



**Aurizon Holdings Limited**  
ABN 14 146 335 622

ASX Market Announcements  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

**BY ELECTRONIC LODGEMENT**

15 August 2016

**2016 Annual Report**

Please find attached a copy of the Company's 2016 Annual Report.

In accordance with the relief from dual lodgment of financial statements under ASIC Class Order 98/104, the Annual Report will not be lodged separately with ASIC.

Copies of the Annual Report are expected to be dispatched in September 2016 to all shareholders who have elected to receive a copy of the Annual Report.

Aurizon's Annual General Meeting will be held at 9.00am (Brisbane time) on Tuesday 18 October 2016. A copy of the Notice of Annual General Meeting is expected to be sent to all shareholders in September 2016.

Kind regards

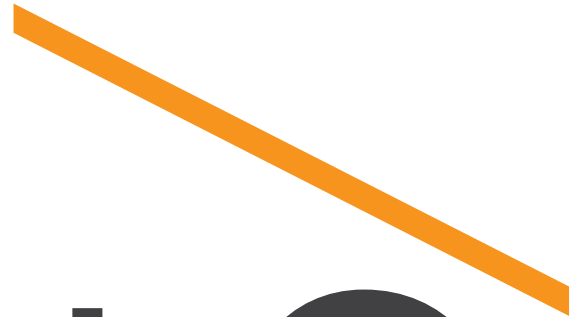
A handwritten signature in black ink, appearing to read "D. Smith", with a horizontal line underneath the first part of the signature.

**Dominic D Smith**  
VP & Company Secretary



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ANNUAL REPORT

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## Our Vision

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

## Our Mission

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

## Our Values

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

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

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

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

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

# FY2016 in Review

## Financial headlines

(\$M)	FY2016	FY2015	VARIANCE %
Total revenue	3,458	3,780	(9%)
EBITDA - underlying	1,432	1,489	(4%)
EBIT - underlying	871	970	(10%)
Adjustments - asset impairments	(528)	-	-
EBIT - statutory	343	970	(65%)
NPAT - underlying	510	604	(16%)
NPAT - statutory	72	604	(88%)
Free cash flow (FCF)	478	355	35%
Final dividend (cps)	13.3	13.9	(4%)
Total dividend (cps)	24.6	24.0	3%
Earnings per share - underlying (cps)	24.4	28.4	(14%)
Return on invested capital (ROIC)	8.6%	9.7%	(1.1ppt)
EBITDA margin - underlying (%)	41.4%	39.4%	2ppt
Operating ratio (OR) (%)	74.8%	74.3%	(0.5ppt)
Total Above Rail volumes (mt)	270.9	281.2	(4%)
Operations net opex/NTK (excluding access) (\$/'000 NTK)	19.9	21.5	7%
Gearing (net debt/net debt + equity)	37.4%	30.2%	(7.2ppt)

## Highlights

- › 35% increase in free cash flow to \$478 million (m) due to a reduction in capex and more efficient capital allocation
- › Final FY2016 dividend of 13.3cps (100% payout ratio applied to underlying NPAT), total dividend of 24.6cps, an increase of 3%
- › \$830m of cash distributed to shareholders for the year including \$301m share buy back
- › The share buyback has been stopped to manage near term balance sheet capacity for possible growth opportunities, noting also that free cash flow is expected to increase significantly during the next few years as capex is reduced and additional transformation savings are realised
- › Below Rail underlying EBIT up \$22m (5%) on record volumes and finalisation of UT4 tariffs
- › Above Rail underlying EBIT down \$117m (21%)
  - \$123m transformation benefits delivered, ahead of target
  - \$111m reduction in Freight net revenue as a result of lower volumes (9%), lower TSC payments (\$70m) and the sale of CRT
  - \$46m impact from non-recurring FY2015 asset sales (Redbank) and contract expiry (QR)
  - \$43m impact from lower volumes in Coal (2%) and Iron Ore (7%)
  - One off cost for QNI bad debt (\$20m)
- › Coal revenue down \$13m (1%) on full year volumes of 206.8mt
- › OR and ROIC 74.8% (up 0.5ppts) and 8.6% (down 1.1ppts) respectively
- › Statutory EBIT \$343m includes \$528m of asset impairments

## Transformation

- › Transformation program continues to deliver sustainable value:
  - \$131m benefits delivered in FY2016 and \$383m of cumulative benefits over the last three years
  - All operating metrics were favourable to FY2015 despite lower volumes, including a 7% improvement in Operations net opex per NTK (excluding access)
  - FY2016-2018 transformation target remains at least \$380m with increasing confidence of delivery

## Outlook

- › FY2017 guidance: revenue \$3.35bn-\$3.55bn, underlying EBIT \$900m-\$950m, key assumptions as follows:
  - Above Rail: volumes 255-275mt, including Coal 200-212mt. Stable pricing with exception of Iron Ore for customer Karara
  - Below Rail: Flat EBIT (pre corporate overhead allocation) despite \$73m one-off true up from revenue under collection in FY2014 and FY2015
    - Step up in Maximum Allowable Revenue (MAR) excluding true-up offset by prior year adjustments
    - \$50m-\$60m increase in depreciation (full year impact of WIRP commissioning and rail renewal capitalisation) and operating and energy costs due to inflation and higher electricity charges
  - Continued delivery of transformation benefits consistent with enterprise target but excluding significant restructuring costs, expected to be more than \$100m in FY2017
  - No major weather impacts
- › FY2018 OR target remains 70% but achievement dependent on:
  - Above Rail volume growth and delivery of transformation targets
  - UT5 outcome
  - Outcome of Freight performance review

# Chairman's Report

## A message from the Chairman

Dear fellow shareholders,

The 2016 financial year (FY2016) was a challenging year for Aurizon. Market conditions in the resources sector were not conducive for new developments and the Company decided to significantly reduce activity on several growth projects. The asset impairments that partly flowed from these decisions were disappointing and we need to improve our approach to capital allocation in the future.

Aurizon's transformation journey continued during FY2016. Our team has an excellent track record at delivering transformation benefits and we are confident this will be an area of ongoing shareholder value creation for many years. Our leadership team articulated new transformation targets during the year and a dedicated internal team was established to manage the delivery.

A very significant part of Aurizon's value sits in our regulated network asset, approximately 2,700 kilometres of railway track in Queensland's coal supply chain. I have been impressed by how we maintain and operate this asset whilst continually looking for opportunities to improve efficiency and add capacity without the need for new capital.

A milestone during FY2016 was the UT4 draft final decision from the QCA (which sets Aurizon's risk and return profile for the network asset for a four year period). Whilst we are unhappy with many aspects of the final decision, we accepted the decision in the interests of providing certainty to our customers after a protracted process. Our team has subsequently moved into preparing our submission for UT5 which will be a key area of focus during FY2017. During the UT5 process Aurizon will vigorously pursue enhancements to the UT4 outcome to ensure the Company is adequately compensated for the risks we are accepting.

## Overview of results

Underlying Earnings Before Interest and Tax (EBIT) for the year decreased 10 percent on FY2015 to \$871 million, in line with the market guidance provided in February. Statutory Net Profit After Tax for the year was \$72 million, down 88%, and Statutory Earnings Before Interest and Tax was \$343 million, a 65% decrease over the prior year. Revenue for the Group was down 9% to \$3.5 billion (FY2015: \$3.8 billion).

The financial result was impacted by significant impairments totalling \$528 million. Largely these were associated with the Company's investment in Aquila Resources and the West Pilbara Iron Ore Project, with further work on feasibility studies stopped due to unfavourable conditions in the iron ore market. The value of the Company's national rollingstock fleet was also written down in light of lessening demand and our continuing success with asset productivity improvements.

The Board declared a final dividend of 13.3 cents per share (70% franked), giving a full-year dividend of 24.6 cents per share. It represents an increase of 0.6 cents, or 3% over FY2015, with the final dividend to be paid to shareholders on 26 September 2016.

The Company's share price experienced volatility in FY2016, closing 6% lower for the year. Over the timeframe since Aurizon's Initial Public Offer (IPO) and listing of shares on the Australian Securities Exchange (ASX) however, Total Shareholder Return (TSR) is more than 110%, compared to 45% for the ASX 200 accumulation index as a whole.

The share buyback continued throughout the year, with the Company buying back and cancelling 70.3 million of its shares at a cost of \$301 million, following the announcement in FY2015 to buy back up to 5% of issued share capital over a 12 month period. The share buyback has been stopped to manage near term balance sheet capacity for possible growth opportunities, noting also that free cash flow is expected to increase significantly during the next few years as capex is reduced and additional transformation savings are realised.

