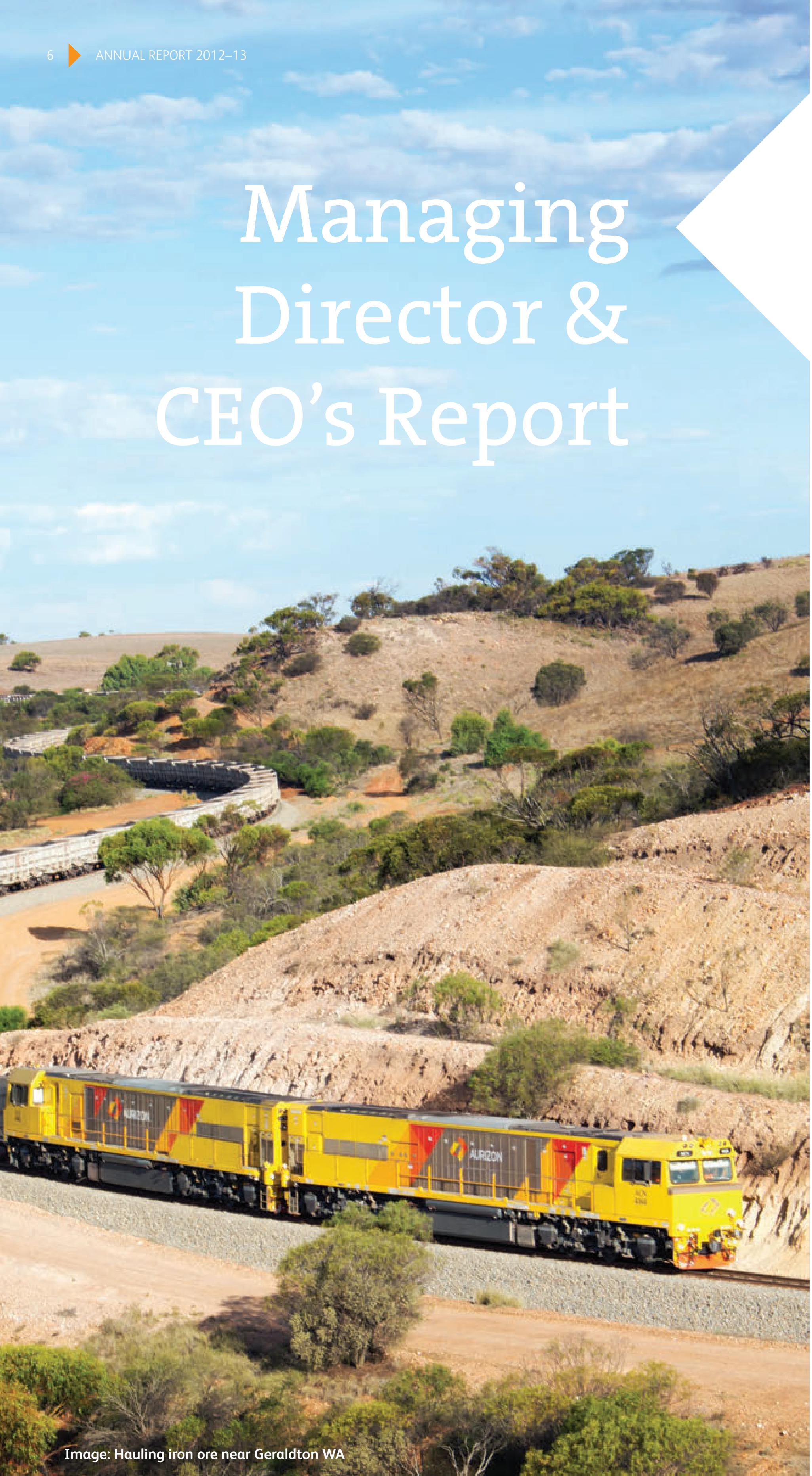


Image: Hauling iron ore near Geraldton WA

~120mtpa New Form coal haulage contracts secured.

During 2012-13 Aurizon maintained strong momentum, relentlessly pursuing our company-wide transformation, improving service to our customers and creating shareholder value.

Management's focus on improving productivity, increasing efficiency and delivering major cost reductions deepened substantially during the year. The Company has a clear roadmap of reform to deliver on our target of an Operating Ratio target of at least 75 % (or 25 % EBIT margin) in respect of the financial year 2015.

Despite the economic headwinds, your Company continues to carve out a strong future by lifting commercial and operational performance and delivering on core commitments to shareholders.

Financial performance

The combination of revenue growth, cost reduction and reform initiatives resulted in a 29 % increase in underlying Earnings Before Interest and Tax (EBIT) for the year to $754 million (FY12: $584 million).

This is a strong result in the context of the challenging economic conditions, weaker demand for Australian resources and flood-related impacts on coal tonnages in Queensland during 2012-13.

Revenue rose to $3.77 billion for the reporting period to 30 June 2013, a 7 % increase over the prior year (FY12: $3.5 billion). Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) improved 19 % to $1,251 million (FY12: $1,048 million).

Earnings per share was 19.8 cents, a 9 % improvement on the prior comparable period. We continued to generate strong cash flows to fund our growth projects, with capital expenditure totalling $981 million for the year. The Company's net debt position as at 30 June was $2.5 billion, reflecting a net gearing ratio of 26.7 %.

We achieved a 3.6 percentage point improvement to Operating Ratio of 79.8 %, a successful milestone on our journey to 75 % in respect of FY2015. Return on Invested Capital (ROIC) improved 1.3 percentage points to 8 % in 2012-13.

Operational performance

Coal tonnages were up by 3% in Queensland compared to the prior year and up 12% in New South Wales which reflects our progress in that market. This resulted in a net 4% improvement in coal volumes to 193.7 million tonnes compared to 2011-12.

Improvement in revenue quality continued through the period, with new form contracts at the end of 2012-13 representing approximately 42% of total coal volumes hauled, up from 38% at 2011-12.

In the Western Australian iron ore market the Company continued to make significant progress, with the business increasing iron ore volumes over the prior year by 82% to 24.7 million tonnes and progressing to schedule its plans to achieve 30 million tonnes per annum (mtpa) in haulage by 2013-14.

Bulk, general and intermodal freight volumes of 49.3 million tonnes were down 7% on 2011-12 volumes of 53.0 million tonnes with the completion of the CBH grain contract in Western Australia and softer intermodal freight market conditions.

Safety

Aurizon's journey towards becoming world class in safety progressed substantially in 2012-13, with the achievement of major safety reduction targets during the year.

The key measures of employee safety, Lost Time Injury Frequency Rate (LTIFR) and Medically Treated Injury Frequency Rate (MTIFR) reduced by 60% and 54% respectively compared to the previous financial year.

The major operational safety measures of running line derailments and Signals Passed at Danger (SPADs) rates reduced by 42% and 20% respectively compared to last financial year.

I am pleased that the range of safety, health and behavioural change campaigns targeting ***ZERO***HARM, injury prevention, road safety and workplace health and safety are working. Employees are taking accountability for their personal safety and looking out for their colleagues. Safety performance is becoming an ingrained part of our performance culture. It reflects better operating discipline and a milestone on our journey to world class performance.

Transformation

This year we lifted the intensity of work on the transformation program, particularly cost reduction and productivity improvement. Our target is an Operating Ratio of 75% in respect of the financial year 2015. In other words, we would earn 25 cents profit in every $1 we make.

The current Operating Ratio is still too high when compared to global rail industry peers. In July 2013, the Company detailed a program to deliver more than $230 million in cost reductions and operational efficiency improvements by 30 June 2015 (read more about our "Drive to 75" on pages 12-13).

In December 2012, our Company adopted Aurizon as a name to replace QR National. This transition marked a major milestone for our business, as we transform to a world class company.

In 2012-13, we finalised the functional restructure of the Company that commenced in 2011. The restructure included a range of initiatives targeting greater productivity and lower costs, and better alignment with customer service requirements and the external market. A second major round of voluntary redundancies was undertaken during 2012-13 resulting in 921 employees leaving the Company.

The restructure created the Commercial & Marketing function to ensure the customer was put at the front and centre of all we do. In 2012-13, we saw the benefits of this change flowing through strongly with the securing of circa 120 mtpa of coal haulage contracts with Rio Tinto, BMA/BMC, Glencore Xstrata, Whitehaven, Ensham, MMG and Graincorp. Not only do the wins provide big baseload tonnages well into the next decade, they will also deliver improved commercial returns through new performance-based contracts.

In 2012-13 we also welcomed three new leaders to our business.

Keith Neate was appointed Executive Vice President & Chief Financial Officer (EVP & CFO) after serving as finance head for the coal business since 2011. Keith has a wealth of experience, including serving as the CFO of Virgin Blue and in senior roles at KPMG in the United Kingdom.

Mike Franczak was appointed Executive Vice President Operations and joins the team with 25 years experience at Canadian Pacific Railway Limited, including his most recent role as Chief Operations Officer. His experience in the transportation of bulk commodities will be invaluable to our customers and his expertise is essential to the transformation of our business.

Alex Kummant was appointed to the role of Executive Vice President Strategy and brings more than 25 years of experience in the North American industrial sector, including executive positions at Emerson Electric, SPX and Union Pacific. He was also Chief Executive Officer at Amtrak, the US national passenger rail service.

Growth

As the Company undergoes an unparalleled transformation, we must also pursue mid to longer-term strategic growth and leverage our superior capability to operate, integrate and develop bulk supply chains across Australia.

In 2013-14, our current expectations are for coal haulage volumes to increase around 5% to a range of approximately 200 – 205 million tonnes.

We remain confident in the long-term global demand for Australian resources and experience tells us we must invest through the commodity cycle. Even in tough economic conditions, we have to make prudent and strategic decisions to reap the rewards that long term-growth will bring.

In the near-term, we will leverage our existing assets to increase system capacity and extra efficiencies across the supply chain.

In this respect, we're well progressed on a $2 billion expansion of the Central Queensland Coal Network that will deliver an extra 70 million tonnes of capacity for our customers by 2015.

During the year we also strengthened our long-term position with the advancement of growth opportunities in target markets of Queensland, Western Australia and New South Wales.

A key example has been the proposal between Aurizon and GVK Coal Infrastructure (Singapore) Pte Ltd (GVK Hancock) to progress the proposed development of rail and port infrastructure to unlock Galilee Basin coal reserves, as well as a process to support the next phase of coal growth in the Bowen Basin.

Another example is the securing of Queensland Government support for the NorthHub consortium, a joint venture initiative between Aurizon and Lend Lease, to potentially develop a new coal terminal at Abbot Point.

In Western Australia's Pilbara, we are continuing to investigate strategic opportunities that leverage our capability to build and operate multi-user railways.

Details of our progress on growth projects can be found on pages 14-15 of this report.

Acknowledgments

On behalf of all of the employees at Aurizon, I would like to express our gratitude to our shareholders for your continued support of the Company.

I would like to acknowledge the outstanding contribution of former Chief Financial Officer Deb O'Toole, who left the Company during 2012-13 and played such a pivotal role in Aurizon's transformation since listing in 2010.

We are grateful to our customers for their business in 2012-13. With our firm focus on customer service, we try to exceed their expectations in everything that we do.

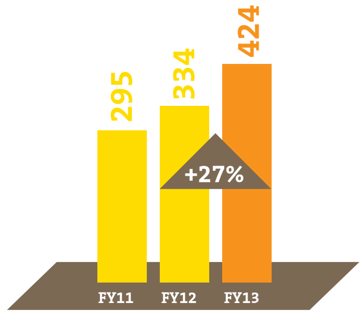
Finally, for both the strong financial performance and our ongoing transformation, I appreciate greatly the efforts of all our people and leadership of my Executive Committee.

Lance Hockridge
Managing Director & CEO

Year in Review
Overview

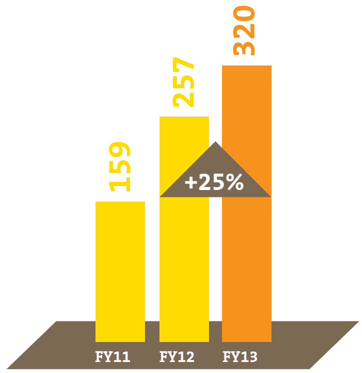
Image: Electric coal train near Gladstone

3.6ppt improvement in Operating Ratio.

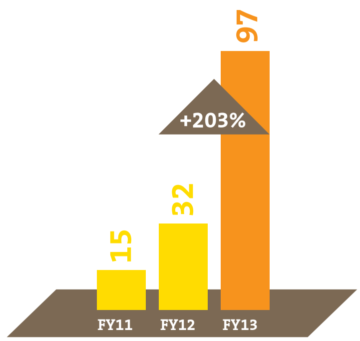


Network – Underlying EBIT ($M)

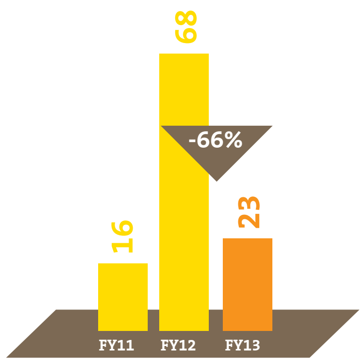
Financial Year 2011 and 2012 EBIT adjusted to reflect the reallocation of external Rollingstock Services from Network to Unallocated ($6.5 million) and ($7.7 million) respectively.



Coal – Underlying EBIT ($M)



Iron Ore – Underlying EBIT ($M)



Freight – Underlying EBIT ($M)

NETWORK

NETWORK PROFIT & LOSS – UNDERLYING

$M		FY13	FY12	VARIANCE
Revenue	- Access	921	744	24 %
	- Services	90	126	(29 %)
	- Other	47	50	(6 %)
Total Revenue		1,058	920	15 %
Operating costs		(435)	(401)	(8 %)
EBITDA		623	519	20 %
EBITDA margin		58.9 %	56.4 %	2.5ppt
Depreciation expense		(199)	(185)	(8 %)
EBIT		424	334	27 %
Operating Ratio		59.9 %	63.7 %	3.8ppt

NETWORK METRICS

	FY13	FY12	VARIANCE
Tonnes (m)	182.3	166.7	9 %
NTK (bn)	44.7	41.2	8 %
Access revenue/NTK ($/000 NTK)	20.6	18.1	14 %
Maintenance/NTK ($/000 NTK)	2.5	2.6	4 %
Opex/NTK ($/000 NTK)	14.2	14.2	0 %

COAL

COAL PROFIT & LOSS – UNDERLYING

$M		FY13	FY12	VARIANCE
Revenue	- Above Rail	1,079	1,026	5 %
	- Below Rail	776	732	6 %
	- Other	8	14	(43 %)
Total revenue		1,863	1,772	5 %
Operating costs		(1,369)	(1,339)	(2 %)
EBITDA		494	433	14 %
EBITDA margin		26.5 %	24.4 %	2.1ppt
Depreciation expense		(174)	(176)	1 %
EBIT		320	257	25 %
Operating Ratio		82.8 %	85.5 %	2.7ppt

COAL METRICS

		FY13	FY12	VARIANCE
Tonnes hauled (m)	- QLD	155.8	151.7	3 %
	- NSW	37.9	33.9	12 %
	- Total	**193.7**	**185.6**	**4%**
NTK (bn)	- QLD	37.8	36.8	3 %
	- NSW	5.8	5.1	14 %
	- Total	**43.6**	**41.9**	**4%**
Revenue/NTK ($/000 NTK)		42.7	42.3	1 %
Opex/NTK ($/000 NTK)		35.4	36.2	2 %

IRON ORE

IRON ORE PROFIT & LOSS – UNDERLYING

$M	FY13	FY12	VARIANCE
Total Revenue	357	197	81 %
Operating costs	(223)	(143)	(56 %)
EBITDA	134	54	148 %
EBITDA margin	37.5 %	27.2 %	10.3ppt
Depreciation expense	(37)	(22)	(68 %)
EBIT	97	32	203 %
Operating Ratio	72.8 %	83.8 %	11.0ppt

IRON ORE METRICS

	FY13	FY12	VARIANCE
Tonnes hauled	24.7	13.6	82 %
NTK (bn)	10.3	6.7	54 %
Revenue/NTK ($/000 NTK)	34.7	29.4	18 %
Opex/NTK ($/000 NTK)	25.2	24.6	(2 %)

FREIGHT

FREIGHT PROFIT & LOSS – UNDERLYING

$M	FY13	FY12	VARIANCE
Total Revenue	1,082	1,173	(8 %)
Operating costs	(1,002)	(1,054)	5 %
EBITDA	80	119	(33 %)
EBITDA margin	7.4 %	10.1 %	(2.7ppt)
Depreciation expense	(57)	(51)	(12 %)
EBIT	23	68	(66 %)
Operating Ratio	97.9 %	94.2 %	(3.7ppt)

Note: FY13 vs. FY12 variance “Favourable/(Adverse)” outcome

FREIGHT METRICS

	FY13	FY12	VARIANCE
Tonnes hauled	49.3	53.0	(7 %)
NTK (bn)	13.2	14.3	(8 %)
Revenue/NTK ($/000 NTK)	82.0	82.0	0 %
Opex/NTK ($/000 NTK)	80.2	77.3	(4 %)

A number of significant enterprise-level initiatives were commenced or completed during 2012-13 as part of the Company's business strategy and long-term transformation. These are outlined below. Business-specific initiatives are covered in the respective business segments.

Strategy

Aurizon's enterprise strategy is designed to deliver improved shareholder value by reforming the business to achieve at least 75 % Operating Ratio target (or 25 % Earnings Before Interest and Tax margin) in respect of FY15; targeting further improvements to achieve world class performance; and securing growth opportunities to lift longer-term earnings (read more in Chairman's report on page 4).

Over the next two years the focus will continue to be on cost savings and productivity improvements with a targeted benefit of more than $230 million to be delivered by 30 June 2015. Some of the risks facing the business during this time will be the global demand of coal and iron ore volumes, contract renegotiation of coal, freight and iron ore volumes, Enterprise Agreement negotiations and finalisation of the Draft Access Undertaking (UT4) submission with approved rates for the Central Queensland Coal Network (read more in the Transformation and Growth sections on pages 12 -15).

Capital management

During the year Aurizon completed a $54 million on-market share buy-back of ~14.5 million shares as well as a $1.1 billion selective share buy-back of a tranche of Queensland Treasury Holdings' (QTH) shares in Aurizon. QTH held 18 % post buy-back and subsequently arranged placement of an additional parcel of shares to reduce their holding to 8.9 % as at 30 June 2013.

Debt restructure

The Company, in June 2013, completed a major refinancing program, including implementing stand alone debt facilities at both Aurizon Group (through its finance vehicle Aurizon Finance Pty Ltd) and Aurizon Network Pty Ltd (a wholly-owned subsidiary of Aurizon), creating a transparent and sustainable financial structure with debt placed appropriately against the regulated CQCN and the ability to further diversify funding sources.

As at 30 June 2013, gearing (net debt/net debt plus equity) has increased by 14 percentage points to 27 %, principally due to the completion of the share buy-back. This increased level of debt has also resulted in increased finance costs. This increased level of debt maintains a BBB+/Baa1 credit rating. Interest cost on drawn debt reduced to 5.1 % for this financial year (from 6.1 % in FY12).

Enterprise Agreements

From July 2013 to June 2015, a total of 18 of the Company's 19 Enterprise Agreements (EAs) are up for renewal, covering approximately 90 % of our 8,000 employees. The objective in the renegotiations is to create fair, competitive and commercially-driven agreements that facilitate cultural and operational transformation, including an Operating Ratio of 75 % in respect of FY15.

The Company has established a project to undertake the extensive work required for the renegotiations and to ensure comprehensive contingency plans are in place to mitigate industrial relations risks.

Unallocated segment note

The functional model has nine functions – Commercial & Marketing, Operations and Network are the three business functions, with six support functions that provide services to the business functions. The business functions' costs are directly allocated through to the segments. The support functions were centralised under the functional model in order to significantly improve transparency over the cost base of the business and drive value though efficiency and productivity. The costs are allocated to the segments based on services provided. However, there are costs which cannot be distinguished between each of the segments and, as such, are reported in these financial statements as 'Unallocated'. Further details are provided in Note 4(a) in the Financial Statements.

NETWORK

Business summary

Aurizon Network operates the 2,670 kilometre 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 50 mines to four ports. The CQCN includes four major coal systems; the Moura; Blackwater; Goonyella; and Newlands.

Performance overview

In 2012-13 coal tonnages were higher than the prior year despite softer global demand for coal, a train derailment on the CQCN and the short-term infrastructure impacts caused by wet weather in Queensland. Railings across the network increased to 182.3 million tonnes, a 9 % increase on 166.7 million tonnes in 2011-12. The increase in tonnages reflects the ramp up of contracted tonnes in the Goonyella to Abbot Point Expansion (GAPE) and growth in customer demand.

Network contributed full year revenue of $1,058 million and underlying EBIT of $424 million, which was better than the prior comparable period, up by 15 % and 27 % respectively. Revenue was favourably impacted by the inclusion of 2010-11 revenue cap adjustment and the full year benefits of GAPE.

There was an 8 % increase ($34 million) in operating costs, largely comprising a $26 million increase in traction costs from the new Blackwater Feeder stations and associated increased electric traffic, as well as flood rectification, repairs and derailment costs.

Work continued on a number of strategic growth projects, with capital expenditure for the year totalling $624 million. These included the Wiggins Island Rail Project Stage 1, Hay Point Expansion and the Asset Renewal program.

On 30 April 2013, Aurizon Network submitted its Draft Access Undertaking (UT4) for the period 1 July 2013 to 30 June 2017. The Undertaking sets out the terms upon which access to the CQCN is made available, prices it proposes to charge access seekers and processes for the maintenance and expansion of the network. Aurizon Network has commenced consultation with the industry on the proposal. The Queensland Competition Authority (QCA) will make a determination on UT4. On 31 May 2013, the QCA approved the extension of the current Undertaking until 30 June 2014 and the implementation of transitional tariffs to cover the interim period. The difference between the transitional tariffs and those finally agreed by the QCA as part of UT4 will then be refunded or recovered from the network users through an adjustment charge mechanism.

COAL

Business summary

Aurizon's coal business is one of the world's largest rail transporters of coal from mine to port for export markets, hauling an average 530,000 tonnes a day.

Aurizon provides a critical link in Australia's six major coal chain systems for the majority of Australia's coal producers. Our coal transport operation links mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland, and the Hunter Valley coal system in New South Wales, to end customers and ports across Australia.

Performance overview

In 2012-13 coal haulage volumes of 193.7 million tonnes were up 4% up on the year prior of 185.6 million tonnes. This included increases of 3% and 12% respectively for Queensland and New South Wales. The 2012-13 volumes were however impacted by flood-related interruptions in Queensland and softening global demand.

Underlying EBIT increased by 25% or $63 million, to $320 million due to stronger above rail revenue rates, receipt of contract performance payments, major cost reduction and achieving better maintenance efficiencies. Revenue increased in 2012-13 by 5% to $1,863 million and revenue per NTK (net tonne/kilometre) by 1%.

There was a $30 million increase in operating costs, largely due to a $78 million increase in access charges partly offset by a $54 million decrease in Aurizon Network Take-or-Pay charges.

In 2012-13 the continued renegotiation of legacy contracts progressed with coal volumes under new form contracts now at approximately 42%. The new contracts provide customers with greater certainty and flexibility to meet volume demands in return for more favourable revenue protection arrangements.

Coal capital expenditure for the year totalled $93 million and was largely made up of wagon overhauls and commencement of Hexham facilities in New South Wales.

By 2017-18, 97% of forecasted contracted volumes will be under new form contracts. Aurizon remains confident in the long-term growth for coal haulage services based on global demand forecasts and the continued competitiveness of Australian coal producers. Aurizon is managing the risk of any near-term deterioration in the coal market by working closely with customers on lifting supply chain efficiency and enhancing the revenue protection measures for Aurizon in its haulage contracts with customers.

IRON ORE

Business summary

Aurizon is Australia's largest iron ore haulier outside of Western Australia's Pilbara region and has continued to grow the business rapidly from a base of 13.6 million tonnes per annum (mtpa) in 2011-12. The expansion has been supported with significant increases in local employment and new investment in rollingstock and rail support facilities at Esperance and Geraldton.

Performance overview

In 2012-13, the business transported 24.7 million tonnes compared to 13.6 million tonnes in the prior year. Revenue rose 81% in 2012-13, or $160 million, to $357 million.

Underlying EBIT for Iron Ore as a segment tripled in 2012-13 from $32 million in the previous year to $97 million.

A 56% ($80 million) increase in operating costs reflects the necessary increase in costs to support the 82% increase in volumes hauled during the period.

The strong result in this segment reflects the growth in customer demand and the revenue protection of the new form contracts.

Iron Ore capital spend of $63 million is largely attributable to the new standard gauge locomotives that were purchased during the year for the increased volumes.

Aurizon is optimistic that global demand for Australian iron ore will continue in the long-term and drive solid growth for rail haulage services. By working closely with customers and supply chain partners, Aurizon's objective is to help sustain the global competitiveness of its customers' product. This will assist in mitigating risks associated with reduced global demand for iron ore and/or deterioration in prices.

FREIGHT

Business summary

Aurizon's freight business supports a range of customers nationally for bulk minerals and commodities, agricultural products, mining and industrial inputs, and general and containerised freight.

Due to the growth in the Iron Ore business, the results have been separated from the Freight segment and reported individually for the first time.

Performance overview

In 2012-13, the business transported 49.3 million tonnes of freight compared to 53.0 million tonnes in the prior year. This represented a decrease of 7%. The key driver of the reduction was the loss of the CBH grain haulage contract in Western Australia.

Total revenue was down 8% in 2012-13, or $91 million, to $1,082 million over the prior year. Underlying EBIT was down by 66%, or $45 million, to $23 million. This result was impacted by the loss of the CBH grain haulage contract which reduced revenue by $56 million, as well as lower revenue from Transport Service Contracts. The reduction in revenue was partially mitigated through substantial cost savings made by the business as a result of the transformation program. It also presents the Intermodal business with an opportunity to undertake reforms to make services more profitable.

A 5% ($52 million) decrease in operating costs largely comprised a $38 million of flow-through benefits to labour costs from the voluntary redundancy program as well as a decrease in fuel costs and access charges due to lower volumes principally from the end of the CBH grain contract in October 2012.

Image: Sharni Bliss, 2012 Trainee of the Year with Raymond Palmer in the Network Control Centre Acacia Ridge

Transformation

5K your way

team challenge

DRIVE TO 75

Image: George Rueben and Apprentice Vehicle Builder Nathaniel Akee in the Townsville workshops

$230m+ in cost savings and productivity efficiencies.

While Australian companies face domestic and global economic challenges and adjust their growth aspirations in the marketplace, Aurizon has been busy with its own transformation program.

Once a government-owned entity, Aurizon is now listed on the Australian Stock Exchange (ASX) and is Australia's largest rail freight operator. The Company is three years into a major transformation journey which will take it to 2020 and beyond.

Perhaps the most symbolic part of the Company's transformation has been the new name Aurizon, which captures the Company's aspirations and national scope of operations.

The Company's transformation has its roots in the corporate strategy. Aurizon's strategy is simple. It is based on three value creation pillars to achieve success:

- Develop a world class core – which outlines how to become a world class company by increasing efficiency and productivity and cutting costs across the business
- Operate, develop and integrate bulk supply chains – which describes how Aurizon expands its presence in new and existing bulk supply chains in Australia and beyond
- Maximise value in the Australian freight and logistics market – assess potential long-term opportunities which may include expansion of terminals, winning new linehaul customers, partnering with logistics companies and encouraging the shift from road to rail.

Aurizon's aspiration is to become a world class company. By this we mean a company that delivers outstanding service to customers, values its people and keeps them safe. Such a world class company is an attractive investment to global shareholders and is seen as a global benchmark for its competitors. Achieving this aspiration will keep Aurizon ahead of the competition.

What is transformation?

Transformation has a number of short, medium and longer-term targets.

In the short-term, transformation is focused on cost reduction, achieving efficiency of operations and better productivity. We have sharpened our reform programs, linked our planning to our review processes, which makes our activity more transparent, and we are following a detailed roadmap for world class transformation. We're driving the business to an Operating Ratio of 75 per cent in respect of FY15, a key milestone for the Company's transformation.

Over the medium-term we will focus on a number of initiatives which will leverage our new functional model. Over the next two years, Aurizon is targeting an additional $230 million worth of cost-out and productivity opportunities. Of the estimated $230 million cost savings, $130 million will come from productivity improvements in operations and $100 million from reductions in centralised support costs, including labour, real estate and information technology efficiencies.

These initiatives include; the removal of overlap and increasing our accountabilities; harnessing the power of technology to drive asset productivity; running trains that are longer, faster and have more capacity; driving capability improvement and structural change programs which will increase our organic growth and keep our costs down and continuing the major cultural shift towards a safety and performance-driven organisation.

By improving operational productivity and liberating latent capacity in existing assets, Aurizon will continue to lift its capital efficiency as measured by Return on Invested Capital (ROIC).

Over the longer-term Aurizon will become a world class company: a transport company with the best safety and performance culture, which operates highly efficient and integrated mine to port supply chains and leverages technology to deliver first-class customer service every day.

Technology

Technology has the power to transform the way Aurizon runs its business. It can improve our customer service and deliver better returns for our customers and consequently, our Company. The benefits from implementing new information technology and operational technology are plentiful.

Aurizon is undertaking train consist design programs where improved payload capacities can be achieved by increasing the density of the train.

In the Newlands system the 80 tonne wagons were replaced by 106 tonne wagons and the trains lengthened from 68 wagons to 82 wagons. This resulted in a substantial payload improvement and as a result we are potentially moving 20 per cent more coal with the same number of train starts.

In the rail industry, technology means safer and smarter trains, higher utilisation of track capacity and more efficient operations.

Within our Network Operations unit, an information technology project is underway to implement a world class planning, scheduling and execution system which manages train traffic on the Central Queensland Coal Network (CQCN).

The three-year project involves a software solution, known as APEX (Advanced Planning and Execution), which is being installed to optimise and integrate the planning and scheduling of trains across Queensland's coal rail network. This application takes existing planning and scheduling processes and optimises them using advanced computer software which means our teams can respond more effectively to customer requirements and increasingly complex and dynamic traffic management tasks.

APEX will enable Aurizon to deliver better train schedules and services for our customers, thus improving customer satisfaction and network utilisation. Optimised scheduling and recovery to schedule capability will benefit customers by potentially reducing train service cancellations and improving cycle-times, therefore enabling the delivery of their product to port in full and on time. Through the improvements to the way we plan and schedule trains, Aurizon can unlock the latent capacity in the network to enable our customers to move more coal.

WHAT IS THE "DRIVE TO 75"?

Seen as a measure of good business – an Operating Ratio (OR) or an operating expense ratio – is a comparison of a company's operating expenses against the company's revenue.

It is an accepted rail industry metric used by the North American class 1 railroads which are acknowledged as setting global performance benchmarks. The ORs of the best of these railways typically are between the late 60s to the early 70s.

The OR at Aurizon was 80 per cent in 2012-13. At the time of listing in 2010 it was 91 per cent. Clearly we are making progress with the changes required but the OR still remains unfavourable compared to our competitors and global rail industry peers.

At Aurizon, we are committed to achieving an OR of 75 per cent in respect of the financial year 2015.

In simple terms, Aurizon would earn 25 cents profit in every $1 it makes.

To reduce the operating ratio there is a company-wide focus on the "Drive to 75" initiative. This includes a range of corporate and employee-led initiatives to reduce costs and lift productivity. The drive to a 75 per cent OR will demonstrate the efficiency of the company by comparing operating expense to net sales. Refer to Dan's story below for more on employee-led initiatives.

DANIEL DAVIE'S STORY

A range of initiatives, big and small, have commenced across the Company. This is tapping into the core capability of our experienced workforce where employees have been busy finding simple ways to reduce costs and improve efficiency under the "Drive to 75" Team Challenge (pilot themed "5k Your Way") program. The program is one way for front line employees to assist the Company to reach its Operating Ratio (OR) and Return On Invested Capital (ROIC) goals.

A great example of this employee-led improvement is the recent work by Daniel Davie, a Service Delivery Supervisor who works at our Callemondah coal operations facility in Gladstone.

Dan leads a team of train drivers who deliver coal from the mines to the port on the Blackwater and Moura coal systems. He has identified savings of up $2,500 a day in diesel fuel in this depot by altering the driving methodology of empty coal trains that's as easy as flicking a switch.

Running a loaded train on the Central Queensland Coal Network (CQCN) requires all locomotives in the consist to be powered in order to navigate the track geometry. Dan realised that running the empty train to the mine loadout in this way results in the train being overpowered. So he worked with other parts of the business to find a way to remove power from the second locomotive without impacting on train handling or braking capability.

In the first three months of the trial in the Moura system, Dan's changes resulted in a saving of $193,000 of diesel fuel. As the trial produced such significant savings, the same methodology has also been rolled out to the Blackwater system. Other parts of our business are keen to replicate the idea and create their own cost savings. Dan's thinking about how to reduce diesel usage in the fleet makes the business of running trains more efficient and cost effective, generating savings for the Company.

Growth

Image: Cut 8 at the Wiggins Island Balloon Loop construction site near Gladstone

$981m in Capital expenditure in FY13.

As Aurizon makes significant structural, operational and financial reforms under its transformation program, strategic growth remains an important requirement for the Company to deliver value to shareholders.

We are committed to prudently investing through the resources cycle and ensuring the Company is well positioned to benefit from future growth. We will leverage our industry-leading capability to operate, integrate and develop bulk supply chains across Australia.

With respect to coal rail infrastructure, Aurizon will leverage its existing assets in Central Queensland to increase system capacity and efficiencies across the supply chain. We are midway through a $2 billion expansion of the Central Queensland Coal Network (CQCN)that is progressively delivering more than 70 million tonnes of extra capacity for our customers for the period 2011-15.

There was a total of $624 million of Network capital expenditure during 2012-13 with the key projects being the Wiggins Island Rail Project and the Hay Point Expansion Project.

During the year we also strengthened our long-term position with the advancement of significant growth opportunities in target markets of Queensland and Western Australia. These aim to capitalise on our capability to build and operate multi-user railways and seek further opportunity to integrate along the supply chain for rail and port facilities. We clearly acknowledge the challenges of the current economic outlook, however our vision for growth means it's important to consistently evaluate opportunities to deliver long-term value.

