

# **Aurizon Network Pty Ltd**

ABN 78 132 181 116

## **Financial report for the year ended 30 June 2016**

The Directors of Aurizon Network Pty Ltd ("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 "Group") for the financial year ended 30 June 2016 and the Independent Auditor's Report thereon.

#### **Directors**

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

M Fraser (Chairman)	Appointed 15 February 2016
J Atkin (Chairman)	Resigned 12 February 2016
J D Cooper	
L E Hockridge	
G T John AO	Resigned 12 November 2015
A Kummant	
S Lewis	
T M Poole	Appointed 11 February 2016

#### **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 connecting multiple below rail customers from more than 40 mines to three ports. The CQCEN includes four major coal systems: Moura; Blackwater; Goonyella; and Newlands.

##### *Performance overview*

The Network business has delivered record volumes throughput over the CQCEN totalling 225.9mt. This tonnage record was underpinned by successful execution of transformation initiatives which resulted in reduced speed restrictions, delays and below rail caused cancellations.

Network contributed full year revenue of \$1,177.9 million (2015: \$1,106.4 million) to the Aurizon Group. Revenue increased due to regulatory revenue being recognised and aligned to the UT3 extension Draft Amending Access Undertaking ("DAAU") for the year ended 30 June 2016 approved by the Queensland Competition Authority ("QCA") on 23 June 2016. The UT3 extension DAAU tariffs for the year ended 30 June 2016 closely aligns to the tariffs implicit in the Final Decision for UT4 issued by the QCA in April 2016 aside from revenues attributable to the regulatory revenue shortfall in 2013/14 and 2014/15, which have been excluded from these tariffs, and are expected to be recovered through 2016/17 tariffs.

Profit before tax for the year of \$357.3 million is higher than the prior year of \$349.9 million primarily due to the increased revenue discussed above partially offset by higher traction costs (from higher rates and full year usage of the Wotonga and Rolleston feeder stations) and depreciation expenses (due to commissioning of major projects and capitalisation of rail renewals).

Capital expenditure on tangible and intangible assets for the year totalled \$375.7 million, including the completion of the Wiggins Island Rail Project and continued spend on asset renewals.

After a detailed consultation process, the QCA released its Final Decision on UT4 on 24 April 2016.

On 23 June 2016 the QCA approved the UT3 extension DAAU for the year ended 30 June 2016 to finalise transitional tariffs, system volume forecasts and system allowable revenues based on the Final Decision, with the main exception being true-ups of regulatory access revenue for the years ended 30 June 2014 and 30 June 2015 approximating \$73 million (net of revenue cap relating to the year ended 30 June 2015). The true-ups are subject to QCA approval and will be included in revenue for the year ending 30 June 2017. An annual adjustment charge of \$21 million (2015: nil), representing the net shortfall between the 2015/16 transitional tariffs and final tariffs applied to actual volumes, has been accrued as at 30 June 2016. In addition, there is an estimated over recovery of revenue in the year ended 30 June 2016 of \$20 million which will be adjusted against tariffs in 2017/18.

On 7 July 2016, the Company submitted its amended Draft Access Undertaking ("DAU") in response to the Final Decision to the QCA for approval.

#### **Dividends**

Details of dividends provided for or paid are set out in note 12 to the financial report.

#### **State of affairs**

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

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

The Directors are not aware of any events or developments which are not set out in this report 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. There will be a continued focus on costs and maximising the capacity of the network.

Some of the risks facing the Company during this time will be the global demand of coal volumes and the finalisation of the Company's 2016 Draft Access Undertaking ("UT5") which is due to be submitted in September 2016 and will set tariffs for the 2017/18 to 2020/21 financial years once approved.

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.

As part of commitments made to the Queensland Department of Environment and Heritage Protection (the Queensland Government's environment regulator) associated with legal requirements in the *Environmental Protection Act 1994 (Qld)*, the Company has implemented the requirements outlined in the Central Queensland Coal Dust Management Plan ("CDMP"). This includes the Company being responsible for the operation, maintenance and reporting associated with the coal dust opacity monitoring system and the cascade of relevant requirements in the CDMP into Access Agreements with above rail operators and into Transfer Facilities Licences with mines e.g. veneering requirements at the loading point.

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.

The *National Pollutant Inventory* ("NPI") requires the Company to report its emissions of different chemical substances to air, land and water. The Company has implemented systems and processes for the collection and calculation of the data required and has relevant facilities registered with the NPI.

#### **Environmental prosecutions**

There were 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. 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, 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.



M Fraser  
Chairman

15 August 2016



## Auditor's Independence Declaration

As lead auditor for the audit of Aurizon Network Pty Ltd for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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', is written over a horizontal line.

Simon Neill  
Partner  
PricewaterhouseCoopers

Brisbane  
15 August 2016

# Aurizon Network Pty Ltd

ABN 78 132 181 116

## Financial report for the year ended 30 June 2016

### 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
About this report.....	13
Key events and transactions for reporting period.....	14
Results for the year.....	15
1 Revenue.....	16
2 Expenses.....	17
3 Income tax.....	18
Operating assets and liabilities.....	21
4 Trade and other receivables.....	22
5 Inventories.....	22
6 Property, plant and equipment.....	23
7 Intangible assets.....	27
8 Trade and other payables.....	28
9 Provisions.....	28
10 Other liabilities.....	30
Capital and financial risk management.....	31
11 Capital risk management.....	32
12 Dividends.....	32
13 Equity and reserves.....	33
14 Borrowings.....	34
15 Financial risk management.....	35
16 Derivative financial instruments.....	42
Group structure.....	45
17 Subsidiaries.....	46
18 Parent disclosures.....	46
Other information.....	48
19 Reconciliation of profit after income tax to net cash inflow from operating activities.....	49
20 Other assets.....	49
21 Related party transactions.....	50
22 Key management personnel compensation.....	51
23 Remuneration of auditors.....	51
24 Summary of other significant accounting policies.....	52
Unrecognised items.....	56
25 Contingencies.....	57
26 Commitments.....	57
27 Events occurring after the reporting period.....	58
Directors' declaration.....	59
Independent auditor's report to the members.....	60

These financial statements are the consolidated financial statements of Aurizon Network Pty Ltd and its controlled entities (collectively the “consolidated entity” or “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 2016**

	Notes	2016 \$m	2015 \$m
Revenue from continuing operations	1	1,177.9	1,106.4
Other income		0.5	1.7
<b>Total revenue and other income</b>		<b>1,178.4</b>	<b>1,108.1</b>
Employee benefits expense	2	(116.7)	(120.6)
Energy and fuel		(124.7)	(107.4)
Consumables	2	(146.9)	(164.9)
Depreciation and amortisation	2	(257.7)	(215.2)
Other expenses		(34.2)	(15.5)
<b>Operating profit</b>		<b>498.2</b>	<b>484.5</b>
Finance income		1.7	0.6
Finance expenses	2	(142.6)	(135.2)
<b>Net finance costs</b>		<b>(140.9)</b>	<b>(134.6)</b>
<b>Profit before income tax expense</b>		<b>357.3</b>	<b>349.9</b>
Income tax expense	3	(108.0)	(105.0)
<b>Profit for the year attributable to owners of Aurizon Network Pty Ltd</b>		<b>249.3</b>	<b>244.9</b>

*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 2016**

	Notes	2016 \$m	2015 \$m
<b>Profit for the year</b>		<b>249.3</b>	244.9
<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	13(d)	<b>(3.7)</b>	(17.1)
Income tax relating to these items	3(c)	<b>1.1</b>	5.1
<b>Other comprehensive income for the year, net of tax</b>		<b>(2.6)</b>	(12.0)
<b>Total comprehensive income for the year attributable to owners of Aurizon Network Pty Ltd</b>		<b>246.7</b>	232.9

