

# **Aurizon Network Pty Ltd**

ABN 78 132 181 116

## **Financial report for the year ended 30 June 2014**

The Directors of Aurizon Network Pty Ltd ("Aurizon Network" or the "Company") 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 2014 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 2001*.

#### **Board of Directors and Officers**

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

J Atkin (Chairman)	Appointed 21 June 2010 (appointed Chairman 21 May 2013)
M G Carter	Appointed 11 July 2008 (resigned 4 November 2013)
J D Cooper	Appointed 19 April 2012
L E Hockridge	Appointed 11 July 2008
G T John AO	Appointed 13 February 2012
A Kummant	Appointed 4 November 2013
P Zito	Appointed 22 January 2014

D D Smith (Company Secretary) Appointed 28 May 2010

#### **Principal activities**

The nature of the entity's operations and its principal activities during the year were:

- (i) provision of access to, and operation and management of the Central Queensland Coal Network ("CQCEN"); and
- (ii) the provision of design, construction, overhaul, maintenance and management services to Aurizon Holdings Limited and its subsidiary entities ("the Aurizon Group") as well as external below rail customers.

#### **Review of Operations**

##### *Business summary*

Aurizon Network operates the 2,670 kilometre CQCEN. The CQCEN open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple below rail customers from more than 40 mines to four ports. The CQCEN includes four major coal systems; the Moura; Blackwater; Goonyella; and Newlands.

##### *Performance overview*

The Network business has delivered a year in which numerous performance records were created including record volumes throughput over the CQCEN totalling 214.5mt, representing an increase of 32mt (18%) on the prior year. This tonnage record was achieved while continuing to drive major improvements in safety performance and maintaining the network to a high standard to enable these record volumes to be delivered.

Network contributed full year revenue of \$1,012.1 million. Revenue derived from the actual volume throughput being higher than regulatory volumes was reduced by \$69.9 million reflecting the transitional tariff arrangements as agreed with customers and the QCA for the year ended 30 June 2014. The revenue over recovery will be returned to customers in the first half of the year ending 30 June 2015. The increase in revenue for the year is due to the increased GAPE revenue from the ramp-up of contracted volumes.

Profit before tax for the year of \$237.0 million is lower than the prior year of \$419.5 million primarily due to the finance costs incurred since the placement of debt into the Company in June 2013 (increase of \$106.7 million) and the impairments of project study costs recognised during the year (\$66.1 million).

Capital expenditure for the year totalled \$610.7 million, as work continued on a number of strategic growth projects. These included the Wiggins Island Rail Project Stage 1, Hay Point Expansion, Rolleston electrification and the Asset Renewal Program.

In relation to UT4, there has been substantial engagement with key stakeholders on all key matters. On 11 August 2014, Aurizon Network withdrew and resubmitted its UT4 submission in order to reflect this engagement, enabling the QCA to base its draft decision on this new document. The QCA has advised Aurizon Network it will separate the draft decision into revenue and policy with a draft revenue decision to be published in September 2014. All other remaining pricing (e.g. tariffs) and policy matters will have a draft decision published in December 2014. A final decision is expected no later than 30 June 2015 including the reconciliation of Transitional Tariffs in place since 1 July 2013.

Following the Aurizon Group restructure effective 1 July 2013 (refer to State of Affairs), asset maintenance labour costs previously recognised as part of the maintenance expense within consumables are now reflected within employee benefits expense.

### **Dividends**

Details of dividends provided for or paid are set out in note 21 to the financial report.

### **State of affairs**

On 1 July 2013, as part of the Aurizon Group restructure, the Engineering and Project Delivery division transferred to Aurizon Operations Limited. As a result of this restructure, the level of design, construction, overhaul, maintenance and management services which Aurizon Network provides to the Aurizon Group or external customers has been significantly reduced.

On 19 August 2013, Aurizon Holdings Limited announced certain senior management changes including the replacement of Aurizon Network Executive Vice President, Mike Carter, with Alex Kummant who was the Executive Vice President, Strategy for the Aurizon Group.

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

### **Events since the end of the financial year**

The Directors are not aware of any other 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**

Over the next two years the focus will continue to be on productivity improvements. The Company will continue to collaborate with our customers on supply chain solutions across our business; notably for coal infrastructure assets in Queensland. While focus has been placed on costs during the down cycle, the Company will not lose sight of long-term growth opportunities and value creation for shareholders and will continue to invest prudently through the cycle.

Some of the risks facing the Company's business during this time will be the global demand of coal volumes, renegotiation of contractual volumes, Enterprise Agreement negotiations and finalisation of the Draft Access Undertaking (UT4) submission with approved rates for the CQCEN.

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**

The Company 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, the Company seeks to comply with all applicable environmental laws and regulations.

The *Energy Efficiency Opportunity Act 2006* (Cth) (EEO) requires the Company 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 Company intends to take as a result. The Company continues to meet its obligations under the EEO Act.

The *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER) requires the Company to report its annual greenhouse gas emissions and energy use. The Company has implemented systems and processes for the collection and calculation of the data required and is registered under the NGER Act.

### **Environmental prosecutions**

There have been no environmental prosecutions during this financial year.

### **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 Company, 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's holding company, Aurizon Holdings Limited, has entered into a Deed of Access, Indemnity and Insurance with each of the Directors common to both Aurizon Holdings Limited and the Company. A Company policy also exists under which the Company agrees to indemnify each of its officers. 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's holding company, Aurizon Holdings Limited, 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 the Company is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

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

  
J. Atkin  
Chairman  
18 August 2014



## **Auditor's Independence Declaration**

As lead auditor for the audit of Aurizon Network Pty Ltd for the full year ended 30 June 2014, 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 Network Pty Ltd and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'S Neill'.

Simon Neill  
Partner  
PricewaterhouseCoopers

Brisbane  
18 August 2014

# Aurizon Network Pty Ltd

ABN 78 132 181 116

## Financial report for the year ended 30 June 2014

### TABLE OF CONTENTS

Consolidated income statement.....	8
Consolidated statement of comprehensive income.....	9
Consolidated balance sheet.....	10
Consolidated statement of changes in equity.....	11
Consolidated statement of cash flows.....	12
1 Summary of significant accounting policies.....	13
2 Critical accounting estimates and judgements.....	25
3 Financial risk management.....	27
4 Revenue.....	32
5 Expenses from continuing operations.....	32
6 Income tax expense.....	33
7 Trade and other receivables.....	34
8 Inventories.....	35
9 Other assets.....	35
10 Property, plant and equipment.....	36
11 Intangible assets.....	38
12 Deferred tax assets.....	38
13 Trade and other payables.....	39
14 Borrowings.....	39
15 Provisions.....	40
16 Other liabilities.....	41
17 Deferred tax liabilities.....	41
18 Contributed equity.....	42
19 Convertible notes.....	43
20 Reserves.....	43
21 Dividends.....	44
22 Contingencies.....	44
23 Commitments.....	45
24 Joint operations.....	46
25 Related party transactions.....	46
26 Remuneration of auditors.....	48
27 Reconciliation of profit after income tax to net cash inflow from operating activities.....	49
28 Parent entity financial information.....	49
29 Events occurring after the reporting period.....	50
Directors' declaration.....	51
Independent auditor's report to the members.....	52

These financial statements are the consolidated financial statements of Aurizon Network Pty Ltd and its subsidiaries ("the Group"). Aurizon Network Pty Ltd is a subsidiary of Aurizon Operations Limited ("Aurizon Operations"). The ultimate parent entity is Aurizon Holdings Limited ("Aurizon Holdings"). Aurizon Holdings and its subsidiaries together are referred to as the Aurizon Group.

The financial statements are presented in Australian dollars.

Aurizon Network Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Level 17  
175 Eagle Street  
BRISBANE QLD 4000

A description of the nature of the Group's operations and its principal activities are included in the review of operations and activities in the directors' report, which is not part of these financial statements.