Aurizon has a broad portfolio of capital projects at various stages:

Blackwater Power Systems Strengthening Project

In September 2012, Aurizon commissioned the $195 million Blackwater Power System Strengthening Project, which almost doubled the electric capacity on the Blackwater rail system. The electrification of the Blackwater line boosts coal export capacity by approximately nine million tonnes per year, enabling the system to deliver up to 85 million tonnes of coal per annum.

Wiggins Island Rail Project

In September 2011, Aurizon signed an agreement with a consortium of coal companies to construct the Wiggins Island Rail Project to service the new Wiggins Island Coal Export Terminal (WICET) at the Port of Gladstone. The project will support the initial 27 million tonnes per annum (mtpa) of coal to WICET and leverage Aurizon's existing rail infrastructure to boost coal exports from the southern end of the Bowen Basin by 30 %. Construction began in March 2012, with timeframes aligned to the coal export terminal and the development of related mining projects. First railings are scheduled for 2014 and overall project completion by 2015.

Rolleston Electrification

Aurizon is investing in the electrification of the existing 107 kilometre Bauhinia rail spur, from Rangal south to Rolleston in Central Queensland, to harness the operational and cost benefits of electric trains.

The Bauhinia Electrification Project will lead to increased efficiency by harnessing the operational and cost benefits of electric trains, greater power system reliability and optimal capacity of the Blackwater Rail System to cater for forecast increases in coal haulage demand. Construction of the Bauhinia Electrification Project commenced in mid-2013 with planned completion by late-2014.

Hay Point Expansion (X140 Goonyella Expansion)

Aurizon is currently investing in the revised $130 million expansion to the Goonyella System to enhance system capacity from 129 to 140 mtpa to align with the Hay Point Coal Terminal expansion operated by the BHP Billiton Mitsubishi Alliance. The Goonyella System Expansion project will be completed by mid-2014, which will align with the completion of the Hay Point Coal Terminal expansion.

Hexham Train Support Facility

During 2012-13, Aurizon reconfirmed its long-term commitment to the Hunter Valley by announcing plans for the construction of the support facility to commence in 2013 and be operational by the end of 2014.

This is a significant capital investment in excess of $100 million. The proposed Hexham facility will support the Company's growing New South Wales coal haulage business and help alleviate capacity pressures in the Hunter Valley coal supply chain. The project is in the final stages of development and depending on government planning approvals and consultation with stakeholders, construction is planned to commence later this year.

Central Queensland Integrated Rail Project (CQIRP)

Aurizon's CQIRP is well positioned to capture potential future growth in the Northern Bowen Basin and the emerging Galilee Basin. The Company is progressing options to develop and operate co-ordinated rail-port coal supply chains in Queensland. These expansions aim to offer coal producers efficient, cost-effective infrastructure solutions by delivering greenfield infrastructure fully aligned to a timely expansion of brownfield rail capacity.

Aurizon's solutions are designed to be staged, which supports customer projects by matching shipment volume profiles during the challenging ramp-up period of their projects. Our solutions are also planned to be open-access and multi-user, providing the opportunity to consolidate volumes and deliver scale benefits to users.

One example is the proposed development of Galilee Basin rail and port infrastructure with GVK Coal Infrastructure (Singapore) Pte Ltd (GVK Hancock). Aurizon and GVK Hancock are progressing the proposed development of rail and port infrastructure to Abbot Point to unlock Galilee Basin coal reserves and to support the next phase of coal growth in the Bowen Basin. Under the proposal, Aurizon would use elements of its CQIRP project together with parts of the GVK Hancock rail and port project.

NorthHub Project

In April 2013, Aurizon welcomed the shortlisting by the Queensland Government of the NorthHub Consortium, comprised of Aurizon (75 %) and Lend Lease (25 %), for the potential staged expansion of new export coal capacity at the Abbot Point Coal Terminal in North Queensland.

The NorthHub proposal offers multi-user terminal capacity to coal producers for the Bowen and Galilee coal basins. The consortium is working with the Queensland Government to conclude agreements that will shape the terminal development proposal for the potential expansion. The proposal will include options for staged development according to customer and market demand.

East Pilbara Independent Railway

As the largest hauler of iron ore outside the Pilbara, Aurizon is well positioned for involvement in the expanding iron ore haulage markets in Western Australia. Aurizon has identified growth opportunities in the Pilbara, Mid-West and Yilgarn as part of its strategy in growing its Iron Ore business through a combination of greenfield and brownfield projects.

Aurizon, in conjunction with Brockman Mining and Atlas Iron under an Alliance Study Agreement, completed a study during 2012-13 for a new independent iron ore railway in the Pilbara. The study demonstrated the merits of a new, standard-gauge railway in the East Pilbara, connected to dedicated port facilities at Port Hedland, which aggregates production from a number of mines.

Aurizon has the capability to develop and operate multi-party supply chain solutions where optimisation is critical in delivering efficient, long-term services to customers. Aurizon continues to participate in a range of discussions with potential customers in the Pilbara and remains confident in long-term opportunities in the region.

Surat Basin Railway

The proposed Surat Basin Rail in Central Queensland includes a new 210 kilometre rail corridor from Wandoan to the Moura system near Banana, 130 kilometres west of Gladstone, which will align with the second stage of the development of the Wiggins Island Coal Export Terminal (yet to be committed). Aurizon is a one-third joint venture partner in the Surat Basin Railway with the ATEC Rail Group and Glencore Xstrata Coal.

Image: Apprentice Electrician Makayla Louden in the Callemondah locomotive workshop

Sustainability

Image: Graduates Jessica Muller (L) and Ben Single (R) in the field with Peter Southam (C)

Aurizon is committed to the safety of our people, those we work with, the environment and the communities in which we operate. A safety and performance-driven culture is a key enabler on Aurizon's journey to a sustainable future.

x3 On track to treble our trainee, apprentice and graduate intake from over 75 to 300 per annum.

SAFETY

Aurizon's core values of safety, integrity, leadership, passion and courage, and world class performance shape how we make decisions, how we treat each other, how we run our business and how we achieve results.

Our aim is to become world class in safety and to do this we are on a path of continuous improvement across the Company. Our comprehensive approach to safety and risk management includes targeted initiatives to improve safety culture and establish robust systems and behaviours throughout the workforce.

The Company's uncompromising focus on safety is delivering results. Over the last five years, our employees have advanced our safety transformation and we have measurable improvements in safety performance.

Improvements include significant reductions in our Lost Time Injury Frequency Rate (LTIFR) and Medically Treated Injury Frequency Rate (MTIFR).

Since June 2009, Aurizon has achieved a 92 % reduction on our LTIFR (0.95) and 89 % reduction on our MTIFR (4.90).

These metrics demonstrate Aurizon's transition to an organisation in which safety is a core value and intrinsic in decision making; be it in the boardroom or on-site.

Communities of Competence, which provide a collaborative, coordinated and best-practice approach in targeted areas including Trackside Safety, Road Safety, Isolation and Lockout, Derailment Prevention, Signals Passed at Danger (SPADs) and the Environment, are continuing to make a real difference to how the Company operates.

Significant safety improvements have come from the Derailment Prevention Community of Competence. Over the past 12 months they have established and trained corridor-based derailment prevention champions focused on improving infrastructure maintenance and developed a number of new resources for employees, including training videos.

This past year has also had a particular focus on SPADs improvement. The SPADs Community of Competence worked to introduce new threat and error management SPADs elimination principles. The Company also contributed to the Australian and New Zealand SPADs Working Group sponsored by the Australasian Railway Association.

As a result of these initiatives, Aurizon has achieved a 42 % improvement in the running line derailment rate and a 20 % improvement in the running line SPADs rate over the past 12 months. This is considered to be world class safety performance.

In 2012-13 a number of initiatives were implemented by the Isolation and Lockout, Road Safety and Trackside Safety Communities of Competence that enhanced our existing practices and continued to improve safety performance.

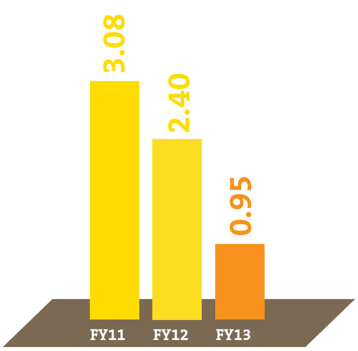
Other 2012-13 safety highlights include:

- In February 2013, Aurizon launched an internal safety program targeting the prevention of incidents and injuries. The campaign "Are you in the game when it comes to safety?" focuses on the behaviours employees need to avoid to create a safer workplace including distractions, fatigue, rushing and complacency
- A national partnership with the Heart Foundation was established and a "Start Your Heart" cardiovascular health campaign was rolled out. The six-week program encouraged employees to make small, realistic changes to improve their long-term heart health
- Aurizon continues to actively support the Australasian Railway Association's trackSAFE foundation to reduce incidents on the rail network across Australia
- Aurizon partnered with trackSAFE and the Sunday Night program on Channel Seven for a special report highlighting the trauma experienced by train drivers involved in near misses and fatalities on rail networks around the country. More than two million Australians watched the program.

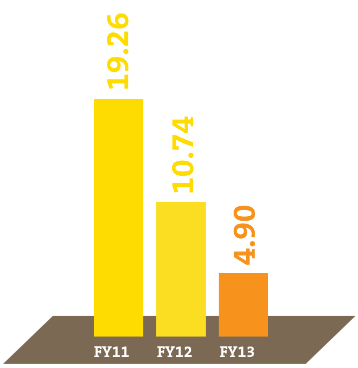
In Queensland, around $15 million has been allocated to upgrade passive level crossings specifically to boom gates and/or flashing lights on the Central Queensland Coal Network (CQCN) as part of a continuous improvement program.

In May 2013, Aurizon and the Department of Transport and Main Roads officially opened a new road overpass which will allow for the closure of two high risk level crossings at Gracemere in Queensland. The Company contributed $10 million towards the $50 million overpass. The new Gracemere overpass improves the safety of motorists and helps protect train drivers who use the crossings.

In New South Wales, Aurizon, through its partnership with the Newcastle Knights and Newcastle Jets, conducted a joint schools rail safety program targeting primary schools along the rail corridor. To date, more than 4,000 Newcastle and Upper Hunter students have received educational awareness of rail safety, particularly the dangers associated with rail level crossings and trespassing.



Lost Time Injury Frequency Rate (LTIFR)



Medically Treated Injury Frequency Rate (MTIFR)

SPAD rate per MTkm (running line)

Derailment rate per MTkm (running line)

Sustainability (continued)

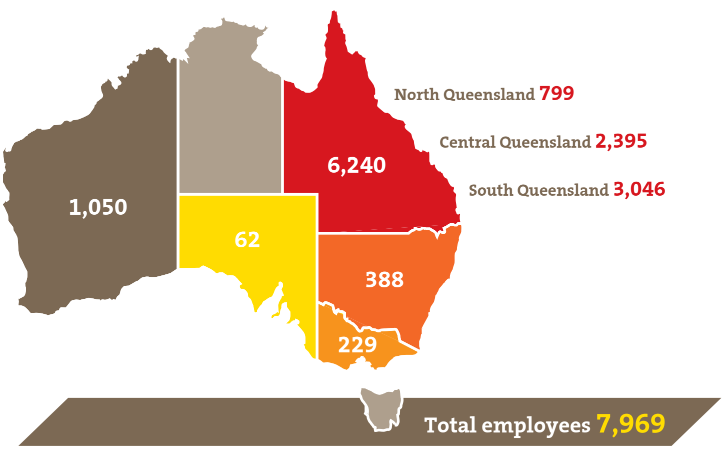
PEOPLE

A safety and performance-driven culture is one of the key enablers on Aurizon's journey to world class performance and it is the capability and commitment of our people that will get us there. The Company's Enterprise People Strategy articulates our shared goals and aspirations. These goals represent the key areas of focus for the enterprise to ensure that we are able to deliver on our employee promise and position Aurizon for long-term growth and superior performance:

- We are striving for a collaborative, diverse, capable and engaged workforce, passionate about delivering world class service to our customers
- We have capable leaders who know what they have to achieve and display the core leader behaviours that drive a safety and performance-driven culture where individual, team and organisational objectives are achieved
- We are a values-based workplace focused on designing and implementing the right structures, systems and processes to support a safety and performance-driven culture.

In line with our vision to grow our people, Aurizon has a sustained focus on building leadership capabilities and performance at all levels. This has a significant impact on our culture and achievements. This year we have introduced a new Leadership Framework and Model with the foundation comprising of a Leadership Essentials development program for our frontline leaders.

Our 7,969 employees live and work in local communities throughout Australia where Aurizon operates. The majority of our employees live and work in regional Australia, outside of State capitals.



Our values

- Safety
- Integrity
- Leadership, passion and courage
- World class performance.

Aurizon's four values continue to play an integral role in our organisational effectiveness and performance. They are the solid foundation of the Company's decision making. Our values are a key component of our Code of Conduct which clearly identifies a high set of expectations in the way our employees interact with one another, our customers and other stakeholders to ensure our business is respected for its safe, professional, honest and commercial outlook.

This includes all employees:

- Striving for ***ZERO***HARM
- Living our values and complying with our policies, standards and other management frameworks
- Valuing and appreciating each others' unique contributions to the Company's future and treating one another with respect.

The annual Aurizon Employee Excellence Awards is a recognition program which acknowledges team and individual achievements, exceptional performance and the contribution of employees at all levels who exemplify our company values. The Awards night also includes recognition of our high performing graduates, apprentices and trainees.

For more information on Aurizon's values, please refer to the Corporate Governance Statement on page 49 of this report. The Company's Code of Conduct is available on our website at aurizon.com.au/Corporate/Pages/Governance.aspx

Diversity

Diversity at Aurizon is about creating a workplace that respects and includes differences, recognising the unique contributions and perspectives that all our employees bring to the table. At Aurizon, we strive for diversity to underpin everything we do and in particular our decision-making processes. We value diversity and recognise it in the way we do business. Increased engagement of the entire workforce has been linked with productivity, profitability, employee commitment and retention. With this potential comes the ability to further extend our market share.

Diversity for Aurizon not only includes differences in age, gender, language, ethnicity, cultural background, sexual orientation, religious beliefs, family responsibilities and people with disabilities. It also includes differences in life and work experiences, socioeconomic status, type of work and work environment, educational background and lifestyle choices.

Aurizon's leadership group continues to strive to achieve a diverse and engaged workforce. Research and our own experiences within the Company tell us that diverse teams operate more effectively. They create new ideas, new insights and new approaches – unlocking value for teams and our Company.

Aurizon's Diversity Council continues to work with leaders and the broader workforce to increase an awareness of the value and clear business benefits of a diverse and engaged workforce. A two-year diversity plan comprising a range of initiatives and actions is being implemented and progressively evaluated. These initiatives are noted in the Corporate Governance Statement on page 54 of this report.

Female participation has increased by almost 1 % in the 2012-13 financial year. Across the workforce, 13.23 % of employees are female. Aurizon has lodged its first annual report under the *Workplace Gender Equality Act* (WGE Act). The report is available on our website aurizon.com.au/Corporate/Pages/Diversity.aspx

Aurizon has made a major commitment to improving gender diversity in the workplace by signing a two-year empowerment partnership with the Australian National Committee for United Nations (UN) Women. The partnership will support the work UN Women do in advancing equality for women globally. The Company has also signed the UN's Women Empowerment Principles. Just under 600 companies from around the world have signed up to these principles and only 10 signatories are CEOs from Australian companies.

'Grow our own'

In August 2010, Managing Director & CEO Lance Hockridge, announced Aurizon would treble its trainee, apprentice and graduate intake from over 75 to 300 per annum by 2013. This commitment included a strong focus on regional and youth employment, mentoring and links to education providers.

Currently, for financial year 2012-13, the intake is 258 and we are on track to achieve the target of 300 by December 2013. In this financial year Aurizon has recruited 77 apprentices, 77 trainees and 104 graduate students. Engineering-specific, finance, human resources and business analysts were well represented in the graduate intake for 2013. Electrical and mechanical trades formed the majority of the apprentice intake.

We have continued our proactive attraction campaign to increase female and Indigenous recruitment. Our total graduate, apprentice and trainee recruitment has successfully employed 66 females (25.6 %).

Aurizon continues to work hard on its commitment under the Australian Employment Covenant to provide sustainable job opportunities for Indigenous Australians. This year we have recruited 25 new Indigenous employees across the enterprise predominantly in entry-level roles related to apprenticeships and traineeships. We continue to work closely with Indigenous communities to attract and retain Indigenous employees, while providing support mechanisms for the development of long-term careers with the Company.

We have designed and implemented Aurizon-specific work experience programs within our regional locations assisting in continuing to build community connections. This has resulted in a higher level of interest in work experience placements and school-based apprenticeships from female and Indigenous school students.

We have continued to build established connections with education providers in regional centres, including local schools, TAFEs and universities, to create pathways into apprenticeship, traineeship and higher education opportunities.

Mentor matching with senior leaders across the graduates, apprentices and trainees within Aurizon also continues. Specific Indigenous mentors work with Steve Renouf, Aurizon's Indigenous Ambassador, to assist in progressing Indigenous employee engagement and retention strategies.

ENVIRONMENT

Aurizon's commitment to environmental sustainability is crucial to maintaining our social licence to operate and to the Company's performance. As a significant player in Australian transport, Aurizon recognises the opportunity to lead the industry to become world class in delivering ***ZERO***HARM to the environment.

The Company's Environmental Policy represents the commitment to the environment and provides guidance on continual environmental improvement. Under this Policy, Aurizon assesses environmental risk before undertaking activities.

Aurizon's Environmental Management Principle provides a framework to enable effective environmental management and includes the mechanisms required to achieve legislative compliance, the Board's policies and directives, continual environmental performance improvements and gives effect to the Environmental Policy. This Policy is available on the Aurizon website at the following address: aurizon.com.au/corporate/pages/environment.aspx

Energy

Aurizon continues to meet its reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* (NGER) (Cth). An online system for environmental compliance is now available to allow live compliance tracking against all compliance requirements and to measure, collate and validate NGER information. The 2012-13 INGER report is due to be submitted to the regulator by 31 October.

In the past year, Aurizon submitted an Energy Efficiency Opportunity (EEO) Assessment Plan as part of the Company's obligations under the *Energy Efficiency Opportunity Act 2006* (Cth). The plan sets out improvements in the measurement of energy use and identification of energy reduction initiatives. An energy saving assessment report will be available in December 2013.

Image: Vehicle Builder Apprentice Merv Walker, Electrical Apprentice Nick Sinn and Apprentice Mechanical Fitter Brett Mills from the Redbank workshops

Sustainability (continued)

Carbon Disclosure Project

This year marks our inaugural participation in the Carbon Disclosure Project (CDP), an independent not-for-profit organisation that compiles corporate climate change information for the investor community. Our participation in the CDP improves transparency around our climate change performance and demonstrates our commitment to identify and assess initiatives to reduce our carbon footprint.

Coal dust

Aurizon continues to collaborate with our industry partners to implement a Coal Dust Management Plan in Queensland. This involves the implementation of spray stations with dust suppressing chemicals, known as "veneers", to reduce coal dust produced from moving wagons. Aurizon has implemented 12 veneering station installations to service 13 mines in Central Queensland and provides monitoring reports to the Department of Environment, Heritage and Protection (DEHP) to demonstrate results of the veneering stations. Central Queensland mines have a goal to complete installation of the spray stations at all mines by December 2013.

Aurizon is also working with supply chain partners and stakeholders to develop a Coal Dust Management Plan which describes our approach to coal dust management on the South West Queensland network. In the Hunter Valley, we are working with our supply chain partners and government, participating in an industry working group to address stakeholder concerns.

Vegetation offsets

In 2012-13, Aurizon has taken significant steps to secure in excess of 290 hectares of vegetation for active rehabilitation and conservation purposes as part of its commitment to offset clearing activities associated with some of its major construction projects, including the Goonyella to Abbot Point Expansion (GAPE), Wiggins Island Rail Project (WIRP) and the Goonyella Rail Expansion Project. The process has involved active engagement with rural landholders and the Department of Natural Resources and Mines, and will act to conserve endangered ecological communities listed under both Commonwealth and State legislation in addition to habitat for threatened fauna species.

Environment compliance

Our continual focus on environmental compliance moves Aurizon closer to delivering our goal of ***ZERO***HARM to the environment.

Aurizon has two Transitional Environment Programs (TEPs) in place at the Callemondah locomotive and wagon depots at Gladstone in Central Queensland with the Department of Environment, Heritage and Protection. By the end of November 2013 all actions contained by the TEPs will be addressed.

In 2012-13, Aurizon retained its ISO14001 Environmental Management System Certification through a third party, independent audit for both the Intermodal Logistics business and Whyte Island facility.

COMMUNITY

Aurizon continues to make a positive contribution to society. Our business and future growth is reliant upon our ability to maintain long-term, positive relationships within the local communities where we operate and our employees reside. We strive to have an open and transparent dialogue with the local community as we journey to become world class.

Our community responsibility

In 2013 the Company developed a community engagement charter outlining the principles, frameworks, considerations and processes for community involvement, consultation and feedback. Aurizon has begun implementing this Charter across project, operations and maintenance areas as well as throughout corporate functions. The Company advocates that building sustainable positive community relationships is the responsibility of every Aurizon employee.

A summarized version of the Charter can be found at aurizon.com.au/sustainability

Beyond dialogue, we are also an active member of the local community through our Community Giving program which encompasses philanthropic endeavours, key partnerships, as well as our contribution to local community initiatives and events. The Aurizon Community Giving program has three areas of interest: health and well being; community safety and education.

Supporting regional and rural Australia

The Company understands that the backbone of our industry weaves through urban, regional and rural towns across Australia. To support these communities, in 2011 Aurizon launched its flagship community investment program, the Community Giving Fund. This biannual philanthropic fund has been specifically designed to target the needs of local communities.

To date, the Community Giving Fund has supported over 100 charities nationally with over 55 charities receiving grants during 2012-13.

The following graphs outline the level of investment by region and genre for the Community Giving Fund over the last 12 months.

Community Giving Fund Grants by region (%)

Community Giving Fund Focus area of support (%)

More on Aurizon's Community Giving Fund recipients is available at aurizon.com.au/community

Community Partnerships; heart-felt support in our communities

With the knowledge that cardiovascular disease is the number one killer in Australia for both men and women and with even higher incident rates for this disease affecting regional and rural communities, Aurizon is on a mission as Foundation Sponsor of the Heart Foundation to raise awareness, get our employees and communities active, and reduce the number of cardiovascular-related deaths nationally.

Throughout the year, Aurizon supported the Heart Foundation's national awareness campaigns such as Warning Signs, Go Red for Women and Jump Rope for Heart, and was a founding member of the corporate initiative Start your Heart.

Some of the key outcomes from our support over the last year include:

- 107 female employees participated in the Go Red for Women Challenge in 2012
- Over 600 employees participated in the Start your Heart program
- 364 Aurizon employees participated in the Warning Signs presentations nationally
- Supported 12 outreach schools nationally through the Jump Rope for Heart program
- Implemented healthy catering guidelines across the organisation
- Implemented a company-wide walking group initiative and encouraged employee participation in fun runs and events across the country.

To complement our support of the Heart Foundation, Aurizon secured a partnership with the Wesley Research Institute focusing on preventative cardiovascular related research. The Company has also promoted health and wellbeing through partners such as the Central Queensland NRL (CQNRL) Bid and the Queensland Independent Secondary School Rugby League Confraternity Carnival in Townsville.

Kicking goals for the Hunter community

With the dual-club sponsorship of the Newcastle Knights and Newcastle Jets entering its second year, the regional sponsorship has enabled Aurizon to cement its local presence in the region whilst allowing the Company to continue to promote safety, health and wellbeing and education.

The partnership's main community program is the Rail Safety Term, which is a dedicated program visiting primary schools along the Hunter Valley rail corridor. In the last year, the program visited over 31 schools, reaching over 4,000 students. Players James McManus (Knights) and Michael Bridges (Jets) were official Aurizon Rail Safety Ambassadors and the campaign extended into Community Gala Days throughout the region.

Improving the safety of our communities

As safety is the Company's number one priority, Aurizon's major infrastructure projects partnered with key community events and initiatives to improve the overall safety within and around our construction and building works.

Our partnerships include the Gladstone CBD Safety Initiative, installation of shade sails at Sarina State School, rail safety presentations at Gladstone Harbour Festival and the support of a defensive driving awareness campaign through the Jason Rich Foundation in Rockhampton and Gracemere, targeting Year 12 students in an effort to keep our youth safe on the roads.

In times of need

In January 2013, Queensland communities were once again battered by severe summer weather affecting the mining regions. To assist with the recovery and rebuild, Aurizon donated $150,000 to the Australian Red Cross to assist individuals and families in disaster-affected areas.

We are also proud to provide a Queensland-based freight assistance program to several charities each year, to reduce administrative costs for charities for their transport needs and also provides vital clothing, books and toys to families in need across the State. Over the last year, the charities supported through the freight assistance program include:

- The Salvation Army
- Australian Red Cross
- St Vincent de Paul Society
- Flood Relief NQ
- Samaritan's Purse
- Community Care – Lifeline

Striving for excellence

In 2012-13 Aurizon was awarded Highly Commended in the Public Relations Institute of Australia – Queensland State Awards For Excellence in the category of Corporate Social Responsibility for the GAPE project, as well as commended in the Public Relations Institute of Australia National Excellence Awards in the category of Corporate Social Responsibility for the GAPE project for community consultation in 2012.

We are also proud to have been an Australian Institute of Marketing's national finalist in the Excellence Awards for the Corporate Social Responsibility category for the Community Giving Fund in 2012.

For a full overview of Aurizon's community investments visit aurizon.com.au/community

COMMUNITY GIVING FUND RECIPIENTS

EDUCATION – WA

"Protecting our future in Western Australia"

Life Education WA Inc (Round 4 recipient).

Life Education provides health education in lower and middle primary schools including cyber safety and education on drugs, alcohol and smoking. The Aurizon Community Giving Fund's cash grant will enable Life Education WA to have an educator based in Geraldton, with a mobile learning centre to deliver programs to approximately 5,000 students in four schools in the Mid-West region. These programs provide up-to-date resources for teachers, promoting personal safety, the benefits of physical activities, healthy diets, positive life choices and decision-making.

COMMUNITY SAFETY – QLD

"Ensuring our communities are in safe hands"

Mount Larcom Rural Fire Brigade (Round 3 recipient).

The Brigade, manned by community volunteers, responds to fire and assists landowners to reduce the hazards posed by wildfire in a wide, rural geographical area. They are an invaluable part of the region's emergency response network. The Aurizon Community Giving Fund's cash grant will part-fund an operations and training centre upgrade to support the Brigade's fire fighting operations. As the Wiggins Island Rail Project is nearby, Aurizon is further committed to helping this Brigade in-kind as part of its commitment to community safety.

HEALTH – NSW

"Providing help where it's most needed"

Foodbank NSW Ltd (Round 3 recipient).

The Hunter Hidden Helping Hand Project, run by Foodbank NSW, will supply and distribute healthy, nutritious staple food items such as milk, bread, fresh fruits, vegetables and essential toiletries to 45 welfare agencies providing emergency food relief to economically disadvantaged families and individuals within the greater Hunter region. The Aurizon Community Giving Fund's cash grant will enable the provision of approximately 6,000 meals weekly for over 3,000 families.

Directors' Report

Aurizon Holdings Limited Directors' Report

For the year ended 30 June 2013

The Directors of Aurizon Holdings 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 2013 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:

J B Prescott AC
(appointed 14 September 2010)
(Chairman, Independent Non-Executive Director)

L E Hockridge
(appointed 14 September 2010)
(MD & CEO)

J Atkin
(appointed 14 September 2010)
(Independent Non-Executive Director)

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

J D Cooper
(appointed 19 April 2012)
(Independent Non-Executive Director)

K L Field
(appointed 19 April 2012)
(Independent Non-Executive Director)

G T John AO
(appointed 14 September 2010)
(Independent Non-Executive Director)

A J P Staines
(appointed 14 September 2010)
(Independent Non-Executive Director)

G T Tilbrook
(appointed 14 September 2010)
(Independent Non-Executive Director)

Details of the experience, qualifications and 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.

J B Prescott AC

Experience: Mr Prescott has substantial experience in the mining, manufacturing, transport and government sectors. He was a long-term executive of The Broken Hill Proprietary Company Limited (now BHP Billiton Limited), serving 10 years as an Executive Director and seven years as Managing Director and Chief Executive Officer (1991–1998). He was also Chairman of ASC (formerly Australian Submarine Corporation Pty Ltd) (2000–2009) and a Director of Newmont Mining Corporation (2002–2013).

Mr Prescott has been a Global Counsellor of The Conference Board since 2001 and a member of the Commonwealth Remuneration Tribunal since 2010. Other Directorships and consulting/advisory positions have included Conference Board USA, World Economic Forum, Booz Allen and Hamilton, J.P. Morgan Chase & Co, Proudfoot Consulting and Asia Pacific Advisory Committee of New York Stock Exchange.

Qualifications: BCom (Indus Rel), HonDsc, HonLLD, FAICD, FAIM, FTSE

Special Responsibilities:
Member of:

(i) Remuneration, Nomination & Succession Committee (formerly Remuneration & Succession Committee)
(ii) Safety, Health & Environment Committee (formerly Safety & Environment Committee)

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

L E Hockridge

Experience: Mr Hockridge joined QR Limited (now Aurizon Operations Limited) as Chief Executive Officer in 2007 with extensive experience in the transportation and heavy industrial sectors in Australia and the United States. He is a Director of a number of Aurizon Holdings Limited wholly-owned subsidiaries and Chairman of the Australasian Railway Association. During a 30-year career with The Broken Hill Proprietary Company Limited (now BHP Billiton Limited) and BlueScope Steel, Mr Hockridge was a member of the leadership team that led to BlueScope Steel's successful de-merger from BHP and the creation of a new publicly listed company.

In 2005, Mr Hockridge was appointed President of BlueScope Steel's North American operations where he led a major turnaround in safety, production and financial performance. Other roles at BHP included human resources and industrial relations, General Manager of BHP Transport, Head of Long Products Business and President of Industrial Markets.

Qualifications: FCILT, FAIM, MAICD

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

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

J Atkin

Experience: Mr Atkin has more than 25 years experience in financial services and the legal profession in Australia and internationally. Mr Atkin is a Director of The Australian Outward Bound Foundation and a member of the Financial Services Advisory Council of the Australian Government. Previously, Mr Atkin was Chief Executive Officer of The Trust Company Limited (2009–2013), was Managing Partner of Blake Dawson (2002–2008) and a Corporate, and Mergers & Acquisitions partner at Mallesons Stephen Jaques (1987–2002). Mr Atkin continues to provide consulting services to the corporate trust division of the Trust Company on a transitional basis.

Qualifications: BA (Hons), LLB (Hons), FAICD

Special Responsibilities: Non-Executive Director of Aurizon Network Pty Ltd (appointed Chairman 21 May 2013)

Member of:

(i) Remuneration, Nomination & Succession Committee (formerly Remuneration & Succession Committee)
(ii) Chairman of Governance & Nomination Committee (1 July 2012 – 21 May 2013)

Australian Listed Company Directorships held in the past three years: The Trust Company Limited – CEO and Executive Director (19 January 2009 – 15 April 2013).

R 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, Chairman of the Cooperative Research Centre for Contamination Assessment and Remediation of the Environment, a Non-Executive Director and Chairman elect of Orica Limited, and member of the Board of the Committee for the Economic Development of Australia (CEDA). He is a former Non-Executive Director of Woodside Petroleum Limited and the former Chairman of the Australian Institute of Petroleum.

Qualifications: LLB, FAICD, FAIM

Special Responsibilities: Chairman of Remuneration, Nomination & Succession Committee (formerly Remuneration & Succession Committee). Member of Audit, Governance & Risk Management Committee (formerly Audit & Risk Management Committee)

Australian Listed Company Directorships held in the past three years: Orica Limited – Non-Executive Director Commenced – 1 October 2007 (ongoing)

J D Cooper

Experience: Mr Cooper has more than 35 years experience in the construction and engineering sector in Australia and overseas. Currently, Mr Cooper is Chairman and Non-Executive Director of Southern Cross Electrical Engineering Limited and also holds Non-Executive Directorships with NRW Holdings Limited.

During his career as an executive, Mr Cooper's roles have encompassed large civil, commercial and infrastructure projects, and complex engineering and project management activities in the mining, oil and gas, engineering and property sectors.

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

Special Responsibilities: Non-Executive Director of Aurizon Network Pty Ltd. Member of Safety, Health & Environment Committee (formerly Safety & Environment Committee)

Australian Listed Company Directorships held in the past three years: Southern Cross Electrical Engineering Limited – Chairman and Non-Executive Director Commenced – 30 October 2007 (ongoing), Flinders Mines Limited – Non-Executive Director (13 September 2010 – 18 December 2012), NRW Holdings Limited – Non-Executive Director Commenced – 29 March 2011 (ongoing), Neptune Marine Services Ltd – Non-Executive Director (4 April 2012 – 25 June 2013), Clough Limited (24 August 2006 – 31 January 2010).

K L Field

Experience: Mrs Field has more than 30 years experience in the mining industry in Australia and overseas and has a strong background in human resources and project management.

Currently Mrs Field is the Deputy Chairman and Non-Executive Director of the Water Corporation of Western Australia and a Non-Executive Director of a number of listed and unlisted entities including Sipa Resources Limited. Prior to this, Mrs Field held Non-Executive Directorships with the Centre for 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 including aged care provider Amana Living Inc, The Gravity Discovery Centre Foundation and the University of Western Australia's Centenary Trust for Women.

Qualifications: B Econ, FAICD

Special Responsibilities: Chairman of Safety, Health & Environment Committee (formerly Safety & Environment Committee)

Member of:

(i) Audit, Governance & Risk Management Committee (formerly Audit & Risk Management Committee)

(ii) Remuneration, Nomination & Succession Committee (1 July 2012 – 21 May 2013) (formerly Remuneration & Succession Committee)

Australian Listed Company Directorships held in the past three years: Sipa Resources Limited – Independent Non-Executive Director Commenced – 16 September 2004 (ongoing), MACA Limited (27 May 2011 – 1 May 2012), Perilya Limited (16 August 2007 – 5 February 2009).

G T John AO

Experience: Mr John has 30 years management experience in the transport operations sector including 16 years as Managing Director of Australia Post. He was also a Senior Executive of TNT Australia Ltd.

Mr John is a Director of Seven West Media Ltd, Racing Victoria and a commissioner of the Australian Football League. His previous roles include Chairman of Australian Air Express, Chairman of Star Track Express, Chairman of the Kahala Posts Group, Director of the International Post Corporation (Netherlands), Vice Chairman of Sai-Cheng Logistics International (China) and a trustee of the Committee for Melbourne and the MCG. He has received the Australian Sports Medal and Centenary Medal.