## Performance overview

A record 225.9 million tonnes (mt) of coal passed through the Company's Central Queensland Coal Network, slightly ahead of last year (225.7mt). As noted, this regulated Network business is central to Aurizon's value proposition to investors.

Total volumes in the above rail operations were down on the prior year at 207mt (FY2015: 211mt). In Queensland, demand was down by 5mt at 163mt, and in New South Wales tonnages rose slightly due to the ramp up of operations by a major Hunter Valley customer.

Productivity metrics in both Aurizon's above and below rail coal businesses have consistently improved since IPO, validating the major transformation work that has reduced costs, increased efficiencies and facilitated the introduction of new innovation and technology.

The freight businesses remain challenged, with subdued market demand impacting iron ore, bulk and intermodal volumes. Overall tonnes hauled was 40mt, a reduction to the previous financial year's result of 44mt. In response to deteriorating conditions and performance levels well below expectations, the Company has commenced a performance review of the intermodal and bulk businesses.

A comprehensive overview of Aurizon's performance in FY2016 is detailed in the Directors' Report on pages 10 to 22.

## Transformation

The continuation of Aurizon's customer and market-driven transformation was a focal point for management during FY2016. Transformational benefits of \$131 million were delivered in FY2016, lifting the total over the past three years to \$383 million.

Major changes are underway to flatten Aurizon's organisational structure, significantly reducing middle and senior management, along with a range of other operational reforms. Approximately 300 surplus positions have been identified through the streamlining of the Operations structure. A consolidation of corporate support functions is also planned following a reduction in direct reports to the Managing Director and Chief Executive Officer from seven to five. The Company expects in excess of \$100 million of restructuring costs to be incurred during FY2017, with sustainable benefits for FY2018 and beyond.

A target has been set for a minimum of \$380 million in transformation benefits from FY2016 to FY2018. Aurizon has a strong track record in its ability to deliver major reform and cost-outs. Optimising the Company's cost structure and workforce size will be critical to achieving these targets.

### Sustainability

Aurizon may be creating a leaner and more agile business but safety will always remain the highest priority. The Lost Time Injury Frequency Rate (LTIFR) for FY2016 was zero, a first for the Company. However, a significant deterioration in the Total Recordable Injury Frequency Rate (TRIFR) underscores a need for greater focus and discipline on our commitment to **ZERO**Harm.

During FY2016 Aurizon received recognition for the transparency of our sustainability reporting by the Australian Council for Superannuation Investors (ACSI), who for the second consecutive year ranked us as at the level of 'Leading' in the 2016 'Sustainability Report Practices of S&P/ASX200 Companies'.

In addition, during the year Aurizon was added to the FTSE4Good sustainability indexes (the FTSE4Good Global Index and FTSE4Good Australia 30 Index), which measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Inclusion in these indices broadens the Company's investor appeal by enabling investors who track this index to invest in Aurizon.

Culturally Aurizon continues to evolve and diversify. The composition of our workforce has changed considerably since the IPO. More than a third of our workforce is new to the Company since 2010, the percentage of women has increased to 17.4% and the percentage of Indigenous employees has increased to 4.3%. We are more diverse, due to an active focus on recruiting, developing and retaining talented women and Indigenous employees. This work resulted in a number of external acknowledgements during the year, including the UN Women's Empowerment Principles CEO Award, AHRI Gender Equity in the Workplace Award, Queensland Reconciliation Award (business), and Bronze tier award for Australian Workplace Equality Index.

Our commitments and progress in the areas of safety, environment, community and people are discussed in our FY2016 Sustainability Report, which will be available on our website in October.

### Board

On 1 September 2015 John Prescott AC retired as Chairman of the Board and a Director of the Company. During John's tenure Aurizon transformed from a government enterprise to Australia's largest ASX listed rail transport business. John's leadership around improving safety, driving down the Company's operating ratio and improving customer service has been central to the Company's strong TSR outcome since the IPO. I acknowledge and thank John for his tremendous contribution to the Company.

Long-serving Directors Graeme John AO, John Atkin and Gene Tilbrook also retired from the Aurizon Board of Directors during FY2016. Graeme, John and Gene joined the Board in April 2010, prior to the Company's IPO. I thank them for their contribution to the Company during a period of significant change where their skills and experience were of great value.

Aurizon's Board was enhanced this year by the appointments of Michael Fraser and Kate Vidgen. On behalf of my fellow Directors I welcome Michael and Kate, whose varied experience and perspective spanning energy, resources, infrastructure, regulation, finance and law has already been highly valuable to Board discussions.

### Looking ahead

Market conditions, particularly in the resources sector, are likely to remain challenging in FY2017. Despite the medium-term challenges, Aurizon is in a strong financial position with stable and long-term contractual arrangements with major customers.

In FY2017 the Company expects to report an increase in underlying EBIT to between \$900 and \$950 million (excluding the significant restructuring costs), underpinned by the extraction of ongoing transformation benefits, an anticipated stable volume environment and no major weather impacts.

The delivery of the UT5 Access Undertaking is a critical piece of work for the Company, with engagement now in progress between the Company, the Queensland Competition Authority, our customers and other industry stakeholders. The new UT5 regulatory period is due to commence on 1 July 2017.

The Company's 70% Operating Ratio (30% EBIT margin) target by FY2018 remains, however this will be dependent on above rail volume growth, the delivery of the transformation target, the UT5 outcome and the outcome of the freight performance review.

### Acknowledgements

In my first year as Chairman I have had the privilege to observe first-hand the calibre of Aurizon's people and the quality of our assets.

Five financial years post the IPO, Aurizon is a far safer, more productive, profitable and customer-focused organisation. However, the external environment is considerably more challenging than could have been foreseen at the time of the IPO, which underscores the urgency of Aurizon's continued reform if we are to compete effectively in a changing and more competitive market place.

I am confident Aurizon has the key attributes needed for continued transformation, market success and value creation for shareholders, even in difficult market conditions.

On behalf the Board, I express my deepest gratitude to our employees Australia-wide, and also extend my thanks to our customers, communities and shareholders for your ongoing support.



**Tim Poole**  
Chairman  
15 August 2016

# Directors' Report

## **Aurizon Holdings Limited** **For the year ended 30 June 2016**

The Directors of Aurizon Holdings Limited present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively the **Consolidated Entity** or the **Group**) for the financial year ended 30 June 2016 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

## **Board of Directors**

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

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

**L E Hockridge**  
(Appointed 14 September 2010)  
(Managing Director & Chief Executive Officer)

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

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

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

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

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

During the year, Mr J Prescott AC (September 2015), Mr G John AO (November 2015), Mr J Atkin (February 2016) and Mr G Tilbrook (February 2016) resigned as Non-Executive Directors. Ms K E Vidgen was appointed as an Independent Non-Executive Director on 25 July 2016.

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

## **T M Poole**

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

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

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

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

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

## L E Hockridge

**Experience:** Mr Hockridge became Managing Director & CEO of Aurizon, then known as QR National, in July 2010, to lead the Company through what would be the largest Initial Public Offering in Australia in a decade.

He has led a business-wide transformation program to deliver world-leading safety performance, customer service excellence, and superior operational and commercial capability.

The Company's safety performance is now at benchmark levels and Aurizon has received international recognition for its diversity and inclusion programs as it seeks to build high-calibre capability across its workforce.

Mr Hockridge has more than 30 years' experience in the transportation and heavy industrial sectors in Australia and the United States with BHP Billiton and BlueScope Steel.

Mr Hockridge is a member of the Business Council of Australia's Efficient Regulation policy committee and a regular participant in industry forums on transport infrastructure and reform. He was part of Q20, the business advisory group promoting Queensland investment as part of the G20 Summit in Brisbane in November 2014.

He is a Federal Government Ambassador for Equal Pay, a founding member of Queensland's "Male Champions of Change", Deputy Chair of the Queensland Premier's Domestic and Family Violence Task Force, and a business representative of the Gender Equity Advisory Board for the Australian armed services.

On behalf of Aurizon, Mr Hockridge is a signatory of the United Nations Empowerment Principles (WEP), which have been signed by over 960 companies worldwide and only 26 companies in Australia. In March 2016, Mr Hockridge was awarded the United Nations CEO Leadership WEP Award for championing cultural change and gender equality in the workplace. He was the first Australian CEO to receive the award.

He is also the Chairman of The Salvation Army's Queensland Advisory Board.