**Aurizon Network Pty Ltd**  
**Consolidated income statement**  
**For the year ended 30 June 2014**

	Notes	2014 \$m	2013 \$m
<b>Revenue from continuing operations</b>	4	<b>1,012.1</b>	973.5
Other income		<b>0.2</b>	-
Consumables <sup>1</sup>	5	<b>(250.9)</b>	(300.4)
Employee benefits expense <sup>1</sup>	5	<b>(133.8)</b>	(63.5)
Depreciation and amortisation expense	5	<b>(198.5)</b>	(182.8)
Other expenses	5	<b>(16.7)</b>	(5.2)
Impairment losses	5	<b>(67.6)</b>	(1.0)
Finance costs	5	<b>(107.8)</b>	(1.1)
<b>Profit before income tax</b>		<b>237.0</b>	419.5
Income tax expense	6	<b>(68.3)</b>	(116.9)
<b>Profit for the year</b>		<b>168.7</b>	302.6

1. Following the organisation restructure effective 1 July 2013, asset maintenance labour costs previously recognised as part of the maintenance expense within consumables are now reflected within employee benefits expense.

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



**Aurizon Network Pty Ltd**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2014**

	Notes	2014 \$m	2013 \$m
<b>Profit for the year</b>		<b>168.7</b>	302.6
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	20(a)	(27.1)	-
Income tax relating to these items	6(c)	8.1	-
<b>Other comprehensive income for the year, net of tax</b>		<b>(19.0)</b>	-
<b>Total comprehensive income for the year</b>		<b>149.7</b>	302.6

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

**Aurizon Network Pty Ltd**  
**Consolidated balance sheet**  
**As at 30 June 2014**

	Notes	2014 \$m	2013 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1.1	22.7
Trade and other receivables	7	233.0	234.4
Inventories	8	80.7	49.9
Other assets	9	15.4	2.8
<b>Total current assets</b>		<b>330.2</b>	309.8
<b>Non-current assets</b>			
Inventories	8	3.3	10.9
Property, plant and equipment	10	5,023.7	4,704.5
Intangible assets	11	20.6	7.4
<b>Total non-current assets</b>		<b>5,047.6</b>	4,722.8
<b>Total assets</b>		<b>5,377.8</b>	5,032.6
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Derivative financial instruments		1.7	-
Trade and other payables	13	240.5	233.1
Borrowings	14	42.7	2.5
Provisions	15	22.5	29.6
Other liabilities	16	29.7	112.5
<b>Total current liabilities</b>		<b>337.1</b>	377.7
<b>Non-current liabilities</b>			
Derivative financial instruments		26.6	-
Provisions	15	1.7	1.6
Borrowings	14	2,489.8	2,197.3
Deferred tax liabilities	17	439.5	378.3
Other liabilities	16	249.4	257.8
<b>Total non-current liabilities</b>		<b>3,207.0</b>	2,835.0
<b>Total liabilities</b>		<b>3,544.1</b>	3,212.7
<b>Net assets</b>		<b>1,833.7</b>	1,819.9
<b>EQUITY</b>			
Contributed equity	18(b)	2.4	2.7
Convertible notes	19	1,200.0	1,200.0
Reserves	20(a)	(19.0)	-
Retained earnings		650.3	617.2
<b>Total equity</b>		<b>1,833.7</b>	1,819.9

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

**Aurizon Network Pty Ltd**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2014**

**Attributable to owners of Aurizon Network Pty Ltd**

	Notes	Contributed equity \$m	Convertible notes \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
<b>Balance at 1 July 2012</b>		1,634.1	-	-	1,045.4	2,679.5
Profit for the year		-	-	-	302.6	302.6
Other comprehensive income		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	302.6	302.6
<b>Transactions with owners in their capacity as owners:</b>						
Dividends provided for or paid	21(a)	-	-	-	(730.8)	(730.8)
Capital contribution from the parent for share-based payments		0.9	-	-	-	0.9
Issue of convertible notes	19	-	1,200.0	-	-	1,200.0
Capital distribution to parent		(1,632.3)	-	-	-	(1,632.3)
		(1,631.4)	1,200.0	-	(730.8)	(1,162.2)
<b>Balance at 30 June 2013</b>		2.7	1,200.0	-	617.2	1,819.9
Profit for the year		-	-	-	168.7	168.7
Other comprehensive income		-	-	(19.0)	-	(19.0)
<b>Total comprehensive income for the year</b>		-	-	(19.0)	168.7	149.7
<b>Transactions with owners in their capacity as owners:</b>						
Dividends provided for or paid	21(a)	-	-	-	(135.6)	(135.6)
Capital distribution to the parent for share-based payments		(0.3)	-	-	-	(0.3)
		(0.3)	-	-	(135.6)	(135.9)
<b>Balance at 30 June 2014</b>		2.4	1,200.0	(19.0)	650.3	1,833.7

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

**Aurizon Network Pty Ltd**  
**Consolidated statement of cash flows**  
**For the year ended 30 June 2014**

	Notes	2014 \$m	2013 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		1,044.0	859.4
Interest received		0.2	-
Payments to suppliers and employees		(455.4)	(389.1)
Interest and other costs of finance paid		(109.6)	(19.0)
Income taxes paid		(80.0)	(124.8)
<b>Net cash inflow from operating activities</b>	27	<b>399.2</b>	<b>326.5</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		0.7	-
Payments for property, plant and equipment		(574.2)	(531.6)
Payments for intangible assets		(12.4)	(6.0)
<b>Net cash (outflow) from investing activities</b>		<b>(585.9)</b>	<b>(537.6)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		819.1	2,225.0
Repayment of borrowings		(500.0)	-
Payment of transaction costs related to loans and borrowings		-	(38.6)
Payment of loans from related parties		(14.8)	(789.8)
Capital distribution to parent		(1.1)	(1,632.3)
Finance lease payments		(2.5)	-
Proceeds from issue of convertible notes	19	-	1,200.0
Dividends paid to Company's shareholders	21(a)	(135.6)	(730.8)
<b>Net cash inflow from financing activities</b>		<b>165.1</b>	<b>233.5</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(21.6)</b>	<b>22.4</b>
Cash and cash equivalents at the beginning of the financial year		22.7	0.3
<b>Cash and cash equivalents at end of year</b>		<b>1.1</b>	<b>22.7</b>

Prior to June 2013 Aurizon Network Pty Ltd did not hold any cash and cash equivalents as it was funded by Aurizon Operations. The statement for the year ended 30 June 2013 has been prepared on the basis that the net movement in intercompany loans is presented in cash flows from financing activities and transactions are represented as cash flows from operating and investing activities.

Proceeds from borrowings includes proceeds from the Medium Term Note issue, as well as net draw downs on the Working Capital Facility. Given the short-term nature of the draw downs and repayments, cash flows in relation to the Working Capital Facility are presented on a net basis in the cash flows from financing activities.

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

## **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 Network Pty Ltd ("the Company") and its subsidiaries and together are referred to as "the Group".

### **(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*. The Company is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved for issue by the directors on 18 August 2014. 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*

The Group has applied the following standards and amendments for first time in its annual reporting period commencing 1 July 2013:

- *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- *AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*
- *AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- *AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle and*
- *AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*

The adoption of AASB 11 and AASB 119 did not affect any of the amounts recognised in the current period or any prior periods. Application of AASB 13 has introduced new disclosures and changed the Group's valuation methodology adopted in valuing derivative financial assets and liabilities used to hedge the Group's risk exposures. There has been no significant impact from this revised fair value measurement. The other standards only affected the disclosures in the notes to the financial statements.

#### *(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) New accounting standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

(a) Basis of preparation (continued)

<i>Title of standard</i>	<i>Nature of change</i>	<i>Impact</i>	<i>Mandatory application date/Date of adoption by Group</i>
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 <i>Revenues</i> , IAS 11 <i>Construction Contracts</i> and related Interpretations. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also allows costs associated with obtaining a contract to be capitalised and amortised over the life of the new contract.	The Group has not yet assessed how its own revenue recognition would be affected by the new rule.	Must be applied for financial years commencing on or after 1 January 2017. Early adoption is permitted.
AASB 9 <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.	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 new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. The Group has not yet assessed how its own hedging arrangements would be affected by the new rules, and it has not yet decided whether to adopt any parts of AASB 9 early.	Must be applied for financial years commencing on 1 January 2017* Early adoption is permitted.
AASB 2013-3 <i>Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets</i>	This amendment expanded the disclosure of recoverable amounts on non-financial assets when they are based on fair value less costs of disposal.	The amendment only affects the disclosure in the event non-financial assets are impaired based on fair value less costs of disposal.	Must be applied for financial year commencing on 1 July 2014.

\* The mandatory application of this standard may be further deferred to align to the equivalent international standard of 1 January 2018.

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

(v) *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.