Qualifications: FCILT, MAICD

Special Responsibilities: Non-Executive Director of Aurizon Network Pty Ltd

Member of:

(i) Safety, Health & Environment Committee (formerly Chairman of Safety & Environment Committee 1 July 2012 – 21 May 2013)

(ii) Remuneration, Nomination & Succession Committee (1 July 2012 – 21 May 2013) (formerly Remuneration & Succession Committee)

Australian Listed Company Directorships held in the past three years: Seven West Media Ltd – Non-Executive Director Commenced – 3 December 2008 (ongoing).

A J P Staines

Experience: Ms Staines has extensive corporate, financial and commercial and advisory experience in governance, strategy and risk management. Ms Staines is a Director of Goodstart Early Learning and the NSW Transport Advisory Board. Former Directorships include the Australian Rail Track Corporation, Gladstone Ports Corporation, North Queensland Airports, Allconnex Water and Early Learning Services (now G8).

Directors' Report (continued)

Ms Staines is a former Chief Executive Officer of Australian Airlines, a Qantas subsidiary she co-launched in 2002 as a member of the carrier's 12-person senior team. She previously held various financial, strategy and economic roles at Qantas. Prior to this, Ms Staines held various financial roles at American Airlines' headquarters in Dallas. Ms Staines is a Member of CEW (Chief Executive Women).

Qualifications: BEcon, MBA, FAICD

Special Responsibilities:
Member of:
(i) Audit, Governance & Risk Management Committee (formerly Audit & Risk Management Committee)
(ii) Remuneration, Nomination & Succession Committee (21 May 2013 – ongoing) (formerly Remuneration & Succession Committee)
(iii) Chairman and Non-Executive Director of Aurizon Network Pty Ltd (1 July 2012 – 21 May 2013).

Australian Listed Company Directorships held in the past three years: G8 Education Limited (12 May 2009 – 27 May 2010).

G T Tilbrook

Experience: Mr Tilbrook has broad experience in corporate strategy, investment and finance. He joined Wesfarmers in 1985 and was an Executive Director from 2002 to 2009. Between 2000 and 2006, when Wesfarmers was a joint owner of the Australian Railroad Group (ARG), he was a Director of ARG and Chairman of Westnet Rail. Mr Tilbrook is a Director of Fletcher Building, GPT Group, the Bell Shakespeare Company and the Committee for Perth. He is also a Councillor of Curtin University and the Australian Institute of Company Directors WA. He was recently appointed a director of Orica Limited effective 14 August 2013.

Qualifications: BSc, MBA, FAICD

Special Responsibilities: Chairman of Audit, Governance & Risk Management Committee (formerly Audit & Risk Management Committee)

Member of:
(i) Remuneration, Nomination & Succession Committee (21 May 2013 – ongoing) (formerly Remuneration & Succession Committee)
(ii) Governance & Nomination Committee (1 July 2012 – 21 May 2013)

Australian Listed Company Directorships held in the past three years: Orica Limited – Non-Executive Director Commenced – 14 August 2013 (ongoing), GPT Group Limited – Non-Executive Director Commenced – 11 May 2010 (ongoing), Fletcher Building Limited – Non-Executive Director Commenced – 1 September 2009 (ongoing), Transpacific Industries Group Ltd – Non-Executive Chairman (3 September 2009 – 1 March 2013).

Company Secretary

Mr D D Smith, BA, LLB, LLM, DipLegS, FCSA, FCIS, FAICD, 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 Chartered Secretaries Australia, and the Australian Institute of Company Directors.

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 Chairman's Report, the MD & CEO's Report, and the Year in Review as set out on pages 4 to 11 of this report.

Dividends

An unfranked final dividend of 4.6 cents per fully paid ordinary share was paid on 28 September 2012 and a 70 % franked interim dividend of 4.1 cents per fully paid ordinary share was paid on 27 March 2013. Further details of dividends provided for or paid are set out in Note 25 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 8.2 cents per fully paid ordinary share. The dividend will be 90 % franked and is payable on 23 September 2013.

State of affairs

During the year the Company received shareholder approval and bought back approximately 288 million ordinary shares from Queensland Treasury Holdings in November 2012. The Company also announced to the ASX in May 2013 the implementation of a long-term capital structure.

In the opinion of the Directors there were no other 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 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, the MD & CEO's Report, and the Year in Review as set out on pages 4 to 11 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 Holdings 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 Holdings seeks to comply with all applicable environmental laws and regulations.

The *Energy Efficiency Opportunity Act 2006* (EEO) (Cth) requires the Group to assess its energy usage including the identification, investigation and evaluation of energy-saving opportunities, and to report publicly on the assessments undertaken including what action the Group intends to take as a result. The Group continues to meet its obligations under the EEO Act.

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 on pages 19 to 20 of this Annual Report.

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 & Risk Management Committee (renamed Audit, Governance & Risk Management Committee on 21 May 2013) oversees the process for identification and management of risk in the Company (see page 51 of this Annual Report). The Company's Risk Management Division is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the MD & 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 risk register with risk profiles populated at the various layers of the organisation and a management specification that outlines the processes for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud.

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 below.

DIRECTOR	AURIZON HOLDINGS		AUDIT & RISK MANAGEMENT		GOVERNANCE & NOMINATION		REMUNERATION & SUCCESSION		SAFETY & ENVIRONMENT	
	A	B	A	B	A	B	A	B	A	B
J B Prescott AC	16[1]	16	-	-	4	4	8	8	3	3
L E Hockridge	16[1]	16	-	-	4	4	-	-	3	3
J Atkin	16	16	-	-	4	4	1[3]	1	-	-
R R Caplan	16	16	8[2]	8	-	-	8	8	-	-
J D Cooper	16	14	-	-	-	-	-	-	3	2
K L Field	16	16	8[2]	8	-	-	7	7	-	-
G T John AO	16	16	-	-	-	-	7	6	3	3
A J P Staines	16	16	8[2]	8	-	-	1[3]	1	-	-
G T Tilbrook	16	15	8[2]	8	4	4	1[3]	1	-	-

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 Mr J B Prescott and Mr L E Hockridge met on three occasions.

2 The Audit & Risk Management Committee was renamed Audit, Governance & Risk Management on 21 May 2013.

3 Ms A J P Staines, Mr J Atkin and Mr G T Tilbrook were appointed to the renamed Remuneration, Nomination & Succession Committee on 21 May 2013.

During the year, the Aurizon Network Pty Ltd Board met on ten occasions. Apologies were recorded for two meetings only with Mr Carter and Mr Cooper unable to attend two meetings each.

DIRECTORS' INTERESTS

DIRECTOR	NUMBER OF ORDINARY SHARES	DIRECTOR	NUMBER OF ORDINARY SHARES
J B Prescott AC	215,434	A J P Staines	14,223
L E Hockridge	872,096	G T Tilbrook	49,112
J Atkin	35,072	K L Field	14,245
R R Caplan	82,132	J D Cooper	20,000
G T John AO	57,132		

Directors' interests are as at 30 June 2013.
Only Mr Hockridge, the MD & CEO, receives performance rights and these details are set out in Section 4.2 of the Remuneration Report.

Directors' Report (continued)

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:

	2013 $'000
OTHER ASSURANCE SERVICES	
PwC Australian firm:	
Audit of regulatory returns	285.1
Other assurance services	583.5
Total remuneration for other assurance services	**868.6**
TAXATION SERVICES	
PwC Australian firm:	
Tax compliance services	421.9
Total remuneration for taxation services	**421.9**
OTHER SERVICES	
PwC Australian firm:	
Advisory services	846.0
Total remuneration for other services	**846.0**

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 aspects in relation to the reporting of financial risks.

Indemnification and insurance of officers

The Company's Constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other Executive Officers, against liabilities incurred whilst acting as such officers to the 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 28 to 48 and forms part of the Directors' Report for the financial year ended 30 June 2013.

Rounding of amounts

The Group is within the class specified in ASIC Class Order 98/100 dated 10 July 1998 relating to the "rounding off" of amounts in the Directors' Report and the Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest hundred thousand dollars, in accordance with ASIC Class Order 98/100, except where stated otherwise.

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 27. The Directors' Report is made in accordance with a resolution of the Directors of the Company.

John B Prescott AC
Chairman

19 August 2013

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Aurizon Holdings Limited for the year ended 30 June 2013, I declare that to the best of my 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.

John Yeoman
Partner
PricewaterhouseCoopers

Brisbane
19 August 2013

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Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Directors' Report (continued)

Remuneration Report

The Directors of Aurizon present the Remuneration Report prepared in accordance with Section 300A of the *Corporations Act 2001* for the year ended 30 June 2013. The information provided in this Remuneration Report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

1. Executive remuneration, shareholder wealth & company performance

1.1 Executive remuneration

Aurizon's remuneration framework is designed to support the delivery of superior shareholder returns, achieved with the following components:

- **Fixed Remuneration Component:** not subject to performance conditions
- **Short Term Incentive Award ("STIA") – 'At Risk' Component:** awarded on the achievement of performance conditions over a 12 month period
- **Long Term Incentive Award ("LTIA") – 'At Risk' Component:** awarded on the achievement of performance conditions over a 3 year period (with a potential year 4 re-test period).

Section 3: Remuneration Framework components, provides additional detail in relation to the components of the Executive remuneration.

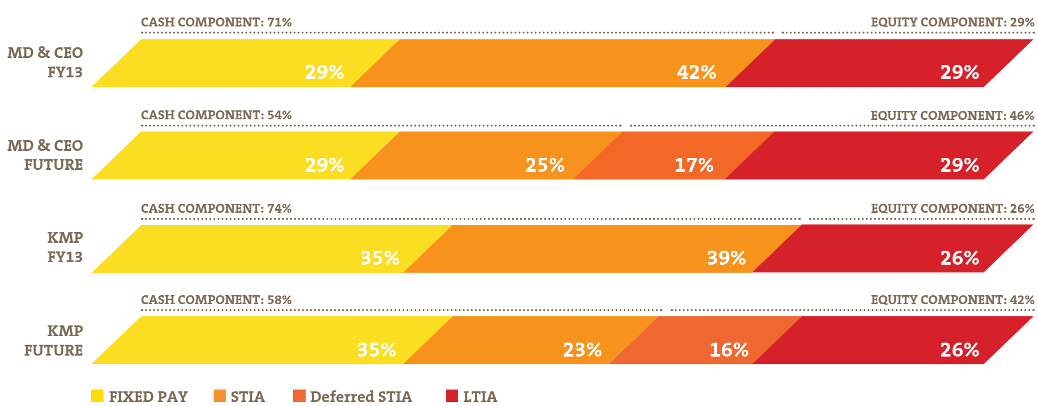
The mix of remuneration components for the Managing Director & Chief Executive Officer ("MD & CEO") and the Key Management Personnel ("KMP") are set out in Diagram 1: Total Potential Remuneration. Total Potential Remuneration is subject to performance conditions and the achievement of hurdles, if these performance hurdles are not met, Executives lose that part of their potential remuneration.

Changes to Executive Remuneration Components from Financial Year 2014: During the year the Board undertook a review of the various aspects of Aurizon's Remuneration Framework. As an outcome of the review the Board determined that two key enhancements be implemented in relation to the STIA and LTIA components of Executive remuneration. The enhancements include the introduction of a STIA Deferral and Clawback; and an adjustment to the performance condition ratio within the LTIA, increasing the importance of Operating Ratio improvement.

In respect of the Operating Ratio calculation, treating the diesel fuel rebate as a cost recovery against the fuel expense rather than as revenue has the effect of decreasing the Operating Ratio. In accordance with the statement to the market following the half-year Financial Year 2013 results, the calculation of Operating Ratio for the purpose of the LTIA performance hurdle will include the rebate as revenue to ensure that management is not advantaged by the change in accounting treatment.

In addition to these enhancements the Board has clarified the circumstances in which it will exercise discretion and has determined that Executives will not be advantaged by the share buy-back in relation to the calculation of Earnings Per Share ("EPS") growth for the 2012 LTIA. Further detail regarding the review, outcomes and additional enhancements are available in *Section 5.1: Changes to Executive Remuneration components Financial Year 2014*.

DIAGRAM 1 – TOTAL POTENTIAL REMUNERATION[1]



[1] Assumes achievement of the 'stretch' performance hurdle outcomes for STIA, full provision of the Deferred STIA in future and vesting of the LTIA at a value equal to the original award.

1.2 Executive remuneration and shareholder wealth

In order to align Directors and Executives with shareholders, the Company:

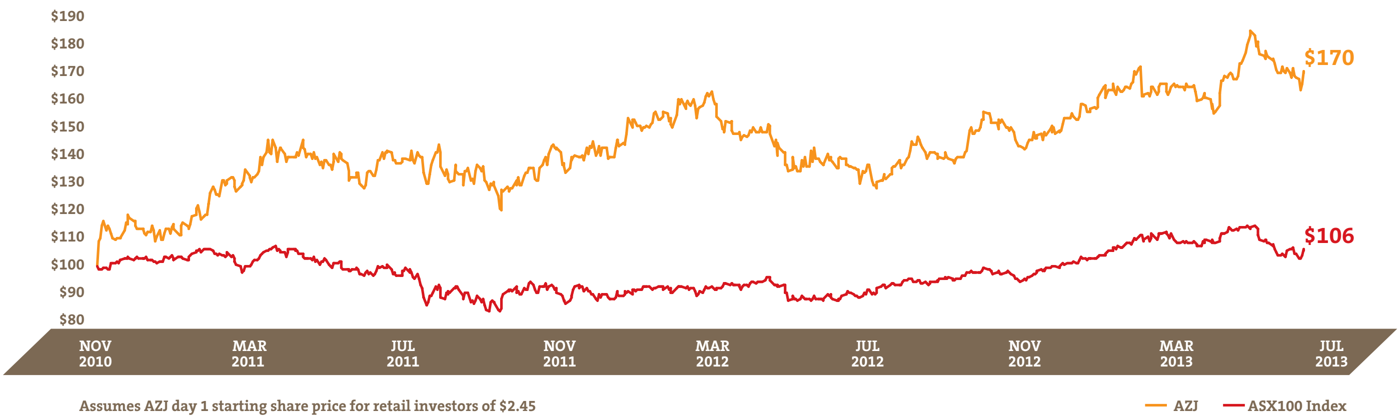
- Requires that Directors' and Executives' accumulate share ownership
- Links Executive remuneration to improving shareholder returns and the generation of long term shareholder wealth.

Accumulation of share ownership	In order to align Director and Executive interests with shareholders, the Company has a policy which requires: > Non-Executive Directors to accumulate and maintain one year's Directors' fees worth of shares in the Company; > the MD & CEO to accumulate and maintain one year's fixed remuneration of shares in the Company; and > the KMP to accumulate and maintain 50 % of one year's fixed remuneration of shares in the Company; within six years of the date of listing of the Company or their appointment (whichever is the later). This will be calculated with reference to the Directors' fees/Executives' total fixed remuneration during the period divided by the number of years.
Linking executive remuneration to shareholder returns and wealth	Further alignment with shareholders is attained by providing a part of the Executives' remuneration in equity and by linking the 'at risk' components of the remuneration to performance conditions. These performance conditions are designed to enhance shareholder value and include: **STIA Performance Conditions:** > Underlying Earnings Before Interest & Tax ("EBIT"); > Transformation; > Safety; > Return on Invested Capital ("ROIC"). **LTIA Performance Conditions:** > Operating Ratio improvement; > Total Shareholder Return ("TSR") performance relative to a peer group; > Earnings Per Share ("EPS") growth. Performance hurdles against each performance condition are established at the beginning of the performance period. Within the STIA, the hurdles are Threshold, Target and Stretch performance. For the LTIA, vesting varies between 0 % and 100 % of the award, depending on the performance hurdle established at the outset. Total Potential Remuneration or the maximum remuneration for an Executive occurs when stretch performance is achieved for STIA and when 100 % vesting occurs for LTIA.

1.3 2013 Company performance

One of the key indicators of performance of Aurizon is the share price appreciation since Initial Public Offering ("IPO"). Diagram 2 below shows the movements in both the Aurizon share price and ASX100 index value over the period from listing date 22 November 2010 to 30 June 2013. The diagram assumes that a shareholder starts with an initial investment of $100 in Aurizon and the ASX100 index and shows the change in the value of that investment, based on changes in share price / index value over the period. For Aurizon, the diagram assumes a starting price of $2.45, being the initial retail share price at listing.

DIAGRAM 2 – SHARE PRICE GROWTH OF AZJ AND ASX100 INDEX (22 NOVEMBER 2010 TO 30 JUNE 2013)[1]



[1] The diagram excludes the value that would have been received from dividend payments during the year and is not equivalent to TSR.

Directors' Report (continued)

Remuneration Report

In addition to the operational and financial achievements described on pages 6 to 7 the Company has achieved many growth and transformational advances during Financial Year 2013 including:

- Secured several high-volume coal haulage contracts totalling circa 120 million tonnes per annum including the BHP Billiton Mitsubishi Alliance Coal Operations (BMA) and BHP Billiton Mitsui Coal (BMC) contract which was the largest contestable coal haulage contract in Australia in a decade
- Delivered transformation benefits of $66 million, including a Voluntary Redundancy Program which resulted in 921 employees leaving during Financial Year 2013
- Ramped-up iron ore haulage in Western Australia with tonnages increasing by 82 %, EBIT by 203 % compared to Financial Year 2012
- Achieved major improvements in safety (60 % and 54 % decrease in Lost Time Injury Frequency Rate ("LTIFR") and in Medically Treated Injury Frequency Rate ("MTIFR") respectively) which are now approaching world-class performance levels, reflecting genuine cultural change and operating discipline across the Company
- Completed a major refinancing program, including stand alone debt facilities at both Aurizon Group and Aurizon Network, with the ability to further diversify funding sources
- Completed a $1 billion selective buy-back of Queensland Treasury Holdings' (QTH) shares and a $54 million on-market buy-back
- Delivered $981 million in capital investment of which $624 million was on growth projects, including the Wiggins Island Rail Project (QLD), Hay Point Expansion (QLD) and Hexham Train Support Facility (NSW)
- Rationalised real estate portfolio, sold surplus rollingstock assets and closed a number of rollingstock facilities including the wagon manufacturing facility at Redbank
- Developed a two year diversity plan comprising a range of initiatives and actions which are being implemented and progressively evaluated.

Company Performance related to Executive Remuneration is identified in *Table 1: Company performance against Financial Year 2013 performance hurdles*

Further detail in relation to the performance conditions and hurdles is provided in *Section 3: Remuneration Framework components*.

TABLE 1 – COMPANY PERFORMANCE AGAINST FINANCIAL YEAR 2013 PERFORMANCE HURDLES

		PERFORMANCE AGAINST FY13 HURDLES	30 JUNE 2013	30 JUNE 2012	30 JUNE 2011
			PERFORMANCE OUTCOMES		
SHORT TERM INCENTIVE AWARD PERFORMANCE METRICS					
Underlying EBIT		*Above Target*	$754m	$584m	$383m[1]
Safety	MTIFR	*Stretch*	4.90	10.74	19.26
	LTIFR	*Stretch*	0.95	2.4	3.08
	Safety Interactions	*Stretch*	1.15 per employee per month	1.13 per employee per month	1.10 per employee per month
Transformation	Project completion, benefit delivery & capability	*Above Target*[4]	Majority completed on-time, in full	Majority completed on-time, in full	Majority completed on-time, in full
ROIC		*Above Target*	8.0 %	6.7 %	4.4 %
LONG TERM INCENTIVE AWARD PERFORMANCE METRICS					
EPS		*See 3.1.4 LTIA for performance outcomes*	19.8	18.1	15.4
TSR[2]			25.3 %	1.3 %	20.2 %
Operating Ratio[3]			79.8 %	83.4 %	88.0 %
	Treating diesel fuel rebate as revenue[3]		80.3 %	83.9 %	88.3 %
ADDITIONAL COMPANY PERFORMANCE METRICS					
Closing share price / Change in share price			4.16 ($1.71 above 'retail' price)	3.40 (95c above 'retail' price)	3.38 (93c above 'retail' price)
Dividends per share			8.7 cents	7.4 cents	n/a

1 Restated underlying EBIT due to change in accounting policy.

2 Long Term Incentive Award performance condition is relative TSR.

3 LTIA performance condition Operating Ratio improvement hurdle is measured against the ratio calculated by including the diesel fuel rebate in revenue

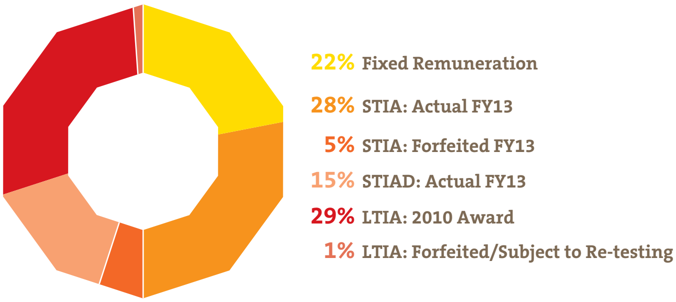
4 Transformation result was assessed at above target. Board exercised discretion to assess a remuneration outcome below target to recognise the need to ensure sustainability of the transformation.

1.4 Executive remuneration and company performance

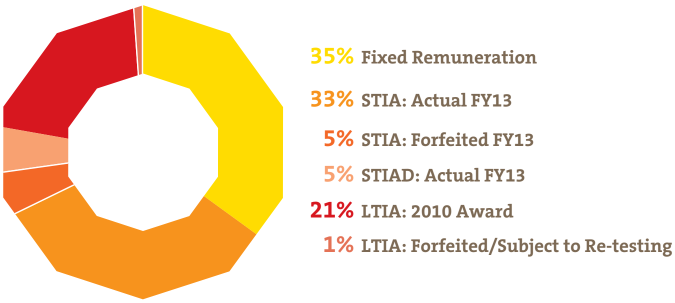
As described in *1.1 Executive remuneration*, Total Potential Remuneration is subject to performance conditions and the achievement of hurdles. The achievement of performance hurdles results in performance payments, whilst under achievement against performance hurdles results in the forfeiture of performance payments (or, in the case of the unvested LTIA, subject to re-testing in the following financial year).

Diagram 3: Potential remuneration outcomes, represents the Financial Year 2013 actual and forfeited *rem*uneration of the MD & CEO and an example KMP. The remuneration outcomes identified in these diagrams are directly linked to company performance described in *Table 1: Company performance against Financial Year 2013 performance hurdles* and *3.1.4 Long Term Incentive Awards*.

DIAGRAM 3 – POTENTIAL REMUNERATION OUTCOMES



MD & CEO Financial Year 2013 Remuneration[1]
(as a proportion of total potential remuneration)



Example KMP Financial Year 2013 Remuneration[1]
(as a proportion of total potential remuneration)

[1] Remuneration outcomes have been developed as a proportion of Total Potential Remuneration (as identified within Section 3: Remuneration Components), addressed with reference to company performance (as identified within Section 1.3: Company performance) and assuming vesting of the LTIA 2010 award based on testing conducted as at 30th June 2013 with a Share Price of $4.16 (rights to shares do not actually vest until the end of the performance period as described in 3.1.4 Long Term Incentive Award).

Directors' Report (continued)

Remuneration Report

The way in which the components of our Remuneration Framework deliver our remuneration objectives is set out below.

OUR GUIDING PRINCIPLES

Our Remuneration Framework is designed to support delivery of superior shareholder returns by placing a significant proportion of an executive's total target remuneration at risk and awarding a significant portion of at risk pay in equity.

	Market competitive	Performance	Shareholder alignment
Total Remuneration	> The quantum and structure of remuneration is determined with reference to competitive market practices evident at similarly sized companies in similar industry sectors > Remuneration is set at what is required to ensure that we have the right people to deliver on Aurizon's potential. At times this means we pay remuneration above median for the right experience, skills and qualifications	> Remuneration is closely integrated with performance improvement and performance management programs > Superior performance is rewarded and differentiated from performance which is only adequate or inferior > Performance conditions and hurdles are derived from the Aurizon strategy. In addition, all participants in the incentive plans are rewarded only in the event that the Aurizon values and behaviours are consistently demonstrated	> The determination of incentive outcomes depends on the achievement of performance hurdles which, if achieved, will enhance shareholder value > A portion of short term rewards are delivered in restricted equity to ensure executives think like owners > Policies are set which require executives to acquire a minimum number of Aurizon shares
Fixed Remuneration	> Set with reference to an individual's experience, qualifications and specific role and responsibilities > Reference is had to the remuneration paid by similar sized companies in similar industry sectors	> Remuneration increases are not automatic > Any increases are dependent on performance against goals set at the start of the year (with additional reference to market conditions)	> Set to attract and retain executives with the right talent to deliver results
Short Term Incentive Award (at-risk)	> Participation levels are set with reference to the appropriate levels of short term incentive offered by our peers in the market	> Short Term Incentive Awards may only be earned for meeting or exceeding annual performance conditions set at the beginning of each year	> Achievement of performance conditions designed to enhance shareholder value must be achieved before any Short Term Incentive Award is made
Long Term Incentive Award (at-risk)	> Only those senior employees who can influence long-term outcomes of Aurizon participate > The number of performance rights awarded is determined by a percentage of fixed remuneration divided by the share price (Volume Weighted Average Price) at the time of the award > Percentage of fixed remuneration is, in turn, assessed with reference to market practices and is the same for all participants at the same level	> Vesting depends on a reduction in Aurizon's Operating Ratio, Total Shareholder Return performance relative to a peer group and Earnings Per Share growth	> Achievement of performance outcomes is required to receive incentive, which if achieved will add to shareholder value > Performance rights granted entitle their holder to a share upon vesting *Note: Minimum shareholding requirements for Executives encourage retention of these shares and alignment with shareholder interests*

2. Key Management Personnel

The KMP of the Group (which is a defined term under the Australian Accounting Standards) comprises all of the Directors of Aurizon and those Executives who have the authority and responsibility for planning, directing and controlling the activities of Aurizon. The Executives that form part of the KMP have been determined to be MD & CEO and those members of the Executive Committee reporting directly to the MD & CEO who have authority and responsibility for directing and controlling the business. The KMP of Aurizon for the whole of the financial year ended 30 June 2013 (unless otherwise indicated) were:

NAME	POSITION
EXECUTIVE	
L E Hockridge	Managing Director & Chief Executive Officer
M G Carter	Executive Vice President, Network
J M Franczak[1]	Executive Vice President, Operations
A Kummant[2]	Executive Vice President, Strategy
K R Lewsey[3]	Executive Vice President, Business Development
K Neate[4]	Executive Vice President and Chief Financial Officer
G P Pringle	Executive Vice President, Enterprise Services
G Robinson[3]	Executive Vice President, Business Sustainability
P Scurrah	Executive Vice President, Commercial & Marketing
R J Stephens	Executive Vice President and Chief Human Resources Officer
FORMER EXECUTIVE	
D M O'Toole[5]	Executive Vice President and Chief Financial Officer
L J Cooper[6]	Executive Vice President, Operations (Acting)

1 J M Franczak commenced in the role 3 April 2013
2 A Kummant commenced in the role 8 October 2012
3 K R Lewsey and G Robinson will be leaving the Group in the Financial Year ending 30 June 2014 and the terms are yet to be finalised
4 K Neate commenced acting in the role 19 November 2012, confirmed in the role 8 April 2013
5 D M O'Toole ceased in the CFO role 20 November 2012
6 L J Cooper ceased acting in the role 31 December 2012

NON-EXECUTIVE DIRECTORS	
J B Prescott AC	Chairman, Independent Non-Executive Director
J Atkin	Independent Non-Executive Director
R R Caplan	Independent Non-Executive Director
J D Cooper	Independent Non-Executive Director
K L Field	Independent Non-Executive Director
G T John AO	Independent Non-Executive Director
A J P Staines	Independent Non-Executive Director
G T Tilbrook	Independent Non-Executive Director

Directors’ Report (continued)

Remuneration Report

3. Remuneration Framework components

3.1 Executive remuneration components

3.1.1 Remuneration Framework

What are the components of the Remuneration Framework?	Aurizon’s Remuneration Framework for each Executive comprises three components: > Fixed remuneration > STIA > LTIA The components are intended to provide an appropriate mix of fixed and variable remuneration, and a blend of short and long term incentives.

3.1.2 Fixed remuneration

What is Fixed Remuneration and how is it set?	In setting fixed remuneration, regard is given to particular roles and responsibilities, the skills and experience of individuals, market conditions and Aurizon’s peers in similar sized companies in similar industries. Where required, advice is taken from independent external professional advisers to determine the remuneration range evident in the marketplace and the individual is paid within that range. A fully competent individual can expect to be paid close to the middle of the market range, while an individual growing into a role can expect to be paid towards the bottom of the market range until they are able to demonstrate full competency. An individual who consistently exceeds the requirements of the role by virtue of their experience, qualifications, performance and marketability is likely to be paid towards the top of the market range. From time to time the skill set required is not readily available in the Australian market. This is particularly the case where we are seeking to inject practices evident in the Class 1 international railways. In these cases the market forces evident in those markets must be considered and met. The remuneration tables in this report include the details relating to two Executives recruited in non-Australian markets. The fixed remuneration amount is used as the basis for calculating the variable components within the Remuneration Framework (i.e. STIA and LTIA potential remuneration components are expressed as a percentage of fixed remuneration).
How is Fixed Remuneration reviewed?	Remuneration reviews are closely aligned with our performance management programs – the Remuneration, Nomination and Succession Committee (“Committee”) reviews the remuneration and other terms of employment of the KMP, having regard to performance hurdles set at the start of the year. There are no guaranteed fixed remuneration increases included in any Executive’s contracts. For Financial Year 2014, the Board has decided there will be no increase for Aurizon Executives, which includes the MD & CEO, the KMP and the direct reports to the KMP. *Section 5.1.2: Executive Remuneration components for Financial Year 2014* provides further detail in relation to fixed remuneration changes for Financial Year 2014.

3.1.3 Short Term Incentive Award

What is the STIA and who participates?	The STIA component is a cash bonus subject to the achievement of pre-defined company and individual annual performance hurdles set by the Committee. The STIA also applies equally (other than the potential remuneration percentage) to all non-enterprise agreement employees. From Financial Year 2014, an STIA (if any) will have a portion awarded in the form of rights to shares, which vest on the first anniversary of payment of the cash component. This condition is to be introduced over a two year period, viz, 20 % in Financial Year 2014 increasing to 40 % in Financial Year 2015 and will apply to the MD & CEO and KMP. *Section 5.1.2: Executive Remuneration components for Financial Year 2014* provides further detail in relation to STIA changes for Financial Year 2014.
What is the amount that Executives can earn through an STIA?	The potential remuneration (expressed as a percentage of fixed remuneration) available to Executives through the STIA for Financial Year 2013 and Financial Year 2014 is identified below:

	% OF FIXED REMUNERATION	
PERFORMANCE HURDLE ACHIEVEMENT	MD & CEO	KMP EXECUTIVES
Below Threshold	0 %	0 %
Between Threshold & Target[1]	30 – 99 %	30 – 74 %
Target	100 %	75 %
Stretch *(Maximum)*	150 %	112.5 %

[1] Achieving a threshold EBIT result generates an STIA outcome of 30 % of target subject to Board discretion. Other performance conditions generate a 50 % outcome at threshold achievement also subject to Board discretion.

What are the performance hurdles and why were these performance measures chosen?

The Board sets the performance hurdles applicable to the STIA at the beginning of the performance period, ensuring alignment to Aurizon's performance improvement and performance management program.

The four key performance conditions were chosen because they captured the need to continuously improve safety across all aspects of the business, the need to quickly change from a statutory government owned organisation to a world-class, profitable listed company and, at the same time, deliver benefits to shareholders.

The performance hurdles for Financial Year 2013 and Financial Year 2014 are as follows:

EBIT	
Minimum performance below which no EBIT component is payable	'Threshold' is set above previous year actual.
The target level of achievement	Is the EBIT level that Aurizon is considered to have a 75 % chance of achievement, under favourable market and environmental conditions.
The stretch performance level	Is higher than the target level and the likelihood of attainment, although assessed by the Board as being achievable, would be considered very difficult even under favourable market conditions.

SAFETY	
Minimum safety performance level below which no safety component is payable	A consistent reduction in the Lost Time Injuries (LTI), Medically Treated Injuries (MTI) and a consistent frequency of safety interactions. That is, it is not sufficient to maintain the number of LTIs and MTIs; it is a minimum requirement that the number of hours lost to injury and the number of injuries be reduced.
The target level of achievement	Is a more significant reduction in LTIs and MTIs and a greater frequency of safety interactions.
The stretch performance level	Is the achievement of what would be considered a world-class reduction in LTIs and MTIs and a significant frequency of safety interactions.

TRANSFORMATION	
Minimum performance below which no transformation component is payable	Demonstrable transformation having regard to specified milestones and outcomes.
The target level of achievement	Substantial transformation having regard to specified milestones and outcomes.
The stretch performance level	Transformation which far exceeds the target level.

The Board recognised the strategic imperative that Aurizon be transformed very quickly after the IPO from the characteristics typical of a long-standing public sector organisation to an efficient, profitable, listed market leader. To do this, a number of specific change programs were identified and allocated to specific KMP. Minimum, target and stretch levels of achievement were identified in relation to each transformation project and in relation to transformation overall.

Performance is defined in terms of project and program completion (or milestone achievement) and benefits delivery (or progression towards delivery for lengthy transformational projects). An assessment is then performed by the Committee to assess the level of achievement in relation to each transformation project, having regard to pre-determined levels of expected achievement.

ROIC	
Minimum performance level below which no ROIC component is payable	'Threshold' is set with reference to corporate plan.
The target level of achievement	Is the ROIC that Aurizon is considered to have a 75 % chance of achievement, under favourable market and environmental conditions.
The stretch performance level	A % return which, although considered by the Board to be achievable, would be very difficult to achieve under favourable market conditions.

In order to meet the long term contractual undertakings with our customers, Aurizon needs to invest heavily in infrastructure, process improvement, systems and capacity.

The ROIC performance measure is intended to ensure that there is alignment between these investment decisions and superior returns for shareholders.