**Qualifications:** FCILT, FAIM, MAICD.

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

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

## R R Caplan

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

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

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

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

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

## J D Cooper

**Experience:** Mr Cooper has more than 35 years' experience in the construction and engineering sector in Australia and overseas. Currently, Mr Cooper is a Non-Executive Director of UGL Limited and Sydney Motorway Corporation. Mr Cooper is a former Chairman and Non-Executive Director of Southern Cross Electrical Engineering Limited and a former Non-Executive Director for NRW Holding Limited.

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

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

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

**Australian Listed Company Directorships held in the past three years:** Southern Cross Electrical Engineering Limited – Chairman and Non-Executive Director (30 October 2007 – 5 May 2015), NRW Holdings Limited – Non-Executive Director (29 March 2011 – 23 November 2015), Neptune Marine Services Ltd – Non-Executive Director (4 April 2012 – 25 June 2013), UGL Limited – Non-Executive Director (15 April 2015 – ongoing).



# Directors' Report (continued)

## K L Field

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

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

**Qualifications:** B Econ, FAICD.

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

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

## M A Fraser

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

Mr Fraser is former Chairman of the Clean Energy Council, Elgas Limited, ActewAGL and the NEMMCo Participants Advisory Committee, as well as a former Director of Queensland Gas Company Limited, the Australian Gas Association and the Energy Retailers Association of Australia.

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

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

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

## S L Lewis

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

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

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

**Australian Listed Company Directorships held in the past three years:** Orora – Non-Executive Director (1 March 2014 – ongoing).

## K E Vidgen

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

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

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

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

## Company Secretary

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

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

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

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

## Principal activities

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

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

## Coal

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

## Freight

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

## Network

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

## Review of operations

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

## Dividends

A final dividend of 13.9 cents per fully paid ordinary share (30% franked) was paid on 28 September 2015 and an interim dividend of 11.3 cents per fully paid ordinary share (70% franked) was paid on 29 March 2016. Further details of dividends provided for or paid are set out in note 14 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 13.3 cents per fully paid ordinary share. The dividend will be 70% franked and is payable on 26 September 2016.

## 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

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report set out on pages 2 to 3 of this report. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation and performance

Aurizon is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, Aurizon seeks to comply with all applicable environmental laws and regulations. The *Energy Efficiency Opportunity Act 2006 (EEO) (Cth)* requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy-saving opportunities and to report publicly on the assessments undertaken, including what action the Group intends to take as a result. The Group continues to meet its obligations under the EEO Act.

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

## Environmental prosecutions

There have been no environmental prosecutions during this financial year.

## Risk management

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

The Audit, Governance & Risk Management Committee oversees the process for identifying and managing risk in the Company (see page 42 of this Annual Report). The Company's Risk Management Division is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the Managing Director & CEO and the Board.

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

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

The Company also has a risk register, with risk profiles populated at the various layers of the organisation and a management specification that outlines the processes for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud.

# Directors' Report (continued)

**TABLE 1 - DIRECTORS' MEETINGS AS AT 30 JUNE 2016**

DIRECTOR	AURIZON HOLDINGS BOARD		AUDIT, GOVERNANCE & RISK MANAGEMENT COMMITTEE		REMUNERATION COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE		NOMINATION & SUCCESSION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
T M Poole	16 <sup>1</sup>	16	-	-	8	8	4	4	5	5
J B Prescott AC <sup>2</sup>	4 <sup>1</sup>	4	-	-	-	-	-	-	1	1
L E Hockridge	16 <sup>1</sup>	16	-	-	-	-	4	4	-	-
J Atkin <sup>3</sup>	12 <sup>1</sup>	12	-	-	5	5	-	-	-	-
R R Caplan	16	16	8	8	8	8	-	-	-	-
J D Cooper	16 <sup>1</sup>	16	-	-	-	-	4	4	5	5
K L Field	16	16	8	8	-	-	4	4	5	5
M A Fraser <sup>4</sup>	4	4	-	-	8	8	-	-	-	-
G T John AO <sup>5</sup>	7	0	-	-	-	-	1	0	3	0
S L Lewis	16 <sup>1</sup>	16	8	8	-	-	-	-	-	-
G T Tilbrook <sup>6</sup>	12	11	2	2	5	4	-	-	-	-

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

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

1 In addition to the meetings above, a Committee of the Board comprising of Messrs J B Prescott and L E Hockridge and Messrs T M Poole and L E Hockridge met respectively on two occasions

2 Mr J B Prescott AC resigned as Chairman and Non-Executive Director of Aurizon Holdings Limited effective 1 September 2015

3 Mr J Atkin resigned as a Non-Executive Director of Aurizon Holdings Limited effective 12 February 2016

4 Mr M Fraser was appointed a Non-Executive Director of Aurizon Holdings Limited and a Non-Executive Director and Chairman of Aurizon Network Pty Ltd on 15 February 2016

5 Mr G T John AO resigned as Non-Executive Director of Aurizon Holdings Limited effective 12 November 2015, and was granted a Leave of Absence due to illness for one Safety, Health & Environment Committee meeting, three Nomination & Succession Committee meetings and seven Aurizon Holdings Board meetings

6 Mr G T Tilbrook ceased being Chair of the AGRM Committee on 1 September 2015 and resigned as a Non-Executive Director of Aurizon Holdings Limited effective 12 February 2016 and was granted leave of absence for one Aurizon Holdings Board meeting and one Remuneration Committee meeting

## Directors' meetings

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

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

## Directors' interests

Directors' interests are as at 30 June 2016.

**TABLE 2 - DIRECTORS' INTERESTS AS AT 30 JUNE 2016**

DIRECTOR	NUMBER OF ORDINARY SHARES
T M Poole	45,500
L E Hockridge	1,819,778
R R Caplan	82,132
K L Field	40,458
J D Cooper	70,000
S L Lewis	33,025
M A Fraser	40,000

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

## Non-audit services

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

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

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

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

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

	2016 \$'000
<b>OTHER ASSURANCE SERVICES</b>	
Total remuneration for other assurance services	204
<b>TAXATION SERVICES</b>	
Total remuneration for taxation services	91
<b>OTHER SERVICES</b>	
Total remuneration for other services	275

## CEO and CFO declaration

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

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

## Indemnification and insurance of officers

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

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

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

## Proceedings against the Company

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

## Remuneration Report

The Remuneration Report is set out on pages 23 to 36 and forms part of the Directors' Report for the financial year ended 30 June 2016.

## Rounding of amounts

The Group is within the class specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 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 million 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. The Directors' Report is made in accordance with a resolution of the Directors of the Company.



**Tim Poole**  
Chairman  
15 August 2016

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Consolidated results

The Group's financial performance is explained using measures that are not defined under International Financial Reporting Standards (IFRS) and are therefore termed Non-IFRS measures. The Non-IFRS financial information contained within the Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards. The Non-IFRS measures used to monitor group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin - underlying, Operating Ratio - underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 95.

### 1. Annual comparison

#### FINANCIAL SUMMARY

(\$M)		FY2016	FY2015	VARIANCE %
<b>Total revenue</b>		<b>3,458</b>	<b>3,780</b>	<b>(9%)</b>
<b>Operating costs</b>		<b>(2,026)</b>	<b>(2,291)</b>	<b>12%</b>
Employee benefits expense		(891)	(1,009)	12%
Energy and fuel		(245)	(291)	16%
Track Access		(315)	(328)	4%
Consumables		(509)	(614)	17%
Other expenses		(66)	(49)	(35%)
<b>EBITDA</b>	<b>- underlying</b>	<b>1,432</b>	<b>1,489</b>	<b>(4%)</b>
	<b>- statutory</b>	<b>904</b>	<b>1,489</b>	<b>(39%)</b>
Depreciation and amortisation expense		(561)	(519)	(8%)
<b>EBIT</b>	<b>- underlying</b>	<b>871</b>	<b>970</b>	<b>(10%)</b>
	<b>- statutory</b>	<b>343</b>	<b>970</b>	<b>(65%)</b>
Net finance costs		(150)	(135)	(11%)
Income tax expense	- underlying	(211)	(231)	9%
	- statutory	(121)	(231)	48%
<b>NPAT</b>	<b>- underlying</b>	<b>510</b>	<b>604</b>	<b>(16%)</b>
	- statutory	72	604	(88%)
<b>Earnings per share<sup>1</sup></b>	<b>- underlying</b>	<b>24.4</b>	<b>28.4</b>	<b>(14%)</b>
	- statutory	3.4	28.4	(88%)
Return on invested capital (ROIC) <sup>2</sup>		8.6%	9.7%	(1.1ppt)
<b>Operating ratio</b>		<b>74.8%</b>	<b>74.3%</b>	<b>(0.5ppt)</b>
Cash flow from operating activities		1,218	1,516	(20%)
Final dividend per share (cps)		13.3	13.9	(4%)
Gearing (net debt/net debt + equity)		37.4%	30.2%	(7.2ppt)
Net tangible assets per share (\$)		2.7	3.0	(10%)