## **1 Summary of significant accounting policies (continued)**

### **(a) Basis of preparation (continued)**

#### *(vi) Going concern*

The financial report has been prepared on a going concern basis despite current liabilities exceeding current assets by \$6.9 million at 30 June 2014 as the directors are of the opinion the Company has access to sufficient uncommitted facilities available to service its debts as and when they fall due.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Company.

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 (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date that the operation was discontinued.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

#### *(ii) Joint arrangements*

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

#### *Joint operations*

Where the Group has joint operations, it recognises its direct right to assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of joint operations are set out in note 24.

### **(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Aurizon Network operates in only one business and geographical segment (Queensland, Australia).

The nature of the Group's business is that it enters into long-term contracts with key customers. Access contracts with Aurizon Operations, as disclosed in note 25, represent a significant component of the Group's revenue.

### **(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 Company's functional and presentation currency.

#### *(ii) Transactions and balances*

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and market interest rates, it enters into financial arrangements to reduce these exposures. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are translated into the functional currency using the exchange rates 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.

## **1 Summary of significant accounting policies (continued)**

### **(d) Foreign currency and commodity transactions (continued)**

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within finance costs. All other foreign exchange gains and losses are presented in the consolidated 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.

### **(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
- Other services revenue (including construction and engineering services revenue).

#### *Track access*

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

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

Where annual actual volumes railed are less than the regulatory forecast, an annual take or pay mechanism may become operative. A variable component of take or pay may also be applied where actual volumes do not meet certain consecutive monthly forecasts. 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 system allowable revenue over the regulatory period such that where actual revenue is below the system allowable revenue, the revenue shortfall (net of take or pay) is recovered in subsequent years and conversely, where actual revenue is above the system allowable revenue, 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 variation to system allowable revenue occurred 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.

For the year ended June 2014, transitional allowable revenue has been applied for each coal system pending Draft Access Undertaking ("UT4") revenue and pricing approval. An adjustment for the difference between actual revenue including take or pay and transitional allowable revenue will be paid/received during the year ended 30 June 2015. A revenue cap adjustment will still apply for the year to 30 June 2014 in respect of rebate and electric energy variations. The timing of the revenue cap variation to tariffs is to be determined as part of the UT4 process.

#### *(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 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.



## **1 Summary of significant accounting policies (continued)**

### **(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 consolidated income statement.

#### *(ii) Interest revenue*

Interest revenue is recognised using the effective interest method.

### **(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 Company'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 other comprehensive income or equity, the deferred tax is also recognised directly in other comprehensive income or equity.

#### *(i) Tax consolidation legislation*

Aurizon Network Pty Ltd is a member of a tax consolidated group of which Aurizon Holdings Pty Ltd is the head entity and which has implemented tax consolidation legislation as of 22 November 2010.

Aurizon Network Pty Ltd accounts for its own current and deferred tax amounts. These tax amounts are measured as if Aurizon Network Pty Ltd continues to be a stand-alone taxpayer in its own right. However, the current tax liability and deferred tax assets arising from unused tax losses and unused tax credits are subsequently assumed by Aurizon Holdings Pty Ltd, as the head entity of the tax consolidation group.

The members of the tax consolidated group have also entered into tax funding and tax sharing agreements which set out the funding obligations of members in respect of income tax amounts. The tax funding agreement allocates tax liabilities using the standalone taxpayer approach. These tax funding arrangements result in Aurizon Network recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed by the head entity on behalf of the Aurizon Network. The tax sharing agreement limits the joint and several liability of Aurizon Network in the case of a default by the head entity.

## 1 Summary of significant accounting policies (continued)

### (h) Leases

#### *(i) 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 borrowings. 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 consolidated 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.

### (i) Impairment of assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable 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 consolidated 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.

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

### (j) 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.

Prior to June 2013 as the Company's treasury operations were managed by the Aurizon Group, the Company did not have its own bank accounts. All transactions were managed through the intercompany balances and as such for the purposes of the cashflow the movement in the intercompany balances is reflected as financing activities and transactions are reflected as cashflows from operating and financing activities.

## 1 Summary of significant accounting policies (continued)

### (k) 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 consolidated 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 consolidated income statement.

### (l) Inventories

Inventories include items held in centralised stores, workshops and infrastructure 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.

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 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.

### (m) Investments and other financial assets

#### *(i) Classification*

The Group classifies its non-derivative financial assets in the following categories: financial assets at fair value through profit or loss and 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.

#### *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.

#### *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 7) in the balance sheet.

#### *(ii) Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on the 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.

#### *(iii) 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 consolidated 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 profit or loss are expensed in the consolidated income statement.

## **1 Summary of significant accounting policies (continued)**

### **(m) Investments and other financial assets (continued)**

#### *(iii) Measurement (continued)*

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) is 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.

#### *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 consolidated 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 consolidated income statement.

### **(n) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as either 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 3. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### *(i) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in other income or other expense.

Amounts accumulated in equity are reclassified to the consolidated income statement to consumables 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 the consolidated income statement in consumables. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the consolidated income statement.

#### *(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 do not qualify for hedge accounting are recognised immediately in the consolidated income statement in other income or expense.

## **1 Summary of significant accounting policies (continued)**

### **(n) Derivatives and hedging activities (continued)**

#### *(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.

### **(o) Property, plant and equipment**

#### *(i) Methodology for valuation of fixed assets*

##### *Buildings and plant and equipment*

Buildings and plant and equipment 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 (Qld)* stipulates that corridor land is owned by the State of Queensland, only non-corridor land owned by the Company 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 less accumulated depreciation. The costs represent capitalised expenditures that are directly related to capital projects and may include materials, labour and equipment and financing costs, 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 of Queensland, with respect to the 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 the Company. The term of each of the leases is 99 years (at a peppercorn rate of \$1 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years. The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99 year term. 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 Company's economic interest in the assets is accounted for as property, plant and equipment.

##### *Assets under construction*

Assets under construction represent 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(iv)). The development costs relate to directly attributable expenditure predominantly on engineering design, environmental and building approvals and project management. From time to time Aurizon Holdings undertakes expenditure in relation to below rail developments which, subject to final approvals and contractual arrangements, may be transferred into Aurizon Network.

## 1 Summary of significant accounting policies (continued)

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

#### *Assets under construction (continued)*

Costs of assets under construction are only capitalised when it is probable that future economic benefit associated with the asset will flow to the Group and the costs can be measured reliably.

#### *(iii) 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 consolidated income statement during the reporting period in which they are incurred.

#### *(iv) 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 and plant and equipment are depreciated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives. Motor vehicles are depreciated using the diminishing value basis (percentages range from 13.6% to 35.0%). 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
- 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(ii). 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 consolidated income statement.

### (p) Intangible assets

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

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

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

## 1 Summary of significant accounting policies (continued)

### (p) Intangible assets (continued)

#### *(i) Software and software development (continued)*

Software (mainly comprising the 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 3 to 11 years.

#### *(ii) Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and 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.

### (q) 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 45 days or within the terms set 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.

### (r) 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. Interest is paid on the Medium Term Note semi-annually.

Establishment costs have been capitalised and are amortised over the life of the facility and the term of the Medium Term Note.

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 for 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 end of the reporting date.

#### *(i) 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 capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings during the year of 4.95% (2013: 5.0%). Prior to the Group undertaking its own borrowings in June 2013, the rate used to determine the amount of borrowing costs to be capitalised was the interest rate charged to the Group from a subsidiary of Aurizon Holdings on its outstanding borrowings during the year. Other borrowing costs are expensed.

### (s) 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.

## 1 Summary of significant accounting policies (continued)

### (s) Provisions (continued)

In accordance with the 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.

### (t) Employee benefits

#### (i) Short-term obligations

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

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

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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

#### (iii) Retirement allowance

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

- 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) 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 Group'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.

#### (v) Superannuation

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

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a Whole of Government basis and reported in the Whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund on a triennial basis. The latest valuation was completed as at 30 June 2013 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



## **1 Summary of significant accounting policies (continued)**

### **(t) Employee benefits (continued)**

#### *(v) Superannuation (continued)*

Group's share of any potential deficit/surplus of the Super Defined Benefit Fund of QSuper. The State of Queensland has provided the Group 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.

### **(u) 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.

The grant by Aurizon Holdings of rights over its equity instruments to the employees of subsidiary companies in the Aurizon Group is treated as a capital contribution to that subsidiary company. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period in Aurizon Network Pty Ltd as an expense with a corresponding credit to equity.