Directors' Report (continued)

Remuneration Report

3.1.3 Short Term Incentive Award (continued)

To what extent were performance conditions met in Financial Year 2013?	The performance hurdle outcomes for Financial Year 2013 are identified below:				
	PERFORMANCE HURDLE	**EBIT**	**SAFETY**	**TRANSFORMATION**	**ROIC**
	FY13 Achievement	*Above Target*	*Stretch*	*Above Target*[1]	*Above Target*
	Specific information relating to the STIA payable for the Financial Year 2013 based on achievement of the STIA performance hurdles for the MD & CEO and KMP is set out in Table 2: Summary of the STIA for Financial Year 2013.				

[1] Transformation result was assessed at above target. Board exercised discretion to assess a remuneration outcome below target to recognise the need to ensure sustainability of the transformation.

Table 2 – Summary of the STIA for Financial Year 2013

NAME	ACTUAL STIA PAYMENT	% OF MAXIMUM STIA PAYABLE	% OF MAXIMUM STIA FORFEITED
EXECUTIVE			
L E Hockridge	2,505,360	86 %	14 %
M G Carter	725,000	86 %	14 %
J M Franczak	750,000	67 %	33 %
A Kummant	750,000	79 %	21 %
K R Lewsey	702,500	83 %	17 %
K Neate	562,500	82 %	18 %
G P Pringle	575,000	84 %	16 %
G Robinson	575,000	84 %	16 %
P Scurrah	825,000	88 %	12 %
R J Stephens	575,000	84 %	16 %
FORMER EXECUTIVE			
D M O'Toole	607,500	69 %	31 %
L J Cooper	N/A	N/A	N/A

3.1.4 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 who the Board has identified as being able to contribute directly to the generation of long term shareholder returns. This includes the MD & CEO, KMP, the direct reports to KMP and a small number of other management employees.
How is the LTIA grant determined?	The number of performance rights issued under the LTIA to each employee is calculated by dividing their respective LTIA potential remuneration (expressed as a percentage of fixed remuneration) by the 5 day Volume Weighted Average Price ("VWAP") of Aurizon shares at the time of their award. Participation levels for Financial Year 2013 and Financial Year 2014 are at 100 % of fixed remuneration for the MD & CEO and 75 % of fixed remuneration for KMP Executives. With minor exceptions, the direct reports to the KMP Executives are awarded between 30-60 %, depending on the relevant role. Each performance right is a right to acquire one share in Aurizon upon vesting.
What is the performance period?	The performance hurdles for the LTIA are measured over a three year period. In the event that the performance hurdle is not achieved, the Board has the discretion to extend the performance period for a further year. In the event of a performance period extension, given the cumulative nature of EPS growth and relative TSR, in order for any additional performance rights to vest on the later date, Aurizon has to achieve stronger performance in the final year. Similarly for Operating Ratio, in order for rights to vest during the extension period, the % improvement required would be greater than that required for the original performance period.

What are the performance hurdles?

The Board sets the performance hurdles applicable to the LTIA at the beginning of the performance period, ensuring alignment to Aurizon's long term performance improvement and performance management program.

The performance hurdles for the LTIA are as follows:

OPERATING RATIO IMPROVEMENT HURDLE

Operating Ratio improvement, which essentially measures the operating cost (in cents) of earning each dollar of revenue, remains a key metric for Aurizon. Aurizon is committed to its target of reducing Operating Ratio to 75 % in respect of Financial Year 2015. This will require further implementation of transformation initiatives, growth initiatives and continued tight operational and financial discipline.

The Board has determined to increase the proportion of the LTIA that is subject to the Operating Ratio improvement performance condition to 50 % of the 2013 LTIA (2012 LTIA: 33 %).

The following table sets out the percentage of rights to vest under the 2013 LTIA for the Operating Ratio improvement hurdle under the relevant performance outcome.

OPERATING RATIO IMPROVEMENT HURDLE	
PERFORMANCE OUTCOME *(AS AT 30 JUNE 2016)*	**% OF HURDLE RIGHTS TO VEST**
Operating Ratio more than 75 %	No vesting of Rights will occur
Operating Ratio 75 %	50 % of the Rights will vest
Operating Ratio between 75 % and 73 %	Vests pro-rata on a straight-line basis
Operating Ratio 73 % or less	100 % of the Rights will vest

It should be noted that the target Operating Ratio in 2016 is a significant decrease below the 2015 target of 75 % and that this rate of decline cannot be expected to be maintained indefinitely into the future. The Board considers 73 % to be an extremely difficult target in such a short time. To put the target level of achievement in perspective, to achieve 73 % by 2016 will require a 3 % reduction year-on-year from IPO to 2016.

EARNINGS PER SHARE GROWTH HURDLE

EPS is calculated by dividing Aurizon's Net Profit After Tax (NPAT) by the weighted average number of ordinary shares on issue during the relevant period. EPS growth measures the growth in earnings on a per share basis.

The proportion of the LTIA that is subject to the EPS growth performance condition is 25 % of the 2013 LTIA (2012 LTIA: 33 %).

The following table sets out the percentage of rights to vest under the 2013 LTIA for the EPS growth hurdle under the relevant performance outcome.

EPS GROWTH HURDLE	
PERFORMANCE OUTCOME *(AS AT 30 JUNE 2016)*	**% OF HURDLE RIGHTS TO VEST**
Average annual EPS growth is less than 7.5 %	No vesting of Rights will occur
Average annual EPS growth is at 7.5 %	50 % of the Rights will vest
Average annual EPS growth is between 7.5 % and 10 %	Vests pro-rata on a straight-line basis
Average annual EPS growth is 10 % or more	100 % of the Rights will vest

Directors' Report (continued)

Remuneration Report

3.1.4 Long Term Incentive Award (continued)

What are the performance hurdles? (continued)

RELATIVE TSR GROWTH HURDLE

The remaining performance hurdle associated with the LTIA is relative TSR. The vesting of rights associated with relative TSR growth is conditional on Aurizon's TSR performance relative to a peer group of companies. The peer group is defined as the companies in the ASX Top 100 index, other than financial, medical, telecommunications, pharmaceutical, gaming and property trusts at the time of the award.

TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. To determine whether and to what extent the TSR tested performance rights will vest, 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.

For the purposes of calculating the TSR measurement, the relevant shares 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.

The proportion of the LTIA that is subject to the relative TSR growth performance condition is 25% of the 2013 LTIA (2012 LTIA: 33%).

The following table sets out the percentage of rights to vest under the 2013 LTIA for the relative TSR growth under the relevant performance outcome.

RELATIVE TSR GROWTH HURDLE

PERFORMANCE OUTCOME *(AS AT 30 JUNE 2016)*	% OF HURDLE RIGHTS TO VEST
Below the 50th percentile	No vesting of Rights will occur
At the 50th percentile	50% of the Rights will vest
Between the 50th and 75th percentile	Vests pro-rata on a straight-line basis
Between the 75th and 100th percentile of the peer group	100% of the Rights will vest

To what extent were performance conditions met in Financial Year 2013?

The performance hurdle outcomes as at 30 June 2013 for the LTIA are as follows:

LTIA	PERFORMANCE MEASUREMENT PERIOD	PERFORMANCE CONDITION	PERFORMANCE HURDLE	WEIGHTING	RESULT	% OF PERFORMANCE RIGHTS VESTING
IPO (2010)	01 July 2010 – 30 June 2013	EPS growth from FY12 – FY13	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	50 %	9.4 %	92 %
	22 November 2010 – 22 November 2013	Relative TSR against peer group within ASX100 Index	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	50 %		
2011	01 July 2011 – 30 June 2014	Average annual EPS growth	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	50 %		
		Relative TSR against peer group within ASX100 Index	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	50 %		
2012	01 July 2012 – 30 June 2015	Operating Ratio Improvement	50 % of rights will vest with a FY15 Operating Ratio of 79.5 %, up to 100 % at 75 % (with rights vesting pro-rata on a straight-line basis)	33 %		
		Average annual EPS growth	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	33 %		
		Relative TSR against peer group within ASX100 Index	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	33 %		

Directors' Report (continued)

Remuneration Report

To what extent were performance conditions met in Financial Year 2013? (continued)	LTIA	PERFORMANCE MEASUREMENT PERIOD	PERFORMANCE CONDITION	PERFORMANCE HURDLE	WEIGHTING	RESULT	% OF PERFORMANCE RIGHTS VESTING
	2013	01 July 2013 – 30 June 2016	Operating Ratio Improvement	50 % of rights will vest with a FY16 Operating Ratio of 75 %, up to 100 % at 73 % (with rights vesting pro-rata on a straight-line basis)	50 %		
			Average annual EPS growth	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	25 %		
			Relative TSR against peer group within ASX100 Index	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	25 %		

Specific information relating to the LTIA grants made to the MD & CEO and KMP during Financial Year 2013 (i.e under the 2012 LTIA) are set out in Table 3 below.

Further detail relating to rights granted is available in *Table 8: Rights granted as compensation*.

TABLE 3 – SUMMARY OF AWARDS MADE UNDER THE LTIA DURING THE FINANCIAL YEAR 2013

NAME	ALLOCATED AT 23 AUGUST 2012	FAIR VALUE AT ALLOCATION $'000	FORFEITED DURING YEAR
L E Hockridge	582,090	1,675	-
M G Carter	167,910	483	-
J M Franczak[1]	-	-	-
A Kummant[2]	188,059	541	-
K R Lewsey	167,910	483	-
K Neate[3]	93,152	268	-
G P Pringle	137,016	394	-
G Robinson	137,016	394	-
P Scurrah	186,270	536	-
R J Stephens	137,016	394	-
FORMER EXECUTIVE			
D M O'Toole[4]	181,344	522	(90,672)
L J Cooper[5]	137,059	394	(137,059)

1 Mr Franczak commenced in the role 3 April 2013

2 Mr Kummant commenced in the role 8 October 2012

3 Mr Neate commenced acting in the role 19 November 2012, confirmed in the role 8 April 2013

4 Ms O'Toole ceased in the CFO role 20 November 2012

5 Mr Cooper ceased acting in the role 31 December 2012

3.2 Executive service agreements

Remuneration and other terms of employment for the MD & CEO, as with the other KMP Executives, are formalised in a Service Agreement. Table 4: Service Agreement summary provides a summary of the service agreements for the MD & CEO and KMP. Further details relating to compensation of the MD & CEO and KMP for the financial year ended 30 June 2013 and 30 June 2012 are available in *Section 4: Actual Remuneration Outcomes*.

TABLE 4 – SERVICE AGREEMENT SUMMARY[1]

KMP EXECUTIVES	TERM	SERVICE AGREEMENT SUMMARY
MD & CEO	Duration	Ongoing, until notice given by either party.
	Termination by the MD & CEO	6 months notice.
	Termination by the Company	12 months notice. Termination payment of 12 months fixed pay. Treatment of unvested prior year STIA and LTIA will be in accordance with the plan rules and Board-approved policies.
	Post-employment restraints	12 months in any competitor business in Australia.
	Fixed Remuneration including superannuation	$1,950,000
All other KMP Executives	Duration	Ongoing, until notice given by either party.
	Post-employment restraints	Restricted from competitive business in Australia for a period aligned to the notice period.
M G Carter	Termination by the Executive	3 months notice.
	Termination by the Company	6 months notice.
	Fixed Remuneration including superannuation	$750,000
J M Franczak	Termination by the Executive	3 months notice.
	Termination by the Company	12 months notice.
	Fixed Remuneration including superannuation	$1,000,000
A Kummant	Termination by the Executive	3 months notice.
	Termination by the Company	12 months notice.
	Fixed Remuneration including superannuation	$840,000
K R Lewsey	Termination by the Executive	3 months notice.
	Termination by the Company	6 months notice.
	Fixed Remuneration including superannuation	$750,000
K Neate	Termination by the Executive	3 months notice.
	Termination by the Company	6 months notice.
	Fixed Remuneration including superannuation	$730,000
G P Pringle	Termination by the Executive	3 months notice.
	Termination by the Company	6 months notice.
	Fixed Remuneration including superannuation	$612,000
G Robinson	Termination by the Executive	3 months notice.
	Termination by the Company	6 months notice.
	Fixed Remuneration including superannuation	$612,000
P Scurrah	Termination by the Executive	3 months notice.
	Termination by the Company	9 months notice.
	Fixed Remuneration including superannuation	$832,000
R J Stephens	Termination by the Executive	3 months notice.
	Termination by the Company	6 months notice.
	Fixed Remuneration including superannuation	$612,000

1 Termination payments are governed by the conditions outlined in the individual service agreements and the Corporations Act

3.3 Hedging and margin lending policies

Upon listing on the ASX, Aurizon introduced a policy that prohibits Executives granted share-based payments as part of their remuneration from hedging economic exposure to unvested Rights that have been issued pursuant to a Group 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 KMP signing an annual declaration of compliance with the policy.

Directors' Report (continued)

Remuneration Report

3.4 Non-Executive Director remuneration

3.4.1 Policy

Overview of policy	On appointment to the Board, all Non-Executive Directors enter into a Service Agreement with Aurizon, incorporated in a letter of appointment which includes details of the compensation relevant to the office of Director. 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. Apart from superannuation, there are no other retirement benefits in place for Non-Executive Directors. Non-Executive Directors do not receive performance-based pay. 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.
Aggregate fees approved by shareholders	Under Aurizon's Constitution, Non-Executive Directors are to be paid by way of fees for their services within an initial maximum aggregate cap of $2.5 million. The cap does not include remuneration for performing additional or special duties for Aurizon at the request of the Board. The Constitution also states that the Company will pay all reasonable travelling, accommodation and other expenses of Directors in attending meetings and carrying out their duties.
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.

3.4.2 Directors' Fees

The current annual base fees for the Non-Executive Directors are set out in Table 5: Directors' Fees. There has been no increase applied to the Directors' fees since 1 July 2012.

TABLE 5 – 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

4. Actual remuneration outcomes

4.1 Actual Remuneration Outcomes

Details of the nature and amount of each major element of compensation of each KMP for the financial year ended 30 June 2013 and 30 June 2012 are set out below.

TABLE 6 – FINANCIAL YEAR 2013 KEY MANAGEMENT PERSONNEL REMUNERATION

2013	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS		EQUITY-SETTLED SHARE-BASED PAYMENTS		PROPORTION OF COMPENSATION PERFORMANCE RELATED[3]	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR
NAME	CASH SALARY AND FEES	CASH BONUS[3]	NON-MONETARY BENEFITS[1]	OTHER	SUPER-ANNUATION	LONG-SERVICE LEAVE	TERMINATION BENEFITS	RIGHTS[2]	TOTAL		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
NON-EXECUTIVE DIRECTORS											
J B Prescott AC	457	-	6	-	16	-	-	-	479	-	-
J Atkin	174	-	-	-	16	-	-	-	190	-	-
R R Caplan	174	-	-	-	16	-	-	-	190	-	-
J D Cooper	174	-	-	-	16	-	-	-	190	-	-
K L Field	174	-	-	-	16	-	-	-	190	-	-
G T John AO	174	-	-	-	16	-	-	-	190	-	-
A J P Staines	174	-	-	-	16	-	-	-	190	-	-
G T Tilbrook	174	-	-	-	16	-	-	-	190	-	-
Sub-total Non-Executive Directors	**1,675**	**-**	**6**	**-**	**128**	**-**	**-**	**-**	**1,809**	**-**	**-**
EXECUTIVES											
L E Hockridge	1,927	2,505	205	-	17	129	-	1,327	6,110	63	22
M G Carter	622	725	64	-	126	57	-	360	1,954	56	18
J M Franczak[4]	672	750	33	-	-	2	-	169	1,626	57	10
A Kummant[5]	736	750	69	-	12	4	-	782	2,353	65	33
K R Lewsey	722	703	17	-	25	33	-	379	1,879	58	20
K Neate[6]	387	563	21	-	15	8	-	106	1,100	61	10
G P Pringle	585	575	14	-	25	12	-	319	1,530	58	21
G Robinson	548	575	8	-	25	9	-	211	1,376	57	15
P Scurrah	813	825	8	-	17	46	-	292	2,001	56	15
R J Stephens	593	575	(44)	-	17	21	-	319	1,481	60	22
FORMER EXECUTIVES											
D M O'Toole[7]	778	608	(124)	-	17	(38)	749	234	2,224	38	11
L J Cooper[8]	704	-	(39)	-	52	(410)	546	60	913	7	7
Total Key Management Personnel compensation (Group)	**10,762**	**9,154**	**238**	**-**	**476**	**(127)**	**1,295**	**4,558**	**26,356**	**52**	**17**

1 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.

2 The value of 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 35 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.

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

4 J M Franczak commenced in the role 3 April 2013.

5 A Kummant commenced in the role 8 October 2012.

6 K Neate commenced acting in the role 19 November 2012, confirmed in the role 8 April 2013.

7 D M O'Toole ceased in the CFO role 20 November 2012 and worked for the Company for the remainder of the year.

8 L J Cooper ceased acting in the role 31 December 2012. Subsequent to the cessation of L J Cooper's employment, he has provided consultancy services to the Group through an agreement with JP Corporation Pty Ltd as well as Lindsay Cooper Management Services Pty Ltd resulting in payments of $82,500 for the year ended 30 June 2013.

Directors' Report (continued)

Remuneration Report

4.1 Actual Remuneration Outcomes (continued)

TABLE 7 – FINANCIAL YEAR 2012 KEY MANAGEMENT PERSONNEL REMUNERATION

2012	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS		EQUITY-SETTLED SHARE-BASED PAYMENTS		PROPORTION OF COMPENSATION PERFORMANCE RELATED[5]	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR
NAME	CASH SALARY AND FEES $'000	CASH BONUS[5] $'000	NON-MONETARY BENEFITS[1] $'000	OTHER $'000	SUPER-ANNUATION $'000	LONG SERVICE LEAVE $'000	TERMINATION BENEFITS $'000	RIGHTS[2] $'000	TOTAL $'000	%	%
NON-EXECUTIVE DIRECTORS											
J B Prescott AC	359	-	6	-	42	-	-	-	407	-	-
J Atkin	165	-	-	-	15	-	-	-	180	-	-
R R Caplan	165	-	-	-	15	-	-	-	180	-	-
A J Davies	75	-	-	-	7	-	-	-	82	-	-
G T John AO	165	-	-	-	15	-	-	-	180	-	-
P C Kenny	45	-	-	-	3	-	-	-	48	-	-
A J P Staines	165	-	-	-	15	-	-	-	180	-	-
G T Tilbrook	165	-	-	-	15	-	-	-	180	-	-
K Field	33	-	-	-	3	-	-	-	36	-	-
J Cooper	33	-	-	-	3	-	-	-	36	-	-
Sub-total Non-Executive Directors	**1,370**	**-**	**6**	**-**	**133**	**-**	**-**	**-**	**1,509**	**-**	**-**
EXECUTIVE											
L E Hockridge	1,651	1,539	25	-	50	31	-	1,270	4,566	62	28
D M O'Toole	755	450	(37)	-	16	16	-	293	1,493	50	20
K R Lewsey	658	400	(12)	-	25	14	-	261	1,346	49	19
M G Carter	526	375	4	-	105	60	-	237	1,307	47	18
G P Pringle	553	345	31	-	25	9	-	223	1,186	48	19
R J Stephens	539	345	31	-	39	10	-	223	1,187	48	19
L J Cooper	472	340	48	-	88	97	-	205	1,250	44	16
G Robinson[3]	575	340	49	-	51	6	-	129	1,150	41	11
P Scurrah[3]	391	400	94	-	7	35	-	251	1,178	55	21
M P McAuliffe[4]	685	-	(59)	-	16	(17)	556	105	1,286	8	8
C M Davies[4]	690	-	(24)	-	15	(5)	615	41	1,332	3	3
Total Key Management Personnel compensation (Group)	**8,865**	**4,534**	**156**	**-**	**570**	**256**	**1,171**	**3,238**	**18,790**	**41**	**17**

1 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, and annual leave accrued or utilised during the financial year.

2 The value of 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. The value disclosed includes the value of rights to be granted under the STIAD based on 50% of the 2012 cash STIA. Refer to Note 35 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.

3 Mr Robinson was appointed on 1 December 2011 and Mr Scurrah was appointed on 1 January 2012.

4 Mr Davies ceased employment on 25 May 2012 and Mr McAuliffe ceased employment 30 June 2012.

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

4.2 Rights granted as compensation

Details of Rights granted as compensation, exercised and forfeited during the year in the Performance Rights Plan, including vesting profiles, are as follows:

TABLE 8 – RIGHTS GRANTED AS COMPENSATION

NAME	DATE GRANTED	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	BALANCE AT END OF YEAR	FAIR VALUE PER RIGHT AT GRANT DATE	EXERCISE PRICE	VESTED IN YEAR	FORFEITED IN YEAR	VALUE OF RIGHTS GRANTED IN YEAR[1]	VALUE OF RIGHTS FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS	EXPIRY DATE
			NO.	NO.	NO.	NO.	NO.	$	$	%	%	$'000	$'000		
L E Hockridge	22-Nov-10	STIAD	333,333	-	(333,333)	-	-	2.07	3.40	100.00	-	-	-	22-Nov-12	30-Sep-13
	1-Dec-10	LTIAD - EPS	333,333	-	-	-	333,333	1.14	-	-	-	-	-	22-Nov-13	31-Dec-14
	1-Dec-10	LTIAD - TSR	333,333	-	-	-	333,333	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	247,093	-	-	-	247,093	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	247,093	-	-	-	247,093	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	194,030	-	-	194,030	3.29	-	-	-	638	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	194,030	-	-	194,030	2.06	-	-	-	400	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	194,030	-	-	194,030	3.29	-	-	-	638	-	23-Aug-15	31-Dec-16
M G Carter	22-Nov-10	LTIAD - EPS	58,824	-	-	-	58,824	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	58,824	-	-	-	58,824	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	45,785	-	-	-	45,785	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	45,785	-	-	-	45,785	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	55,970	-	-	55,970	3.29	-	-	-	184	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	55,970	-	-	55,970	2.06	-	-	-	115	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	55,970	-	-	55,970	3.29	-	-	-	184	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	25,618	-	(25,618)	-	-	3.44	3.40	100.00	-	-	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	25,618	-	-	-	25,618	2.99	-	-	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	-	27,985	-	-	27,985	3.54	-	-	-	99	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	27,985	-	-	27,985	3.46	-	-	-	97	-	10-Oct-14	10-Oct-14
J M Franczak	4-Apr-13	Retention	-	100,000	-	-	100,000	4.01	-	-	-	401	-	28-Jan-14	28-Jan-14
	4-Apr-13	Retention	-	100,000	-	-	100,000	4.01	-	-	-	401	-	28-Jan-15	28-Jan-15
A Kummant	9-Oct-12	Retention	-	100,000	(100,000)		-	3.73	3.73	100.00	-	373	-	9-Oct-12	9-Oct-12
	9-Oct-12	Retention	-	100,000	-	-	100,000	3.53	-	-	-	353	-	9-Oct-13	9-Oct-13
	23-Aug-12	LTIAD - EPS	-	62,686	-	-	62,686	3.29	-	-	-	206	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	62,686	-	-	62,686	2.06	-	-	-	129	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	62,687	-	-	62,687	3.29	-	-	-	206	-	23-Aug-15	31-Dec-16
K R Lewsey	22-Nov-10	LTIAD - EPS	63,725	-	-	-	63,725	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	63,725	-	-	-	63,725	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	49,600	-	-	-	49,600	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	49,600	-	-	-	49,600	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	55,970	-	-	55,970	3.29	-	-	-	184	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	55,970	-	-	55,970	2.06	-	-	-	115	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	55,970	-	-	55,970	3.29	-	-	-	184	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	29,615	-	(29,615)	-	-	3.44	3.40	100.00	-	-	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	29,615	-	-	-	29,615	2.99	-	-	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	-	29,851	-	-	29,851	3.54	-	-	-	106	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	29,851	-	-	29,851	3.46	-	-	-	103	-	10-Oct-14	10-Oct-14
K Neate	8-Aug-11	Retention	20,000	-	(20,000)	-	-	3.38	3.50	100.00	-	-	-	8-Aug-12	8-Aug-12
	22-Aug-11	LTIAD - EPS	29,070	-	-	-	29,070	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	29,070	-	-	-	29,070	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	31,051	-	-	31,051	3.29	-	-	-	102	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	31,051	-	-	31,051	2.06	-	-	-	64	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	31,050	-	-	31,050	3.29	-	-	-	102	-	23-Aug-15	31-Dec-16
	10-Oct-12	STIAD	-	16,567	-	-	16,567	3.54	-	-	-	59	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	16,567	-	-	16,567	3.46	-	-	-	57	-	10-Oct-14	10-Oct-14

Directors' Report (continued)

Remuneration Report

NAME	DATE GRANTED	INCENTIVE PLAN	BALANCE AT BEGIN-NING OF YEAR NO.	RIGHTS AWARDED DURING THE YEAR NO.	EXERCISED DURING THE YEAR NO.	FORFEITED IN YEAR NO.	BALANCE AT END OF YEAR NO.	FAIR VALUE PER RIGHT AT GRANT DATE $	EXERCISE PRICE $	VESTED IN YEAR %	FORFEITED IN YEAR %	VALUE OF RIGHTS GRANTED IN YEAR[1] $'000	VALUE OF RIGHTS FORFEITED IN YEAR $'000	DATE ON WHICH GRANT VESTS	EXPIRY DATE
G P Pringle	22-Nov-10	LTIAD - EPS	53,922	-	-	-	53,922	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	53,922	-	-	-	53,922	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	41,969	-	-	-	41,969	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	41,969	-	-	-	41,969	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	45,672	-	-	45,672	3.29	-	-	-	150	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	45,672	-	-	45,672	2.06	-	-	-	94	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	45,672	-	-	45,672	3.29	-	-	-	150	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	25,436	-	(25,436)	-	-	3.44	3.40	100.00	-	-	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	25,436	-	-	-	25,436	2.99	-	-	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	-	25,746	-	-	25,746	3.54	-	-	-	91	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	25,746	-	-	25,746	3.46	-	-	-	89	-	10-Oct-14	10-Oct-14
G Robinson	22-Aug-11	LTIAD - EPS	17,442	-	-	-	17,442	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	17,442	-	-	-	17,442	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	45,672	-	-	45,672	3.29	-	-	-	150	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	45,672	-	-	45,672	2.06	-	-	-	94	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	45,672	-	-	45,672	3.29	-	-	-	150	-	23-Aug-15	31-Dec-16
	10-Oct-12	STIAD	-	25,373	-	-	25,373	3.54	-	-	-	90	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	25,373	-	-	25,373	3.46	-	-	-	88	-	10-Oct-14	10-Oct-14
P Scurrah	1-Jan-12	Retention	30,000		(30,000)	-	-	3.44	3.50	100.00	-	-	-	1-Jan-13	1-Jan-13
	23-Aug-12	LTIAD - EPS	-	62,090	-	-	62,090	3.29	-	-	-	204	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	62,090	-	-	62,090	2.06	-	-	-	128	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	62,090	-	-	62,090	3.29	-	-	-	204	-	23-Aug-15	31-Dec-16
	10-Oct-12	STIAD	-	29,851	-	-	29,851	3.54	-	-	-	106	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	29,851	-	-	29,851	3.46	-	-	-	103	-	10-Oct-14	10-Oct-14
R J Stephens	22-Nov-10	LTIAD - EPS	53,922	-	-	-	53,922	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	53,922	-	-	-	53,922	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	41,969	-	-	-	41,969	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	41,969	-	-	-	41,969	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	45,672	-	-	45,672	3.29	-	-	-	150	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	45,672	-	-	45,672	2.06	-	-	-	94	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	45,672	-	-	45,672	3.29	-	-	-	150	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	25,436	-	(25,436)	-	-	3.44	3.40	100.00	-	-	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	25,436	-	-	-	25,436	2.99	-	-	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	-	25,746	-	-	25,746	3.54	-	-	-	91	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	25,746	-	-	25,746	3.46	-	-	-	89	-	10-Oct-14	10-Oct-14
FORMER EXECUTIVES															
D M O'Toole	22-Nov-10	LTIAD - EPS	68,627	-	(68,627)	-	-	1.14	4.50	100.00	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	68,627	-	(68,627)	-	-	0.94	4.50	100.00	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	55,959	-	-	-	55,959	2.93	-	-	-	-	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	55,959	-	-	-	55,959	1.28	-	-	-	-	-	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	60,448	-	(30,224)	30,224	3.29	-	-	50.00	199	99	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	60,448	-	(30,224)	30,224	2.06	-	-	50.00	125	62	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	60,448	-	(30,224)	30,224	3.29	-	-	50.00	199	99	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	33,612	-	(33,612)	-	-	3.44	3.40	100.00	-	-	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	33,612	-	-	(33,612)	-	2.99	-	-	100.00	-	100	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	-	33,582	-	(33,582)	-	3.54	-	-	100.00	119	119	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	-	33,582	-	(33,582)	-	3.46	-	-	100.00	116	116	10-Oct-14	10-Oct-14
L J Cooper	22-Nov-10	LTIAD - EPS	49,020	-	-	(14,216)	34,804	1.14	-	-	29.00	-	16	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	49,020	-	-	(14,216)	34,804	0.94	-	-	29.00	-	13	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	38,154	-	-	(19,077)	19,077	2.93	-	-	50.00	-	56	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	38,154	-	-	(19,077)	19,077	1.28	-	-	50.00	-	24	30-Jun-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	-	45,686	-	(45,686)	-	3.29	-	-	100.00	150	150	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	-	45,686	-	(45,686)	-	2.06	-	-	100.00	94	94	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	-	45,687	-	(45,687)	-	3.29	-	-	100.00	150	150	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	22,529	-	(22,529)	-	-	3.44	3.40	100.00	-	-	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	22,529	-	-	(22,529)	-	2.99	-	-	100.00	-	67	28-Sep-13	1-Oct-14
			3,204,653	**2,944,244**	**(782,833)**	**(417,622)**	**4,948,442**	**-**	**-**	**-**	**-**	**9,116**	**1,168**		

[1] The value of 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.

5. Remuneration governance

The Board takes an active role in the governance and oversight of Aurizon's remuneration policies and practices. The Committee (details of which are set out on pages 25, 51 and 52 of the Annual Report) assists the Board in relation to Aurizon's remuneration framework.

The Committee seeks to ensure that Aurizon strikes a balance between the ability to compete for talent and the need to ensure that remuneration arrangements are reasonable, appropriate, understandable and aligned with shareholder interests. In addition, the Committee undertakes functions delegated to it by the Board including consideration and approval of the annual remuneration program and all aspects of the short and long term incentive awards. The Committee's Charter is available on the Aurizon website (aurizon.com.au).

The Committee is independent of management and obtains advice from independent experts as necessary. To assist in performing its duties and making recommendations to the Board, the Committee seeks independent advice from external consultants on various remuneration related matters. The Committee is satisfied that advice received was free from any undue influence as the Committee follows protocols around the engagement and use of external remuneration consultants to ensure compliance with relevant legislation. All remuneration recommendations are provided by the external consultant directly to the Committee.

During Financial Year 2013, the Committee engaged jws Consulting to provide "remuneration recommendations" regarding KMP remuneration and jws Consulting were paid $45,034 for these services. In addition, the Committee sought advice in relation to remuneration related issues from Egan Associates, Ernst & Young, jws Consulting and Towers Watson which did not constitute a "remuneration recommendation" regarding KMP.

Aurizon received 83% of "For" votes on its remuneration report for Financial Year 2012. The Board considers that 17% is an unacceptably large proportion of shareholders who did not support Aurizon's remuneration report. Although the many changes referred to throughout this report were not made in order to elicit a stronger vote, the Board's objective is the continual improvement and transparency of the remuneration approach and enhancement of alignment to shareholders will be considered more positively this year and in the years ahead.

5.1 Changes to Executive Remuneration components for Financial Year 2014

5.1.1 2013 Remuneration Framework review

As Aurizon is now in its third financial year following the IPO of its securities, the Board undertook a review during the year of various aspects of Aurizon's remuneration and, in particular, its remuneration framework in the context of both:

- ensuring that the remuneration framework is motivating our people to achieve the strategic objectives of the Company
- feedback received from shareholders.

The Board concluded that, in general, the remuneration framework is operating effectively.

It has, however, determined to implement the following enhancements:

- **STIA Deferral and 'Claw back':** Following the termination of the STIA Deferral ("STIAD") there will no longer be any part of STIA subject to deferral, unless the Board expressly decides to defer what would otherwise be paid in cash. The STIAD was established as an interim arrangement which was introduced on IPO until awards under the LTIA became eligible for testing. The Board believes that deferral of a portion of the STIA is desirable in order to align our short term rewards with medium term shareholder wealth. Accordingly, the Board has determined that a portion (40%) of any STIA for the MD & CEO as well as the KMP will be awarded in rights to shares and deferred for a period of one year. This will be introduced over a two year period, viz, 20% in Financial Year 2014, increasing to 40% in Financial Year 2015. The Board will also have the ability to 'claw back' the deferred portion of the award under the STIA in the event of material financial misstatement. Overall STIA opportunity levels, as a percentage of fixed remuneration, have not changed.
- **Importance of Operating Ratio improvement:** as foreshadowed last year, the Board introduced a third performance condition to the 2012 LTIA, requiring a reduction in Aurizon's Operating Ratio. The Board considered the three metrics applicable to the LTIA, and continues to consider Operating Ratio to be an appropriate metric as it focuses management on world's best cost to revenue ratio. Additionally, the Board continues to consider EPS growth and relative TSR growth to be appropriate performance hurdles as they focus Executives on increasing shareholder wealth. However, given the importance to Aurizon's future success of reducing its Operating Ratio to 75% in respect of Financial Year 2015, the Board determined to increase the proportion of the LTIA that is subject to the Operating Ratio performance hurdle to 50%, with a 25% proportion applied to each of the other two performance hurdles of the LTIA.
- **Policy on exercise of Board Discretion:** The Board is cognisant of stakeholder concerns about how the company has taken into account one-off items when assessing performance outcomes over the past three years. During the year, the Board adopted a policy that it will not, in general, adjust performance targets under the Company's incentive plans. The Board does, however, reaffirm that in order to ensure the efficacy of its incentive plans; it retains discretion to vary performance hurdles in exceptional circumstances. While the Board does not intend to exercise this discretion as a rule, it may exercise it in circumstances where an event, with either a positive or negative effect on the relevant performance hurdle, is beyond the control of management and is one that the Board does not consider would have been reasonable for management to have foreseen and mitigated.
- **Impact of share buy-back on EPS:** The Board considered the effect of the buy-back undertaken by the Company in late 2012 in the context of its policy described above and its impact on the calculation of the EPS performance hurdle for the LTIA. The Board determined that, consistent with its policy and the approach of a number of other companies, it will not adjust the EPS performance hurdle to exclude the effect of the buy-back in respect of the 2010 and 2011 LTIA. However, in respect of the 2012 LTIA, the Board determined that exceptional circumstances exist such that it considers it appropriate that the EPS performance hurdle be adjusted to exclude the full effect of the buy-back (i.e. transaction costs and the reduction in the number of shares on issue). This was on the basis that, as the buy-back was effected at around the time of the 2012 LTIA grant, the Board did not consider it appropriate for the buy-back to effectively deliver a 'windfall gain' to Executives.