#### OTHER OPERATING METRICS

	FY2016	FY2015	VARIANCE %
Revenue/NTK (\$/'000 NTK)	48.3	52.2	(7%)
Labour costs/Revenue <sup>3</sup>	24.6%	25.7%	1.1ppt
NTK/FTE (MNTK)	11.4	10.5	9%
Operations net opex/NTK (\$/'000 NTK)	34.1	34.9	2%
Operations net opex/NTK (excluding access) (\$/'000 NTK)	19.9	21.5	7%
NTK (bn)	71.6	72.4	(1%)
Tonnes (m)	270.9	281.2	(4%)

#### UNDERLYING EBIT BY SEGMENT

(\$M)	FY2016	FY2015	VARIANCE %
Below Rail - Network	506	484	5%
Above Rail	435	552	(21%)
Commercial & Marketing	2,878	3,079	(7%)
Operations	(2,443)	(2,527)	3%
Corporate Overhead (Unallocated)	(70)	(66)	(6%)
<b>Group</b>	<b>871</b>	<b>970</b>	<b>(10%)</b>

1 Calculated on weighted average number of shares on issue - 2,129m in FY2015 and 2,088m in FY2016

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

3 Excludes \$36m of redundancy costs in FY2015 and \$24m in FY2016, and employee share gift of \$16m in FY2016

### Group performance overview

Revenue declined \$322m (9%) primarily due to a 4% reduction in Above Rail volumes, the impact from the sale of Redbank (\$43m) and CRT (\$38m) in FY2015, the end of the QR maintenance contract (\$60m) and lower payments for TSC (\$70m). These impacts were mostly realised in Freight (down \$180m) with Coal revenue only down \$13m (1%) on 2% lower volumes. Below Rail revenue increased \$71m driven by record volumes of 225.9mt and finalisation of UT4 tariffs.

Underlying EBIT fell \$99m (10%), with the revenue reduction, and a \$43m increase in Below Rail depreciation associated with the commissioning of WIRP and capitalisation of rail renewals, partially offset by a reduction in operating costs of \$265m (12%). This reduction in operating costs was driven by \$131m in sustainable benefits from the ongoing transformation program and lower costs associated with the reduction in volumes and the impact of CRT, QR and TSC. The reduction in labour costs principally from transformation has resulted in labour costs as a proportion of revenue falling to 24.6%, a 1.1ppt improvement.

FY2016 operating ratio (OR) and return on invested capital (ROIC) were 74.8% (up 0.5ppts) and 8.6% (down 1.1ppts) respectively.

Statutory EBIT was \$343m reflecting the impact of \$528m in asset impairments for the year as detailed below.

### Reconciliation to Statutory Earnings

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

(\$M)	FY2016	FY2015
<b>Underlying EBIT</b>	<b>871</b>	<b>970</b>
<b>Significant Items - impairments</b>	<b>(528)</b>	<b>-</b>
Investment in Associates	(226)	-
Rollingstock	(177)	-
Strategic infrastructure projects	(125)	-
<b>Statutory EBIT</b>	<b>343</b>	<b>970</b>
Net finance costs	(150)	(135)
<b>Statutory PBT</b>	<b>193</b>	<b>835</b>
Income tax expense	(121)	(231)
<b>Statutory NPAT</b>	<b>72</b>	<b>604</b>

Aurizon reviewed the carrying value of its asset portfolio as at 30 June 2016 and has recognised a total impairment of \$528m as noted below:

- › Investment in associate \$226m – impairment to the carrying value of the investment in Aquila Resources Limited (Aquila) to reflect the current market outlook. Aurizon has no remaining financial exposure to Aquila
- › Rollingstock \$177m – reduction in rollingstock due to surplus fleet and inventory arising from productivity and efficiency improvements and a lower volume outlook
- › Strategic infrastructure investment \$125m – \$83m greenfield feasibility study costs for the West Pilbara Infrastructure Project (WPIP), \$30m Galilee Basin brownfield expansion feasibility costs for the expansion of the CQCN and \$12m of other costs. The value of both projects remaining on the balance sheet is nil

## 2. Other financial information

### BALANCE SHEET SUMMARY

(\$M)	30 JUNE 2016	30 JUNE 2015
Total current assets	844	934
Property, plant & equipment (PP&E)	9,719	9,900
Other non-current assets	305	502
<b>Total Assets</b>	<b>10,868</b>	<b>11,336</b>
Total current liabilities	(732)	(845)
Total borrowings	(3,490)	(2,983)
Other non-current liabilities	(932)	(1,002)
<b>Total Liabilities</b>	<b>(5,154)</b>	<b>(4,830)</b>
<b>Net Assets</b>	<b>5,714</b>	<b>6,506</b>
<b>Gearing (net debt/net debt plus equity)</b>	<b>37.4%</b>	<b>30.2%</b>

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Balance sheet movements

Total current assets have decreased by \$90m largely due to:

- › Reduction in cash and cash equivalents of \$102m
- › Reduction in trade and other receivables of \$29m which predominantly relates to an increase in the provision for doubtful debt for QNI
- › Reduction in inventory of \$36m predominantly due to the impairment of rollingstock inventory
- › Increase in assets held for sale of \$80m following the announcement of the sale of Moorebank (\$95m) offset by other disposals (\$15m) during the year

Total Property, Plant and Equipment has decreased by \$181m due to \$267m of impairments for rollingstock and strategic projects more than offsetting a net increase in fixed assets.

Other non-current assets have decreased \$197m due to impairing the Aquila investment (\$226m) and reclassification of the investment in Moorebank to assets held for sale (\$95m) offset by an increase in derivative financial instruments (\$58m) relating to cross currency interest rate swaps and an increase in intangible assets (\$63m) relating to software development costs.

Other current liabilities have decreased \$113m due to a decrease in trade and other payables of \$71m, a decrease in provisions of \$72m reflecting improved leave management under the new EAs, lower FTE and lower bonus and redundancy provisions, offset by an increase in derivative financial instruments (\$28m) relating to interest rate swaps.

Total borrowings increased by \$507m principally due to an increase in the on market share buyback and higher dividend payments.

Other non-current liabilities decreased by \$70m mainly due to the decrease in deferred tax liabilities (\$17m), derivative financial instruments (\$20m) and income in advance (\$30m).

Gearing (net debt/net debt plus equity) is 37.4% as at 30 June 2016.

### CASH FLOW SUMMARY

(\$M)	FY2016	FY2015
<b>Statutory EBITDA</b>	904	1,489
Working capital and other movement	(85)	7
Non-cash adjustments - impairments	528	-
<b>Cash from operations</b>	<b>1,347</b>	<b>1,496</b>
Interest received	2	9
Income taxes (paid)/refunded	(131)	11
<b>Net cash inflow from operating activities</b>	<b>1,218</b>	<b>1,516</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment (PP&E)	38	170
Payments for PP&E & intangibles	(772)	(1,083)
Interest paid on qualifying assets	(12)	(28)
Net (payments for)/distributions from investment in associates	6	(220)
<b>Net cash (outflow) from investing activities</b>	<b>(740)</b>	<b>(1,161)</b>
<b>Free cash flow (FCF)</b>	<b>478</b>	<b>355</b>
<b>Cash flows from financing activities</b>		
Net proceeds from borrowings	442	103
Payment for share buy-back and share based payments	(355)	(81)
Interest paid	(138)	(128)
Dividends paid to Company shareholders	(529)	(396)
<b>Net cash (outflow) from financing activities</b>	<b>(580)</b>	<b>(502)</b>
Net increase/(decrease) in cash	<b>(102)</b>	<b>(147)</b>

## Cash flow movements

Net cash inflow from operating activities decreased by \$298m (20%) to \$1,218m largely due to:

- › \$92m reduction in underlying EBITDA and an increase in working capital relating to lower employee related provisions
- › \$142m increase in income taxes paid due to lower taxes payable in FY2015

Net cash outflow from investing activities decreased by \$421m (36%) to \$740m, largely due to:

- › \$327m decrease in capital expenditure
- › \$214m decrease in investments in associates, reflecting the Aquila acquisition in FY2015, partly offset by
- › \$132m reduction in proceeds on sale of assets

Net cash outflow from financing activities increased by \$78m to \$580m, with a \$339m increase in borrowings, an increase of \$274m for share buy-back and share based payments, and a \$133m increase in dividend payments in the year.