*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 2016**

	Notes	2016 \$m	2015 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		3.3	116.4
Trade and other receivables	4	241.1	209.8
Inventories	5	44.2	49.3
Derivative financial instruments	16	-	0.1
Other assets	20	0.7	0.3
<b>Total current assets</b>		<b>289.3</b>	<b>375.9</b>
<b>Non-current assets</b>			
Derivative financial instruments	16	76.9	18.4
Inventories	5	14.4	12.4
Property, plant and equipment	6	5,432.1	5,360.4
Intangible assets	7	65.0	43.6
<b>Total non-current assets</b>		<b>5,588.4</b>	<b>5,434.8</b>
<b>Total assets</b>		<b>5,877.7</b>	<b>5,810.7</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8	160.7	166.3
Borrowings	14	7.2	3.1
Derivative financial instruments	16	27.2	0.1
Provisions	9	20.8	21.6
Other liabilities	10	96.3	77.7
<b>Total current liabilities</b>		<b>312.2</b>	<b>268.8</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	16	22.6	42.7
Provisions	9	2.1	1.9
Borrowings	14	2,995.3	2,935.2
Deferred tax liabilities	3(e)	532.5	500.8
Other liabilities	10	221.1	248.1
<b>Total non-current liabilities</b>		<b>3,773.6</b>	<b>3,728.7</b>
<b>Total liabilities</b>		<b>4,085.8</b>	<b>3,997.5</b>
<b>Net assets</b>		<b>1,791.9</b>	<b>1,813.2</b>
<b>EQUITY</b>			
Contributed equity	13(b)	2.5	1.9
Convertible notes	13(c)	1,200.0	1,200.0
Reserves	13(d)	(33.6)	(31.0)
Retained earnings		623.0	642.3
<b>Total equity</b>		<b>1,791.9</b>	<b>1,813.2</b>

*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 2016**

	Notes	Attributable to owners of Aurizon Network Pty Ltd				
		Contributed equity	Convertible notes	Reserves	Retained earnings	Total equity
		\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2014</b>		2.4	1,200.0	(19.0)	650.3	1,833.7
Profit for the year		-	-	-	244.9	244.9
Other comprehensive income		-	-	(12.0)	-	(12.0)
<b>Total comprehensive income for the year</b>		-	-	(12.0)	244.9	232.9
<b>Transactions with owners in their capacity as owners:</b>						
Dividends provided for or paid	12(a)	-	-	-	(252.9)	(252.9)
Capital distribution to the parent for share-based payments		(0.5)	-	-	-	(0.5)
		(0.5)	-	-	(252.9)	(253.4)
<b>Balance at 30 June 2015</b>		1.9	1,200.0	(31.0)	642.3	1,813.2
Profit for the year		-	-	-	249.3	249.3
Other comprehensive income		-	-	(2.6)	-	(2.6)
<b>Total comprehensive income for the year</b>		-	-	(2.6)	249.3	246.7
<b>Transactions with owners in their capacity as owners:</b>						
Dividends provided for or paid	12(a)	-	-	-	(268.6)	(268.6)
Capital contribution from parent for share-based payments		0.6	-	-	-	0.6
		0.6	-	-	(268.6)	(268.0)
<b>Balance at 30 June 2016</b>		2.5	1,200.0	(33.6)	623.0	1,791.9

*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 2016**

	Notes	2016 \$m	2015 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		1,162.4	1,193.9
Interest received		1.7	0.6
Payments to suppliers and employees		(419.2)	(496.2)
Income taxes (paid)/received		(53.1)	7.3
<b>Net cash inflow from operating activities</b>	19	<b>691.8</b>	<b>705.6</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of assets		-	12.8
Payments for property, plant and equipment		(367.1)	(547.8)
Payments for intangible assets		(29.6)	(31.7)
Interest paid on qualifying assets		(8.2)	(19.2)
<b>Net cash (outflow) from investing activities</b>		<b>(404.9)</b>	<b>(585.9)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		782.2	1,125.7
Repayment of borrowings		(775.0)	(749.5)
Payment of transaction costs related to borrowings		(5.8)	(4.1)
Capital distribution to parent		(0.4)	(1.9)
Finance lease payments		(2.0)	(2.1)
Dividends paid to Company's shareholders	12(a)	(268.6)	(252.9)
Interest paid		(130.4)	(119.6)
<b>Net cash (outflow) from financing activities</b>		<b>(400.0)</b>	<b>(4.4)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(113.1)</b>	<b>115.3</b>
Cash and cash equivalents at the beginning of the financial year		116.4	1.1
<b>Cash and cash equivalents at the end of the financial year</b>		<b>3.3</b>	<b>116.4</b>

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

## **About this report**

Aurizon Network Pty Ltd ("Aurizon Network") is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purpose of preparing financial statements. Aurizon Network Pty Ltd is a subsidiary of Aurizon Operations Limited ("Aurizon Operations"). The ultimate parent entity is Aurizon Holdings Limited ("Aurizon Holdings"). The financial statements are for the consolidated entity consisting of Aurizon Network Pty Ltd and its subsidiaries and together are referred to as the "consolidated entity" or "the Group".

The financial statements were approved for issue by the Directors on 15 August 2016. The Directors have the power to amend and reissue the financial statements.

The financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB");
- have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- are presented in Australian dollars with all amounts in the financial report being rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars, unless otherwise indicated;
- where necessary, comparative information has been restated to conform with changes in presentation in the current year; and
- adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2015.

### **The notes to the financial statements**

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

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

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

### **Keeping it simple ....**

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

### **Significant estimates and judgements**

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial statements include:

	<i>Note</i>
Revenue	1
Depreciation	6
Impairment	6

## **Key events and transactions for reporting period**

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

### *Access Undertaking*

The original term of the 2010 Access Undertaking ("UT3") expired on 30 June 2013 and the Company submitted a series of Draft Amending Access Undertakings ("DAAUs") which extended the term of UT3 and established transitional tariffs for the intervening period until the finalisation and approval of the Company's 2014 Draft Access Undertaking ("UT4").

The Queensland Competition Authority ("QCA") issued its Draft Decision on the Maximum Allowable Revenue component of UT4 on 30 September 2014. An Initial Draft Decision (Policy and Pricing) followed on 30 January 2015. After a detailed consultation process, a Consolidated Draft Decision was issued on 16 December 2015 and a Final Decision on 28 April 2016.

On 23 June 2016 the QCA approved the UT3 extension DAAU for the year ended 30 June 2016 to finalise transitional tariffs, system volume forecasts and system allowable revenues based on the Final Decision, with the main exception being true-ups of regulatory access revenue for the years ended 30 June 2014 and 30 June 2015 approximating \$73 million (net of revenue cap relating to the year ended 30 June 2015). The true-ups are subject to final QCA approval and will be included in revenue for the year ending 30 June 2017.

An annual adjustment charge of \$21 million (2015: nil), representing the net shortfall between the 2015/16 transitional tariffs and final tariffs applied to actual volumes, has been accrued as at 30 June 2016. In addition, there is an estimated over recovery of revenue in the year ended 30 June 2016 of \$20 million which will be adjusted against tariffs in 2017/18.

On 7 July 2016, the Company submitted an amended Draft Access Undertaking ("DAU") in response to the Final Decision to the QCA for approval.

Regulatory access revenue for the year ended 30 June 2015 was based on approved transitional tariffs approved for that year applied to actual volumes.