### **(v) Convertible Notes**

The convertible notes represent an equity interest in the Company as the notes are not mandatorily convertible or redeemable and any such conversion is within the control of the Company. The Company is not obliged to issue a variable number of ordinary shares on conversion. The cost of issue of the notes is shown in equity.

### **(w) 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 the reporting date.

### **(x) Goods and Services Tax ("GST")**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

The Aurizon Group is grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

### **(y) 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 to the nearest hundred thousand dollars in accordance with that Class Order, unless otherwise indicated.

## **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.

## **2 Critical accounting estimates and judgements (continued)**

### *(i) Impairment*

The Group considers annually whether there has been any indicators of impairment and then tests whether non-current assets, have suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash generating units have been determined based on value in use calculations or fair value less costs to sell. For the assets and cash generating unit impaired during the year, the fair value less costs to sell is estimated based on recent market transaction information. These calculations require the use of assumptions. Refer to note 10 and 11 for further details on the carrying amounts of non-current assets subject to impairment testing.

### *(ii) 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(o) for details of current depreciation rates used.

### *(iii) 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.

### *(iv) Significant strategic infrastructure projects*

During the year, work continued on various significant infrastructure projects in relation to below rail development. A review of the current status of a number of projects resulted in an impairment of \$66.1 million (refer note 5 for more details). The development costs related to directly attributable expenditure predominantly on engineering design, environmental and building approvals and project management. Management's judgement is applied to the extent to which capitalisation of these development costs is appropriate.

### *(v) Access Undertaking*

On 30 April 2013, Aurizon Network submitted its 2013 Draft Access Undertaking (UT4) to the Queensland Competition Authority (QCA) for approval. As full approval of UT4 would not occur before 30 June 2013, Aurizon Network submitted to the QCA two Draft Amending Access Undertakings (DAAUs) to extend the terminating date of its 2010 Access Undertaking (UT3) from 30 June 2013 to 30 June 2014 and subsequently to 30 June 2015 (or earlier if UT4 is approved). The DAAU applies transitional tariffs up until 30 June 2015. The recent DAAU referencing the period from 30 June 2014 to 30 June 2015 was approved by the QCA on 12 June 2014. Access revenue recognised in these financial statements is based on the transitional tariffs contained in the DAAU. The DAAU also proposes a 'true-up' mechanism for dealing with over and under recoveries from 2013-14 (refer to note 13).

The QCA has confirmed that full approval of UT4 is targeted for completion by 30 June 2015.

### 3 Financial risk management

The Group has exposure to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Board of Directors approved Treasury Policy addresses the management of these risks using various financial instruments. Trading for speculation is strictly prohibited. Compliance with the Policy is monitored on an ongoing basis through regular reporting to the Board.

#### (a) Market risk

Market risk is the risk that adverse movements in foreign exchange and interest rates 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:

	2014		2013	
	USD \$m	EUR \$m	USD \$m	EUR \$m
Cash and cash equivalents	0.5	0.8	-	-
Net forward exchange contracts	-	(28.5)	-	-
Net exposures	0.5	(27.7)	-	-

##### Risk management

In order to protect against foreign exchange movements the Group may enter 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.

##### (ii) Interest rate risk

###### Exposure to interest rate risk

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

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.

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

	2014		2013	
	Weighted average interest %	Balance \$m	Weighted average interest %	Balance \$m
Borrowings	4.2%	2,026.5	4.3%	2,225.0
Interest rate swaps	3.4%	(1,725.0)	-	-
Net exposure to cash flow interest rate risk		301.5		2,225.0

### 3 Financial risk management (continued)

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

##### *Risk management*

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Swaps currently in place cover approximately 85% of the variable loan principal outstanding. The weighted average maturity of the outstanding swaps is approximately 2.9 years. The contracts require settlement of net interest receivable or payable each month. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The International Swaps and Derivatives Association agreements we hold with each of our counterparties allow for the netting of payments and receipts with respect to settlements for our interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was \$7.5 million (2013: nil) 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.

##### *(iii) Sensitivity on 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 appreciation/depreciation of foreign currency rates
- 100 basis points ("bps") increase/decrease in interest rates
- Sensitivity analysis assumes hedge designations and effectiveness test results as at 30 June 2014 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)	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>15% movement in foreign currency rates</b>				
15% EUR depreciation	-	-	4.9	-
15% EUR appreciation	-	-	(3.7)	-
<b>100bps movement in interest rates</b>				
100bps decrease in interest rates				
borrowings	20.4	21.6	-	-
interest rate swaps	-	-	(48.4)	-
100bps increase in interest rates				
borrowings	(20.2)	(21.6)	-	-
interest rate swaps	0.3	-	47.1	-

#### (b) Credit risk

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

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees given to certain parties. Refer to note 3(d) for further details.

Apart from balances due from the Aurizon Group, 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.

### 3 Financial risk management (continued)

#### (b) Credit risk (continued)

Credit risk on cash transactions and derivative contracts is managed through the Board approved Treasury Policy 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 7.

#### (c) Liquidity risk

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

#### Financing arrangements

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

	Security	Maturity	Utilised *		Facility limit	
			2014	2013	2014	2013
			\$m	\$m	\$m	\$m
Working capital facility	Unsecured	Jun-15	47.0	6.2	100.0	100.0
Term loan facility	Unsecured	Jul-14	-	500.0	-	500.0
Syndicated Facility	Unsecured	Jun-16	1,200.0	1,200.0	1,200.0	1,200.0
Syndicated Facility	Unsecured	Jun-18	785.0	525.0	1,300.0	1,300.0
Medium term note	Corporate bond	Oct-20	525.0	-	525.0	-
<b>Total Group financing arrangements</b>			<b>2,557.0</b>	<b>2,231.2</b>	<b>3,125.0</b>	<b>3,100.0</b>

\* Amount utilised includes bank guarantees but excludes capitalised borrowing costs and discounts on medium term note.

During the prior financial year, the Aurizon Group implemented a new long-term capital structure whereby standalone debt facilities were placed at the Aurizon Group level through Aurizon Finance Pty Ltd and at a subsidiary level in Aurizon Network Pty Ltd. Until the draw down of senior debt facilities in June 2013, the Group had access to borrowing facilities through the Aurizon Group's \$3,000 million Syndicated Facility Agreement.

Within the working capital facilities, the Group has access to financial accommodation arrangements totaling \$100 million (2013: \$100 million) which may be utilised in the form of 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 \$5.5 million (2013: \$6.2 million) for financial bank guarantees.

The Group has complied with externally imposed capital debt covenants during the 2014 and 2013 reporting period.

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.

### 3 Financial risk management (continued)

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

2014	Less than 1 year \$m	Between 1 and 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets)/ liabilities \$m
<b>Non-derivatives</b>					
Trade and other payables	240.5	-	-	240.5	240.5
Borrowings (excluding finance lease liabilities)	157.5	2,274.8	570.3	3,002.6	2,520.8
Finance lease liabilities	2.1	7.6	6.8	16.5	11.7
Financial guarantees	5.5	-	-	5.5	-
<b>Total non-derivatives</b>	<b>405.6</b>	<b>2,282.4</b>	<b>577.1</b>	<b>3,265.1</b>	<b>2,773.0</b>
<b>Derivatives</b>					
Interest rate swaps used for hedging (net settled)	13.8	16.2	-	30.0	26.6
Foreign exchange contracts used for hedging					1.7
- (inflow)	(28.3)	(0.2)	-	(28.5)	-
- outflow	30.0	0.2	-	30.2	-
<b>Total derivatives</b>	<b>15.5</b>	<b>16.2</b>	<b>-</b>	<b>31.7</b>	<b>28.3</b>
<b>2013</b>					
<b>Non-derivatives</b>					
Trade and other payables	233.1	-	-	233.1	233.1
Other liabilities	83.3	-	-	83.3	83.3
Borrowings (excluding finance lease liabilities)	87.2	2,455.6	-	2,542.8	2,186.4
Finance lease liabilities	2.7	4.6	11.8	19.1	13.4
Financial guarantees	6.2	-	-	6.2	-
<b>Total non-derivatives</b>	<b>412.5</b>	<b>2,460.2</b>	<b>11.8</b>	<b>2,884.5</b>	<b>2,516.2</b>

#### (d) Fair value measurements

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

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

- Forward foreign exchange contracts
- Interest rate swaps.