## Share buy-back

Since the commencement of the on-market buy-back program, the company has acquired 85.5m shares at a total consideration of \$370m of which 70.3m shares were acquired at a total consideration of \$301m during FY2016. The share buyback has been stopped to manage near term balance sheet capacity for possible growth opportunities, noting also that free cash flow is expected to increase significantly during the next few years as capex is reduced and additional transformation savings are realised.

## Funding

During the period the Group continued to focus on diversifying funding sources and lengthening tenor through the following funding activities:

- › Re-priced and extended the existing Aurizon Network \$490m bank debt facility in December 2015, with maturity extended to FY2022
- › Re-priced and extended the existing Aurizon Finance \$300m bank debt facility in April 2016, with maturity extended to FY2021 and tranche size increased to \$500m
- › Aurizon Network issued its second bond in the European debt capital markets, with a 10 year Euro 500m EMTN priced in May 2016 with a coupon of 3.125% per annum. After swapping into A\$, proceeds were used to partially repay existing bank debt maturing in FY2019

In respect of FY2016:

- › Interest cost on drawn debt is now 4.7% (FY2015 - 4.9%)
- › Liquidity as at 30 June 2016 was \$0.7bn (undrawn facilities plus cash)
- › Weighted average debt maturity profile average tenor increased to 5.8 years (FY2015 - 4.3 years)
- › Approximately 64% of interest rate exposure is fixed to align with the Below Rail regulatory period

## Tax

Underlying income tax expense for FY2016 was \$211m. The underlying effective tax rate<sup>1</sup> for FY2016 was 29.3%. The underlying cash tax rate<sup>2</sup> for FY2016 was 18.6% which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2017 is expected to be in the range of 28-30% and the underlying cash tax rate is expected to be in the range of 17-22%.

Statutory income tax expense for FY2016 was \$121m. The statutory effective tax rate was 62.1%, due to the tax treatment of the Aquila impairment. No deferred tax benefit has been recognised in relation to the impairment of the Aquila investment, however the impairment loss for tax purposes will be recognised as a deferred tax asset when Aurizon disposes of its interest in Aquila.

1 Underlying effective tax rate = income tax expense excluding the impact of significant items/underlying consolidated profit before tax

2 Underlying cash tax rate = cash tax payable excluding the impact of significant items/underlying consolidated profit before tax



# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Segment review

#### Above Rail summary

'Above Rail' combines the Commercial & Marketing and Operations functions and represents the haulage operations for Aurizon's Coal, Freight and Iron Ore customers. It also includes an allocation of attributable corporate costs.

(\$M)	FY2016	FY2015	VARIANCE %
<b>Total Revenue</b>	<b>3,146</b>	<b>3,483</b>	<b>(10%)</b>
Coal	1,881	1,894	(1%)
Above Rail	1,147	1,187	(3%)
Track Access <sup>1</sup>	734	707	4%
Freight	739	919	(20%)
Iron Ore	311	338	(8%)
Other	215	332	(35%)
<b>Operating Costs</b>	<b>(2,413)</b>	<b>(2,631)</b>	<b>8%</b>
Employee benefits expense	(739)	(834)	11%
Energy and fuel	(120)	(184)	35%
Track Access	(1,016)	(973)	(4%)
Consumables	(501)	(633)	21%
Other expenses	(37)	(7)	-
<b>EBITDA</b>	<b>733</b>	<b>852</b>	<b>(14%)</b>
Depreciation and amortisation expense	(298)	(300)	1%
<b>Underlying EBIT</b>	<b>435</b>	<b>552</b>	<b>(21%)</b>

<sup>1</sup> An amount equivalent to Track Access revenue is included in Operations' costs, reflecting the pass through nature of access tariffs

#### ABOVE RAIL REVENUE METRICS

(\$M)	FY2016	FY2015	VARIANCE %
<b>Coal</b>			
Total tonnes hauled (m)	206.8	211.2	(2%)
Queensland	163.0	168.3	(3%)
NSW	43.8	42.9	2%
% Volumes under new form contracts	79%	64%	15ppt
Contract utilisation	92%	92%	-
Total NTK (bn)	49.7	49.1	1%
Queensland	41.4	42.0	(1%)
NSW	8.3	7.1	17%
Average haul length (km)	240	233	3%
Total revenue/NTK (\$/'000 NTK)	37.8	38.6	(2%)
Above rail revenue/NTK (\$/'000 NTK)	23.0	24.2	(5%)
<b>Freight</b>			
Total tonnes hauled (m)	40.4	44.4	(9%)
Total NTK (bn)	12.3	12.9	(5%)
Total revenue/NTK (\$/'000 NTK)	60.1	71.2	(16%)
Total Intermodal TEUs ('000)	372.6	372.0	-
<b>Iron Ore</b>			
Total tonnes hauled (m)	23.7	25.6	(7%)
Contract utilisation	101%	106%	(5ppt)
Total NTK (bn)	9.6	10.4	(8%)
Average haul length (km)	382	405	(6%)
Total revenue/NTK (\$/'000 NTK)	32.4	32.5	-

### Above Rail performance overview

Revenue declined 10% (\$337m) partly due to a 4% decline in volumes. Freight was down \$180m (20%) as a result of lower TSC payments (\$70m), the sale of CRT (\$38m) and lower Bulk volumes, while Iron Ore revenues were down \$27m due to lower volumes. Coal revenues declined \$13m (1%) as a result of 2% lower volumes, which was partly offset by higher track access revenue. Revenue across all commodity groups was impacted by \$53m due to lower fuel revenue (pass through) as a result of the decline in fuel price. Other revenue declined \$117m (35%) due to the end of the QR maintenance contract (\$60m), lower non-core maintenance revenue (including internal services to Below Rail), and lower asset sales.

Coal volumes were down 4.4mt or 2% to 206.8mt. Queensland volumes were down 3% at 163mt reflecting the 1HFY2016 ramp-up of BMA Rail, with volumes stable in 2HFY2016. NSW volumes were 2% higher at 43.8mt reflecting the ramp-up of the Whitehaven contract. Coal volumes hauled under new form contracts increased 15ppts to 79%, reflecting the commencement of the BMA Blackwater contracts and early conversion of the Anglo Dawson contract. Coal above rail revenue per NTK was 5% lower due to a reduction in incentives from customers actively managing their contracts, a reduction in fuel revenue and a change in customer mix. Excluding the impact of fuel (pass through), above rail revenue per NTK was down 3%.

Despite the challenging macro environment, Aurizon's coal business remains resilient with investment grade counterparties comprising 62% of Above Rail FY2016 volumes and a weighted average remaining contract length as at 30 June 2016 of 10.5 years. No material haulage contracts are due to expire until FY2022.

Freight volumes declined 4mt or 9% to 40.4mt with Bulk volumes down 8% and Intermodal volumes down 24% partly due to the CRT disposal. Twenty-Foot Equivalent Units (TEUs) were flat for the year as they are not impacted by the CRT disposal. Bulk volumes were impacted by the closure of QNI and lower mineral volumes, reflecting the challenging commodity price environment, as well as lower agricultural throughput, particularly wheat and livestock. Freight revenue per NTK declined 16% due to the impact of lower TSC payments, the sale of CRT and a reduction in fuel revenue and the impact of challenging market conditions on customer health and new contract pricing.

Iron Ore volumes declined 1.9mt or 7%, due to lower production from Karara and the end of the Mineral Resources contract in FY2015.

Above Rail underlying EBIT decreased \$117m (21%) to \$435m, with the revenue decline offset by a \$218m (8%) reduction in operating costs. This reduction in operating costs was driven primarily by \$123m of transformation benefits (\$110m in Operations and \$13m allocated from Support functions), the impact of CRT, QR and lower non-core maintenance services and lower fuel costs due to a \$54m reduction in average fuel price. Excluding the impact of CRT, TSC and QR maintenance, underlying EBIT was down 6%.

Underlying EBIT also included a \$20m bad debt provision for QNI, as well as the impact from the 4% wage uplift from the new Enterprise Agreements.

The operational transformation program continues to drive efficiencies, with improvements in all key operating metrics including a 7% improvement in net opex/NTK (excluding access) and a 7% improvement in labour productivity. A detailed analysis of operating metrics is provided on page 16.