Directors' Report (continued)

Remuneration Report

5.1.2 Executive Remuneration components for Financial Year 2014

Fixed Remuneration	**Fixed Remuneration amounts:** Analysis of fixed remuneration market movements reveals that many companies are freezing Executive's remuneration and some are decreasing fixed remuneration both for incumbents and new appointments. The Board has decided there will be no increase for Aurizon Executives, which includes the MD & CEO, the KMP and direct reports to the KMP. It should be noted that between IPO and the end of Financial Year 2014 (a 4 year period), the MD & CEO will have received one increase in fixed remuneration which occurred on 1 July 2012. *Section 3.1.2: Fixed Remuneration*, provides further detail in relation to the fixed remuneration component of the Executive remuneration.
STIA	**Target Percentages:** Analysis of movements in target STIA as a percentage of fixed remuneration show that Aurizon's target percentages are at, or close to, market median and the Board has approved no change to the target percentages for Financial Year 2014. **STIA deferral and 'Claw back':** The introduction of STIA deferral will allow for Aurizon's policy on 'claw back' to be activated should the need arise. After analysing market trends the Board approved the phased introduction of STIA deferral from Financial Year 2014. In relation to the MD & CEO and KMP, the Board approved the provision of 40% of STIA (if any) in the form of rights to shares, which vest on the first anniversary of payment of the cash component, to be introduced over two years, viz, 20% in Financial Year 2014 increasing to 40% in Financial Year 2015. **STIA Conditions:** Aurizon's STIA conditions for Financial Year 2014 will remain unchanged and will include Underlying EBIT, Safety, Transformation and ROIC. **STIA Hurdles:** Aurizon's STIA targets for Financial Year 2014 are commercially sensitive. In relation to EBIT, Safety and ROIC it is safe to assume increases of between 10% and 15% above Financial Year 2013 actuals depending on the measure. In relation to Transformation, the Board has identified a number of areas which will determine whether Aurizon continues to transform and targets have been set in respect of each. *Section 3.1.3: Short Term Incentive Award*, provides further detail in relation to the STIA component of the Executive remuneration.
LTIA	**Target Percentages:** Similarly, the value of the LTIA as a percentage of fixed remuneration remains in line with market practices and the Board has approved no change to those percentages. **LTIA Conditions:** Aurizon's 2013 LTIA conditions will remain unchanged and will include Operating Ratio improvements, relative TSR performance and EPS growth. **LTIA Hurdles:** Aurizon's 2013 LTIA targets are provided in *Section 3.1.4: Long Term Incentive Award*, along with further detail in relation to the LTIA component of the Executive remuneration.

Corporate Governance Statement

In operating its portfolio of above and below rail and road transport assets, the business objectives of Aurizon Holdings Limited and the entities it controls (**Aurizon Holdings** or the **Company**), is to create sustainable value growth for its shareholders by:

- Raising performance of the Company's operations to 'best in class' levels
- Maximising the Company's share of the strong underlying growth within core markets through innovative customer-focused solutions
- Seeking out profitable new growth opportunities in existing and adjacent markets.

Fundamental to the long-term success of Aurizon Holdings' business objective is a commitment to achieving and demonstrating the highest standards of corporate governance.

The Board is committed to pursuing its business objectives in a manner which is consistent with the highest standards of corporate governance and, in so doing, to embed, promote and foster high standards of corporate integrity, transparency and ethical standards in all its activities.

This Statement sets out Aurizon Holdings' corporate governance practices as at 30 June 2013.

Since listing on the Australian Securities Exchange **(ASX)** on 22 November 2010, the Company has complied with all of the Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council.

Further information regarding the Company's corporate governance and Board practices, including copies of the Company's Constitution, Charters and key corporate governance documents referred to in this Statement, are available in the Corporate Governance section of the Company's website, **aurizon.com.au**. These documents are reviewed regularly to address any changes in governance practices and changes to the law. Any additional key corporate governance documents that may be adopted by the Company during the year will also be made available via the Company's website at, or about the time they are adopted.

The Board of Directors

The Board is responsible for the overall stewardship, strategic direction, governance and performance of Aurizon Holdings.

The Company's Constitution empowers the Board to conduct the business of the Company and also enables the Board to delegate authority to Board Committees and/or the MD & CEO.

The Board operates under a Charter which sets out the responsibilities of the Board and also the roles of the Chairman, individual Directors, the MD & CEO and the Company Secretary.

The key functions and responsibilities reserved to the Board include:

- The appointment of the MD & CEO and reports
- Approval of the overall Company strategy
- Approving annual budgets
- Approving and monitoring the framework on governance, safety and risk management
- The succession and remuneration of the Board and senior Executives.

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 also specify the time commitment envisaged, expectations in relation to committee work, remuneration arrangements, induction processes and details of the Company's key governance policies, such as the Securities Dealing Policy.

Board Membership and Size

The Board currently comprises nine Directors, including a Non-Executive Chairman, seven Non-Executive Directors and the MD & CEO.

The Chairman, MD & CEO, and five of the Non-Executive Directors were appointed on the date of incorporation of Aurizon Holdings (14 September 2010). Two of the Non-Executive Directors were appointed on 19 April 2012.

The Board comprises Directors who bring with them a range of skills, expertise and experience in finance, human resources, engineering, transportation and heavy industry, mining and resources, strategy, governance, risk management and government. The Board is skills-based and all of the Non-Executive Directors are independent.

Details of Directors' skills, experience and expertise are disclosed on pages 22 to 24 of the Annual Report.

The Board's composition is determined by the Company's Constitution and the principles set out in the Board Charter, Diversity Policy and Selection, Appointment and Re-election of Non-Executive Director Policy.

In summary, the Board composition principles are as follows:

- A majority of Directors are to be Independent, Non-Executive Directors
- There are to be a minimum of three Directors
- There must be at least one female Director
- The roles of Chairman and that of MD & CEO must be held by separate persons
- The Chairman must be an Independent Non-Executive Director
- The Board as a whole should comprise a range and mix of skills and experience
- The principles of diversity are to be embraced
- In the absence of special circumstances or a contrary decision by the Board, a Non-Executive Director must retire (or stand for re-election annually) at the next Annual General Meeting (**AGM**) held after that Director has served nine years or more on the Board, calculated from the date of the Director's first election to the Aurizon Board.

The Company's Constitution provides a maximum Board size of 10 Directors. The Board conducts an annual review of its composition and performance and more frequently as required.

Corporate Governance Statement (continued)

Director Independence

In accordance with the Board Charter the majority of Directors are independent. Only the MD & CEO is not considered independent, by virtue of being an Executive of the Company.

The Board Charter provides that an independent Director is a Non-Executive Director who is not a member of management and whom the Board considers independent, having regard to the following guidelines, without limitation:

> The Director is not a substantial shareholder of the Company or an officer of a substantial shareholder of the Company. The Director has not, within the past three years, been employed by the Company in an executive capacity, or in the past three years, been a principal or employee of a material professional adviser or consultant of the Company
> The Director has not been a material supplier or customer of the Company, or otherwise been associated directly or indirectly with a material supplier or customer of the Company, where materiality as a customer of the Company refers to payments of more than 2% of the Company's total consolidated revenue accumulated over the Company's past financial year, and in relation to materiality as a supplier, to payments that are the greater of either $250,000 or 2% of total consolidated revenue accumulated over the supplier's past financial year
> In the absence of special circumstances or a contrary decision by the Board, the period of office held by the Director is not more than nine years, calculated from the date of the Director's first election
> The Director is free from any interest or relationship which could, or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

If a Director does not meet these guidelines, it is not conclusive that the Director is independent. The decision as to whether a Director is independent is a decision made by the Board.

The Board considers materiality thresholds on a case-by-case basis, if required. Each Director confirms their independence at each Board meeting and the Board as a whole assesses Directors' independence regularly. The Board has confirmed the independence of all Non-Executive Directors.

All Directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where they may have an actual or potential conflict of interest.

In circumstances where a conflict is believed to exist, the Director concerned will not take part in any decision or consideration of the issue. In addition, the Director will not receive copies of the relevant Board papers.

A Related Party Transactions Policy and Procedure operates in the Company. This policy further refines the procedure for identifying, disclosing and, as required, seeking approval of related party transactions.

Tenure and Retirement

To promote demonstrable independence, the Company has in place a tenure policy for Directors which provides that, in the absence of special circumstances or a decision made otherwise by the Board, a Non-Executive Director must retire (or stand for re-election annually) at the next AGM which is held after a Director has served nine years or more on the Board from the date of their first election to the Aurizon Board.

In accordance with the Company's Constitution and ASX Listing Rules, a Non-Executive Director who wishes to continue in their role as Non-Executive Director must seek re-election by shareholders at a general meeting.

Chairman

John Prescott AC, an Independent Non-Executive Director, has been Chairman of the Company since September 2010. The role of the Chairman is clearly set out in the Board Charter. It includes chairing meetings, providing Board leadership and promoting a respectful, consultative relationship between Board and management, as well as maintaining relationships with key stakeholders.

Company Secretary

The Company Secretary is accountable to the Board for facilitating the Company's corporate governance processes. Each Director is entitled to access the advice and services of the Company Secretary.

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 24 of the Annual Report.

Board Process

Formal Board meetings are held at least nine times during the year. In addition to these formal meetings, the Board schedules off-site meetings dedicated to strategy and site visits of the Company's operations.

The Board also holds supplementary meetings to address financial updates and any significant matters that may arise.

Details of Board and Committee meetings held during the year, and attendances at those meetings, are set out in the Annual Report on page 25.

Each formal Board meeting considers various matters including, but not limited to, the MD & CEO's Report, the Aurizon Holdings Group Monthly Performance Report and a Workplace Health and Safety Report. Periodic reports are also provided on diversity, governance and compliance, as well as submissions on the items specified in the Board Charter. At the end of each Board meeting, the Non-Executive Directors meet without management.

The Chief Financial Officer (**CFO**) and Company Secretary are present at all Aurizon Holdings Board meetings and other senior Executives attend from time to time at the invitation of the Board or when a matter under their responsibility is being considered. In accordance with the Board Charter, Directors may also access senior management at any time through the Chairman, MD & CEO or Company Secretary.

To provide due consideration of items for discussion and/or decision, Board and Committee Papers are distributed five business days prior to each meeting. The Company continues to deliver Board and Committee Papers electronically, as part of the Company's commitment to governance excellence and innovation.

Director Induction and Ongoing Education

An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.

All Aurizon Holdings Directors are members of the Australian Institute of Company Directors (**AICD**) and are encouraged to further their knowledge through participation in industry, governance and government forums, and attend seminars hosted by the AICD and other peak professional bodies.

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 Aurizon Holdings operations to gain an understanding of operational employee requirements, challenges and issues.

Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices in different locations. During the year, Directors conducted site visits in Western Australia and regional Queensland.

Independent Advice and Access to Information

A process is in place whereby Directors, either collectively or individually, may seek independent professional advice where it is considered necessary to fulfil their duties and responsibilities. This is done at Aurizon Holdings' expense. A Director wishing to seek such advice must obtain the approval of the Chairman.

Board Committees

During the year, four Committees operated to assist the Board in performing its responsibilities. Those Committees were:

> Audit, Governance & Risk Management Committee (formerly called Audit & Risk Management Committee)
> Remuneration, Nomination & Succession Committee (formerly called Remuneration & Succession Committee)
> Governance & Nomination Committee (dissolved effective 21 May 2013)
> Safety, Health & Environment Committee (formerly called Safety & Environment Committee).

On 21 May 2013, following an evaluation, the Board resolved to dissolve the Governance & Nomination Committee and transfer the governance functions of that Committee to the Audit & Risk Management Committee (which was renamed the Audit, Governance & Risk Management Committee) and the nomination functions to the Remuneration & Succession Committee (which was renamed the Remuneration, Nomination & Succession Committee). Mr J Atkin, whom was formerly Chair of the Governance & Nomination Committee, replaced Ms AJP Staines as Chairman of Aurizon Network Pty Limited. Ms AJP Staines was appointed to the Remuneration, Nomination & Succession Committee and resigned as Non-Executive Director and Chairman of Aurizon Network Pty Limited. Mr J Atkin and Mr GT Tilbrook were appointed to the Remuneration, Nomination & Succession Committee. The Safety & Environment Committee was renamed the Safety, Health & Environment Committee and Mr GT John AO was replaced by Mrs KL Field as the Committee's Chairman.

Each Committee is chaired by a Non-Executive Director and comprises a majority of Independent Non-Executive Directors.

Each Committee is governed by its own Charter which is reviewed annually.

Details of the membership of each of the Committees, including the names and qualifications of the Committee members are set out on pages 22 to 24 of the Annual Report.

Audit, Governance & Risk Management Committee

The Audit, Governance & Risk Management Committee assists the Board by reviewing and monitoring the integrity of Aurizon Holdings' financial reporting systems, as well as governance, risk management, internal control structures and compliance systems.

Under the Audit, Governance & Risk Management Committee's Charter there must be at least three members of the Committee, all of whom must be Independent, Non-Executive Directors, and the Chair of the Committee must not be the Chairman of the Board. Currently, the Committee consists of four members that are all (including the Chairman) Independent Non-Executive Directors.

In addition to the Audit, Governance & Risk Management Committee members, the MD & CEO, CFO, Chief Internal Auditor, external auditors and Company Secretary regularly attend Audit, Governance & Risk Management Committee meetings.

Corporate Governance Statement (continued)

Remuneration, Nomination & Succession Committee

The Remuneration, Nomination & Succession Committee assists the Board by reviewing and providing recommendations to the Board on the recruitment, retention and remuneration of the MD & CEO, and senior Executives, as well as the performance measurement arrangements for Directors, the MD & CEO and senior Executives.

Under the Remuneration, Nomination & Succession Committee's Charter there must be at least three members of the Committee, a majority of whom must be Independent, Non-Executive Directors, and the Chair of the Committee must be an Independent Non-Executive Director. Currently, the Committee consists of five members that are all (including the Chairman) Independent Non-Executive Directors.

Governance & Nomination Committee

As stated above, the Governance & Nomination Committee was dissolved on 21 May 2013. Up until its dissolution on 21 May 2013 the Committee assisted the Board by reviewing and making recommendations on the governance framework, policies and compliance, as well as on Board appointments, succession, diversity, composition and performance.

The nomination function is now carried out by the Remuneration, Nomination & Succession Committee and the governance function is now carried out by the Audit, Governance & Risk Management Committee.

In accordance with its Charter, the Governance & Nomination Committee consisted of at least three Board members. The Committee consisted of four members, including three Independent, Non-Executive Directors. The Chairman of the Committee was an Independent Non-Executive Director.

Safety, Health & Environment Committee

The Safety, Health & Environment Committee assists the Board by reviewing and making recommendations to the Board on safety, health and environmental performance, strategies, policies and compliance.

Under its Charter, the Safety, Health & Environment Committee is to consist of at least three Board members. The Committee currently consists of five members, including four Independent, Non-Executive Directors. The Chairman of the Safety, Health & Environment Committee is an Independent, Non-Executive Director.

Aurizon Network Board

Aurizon Network Pty Ltd (**Aurizon Network**) is a wholly-owned subsidiary of Aurizon Holdings and operates the below rail business of Aurizon Holdings. Aurizon Network is subject to ring-fencing obligations under the *Queensland Competition Authority Act 1997* (Qld) and the access undertakings it provides to the Queensland Competition Authority from time to time.

Additional governance requirements operate to ensure that Aurizon Network's ring-fencing obligations are met.

A majority of Aurizon Network Directors are required to be independent. The Aurizon Network Board is currently comprised of five Directors, including three Independent Non-Executive Directors. The Network Board Charter is available on the Aurizon Holdings website.

Throughout the year the Chairman of the Aurizon Network Board remained an Independent Non-Executive Director.

Board and Committee Performance Evaluation

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.

During the year the annual review of the position of the Chairman of the Board was facilitated by the Chairman of the former Governance & Nomination Committee.

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 process described above.

As part of its ongoing responsibilities, the Board actively focuses on strategy development, the development of talent and Executive succession, and engagement in the Company's operations by undertaking site visits.

Management Performance Evaluation

A key function of the Board is to monitor the performance of management according to the strategies and objectives decided by the Board. The Board sets the financial, operational, management and individual targets of the MD & CEO annually. The MD & CEO (in consultation with the Board) sets targets for his direct reports.

Performance against these targets is assessed periodically throughout the year. Performance evaluations for senior management have been completed for the year end and details of the process followed are set out in the Remuneration Report within the Annual Report.

The Board, together with the Remuneration, Nomination & Succession Committee, reviews the performance of the MD & CEO and Executive Committee members and Company Secretary.

Further details are set out in the Remuneration Report within the Annual Report.

MD & CEO, Senior Management and Delegations

The day-to-day management of the Company and the execution of the Company's policies and strategies are delegated to the MD & CEO, and through the MD & CEO to other senior Executives.

The MD & CEO and senior management have their roles and responsibilities set out in their employment contracts.

Delegations made by the Board and the delegation framework supporting delegations by the MD & CEO are reviewed annually by the Board.

Executive Management Structure

The senior executive leadership of the Company (known as the Executive Committee) comprises the MD & CEO and his direct reports.

The role of the Executive Committee is to provide the MD & CEO with support and assistance in managing the Group's performance, and implementing the key strategic initiatives set by the Board.

The Executive Committee supports the MD & CEO in leading change in the Aurizon Holdings Group, assessing risk and executing mitigation actions, monitoring compliance with policies, developing strategies for Board approval, assessing business and key organisational matters, and making recommendations on courses of action.

The Executive Committee also provides organisational leadership to ensure alignment and execution of corporate strategy.

Typically, the Executive Committee meets every week and has full-day meetings once a month.

Remuneration Practices

The Company seeks to attract and retain high performance Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required.

Executive remuneration is to reflect performance and, accordingly, remuneration is structured with a fixed component and performance-based remuneration component.

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.

Senior Executive and Non-Executive Director Share Holding and Retention Policy

The Company has in place a share holding and retention policy which applies to Non-Executive Directors, the MD & CEO and the direct reports of the MD & CEO. It provides that within six years of the date of listing of the Company or appointment (whichever is the later date):

- Non-Executive Directors are expected to accumulate and maintain one year's worth of Directors' fees of shares in the Company (to be calculated with reference to the total fees paid during the period divided by the number of years)
- The MD & CEO is expected to accumulate and maintain one year's worth of Fixed Remuneration in shares in the Company (to be calculated with reference to the total Fixed Remuneration paid during the period divided by the number of years)
- The MD & CEO's direct reports are expected to accumulate and maintain 50 % of one year's worth of Fixed Remuneration in shares in the Company (to be calculated with reference to the total Fixed Remuneration paid during the period divided by the number of years).

Further information on remuneration is disclosed on pages 28 to 48 in the Remuneration Report within the Annual Report.

Code of Conduct

The Company recognises the critical importance of integrity, honesty and fairness in its dealings.

Aurizon Holdings has adopted and continues to promote its Company values, which are:

- **Safety** – Safety of ourselves and others is our number one priority.
- **Integrity** – We are honest and fair and conduct business with the highest ethical standards.
- **Leadership, Passion and Courage** – We are passionate about leading change. We deliver results with energy and conviction.
- **World Class Performance** – We deliver world class performance and superior value for our shareholders, customers and staff.

These values shape how Aurizon Holdings makes decisions, treats people, runs its business and gets results.

Aurizon Holdings' Code of Conduct supports the Company's values and provides guidance on Company expectations with respect to compliance with its ethical, legal and statutory obligations.

The key principles of the Code of Conduct provide that Aurizon Holdings Group employees must:

- Be safe and fit for work
- Behave professionally
- Respect others
- Conduct themselves lawfully, ethically and fairly
- Responsibly manage conflicts of interest
- Protect confidential information
- Use the Company's systems, equipment, property and tools appropriately
- Uphold securities exchange requirements
- Consider the community and the environment
- Report suspected breaches of the Code of Conduct.

Corporate Governance Statement (continued)

Compliance and Assurance

Adherence to the Company's Code of Conduct and other policies is monitored by Aurizon Holdings' Internal Audit and Risk Management teams. The Company also conducts an annual compliance certificate process through which business units evaluate and report to management on their compliance with the Company's key legislative obligations.

An e-learning module operates to assist all Aurizon Holdings employees to understand the Code. This training package was recognised with an award at the Asia Pacific Learning and Technology Impact Awards in 2012.

Whistleblower Policy

The Company is committed to ensuring all of its business activities are carried out in a way that is both ethical and compliant, and also recognises that any genuine commitment to detecting and preventing illegal and/or improper conduct must include a mechanism whereby employees and others can report their concerns freely and without fear of reprisal or intimidation. Aurizon Holdings has in place a Whistleblower Policy that provides such a mechanism.

The Whistleblower Policy provides guidance on how illegal or improper conduct can be reported, how it will be investigated and the protection available to those acting as whistleblowers. Aurizon Holdings has established a Whistleblower Hotline as a means by which concerns about illegal or improper conduct can be reported.

Political Donations

Aurizon Holdings has a policy of impartiality with respect to party politics and does not make donations to political parties or their members.

Diversity

Aurizon Holdings has a Diversity Policy which sets out its objectives and reporting practices with respect to diversity. This policy is available on the Aurizon Holdings website. In addition, Aurizon's first Workplace Equality Gender report was submitted to the Federal Government for the reporting period 01 April 2012 – 31 March 2013.

The measurable objectives for gender diversity, agreed by the Aurizon Holdings Board for FY2012-13, are set out below:

- At least one female Director at all times
- The percentage of females in the Management Leadership Team to be a minimum of 15 % by the end of FY13
- From FY12 at least 25 % of future graduate intakes to be female.

A comparative of Aurizon Holdings Group's female employees between 30 June 2012 and 30 June 2013 is set out below:

- 13.23 % of total employees at 30 June 2013 (12.35 % at 30 June 2012)
- 21 % of Management Leadership Team at 30 June 2013 (10.53 % at 30 June 2012)
- 40 % of graduate intake for FY2012-13 (30 % for FY2011-12)
- 22 % of the Board at 30 June 2013 (22 % at 30 June 2012).

The Aurizon Diversity Council continues to guide strategies and sponsors initiatives to create a more inclusive and innovative culture – one that aligns to our Aurizon Diversity Policy and supports our strategic objectives. This work is undertaken with the leadership team through the implementation and ongoing evaluation of a two-year diversity plan underpinned by the Council's four key objectives:

1. Attract and recruit a more diverse workforce
2. Develop and grow target groups to ensure we retain and progress them through the leadership pipeline
3. Hold leaders responsible and accountable for their commitments and actions
4. Drive an understanding and acceptance of the need and value of a diverse workforce.

During the financial year, the Diversity Council successfully established various nationwide initiatives including:

- Diversity Action Plans in place for each functional leadership team. These plans identify key actions the leadership team are committed to achieving in several aspects of work, whether it is promoting inclusive behaviours in management, recruitment targets and equitable development opportunities, or promoting flexible work options
- A strategic plan was developed to focus on Aboriginal and Torres Strait Islander initiatives and actions to be undertaken to strengthen community connections and increase indigenous employment at Aurizon
- The inaugural Aurizon Women's Conference was launched. 400 women attended a full day of internal and external speakers, panel discussions and workshops
- Leadership teams have previously undertaken development in addressing unconscious bias. This development has now been cascaded down to next-level management. This is specifically to raise awareness of how ingrained stereotypes can affect decision-making in many ways, whether it be decisions regarding selection, development and/or promotion
- Regional/Interstate Women's Forums is a new initiative with forums held twice a year to focus on specific issues impacting on Aurizon women. In addition, we connect with women from local Women's Refuges, Resource Centres and Women Advisory Councils
- A new rotation program for women sponsored by the MD & CEO. Over a four-month period each selected woman, as an Associate Executive Officer, will experience the highest level of the Company in issues management, strategic direction and shareholder engagement
- A new Senior Development Program was also launched in 2013. The opportunity is for women to be seconded as an Executive Officer attached to an Executive Vice President or Senior Vice President for a period of six months to gain development experience that prepare them for senior level roles

- Transition to Operations Program is a new program to provide on-the-job training and in-depth experience to identified Aurizon women wanting to make a career transition to an operational role. The program plans to broaden their skill base and fast-track development required to take up an operational role by the end of the 18-month program
- Aurizon's formal mentoring approach for women was launched in 2013 comprising three key elements: a self-paced, 12 week mentoring program; 'Mentoring Circles' with male and female senior mentors'; and one on-one mentoring with internal and external executive mentors
- The annual Aurizon International Women's Day lunch was held with 320 guests including external women from local high schools, universities and Indigenous community groups
- An initiative that has arisen from the Diversity Council's Indigenous Strategy is Cultural Awareness Training. The purpose of these sessions is to enhance participant's understanding of the issues and perspectives of working in a cross-cultural setting and provide hands-on strategies to use in such situations
- Several times a year, as part of its succession planning process, Aurizon works through what is called an Organisational People Inventory (**OPI**) with each of the functional leadership teams. A 'diversity lens' has been applied to this process so that it is an up-front discussion with leaders about the diversity of their teams.

Corporate Responsibility Statement

Aurizon Holdings recognises that acting responsibly, operating in a sustainable manner and making a positive contribution to society is vital to our ongoing business success. We adhere to the following principles:

Safety

- Safety for ourselves and others is our number one priority
- We work with our people, customers and suppliers to create and maintain a safe workplace
- We have comprehensive safety policies and are committed to our target of ***ZERO***HARM.

Community

- We support the communities in which we work through community investment and engagement programs
- We are part of the community and we are here for the long term.

People

- We are committed to promoting a nondiscriminatory, diverse, inclusive, respectful and collaborative business
- We promote equal employment opportunity in our recruitment, selection and employment practices
- We are committed to the ongoing education and training of our people.

Performance

- We strive to deliver world-class performance and superior value for our customers
- We deliver results with energy and conviction
- We commit to delivering outstanding corporate performance and returns to our shareholders.

Integrity

- We adhere to our Code of Conduct
- We are honest and fair, and conduct business with the highest ethical standards
- We adhere to high standards of corporate governance and report annually on our corporate governance.

Environment

- We responsibly consider the community and the environment in our actions and decisions
- We are committed to the efficient use of resources, and waste minimisation
- We are committed to promoting rail as an energy efficient mode of transport.

Details of the Company's safety, people, environment and community activities, and details of the Company's sustainability activities are set out on pages 16 to 21 of the Annual Report.

Disclosure and Communications Policy

Aurizon Holdings' is committed to keeping its shareholders fully informed on all matters that are relevant or material to its financial performance.

Aurizon Holdings has detailed policies and procedures in place to ensure compliance with ASX Listing Rules and Corporations Act continuous disclosure requirements, including a Disclosure and Communications Policy.

During the year the Company reviewed and amended its Disclosure and Communications Policy to ensure consistency with the ASX listing rules and guidance note 8 on continuous disclosure, which took effect from 1 May 2013.

In addition to complying with its disclosure obligations under Listing Rule 3.1 by issuing ASX announcements, Aurizon Holdings communicates with its shareholders through its Half Year Results, Full Year Results and Annual Report. Market announcements made to the ASX are also made available on the Aurizon Holdings website. Shareholders are also given an opportunity to ask questions of the Company at its AGM.

These policies and practices ensure that all shareholders and investors have equal access to Aurizon Holdings information.

Disclosure Committee

In accordance with the Company's Disclosure and Communications Policy, the Company has established a Disclosure Committee.

The Disclosure Committee's role is to consider potentially material, price sensitive information and determine whether that information is required to be disclosed to the ASX.

The members of the Committee may vary from time to time but must consist of at least two members of the Executive Committee and a Non-Executive Director of the Company. In practice, the Committee has comprised the MD & CEO, CFO, Company Secretary and Chairman of the Board.

The Company has established guidelines to assist officers and employees of the Company with complying with the Company's Disclosure and Communications Policy, and these are available on the Aurizon Holdings website.

Corporate Governance Statement (continued)

Securities Dealing Policy

Aurizon Holdings is committed to ensuring the Company and its employees act lawfully at all times in their dealings with securities and inside information.

The Company's Securities Dealing Policy applies to all Directors and employees of the Group and:

- Provides guidance on the legal restrictions on dealing in securities
- Prescribes share trading black-out periods (including the periods commencing 1 January and 1 July and continuing until, and inclusive of, the day of filing each of the Half Year and Full Year Financial Reports respectively)
- Sets out additional limitations on trading by Directors and Executives including a prohibition on margin loans and hedging arrangements.

Material Business Risk Management

The Company is committed to managing 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 Aurizon Holdings in accordance with the Risk Management, Compliance & Assurance Policy (**Risk Policy**).

The Risk Policy, summarised below, sets out the actions that Aurizon Holdings will undertake to manage risk at the enterprise level and at the business level, for each major category of identified risks:

- Developing, implementing and maintaining principles and processes that support the effective management of Aurizon Holdings compliance obligations
- Effectively managing risks and compliance obligations, documenting risk management and compliance activities, and providing timely assurance to the MD & CEO and the Board
- Assessing and continuously improving the effectiveness of the risk management and compliance processes and controls through training, ongoing monitoring, periodic reviews, communication and consultation.

During the reporting period, management has reported to the Board on the effectiveness of the Company's management of material business risks. Management has confirmed that the Company's Risk Management, Compliance & Assurance Framework **(Framework)** and Risk Policy align with the international risk management standard, AS/NZS ISO 31000:2009, and that the Framework is adequate in terms of its design and content to give effect to the Risk Policy.

Further supporting the Company's risk management processes, Aurizon Holdings has:

- An internal audit function that is independent of the external auditor (described below)
- A risk register with risk profiles populated at the various layers of the organisation
- A management specification that outlines the processes for the prevention, detection and management of fraud within Aurizon Holdings, and for fair dealing in matters pertaining to fraud
- An insurance program driven by risk assessments that seeks to transfer risk to the insurance market where appropriate.

Internal and External Audit

The Company has an internal audit function that operates under an internal audit charter.

The internal audit function is independent of management and the external auditor, and is overseen by the Audit, Governance & Risk Management Committee.

The Chief Internal Auditor provides ongoing audit reports to the Audit, Governance & Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Group's control processes and risk management procedures.

The external audit function is performed by PricewaterhouseCoopers (**PwC**).

Aurizon Holdings has adopted a Non-Audit Services Policy which prescribes the manner in which Aurizon Holdings will engage PwC, without compromising their independence as the Company's external auditor.

The Non-Audit Services Policy also sets out prohibited services which PwC may not provide to the Company in order to maintain the independence required to execute the role of external auditor. In essence, this policy provides that PwC must not provide services that have the potential to impair, or appear to impair, the independence of its audit role.

PwC has provided an Auditor's Independence Declaration in relation to its audit of the Aurizon Holdings FY13 Financial Report. A copy of this Declaration is set out on page 27 of the Annual Report.

Further details are set out in the Directors' Report on pages 22 to 48 of the Annual Report.

MD & CEO and CFO Declaration

The Board has obtained a written assurance from the MD & CEO and CFO that the declaration provided under section 295A of the Corporations Act and Corporate Governance Principle 7.3 are 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.

The MD & CEO and CFO Declaration relating to the Company's Financial Report for the year ended 30 June 2013 was provided prior to approving and signing the Financial Report.

Financial Report

for the year ended 30 June 2013

AURIZON

ABN: 14 146 335 622

These financial statements are the consolidated financial statements of the consolidated entity consisting of Aurizon Holdings Limited and its subsidiaries ("Group"). The financial statements are presented in Australian dollars.