Forward exchange contracts fair value has been determined as the unrealised gain / loss at balance sheet date by reference to market exchange rates.

Interest rate swaps fair value has been determined as the net present value of contracted cash flows. These values have been adjusted to reflect the credit risk of the Group and relevant counterparties, depending on whether the instrument is a financial asset or a financial liability. The Existing Exposure method, which discounts estimated future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted.

### 3 Financial risk management (continued)

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

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ending 30 June 2014, the borrowing rates were determined to be between 3.4% and 5.0%, depending on the type of borrowing (2013: 4.2% to 4.6%).

	Carrying amount		Fair value	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Financial assets carried at amortised cost</b>				
Cash and cash equivalents	1.1	22.7	1.1	22.7
Trade and other receivables (note 7)	233.0	234.4	233.0	234.4
Other assets (note 9)	15.4	-	15.4	-
	<b>249.5</b>	<b>257.1</b>	<b>249.5</b>	<b>257.1</b>
<b>Financial liabilities carried at fair value</b>				
Forward exchange contracts	(1.7)	-	(1.7)	-
Interest rate swaps	(26.6)	-	(26.6)	-
	<b>(28.3)</b>	<b>-</b>	<b>(28.3)</b>	<b>-</b>
<b>Financial liabilities carried at amortised cost</b>				
Trade and other payables (note 13)	(240.5)	(233.1)	(240.5)	(233.1)
Borrowings (excluding finance lease liabilities) (note 14)	(2,520.8)	(2,186.4)	(2,583.7)	(2,256.4)
Finance lease liabilities (note 14)	(11.7)	(13.4)	(11.7)	(13.4)
Other liabilities (note 16)	-	(83.3)	-	(83.3)
	<b>(2,773.0)</b>	<b>(2,516.2)</b>	<b>(2,835.9)</b>	<b>(2,586.2)</b>
<b>Off-balance sheet</b>				
<b>Unrecognised financial assets</b>				
Third party guarantees	-	-	1.3	1.3
Bank guarantees	-	-	155.6	116.3
Insurance company guarantees	-	-	1.3	1.1
<b>Unrecognised financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(5.5)</b>	<b>(6.2)</b>
	<b>-</b>	<b>-</b>	<b>152.7</b>	<b>112.5</b>

#### **Fair value hierarchy**

Financial instruments carried at fair value may be grouped into 3 valuation categories:

- 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).

All of the Group's financial instruments are categorised as Level 2. There were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies in any year.

## 4 Revenue

	2014	2013
	\$m	\$m
<b>Revenue from continuing operations</b>		
Services revenue		
Track access	950.7	920.9
Other services revenue	16.8	14.6
Other revenue	44.6	38.0
	1,012.1	973.5

Included in track access is Revenue Cap of \$16.8 million (\$13.9 million rolled forward at the approved regulated weighted average cost of capital) (2013: \$59.5 million - \$49.2 million rolled forward at the approved regulated weighted average cost of capital), recovered in the year in relation to contractual railings that were not achieved for the financial years two years prior.

## 5 Expenses from continuing operations

Profit before income tax includes the following specific expenses:

	2014	2013
	\$m	\$m
<b>Consumables</b>		
Repairs and maintenance	85.0	153.0
Insurance	2.9	7.5
Consulting and professional services	7.0	12.7
Energy and fuel	110.9	103.6
Other	45.1	23.6
<b>Total consumables</b>	250.9	300.4
<b>Employee benefits expenses</b>		
Defined benefit superannuation expense	3.2	2.1
Defined contribution superannuation expense	8.5	5.3
Voluntary redundancies and ex-gratia payments	1.1	6.1
Salaries, wages and oncosts	121.0	50.0
<b>Total employee benefit expense</b>	133.8	63.5
<b>Depreciation and amortisation expense</b>		
Depreciation	195.6	181.9
Amortisation	2.9	0.9
<b>Total depreciation and amortisation of property, plant and equipment (note 10)</b>	198.5	182.8
<b>Other expenses</b>		
Rental expenses relating to leases	4.0	-
Inventory obsolescence	0.4	1.0
Research and development	0.1	-
Losses on derivatives at fair value through profit or loss	1.5	-
Loss on disposal of assets	9.3	4.0
Other expenses	1.4	0.2
<b>Total other expenses</b>	16.7	5.2



## 5 Expenses from continuing operations (continued)

	2014	2013
	\$m	\$m
<b>Impairment losses</b>		
Impairment losses - financial assets		
Trade receivables	1.5	1.0
Impairment of non-current assets		
Property, plant and equipment	66.1	-
<b>Total impairment losses</b>	67.6	1.0

The market conditions and the longer-term outlook within the global and domestic resources sector have seen many capital projects either deferred or cancelled. As a direct consequence two projects under development by the Group, Dudgeon Point and Wiggins Island Project Phase Two, are now considered unlikely to progress in the near term. On 20 June 2014, Northern Queensland Bulk Ports Corporation announced it was withdrawing its development proposal for the Dudgeon Point Coal Terminal (DPCT), noting a lack of demand to support the expansion. On a similar basis, whilst Aurizon Network remains fully committed to the Wiggins Island Project Phase One, the current and forecast demand does not support the continued development or investment in incremental capacity in respect of Phase Two. This has resulted in an impairment charge of \$48.1 million.

It should be noted that the amounts being written off are still underwritten by the regulatory revenue mechanism, and that recovery will be sought through the normal regulatory process, notwithstanding the immediate accounting treatment.

An impairment of \$18.0 million has been recognised at 30 June 2014 in respect of Surat Basin Rail Joint Venture costs due to the termination of the joint venture in February 2014 following the announcement by Glencore Xstrata that its Wondoan Project was being put on hold.

	2014	2013
	\$m	\$m
<b>Finance costs</b>		
Interest and finance charges paid/payable	118.6	20.1
Amortisation of capitalised borrowing costs	18.0	-
<b>Total finance costs</b>	136.6	20.1
Amount capitalised to qualifying assets	(28.8)	(19.0)
<b>Finance costs expensed</b>	107.8	1.1

## 6 Income tax expense

### (a) Income tax expense

	2014	2013
	\$m	\$m
Current tax	4.6	69.3
Deferred tax	66.9	47.6
Current tax relating to prior periods	(4.0)	-
Deferred tax relating to prior periods	0.8	-
	68.3	116.9

Income tax expense is attributable to:  
Profit from continuing operations

	68.3	116.9
	68.3	116.9

Deferred income tax expense included in income tax expense comprises:

(Increase) in deferred tax assets (note 12)	-	(7.3)
Increase in deferred tax liabilities (note 17)	67.7	54.9
	67.7	47.6

## 6 Income tax expense (continued)

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

	2014 \$m	2013 \$m
Profit before income tax expense	237.0	419.5
Tax at the Australian tax rate of 30% (2013: 30%)	71.1	125.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable income	-	(7.8)
Research and development	(0.6)	(1.7)
Other	1.0	0.5
Adjustments for tax of prior periods	(3.2)	-
Total income tax expense	<u>68.3</u>	<u>116.9</u>

Non-assessable income represents accounting income recognised by Aurizon Network during the year which relates to transactions or events occurring pre privatisation of the Aurizon Group on 22 November 2010. This income is non-assessable for income tax purposes under tax privatisation legislation.

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

	2014 \$m	2013 \$m
Cash flow hedges	<u>(8.1)</u>	-

## 7 Trade and other receivables

	2014 \$m	2013 \$m
<b>Current</b>		
Trade receivables	138.9	173.7
Provision for impairment of receivables	<u>(2.5)</u>	<u>(1.0)</u>
Net trade receivables	136.4	172.7
Other receivables	<u>96.6</u>	<u>61.7</u>
	<u>233.0</u>	<u>234.4</u>

Other receivables include revenue for services performed but not yet invoiced under contracts including external construction contracts, take or pay and annual GAPE fees.

### (a) Impaired trade receivables

As at 30 June 2014, the amount of the provision for impaired trade receivables was \$2.5 million (2013: \$1.0 million).

Movements in the provision for impairment of receivables are as follows:

**7 Trade and other receivables (continued)**

	2014 \$m	2013 \$m
At 1 July	1.0	-
Provision for impairment recognised during the year	1.5	1.0
	2.5	1.0

The creation or release of the provision for impaired receivables has been included in the consolidated 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 other receivables, it is expected that these amounts will be received when due.