### Market update

#### Coal

As at July 2016, Aurizon estimates that 90% of volume hauled by Aurizon is sold on a cash positive basis, an improvement of 16ppts from December 2015. Market conditions showed some improvement in the second half as coal prices improved, customers continued to lower unit costs and supply chain efficiencies were realised.

#### Contract update

There are no material haulage contracts due to expire until FY2022, with the weighted average remaining contract length as at 30 June 2016 now 10.5 years (QLD 10.6, NSW 10.2). 79% of volumes railed in FY2016 were under new form contracts, with 96% of contracts expected to be new form by FY2018 (based on contracted volumes). Developments include:

- › A seven year contract extension with BHP Billiton for its Mt Arthur Coal mine in the Hunter Valley to June 2028. The contract allows for volumes of up to 26mtpa (currently 18mtpa) and delivers a modern and flexible agreement for both parties
- › A new agreement with Syntech Resources extends our relationship with the Yancoal-operated Cameby Downs mine by up to four years with volumes of 1.7mtpa. An extension at the Yancoal-owned Duralie mine sees the contract extended for a further 1.5 years for up to 2.6mtpa
- › Sojitz Minerva extended its coal haulage agreement of 2.4mtpa for up to five years

- › A short-term contract renewal was executed with Vale for the Carborough Downs coal mine through to June 2017. Volumes of up to 1.8mt will be hauled during the term, which commenced in July 2016
- › The new long-term performance-based contract with BMA/BMC (signed in March 2013) commenced on 1 July 2016 for the Goonyella corridor mines, representing approximately two thirds of the BMA/BMC portfolio volumes. The Blackwater corridor mines commenced under this new form contract on 1 July 2015, with the overall agreement extending for up to 12 years from the previous legacy agreement

### Freight

Aurizon's Freight business includes haulage of bulk commodities including base metals, minerals, grains and livestock in Queensland, New South Wales (East) and Western Australia (West) and Intermodal containerised freight and logistical solutions across Australia. Commodity prices continue to be depressed for a number of commodities that Aurizon hauls and with increased competition from surplus road capacity, market conditions remain challenging. Despite a 20% reduction in operating costs over the last two years, a 28% reduction in revenue over the same period has resulted in an EBIT loss for the year, and a performance review is underway to determine options to achieve appropriate risk adjusted returns for both Bulk and Intermodal.

#### Bulk

The Company's focus has been on ensuring the sustainability of Aurizon's operations by securing contracts that support freighter services in addition to the continued drive for transformation of the cost base and improved operational efficiency. A number of new contracts were executed during FY2016:

- › Five year contract with Australian Gold Reagents (AGR), a joint venture between CSBP and Coogee Chemicals
- › Five year agreement with Cockburn Cement Limited (CCL) for their lime and cement volumes into the Goldfields
- › Five year contract with BHP Billiton Nickel West (NiW), where Aurizon has taken on an additional road haulage and silo operation and maintenance activities, in addition to existing rail haulage
- › Five year contract for pit-to-port services with Lynas, who mine a world-class rare earths deposit near Laverton in the north-east Goldfields

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Intermodal

While conditions in the Queensland market remain difficult there was solid growth through the Melbourne to Brisbane rail corridor, with volume growth of 9% driven by improvement in customer service and on time performance. In June 2016 Aurizon established a new intermodal terminal at Enfield in Sydney which improves the national footprint and service offering and provides an opportunity to grow volumes to and from Sydney. While overall volumes were lower, they were stable on a TEU basis.

### Iron Ore

Aurizon continued to support the long-term viability of its Iron Ore customers by driving efficiencies in the supply chain to optimise throughput during challenging market conditions, including a mutually beneficial contract adjustment with Karara. Aurizon hauled 23.7mt during FY2016, with record tonnes for Mount Gibson's Extension Hill operations. Cliffs volumes were marginally lower and volumes for Karara were down as they transitioned to 100% magnetite production with Direct Shipping Ore (DSO) mining ceasing during the December quarter.

### Operations transformation update

#### OPERATING METRICS

(\$M)	FY2016	FY2015	VARIANCE %
Net opex <sup>1</sup> /NTK (\$/'000 NTK)	34.1	34.9	2%
Operations net opex <sup>2</sup> /NTK (excluding access) (\$/'000 NTK)	19.9	21.5	7%
Total tonnes hauled (m)	270.9	281.2	(4%)
Net tonne kilometers - NTK (bn)	71.6	72.4	(1%)
FTE (monthly average)	5,013	5,403	7%
Labour productivity (NTK/FTE)	14.3	13.4	7%
Loco productivity ('000 NTK/Active loco day <sup>3</sup> )	375.7	339.5	11%
Active locos (as at 30 June)	508	567	10%
Wagon productivity ('000 NTK/Active wagon day <sup>3</sup> )	14.7	14.3	3%
Active wagons (as at 30 June)	13,008	13,960	7%
National Payload (tonnes)	4,659	4,538	3%
Velocity (km/hr <sup>4</sup> )	29.8	29.5	1%
Fuel consumption (l/d GTK)	3.10	3.19	3%

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

2 Net opex/NTK (excluding access) excludes track access costs in order to measure productivity net of access costs which are generally passed through to above rail customers (and shown in Commercial & Marketing revenue)

3 For FY2016, the calculation basis for NTK/active loco and NTK/active wagon has changed to be calculated on a per day basis from a monthly basis, as it allows for a more accurate comparison between different time periods and will no longer be influenced by the number of days in a month (i.e. short months to long months)

4 As average turnaround time can be influenced by the mix of hauls and mine/port combinations, in FY2016 Aurizon transitioned to report velocity (train speed)

### Transformation initiatives

Continued focus on productivity improvements through the transformation program resulted in improvements to all key operating metrics, despite the reduction in volumes.

These programs delivered \$123m in gross transformation benefits in FY2016 and a 7% improvement in Net opex per NTK (excluding access charges).

### Workforce

Operations continued to drive productivity with a 7% reduction in FTE compared to FY2015, leading to a 7% improvement in labour productivity.

Labour productivity improvements have been achieved under the two new Enterprise Agreements executed in 1HFY2016 for Queensland operational staff, with full ramp of benefits expected over the next two years. These improvements have been achieved through improved flexibility and an ability to align resources with demand through tools such as:

- › Ability to direct crew on leave through periods of low demand
- › Demarcation of roles
- › Removal of the no forced redundancy clause to enable Operations to react more quickly to market downturns

- › Improved day of operations rostering flexibility through lift up and lay back provisions

Benefits delivered to date include:

- › Reduction in overtime spend for train crew (23% Queensland, 17% nationally) and maintenance workers (23%) compared to FY2015
- › 10% improvement in annual leave management
- › Reduction in train crew cancellations in Queensland (5%) and nationally (3%)
- › 9% reduction in hours spent transferring train crew by car to train location

Further efficiencies will be realised in 1HFY2017 through a reduction of management positions and flattening of the leadership structure across Operations, together with proposals to better align labour resources across Operations and the Below Rail business. These include:

- › The proposed reduction of approximately 120 leadership positions in Operations, representing approximately 20% of management roles. This is primarily middle and senior management, aiming to simplify and improve service delivery and ensure accountability at the regional level
- › The realignment of resources with forecast demand through the introduction of efficient work practices and new technology and revised work processes to reduce approximately 180 roles. The initiatives cover train crewing and yard operations, maintenance depots, and infrastructure production and maintenance

#### **Fleet productivity**

Locomotive and wagon productivity improved 11% and 3% respectively compared to FY2015. Benefits realised include a 3% increase in national payloads through longer, heavier trains, and a 1% improvement in average velocity through improvements in train design, availability and reliability as well as improvements in Below Rail Performance to Plan (see Below Rail commentary).

#### **Energy and fuel efficiency**

Fuel consumption improved by 3% through the continual focus on both driver behaviour programs (supported by improved data and analytics, for example driver assist and driver methodology programs) and technology improvements (for example trip optimiser). Further savings are expected over future periods.

#### **Engineering and Maintenance**

Engineering and Maintenance continued to focus on key technology investments to deliver more efficient and safer operations, combined with a focus on labour productivity, footprint consolidation, and the outsourcing of non-core work.