### *Debt refinancing*

In December 2015, the Company refinanced \$490 million of its syndicated debt facility extending the maturity date to 1 July 2021.

### *Issuance of Euro 500 million medium-term note*

On 23 May 2016, the Company issued a 10-year Euro Medium-Term Note ("EMTN") with a coupon of 3.125% raising €500 million. Cross currency interest rate swaps were executed concurrently to fully swap the issuance back to Australian dollar (A\$) floating rate debt. The Company used the proceeds to repay and cancel \$775 million of its syndicated debt facilities.

### *Enterprise Agreement ("EA")*

On 21 August 2015, the Fair Work Commission approved Aurizon's Construction and Maintenance Enterprise Agreement. The agreement, which covers approximately 380 Aurizon Network employees in Queensland, came into effect from 28 August 2015. Employees will receive a 4% pay rise annually for three years along with more contemporary employment conditions that will underpin significant productivity and efficiency improvements.

**Results for the year**

**In this section ...**

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

1	Revenue.....	16
2	Expenses.....	17
3	Income tax.....	18

## 1 Revenue

Aurizon Network recognises revenue from the provision of access to the Central Queensland Coal Network ("CQCN") and other incidental services. Revenue is derived from the following major sources:

- Track access revenue comprises: Provision of access to, and operation and management of the CQCN.
- Other revenue comprises: Revenue from minor operations including access facilitation charges, revenue from telecommunications and items of a corporate nature.

	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
<b>Revenue from continuing operations</b>		
Services revenue		
Track access	1,135.9	1,047.6
Other revenue	42.0	58.8
	<b>1,177.9</b>	<b>1,106.4</b>

### Significant judgements

#### (i) Revenue

##### Take or Pay

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

Take or pay revenue of \$3.1 million has been accrued for the Moura system (2015: \$33.0 million for the Goonyella Abbot Point Expansion ("GAPE") system).

#### Access undertaking

The QCA is currently finalising Aurizon Network's latest 2014 Draft Access Undertaking ("UT4"). Given that the original term of the 2010 Access Undertaking ("UT3") expired on 30 June 2013, Aurizon Network has submitted a series of DAAUs which have extended the term of UT3 and established transitional tariffs for the intervening period until the finalisation and approval of UT4. UT3 was extended until the earlier of 30 September 2016 or the date a QCA approved replacement undertaking takes effect. This submission was approved by the QCA on 23 June 2016. Access revenue recognised in these financial statements is based on the approved transitional tariffs applied to actual volumes.

### Recognition and measurement

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

#### (i) Track access

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

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

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

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

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



## 2 Expenses

Profit before income tax includes the following specific expenses:

	2016 \$m	2015 \$m
<b>Employee benefits expenses</b>		
Defined benefit superannuation expense	2.5	2.7
Defined contribution superannuation expense	9.1	8.9
Redundancies	2.1	1.5
Salaries, wages and oncosts	103.0	107.5
	<u>116.7</u>	<u>120.6</u>
<b>Consumables</b>		
Repairs and maintenance	66.7	88.3
Other	80.2	76.6
	<u>146.9</u>	<u>164.9</u>
<b>Depreciation and amortisation expense</b>		
Depreciation	256.0	215.0
Amortisation of intangibles	1.7	0.2
	<u>257.7</u>	<u>215.2</u>
<b>Finance costs</b>		
Interest and finance charges paid/payable	142.2	138.8
Amortisation of capitalised borrowing transaction costs	7.6	15.6
Counterparty credit risk adjustments	1.0	-
<b>Total finance costs</b>	<u>150.8</u>	<u>154.4</u>
Amount capitalised to qualifying assets	<u>(8.2)</u>	<u>(19.2)</u>
<b>Finance costs expensed</b>	<u>142.6</u>	<u>135.2</u>

### Significant judgements

The significant judgements in relation to depreciation and impairment have been explained on page 25 of this report.

### 3 Income tax

#### Keeping it simple...

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

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

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

#### (a) Income tax expense

	2016	2015
	\$m	\$m
Current tax	66.8	44.9
Deferred tax	40.4	59.4
Current tax relating to prior periods	8.4	(6.3)
Deferred tax relating to prior periods	(7.6)	7.0
	<b>108.0</b>	<b>105.0</b>

Income tax expense is attributable to:

Profit from continuing operations	108.0	105.0
	<b>108.0</b>	<b>105.0</b>

Deferred income tax expense included in income tax expense comprises:

Decrease (increase) in deferred tax assets (d)	(19.7)	(4.7)
Increase (decrease) in deferred tax liabilities (e)	52.5	71.1
	<b>32.8</b>	<b>66.4</b>

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

	2016	2015
	\$m	\$m
Profit before income tax expense	357.3	349.9
Tax at the Australian tax rate of 30% (2015: 30%)	107.2	105.0
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research and development	(0.3)	(1.1)
Other	0.3	0.4
Adjustments for tax of prior periods	0.8	0.7
Total income tax expense	<b>108.0</b>	<b>105.0</b>

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

	2016	2015
	\$m	\$m
Cash flow hedges	(1.1)	(5.1)

### 3 Income tax (continued)

#### (d) Deferred tax assets

	2016	2015
	\$m	\$m
<b>Total deferred tax assets</b>	<b>48.9</b>	28.1
Set-off of deferred tax liabilities pursuant to set-off provisions (e)	<u>(48.9)</u>	<u>(28.1)</u>
<b>Net deferred tax assets</b>	<u>-</u>	<u>-</u>

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

	Provisions/ accruals \$m	Unearned revenue \$m	Financial instru- ments \$m	Other \$m	Total \$m
<b>Movements</b>					
<b>At 1 July 2014</b>	8.6	0.4	8.4	0.9	18.3
(Charged)/credited					
- to profit or loss	(0.6)	(0.1)	5.2	0.2	4.7
- to other comprehensive income	-	-	5.1	-	5.1
<b>At 30 June 2015</b>	<u>8.0</u>	<u>0.3</u>	<u>18.7</u>	<u>1.1</u>	<u>28.1</u>
<b>At 1 July 2015</b>	<b>8.0</b>	<b>0.3</b>	<b>18.7</b>	<b>1.1</b>	<b>28.1</b>
(Charged)/credited					
- to profit or loss	1.0	(0.3)	18.1	0.9	19.7
- to other comprehensive income	-	-	1.1	-	1.1
<b>At 30 June 2016</b>	<u>9.0</u>	<u>-</u>	<u>37.9</u>	<u>2.0</u>	<u>48.9</u>

#### (e) Deferred tax liabilities

	2016	2015
	\$m	\$m
<b>Total deferred tax liabilities</b>	<b>581.4</b>	528.9
Set-off of deferred tax assets pursuant to set-off provisions (d)	<u>(48.9)</u>	<u>(28.1)</u>
<b>Net deferred tax liabilities</b>	<u>532.5</u>	500.8

### 3 Income tax (continued)

#### (e) Deferred tax liabilities (continued)

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

Movements	Non-current assets \$m	Accrued income \$m	Financial instru- ments \$m	Total \$m
<b>At 1 July 2014</b>	457.8	-	-	457.8
Charged/(credited)				
- to profit or loss	65.6	-	5.5	71.1
<b>At 30 June 2015</b>	523.4	-	5.5	528.9
<b>At 1 July 2015</b>	523.4	-	5.5	528.9
Charged/(credited)				
- to profit or loss	34.4	0.5	17.6	52.5
<b>At 30 June 2016</b>	557.8	0.5	23.1	581.4

#### Recognition and measurement

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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.