**(b) Past due but not impaired**

As at 30 June 2014, trade receivables of \$12.3 million (2013: \$3.4 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2014 \$m	2013 \$m
Up to 3 months	12.2	1.5
3 to 6 months	-	0.9
More than 6 months	0.1	1.0
	12.3	3.4

**8 Inventories**

	2014 \$m	2013 \$m
<b>Current</b>		
Raw materials and stores - at cost	80.7	50.9
Provision for inventory obsolescence	-	(1.0)
	80.7	49.9
<b>Non-current</b>		
Raw materials and stores - at cost	4.8	11.3
Provision for inventory obsolescence	(1.5)	(0.4)
	3.3	10.9

**9 Other assets**

	2014 \$m	2013 \$m
<b>Current</b>		
Tax loan receivable from ultimate parent entity	15.4	-
Prepayments	-	2.8
	15.4	2.8

## 10 Property, plant and equipment

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure <sup>(1)</sup> \$m	Total \$m
<b>2014</b>							
Opening net book amount	620.5	-	27.3	20.1	-	4,036.6	4,704.5
Additions	593.1	-	0.1	1.7	-	2.6	597.5
Transfers between asset classes	(519.3)	2.3	(5.0)	10.0	0.4	511.6	-
Disposals	(0.7)	-	-	(0.4)	-	(12.6)	(13.7)
Depreciation/ amortisation expense	-	-	(1.0)	(6.0)	-	(191.5)	(198.5)
Impairment expense	(66.1)	-	-	-	-	-	(66.1)
Closing net book amount	<b>627.5</b>	<b>2.3</b>	<b>21.4</b>	<b>25.4</b>	<b>0.4</b>	<b>4,346.7</b>	<b>5,023.7</b>
Cost	627.5	2.3	22.5	36.2	0.4	5,267.0	5,955.9
Accumulated depreciation and impairment losses	-	-	(1.1)	(10.8)	-	(920.3)	(932.2)
Net book amount	<b>627.5</b>	<b>2.3</b>	<b>21.4</b>	<b>25.4</b>	<b>0.4</b>	<b>4,346.7</b>	<b>5,023.7</b>
Owned	627.5	2.3	0.5	13.4	0.4	646.9	1,291.0
Leased	-	-	20.9	12.0	-	3,699.8	3,732.7
	<b>627.5</b>	<b>2.3</b>	<b>21.4</b>	<b>25.4</b>	<b>0.4</b>	<b>4,346.7</b>	<b>5,023.7</b>

1. CQCN infrastructure was transferred to Queensland Treasury Holdings and Queensland Rail Limited at 30 June 2010 in accordance with the Transfer Notice. Effective from 30 June 2010, this infrastructure was leased back to the Company under a 99 year lease arrangement. Refer to note 1(o) for further information regarding the accounting policy for this transaction.

**10 Property, plant and equipment (continued)**

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure <sup>(1)</sup> \$m	Total \$m
<b>2013</b>							
Opening net book amount	188.4	11.9	3.6	7.1	-	4,074.5	4,285.5
Additions	592.0	-	-	15.7	-	-	607.7
Transfers between asset classes	(159.9)	(11.9)	23.9	0.7	-	147.2	-
Disposals	-	-	-	(0.8)	-	(5.1)	(5.9)
Depreciation/ amortisation expense	-	-	(0.2)	(2.6)	-	(180.0)	(182.8)
Closing net book amount	620.5	-	27.3	20.1	-	4,036.6	4,704.5
Cost	620.5	-	27.5	35.0	-	4,782.0	5,465.0
Accumulated depreciation and impairment losses	-	-	(0.2)	(14.9)	-	(745.4)	(760.5)
Net book amount	620.5	-	27.3	20.1	-	4,036.6	4,704.5
Owned	620.5	-	14.1	6.0	-	427.7	1,068.3
Leased	-	-	13.2	14.1	-	3,608.9	3,636.2
	620.5	-	27.3	20.1	-	4,036.6	4,704.5

## 11 Intangible assets

	Software development \$m	Software \$m	Total \$m
<b>2014</b>			
Opening net book amount	7.4	-	7.4
Additions	12.8	0.4	13.2
Closing net book amount	20.2	0.4	20.6
Cost	20.2	0.6	20.8
Accumulated amortisation and impairment losses	-	(0.2)	(0.2)
Net book amount	20.2	0.4	20.6
<b>2013</b>			
Opening net book amount	-	-	-
Additions	7.4	-	7.4
Closing net book amount	7.4	-	7.4
Cost	7.4	0.2	7.6
Accumulated amortisation and impairment losses	-	(0.2)	(0.2)
Net book amount	7.4	-	7.4

## 12 Deferred tax assets

	2014 \$m	2013 \$m
<b>The balance comprises temporary differences attributable to:</b>		
Provisions/accruals	8.6	10.2
Unearned revenue	0.4	0.8
Cash flow hedges	8.4	-
Other temporary differences	0.9	0.8
	<b>18.3</b>	11.8
Set-off to deferred tax liabilities pursuant to set-off provisions (note 17)	<b>(18.3)</b>	(11.8)
Net deferred tax assets	-	-
Deferred tax assets expected to be recovered within 12 months	6.8	3.5
Deferred tax assets expected to be recovered after more than 12 months	11.6	8.3
	<b>18.3</b>	11.8

## 12 Deferred tax assets (continued)

	Provisions/ accruals \$m	Unearned revenue \$m	Cash flow hedges \$m	Other \$m	Total \$m
<b>Movements</b>					
<b>At 1 July 2012</b>	3.1	0.9	-	0.5	4.5
Credited - to profit or loss	7.1	(0.1)	-	0.3	7.3
<b>At 30 June 2013</b>	10.2	0.8	-	0.8	11.8
<b>At 1 July 2013</b>	10.2	0.8	-	0.8	11.8
Credited					
- to profit or loss	-	(0.4)	0.3	0.1	-
- to other comprehensive income	-	-	8.1	-	8.1
- transfer to entity within Aurizon Group	(1.6)	-	-	-	(1.6)
<b>At 30 June 2014</b>	8.6	0.4	8.4	0.9	18.3

## 13 Trade and other payables

	2014 \$m	2013 \$m
Trade payables and accruals	227.6	229.3
Other payables	12.9	3.8
	<b>240.5</b>	<b>233.1</b>

For the year ended 30 June 2014, included in trade payables is an adjustment of \$69.9 million reflecting access revenue derived being greater than the agreed Transitional Allowable Revenue under the transitional tariffs. Refer to note 1(e) for further detail.

## 14 Borrowings

	2014 \$m	2013 \$m
<b>Current</b>		
<i>Secured</i>		
Finance lease liabilities	1.2	2.5
<i>Unsecured</i>		
Working capital facility	41.5	-
<b>Total current borrowings</b>	<b>42.7</b>	<b>2.5</b>

## 14 Borrowings (continued)

	2014	2013
	\$m	\$m
<b>Non-current</b>		
<i>Secured</i>		
Finance lease liabilities	10.5	10.9
<i>Unsecured</i>		
Syndicated debt facilities	1,985.0	1,725.0
Term loan facility	-	500.0
Medium term notes	518.0	-
Capitalised borrowing costs	(23.7)	(38.6)
<b>Total non-current borrowings</b>	<b>2,489.8</b>	<b>2,197.3</b>

During the year, the Company issued Medium term notes (AUD corporate bond) with a face value of \$525 million at a coupon of 5.75% per annum and repaid and cancelled its existing Term loan facility of \$500 million. The Medium term notes are due to mature in October 2020.

The unsecured borrowings restrict the amount of security that the Company and its subsidiaries can provide over their assets in certain circumstances. The unsecured borrowings also impose certain covenants on the Company to ensure that certain financial ratios are met.

Details of the Company's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 3(c).

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

## 15 Provisions

	2014	2013
	\$m	\$m
<b>Current</b>		
Employee benefits (a)	22.5	29.6
	<b>22.5</b>	<b>29.6</b>
<b>Non-current</b>		
Employee benefits (a)	1.1	1.6
Land rehabilitation	0.6	-
	<b>1.7</b>	<b>1.6</b>
<b>Total provisions</b>	<b>24.2</b>	<b>31.2</b>

### (a) Employee benefits

	2014	2013
	\$m	\$m
Annual Leave	4.3	6.0
Long service leave	12.3	15.5
Other	7.0	9.7
	<b>23.6</b>	<b>31.2</b>

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.