- › The roll out of wayside condition monitoring (WCM) and on train repair (OTR) programs continued across key yards in Central Queensland and Hexham in Newcastle. WCM has now been implemented across all four CQCN systems, while OTR has been implemented in Jilalan, Blackwater and Hexham, with Pring to come in 1HFY2017. This program has continued to deliver significant maintenance savings including:
  - Reduction in both planned and unplanned maintenance interventions
  - Extension of planned inspection and maintenance events for coal wagons; reliability examinations on 106T coal wagons have been extended from 21 days to 42 days in the Goonyella and Blackwater systems, while L1 inspections on these wagons now occur every two years, rather than annually
  - Reduction in wheel consumption, with consumption in Central Queensland down 51% in FY2016 relative to FY2015
  - Significant reduction in serious operational events such as a 77% reduction in train partings
- › In August 2016 Aurizon entered into a long-term maintenance and parts supply agreement with Progress Rail Services, a global locomotive original equipment manufacturer (OEM), to out-source non-core maintenance work. This will be undertaken at the workshop facilities at Redbank. This agreement will deliver significant cost savings and productivity enhancements over the term of the contract, which runs until October 2024
- › Engineering and Maintenance continued to consolidate its maintenance footprint and focus on rightsizing the labour force. During FY2016 the Rockhampton Locomotive Depot and Townsville Heavy Maintenance facility were both closed, with work consolidated into other workshops and depots, while headcount within the division reduced 20% to 1,168 FTE

#### **Capital programs**

In addition to productivity improvement programs, Operations have focused on the delivery of its key capital programs:

- › Continued deployment of the Freight Management Transformation (FMT) program, with the delivery of re-engineered customer ordering, pricing and invoicing functions, as well as enhanced reporting and analytics tools
- › Implementation and roll out of Shopfloor, a SAP standardised system for maintenance management across all maintenance depots, delivering consistent, integrated and efficient business processes and improving information quality and analytics
- › Relocation of Intermodal operations in Sydney from Yennora to Enfield, to enable growth opportunities in the interstate business and to take advantage of Port shuttle services
- › Consolidation of the Intermodal operations terminal into Stuart, allowing the closure of the South Townsville facility and enabling significant operational efficiencies, FTE reductions and safety improvements

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Below Rail

Below Rail refers to Aurizon's Network business which operates the 2,670km Central Queensland Coal Network (CQCN). The open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple customers from more than 50 mines to three ports. The CQCN includes four major coal systems (Moura, Blackwater, Goonyella and Newlands) and a connecting link to GAPE.

### BELOW RAIL FINANCIAL SUMMARY

(\$M)	FY2016	FY2015	VARIANCE %
<b>Total revenue</b>	<b>1,179</b>	<b>1,108</b>	<b>6%</b>
Access	1,136	1,048	8%
Services and Other	43	60	(28%)
<b>Operating costs</b>	<b>(415)</b>	<b>(409)</b>	<b>(1%)</b>
Employee benefits expense	(117)	(121)	3%
Energy and fuel	(125)	(107)	(17%)
Consumables	(147)	(165)	11%
Other expenses	(26)	(16)	(63%)
<b>EBITDA</b>	<b>764</b>	<b>699</b>	<b>9%</b>
EBITDA margin	64.8%	63.1%	1.7ppt
Depreciation and amortisation expense	(258)	(215)	(20%)
<b>Underlying EBIT</b>	<b>506</b>	<b>484</b>	<b>5%</b>
<b>Operating ratio</b>	<b>57.1%</b>	<b>56.3%</b>	<b>(0.8ppt)</b>

### BELOW RAIL OPERATING METRICS

(\$M)	FY2016	FY2015	VARIANCE %
Tonnes (m)	225.9	225.7	-
NTK (bn)	571	56.2	2%
Access revenue/NTK (\$/'000 NTK)	19.9	18.6	7%
Maintenance/NTK (\$/'000 NTK)	2.7	2.5	(8%)
Maintenance/NTK (\$/'000 NTK) (excluding rail renewals)	2.2	2.1	(5%)
Opex/NTK (\$/'000 NTK)	11.8	11.1	(6%)

### Below Rail performance overview

Revenue increased \$71m (6%) due to regulatory revenue being recognised and aligned to the May 2016 DAAU approved by the Queensland Competition Authority (QCA) on 23 June 2016. The May 2016 DAAU FY2016 tariffs closely align to the tariffs implicit in Final Decision for UT4 (FD) issued by the QCA in April 2016 aside from revenues attributable to the regulatory revenue shortfall in FY2014 and FY2015, which have been excluded from these tariffs. Aurizon Network expects the final UT4 FY2017 tariffs will recover these regulatory revenue shortfalls through the inclusion of approximately \$73m of revenue true ups.

Volumes increased 0.2mt to 225.9mt establishing a new CQCN record, principally due to improvement from the Goonyella System whilst the volumes from the Blackwater and Moura systems reduced in line with the increase in Wiggins Island Rail Project (WIRP) tonnages. Record monthly volumes were achieved in seven of the twelve months, with June 2016 establishing an all-time monthly record. Performance to Plan improved 2.9ppts to 92.1% underpinned by successful execution of transformation initiatives which resulted in reduced speed restrictions, delays and Below Rail caused cancellations. The increase in NTKs (2%) primarily reflects longer average haul lengths.

Underlying EBIT increased \$22m (5%) to \$506m in 2016, with the increased revenues partly offset by higher depreciation.

Operating costs were broadly flat with higher fuel and energy costs from an increase in electricity prices offset by lower costs from the capitalisation of rail renewals. During FY2016 the accounting policy for Rail Renewals was changed to capitalise rail renewal spend, as proposed by the QCA under UT4. While this change resulted in a \$12m net reduction in operating costs (from lower consumables and labour only partly offset by losses on asset disposal and higher depreciation) there is a lower regulatory revenue allocation of an equivalent amount. This change has the effect of Rail Renewal spend being recovered over a longer period on a Net Present Value (NPV) neutral basis.

Depreciation increased \$43m reflecting the capitalisation of rail renewals, increased ballast undercutting and the completion of the \$0.9bn WIRP during the year. The final stage commissioned in December 2015, creating 27mt of additional capacity through the Moura and Blackwater systems to the Wiggins Island Coal Export Terminal (WICET).

The QCA Regulated Asset Base (RAB) roll-forward<sup>1</sup> value is estimated to be \$5.6bn<sup>2</sup> (excluding AFDs of \$0.4bn) by the end of FY2016, inclusive of \$0.6bn in WIRP, representing an 81% increase since IPO. The QCA has currently chosen to defer \$260m of the WIRP capital.

#### Below Rail operational update

##### Performance:

The Below Rail business set a number of operational and performance records in the delivery of a new railings record of 225.9mt and a 2% increase in NTKs for FY2016, highlighting the efficiency of Below Rail planning and scheduling as well as the maintenance program. Highlights include:

- › 2.9ppts improvement in the key metric 'performance to plan' (number of scheduled services that arrived on target at their destination)
- › 62% reduction in the number of train cancellations from below rail causes over the four year period FY2013-FY2016 against a 24% increase in railings
- › 6.0% reduction in Below Rail delay impact
- › 2.4% increase in cycle velocity
- › 0.7% reduction in system closure hours and a 35% reduction in Below Rail cancellation impact

#### Transformation initiatives:

- › Installation of Wheel Impact Load Detectors in the Goonyella and Blackwater systems which resulted in significant reductions in rail high alarms and medium defects. This information is immediately provided to above rail operators enabling them to proactively manage their wheel maintenance and mitigating derailments due to wheel failures
- › Improved rail lubrication strategy and a focus on rail stressing and welding which has led to material improvements in key rail health measures, including an 85% reduction in rail weld defects and a 33% reduction in track buckles from FY2015
- › The first stage of the Network Asset Management System (NAMS) is being rolled out across the business with completion of Stage 1 expected in 1HFY2017. NAMS will deliver a new generation asset management system enabling a more efficient and effective maintenance and renewal regime, which will underpin enhanced reliability and availability of the CQC
- › The Possession Alignment & Capacity Evaluation (PACE) project, a software application to optimise network closure regimes, reached practical completion in June 2016. PACE will allow Network to fully design, test and evaluate the requirements for network outages and provide multiple strategies for track access. This project is the catalyst to redesign the Maintenance Access Regime and Closure plan for FY2017, resulting in a reduction of 12% in system closure hours
- › Roll out of Movement Planner, part of the APEX (Advanced Planning and Execution) program will be finalised in 1HFY2017. This technology provides real time, predictive data to train controllers to enable optimised train movements

#### Sustaining capital

During FY2016 75kms of rail renewals was executed, an increase of 29kms (63%) from FY2015, primarily targeting the replacement of rail in the Goonyella and Blackwater systems. This rail was installed in the 1980s and is coming to the end of its operating life.