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Aurizon Holdings Limited
Level 17
175 Eagle Street
BRISBANE QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the review of operations and activities and in the Directors' Report, which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 19 August 2013. The Directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available at our Investor Centre on our website: aurizon.com.au

Image: Hauling coal on the Moura system, Central QLD

Consolidated income statement

For the year ended 30 June 2013

	Notes	2013 $m	2012 $m
Revenue from continuing operations	5	**3,724.1**	3,504.0
Other income	6	**41.4**	32.3
Consumables	7	**(1,353.2)**	(1,302.3)
Employee benefits expense	7	**(1,182.5)**	(1,132.7)
Depreciation and amortisation expense	7	**(496.3)**	(463.7)
Other expenses	7	**(51.0)**	(41.9)
Finance costs	7	**(105.6)**	(41.5)
Share of net profit of associates and joint venture partnership accounted for using the equity method		**5.4**	0.1
Profit before income tax		**582.3**	554.3
Income tax expense	8	**(135.4)**	(113.4)
Profit for the year		**446.9**	440.9

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	34	**19.8**	18.1

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 2013

	Notes	2013 $m	2012 $m
Profit for the year		**446.9**	440.9
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	24(a)	**3.0**	0.4
Income tax relating to these items	8(c)	**(0.9)**	(0.1)
Other comprehensive income for the year, net of tax		**2.1**	0.3
Total comprehensive income for the year		**449.0**	441.2

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

Consolidated balance sheet
As at 30 June 2013

	Notes	2013 $m	2012 $m
ASSETS			
Current assets			
Cash and cash equivalents	9	**107.6**	98.8
Trade and other receivables	10	**579.5**	548.1
Inventories	11	**212.2**	215.8
Derivative financial instruments	12	**0.4**	0.1
Other assets	13	**10.2**	8.0
Assets classified as held for sale		**23.0**	8.7
Total current assets		**932.9**	879.5
Non-current assets			
Inventories	11	**19.0**	8.7
Derivative financial instruments	12	**0.2**	-
Property, plant and equipment	15	**9,473.4**	9,037.2
Intangible assets	16	**11.4**	16.6
Investments accounted for using the equity method	14	**79.2**	78.0
Other assets		**3.0**	0.5
Total non-current assets		**9,586.2**	9,141.0
Total assets		**10,519.1**	10,020.5
LIABILITIES			
Current liabilities			
Derivative financial instruments	12	**0.8**	1.3
Trade and other payables	18	**320.7**	349.6
Provisions	20	**359.3**	371.4
Other liabilities	21	**42.3**	37.5
Current tax liabilities		**68.2**	7.9
Total current liabilities		**791.3**	767.7
Non-current liabilities			
Derivative financial instruments	12	**-**	2.0
Provisions	20	**78.6**	81.3
Borrowings	19	**2,478.6**	1,201.6
Deferred tax liabilities	22	**408.2**	363.5
Other liabilities	21	**266.8**	310.2
Total non-current liabilities		**3,232.2**	1,958.6
Total liabilities		**4,023.5**	2,726.3
Net assets		**6,495.6**	7,294.2
EQUITY			
Contributed equity	23(b)	**5,071.4**	6,119.1
Reserves	24(a)	**0.1**	(2.0)
Retained earnings		**1,424.1**	1,177.1
Total equity		**6,495.6**	7,294.2

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 2013

		Attributable to owners of Aurizon Holdings Limited			
	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2011		6,111.9	(2.3)	916.8	7,026.4
Profit for the year		-	-	440.9	440.9
Other comprehensive income		-	0.3	-	0.3
Total comprehensive income for the year		-	0.3	440.9	441.2
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	25(a)	-	-	(180.6)	(180.6)
Share-based payments		7.2	-	-	7.2
Balance at 30 June 2012		6,119.1	(2.0)	1,177.1	7,294.2
Balance at 1 July 2012		6,119.1	(2.0)	1,177.1	7,294.2
Profit for the year		-	-	446.9	446.9
Other comprehensive income		-	2.1	-	2.1
Total comprehensive income for the year		-	2.1	446.9	449.0
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares		(1,054.1)	-	-	(1,054.1)
Dividends provided for or paid	25(a)	-	-	(199.9)	(199.9)
Share-based payments		6.4	-	-	6.4
		(1,047.7)	-	(199.9)	(1,247.6)
Balance at 30 June 2013		**5,071.4**	**0.1**	**1,424.1**	**6,495.6**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2013

	Notes	2013 $m	2012 $m
Cash flows from operating activities			
Receipts from customers		**4,057.0**	3,786.5
Interest received		**2.4**	2.5
Payments to suppliers and employees		**(3,007.6)**	(2,783.9)
Interest and other costs of finance paid		**(114.1)**	(80.7)
Income taxes paid		**(31.4)**	-
Net cash inflow from operating activities	33	**906.3**	924.4
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**48.9**	45.8
Payments for property, plant and equipment		**(943.5)**	(1,156.3)
Payments for investment in associates		**(1.8)**	(41.2)
Distributions received from associates		**5.5**	-
Net cash (outflow) from investing activities		**(890.9)**	(1,151.7)
Cash flows from financing activities			
Proceeds from borrowings		**3,720.0**	390.0
Payments for share buy-back		**(1,049.8)**	-
Payments for shares acquired for share-based payments		**(5.9)**	-
Payment of transaction costs related to borrowings and share buy-back		**(56.0)**	-
Repayment of borrowings		**(2,415.0)**	-
Dividends paid to Company's shareholders	25(a)	**(199.9)**	(180.6)
Net cash (outflow) inflow from financing activities		**(6.6)**	209.4
Net increase (decrease) in cash and cash equivalents		**8.8**	(17.9)
Cash and cash equivalents at the beginning of the financial year		**98.8**	116.7
Cash and cash equivalents at end of year	9	**107.6**	98.8

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

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies

The principal 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. 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".

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Aurizon Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved for issue by the Directors on 19 August 2013. The Directors have the power to amend and reissue the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(ii) 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 2012 affected any of the amounts recognised in the current period or any prior period, and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements, effective 1 July 2012, now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(b) Principles of consolidation

(i) Subsidiaries

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 then ended.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

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.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition. Details of investment in associates are set out in note 29(d).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as 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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Joint ventures

Jointly controlled assets or operations

Where the Group has jointly controlled assets or operations, the proportionate interests in the assets, liabilities, revenues and expenses of a joint venture activity are incorporated in the financial statements under the appropriate headings. Details of joint venture operations and jointly controlled assets are set out in note 29(a) and (b).

Joint venture entities

Where the Group has an interest in a joint venture entity, the interest is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the joint venture entity is recognised in the income statement and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details of joint venture entities are set out in note 29(c).

Profits or losses on transactions establishing the joint venture entity and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture entity on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee inclusive of the Managing Director & Chief Executive Officer.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(d) 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 Aurizon Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates, market interest rates and commodity prices, it enters into financial arrangements to reduce this exposure. 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 prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss, except when they are deferred in equity as 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. For example, translation differences on non-monetary assets and liabilities, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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 as follows:

(i) Services revenue

Services revenue comprises revenue earned from the provision of the following services:

- Track access
- Freight transport
- Other services revenue

The Group also has operations which provide construction and engineering services that are substantially internal to the Group and eliminate on consolidation.

Track access

Access revenue generated from the regulated rail access services provided on the Central Queensland Coal Network ("CQCN"), is recognised as services are provided and is calculated on a number of operating parameters, such as the tonnage hauled, and applied to regulator-approved tariffs. The tariff is determined by the total maximum allowable revenue, applied to the regulatory approved annual tonnage forecast.

Where annual actual tonnages railed are less than the annual tonnage forecast, an annual take or pay mechanism may become operative. A variable component of take or pay may also be applied where tonnage forecasts do not meet certain consecutive monthly thresholds. The take or pay portion of access revenue is recognised in the year that the contractual railings were not achieved.

In addition, the majority of access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its maximum allowable revenue over the regulatory period such that where actual tonnages railed are less than the regulatory approved tonnage forecast, the revenue shortfall (net of Take or Pay) is recovered in subsequent years and conversely, where actual tonnages railed are greater, the excess revenue received is refunded through the access tariffs in subsequent years. The majority of under or over recovery in access tariffs (net of Take or Pay charges) are recognised as revenue in the second year following the period in which the contractual railings were not achieved in accordance with the regulatory framework and includes an adjustment at the weighted average cost of capital to account for the time lag in which the adjustment to reference tariffs occurs.

Freight transport

Revenue from freight transport services is calculated based on the rates agreed with the customer 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.

In some circumstances, the Group is able to recover extra charges where the revenue receivable based on tonnage hauled and agreed price falls below minimum levels set in contractual arrangements with customers. These additional revenues include Deficit Tonnage Charges ("DTC"). Recognition of DTC revenue is considered on a contract by contract basis and generally recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than to reduce future tonnage entitlements.

Other services revenue

Revenue includes Transport Service Contract ("TSC") payments received from the Queensland Department of Transport and Main Roads for some specific rail and road-based regional freight services and livestock transportation services. Base amounts receivable under the TSC (regional freight and livestock) are recognised on a straight-line basis over the term of the contract. Additional payments are recognised when the revenue can be measured reliably on a stage of completion basis over the term of the agreement. Refer to note 5 for details related to TSC revenue recognised in the financial statements.

(ii) Other revenue

Revenue from other service works is recognised by reference to the contractual entitlement.

Access facilitation deeds for mine-specific infrastructure

The Group builds or acquires mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. In substance, charges under the deeds comprise capital charges and interest charges where the Group finances the assets. The capital charges are recognised on

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ii) Other revenue (continued)

a straight-line basis over the term of the access facilitation deed while the interest charges are accrued in accordance with the contractual terms of the access facilitation deed arrangements. Where the customer prepays the future charges, the amounts received are recognised as deferred income and recognised within income on a straight-line basis over the term of the access facilitation deed.

Liquidated damages

Liquidated damages occur when contractors fail to meet the key performance indicators set out in their contract with the Group. Income resulting from claims for liquidated damages is recognised as other income when all performance obligations are met (including when a contractual entitlement exists); it can be reliably measured (including the impact of the receipt, if any, on the underlying asset's carrying value); and it is probable that the economic benefits will flow to the Group.

External maintenance and overhaul

External maintenance and overhaul revenue comprises revenue earned on the maintenance of third party rollingstock and components. The majority of the revenue arises from the overhaul of the Queensland Rail passenger fleet.

(f) Other income

(i) Disposal of assets

The gain or loss on disposal of assets is recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the assets. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal, and is recognised as other income or expenses in the income statement.

(ii) Interest revenue

Interest revenue is recognised using the effective interest method.

(iii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match those with the costs that they are intended to compensate.

(iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(g) Income tax

The income tax expense or revenue 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 to 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 substantially enacted by the end of the reporting period 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 for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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 directly in equity, the deferred tax is also recognised directly in equity.

(h) Leases

Leases on property, plant and equipment

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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 the factors described above.

Cross border leases

The cross border lease arrangements involve transferring the legal title to, or head leasing, the rollingstock to the lessor, but the Group substantially retains the risks and rewards incidental to ownership of the rollingstock and enjoys substantially the same rights to its use as before the arrangement. Under the cross border lease arrangement, the ability of the Group to dispose of or

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(h) Leases (continued)

Cross border leases (continued)

otherwise deal with its interest in the rollingstock is restricted and cannot be sold without the consent of the lessor. The rollingstock is depreciated based on its estimated useful life as the Group intends to re-acquire the legal title of these assets. Benefits received from the cross border lease arrangement were recognised as income at the inception of the arrangement.

Where it is necessary under the cross border lease provisions to terminate part or all of a lease due to damaged or disposed leased assets and there is a difference between the value of the owned asset and the termination cost of the leased asset, the net book value of the damaged asset is recognised in the income statement as loss (or gain) on disposal and termination costs incurred are recognised in the income statement as other expenses.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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 cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units).

The recoverable amount is the greater of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

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

(k) Cash and cash equivalents

For the purpose of presentation in the statement of cash flow, 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.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(m) Inventories

Inventories include items held in centralised stores, workshops, and infrastructure and rollingstock depots, and are stated at the lower of cost and net realisable value. Cost comprises the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to its present location and condition. Cost is determined predominantly on an average cost basis.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(m) Inventories (continued)

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.

(n) Non-current assets (or disposal groups) held for sale and discontinued operations

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 fair value less costs to sell 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.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

(o) Investments and other financial assets

Classification

The Group classifies its non-derivative financial assets in the following categories: financial assets at fair value through profit or loss; loans, and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) in the balance sheet.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. 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.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through the income statement are expensed in the income statement.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) are impaired. A financial asset (or a group of financial assets) is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(p) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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 cash flows of recognised assets and liabilities, and highly probable forecast transactions (“cash flow hedges”).

At inception, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 12. 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.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(p) Derivatives and hedging activities (continued)

(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. 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.

(ii) 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 does not qualify for hedge accounting are recognised immediately in profit or loss in other income or expense.

(iii) Embedded derivatives

Through the Group's purchase and sale contracts, it is possible that embedded derivatives have been entered into. An embedded derivative will cause some or all of the cash flows of the purchase or sale contract (i.e. the host contract) to be modified by reference to a variable, such as a foreign exchange rate or a commodity price.

Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivative if the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract.

(q) Property, plant and equipment

(i) Methodology for valuation of fixed assets

Buildings, plant and equipment, and rollingstock

Buildings, plant and equipment, and rollingstock are carried at cost less accumulated depreciation. 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. 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.

Land

Land is carried at cost. As the *Transport Infrastructure Act 1994* stipulates that corridor land is owned by the State, only non-corridor land owned by the Group is recorded in the financial statements. Ownership of corridor land is with the Department of Environment and Resource Management, on behalf of the State. This land is leased to the Department of Transport and Main Roads and subsequently sub-leased to Aurizon Network Pty Ltd under two separate subleases, each with a rental of $1.00 per year if demanded. The subleases each expire on 30 June 2109.

The land subleases will automatically be renewed for a period of 99 years if the infrastructure leases are renewed for that period (refer leased coal infrastructure below).

Leased property, plant and equipment

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss on an effective interest rate basis.

Owned infrastructure

Infrastructure assets are transferred from Assets under construction once fully constructed and available for use. They are carried at cost and represent capitalised expenditures that are directly related to capital projects and may include materials, labour and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project that will provide future economic benefit and remain within the control of the Group.

Leased coal infrastructure

Coal infrastructure assets are owned by (a) the State, with respect to the Central Queensland Coal Network (CQCN) and (b) Queensland Rail, with respect to the North Coast Line (each referred to as the Infrastructure Lessors). Under each infrastructure lease the infrastructure is leased to Aurizon Network Pty Ltd, a controlled entity. The term of each of the leases is 99 years (at a peppercorn rate of $1.00 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. To the extent that the lease expires at the end of 99 years, the Infrastructure Lessor will pay Aurizon Network Pty Ltd the fair market value of the infrastructure assets, including the infrastructure existing on commencement of the lease as well as any railway assets added during the lease term as are reasonably required to enable the infrastructure to be operated as a fully functioning railway network. As the assets are not considered to be providing a public service, the Group's economic interest in the assets is accounted for as property, plant and equipment.

Assets under construction

Assets under construction represents the cost of fixed assets currently under construction and includes the cost of all materials used in construction, direct labour, site preparation, interest, and foreign currency gains and losses incurred where applicable. Also included in assets under construction are costs directly attributable with the development of significant strategic infrastructure projects (refer note 2(vi)). The development costs relate to directly attributable expenditure predominantly on engineering design, environmental and building approvals and project management.

Costs of 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.

(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.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(q) Property, plant and equipment (continued)

(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, 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 basis (percentages range from 13.6 per cent to 35.0 per cent). Land and assets under construction are not depreciated.

Assets controlled by the Group under finance leases are amortised over the useful lives of the assets. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining life of the asset.

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, including:	
Tracks	30–45 years
Track turnouts	20–25 years
Ballast	8–20 years
Civil works	20–100 years
Bridges	50–100 years
Electrification	20–50 years
Field signals	15–40 years
– Buildings	10–40 years
– Rollingstock, including:	
Locomotives	25–35 years
Locomotive componentisation	8–12 years
Wagons	25–35 years
Wagon componentisation	10–17 years
– Plant and equipment	3–20 years
– Leased property	3–40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate, refer note 2(iv). 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

(r) Intangible assets

(i) Goodwill

Goodwill represents the excess of the purchase consideration for an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, and is identified according to operating segments.

(ii) IT development and software

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

(iii) Key customer contracts

Key customer contracts have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the useful life which varies from three to six years.

(iv) 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 its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services and direct labour. Other development expenditures 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.

(s) Trade and other payables

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 30 days or within the terms agreed with the supplier. Trade and other payables are presented as current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(t) Borrowings and borrowing costs

(i) Borrowings

Borrowings are initially recognised as 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. Commitment and agency fees are accrued monthly and paid quarterly.

Fees paid on the establishment of loan facilities are recognised as transaction costs and have been capitalised and amortised over the life of the facility.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(t) Borrowings and borrowing costs (continued)

(i) Borrowings (continued)

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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.

(ii) Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a material qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. A qualifying asset is an internally funded asset that necessarily takes a substantial period of time to be prepared for its intended use or sale. The rate used to determine the amount of borrowing costs to be capitalised is the interest rate applicable to the Group's outstanding borrowings during the year. Other borrowing costs are expensed.

(u) Provisions

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 discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

In accordance with Group's environmental sustainability policy and applicable legal and constructive obligations, a provision for land rehabilitation in respect of contaminated land, is recognised when an obligation for rehabilitation is identified.

(v) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and leave loading are recognised as current liabilities. These liabilities are in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs.

(ii) Other long-term employee benefit obligations

Liabilities for long service leave, where employees have completed the required period of service or are entitled to pro-rata payments, are recognised as current liabilities. The remaining unvested liabilities are included as non-current liabilities.

The liability for long service leave is measured using the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future non-current payments are discounted using market yields at the reporting date on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement allowance

Retirement allowance is payable to employees who fulfil the following requirements:

> Employees who retire or who are paid according to Voluntary Redundancy Scheme or Medical Separation;
> are not members of an accumulation super fund; and
> were employed prior to 1 February 1995.

Liabilities for retirement allowance for employees who have fulfilled these requirements are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-current liabilities. The non-current liability for retirement allowance is measured at the present value of expected future payments to be made in respect of services provided by qualifying employees. Consideration is given to expected future wage and salary levels, experience of the departure of qualifying employees and periods of service. Expected future payments are discounted using market yields at the reporting date on Commonwealth Government bonds with maturities that match, as closely as possible, to the estimated future cash outflows.

(iv) Share-based payments

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.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. 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-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

For the year share-based compensation was settled by making on-market purchases of the Company's ordinary shares.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the Group and individual key performance indicators, including profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Sick leave

Sick leave is not provided for on the grounds that it is non-vesting and on average, no more than the annual entitlement is taken each year.

(vii) Superannuation

Contributions are expensed as they are made.

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.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(vii) Superannuation (continued)

The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund on a triennial basis. The latest valuation was completed as at 30 June 2010 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 Super Defined Benefit Fund of QSuper. 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 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.

(w) Contributed equity

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

Where any Group company purchases the Company's equity instruments, for example as the result of a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date.

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share are calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(z) 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.

Aurizon Holdings Limited and its subsidiaries are grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

(aa) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, unless otherwise indicated.

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group is considering early adopting the new standard before the operative date.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a substantial impact on its composition.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013) (continued)

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group does not expect the new standard to have any significant impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a 'partial disposal' concept. There will be no impact on the Group's financial statements from these amendments.

The Group does not intend to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has determined the impact of the new guidance to be immaterial in future financial periods based on current exposures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. It also changes the distinction between short and long-term benefits for measurement purposes to be based on when payment is expected to be made, not when payment can be demanded. Since Aurizon Holdings Limited does not have any defined benefit obligations, the amendments are not expected to have any significant impact on the Group's financial statements. The Group does not intend to adopt the new standard before their operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(v) AASB 2012-3 Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Disclosures -Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

(vi) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011, the AASB removed the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(vii) AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014)

In July 2013, the AASB made amendments to AASB 139 Financial Instruments: Recognition and Measurement, which permits the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument and is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Since the Group transacts derivatives directly with banks, the amendments are not expected to have a significant impact on the Group's financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending June 2015.

(ac) Parent entity financial information

The financial information for the parent entity, Aurizon Holdings Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Notes to the consolidated financial statements

30 June 2013

1. Summary of significant accounting policies (continued)

(ac) Parent entity financial information (continued)

(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 controlled entities have implemented the tax consolidation legislation with effect from 22 November 2010. All Australian wholly-owned companies in the Aurizon Holdings Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. The head entity of the tax consolidated group is Aurizon Holdings Limited. The Group has notified the ATO that it has formed a tax consolidated group, applying from 22 November 2010.

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 stand-alone 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 a tax funding agreement which 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.

(iii) Employee benefits – share-based payments

The grant by the Company of rights over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. 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 subsidiary undertakings, with a corresponding credit to equity.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment

The Group considers annually whether there has been any indicators of impairment and then tests whether non-current assets, including goodwill, have suffered any impairment, in accordance with the accounting policy stated in note 1(j). The recoverable amounts of cash generating units have been determined based on value in use calculations or fair value less costs to sell. These calculations require the use of assumptions. Refer to note 15 and 16 for further details on the carrying amounts of non-current assets subject to impairment testing.

(ii) Employee benefits

The determination of the provisions required is dependent on specific assumptions including expected wage increases, length of employee service and bond rates. Refer to note 20 for more information.

(iii) Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be subject to tax. Judgement is also required in assessing whether certain deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from non-recoupable tax losses, capital losses and temporary differences, are recognised only when it is considered probable that they will be recovered. Recoverability is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These in turn depend on estimates of future sales volumes, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may then require adjustment, resulting in a corresponding credit or charge to the income statement.

Refer to notes 17 and 22 for carrying amounts of deferred tax assets and deferred tax liabilities.

(iv) Depreciation

Management 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. Management 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. Refer to note 1(q) for details of current depreciation rates used.

(v) Take or Pay

The calculation of Take or Pay is based on an assessment of access charges from contracted railings that have not been achieved subject to an adjustment for Aurizon Network Pty Ltd ("below rail") cause. Below rail cause is based on information on below rail versus operator/mine cancellations in the relevant year. The estimate of Take or Pay is based on management's judgement of below rail cause and is recognised in the year in which the contractual railings have not been achieved.

(vi) Significant strategic infrastructure projects

During the period, work continued on various significant infrastructure projects in relation to above and below rail development. As at 30 June 2013, $108.1 million (2012: $51.7 million) of costs were capitalised. The previously reported amount of $42.3 million for 2012 has been updated to $51.7 million to include the costs for the Surat Basin Railway. The development costs relate to directly attributable expenditure predominantly on engineering design, environmental and building approvals and project management. Management's judgement has been applied to the extent to which capitalisation of these projects is

Notes to the consolidated financial statements

30 June 2013

2. Critical accounting estimates and judgements (continued)

(vi) Significant strategic infrastructure projects (continued)

appropriate. The application of this judgement will be re-assessed throughout the life of the projects.

In March 2013, Aurizon and GVK Coal Infrastructure (Singapore) Pte Ltd (GVK Hancock) signed a non-binding term sheet to jointly progress the development of rail and port infrastructure to unlock Galilee basin coal reserves and a process to support the next phase of coal growth in the Bowen Basin. Under the proposed framework Aurizon would acquire a majority (51 %) interest in Hancock Coal Infrastructure Pty Ltd (HCI), which owns GVK Hancock's rail and port projects. This follows the Queensland Government declaring the project to be of State significance in early 2012.

Aurizon and GVK Hancock are seeking the development of a potential 60 mtpa port and rail project that would underpin the opening of reserves in the Galilee basin and continued growth of the Bowen basin. Following completion of the transaction, Aurizon would gain the rights to operate and jointly manage with GVK the rail infrastructure and to exclusively provide above rail haulage from GVK Hancock's Alpha and Kevin's Corner mines for up to 60mtpa of coal.

Aurizon is continuing to work with a range of stakeholders in the Pilbara in Western Australia regarding the establishment of a standard gauge heavy haul railway line linking the Hamersley Ranges to the Port Hedland Port and the yet to be constructed Anketell Port, with Aurizon providing above and below rail services. In July 2013 Aurizon and Brockman Australia entered into a binding Relationship Agreement for a period of three years under which Aurizon will be the exclusive supplier to develop and operate the infrastructure required by Brockman Australia. Aurizon is also continuing to engage in discussions with other miners and stakeholders in the Pilbara.

Aurizon is a one-third joint venture partner in the Surat Basin Railway with the ATEC Rail Group and Glencore Xstrata Coal. The proposed Surat Basin Rail in Central Queensland includes a new 210 kilometre rail corridor from Wandoan to the Moura system near Banana, 130 kilometres west of Gladstone, which will align with the second stage of the development of the Wiggins Island Coal Export Terminal (yet to be committed).

3. Financial risk management

The Group has exposure to a variety of financial risks including market risk (foreign exchange risk, interest rate risk and fuel price risk), credit risk and liquidity risk. Risk management is carried out by a central Treasury function on behalf of the Group under Treasury Policies approved by the Board. Trading for speculation is strictly prohibited. Compliance with the 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 fuel price, foreign exchange, interest rates and equity prices will affect the Group's financial performance or the value of its holdings of financial instruments. The Group 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 entity's functional currency. These transactions apply in large part to the US Dollar ("USD") and the Euro ("EUR").

The Group's exposure to foreign currency risk together with the derivatives which have been entered into to manage these exposures at the end of the reporting period, expressed in AUD, was as follows:

	2013		2012	
	USD $m	EUR $m	USD $m	EUR $m
Cash and cash equivalents	**0.9**	**1.4**	1.1	0.1
Net forward exchange contracts	**(5.8)**	**(3.1)**	(8.8)	(5.1)
Net exposures	**(4.9)**	**(1.7)**	(7.7)	(5.0)

Risk management

In order to protect against foreign exchange movements, the Group enters into forward foreign exchange contracts. These contracts are hedging highly probable forecast foreign currency exposures. Such contracts are designated as cash flow hedges. 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.

During the year, the net realised loss arising from foreign exchange hedging activities for the Group was $1.0 million (2012: loss of $16.3 million) as a result of the AUD appreciating above the average hedged price. Of this net amount, a realised loss of $0.5 million (2012: loss of $9.3 million) represents the effective portion of the hedges which has been recognised in the relevant expenditure category or capitalised to a project, and a realised loss of $0.5 million (2012: loss of $7.0 million) represents the ineffective portion of hedges and non-designated derivatives which have been recognised in other expenses.

(ii) Fuel price risk

Exposure to fuel price risk

Fuel price risk arises on the Group's exposure to fuel prices, predominately Gasoil. Fuel price risk exposure has decreased significantly during the year as a result of fuel price risk management incorporated in new form customer contracts. As a result, residual exposures were immaterial for the Group.

Risk management

In order to protect against adverse fuel price movements, the Group from time to time enters into commodity swap contracts. During the reporting period no commodity hedging contracts were undertaken by the Group.

In the prior period, fuel commodity hedging derivatives were closed out for a net realised gain of $9.9 million. Of this net amount, a realised gain of $6.0 million represented the effective portion of the hedges, which was recognised in diesel expense, and $3.9 million represented the ineffective portion which was recognised in other expenses.

(iii) 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. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

Notes to the consolidated financial statements

30 June 2013

3. Financial risk management (continued)

(iii) Interest rate risk (continued)

	30 June 2013		30 June 2012	
	Weighted average interest rate %	**Balance $m**	Weighted average interest rate %	Balance $m
Bank overdrafts and bank loans	**4.3%**	**2,525.0**	5.4 %	1,220.0
Interest rate swaps	**3.5%**	**(300.0)**	3.6 %	(500.0)
Net exposure cash flow interest rate risk		**2,225.0**		720.0

Risk management

In order to protect against adverse interest rate movements, the Group enters into derivative contracts.

During the year, the net realised loss arising from interest rate hedging activities for the Group was $2.0 million (2012: gain of $1.5 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 has been recognised in interest expense.

The Group accounts for financial assets at fair value through profit or loss, and financial liabilities at amortised cost using the effective interest method.

(iv) Sensitivity on foreign exchange and interest rate risk

The following table summarises the gain/(loss) impact of reasonably possible changes in market risk, relating to existing financial instruments, on net profit and equity before tax. For the purpose of this disclosure, the following assumptions were used:

- 15 per cent (2012: 15 per cent) appreciation/depreciation of foreign currency rates
- 100 basis points increase/decrease in interest rates
- Sensitivity analysis assumes hedge designations and effectiveness test results as at 30 June 2013 remain unchanged
- Sensitivity analysis is isolated for each risk assuming all other variables remain constant
- Sensitivity analysis on foreign currency rates represent current market conditions.

	Profit (before tax)		Equity (before tax)	
	2013 $m	2012 $m	**2013 $m**	2012 $m
15% movement in foreign currency rates				
15 % decrease in foreign currency rates				
USD depreciation	**-**	0.2	**1.0**	1.5
EUR depreciation	**-**	-	**0.6**	0.9
15 % increase in foreign currency rates				
USD appreciation	**-**	(0.1)	**(0.7)**	(1.1)
EUR appreciation	**-**	-	**(0.4)**	(0.7)

	Profit (before tax)		Equity (before tax)	
	2013 $m	2012 $m	**2013 $m**	2012 $m
100 bps movement in interest rates				
100 bps decrease in interest rates				
Borrowings	**23.2**	10.9	**-**	-
Derivatives	**-**	-	**(0.8)**	(4.2)
100 bps increase in interest rates				
Borrowings	**(23.2)**	(10.9)	**-**	-
Derivatives	**-**	-	**0.8**	4.2

During the period, fuel price risk exposures remained immaterial therefore no sensitivity analysis was required.

(b) Credit risk

Credit risk is managed on a Group basis. 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 given to certain parties. Refer to note 3(d) for further details.

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 also 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 3(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. 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 to financial institutions whose long-term credit ratings, determined by a recognised ratings agency, are at or above the minimum rating of A- . This Policy also 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.

An analysis of the Group's trade and other receivables that have been impaired and the ageing of those that are past due but not impaired at the balance date is presented in note 10(b).

(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.

Notes to the consolidated financial statements

30 June 2013

3. Financial risk management (continued)

Financing arrangements

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

	Security	Maturity	Utilised 2013	Utilised 2012	Facility limit 2013	Facility limit 2012
Aurizon Finance						
Working capital facility	Unsecured	Jun-2014	**54.5**	-	**150.0**	-
Syndicated facility	Unsecured	Dec-2014	**-**	1,200.0	**-**	1,425.0
Syndicated facility	Unsecured	Dec-2015	**-**	25.0	**-**	1,575.0
Syndicated facility	Unsecured	Jun-2016	**300.0**	-	**300.0**	-
Syndicated facility	Unsecured	Jun-2018	**-**	-	**300.0**	-
			354.5	1,225.0	**750.0**	3,000.0
Aurizon Network						
Working capital facility	Unsecured	Jun-2014	**6.2**	-	**100.0**	-
Term loan facility	Unsecured	Jun-2014	**500.0**	-	**500.0**	-
Syndicated facility	Unsecured	Jun-2016	**1,200.0**	-	**1,200.0**	-
Syndicated facility	Unsecured	Jun-2018	**525.0**	-	**1,300.0**	-
			2,231.2	-	**3,100.0**	-
Total Group financing arrangements			**2,585.7**	1,225.0	**3,850.0**	3,000.0

During the year, the Group implemented a new long-term capital structure whereby standalone debt facilities were placed at the Aurizon level through Aurizon Finance Pty Ltd and in its subsidiary Aurizon Network Pty Ltd. The Group repaid and cancelled its existing $3,000 million Syndicated Facility Agreement, which was drawn to $2,415 million using the standalone debt facilities in Aurizon Finance and Aurizon Network.

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling $250 million (2012: $52 million) which may be utilised in the form of a short-term working capital funding and the issuance of insurance bonds, bank guarantees and performance guarantees. At the end of the reporting period, the Group utilised $60.7 million (2012: $54.1 million) for financial bank guarantees.

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

	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
2013					
Non-derivatives					
Non-interest bearing	**320.7**	**-**	**-**	**320.7**	**320.7**
Borrowings	**98.9**	**2,784.3**	**-**	**2,883.2**	**2,478.6**
Financial guarantees	**60.7**	**-**	**-**	**60.7**	**-**
Total non-derivatives	**480.3**	**2,784.3**	**-**	**3,264.6**	**2,799.3**
Derivatives					
Interest rate swaps used for hedging (net settled)	**1.3**	**-**	**-**	**1.3**	**0.7**
Foreign exchange contracts used for hedging					**(0.5)**
– (inflow)	**(6.9)**	**(2.1)**	**-**	**(9.0)**	**-**
– outflow	**6.5**	**1.9**	**-**	**8.4**	**-**
Total derivatives	**0.9**	**(0.2)**	**-**	**0.7**	**0.2**
2012					
Non-derivatives					
Non-interest bearing	349.6	-	-	349.6	349.6
Borrowings	60.2	1,254.6	-	1,314.8	1,201.6
Financial guarantees	54.1	-	-	54.1	-
Total non-derivatives	463.9	1,254.6	-	1,718.5	1,551.2
Derivatives					
Interest rate swaps used for hedging (net settled)	(0.4)	(0.5)	-	(0.9)	2.4
Foreign exchange contracts used for hedging					0.8
– (inflow)	(11.3)	(2.6)	-	(13.9)	-
– outflow	12.1	3.0	-	15.1	-

Notes to the consolidated financial statements

30 June 2013

3. Financial risk management (continued)

Total derivatives	0.4	(0.1)	-	0.3	3.2

(d) Fair value measurements

The net fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

The net fair value of forward foreign exchange contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates. The net fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flow.

	Carrying amount		Fair value	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Financial assets carried at fair value				
Forward exchange contracts	**0.6**	0.1	**0.6**	0.1
Interest rate swaps	**-**	-	**-**	-
	0.6	0.1	**0.6**	0.1
Financial assets carried at amortised cost				
Cash and cash equivalents	**107.6**	98.8	**107.6**	98.8
Trade and other receivables	**579.5**	548.1	**579.5**	548.1
	687.1	646.9	**687.1**	646.9
Financial liabilities carried at fair value				
Forward exchange contracts	**(0.1)**	(0.9)	**(0.1)**	(0.9)
Interest rate swaps	**(0.7)**	(2.4)	**(0.7)**	(2.4)
	(0.8)	(3.3)	**(0.8)**	(3.3)
Financial liabilities carried at amortised cost				
Trade and other payables	**(320.7)**	(349.6)	**(320.7)**	(349.6)
Borrowings	**(2,478.6)**	(1,201.6)	**(2,558.8)**	(1,210.6)
	(2,799.3)	(1,551.2)	**(2,879.5)**	(1,560.2)
Off-balance sheet				
Unrecognised financial assets				
Third party guarantees	**-**	-	**42.3**	48.5
Bank guarantees	**-**	-	**178.9**	247.4
Insurance company guarantees	**-**	-	**10.0**	27.3
Unrecognised financial liabilities				
Bank guarantees	**-**	-	**(60.7)**	(54.1)
	-	-	**170.5**	269.1

Fair value hierarchy

The table on the right 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).

2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	**-**	**0.6**	**-**	**0.6**
Derivative financial liabilities	**-**	**(0.8)**	**-**	**(0.8)**
Net financial instruments measured at fair value	**-**	**(0.2)**	**-**	**(0.2)**

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	-	0.1	-	0.1
Derivative financial liabilities	-	(3.3)	-	(3.3)
Net financial instruments measured at fair value	-	(3.2)	-	(3.2)

Notes to the consolidated financial statements

30 June 2013

4. Segment information

(a) Description of segments

Business Segments

The Group has determined operating segments based on the operating structure of the Group and the different reports reviewed by the Executive Committee. The segments are based on the operational structure of the Group and the different products and services provided by each segment. The chief operating decision-makers assess the performance of the operating segments based on the underlying earnings before interest and tax ("EBIT"). Amounts included in the report by the chief operating decision-maker are in accordance with the Group's accounting policies.

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

Network

Provision of access to, and operation and management of the Central Queensland Coal Network (CQCN). Provision of below rail design, construction, overhaul, maintenance and management services to the Group.

Coal

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

Iron Ore

Transport of iron ore from mines in Western Australia to ports.

Freight

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.

Unallocated

Items of revenue and expense 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.

Interest expense for the entire Group is not allocated to specific segments but rather recorded as a corporate expense. With the exception of property, plant and equipment, asset and liability positions of the Group are only reviewed at the consolidated level.