## **Operating assets and liabilities**

### **In this section ...**

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

4	Trade and other receivables .....	22
5	Inventories .....	22
6	Property, plant and equipment .....	23
7	Intangible assets .....	27
8	Trade and other payables .....	28
9	Provisions .....	28
10	Other liabilities .....	30

#### 4 Trade and other receivables

	2016 \$m	2015 \$m
<b>Current</b>		
Trade receivables	151.5	129.8
Provision for impairment of receivables	(0.5)	(0.6)
Net trade receivables	151.0	129.2
Other receivables	90.1	80.6
	241.1	209.8

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

#### Past due but not impaired

These trade receivables relate to a number of customers for whom there is no recent history of default. The ageing of these trade receivables is as follows:

	2016 \$m	2015 \$m
Up to 3 months	19.7	15.6
3 to 6 months	-	-
More than 6 months	18.9	-
	38.6	15.6

#### Recognition and measurement

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

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

#### 5 Inventories

	2016 \$m	2015 \$m
<b>Current</b>		
Raw materials and stores - at cost	44.2	49.3
	44.2	49.3
<b>Non-current</b>		
Raw materials and stores - at cost	20.1	14.4
Provision for inventory obsolescence	(5.7)	(2.0)
	14.4	12.4

#### Recognition and measurement

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

**6 Property, plant and equipment**

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure \$m	Total \$m
<b>2016</b>							
Opening net book amount	383.0	4.0	25.7	98.8	0.4	4,848.5	5,360.4
Additions	350.6	-	-	1.3	-	0.6	352.5
Transfers between asset classes	(618.6)	0.7	1.3	17.0	-	599.6	-
Disposals	-	-	-	-	-	(16.9)	(16.9)
Depreciation/amortisation expense	-	-	(1.2)	(7.7)	-	(247.1)	(256.0)
Impairment losses	(7.9)	-	-	-	-	-	(7.9)
Closing net book amount	107.1	4.7	25.8	109.4	0.4	5,184.7	5,432.1
Cost	107.1	4.7	29.3	131.0	0.4	6,488.4	6,760.9
Accumulated depreciation and impairment losses	-	-	(3.5)	(21.6)	-	(1,303.7)	(1,328.8)
Net book amount	107.1	4.7	25.8	109.4	0.4	5,184.7	5,432.1
Owned	107.1	4.7	0.3	87.7	0.4	1,015.0	1,215.2
Leased	-	-	25.5	21.7	-	4,169.7	4,216.9
	107.1	4.7	25.8	109.4	0.4	5,184.7	5,432.1

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

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure \$m	Total \$m
<b>2015</b>							
Opening net book amount	627.5	2.3	21.4	25.4	0.4	4,346.7	5,023.7
Additions	568.3	-	-	2.4	-	3.6	574.3
Transfers between asset classes	(797.4)	1.7	5.4	76.7	-	713.6	-
Disposals	(13.6)	-	-	(0.1)	-	(7.1)	(20.8)
Depreciation/amortisation expense	-	-	(1.1)	(5.6)	-	(208.3)	(215.0)
Impairment losses	(1.8)	-	-	-	-	-	(1.8)
Closing net book amount	383.0	4.0	25.7	98.8	0.4	4,848.5	5,360.4
Cost	383.0	4.0	28.0	112.7	0.4	5,959.5	6,487.6
Accumulated depreciation and impairment losses	-	-	(2.3)	(13.9)	-	(1,111.0)	(1,127.2)
Net book amount	383.0	4.0	25.7	98.8	0.4	4,848.5	5,360.4
Owned	383.0	4.0	0.3	75.4	0.4	815.3	1,278.4
Leased	-	-	25.4	23.4	-	4,033.2	4,082.0
	383.0	4.0	25.7	98.8	0.4	4,848.5	5,360.4



## **6 Property, plant and equipment (continued)**

### **Significant judgements**

#### *(ii) Depreciation*

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

#### *(iii) Impairment*

The Group considers annually whether there have been any indicators of impairment and then tests whether non-current assets have suffered any impairment, in accordance with the accounting policy stated in this note. The recoverable amounts of cash generating units have been determined based on value in use calculations or fair value less costs of disposal. The value in use is calculated based on a 3-year board approved corporate plan.

### **Recognition and measurement**

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

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

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

Corridor land owned by the State is sub-leased to the Company at a rental of \$1.00 per year if demanded. The sub-leases expire on 30 June 2109.

##### *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 Lessor"). Under each infrastructure lease the infrastructure is leased to the Company. The term of each of the leases is 99 years (at a rate of \$1.00 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years. The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99-year term.

#### *(ii) Subsequent costs*

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

#### *(iii) Depreciation and amortisation*

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

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

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

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

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

## **6 Property, plant and equipment (continued)**

### *(iii) Depreciation and amortisation (continued)*

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

### *(iv) Derecognition*

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

### *(v) Impairment of assets*

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

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

The recoverable amount is the greater of an asset's fair value less costs of disposal 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 CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then, to reduce the carrying amount of other assets in the unit on a pro-rata basis.

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

## **Change in accounting policies**

### *Rail Renewal*

The Group has voluntarily changed the accounting policy in relation to rail renewal. Rail renewal is the replacement of a section of worn track due to fatigue defects. The new accounting policy is to capitalise and componentise all costs of rail renewal as separate identifiable assets as the rail renewal restores the rail profile, reduces wheel wear costs, optimises the wheel/rail interaction and most importantly extends the useful life of the track and hence maximises the value from the rail asset. Rail has a useful life of 7-50 years. This change in policy also necessitates a re-estimation of the useful life of the rail and sleepers (which is the remaining component of the Track asset).

The previous accounting policy was to expense rail renewal expenditure as incurred. The new accounting policy was adopted on 1 July 2015 prospectively as the retrospective impact is not material. The impact of this change in accounting policy for the current year was a net reduction in operating costs of \$12.3 million. The change in useful life for rail and sleepers has also been adopted on the same date since it is inextricably related to the change in accounting policy.

The revised policy will now align with global industry practice, is consistent with regulatory treatment and hence makes benchmark comparisons with industry peers more relevant and meaningful.

## 7 Intangible assets

	Software \$m	Software under development \$m	Total \$m
<b>2016</b>			
Opening net book amount	0.4	43.2	43.6
Additions	-	23.1	23.1
Transfer between asset classes	19.5	(19.5)	-
Amortisation expense	(1.7)	-	(1.7)
Closing net book amount	<b>18.2</b>	<b>46.8</b>	<b>65.0</b>
Cost	<b>20.4</b>	<b>46.8</b>	<b>67.2</b>
Accumulated amortisation and impairment losses	<b>(2.2)</b>	-	<b>(2.2)</b>
Net book amount	<b>18.2</b>	<b>46.8</b>	<b>65.0</b>
<b>2015</b>			
Opening net book amount	0.4	20.2	20.6
Additions	0.2	23.0	23.2
Amortisation expense	(0.2)	-	(0.2)
Closing net book amount	<b>0.4</b>	<b>43.2</b>	<b>43.6</b>
Cost	<b>0.9</b>	<b>43.2</b>	<b>44.1</b>
Accumulated amortisation and impairment losses	<b>(0.5)</b>	-	<b>(0.5)</b>
Net book amount	<b>0.4</b>	<b>43.2</b>	<b>43.6</b>

### Recognition and measurement

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

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

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

Software has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the estimated useful life which varies from three to eleven 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 costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

## 8 Trade and other payables

	2016	2015
	\$m	\$m
<b>Current</b>		
Trade payables	160.1	165.3
Other payables	0.6	1.0
	160.7	166.3