Other employee benefit liabilities includes redundancy provision, short-term bonuses, payroll tax and retirement allowances.



## 16 Other liabilities

	2014 \$m	2013 \$m
<b>Current</b>		
Income received in advance	29.7	29.2
Other liabilities	-	3.0
Loan payable to parent entity	-	14.6
Tax loan payable to ultimate parent entity	-	65.7
	<u>29.7</u>	<u>112.5</u>
<b>Non-current</b>		
Income received in advance	249.4	257.8
	<u>249.4</u>	<u>257.8</u>

Income received 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.

## 17 Deferred tax liabilities

	2014 \$m	2013 \$m
<b>The balance comprises temporary differences attributable to:</b>		
Property, plant and equipment	457.8	390.1
Total deferred tax liabilities	457.8	390.1
Set-off of deferred tax assets pursuant to set-off provisions (note 12)	(18.3)	(11.8)
Net deferred tax liabilities	439.5	378.3
Deferred tax liabilities expected to be recovered after more than 12 months	457.8	390.1
	<u>457.8</u>	<u>390.1</u>

<b>Movements</b>	<b>Property, plant and equipment \$m</b>	<b>Other \$m</b>	<b>Total \$m</b>
<b>At 1 July 2012</b>	326.4	8.8	335.2
Charged/(credited) - to profit or loss	63.7	(8.8)	54.9
<b>At 30 June 2013</b>	390.1	-	390.1
<b>At 1 July 2013</b>	390.1	-	390.1
Charged/(credited) - to profit or loss	67.7	-	67.7
<b>At 30 June 2014</b>	457.8	-	457.8

## 18 Contributed equity

### (a) Issued capital

	2014 Shares	2013 Shares	2014 \$	2013 \$
Ordinary shares Fully paid	100	100	100.0	100.0

### (b) Other contributed equity

	2014 \$m	2013 \$m
Capital contribution from the parent for share-based payments	2.4	2.7
	2.4	2.7
<b>Total contributed equity</b>	<b>2.4</b>	<b>2.7</b>

### (c) Ordinary shares

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

### (d) Capital risk management

The Company is committed to prudent capital management, through the diversification of funding sources, maintenance of strong investment grade credit ratings and adequate liquidity and risk management activities, which are managed in line with policies approved by the Company's Board of Directors from time to time. The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development for the Group. Capital consists of issued capital, convertible notes, capital contributions from the parent and retained earnings.

Following the draw-down of borrowings, the Group monitors 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 borrowing 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.

	2014 \$m	2013 \$m
Total borrowings	2,532.5	2,199.8
Less: cash and cash equivalents	(1.1)	(22.7)
Net debt	2,531.4	2,177.1
Total equity	1,833.7	1,819.9
<b>Total capital</b>	<b>4,365.1</b>	<b>3,997.0</b>
<b>Gearing ratio</b>	<b>57.99%</b>	<b>54.47%</b>

The Group has complied with externally imposed capital debt covenants.

The Company's capital structure, including the level of dividends paid to shareholders is monitored by the Board of Directors.

## 19 Convertible notes

	2014 \$m	2013 \$m
10 \$120,000,000 convertible notes	1,200.0	1,200.0
<b>Total convertible notes</b>	<b>1,200.0</b>	<b>1,200.0</b>

On 5 June 2013, the Company issued Convertible Notes to its parent, Aurizon Operations in the discharge of obligation to repay an intercompany loan to them. The non-interest bearing notes have a term of 30 years, at which time the Company will be entitled to convert the notes into ordinary shares. The convertible notes may be redeemed or converted into a fixed number of ordinary shares at the option of the Company. The notes do not carry a right to vote or any dividend rights.

## 20 Reserves

### (a) Reserves

	2014 \$m	2013 \$m
Hedging reserve - cash flow hedges	(19.0)	-
	<b>19.0</b>	-

### Movements:

#### *Hedging reserve - cash flow hedges*

Balance 1 July	-	-
Fair value (losses) taken to equity	(27.1)	-
Deferred tax	8.1	-
Balance 30 June	<b>(19.0)</b>	-

### (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(n). Amounts are recognised in the consolidated income statement when the associated hedged transaction affects the consolidated income statement.

## 21 Dividends

### (a) Ordinary shares

	2014 \$m	2013 \$m
Final dividend for the year ended 30 June 2012 of \$1,122,000 per share, paid September 2012 (unfranked)	-	112.2
Special dividend for the year ended 30 June 2013 of \$5,309,971 (2012: nil) per share, paid June 2013 (unfranked)	-	531.0
Interim dividend for the year ended 30 June 2013 of \$876,000 per share, paid March 2013 (unfranked)	-	87.6
Interim dividend for the year ended 30 June 2014 of \$1,127,000 per share, paid February 2014 (unfranked)	112.7	-
Interim dividend for the year ended 30 June 2014 of \$229,000 per share, paid April 2014 (unfranked)	22.9	-
	135.6	730.8

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

	2014 \$m	2013 \$m
Subsequent to 30 June 2014, the directors declared the payment of a final dividend of \$182,000 per fully paid ordinary share, unfranked. The aggregate amount of the dividend to be paid on 18 September 2014 out of retained earnings, but not recognised as a liability at year end is:	18.2	-

## 22 Contingencies

The Group had contingencies at 30 June 2014 in respect of:

### *Guarantees and letters of credit*

For information about guarantees and letters of credit given by the Group, refer to note 3(d).

### (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.

### *Defined benefit fund liabilities*

The State of Queensland has permitted existing employees of Aurizon Holdings Limited and its subsidiaries as at the date of the listing in November 2010, 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 2013 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 24 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

### *Flood recovery costs*

On 23 July 2014, the QCA approved an adjustment of \$16.1 million (excluding interest) to reference tariffs for the Blackwater and Moura systems in relation to costs associated with flooding in central Queensland in January 2013.

### *Revenue cap adjustments*

The Group has a contingent asset in respect of revenue cap adjustments. Refer to note 1(e)(i) for further details. Subject to regulatory approval and any adjustments resulting from below rail cause, recovery of shortfalls via the revenue of \$39.1 million, plus interest, is expected to be received during the year ending 30 June 2015. Management estimates that the revenue cap attributable to the year ended 30 June 2014 will be \$7.0 million plus interest.

## 23 Commitments

### (a) Capital commitments

	2014	2013
	\$m	\$m
<i>Capital expenditure contracted for at the reporting date but not recognised as liabilities is payable as follows:</i>		
Property, plant and equipment		
Within one year	178.3	81.6
Later than one year but not later than five years	-	1.0
Later than five years	-	-
	178.3	82.6

### (b) Lease commitments

	2014	2013
	\$m	\$m
Commitments for minimum lease payments in relation to non-cancellable operating leases (excluding GST) are payable as follows:		
Within one year	4.1	4.1
Later than one year but not later than five years	9.7	12.9
Later than five years	-	-
	13.8	17.0
The present value of finance lease liabilities is:		
Within one year	1.2	2.5
Later than one year but not later than five years	4.8	6.6
Later than five years	5.7	4.3
	11.7	13.4

#### *Premises Licences*

The Company entered into licence agreements with Aurizon Group companies on 24 June 2013 for access to and use of properties currently occupied by the Company, but for which no rent had previously been payable.

Licence fees payable under the Premises Licence for the office premises are aligned to the commercial rent and outgoings being paid by the lessor (Aurizon Operations) and the term of that lease which expires on 30 September 2015, with an option for another 3 years. Licence fees payable under the agreement for the use of land are also on commercial terms. The term of that agreement is 5 years.

#### *Master Equipment Lease Agreement*

The Company entered into a Master Equipment Lease Agreement with Aurizon Operations on 5 June 2013, pursuant to which Aurizon Operations will provide the Company with certain equipment, such as ballast undercutting and maintenance track resurfacing equipment. The parties will enter into a lease supplement in respect of each item of equipment leased, detailing the equipment, rent, term, payment terms and other relevant matters generally for the life of the equipment. The lease charge set out in each lease supplement will be calculated on the basis that Aurizon Operations will recover the depreciation costs of each item to be leased, as well as a return on assets equivalent to that the regulatory allowance (which will reset every 4 years). The minimum lease payments calculated above are based on management's estimates of the regulatory allowance for UT4.