(b) Segment information

2013	Network $m	Coal $m	Iron Ore $m	Freight $m	Unallocated $m	Total $m
Segment revenue						
Revenue from external customers						
Services revenue						
Track access	212.7	776.3	-	3.4	-	992.4
Freight transport	-	1,077.1	356.4	884.4	-	2,317.9
Other services	79.2	-	-	147.1	-	226.3
Other revenue	51.3	7.7	0.1	37.5	90.9	187.5
Total revenue from external customers	**343.2**	**1,861.1**	**356.5**	**1,072.4**	**90.9**	**3,724.1**
Intersegment revenue						
Services revenue						
Track access	708.2	-	-	0.2	-	708.4
Freight transport	-	1.5	-	8.6	-	10.1
Other services	10.7	-	-	-	-	10.7
Other revenue	-	-	-	-	100.0	100.0
Total intersegment revenue	718.9	1.5	-	8.8	100.0	829.2
Total revenue	1,062.1	1,862.6	356.5	1,081.2	190.9	4,553.3
Other income (note 6)	(4.0)	0.1	-	0.5	44.8	41.4
Total segment revenue and other income	**1,058.1**	**1,862.7**	**356.5**	**1,081.7**	**235.7**	**4,594.7**
Intersegment elimination						(829.2)
Consolidated revenue and other income						**3,765.5**
Segment result						
Underlying EBITDA	**623.4**	**494.3**	**133.4**	**79.6**	**(80.0)**	**1,250.7**
Depreciation and amortisation	(199.2)	(174.4)	(36.8)	(56.6)	(29.3)	(496.3)
Underlying EBIT	**424.2**	**319.9**	**96.6**	**23.0**	**(109.3)**	**754.4**
Significant adjustments (note 4(c))						(68.8)
EBIT						**685.6**
Net finance costs						(103.3)
Profit before income tax						**582.3**
Income tax expense						(135.4)
Profit for the year						**446.9**
Other segment information						
Property, plant and equipment	**4,961.0**	**2,967.9**	**505.0**	**756.4**	**283.1**	**9,473.4**

Notes to the consolidated financial statements

30 June 2013

4. Segment information (continued)

2012	Network $m	Coal $m	Iron ore $m	Freight $m	Unallocated $m	Total $m
Segment revenue						
Revenue from external customers						
Services revenue						
Track access	106.5	731.8	-	2.8	-	841.1
Freight transport	-	1,026.0	196.7	913.4	-	2,136.1
Other services	108.6	-	-	178.0	-	286.6
Other revenue	53.3	11.4	-	61.6	113.9	240.2
Total revenue from external customers	**268.4**	**1,769.2**	**196.7**	**1,155.8**	**113.9**	**3,504.0**
Intersegment revenue						
Services revenue						
Track access	637.6	-	-	-	-	637.6
Freight transport	-	2.3	-	8.8	-	11.1
Other services	17.7	-	-	-	-	17.7
Other revenue	-	-	-	-	97.6	97.6
Total intersegment revenue	655.3	2.3	-	8.8	97.6	764.0
Total revenue	923.7	1,771.5	196.7	1,164.6	211.5	4,268.0
Other income (note 6)	(3.5)	0.5	-	7.9	27.4	32.3
Total segment revenue and other income	**920.2**	**1,772.0**	**196.7**	**1,172.5**	**238.9**	**4,300.3**
Intersegment elimination						(764.0)
Consolidated revenue and other income						**3,536.3**
Segment result						
Underlying EBITDA	**519.0**	**433.2**	**53.5**	**119.3**	**(76.8)**	**1,048.2**
Depreciation and amortisation	(185.3)	(176.2)	(21.8)	(51.1)	(29.3)	(463.7)
Underlying EBIT	**333.7**	**257.0**	**31.7**	**68.2**	**(106.1)**	**584.5**
Significant adjustments (note 4(c))						8.8
EBIT						**593.3**
Net finance costs						(39.0)
Profit before income tax						**554.3**
Income tax expense						(113.4)
Profit for the year						**440.9**
Other segment information						
Property, plant and equipment	4,520.4	3,117.0	448.5	697.3	254.0	9,037.2

Coal Take or Pay revenue (amounts recovered from customers) has been reclassified as track access revenue (previously freight transport revenue) to more accurately reflect the nature of this revenue.

(c) Significant adjustments

The Group's underlying results differ from the statutory result. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis. The significant adjustments for the current and prior year are:

	2013 $m	2012 $m
Voluntary redundancy schemes	**95.7**	-
Stamp duty	**(26.9)**	(8.8)
Total significant adjustments	**68.8**	(8.8)

2013

A major voluntary redundancy scheme was carried out during the year, 960 employees accepted the redundancy offer at a total cost of $95.7 million.

In 2010, the Group recognised an expense of $24.9 million for stamp duty paid in relation to the 2006 acquisition of Australian Railroad Group ("ARG").

The amount was paid based on an assessment issued by the Western Australia (WA) Office of State Revenue (OSR) and as required under the Group's Joint Acquisition Agreement ("JAA") with Brookfield Infrastructure Group (Australia) Pty Ltd ("Brookfield") (previously Prime Infrastructure). Brookfield, as the primary legal party to the dispute, successfully appealed the stamp duty assessment through to the Supreme Court of WA. Accordingly, on 24 June 2013, the WA OSR issued a reassessment of stamp duty and refunded the stamp duty together with interest to Brookfield. On 27 June 2013 Brookfield in turn refunded to Aurizon $26.9 million including penalty interest of $2.1 million.

2012

New South Wales (NSW) stamp duty was triggered on 21 September 2010 with the interposing of Aurizon Holdings Limited as part of the pre-IPO restructuring.

Notes to the consolidated financial statements

30 June 2013

4. Segment information (continued)

(c) Significant adjustments (continued)

At the time of interposing there were some uncertainties regarding whether NSW, stamp duty should be payable in respect of only the land held by the Group in NSW or both the land and other assets (i.e. rollingstock) held in NSW. Aurizon lodged an application with the NSW Office of State Revenue ("OSR") that stamp duty was only payable on the land, however at the time of IPO, Aurizon raised a provision of $11.0 million on the assumption that OSR may impose stamp duty on both land and rollingstock. After review, the OSR confirmed that stamp duty was only payable in respect of the land ($2.2 million). Accordingly, the remaining provision of $8.8 million was released back to the income statement.

(d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. It also earns material revenues from the State of Queensland for Transport services contracts. There is one customer that falls above the 10 per cent threshold that requires disclosure under the Accounting Standards. This customer represents approximately $459.7 million (2012: $335.1 million) of the Group's total revenue.

5. Revenue

	2013 $m	2012 $m
Services revenue		
Track access	**992.4**	841.1
Freight transport	**2,317.9**	2,136.1
Other services revenue	**226.3**	286.6
Other revenue	**187.5**	240.2
	3,724.1	3,504.0

Included in Track access is $59.5 million ($49.2 million rolled forward at the approved weighted average cost of capital) (2012: nil) of Revenue Cap recovered in the year in relation to contractual railings that were not achieved in 2011. Also included in Track access is Take or Pay revenue of $52.0 million (2012: $54.7 million) relating to the current year.

Included within the Freight transport revenue is $37.4 million (2012: $28.6 million) of Deficit Tonnage Charges.

Included in Other services is revenue from Transport Service Contracts (for Regional Freight and Livestock Transport Services) from the State of Queensland of $146.8 million (2012: $177.9 million) including $18.5 million (2012: $33.0 million) of accrued additional payments due to Aurizon under the contract.

6. Other income

	2013 $m	2012 $m
Net gain on disposal of property, plant and equipment	**11.8**	16.2
Fair value gains on financial assets at fair value through profit or loss	**-**	0.6
Foreign exchange gains (net)	**0.1**	0.1
Interest revenue	**2.3**	2.5
Stamp duty recovery	**26.9**	8.8
Other income	**0.3**	4.1
	41.4	32.3

7. Expenses

	2013 $m	2012 $m
Profit/(loss) before income tax includes the following specific expenses:		
Consumables		
Repairs and maintenance	**284.8**	290.2
Track access	**328.9**	371.4
Energy and fuel (*)	**374.8**	332.1
Other	**364.7**	308.6
Total consumables	**1,353.2**	1,302.3
Employee benefits expenses		
Defined benefit superannuation expense	**18.5**	21.0
Defined contribution superannuation expense	**68.9**	64.0
Voluntary redundancies and ex-gratia payments	**95.7**	14.9
Salaries, wages and allowances	**619.0**	686.9
Other employment expenses including on-costs	**380.4**	345.9
Total employee benefit expense	**1,182.5**	1,132.7
Depreciation and amortisation expense		
Depreciation	**305.8**	322.8
Amortisation	**183.9**	122.8
Total depreciation and amortisation of property, plant and equipment (note 15)	**489.7**	445.6
Other amortisation		
Software	**5.2**	16.3
Customer contracts	**1.4**	1.8
Total other amortisation (note 16)	**6.6**	18.1
Total depreciation and amortisation expense	**496.3**	463.7
Other expenses		
Rental expense relating to leases	**36.2**	18.9
Inventory obsolescence	**2.0**	2.9
Research and development	**0.4**	0.1
Losses on derivatives at fair value through profit or loss	**0.3**	1.1
Stamp duty	**-**	0.2
Impairment losses – trade receivables	**5.1**	0.7
Other expenses	**7.0**	18.0
Total other expenses	**51.0**	41.9

* The 2012 comparative for Energy and Fuel includes the reclassification of diesel fuel rebates of $97.8 million from Other Income (note 6) to conform to the presentation in the current financial year.

	2013 $m	2012 $m
Finance costs		
Interest and finance charges paid/payable	**123.4**	88.6
Provisions: unwinding of discount/change in discount rate	**4.4**	(1.7)
Total finance costs	**127.8**	86.9
Amount capitalised to qualifying assets (a)	**(22.2)**	(45.4)
Finance costs expensed	**105.6**	41.5

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year of 5.00 per cent (2012: 6.10 per cent).

Notes to the consolidated financial statements

30 June 2013

8. Income tax expense

(a) Income tax expense

	2013 $m	2012 $m
Current tax	**85.2**	7.9
Deferred tax	**58.2**	138.8
Deferred tax base reset on consolidation and privatisation	**-**	(33.3)
Prior period adjustments – deferred tax	**(12.6)**	-
Prior period adjustments – current tax	**4.6**	-
	135.4	113.4
Income tax expense is attributable to:		
Profit/(loss) from continuing operations	**135.4**	113.4
Deferred income tax expense included in income tax expense comprises:		
(Increase) decrease in deferred tax assets (note 17)	**(43.8)**	45.3
Increase (decrease) in deferred tax liabilities (note 22)	**89.4**	60.2
	45.6	105.5

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

	2013 $m	2012 $m
Profit before income tax expense	**582.3**	554.3
Tax at the Australian tax rate of 30% (2012: 30%)	**174.7**	166.3
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**0.2**	0.2
Research and development	**(6.5)**	(6.0)
Tax base reset on consolidation and privatisation (note 8(f))	**-**	(33.3)
Non-assessable income (note 8(h))	**(17.5)**	(7.7)
Stamp duty refund on acquisition of subsidiary (note 4(c))	**(8.1)**	-
Stamp duty on business restructure (note 4(c))	**-**	(2.7)
Other	**0.6**	(3.4)
Adjustment for income tax of previous periods	**(8.0)**	-
Total income tax expense	**135.4**	113.4

(c) Tax expense relating to items of other comprehensive income

	2013 $m	2012 $m
Cash flow hedges	**0.9**	0.1

(d) Tax privatisation legislation

Entities within the Group exited the State administered National Tax Equivalents Regime upon privatisation on 22 November 2010. At the same time, Aurizon Holdings Limited and its wholly-owned Australian subsidiaries entered the Federal Tax Regime.

(e) Tax consolidation

Aurizon Holdings Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 22 November 2010. All Australian wholly-owned companies in the Aurizon Holdings Limited Group are part of the tax consolidated group and are therefore taxed as a single entity.

The Group has notified the ATO that it has formed a tax consolidated group, applying from 22 November 2010.

(f) Tax base reset

During the year ended 30 June 2011, as a consequence of the privatisation of Aurizon Holdings Limited and the proposed election to consolidate its wholly-owned Australian subsidiaries under the Australian tax consolidation regime, the Group reset the tax base of its assets and liabilities as required by the specific privatisation tax rules and the tax consolidation regime. Due to a reassessment of this net tax benefit upon privatisation, an additional income tax benefit of $33.3 million was recognised in the year ended 30 June 2012.

(g) Tax sharing agreement

The entities within the Aurizon Holdings Limited tax consolidated group have entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

(h) Tax expense – non-assessable income

This amount represents accounting income recognised by the Group during the year which relates to transactions or events occurring pre-IPO. This income is non-assessable for income tax purposes under tax privatisation legislation.

9. Cash and cash equivalents

	2013 $m	2012 $m
Cash on hand	**-**	-
Cash at bank	**107.6**	98.8
Total cash and cash equivalents	**107.6**	98.8

10. Trade and other receivables

	2013 $m	2012 $m
Current		
Trade receivables	**450.7**	384.5
Provision for impairment of receivables (a)	**(8.0)**	(2.9)
Net trade receivables	**442.7**	381.6
Other receivables	**136.8**	166.5
	579.5	548.1

Other receivables include revenue for services performed but not yet invoiced under contracts including Take or Pay and Transport Services Contract and a provision for impairment of $4.1 million (2012: nil).

(a) Impaired trade receivables

As at 30 June 2013, the amount of the provision for impaired trade receivables was $8.0 million (2012: $2.9 million).

Movements in the provision for impairment of receivables are as follows:

	2013 $m	2012 $m
At 1 July	**2.9**	2.2
Provision for impairment recognised during the year	**5.8**	1.3
Receivables written off during the year as uncollectable	**(0.4)**	-
Unused amounts reversed	**(0.3)**	(0.6)
At 30 June	**8.0**	2.9

Notes to the consolidated financial statements

30 June 2013

10. Trade and other receivables (continued)

(a) Impaired trade receivables (continued)

The creation or release of the provision for impaired receivables has been included in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Based on the credit history of the other classes within trade and other receivables, it is expected that these amounts will be received when due.

(b) Past due but not impaired

As at 30 June 2013, trade receivables of $64.2 million (2012: $59.1 million) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing of these trade receivables is as follows:

	2013 $m	2012 $m
Up to 3 months	**27.1**	48.4
3 to 6 months	**1.9**	5.1
Over 6 months	**35.2**	5.6
	64.2	59.1

11. Inventories

	2013 $m	2012 $m
Current		
Raw materials and stores – at cost	**198.9**	204.0
Work in progress – at cost	**13.3**	11.8
	212.2	215.8

	2013 $m	2012 $m
Non-current		
Raw materials and stores – at cost	**25.7**	14.1
Provision for inventory obsolescence	**(6.7)**	(5.4)
Inventory at lower of cost or net realisable value	**19.0**	8.7

(a) Inventory expense

Inventory recognised as expense during the year ended 30 June 2013 amounted to $674.8 million (2012: $707.4 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to $2.3 million (2012: $1.9 million).

12. Derivative financial instruments

	2013 $m	2012 $m
Current assets		
Forward exchange contracts – cash flow hedges	**0.4**	0.1
Total current derivative financial instrument assets	**0.4**	0.1
Non-current assets		
Forward foreign exchange contracts – cash flow hedges	**0.2**	-
Total non-current derivative financial instruments	**0.2**	-
Total derivative financial instrument assets	**0.6**	0.1
Current liabilities		
Forward exchange contracts – cash flow hedges	**0.1**	0.7
Interest rate swap contracts – cash flow hedges	**0.7**	0.6
Total current derivative financial instrument liabilities	**0.8**	1.3
Non-current liabilities		
Forward exchange contracts – cash flow hedges	**-**	0.2
Interest rate swap contracts – cash flow hedges	**-**	1.8
Total non-current derivative financial instrument liabilities	**-**	2.0
Total derivative financial instrument liabilities	**0.8**	3.3

(a) Instruments used by the Group

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency and interest rate exposures in accordance with the Group's financial risk management policy (refer to note 3).

13. Other assets

	2013 $m	2012 $m
Current		
Prepayments	**10.2**	8.0
	10.2	8.0

14. Investments accounted for using the equity method

	2013 $m	2012 $m
Investments in associates (refer note 29(d))	**78.7**	77.5
Interest in joint ventures (refer note 29(c))	**0.5**	0.5
	79.2	78.0

Notes to the consolidated financial statements

30 June 2013

15. Property, plant and equipment

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Total $m
2013							
Opening net book amount	426.3	175.3	356.0	280.5	3,433.4	4,365.7	9,037.2
Additions	941.1	-	1.6	23.2	12.5	0.8	979.2
Transfers between asset classes	(495.9)	(10.2)	78.2	50.5	197.1	179.7	(0.6)
Disposals	(0.2)	(0.7)	(2.6)	(7.7)	(19.9)	(5.3)	(36.4)
Impairment reversal	-	-	-	-	-	-	-
Asset classified as held-for-sale	-	(13.8)	(2.3)	-	-	(0.2)	(16.3)
Depreciation/amortisation	-	-	(16.5)	(48.0)	(234.8)	(190.4)	(489.7)
Closing net book amount	871.3	150.6	414.4	298.5	3,388.3	4,350.3	9,473.4
Cost	871.3	150.6	547.1	582.7	5,009.3	5,187.6	12,348.6
Accumulated depreciation and impairment losses	-	-	(132.7)	(284.2)	(1,621.0)	(837.3)	(2,875.2)
Net book amount	871.3	150.6	414.4	298.5	3,388.3	4,350.3	9,473.4
Owned	871.3	150.6	389.2	296.5	3,219.9	741.4	5,668.9
Leased	-	-	25.2	2.0	168.4	3,608.9	3,804.5
	871.3	150.6	414.4	298.5	3,388.3	4,350.3	9,473.4
2012	-						
Opening net book amount	1,365.7	182.9	308.5	275.9	3,176.3	3,015.9	8,325.2
Additions	1,166.0	-	1.4	15.3	-	18.9	1,201.6
Transfers between asset classes	(2,107.5)	1.6	61.6	41.9	490.0	1,503.1	(9.3)
Disposals	-	(2.7)	(0.9)	(9.0)	(13.2)	(3.8)	(29.6)
Impairment reversal	2.1	-	-	1.6	(0.1)	-	3.6
Assets classified as held for sale	-	(6.5)	-	-	(2.2)	-	(8.7)
Depreciation/amortisation expense	-	-	(14.6)	(45.2)	(217.4)	(168.4)	(445.6)
Closing net book amount	426.3	175.3	356.0	280.5	3,433.4	4,365.7	9,037.2
Cost	426.3	175.3	474.8	528.8	4,833.1	5,007.7	11,446.0
Accumulated depreciation and impairment	-	-	(118.8)	(248.3)	(1,399.7)	(642.0)	(2,408.8)
Net book amount	426.3	175.3	356.0	280.5	3,433.4	4,365.7	9,037.2
Owned	426.3	175.3	346.3	280.0	3,260.7	765.9	5,254.5
Leased	-	-	9.7	0.5	172.7	3,599.8	3,782.7
	426.3	175.3	356.0	280.5	3,433.4	4,365.7	9,037.2

Assets under construction includes $108.1 million (2012: $51.7 million) that relates to significant strategic infrastructure projects (refer note 2(vi)).

Following a review of the fixed assets base there has been a reclassification during 2012 between Owned Infrastructure and Leased Infrastructure of $1,814.1 million to more accurately reflect the nature of these assets.

(a) Non-current assets pledged as security

Leased rollingstock assets of $168.4 million (2012: $172.7 million) have been pledged as security under the terms of the cross border lease arrangements.

Notes to the consolidated financial statements

30 June 2013

16. Intangible assets

	Goodwill $m	Software $m	Key customer contracts $m	Total $m
2013				
Opening net book amount	**0.3**	**14.5**	**1.8**	**16.6**
Additions	**-**	**0.1**	**1.4**	**1.5**
Transfers	**-**	**0.6**	**-**	**0.6**
Amortisation expense	**-**	**(5.2)**	**(1.4)**	**(6.6)**
Disposals	**-**	**(0.7)**	**-**	**(0.7)**
Closing net book amount	**0.3**	**9.3**	**1.8**	**11.4**
Cost	**73.3**	**102.1**	**10.7**	**186.1**
Accumulated amortisation and impairment	**(73.0)**	**(92.8)**	**(8.9)**	**(174.7)**
Net book amount	**0.3**	**9.3**	**1.8**	**11.4**
2012				
Opening net book amount	0.3	21.5	3.1	24.9
Additions	-	-	0.5	0.5
Transfers	-	9.3	-	9.3
Amortisation expense	-	(16.3)	(1.8)	(18.1)
Closing net book amount	0.3	14.5	1.8	16.6
Cost	73.3	107.2	9.3	189.8
Accumulated amortisation and impairment	(73.0)	(92.7)	(7.5)	(173.2)
Net book amount	0.3	14.5	1.8	16.6

17. Deferred tax assets

	2013 $m	2012 $m
The balance comprises temporary differences attributable to:		
Provisions/accruals	**129.8**	70.5
Tax losses	**-**	-
Customer contracts	**75.3**	91.4
Unearned revenue	**4.6**	2.9
Cash flow hedges	**0.2**	1.0
Other temporary differences	**9.9**	9.3
	219.8	175.1
Set-off of deferred tax liabilities pursuant to set-off provisions	**(219.8)**	(175.1)
Net deferred tax assets	**-**	-

Movements	Provisions/ accruals $m	Tax losses $m	Customer contracts $m	Unearned revenue $m	Cash flow hedges $m	Other $m	Total $m
At 1 July 2011	45.7	37.5	116.1	3.1	9.3	8.8	220.5
(Charged)/credited							
– to profit or loss	24.3	(37.5)	(15.8)	(0.2)	(8.2)	(0.1)	(37.5)
– to profit or loss as a result of consolidation and privatisation	0.5	-	(8.9)	-	-	0.6	(7.8)
– to other comprehensive income	-	-	-	-	(0.1)	-	(0.1)
At 30 June 2012	**70.5**	**-**	**91.4**	**2.9**	**1.0**	**9.3**	**175.1**
At 1 July 2012	70.5	-	91.4	2.9	1.0	9.3	175.1
(Charged)/credited							
– to profit or loss	59.3	-	(16.1)	1.7	(1.7)	0.6	43.8
– to profit or loss as a result of consolidation and privatisation	-	-	-	-	-	-	-
– to other comprehensive income	-	-	-	-	0.9	-	0.9
At 30 June 2013	**129.8**	**-**	**75.3**	**4.6**	**0.2**	**9.9**	**219.8**

Notes to the consolidated financial statements

30 June 2013

18. Trade and other payables

	2013 $m	2012 $m
Trade payables	**283.4**	313.5
Other payables	**37.3**	36.1
	320.7	349.6

19. Borrowings

	2013 $m	2012 $m
Non-current - Unsecured		
Bank facilities	**2,525.0**	1,220.0
Capitalised borrowing costs	**(46.4)**	(18.4)
Total unsecured non-current borrowings	**2,478.6**	1,201.6

During the year, the Group repositioned $3,600 million of unsecured floating rate bank facilities at the Aurizon and Aurizon Network level. Using the drawn funds from these facilities, the Group repaid and cancelled the existing $3,000 million syndicated debt facility.

The unsecured non-current borrowings impose certain covenants on the Group to ensure that certain financial ratios are met and restrict the amount of security that the Group and its subsidiaries can provide over their assets in certain circumstances.

Details of the Group's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in Note 3(c).

20. Provisions

	2013 $m	2012 $m
Current		
Employee benefits (a)	**318.3**	325.8
Provision for insurance claims (b)	**13.7**	20.0
Litigation and workers' compensation provision (c)	**26.1**	24.0
Decommissioning/make good and other provisions (d)	**1.2**	1.6
Total current provisions	**359.3**	371.4
Non-current		
Employee benefits (a)	**28.0**	25.6
Litigation and workers' compensation claim (c)	**15.1**	15.5
Decommissioning/make good and other provisions (d)	**3.9**	4.0
Land rehabilitation (e)	**31.6**	36.2
Total non-current provisions	**78.6**	81.3
Total provisions	**437.9**	452.7

(a) Employee benefits

	2013 $m	2012 $m
Annual Leave	**85.5**	89.3
Long service leave	**169.1**	193.0
Other	**91.7**	69.1
	346.3	351.4

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave and bonus accrual.

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 $148.5 million (2012:$197.5 million) that is not expected to be taken or paid within the next 12 months.

Other employee benefit liabilities includes payroll tax and retirement allowances.

(b) Provision for insurance claims

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.

(c) Litigation and workers' compensation

A provision of $41.2 million (2012: $39.5 million) is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. The outstanding liability is determined after factoring future claims inflation and discounting future claim payments. 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 ("IBNR") are also included in the estimate. Claims are expected to be paid over a period exceeding more than one year.

(d) Decommissioning/make good and other provisions

A provision of $5.1 million (2012: $4.9 million) has been made for the anticipated costs of the future restoration of leased office premises. Make good requirements vary for different properties. The provision includes future cost estimates associated with the restoration of office fixtures and fittings to original condition; removal of all property and equipment to return the premises to a vacant shell, and making good any damage caused by their removal; and repairing and making good any damage which may be caused to land adjoining the premises as a result of carrying out structural work or other improvements. The provision has been calculated based on recent comparable make good costs or independent assessments.

A provision of nil (2012: $0.7 million) has been made for onerous lease contracts which represent the net unavoidable costs in meeting the obligations under property leases over the remaining lease terms.

(e) Land rehabilitation

A provision of $31.6 million (2012: $36.2 million) has been recognised for the estimated costs to remediate contaminated land in accordance with the Group's constructive obligations following the Board's review of its revised sustainability policy at 30 June 2010. The provision is based on an estimated long-term inflation rate in the order of 2.9 per cent (2012: 3.2 per cent). The projected remediation dates for the various sites ranges from 10 to 40 years. To measure the present value of the estimated costs, a discount rate in the order of 4.5 per cent (2012: 4.5 per cent) was used, based on the interest rate which reflects the maturity profile of the liability.

Notes to the consolidated financial statements

30 June 2013

20. Provisions (continued)

(f) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Provision for insurance claims $m	Litigation and workers compensation provision $m	Decommissioning/ make good and other provision $m	Provision for land rehabilitation $m	Total $m
2013					
Current and non-current					
Carrying amount at start of the year	**20.0**	**39.5**	**5.6**	**36.2**	**101.3**
Charged/(credited) to profit or loss					
Additional provision recognised	**20.4**	**12.4**	**1.2**	**0.6**	**34.6**
Unused amounts released or reversed	**(8.8)**	**(3.0)**	**(1.1)**	**(1.3)**	**(14.2)**
Charged/(credited) to the profit or loss – unwinding of discount	**-**	**-**	**(0.5)**	**(3.9)**	**(4.4)**
Amounts used during the year	**(17.9)**	**(7.7)**	**(0.1)**	**-**	**(25.7)**
Carrying amount at end of year	**13.7**	**41.2**	**5.1**	**31.6**	**91.6**
2012					
Current and non-current					
Carrying amount at start of the year	12.0	31.0	5.5	34.4	82.9
Charged/(credited) to profit or loss					
Additional provision recognised	18.1	21.1	1.0	0.1	40.3
Unused amounts released or reversed	-	-	(0.3)	-	(0.3)
Charged/(credited) to the profit or loss – unwinding of discount	-	-	-	1.7	1.7
Amounts used during the year	(10.1)	(12.6)	(0.6)	-	(23.3)
Carrying amount at end of year	20.0	39.5	5.6	36.2	101.3

21. Other liabilities

	2013 $m	2012 $m
Current		
Income received in advance	**37.7**	36.9
Other current liabilities	**4.6**	0.6
	42.3	37.5
Non-current		
Income received in advance	**261.8**	291.5
Other non-current liabilities	**5.0**	18.7
	266.8	310.2

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

Other non-current liabilities include a $3.8 million (2012:$17.1 million) non-interest bearing loan with a former subsidiary, On Track Insurance Pty Ltd.

22. Deferred tax liabilities

	2013 $m	2012 $m
Property, plant and equipment	**453.4**	399.9
Capitalised deductible expenditure	**146.9**	100.5
Consumables and spares	**19.9**	16.7
Accrued income	**5.2**	12.4
Cash flow hedges	**0.2**	-
Other temporary difference	**2.4**	9.1
Total deferred tax liabilities	**628.0**	538.6
Set-off of deferred tax assets pursuant to set-off provisions (note 17)	**(219.8)**	(175.1)
Net deferred tax liabilities	**408.2**	363.5

Notes to the consolidated financial statements

30 June 2013

22. Deferred tax liabilities (continued)

Movements	Property, plant and equipment $m	Capitalised deductible expenditure $m	Consumables and spares $m	Accrued income $m	Cash flow hedges $m	Other $m	Total $m
At 1 July 2011	416.7	32.4	14.3	1.5	7.5	6.0	478.4
Charged/(credited)							
– to profit or loss	22.5	68.1	2.8	10.9	(7.4)	4.5	101.4
– to profit or loss as result of consolidation and privatisation	(39.3)	-	(0.4)	-	(0.1)	(1.4)	(41.2)
At 30 June 2012	399.9	100.5	16.7	12.4	-	9.1	538.6
At 1 July 2012	399.9	100.5	16.7	12.4	-	9.1	538.6
Charged/(credited)							
– to profit or loss	53.5	46.4	3.2	(7.2)	0.2	(6.7)	89.4
– to profit or loss as a result of consolidation and privatisation	-	-	-	-	-	-	-
At 30 June 2013	**453.4**	**146.9**	**19.9**	**5.2**	**0.2**	**2.4**	**628.0**

23. Contributed equity

(a) Issued capital

	2013 Shares '000	2012 Shares '000	**2013 $m**	2012 $m
Ordinary shares				
Fully paid	**2,137,285**	2,440,000	**1,508.3**	1,711.7

(b) Other contributed equity

	2013 $m	2012 $m
Share-based payments	**16.5**	10.1
Capital contributions from the State on retirement of borrowings	**4,388.3**	4,388.3
Capital contribution from the State for employee gift shares	**9.0**	9.0
Selective share buy-back	**(796.6)**	-
On-market share buy-back	**(54.1)**	-
	3,563.1	4,407.4
Total contributed equity	**5,071.4**	6,119.1

(c) Movements in ordinary share capital

Date	Details	Number of shares ('000)	$m
1 July 2011	Opening balance	2,440,000	1,711.7
30 June 2012	Closing balance	2,440,000	1,711.7
23 November 2012	On-Market share buy-back	(14,531)	-
26 November 2012	Selective share buy-back	(288,184)	(203.4)
30 June 2013	Closing balance	**2,137,285**	**1,508.3**

Since the commencement of the on-market buy-back program on 23 August 2012 Aurizon Holdings Limited acquired 14,531,059 shares. The on-market share buy-back program was completed on 23 November 2012 at a total cost of $54.1 million funded from other contributed equity, following the approval of the selective share buy-back.

On 26 November 2012 Aurizon Holdings Limited completed the selective share buy-back of 288,184,438 ordinary shares from Queensland Treasury Holdings Pty Ltd for $1,000 million, apportioned between other contributed equity of $796.6 million and $203.4 million share capital.

(d) Ordinary shares

Ordinary shares have no par value and the Group 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.

(e) Share-based payments

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

(f) Capital risk management

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 parent entity 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 calculated as 'equity', as shown in the balance sheet, plus net debt. There were no changes in the Group's approach to capital management during the year.

Notes to the consolidated financial statements

30 June 2013

23. Contributed equity (continued)

(f) Capital risk management (continued)

	2013 $m	2012 $m
Total borrowings	**2,478.6**	1,201.6
Less: cash and cash equivalents	**(107.6)**	(98.8)
Net debt	**2,371.0**	1,102.8
Total equity	**6,495.6**	7,294.2
Total capital	**8,866.6**	8,397.0
Gearing ratio	**26.7%**	13.1 %

The Group has complied with externally imposed capital debt covenants.

Gearing ratio equals net debt divided by sum of net debt and total equity.

24. Reserves

(a) Reserves

	2013 $m	2012 $m
Hedging reserve - cash flow hedges	**0.1**	(2.0)
	0.1	(2.0)

	2013 $m	2012 $m
Movements:		
Hedging reserve - cash flow hedges		
Balance 1 July	**(2.0)**	(2.3)
Fair value gains/(losses) taken to equity	**2.2**	(1.4)
Deferred tax	**(0.7)**	0.4
Fair value losses transferred to profit or loss	**0.8**	1.8
Deferred tax	**(0.2)**	(0.5)
Balance 30 June	**0.1**	(2.0)

(b) Nature and purpose of reserves

Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(p). Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

25. Dividends

(a) Ordinary shares

	2013 $m	2012 $m
Interim dividend for the year ended 30 June 2013 of 4.1 cents (2012: 3.7 cents unfranked) per share, paid 27 March 2013 (70 % franked)	**87.6**	90.3
Final dividend for the year ended 30 June 2012 of 4.6 cents per share, paid September 2012 (unfranked) (2012: 3.7 cents unfranked)	**112.3**	90.3
	199.9	180.6

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

	2013 $m	2012 $m
Since 30 June 2013, the Directors have recommended the payment of a final dividend of 8.2 cents per fully paid ordinary share (2012: 4.6 cents), 90 per cent franked. The aggregate amount of the proposed dividend expected to be paid on 23 September 2013 out of retained earnings, but not recognised as a liability at year end is:	**175.3**	112.2

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2014.

	2013 $m	2012 $m
Franking credits available for subsequent reporting periods based on a tax rate of 30 % (2012: 30 %)	**71.4**	7.9

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax,

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Notes to the consolidated financial statements

30 June 2013

26. Key Management Personnel disclosures

(a) Key Management Personnel compensation

	2013 $'000	2012 $'000
Short-term employee benefits	**20,154**	13,555
Post-employment benefits	**476**	570
Long-term benefits	**(127)**	256
Termination benefits	**1,295**	1,171
Share-based payments	**4,558**	3,238
	26,356	18,790

Short term employee benefits include cash salary, at risk performance incentives and fees and non monetary 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.

(b) Equity instrument disclosures relating to key management personnel

(i) Rights provided as remuneration and shares issued on exercise of such rights

Details of the rights provided as remuneration and shares issued on the exercise of such rights, together with terms and conditions of the rights, can be found in sections 3.1.4 and 4.2 of the Remuneration Report.