### Recognition and measurement

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

## 9 Provisions

	2016	2015
	\$m	\$m
<b>Current</b>		
Employee benefits (a)	19.2	20.0
Land rehabilitation	1.6	1.6
	20.8	21.6
<b>Non-current</b>		
Employee benefits (a)	1.5	1.3
Land rehabilitation	0.6	0.6
	2.1	1.9
<b>Total provisions</b>	22.9	23.5
<b>(a) Employee benefits</b>		
	2016	2015
	\$m	\$m
Annual Leave	3.5	3.8
Long service leave	11.7	11.2
Other*	5.5	6.3
	20.7	21.3

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

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, bonuses and redundancy provision. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

## 9 Provisions (continued)

### Details of employee benefits

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

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

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

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

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

#### *(iii) Bonus plans*

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

#### *(iv) Superannuation*

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

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

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

### Recognition and measurement

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The weighted average pre-tax discount rates for employee benefits are based on Australian corporate bond rates of 2.9% (2015: 3.5%). To measure the estimated costs to remediate contaminated land an inflation rate of 1.8% (2015: 2.5%) has been applied, based on remediation dates of five years. A discount rate of 2.0% (2015: 2.7%) has been used in determining present value, based on the interest rate which reflects the maturity profile of the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

**10 Other liabilities**

	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
<b>Current</b>		
Income received in advance	43.7	47.3
Tax loan payable to ultimate parent entity	52.6	30.4
	<b>96.3</b>	<b>77.7</b>
<b>Non-current</b>		
Income received in advance	221.1	248.1
	<b>221.1</b>	<b>248.1</b>

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

## **Capital and financial risk management**

### **In this section ...**

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

11	Capital risk management.....	32
12	Dividends.....	32
13	Equity and reserves.....	33
14	Borrowings .....	34
15	Financial risk management.....	35
16	Derivative financial instruments .....	42

## 11 Capital risk management

### Keeping it simple ...

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

The Group 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 borrowings less cash and cash equivalents. Total capital is total equity plus net debt. There were no changes in the Group's approach to capital and financial risk management during the year. Refer to note 15 for further details.

	2016	2015
	\$m	\$m
Total borrowings	3,002.5	2,938.3
Less: cash and cash equivalents	(3.3)	(116.4)
Net debt	2,999.2	2,821.9
Total equity	1,791.9	1,813.2
<b>Total capital</b>	<b>4,791.1</b>	<b>4,635.1</b>
<b>Gearing ratio</b>	<b>62.60%</b>	60.88%

## 12 Dividends

### (a) Ordinary shares

	2016	2015
	\$m	\$m
Final dividend for the year ended 30 June 2015 of \$470,000 (2015: \$182,000) per share, paid September 2015 (unfranked)	47.0	18.2
Interim dividend for the year ended 30 June 2016 of \$667,000 (2015: \$690,000) per share, paid October 2015 (unfranked)	66.7	69.0
Interim dividend for the year ended 30 June 2016 of \$439,000 (2015: \$585,000) per share, paid March 2016 (unfranked)	43.9	58.5
Interim dividend for the year ended 30 June 2016 of \$1,110,000 (2015: \$1,072,000) per share, paid April 2016 (unfranked)	111.0	107.2
	<b>268.6</b>	<b>252.9</b>

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

	2016	2015
	\$m	\$m
Since 30 June 2016, the Directors have recommended the payment of a final dividend of \$145,000 (2015: \$470,000) per fully paid ordinary share, unfranked. The aggregate amount of the dividend to be paid on 22 September 2016 out of retained earnings, but not recognised as a liability at year end is:	14.5	47.0



### 13 Equity and reserves

#### Keeping it simple ...

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

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 the Company as an expense with a corresponding credit to equity.

#### (a) Issued capital

	2016 Shares	2015 Shares	2016 \$	2015 \$
Ordinary shares				
Fully paid	100	100	100.0	100.0

#### (b) Other contributed equity

	2016 \$m	2015 \$m
Capital contribution from the parent for share-based payments	2.5	1.9
<b>Total contributed equity</b>	<b>2.5</b>	<b>1.9</b>

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

#### (c) Convertible notes

	2016 \$m	2015 \$m
10 \$120,000,000 convertible notes	1,200.0	1,200.0
	1,200.0	1,200.0

On 5 June 2013, the Company issued Convertible Notes to its parent, Aurizon Operations, in the discharge of an 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.

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.

#### (d) Reserves

	2016 \$m	2015 \$m
<b>Cash flow hedges</b>		
Balance 1 July	(31.0)	(19.0)
Fair value losses taken to equity	(3.4)	(19.9)
Transfers to property, plant and equipment	(0.3)	2.8
Deferred tax	1.1	5.1
Balance 30 June	<b>(33.6)</b>	<b>(31.0)</b>

## 13 Equity and reserves (continued)

### (d) Reserves (continued)

#### Nature and purpose of reserves

##### *Cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument that is a designated cash flow hedge and are recognised in other comprehensive income, as described in note 16(i). Amounts are recognised in the consolidated income statement when the associated hedged transaction affects the consolidated income statement.

## 14 Borrowings

### Keeping it simple ...

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

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

	2016 \$m	2015 \$m
<b>Current</b>		
<i>Secured</i>		
Finance lease liabilities	1.2	1.1
<i>Unsecured</i>		
Working capital facility	6.0	2.0
	<b>7.2</b>	<b>3.1</b>
<b>Non-current</b>		
<i>Secured</i>		
Finance lease liabilities	8.2	9.3
<i>Unsecured</i>		
Medium-term notes	2,085.9	1,249.7
Syndicated facilities	915.0	1,690.0
Capitalised borrowing costs	(13.8)	(13.8)
	<b>2,995.3</b>	<b>2,935.2</b>
<b>Total borrowings</b>	<b>3,002.5</b>	<b>2,938.3</b>

In December 2015, the Company refinanced \$490 million of its syndicated debt facility extending the maturity date to 1 July 2021.

On 23 May 2016, the Company issued a 10-year Euro Medium-Term Note ("EMTN") with a coupon of 3.125% raising €500 million. Cross currency interest rate swaps were executed concurrently to fully swap the issuance back to Australian dollar (A\$) floating rate debt. The Company used the proceeds to repay and cancel \$775 million of its syndicated facility.

The Group uses floating-for-fixed interest rate swaps to manage its exposure to interest rate risk set out in note 15(a). Risk is managed in accordance with a Board approved Treasury Policy.

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

Details of the Company's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 15(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.

## **14 Borrowings (continued)**

### **Recognition and measurement**

#### *(i) Borrowings*

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

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

Establishment costs have been capitalised and are amortised over the life of the related borrowing.

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

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.

#### *(ii) Borrowing costs*

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings during the year of 4.81% (2015: 5.01%).

## **15 Financial risk management**

### **Keeping it simple ...**

The Group has exposure to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by a central Treasury function on behalf of the Group under Treasury policies approved by the Board. Trading or speculation is strictly prohibited.

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

#### **(a) Market risk**

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

##### *(i) Foreign exchange risk*

###### *Exposure to foreign exchange risk*

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

###### *Risk management*

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

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

###### *Foreign exchange contracts*

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

## 15 Financial risk management (continued)

### (a) Market risk (continued)

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

#### (ii) Interest rate risk

##### Exposure to interest rate risk

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

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

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

	2016		2015	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$m	%	\$m
Variable rate borrowings	3.6	2,409.8	4.4	2,402.6
Interest rate swaps (including debt margins)	4.9	(1,725.0)	5.0	(1,725.0)
<b>Net exposure to interest rate risk</b>		<b>684.8</b>		<b>677.6</b>

#### Risk management

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

Interest rate swaps currently in place cover approximately 72% (2015: 72%) of the variable loan principal outstanding. The weighted average maturity of the outstanding swaps is approximately 0.9 years (2015: 1.9 years).