## 24 Joint operations

The Surat Basin Rail joint venture, in which the Group had a 33.3% (2013: 33.3%) participating interest in through its wholly owned subsidiary, Aurizon Surat Basin Pty Ltd, was terminated on 28 February 2014 and is in the process of being wound up.

An impairment of \$18.0 million has been recognised in respect of Surat Basin Rail Joint Venture costs given announcement of termination of the joint venture in November 2013 following announcement by Glencore Xstrata that its Wondoan Project is being put on hold.

The Group's share of the joint assets, assets it has recognised directly, 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:

	<b>2014</b>	<b>2013</b>
	<b>\$m</b>	<b>\$m</b>
<b>Group's share of:</b>		
Current assets	8.2	0.4
Non-current assets	-	16.3
Current liabilities	(0.2)	-
Non-current liabilities	-	(0.8)
<b>Total net assets</b>	<b>8.0</b>	<b>15.9</b>
Revenue	-	-
Expenses *	(18.0)	-
Tax benefit	5.4	-
<b>Net profit/(loss) after tax</b>	<b>(12.6)</b>	<b>-</b>

\* Relates to impairment losses, refer to note 5.

The consolidated balance sheet and consolidated income statement for 30 June 2014 is based on the financial statements of the Surat Basin Rail joint venture as at 30 June 2014.

## 25 Related party transactions

### (a) Parent entities

Aurizon Holdings Limited is the non-operating holding company of Aurizon Operations Limited and its controlled entities including Aurizon Network Pty Ltd.

### (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):

<b>Name of Entity</b>	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding</b>	
			<b>2014</b>	<b>2013</b>
			<b>%</b>	<b>%</b>
Aurizon Surat Basin Pty Ltd	Australia	Ordinary	<b>100</b>	100

## 25 Related party transactions (continued)

### (c) Key management personnel compensation

	2014 \$'000	2013 \$'000
Short-term employee benefits	6,275	8,958
Post-employment benefits	192	237
Long-term benefits	142	156
Termination benefits	-	749
Share-based payments	2,368	2,027
	<b>8,977</b>	<b>12,127</b>

Aurizon Operations has determined the compensation of key management personnel ("KMP") in accordance with their roles within the entire Aurizon Group. Employee contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Group and to allocate a figure may in fact be misleading. As there is no reasonable basis for allocating a KMP compensation amount to the Group, the entire compensation of the KMPs has been disclosed above.

KMP compensation is provided by the Company, the parent entity (Aurizon Operations) and the ultimate parent entity (Aurizon Holdings).

Short-term employee benefits include cash salary, at risk performance incentives and fees, non-monetary benefits and other short-term benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided, motor vehicle lease payments and annual leave accrued or utilised during the financial year.

### (d) Transactions and balances with entities of the Aurizon Group

The following transactions occurred and balances are recognised with related parties:

	2014 \$'000	2013 \$'000
Trade and other receivables from:		
- Ultimate parent	-	3,492
- Parent	80,744	140,034
- Other related parties	482	2,514
Trade and other payables to:		
- Ultimate parent	1,719	-
- Parent	104,507	132,993
- Other related parties	-	254
Loans payable to:		
- Parent	-	14,612
Tax loan (receivable from)/payable to:		
- Ultimate parent	(15,359)	65,727
Access revenue received from:		
- Parent	581,585	701,792
- Other related parties	5,951	6,437
Other revenue received from:		
- Parent	2,225	630
- Joint ventures	-	119
Expenses paid to:		
- Parent	359,474	339,854
- Other related parties	-	2,861

Expenses paid to the parent entity include maintenance, facilities charges and general corporate overhead. Expenses paid to the parent entity also include \$202.9 million (2013: \$235.8 million) of costs that have subsequently been capitalised to the Balance Sheet in Assets under construction.

For details on dividends paid and capital contributions from the parent, refer to notes 21 and 18 respectively. Convertible notes issued to the parent during the year are detailed in note 19.

## 25 Related party transactions (continued)

### (e) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them

In June 2013, a number of service agreements were executed between the Company and other entities within the Aurizon Group for the provision of services. Prior to the execution of the services agreement covering corporate services, the Company received an allocation of corporate costs from its parent, Aurizon Operations, in accordance with the costing methodologies determined by Aurizon Operations for that respective year. These costs include shared services such as payroll, IT, accounts payable and HR operations.

All other transactions are 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 entities in the Aurizon Group. All loans are non interest bearing. Outstanding balances are unsecured.

For details of lease arrangements between the Company and Aurizon Operations, refer to note 23(b). For details on tax loans, refer to note 6.

### (f) Economic dependency

Aurizon Network is dependent on Aurizon Operations, for approximately 62% (2013: 77%) of the access revenue derived.

## 26 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:

	2014 \$'000	2013 \$'000
<b>PwC Australia</b>		
<i>Audit and other assurance services</i>		
Audit of regulatory returns	-	269
Audit and review of financial statements	355	100
Other assurance services	49	69
Total remuneration for audit and other assurance services	<u>404</u>	438
<i>Other services</i>		
Advisory services	-	25
Total remuneration of PwC Australia	<u>404</u>	463
<b>Non PwC Audit Firms</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	9	7
Total remuneration for audit and other assurance services	<u>9</u>	7
Total remuneration for non PwC Audit Firms	<u>9</u>	7



## 27 Reconciliation of profit after income tax to net cash inflow from operating activities

	2014 \$m	2013 \$m
Profit for the year	168.7	302.6
Depreciation and amortisation	198.5	182.8
Impairment of non-current assets	66.1	-
Non-cash employee benefits expense - share-based payments	0.8	0.9
Net loss on sale of non-current assets	9.3	4.0
Interest capitalised to qualifying assets	(28.8)	(19.0)
Amortisation of borrowing costs	18.0	-
Interest on finance leases	1.1	-
Change in operating assets and liabilities:		
Decrease (Increase) in trade debtors	1.3	(181.1)
(Increase) in inventories	(23.1)	(60.9)
(Increase) in other operating assets	(12.6)	(2.7)
Increase in trade and other payables	16.0	130.8
Increase (decrease) in other operating liabilities	(9.2)	(32.9)
(Decrease) increase in other provisions	(6.9)	2.0
Net cash inflow from operating activities	<u>399.2</u>	<u>326.5</u>

## 28 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts below.

	2014 \$m	2013 \$m
Current assets	323.6	309.4
Non-current assets	5,047.6	4,712.5
Current liabilities	(336.9)	(362.9)
Non-current liabilities	(3,208.6)	(2,834.1)
Net assets	<u>1,825.7</u>	<u>1,824.9</u>
<i>Shareholders' equity</i>		
Contributed equity	2.4	2.7
Convertible notes	1,200.0	1,200.0
Reserves	(19.0)	-
Retained earnings	642.2	622.2
Total equity	<u>1,825.6</u>	<u>1,824.9</u>
Total profit for the year	155.6	302.6
Other comprehensive income	(19.0)	-
Total comprehensive income	<u>136.6</u>	<u>302.6</u>

### (b) Guarantees entered into by the parent entity

Financial guarantees given by the parent entity are disclosed in note 3(d).

**28 Parent entity financial information (continued)**

**(c) Contingent liabilities of the parent entity**

Contingent liabilities of the parent entity are the same as those disclosed in note 22.

**(d) Contractual commitments for the acquisition of property, plant or equipment**

Contractual commitments for the acquisition of property, plant and equipment of the parent entity are as disclosed in note 23.

**29 Events occurring after the reporting period**

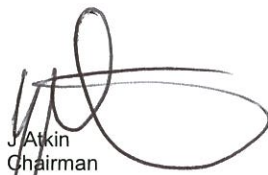
No other matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group.

**Aurizon Network Pty Ltd  
Directors' declaration**

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 6 to 50 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 2014 and of its performance for the years then 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.



J. Atkin  
Chairman

Brisbane QLD  
18 August 2014



## **Independent auditor's report to the members of Aurizon Network Pty Ltd**

### ***Report on the financial report***

We have audited the accompanying financial report of Aurizon Network Pty Ltd (the company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, 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 Aurizon Network Pty Ltd Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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. Those 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 consolidated 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 opinion.



### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Aurizon Network Pty Ltd 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 2014 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*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note Note 1.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over a faint, larger version of the same signature.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Simon Neill', written over a faint, larger version of the same signature.

Simon Neill  
Partner

Brisbane  
18 August 2014