(ii) Rights holdings

The numbers of rights over ordinary shares in the Group held during the financial year by each Director of Aurizon Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2013 Name	Balance at start of the year '000	Granted as compensation '000	Exercised '000	Other changes '000	Balance at end of the year '000	Vested and exercisable '000	Unvested '000
L E Hockridge	**1,494**	**582**	**(333)**	**-**	**1,743**	**-**	**1,743**
M G Carter	**261**	**223**	**(25)**	**-**	**459**	**-**	**459**
J M Franczak	**-**	**200**	**-**	**-**	**200**	**-**	**200**
A Kummant	**-**	**388**	**(100)**	**-**	**288**	**-**	**288**
K R Lewsey	**285**	**228**	**(29)**	**-**	**484**	**-**	**484**
K Neate	**78**	**126**	**(20)**	**-**	**184**	**-**	**184**
G P Pringle	**243**	**188**	**(25)**	**-**	**406**	**-**	**406**
G Robinson	**35**	**188**	**-**	**-**	**223**	**-**	**223**
P Scurrah	**30**	**246**	**(30)**	**-**	**246**	**-**	**246**
R J Stephens	**243**	**188**	**(25)**	**-**	**406**	**-**	**406**
D M O'Toole(1)	**316**	**249**	**(171)**	**(191)**	**203**	**-**	**203**
L J Cooper(1)	**219**	**137**	**(22)**	**(226)**	**108**	**-**	**108**

(1) Ms O'Toole and Mr Cooper on the 20 November 2012 and 31 December 2012 respectively ceased to be considered as key management personnel.

2012 Name	Balance at start of the year '000	Granted as compensation '000	Exercised '000	Other changes '000	Balance at end of the year '000	Vested and exercisable '000	Unvested '000
L E Hockridge	1,333	494	(333)	-	1,494	-	1,494
M G Carter	118	143	-	-	261	-	261
K R Lewsey	127	158	-	-	285	-	285
G P Pringle	108	135	-	-	243	-	243
R J Stephens	108	135	-	-	243	-	243
G Robinson	-	51	(16)	-	35	-	35
P Scurrah	-	70	(40)	-	30	-	30
D M O'Toole	137	179	-	-	316	-	316
L J Cooper	98	121	-	-	219	-	219
M P McAuliffe	118	144	(93)	(169)	-	-	-
C M Davies	118	51	-	(51)	118	-	118

Rights holdings listed above may differ to the Remuneration Report due to rounding adjustments.

Notes to the consolidated financial statements

30 June 2013

26. Key management personnel disclosures (continued)

(iii) Share holdings

The numbers of shares in the Group held during the financial year by each Director of Aurizon Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2013 Name	Balance at the start of the year '000	Received during the year on the exercise of options '000	Other changes during the year '000	Balance at end of the year '000
Directors of Aurizon Holdings Limited				
J B Prescott AC	215	-	-	215
L E Hockridge	539	333	-	872
J Atkin	21	-	14	35
R R Caplan	82	-	-	82
J D Cooper	12	-	8	20
K L Field	-	-	14	14
G T John AO	57	-	-	57
A J P Staines	5	-	9	14
G T Tilbrook	31	-	18	49
Other Key Management Personnel of the Group[(1)]				
M G Carter	63	25		88
J M Franczak	0	0		0
A Kummant	0	100		100
K R Lewsey	63	29		92
K Neate	0	20		20
G P Pringle	30	26		56
G Robinson	45	0		45
P Scurrah	40	30	(70)	0
R J Stephens	91	25	4	120

(1) Ms O'Toole and Mr Cooper on the 20 November 2012 and 31 December 2012 respectively ceased to be considered as key management personnel.

2012 Name	Balance at the start of the year '000	Received during the year on the exercise of options '000	Other changes during the year '000	Balance at end of the year '000
Directors of Aurizon Holdings Limited				
J B Prescott AC	157	-	58	215
L E Hockridge	204	333	1	539
J Atkin	20	-	1	21
R R Caplan	82	-	-	82
J D Cooper	-	-	12	12
K L Field	-	-	-	-
G T John AO	47	-	10	57
A J P Staines	5	-	-	5
G T Tilbrook	31	-	-	31
Other Key Management Personnel of the Group				
M G Carter	41	-	22	63
K R Lewsey	61	-	2	63
G P Pringle	29	-	1	30
R J Stephens	91	-	-	91
G Robinson	9	16	20	45
P Scurrah	-	40	-	40
L J Cooper	12	-	1	13
D M O'Toole	105	-	1	106

Share holdings listed above may differ to the Remuneration Report due to rounding adjustments.

Notes to the consolidated financial statements

30 June 2013

26. Key management personnel disclosures (continued)

(c) Transactions with Directors and Key Management Personnel

Subsequent to the cessation of L J Cooper's employment, he has provided consultancy services to the Group through an agreement with JP Corporation Pty Ltd as well as Lindsay Cooper Management Services Pty Ltd resulting in payments of $82,500 for the year ended 30 June 2013.

27. Contingencies

The Group had contingencies at 30 June 2013 in respect of:

(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 disclosures in the financial statements, other than as set out below.

Litigation

A number of common law claims are pending against the Group. Provisions are taken up for some of these exposures based on the management's determination where they expect to settle such claims, and are included as such in note 20.

Guarantees and letters of credit

For information about guarantees and letters of credit given by the Group, refer to note 3(d).

Deed of cross guarantee

Cross guarantees are given by the Company and some of its wholly owned subsidiaries as described in note 31.

Defined benefit fund liabilities

The State of Queensland has permitted existing employees of Aurizon Holdings Limited and its subsidiaries including Aurizon Operations Limited (the Aurizon Group), as at the date of the IPO, to retain their existing superannuation arrangements with the State Superannuation Public Sector Scheme (QSuper), and has provided the Group an indemnity if the State of Queensland Treasurer requires the Group to pay any amounts required to meet the defined benefit obligations. An actuarial assessment of the fund as at 30 June 2010 has been completed which showed the fund to be in surplus. Existing contribution arrangements are to continue into the foreseeable future.

Joint venture arrangements

Refer to note 29 for details of the Group's share of the net asset deficiencies in joint venture investments. The Group is required to contribute additional capital, if requested, to make good any deficiency under the terms of the joint venture agreements.

(b) Contingent assets

Revenue cap adjustments

The Group has a contingent asset in respect of revenue cap adjustments in Network. Access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its full regulated revenue over the regulatory period, with the majority of under or over recovery in access tariffs (net of Take or Pay charges) during a financial year being charged or refunded, and recognised as revenue, in the second year following the period in which the contractual railings were not achieved. Subject to regulatory approval and any adjustments resulting from below rail cause, recovery of shortfalls via the revenue cap of $35.3 million (2012: $65.3 million) plus interest, will be received during the year ending 30 June 2014 ($13.9 million) and 30 June 2015 ($21.4 million).

Deficit tonnage charges

The Group has a contingent asset of $6.9 million (2012: $33.2 million) in respect of deficit tonnage charges relating to contracts with a period ending 30 June 2013. Deficit tonnage charges are recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than reduce future tonnage entitlements.

Flood recovery

The Group incurred $14.5 million of costs (2012: $6.9 million) to repair damage resulting from the severe flood event across Central Queensland in early 2013. It is likely more costs will be required to complete the flood repair works. The Group is expected to lodge a submission with the Queensland Competition Authority (QCA) for the recovery of these costs as adjustments to tariffs.

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 3(d).

28. Commitments

(a) Capital commitments

	2013 $m	2012 $m
Property, plant and equipment		
Within one year	**96.5**	254.2
Later than one year but not later than five years	**2.0**	2.3
	98.5	256.5

(b) Lease commitments

	2013 $m	2012 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**27.1**	46.8
Later than one year but not later than five years	**55.7**	56.7
Later than five years	**1.7**	3.9
	84.5	107.4

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to ten 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.

(c) Lease commitments receivable: where the Group is the lessor

	2013 $m	2012 $m
Some fixed assets are leased to tenants with rents payable monthly. Minimum lease payments (excluding GST) not recognised in the financial statements are receivable as follows:		
Within one year	**4.4**	8.2
Later than one year but not later than five years	**6.2**	6.2
Later than five years	**5.6**	7.2
	16.2	21.6

Notes to the consolidated financial statements

30 June 2013

29. Interests in joint ventures and associates

(a) Joint venture operation

The Group has an interest in the Nickel West Land Logistics Joint Venture Agreement. The Group severally provides rail freight services under this agreement and the joint venture partner severally provides road freight services. There are no assets jointly controlled by the operation.

(b) Jointly controlled assets

The Group has a 33.3 per cent (2012: 33.3 per cent) participating interest in a joint venture through its wholly owned subsidiary, Aurizon Surat Basin Pty Ltd, together with two other parties.

The Group's share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture and expenses incurred directly in respect of its interest in the joint venture are detailed below.

The amounts are included in the consolidated financial statements under their respective asset, liability, income and expense categories:

	2013 $m	2012 $m
Group's share of:		
Current assets	**0.4**	1.0
Non-current assets	**16.3**	8.7
Current liabilities	**(0.2)**	(1.2)
Non-current liabilities	**(0.8)**	(9.3)
Total net assets	**15.7**	(0.8)

	2013 $m	2012 $m
Revenue	-	-
Expenses	-	-
Tax benefit	-	-
Net profit/(loss) after tax	-	-

The balance sheet and income statement is based on the unaudited financial statements of the Surat Basin Rail joint venture as at 30 June 2013 (2012: 30 June 2012).

Under Clause 7.3 of the Aurizon Surat Basin Pty Ltd Joint Venture Agreement dated 4 December 2006, the Project Director may call for additional contributions of funding from the participants in order to fund any expenditure incurred or to be incurred.

(c) Joint venture entities

The joint venture entities in which the Group has an interest and which are equity accounted in the financial statements are as follows:

Name	Country of operation	Ownership interest 2013 %	2012 %	Principal activity
CHCQ	China-Hong Kong	**15**	15	Construction
Chun Wo/CRGL	China-Hong Kong	**17**	17	Construction
KMQR Sdn Bhd	Malaysia	**30**	30	Consulting
ARG Risk Management Limited	Australia	**50**	50	Insurance
QLM Pty Ltd	Australia	**50**	50	Dormant
Rail Innovation Australia	Australia	**20**	20	Consulting
Integrated Logistics Company Pty Ltd	Australia	**14**	14	Consulting

(i) Movements in carrying amounts

	2013 $m	2012 $m
Carrying amount at the beginning of the financial year	**0.5**	0.5
Share of profits after income tax	-	-
Dividends received/receivable	-	-
Share of increment of revaluation of freehold land	-	-
Increase in investment	-	-
Carrying amount at the end of the financial year	**0.5**	0.5

(ii) Share of joint ventures' assets, liabilities, revenue, expenses and results

	2013 $m	2012 $m
Current assets	**5.4**	2.2
Non-current assets	-	-
Total assets	**5.4**	2.2
Current liabilities	**(4.9)**	(1.7)
Non-current liabilities	-	-
Total liabilities	**(4.9)**	(1.7)
Total net assets	**0.5**	0.5
Revenue	**0.1**	-
Expenses	-	-
Profit before income tax	-	-
Tax	-	-
Profit after income tax	-	-

(d) Investments in associates

(i) Movement in carrying values

	2013 $m	2012 $m
Opening balance	**77.5**	-
Additional investments	**1.8**	41.1
Transfer from available-for-sale investments	-	36.3
Share of profit in associates	**5.4**	0.1
Dividends received	**(5.5)**	-
Share of increment of revaluation of freehold land	**(0.5)**	-
Closing balance (note 14)	**78.7**	77.5

Notes to the consolidated financial statements

30 June 2013

29. Interests in joint ventures and associates (continued)

(ii) Fair value of unlisted investments in associates

	2013 $m	2012 $m
Moorebank Industrial Property Trust	**78.7**	77.5

(iii) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Ownership interest %	Company's share of: Assets $m	Liabilities $m	Revenues $m	Profit $m
2013					
Moorebank Industrial Property Trust	**33.0**	**79.3**	**0.6**	**7.4**	**5.4**
2012					
Moorebank Industrial Property Trust	33.0	78.2	0.7	0.1	0.1

(iv) Contingent liabilities of associates

	2013 $m	2012 $m
Share of contingent liabilities incurred jointly with other investors	**-**	-
Contingent liabilities relating to liabilities of the associate for which the Company is severally liable	**-**	-
	-	-

30. Related party transactions

(a) Parent entities

The parent and ultimate parent entity within the Group is Aurizon Holdings Limited.

(b) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2013 %	2012 %
Aurizon Operations Limited	Australia	Ordinary	**100.0**	100.0
Aurizon Intermodal Pty Ltd	Australia	Ordinary	**100.0**	100.0
Interail Australia Pty Ltd	Australia	Ordinary	**100.0**	100.0
Logistics Australia Pty Ltd	Australia	Ordinary	**100.0**	100.0
Golden Bros. Group Pty Ltd	Australia	Ordinary	**100.0**	100.0
CRT Group Pty Ltd	Australia	Ordinary	**100.0**	100.0
NHK Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australian Rail Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australia Eastern Railroad Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australian Railroad Group Employment Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australia Western Railroad Pty Ltd	Australia	Ordinary	**100.0**	100.0
AWR Lease Co Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Network Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Surat Basin Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Property Holding Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Property Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Terminal Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Moorebank Holdings Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Moorebank Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon Moorebank Unit Trust	Australia	Units	**100.0**	100.0
Aurizon Finance Pty Ltd	Australia	Ordinary	**100.0**	100.0
Aurizon International Pty Ltd	Australia	Ordinary	**100.0**	-

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2013 $'000	2012 $'000
Dividend revenue – other related parties	**1**	7

Notes to the consolidated financial statements

30 June 2013

30. Related party transactions (continued)

(e) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them

All other transactions, other than those with the State of Queensland as described below, 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.

(f) Transactions with State of Queensland controlled entities

Until its 22 November 2010 listing on the ASX, the Group was a Queensland Government Owned Corporation, with all shares held by the Shareholding Ministers on behalf of the State. Following listing, the State retained a 34.0 per cent interest in the Company that reduced to 8.9 per cent in March 2013, and remains a related party to the Group.

Queensland Treasury Corporation ("QTC") borrowings of $4,388.3 million were replaced by a capital contribution from the State of Queensland via Transfer Notice just prior to the listing on the ASX.

Transport Services Contracts

The Group has entered into Transport Services Contracts ("TSCs") with the State of Queensland (acting through the Department of Transport and Main Roads) to provide general freight and livestock transportation services. The contracts commenced on 1 July 2010 and expire on 30 June 2015, and 31 December 2015 respectively.

Under the contracts, for the initial two and a half years, the Group will receive monthly base payments and quarterly payments in aggregate totalling $150.0 million for the year ended 30 June 2011, $148.1 million for the year ended 30 June 2012 and $75.1 million for the six months ended 31 December 2012.

After 31 December 2012, and until expiry of the contract, there has been a Deed of Variation for each contract agreed for the remaining terms. The monthly base payments and quarterly payments in aggregate total $52.8 million for the six months to 30 June 2013, $109.8 million for the year ended 30 June 2014, $85.0 million for the year ended 30 June 2015 and $13.7 million for the year ended 30 June 2016.

In addition, the contracts provide for additional payments of $90.0 million (general freight) and $13.0 million (livestock) between 31 December 2012 and the expiry of the contracts. Refer to note 5.

Service contracts with Queensland Rail

There exist a number of related party transactions between the Group and Queensland Rail Limited ("Queensland Rail") arising from the separation of Queensland Rail from the Group on 30 June 2010. These transactions relate to service contracts entered into between the parties that are broadly priced on the basis of cost recovery plus a profit margin. At the conclusion of each contract (tenures range between one and five years) they will ordinarily be renegotiated by business as usual tender processes.

The largest service contracts (by financial value) are for the provision of maintenance services; repairs, manufacture and overhaul of rollingstock; hook and pull services for passenger rollingstock; IT services; and stowing services.

31. 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, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and Aurizon Network Pty Ltd (the "Aurizon Deed Parties" and each an "Aurizon Deed Party") entered into a Deed of Cross Guarantee dated 11 March 2011 (the "Cross Guarantee") with Aurizon Holdings Limited as the 'Holding Entity' under which each Aurizon Deed Party guarantees the debts of each other Aurizon Deed Party. By entering into the cross guarantee and lodging it with the Australian Securities and Investments Commission ("ASIC") on 29 March 2011, the wholly-owned Aurizon Deed Parties have been relieved from the requirement to prepare separate financial and Directors' Reports by the operation of ASIC Class Order 98/1418 (as amended) (the "Class Order"). The cross guarantee became effective on lodgement with ASIC on 29 March 2011.

On 5 June 2013, each Aurizon Deed Party entered into a Revocation Deed pursuant to which the Cross Guarantee is to be revoked in respect of Aurizon Network Pty Ltd from the date the Revocation Deed becomes operative. The Revocation Deed was lodged with ASIC on 15 July 2013 and a public notice to creditors was printed in a national daily newspaper on 17 July 2013. Pursuant to the provisions of the Revocation Deed it will become operative on 16 January 2014, being the date six months and one day after the date the Revocation Deed was lodged with ASIC. From the time the Revocation Deed becomes operative, the financial results of Aurizon Network Pty Ltd will no longer be consolidated into the financial statements of the remainder of the Aurizon Deed Parties for the purposes of the Class Order. However, as the Revocation Deed was not operative at 30 June 2013, Aurizon Network Pty Ltd's financial results are included in the consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings for the financial year ended 30 June 2013 as set out below.

(a) Consolidated income statement, consolidated 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'.

The results of all the Aurizon Deed Parties are presented below in the consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings. This represents the results of the Group excluding NHK Pty Ltd, AWR Lease Co Pty Ltd, Aurizon Moorebank Holdings Pty Ltd, Aurizon Moorebank Pty Ltd, Aurizon Moorebank Unit Trust, Aurizon Surat Basin Pty Ltd and Aurizon International Pty Ltd.

Notes to the consolidated financial statements

30 June 2013

31. Deed of cross guarantee (continued)

(a) Consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings (continued)

	2013 $m	2012 $m
Income statement		
Revenue from continuing operations	**3,728.5**	3,496.1
Other income	**41.5**	32.4
Consumables	**(1,353.2)**	(1,302.3)
Employee benefits expense	**(1,182.5)**	(1,132.6)
Depreciation and amortisation expense	**(495.9)**	(463.5)
Other expenses	**(51.0)**	(41.6)
Share of net profits of associates and joint venture partnership accounted for using the equity method	**-**	0.2
Finance costs	**(105.6)**	(41.5)
Profit before income tax	**581.8**	547.2
Income tax expense	**(135.4)**	(117.7)
Profit for the year	**446.4**	429.5
Statement of comprehensive income		
Profit for the year	**446.4**	429.5
Other comprehensive income		
Items that may be reclassified to profit or loss		
Change in the fair value of cash flow hedges	**3.0**	0.4
Income tax relating to components of other comprehensive income	**(0.9)**	(0.1)
Other comprehensive income for the year, net of tax	**2.1**	0.3
Total comprehensive income for the year	**448.5**	429.8
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**1,176.0**	927.1
Profit for the year	**446.4**	429.5
Dividends provided for or paid	**(199.9)**	(180.6)
Retained earnings at the end of the financial year	**1,422.5**	1,176.0

(b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented below:

	2013 $m	2012 $m
Current assets		
Cash and cash equivalents	**106.3**	98.5
Trade and other receivables	**580.0**	549.8
Inventories	**212.2**	215.8
Derivative financial instruments	**0.4**	0.1
Other assets	**10.1**	8.0
Assets classified as held for sale	**23.0**	8.7
Total current assets	**932.0**	880.9
Non-current assets		
Other assets	**3.0**	0.5
Inventories	**19.0**	8.7
Property, plant and equipment	**9,440.8**	9,012.1
Intangibles	**11.4**	16.6
Investments accounted for using the equity method	**0.5**	0.5
Other financial assets	**18.8**	18.8
Derivative financial instruments	**0.2**	-
Total non-current assets	**9,493.7**	9,057.2
Total assets	**10,425.7**	9,938.1
Current liabilities		
Trade and other payables	**288.3**	348.4
Derivative financial instruments	**0.8**	1.3
Current tax liabilities	**68.2**	-
Provision	**359.3**	379.2
Other liabilities	**42.4**	37.5
Total current liabilities	**759.0**	766.4
Non-current liabilities		
Derivative financial instruments	**-**	2.0
Borrowings	**2,478.6**	1,201.6
Deferred tax liabilities	**407.0**	366.8
Provisions	**78.5**	81.3
Other liabilities	**209.4**	227.7
Total non-current liabilities	**3,173.5**	1,879.4
Total liabilities	**3,932.5**	2,645.8
Net assets	**6,493.2**	7,292.3
Equity		
Contributed equity	**5,071.4**	6,119.1
Reserves	**(0.7)**	(2.8)
Retained earnings	**1,422.5**	1,176.0
Total equity	**6,493.2**	7,292.3

Notes to the consolidated financial statements

30 June 2013

32. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

PwC Australia

	2013 $'000	2012 $'000
Audit and other assurance services		
Audit and review of financial statements	**1,950**	1,670
Other assurance services		
Audit of regulatory returns	**285**	230
Other assurance services	**584**	79
Total remuneration for audit and other assurance services	**2,819**	1,979
Taxation services		
Tax advisory services	**422**	539
Other services		
Advisory services	**846**	1,619
Total remuneration of PwC Australia	**4,087**	4,137

33. Reconciliation of profit after income tax to net cash inflow from operating activities

	2013 $m	2012 $m
Profit for the year	**446.9**	440.9
Depreciation and amortisation	**496.3**	463.7
Impairment of financial assets	**5.1**	0.7
Amortisation of borrowing costs	**18.4**	-
Non-cash employee benefits expense - share-based payments	**12.3**	7.2
Interest capitalised to qualifying assets	**(22.2)**	(45.4)
Net (gain) on sale of non-current assets	**(11.8)**	(16.2)
Inventory obsolescence	**2.0**	2.9
Amortisation of prepaid access facilitation deed charges	**(27.8)**	(28.5)
Fair value adjustment to derivatives	**0.3**	(0.6)
Share of profits of associates and joint venture partnership	**(5.4)**	-
Change in operating assets and liabilities:		
(Increase) in trade debtors	**(36.0)**	(75.4)
(Increase) in inventories	**(8.6)**	(29.1)
(Increase) decrease in other operating assets	**(5.3)**	27.2
(Decrease) increase in trade and other payables	**(39.0)**	36.2
(Decrease) increase in other operating liabilities	**(9.1)**	81.9
Increase in provision for income taxes payable	**68.2**	-
Increase in deferred tax liabilities	**44.7**	-
(Decrease) increase in other provisions	**(22.7)**	58.9
Net cash inflow from operating activities	**906.3**	924.4

34. Earnings per share

(a) Basic earnings per share

	2013 Cents	2012 Cents
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	**19.8**	18.1

(b) Reconciliation of earnings used in calculating earnings per share

	2013 $m	2012 $m
Basic and diluted earnings per share		
Profit from continuing operations	**446.9**	440.9

(c) Weighted average number of shares used as denominator

	2013 Number '000	2012 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**2,257,248**	2,440,000

(d) Information on the classification of securities

All shares issued by Aurizon Holdings Limited are fully paid ordinary shares that participate equally in profit distributions.

35. Share-based payments

(a) Performance Rights Plan

The Performance Rights Plan was 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. Under the Plan, eligible executives may be granted rights on terms and conditions determined by the Board from time to time. 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.

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.

Performance rights are granted by the Company for nil consideration. 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.

Deferred Short-term Incentive Award ("STIAD")

The STIAD was implemented in the 2011 financial year under which rights to the value of 50 per cent of the cash Short-term Incentive Awards ("STIA") received by eligible executives would be granted as rights to ordinary shares. The rights will vest equally over a two year period and become exercisable provided that the executive remains employed by the Group at the vesting date, unless otherwise determined by the Board. This plan has now terminated.

The CEO was granted rights under STIAD on listing based on the likelihood of achieving EBITDA performance hurdles.

Notes to the consolidated financial statements

30 June 2013

35. Share-based payments (continued)

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 the executives remaining employed by the Group and satisfying market-based performance hurdles of Total Shareholder Return ("TSR") and non-market based EPS targets and Operating Ratio ("OR").

The proportion of the LTIA rights that become exercisable will depend upon the TSR achieved by the Group relative to a peer group of companies over a three year period. The peer group comprises the companies in the ASX Top 100 index other than financial, medical, telecommunications, pharmaceutical and gaming companies. To determine to what extent the TSR-related performance rights will vest, the TSR of the Group over the performance period will be compared to the TSR of all the companies in the peer group. Each of these peer companies will be ranked from highest to lowest based on their TSR over the performance period and the number of rights that vest will depend on where the Group is ranked amongst the peer group. For the purposes of calculating the TSR measurement, the relevant share prices will be determined by reference to the volume weighted average share price over the 20 business days after the grant date and 20 business days before the end of the performance period.

The Operating Ratio, which essentially measures the operating cost (in cents) of earning each dollar of revenue, remains a key metric for Aurizon for measuring its success. Aurizon is committed to its target of reducing Operating Ratio to 75 per cent by 2015. This will require further implementation of transformation and growth initiatives and continued tight operational and financial discipline. Accordingly, the Board determined to increase the proportion of the LTIA that is subject to the Operating Ratio performance condition to 50 per cent of the grant.

The following table sets out the percentage of Operating Ratio hurdle rights to vest depending on performance. It should be noted that the target Operating Ratio in 2016 is a significant decrease below the 2015 target of 75 per cent and that this rate of decline cannot be expected to be maintained indefinitely into the future. The Board considers 72 per cent to be an extremely difficult target in such a short time. To put the target in perspective, to achieve 72 per cent by 2016 will require a three per cent reduction year-on-year from IPO to 2016.

Retentions

At the Board's discretion, eligible executives may be granted retention rights that may vest at the end of the specified retention period provided that the executive remains employed by the Group at the vesting date.

Set out below are summaries of rights granted under the plan:

Grant Date	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
2013					
STIAD	**1,715**	**1,749**	**(1,024)**	**(162)**	**2,278**
LTI	**7,719**	**6,669**	**(137)**	**(775)**	**13,476**
Retentions	**420**	**455**	**(465)**	**(55)**	**355**
Total	**9,854**	**8,873**	**(1,626)**	**(992)**	**16,109**
2012					
STIAD	667	1,573	(333)	(192)	1,715
LTI	4,582	3,774	(93)	(544)	7,719
Retentions	-	476	(56)	-	420
Total	5,249	5,823	(482)	(736)	9,854

The weighted average exercise price of rights granted during the year was nil (2012: 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 $3.56 (2012: $3.24).

The weighted average remaining contractual life of share rights outstanding at 30 June 2013 was 1.2 years (2012: 1.4 years).

Fair value of rights

In determining the fair value below standard market techniques for valuation were applied in accordance with AASB2. The fair value of the STIAD and the portion of LTIA rights, that are subject to non-market based performance conditions, are determined by the share price at grant date less an adjustment for estimated dividends payable during the vesting period. 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. In estimating expected vesting it was assumed an equal chance that each company in the TSR peer Group may finish the performance period ranked at any position within the Group. Analysis was performed comparing this approach to the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes.

The model inputs for performance rights granted during the year ended 30 June 2013 included:

	STIAD		LTIA		
Tranche	**Year 1**	**Year 2**	**TSR**	**EPS**	**OR**
Grant date	10 Oct 2012	10 Oct 2012	23 Aug 2012	23 Aug 2012	23 Aug 2012
Vesting date	10 Oct 2013	10 Oct 2015	23 Aug 2015	23 Aug 2015	23 Aug 2015
Share price at grant date	$3.62	$3.62	$3.55	$3.55	$3.55
Expected life	1 year	3 years	3.5 years	3.5 years	3.5 years
Volatility	n/a	n/a	25 %	n/a	n/a
Risk free rate	n/a	n/a	2.7 %	n/a	n/a
Dividend yield	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %
Fair value	$3.54	$3.46	$2.06	$3.29	$3.29

The key assumptions adopted for the valuation of performance rights granted during 2012 are contained below:

	STIAD		LTIA	
Tranche	Year 1	Year 2	TSR	EBIT/EPS
Grant date	28 Sep 2011	28 Sep 2011	22 Aug 2011	22 Aug 2011
Vesting date	28 Sep 2012	28 Sep 2013	30 June 2014	30 June 2014
Share price at grant date	$3.17	$3.17	$3.25	$3.25
Expected life	1 year	2 years	3.5 years	3.5 years
Dividend yield	3.05 %	3.05 %	3.05 %	3.05 %
Fair value	$3.08	$2.99	$1.28	$2.93

(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 $12.6 million (2012: $8.7 million).

Notes to the consolidated financial statements

30 June 2013

36. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts below.

	2013 $m	2012 $m
Current assets	**68.2**	7.8
Non-current assets	**6,129.2**	6,121.3
Current liabilities	**(68.2)**	(7.9)
Non-current liabilities	**(1,057.7)**	(2.0)
Net assets	**5,071.5**	6,119.2
Shareholders' equity		
Contributed equity	**5,071.4**	6,119.1
Retained earnings	**0.1**	0.1
Total equity	**5,071.5**	6,119.2

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, Aurizon Operations Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Property Pty Ltd, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and Aurizon Network Pty Ltd as described in note 31.

(c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2013 or 30 June 2012. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2013, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment (2012: nil).

37. Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group.

Directors' declaration

30 June 2013

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 57 to 97 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*; and

 (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 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 31 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 31.

Note 1(a) 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*.

John B Prescott AC
Chairman

Brisbane QLD

19 August 2013

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Independent auditor's report to the members of Aurizon Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Aurizon Holdings Limited (the company), which comprises the consolidated balance sheet as at 30 June 2013, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Aurizon Holdings Limited and the Aurizon Holdings Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
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Independent auditor's report to the members of Aurizon Holdings Limited

Auditor's opinion

In our opinion:

(a) the financial report of Aurizon Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 48 of the directors' report for the year ended 30 June 2013. 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.

Auditor's opinion

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

John Yeoman
Partner

Brisbane
19 August 2013

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Shareholder Information

Range of Fully Paid Ordinary Shares as at 12 August 2013

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 – 1,000	21,794	14,067,069	0.66
1,001 – 5,000	27,052	60,534,885	2.83
5,001 – 10,000	3,628	26,618,362	1.25
10,001 – 100,000	3,102	61,327,094	2.87
100,001 – 999,999,999	157	1,974,737,093	92.39
1,000,000,000 – 9,999,999,999	0	0	0.00
Rounding			**0.00**
Total	**55,733**	**2,137,284,503**	**100**

Unmarketable Parcels

	MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum $ 500.00 parcel at $ 4.50 per unit	112	515	17,793

The number of shareholders holding less than the marketable parcel of shares is 515 (shares: 17,793).

Substantial Holders of 5% or more of Fully Paid Ordinary Shares as at 12 August 2013*

NAME	NOTICE DATE	SHARES
Queensland Treasury Holdings Pty Ltd, Gerard Bradley (Under Treasurer of the State of Queensland)	22 March 2013	189,229,499
Perpetual Limited	22 July 2013	154,918,972
Children's Investment Fund Management	8 May 2012	125,051,143
UBS AG and its related bodies corporate	8 April 2013	119,486,989
HSBC Holdings	7 December 2012	109,882,901

* As disclosed in substantial shareholder notices received by the Company.

Investor Calendar

2014 DATES	DETAILS
17 February 2014	Half Year results and interim dividend announcement
28 March 2014	Interim dividend payment date
18 August 2014	Full Year results and final dividend announcement
22 September 2014	Final dividend payment date
12 November 2014	Annual General Meeting

Note:
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 regularly to the Company website, 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

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/au**

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 1412 or email: **investor.relations@aurizon.com.au**

Shareholder Information
(continued)

Top 20 Holders of Fully Paid Ordinary Shares as at 12 August 2013

NAME	ADDRESS	UNITS	% OF UNITS
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	GPO BOX 5302, SYDNEY NSW, 2001	443,609,594	20.76
NATIONAL NOMINEES LIMITED	GPO BOX 1406, MELBOURNE VIC, 3001	350,367,097	16.39
J P MORGAN NOMINEES AUSTRALIA LIMITED	LOCKED BAG 7, ROYAL EXCHANGE NSW, 1225	305,784,940	14.31
CITICORP NOMINEES PTY LIMITED	GPO BOX 764G, MELBOURNE VIC, 3001	177,569,171	8.31
QUEENSLAND TREASURY HOLDINGS PTY LTD	C/- QUEENSLAND TREASURY, CORPORATION, GPO BOX 1096, BRISBANE QLD, 4001	171,458,210	8.02
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	LOCKED BAG 20049, MELBOURNE VIC, 3001	90,830,036	4.25
BNP PARIBAS NOMS PTY LTD <DRP>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	60,473,932	2.83
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	GPO BOX 5430, SYDNEY NSW, 2001	55,348,855	2.59
CS FOURTH NOMINEES PTY LTD	C/-CREDIT SUISSE EQTS AUST LTD, ATT: CORRINNA JOHNS, 41/101 COLLINS STREET, MELBOURNE VIC, 3000	31,421,891	1.47
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	31,382,600	1.47
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	GPO BOX 5302, SYDNEY NSW, 2001	30,222,470	1.41
UBS NOMINEES PTY LTD	LEVEL 16, CHIFLEY TOWER, 2 CHIFLEY SQUARE, SYDNEY NSW, 2000	26,513,092	1.24
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	GPO BOX 764G, MELBOURNE VIC, 3001	25,440,726	1.19
ECAPITAL NOMINEES PTY LIMITED <SETTLEMENT A/C>	GPO BOX 3804, SYDNEY NSW, 2001	17,476,003	0.82
AMP LIFE LIMITED	PO BOX R209, ROYAL EXCHANGE NSW, 1225	15,019,690	0.70
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	14,404,857	0.67
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSAM A/C>	GPO BOX 5430, SYDNEY NSW, 2001	11,148,225	0.52
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	GPO BOX 5302, SYDNEY NSW, 2001	11,079,986	0.52
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	GPO BOX 5302, SYDNEY NSW, 2001	8,437,262	0.39
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/C>	GPO BOX 5430, SYDNEY NSW, 2001	8,227,363	0.38
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**1,886,216,000**	**88.25**
Total Remaining Holders Balance		**251,068,503**	**11.75**

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

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

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

Glossary (continued)

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

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

Network Services
The Network Services operating division 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

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 Expansion Terminal

WIRP
Wiggins Island Rail Project

Corporate Information

Aurizon Holdings Limited
ABN 14 146 335 622

Directors
John B Prescott AC
Lance E Hockridge
John Atkin
Russell R Caplan
John Cooper
Karen Field
Graeme John AO
Andrea Staines
Gene Tilbrook

Company Secretary
Dominic D Smith

Registered Office
Level 17, 175 Eagle Street
Brisbane QLD 4000

Auditors
PricewaterhouseCoopers

Share Registry
Computershare Investor
Services Pty Limited
117 Victoria Street,
West End, Qld 4001, Australia

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Image: Joseph Canizares in the Mt Isa workshop

AURIZON®

2012-13 ANNUAL REPORT

Aurizon Holdings Limited
ABN 14 146 335 622