The settlement dates coincide with the dates on which interest is payable on the underlying debt. The International Swaps and Derivatives Association ("ISDA") agreements held with 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 \$23.2 million (2015: \$16.9 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which have been recognised in interest expense.

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

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

	Effect on Profit (before tax)		Effect on Equity (before tax)	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
<b>100 bps movement in interest rates</b>				
100 bps decrease in interest rates	8.0	7.9	(32.7)	(37.2)
100 bps increase in interest rates	(8.0)	(7.7)	31.5	36.4

## 15 Financial risk management (continued)

### (a) Market risk (continued)

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

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

	Notional amount \$m		Carrying amount assets/(liability) refer to Note 16 \$m		Change in fair value used for measuring ineffectiveness during the year \$m	
	2016	2015	2016	2015	2016	2015
<b>Cash flow hedges</b>						
<i>Foreign exchange risk</i>						
Forward contracts	-	€ 5.0	-	0.1	-	0.1
Forward contracts	-	€ 2.7	-	(0.1)	-	-
<i>Foreign exchange and interest rate risks</i>						
CCIRS – EMTN 1	€ 500.0	€ 500.0	(9.5)	4.8	0.9	0.1
CCIRS – EMTN 2	€ 500.0	-	(9.3)	-	(8.8)	-
<i>Interest rate risk</i>						
Interest rate swaps	AUD 1,725.0	AUD 1,725.0	(27.2)	(42.7)	15.8	(16.2)
<b>Fair value hedge</b>						
<i>Foreign exchange and interest rate risks</i>						
CCIRS – EMTN 1	€ 500.0	€ 500.0	86.4	13.6	76.1	25.1
CCIRS – EMTN 2	€ 500.0	-	(13.3)	-	(13.8)	-

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

Cash flow hedges (before tax)	Cash flow hedge reserve \$m		Change in value used for measuring ineffectiveness during the year \$m	
	2016	2015	2016	2015
<b>Foreign exchange risk</b>				
Firm commitments	-	-	-	(0.1)
<b>Foreign exchange and interest rate risks</b>				
EMTNs	20.6	1.2	8.5	(0.1)
<b>Interest rate risk</b>				
Forecast floating interest payments	27.3	43.1	(15.8)	17.1

Fair value hedges	Carrying amount \$m		Accumulated fair value adjustment \$m		Change in fair value used for measuring ineffectiveness for the year \$m	
	2016	2015	2016	2015	2016	2015
<b>Foreign exchange and interest rate risk</b>						
Non-current liabilities (borrowings) - EMTNs	(1,576.3)	(735.8)	(87.5)	(25.2)	(62.3)	(25.2)

## 15 Financial risk management (continued)

### (a) Market risk (continued)

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

The above hedging relationships affected other comprehensive income as follows:

Cash flow hedges	Hedging gain or (loss) recognised in comprehensive income \$m	
	2016	2015
<b>Foreign exchange risk</b>		
Forward contracts	-	1.4
<b>Interest rate risk</b>		
Interest rate swaps	15.8	(17.3)
<b>Foreign exchange and interest rate risk</b>		
CCIRS	<u>(19.5)</u>	<u>(1.2)</u>
	<u>(3.7)</u>	<u>(17.1)</u>

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

### (b) Credit risk

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

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

Historically, there has been no significant change in customers' credit risk. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

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

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 (d) for further details.

## 15 Financial risk management (continued)

### (b) Credit risk (continued)

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

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

### (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	
			2016	2015	2016	2015
			\$m	\$m	\$m	\$m
Working capital facility	Unsecured	Jun-17	7.6	5.6	100.0	100.0
Syndicated facility	Unsecured	Jul-21	490.0	490.0	490.0	490.0
Syndicated facility	Unsecured	Jul-18	425.0	1,200.0	525.0	1,300.0
Australian medium-term note	Unsecured	Oct-20	525.0	525.0	525.0	525.0
EMTN 1 **	Unsecured	Sep-24	710.6	710.6	710.6	710.6
EMTN 2 **	Unsecured	Jun-26	778.2	-	778.2	-
<b>Total Group financing arrangements</b>			<b>2,936.4</b>	<b>2,931.2</b>	<b>3,128.8</b>	<b>3,125.6</b>

\* Amount utilised includes bank guarantees of \$1.6 million (2015: \$3.6 million) but excludes capitalised borrowing costs of \$13.8 million (2015: \$13.8 million) and discounts on medium-term notes of \$15.5 million (2015: \$11.1 million).

\*\* Amount utilised also excludes accumulated fair value adjustments of \$101.4 million (2015: \$25.2 million) for EMTN 1 and (\$13.8) million for EMTN 2 (2015: nil).

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling \$100 million (2015: \$100 million) which may be utilised in the form of short-term working capital funding and the issuance of bank guarantees. At the end of the reporting period, the Group utilised \$1.6 million (2015: \$3.6 million) for financial bank guarantees.

The Group has complied with externally imposed capital debt covenants during the 2016 and 2015 reporting periods.

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

## 15 Financial risk management (continued)

### (c) Liquidity risk (continued)

2016	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	160.7	-	-	160.7	160.7
Other liabilities	52.6	-	-	52.6	52.6
Borrowings* (excluding finance lease liabilities)	145.4	1,500.0	2,358.1	4,003.5	2,938.8
Finance lease liabilities	2.0	7.4	5.0	14.4	9.4
Financial guarantees	1.6	-	-	1.6	-
	<b>362.3</b>	<b>1,507.4</b>	<b>2,363.1</b>	<b>4,232.8</b>	<b>3,161.5</b>
<b>Derivatives</b>					
Interest rate swaps	26.5	(0.8)	-	25.7	27.2
	<b>26.5</b>	<b>(0.8)</b>	<b>-</b>	<b>25.7</b>	<b>27.2</b>
<b>2015</b>					
<b>Non-derivatives</b>					
Trade and other payables	166.2	-	-	166.2	166.2
Other liabilities	30.4	-	-	30.4	30.4
Borrowings (excluding finance lease liabilities)	131.0	2,077.5	1,412.2	3,620.7	2,909.5
Finance lease liabilities	2.1	7.6	6.8	16.5	10.4
Financial guarantees	3.6	-	-	3.6	-
	<b>333.3</b>	<b>2,085.1</b>	<b>1,419.0</b>	<b>3,837.4</b>	<b>3,116.5</b>
<b>Derivatives</b>					
Interest rate swaps	22.4	20.8	-	43.2	42.7
Foreign exchange contracts					
- (inflow)	(11.0)	-	-	(11.0)	-
- outflow	11.0	-	-	11.0	-
	<b>22.4</b>	<b>20.8</b>	<b>-</b>	<b>43.2</b>	<b>42.7</b>

\*Borrowings includes the effect of cross currency interest rate swap derivatives which have a carrying amount of \$76.9 million (non-current asset) and \$22.6 million (non-current liability) (2015: \$18.4 million non-current asset).

### (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.



## 15 Financial risk management (continued)

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

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

- Forward foreign exchange contracts
- Interest rate swaps
- Cross currency interest rate swaps.

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

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

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ended 30 June 2016, the borrowing rates were determined to be between 2.8% and 5.8%, depending on the type of borrowing (2015: 2.8% to 4.9%).

	Carrying amount		Fair value	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
<b>Financial assets carried at fair value</b>				
Foreign exchange contracts (note 16)	-	0.1	-	0.1
CCIRS - EMTN 1 (note 16)	<b>76.9</b>	18.4	<b>76.9</b>	18.4
	<b>76.9</b>	18.5	<b>76.9</b>	18.5
<b>Financial assets carried at amortised cost</b>				
Cash and cash equivalents	<b>3.3</b>	116.4	<b>3.3</b>	116.4
Trade and other receivables (note 4)	<b>241.1</b>	209.8	<b>241.1</b>	209.8
	<b>244.4</b>	326.2	<b>244.4</b>	326.2
<b>Financial liabilities carried at fair value</b>				
Foreign exchange contracts (note 16)	-	(0.1)	-	(0.1)
Interest rate swaps (note 16)	<b>(27.2)</b>	(42.7)	<b>(27.2)</b>	(42.7)
CCIRS - EMTN 2 (note 16)	<b>(22.6)</b>	-	<b>(22.6)</b>	-
	<b>(49.8)</b>	(42.8)	<b>(49.8)</b>	(42.8)
<b>Financial liabilities carried at amortised cost</b>				
Trade and other payables (note 8)	<b>(160.7)</b>	(166.3)	<b>(160.7)</b>	(166.3)
Borrowings (excluding finance lease liabilities) (note 14)	<b>(2,993.1)</b>	(2,927.9)	<b>(2,989.2)</b>	(3,033.8)
Finance lease liabilities (note 14)	<b>(9.4)</b>	(10.4)	<b>(9.4)</b>	(10.4)
Other liabilities (note 10)	<b>(52.6)</b>	(30.4)	<b>(52.6)</b>	(30.4)
	<b>(3,215.8)</b>	(3,135.0)	<b>(3,211.9)</b>	(3,240.9)
<b>Off-balance sheet</b>				
<b>Unrecognised financial assets</b>				
Third party guarantees	-	-	<b>1.3</b>	1.3
Bank guarantees	-	-	<b>222.1</b>	226.9
Insurance company guarantees	-	-	<b>1.7</b>	1.6
<b>Unrecognised financial liabilities</b>				
Bank guarantees	-	-	<b>(1.6)</b>	(3.6)
	-	-	<b>223.5</b>	226.2

## 15 Financial risk management (continued)

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

#### 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); and
- 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.

## 16 Derivative financial instruments

#### Keeping it simple ...

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. The Group holds derivative financial instruments to economically hedge its foreign currency and interest rate exposures in accordance with the Group's financial risk management policy (refer to note 15).

	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
<b>Current assets</b>		
Foreign exchange contracts	-	0.1
<b>Non-current assets</b>		
CCIRS - EMTN 1	<b>76.9</b>	18.4
<b>Total derivative financial instrument assets</b>	<b>76.9</b>	<b>18.5</b>
<b>Current liabilities</b>		
Foreign exchange contracts	-	0.1
Interest rate swaps	<b>27.2</b>	-
<b>Non-current liabilities</b>		
CCIRS - EMTN 2	<b>22.6</b>	-
Interest rate swaps	-	42.7
<b>Total derivative financial instrument liabilities</b>	<b>49.8</b>	<b>42.8</b>

#### Offsetting derivative financial instruments

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2016 and 30 June 2015. The column 'net amount' shows the impact on the group's balance sheet if all set-off rights were exercised.

## 16 Derivative financial instruments (continued)

### Offsetting derivative financial instruments (continued)

	Effects of offsetting on the balance sheet		Related amounts not offset	
	Gross amounts	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Net amount*
2016	\$m	\$m	\$m	\$m
<b>Financial assets</b>				
Derivative financial instruments	76.9	76.9	(4.4)	72.5
<b>Financial liabilities</b>				
Derivative financial instruments	(49.8)	(49.8)	4.4	(45.4)
<b>2015</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Financial assets</b>				
Derivative financial instruments	18.5	18.5	(0.1)	18.4
<b>Financial liabilities</b>				
Derivative financial instruments	(42.8)	(42.8)	0.1	(42.7)

\* No financial instrument collateral.

#### Master netting arrangement

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

#### Recognition and measurement

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

The Group designates certain derivatives as either hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges). The Group has established a 100% hedge relationship against the identified exposure, therefore the hedge ratio is 1:1.

At inception, the Group documents the relationship between hedging instruments and hedged items, the risk management objective and the strategy for undertaking various hedge transactions. The Group, at inception and on an ongoing basis, documents its assessment of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The fair values of derivative financial instruments used for hedging purposes are disclosed in this section. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

## **16 Derivative financial instruments (continued)**

### **Recognition and measurement (continued)**

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. Ineffectiveness may arise where the timing of the transaction changes from what was originally estimated or differences arise between credit risk inherent within the hedge item and the hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing.

#### *(ii) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity using a recalculated effective interest rate.

#### *(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in fair value of any derivative instrument that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in other income or expense.

## **Group structure**

### **In this section ...**

Group structure provides information about particular subsidiaries and associates and how changes have affected the financial position and performance of the Group.

17	Subsidiaries .....	46
18	Parent disclosures .....	46

## 17 Subsidiaries

The Group's subsidiaries that were controlled during the year and prior years are set out below:

Name of Entity	Country of incorporation	Class of shares	Equity holding	
			2016 %	2015 %
Aurizon Surat Basin Pty Ltd	Australia	Ordinary	100	100

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at reporting date and the results of all subsidiaries for the year.

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

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

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

## 18 Parent disclosures

The parent and ultimate parent entity within the Group is Aurizon Network Pty Ltd.

### (a) Summary financial information

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

	2016 \$m	2015 \$m
Current assets	289.3	375.9
Non-current assets	5,588.4	5,434.8
<b>Total assets</b>	<b>5,877.7</b>	<b>5,810.7</b>
Current liabilities	(312.0)	(268.6)
Non-current liabilities	(3,773.7)	(3,728.9)
<b>Total liabilities</b>	<b>(4,085.7)</b>	<b>(3,997.5)</b>
<b>Net assets</b>	<b>1,792.0</b>	<b>1,813.2</b>
<i>Shareholders' equity</i>		
Contributed equity	2.5	1.9
Convertible notes	1,200.0	1,200.0
Reserves	(33.5)	(31.0)
Retained earnings	623.0	642.3
Total equity	1,792.0	1,813.2
Total profit for the year	249.3	253.0
Other comprehensive income	(2.6)	(12.0)
Total comprehensive income	246.7	241.0

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

Financial guarantees given by the parent entity are disclosed in note 15(d).

## **18 Parent disclosures (continued)**

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

Contingent liabilities of the parent entity are the same as those disclosed in note 25.

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

Contractual commitments for the acquisition of property, plant and equipment of the parent entity are as disclosed in note 26.

### **Recognition and measurement**

The financial information for the parent entity, Aurizon Network Pty Ltd, has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *(i) Investments in subsidiaries, associates and joint venture entities*

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

#### *(ii) Tax consolidation legislation*

Aurizon Network Pty Ltd is a member of a tax consolidated group of which Aurizon Holdings Limited 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 Limited, 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.

## Other information

### In this section ...

Other information provides information on other items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements however are not considered critical in understanding the financial performance or position of the Group.

19	Reconciliation of profit after income tax to net cash inflow from operating activities .....	49
20	Other assets .....	49
21	Related party transactions .....	50
22	Key management personnel compensation .....	51
23	Remuneration of auditors .....	51
24	Summary of other significant accounting policies .....	52



19 Reconciliation of profit after income tax to net cash inflow from operating activities	2016 \$m	2015 \$m
Profit for the year	249.3	244.9
Depreciation and amortisation	257.7	215.2
Impairment of non-current assets	7.9	1.8
Interest expense	141.8	134.2
Non-cash employee benefits expense - share-based payments	0.9	1.4
Net loss on sale of non-current assets	15.7	7.0
Interest on finance leases	0.8	0.9
Change in operating assets and liabilities:		
(Increase) decrease in trade debtors	(31.3)	23.2
Decrease in inventories	3.1	22.3
(Increase) decrease in other operating assets	(0.4)	15.0
Increase (decrease) in trade and other payables	22.3	(81.2)
(Decrease) increase in other operating liabilities	(8.4)	60.2
Increase in deferred tax liabilities	33.0	61.4
Decrease in other provisions	(0.6)	(0.7)
<b>Net cash inflow from operating activities</b>	<b>691.8</b>	<b>705.6</b>

20 Other assets	2016 \$m	2015 \$m
<b>Current</b>		
Prepayments	0.7	0.3
	<b>0.7</b>	<b>0.3</b>

## 21 Related party transactions

### (a) Transactions with Directors and Key Management Personnel

There were no Key Management Personnel related party transactions during the year.

### (b) Transactions with other related parties

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

	2016 \$'000	2015 \$'000
Trade and other receivables from:		
- Parent	73,218	75,525
- Other related parties	495	586
Trade and other payables to:		
- Ultimate parent	3,357	577
- Parent	61,409	43,128
- Other related parties	4	-
Tax loan payable to/(receivable from):		
- Ultimate parent	52,567	30,398
Access revenue received from:		
- Parent	696,578	638,373
- Other related parties	4,214	6,483
Other revenue received from:		
- Parent	1,161	5,230
Expenses paid to:		
- Parent	312,555	332,958

Expenses paid to the parent entity include maintenance, facilities charges and general corporate overhead. Expenses paid to the parent entity also include \$140.1 million (2015: \$168.5 million) of costs that have subsequently been capitalised to the Balance Sheet in Assets under construction.

For details on dividends paid and equity from the parent, refer to notes 12 and 13 respectively.

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

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. 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. Outstanding loan balances are unsecured.

For details of lease arrangements between the Company and Aurizon Operations, refer to note 26(b). For details on tax loans, refer to note 3.

### (d) Economic dependency

Aurizon Network is dependent on Aurizon Operations for approximately 62% (2015: 61%) of the access revenue derived.

## 22 Key management personnel compensation

	2016 \$'000	2015 \$'000
Short-term employee benefits	4,218	5,958
Post-employment benefits	142	163
Long-term benefits	58	101
Share-based payments	2,087	3,471
	<b>6,505</b>	<b>9,693</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. Other short-term benefits include sign-on bonus and relocation assistance.

## 23 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices.

	2016 \$'000	2015 \$'000
<b>PwC Australia</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	290	290
Other assurance services	78	88
<b>Total remuneration for audit and other assurance services</b>	<b>368</b>	<b>378</b>
<i>Taxation services</i>		
Tax advisory services	88	50
<b>Total remuneration of PwC Australia</b>	<b>456</b>	<b>428</b>

## **24 Summary of other significant accounting policies**

Other significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

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

#### *(i) Change in accounting policies*

##### *Rail Renewal*

The Group has voluntarily changed the accounting policy in relation to rail renewal. The change in accounting policy has been explained on page 26 of this report.

#### *(ii) New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 materially affect the amounts recognised in the current period or any prior period and are not likely to affect future periods. The Group has not early adopted any amendments, standards or interpretations that have been issued but are not yet effective in the current year.

The Group early adopted AASB 9 *Financial Instruments* in the year ended 30 June 2015.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group, other than AASB 9 as outlined above. The Group's assessment of the impact of these new standards and interpretations is set out below.

## 24 Summary of significant accounting policies (continued)

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

<i>Title of standard</i>	<i>Nature of change</i>	<i>Impact</i>	<i>Mandatory application date</i>
AASB 15 <i>Revenue from Contracts with Customers</i>	AASB 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 AASB 118 <i>Revenues</i> , AASB 111 <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.	Management is considering the impact of the new standard.	Must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. Expected date of adoption by the Group: 1 July 2018 for FY 2019.
AASB 16 <i>Leases</i>	AASB 16 <i>Leases</i> addresses the recognition, measurement, presentation and disclosures of leases. This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with AASB 16's approach to lessor accounting substantially unchanged from its predecessor, AASB 117.	Management is considering the impact of the new standard.	Must be applied for financial years commencing on or after 1 January 2019. Early adoption is permitted. Expected date of adoption by the Group: 1 July 2019 for FY 2020.

### (b) 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 21, represent a significant component of the Group's revenue. Access contracts with another customer contribute more than 10% and represent approximately \$188.0 million (2015: \$158.9 million) of the Group's revenue.

### (c) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held 'at call' with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (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.

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

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

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

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

### **(e) 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 whether the risks and rewards of ownership are transferred or not.

### **(f) Financial instruments**

#### *(i) Non-derivative financial assets*

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

#### *(ii) Financial assets measured at amortised cost*

A financial asset is subsequently measured at amortised cost, using effective interest method and net of any impairment loss, if:

- The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

#### *(iii) Non-derivative liabilities*

The Group initially recognises loans and debt securities issued on the date when they are originated. Other financial liabilities are initially recognised on the trade date. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities are initially recognised at fair value less any directly distributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

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

### **(g) 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.

## Unrecognised items

### In this section ...

Unrecognised items provide information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance.

25	Contingencies.....	57
26	Commitments .....	57
27	Events occurring after the reporting period.....	58



## 25 Contingencies

### Keeping it simple ...

Contingencies relate to the outcome of future events and may result in an asset or liability, but due to current uncertainty, do not qualify for recognition.

#### (a) Contingent liabilities

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosure in the financial statements, other than as set out below.

##### *Guarantees and letters of credit*

For information about guarantees and letters of credit given by the Group, refer to note 15(d).

#### (b) Contingent assets

##### *Guarantees and letters of credit*

For information about guarantees given to the Group, refer to note 15(d).

## 26 Commitments

### (a) Capital commitments

	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
Property, plant and equipment		
Within one year	<b>36.6</b>	53.3

There are no capital commitments beyond one year.

### (b) Lease commitments

	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
Commitments for minimum lease payments in relation to non-cancellable operating leases (excluding GST) are payable as follows:		
Within one year	4.2	3.7
Later than one year but not later than five years	4.7	7.4
Later than five years	-	-
	<b>8.9</b>	11.1
The present value of finance lease liabilities is:		
Within one year	1.2	1.1
Later than one year but not later than five years	5.3	5.0
Later than five years	2.9	4.3
	<b>9.4</b>	10.4

##### *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.

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 2018. Licence fees payable under the agreement for the use of land are also on commercial terms. The term of that agreement is 5 years.

## **26 Commitments (continued)**

### *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 lease charge is 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 four years). The minimum lease payments calculated above are based on of the regulatory allowance for UT4.

## **27 Events occurring after the reporting period**

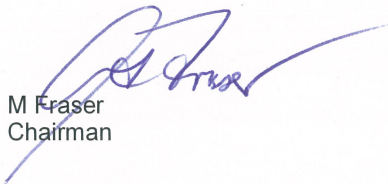
No other matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group.

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 58 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 2016 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.

Page 13 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.



M Fraser  
Chairman

Brisbane QLD  
15 August 2016



## **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 2016, the consolidated income statement and 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. On page 13, 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 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed on page 13.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Simon Neill', written in a cursive style.

Simon Neill  
Partner

Brisbane  
15 August 2016