#### Access Undertaking 2013 (UT4)

- › The QCA released the FD for UT4 on 28 April 2016
- › To ensure that FY2016 regulatory tariffs were finalised and FY2017 regulatory tariffs were in place over the interim period until UT4 takes effect, Aurizon Network consulted with customers and lodged a May 2016 Draft Amending Access Undertaking (May DAAU). The QCA approved the May DAAU on 23 June 2016 and it will remain in place until the earlier of approval by the QCA of Aurizon Network's UT4 Access Undertaking or 30 September 2016. The tariffs embedded in the May DAAU align with the final decision tariffs aside from the FY2014 and FY2015 true-ups which have been entirely allocated to FY2017 regulatory tariffs

#### Access Undertaking 2017 (UT5)

- › On 11 May 2016, the QCA issued an initial undertaking notice to Aurizon Network requiring the submission of a draft access undertaking (DAU) known as UT5 to the QCA by 9 September 2016 for the period commencing 1 July 2017 to 30 June 2021

#### Wiggins Island Rail Project (WIRP)

- › In the UT4 FD, the QCA has applied a revenue deferral for WIRP customers who are not expected to rail during the FY2014 to FY2017 regulatory period
- › WIRP regulatory revenues remain socialised within the existing Blackwater and Moura systems
- › The revenue deferral has been achieved through deferring the inclusion of approximately \$260m in WIRP capex for pricing purposes, which aligns with the non-railing customers' share of the WIRP capex. The QCA has stated that the revenue deferral is enacted on a NPV neutral basis
- › As the railings increase Aurizon Network can seek QCA approval to earn a regulatory return on the deferred RAB
- › Aurizon Network still maintains its position that the notices issued by the WIRP customers in relation to the commercial fee are not valid. Regrettably, discussions with the customers did not produce a resolution and on 17 March 2016 Aurizon issued proceedings in the Supreme Court of Queensland to assert its rights under the Project Deeds

<sup>1</sup> The RAB roll-forward value may include items on which regulatory revenues has been deferred for pricing purposes

<sup>2</sup> Estimate subject to QCA Approval of RAB roll-forward and approval of FY2016 Capital Claim

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Other

Other includes miscellaneous activities such as non-rollingstock asset sales and corporate overheads that have not been allocated to the Below Rail or the Above Rail businesses. The percentage of support costs allocated to these functions in FY2016 was 73% (FY2015 70%).

### OTHER SUMMARY

(\$M)	FY2016	FY2015	VARIANCE %
<b>Total revenue</b>	<b>15</b>	<b>46</b>	<b>(67%)</b>
<b>Operating costs</b>	<b>(80)</b>	<b>(108)</b>	<b>26%</b>
Employee benefits expense	(35)	(54)	35%
Consumables	(35)	(25)	(40%)
Other expenses	(10)	(29)	66%
<b>EBITDA</b>	<b>(65)</b>	<b>(62)</b>	<b>(5%)</b>
Depreciation and amortisation expense	(5)	(4)	(25%)
<b>Underlying EBIT</b>	<b>(70)</b>	<b>(66)</b>	<b>(6%)</b>

### Support functions performance overview

The corporate support functions continue to deliver transformation initiatives, with a further \$21m in savings achieved in FY2016.

- > \$13m improvement in labour productivity from a net 16% reduction in FTEs since 30 June 2015
- > \$8m reduction in discretionary spend including professional services

Note: \$13m of the Support transformation benefits above have been allocated to Above Rail, consistent with the allocation of corporate overheads.

The Support functions remain focussed on achieving transformation targets by continuing efforts in the following activities:

- > Further reduction in FTEs
- > Reduction in layers and increases in spans of control across support functions, including the merging of four functions into two and the reduction of two Executive Vice President (EVP) and other senior management roles
- > Ongoing consolidation and rationalisation of the property portfolio
- > Process and resourcing efficiencies driven through investment in technology

### Unallocated Support Costs Variance Analysis

Underlying EBIT decreased \$4m (6%) to (\$70m) due to:

- > \$31m decrease in revenue, due primarily to lower asset sales with the Redbank sale completed in FY2015 (\$43m)
- > \$28m net decrease in operating costs due to:
  - \$19m reduction in employee costs from 16% reduction in FTEs and lower bonuses
  - \$9m lower costs including a reduction in Strategy & Business Development (S&BD) project spend

## OTHER ACTIVITIES

### Senior Management changes

On 4 July 2016 Aurizon announced that four EVP roles would be merged into two, with the Commercial and Marketing function to be combined with Strategy and Business Development (effective immediately), and Human Resources combined with Enterprise Services (effective end of calendar year 2016). The merging of functions and reduction in senior management will help to deliver greater efficiencies in Aurizon's drive to continued improvement in financial performance.

As a result of these changes:

- › EVP Commercial and Marketing Mauro Neves will lead the new Customer and Strategy Function and will assume the responsibilities of both existing functions. David Welch, the current Acting EVP for Strategy and Business Development will report into Mauro as Vice President Market Development
- › EVP Enterprise Services Jennifer Purdie left Aurizon at the end of July 2016, and EVP Human Resources John Stephens will depart at the end of calendar year 2016. During the transition to the new structure, Steve Mann will act in the role of EVP Enterprise Services. A recruitment search, including internal candidates, will be undertaken for the new role leading the merged function

As previously advised, Mike Franczak departed the company in March 2016. Michael Carter continues to act as EVP Operations while a global recruitment process, including internal candidates, is undertaken to fill this role.

### Risk

Aurizon operates a mature system of risk management that is focussed on delivering objectives and is aligned to international standards. Aurizon's Board is actively engaged in setting the tone and direction of risk management, with a clear articulation of risk appetite aligned to the company strategy and risk management practices that support consistent delivery of expected outcomes. The Board has full confidence in the management of Aurizon's key risks and acknowledges that internal and external factors can influence financial results.

The most significant factors relating to future financial performance are:

#### Product demand, commodity prices and general economic conditions

Aurizon's customers in core markets are reliant on demand from large export markets such as Japan, China, South Korea and India. Fluctuations in demand in turn impacts commodity prices, product volumes and investment in growth projects. Whilst Aurizon has confidence in the long-term prospects for the key commodities of coal and iron ore, in the short-term Aurizon's core markets may not deliver the same levels of volumes, contract profitability and growth that have been experienced in the recent past.

#### Customer credit risk

Aurizon's earnings are concentrated in commodity markets across a relatively small number of customers. Issues relating to deterioration in counterparty credit quality and/or mine profitability, contract renewals, supply chain disruptions or macro-industry issues may have a material adverse impact on Aurizon's financial performance.

#### Capital expenditure plans

When deciding which opportunities for expansion and improvement to pursue, Aurizon must predict the rate of return associated with each project. Calculations are based on certain estimates and assumptions that may not be realised. Accordingly, the calculation of a potential rate of return may not be reflective of the actual returns.

#### Asset impairment

Aurizon's assets are subject to impairment testing each year. With a large portfolio of fixed assets, there is the potential that reduced haulage volumes or continued improvements to asset productivity may require some assets to be impaired.

#### WIRP non-regulated revenue dispute

Aurizon has received notices from seven WIRP customers purporting to exercise a right under the relevant agreements to reduce their financial exposure in respect to the non-regulated revenue component. Aurizon issued proceedings in the Supreme Court of Queensland to assert its contractual rights under the Project Deeds.

#### Aurizon credit rating

Aurizon's increased business risk profile, as a result of its significant exposure to coal and iron ore, combined with the related increase in Aurizon's customer credit risk profile, could adversely impact Aurizon's credit rating. The implications of a lower credit rating are increased cost of borrowing and in addition it may impact on the ability to borrow additional debt or refinance existing debt.

#### Delivery of technology transformation projects

Aurizon is investing in important operational and information technology programs that are expected to deliver step change improvements in efficiency leading to reduced costs. Continued focus is required on these projects to ensure benefits are delivered and flow through to support cost-out targets.

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

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

#### Adverse weather events

Aurizon's business is exposed to extreme weather events in core markets that, if experienced, could have a material impact on customers, supply chains and Aurizon's operational performance. Each of these factors in turn may impact Aurizon's financial performance. Weather can also have an impact on bulk haulage volumes for agricultural commodities such as grain, sugar and fertiliser.



# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Competitor activity and customer contracts

Aurizon's most significant customer contracts are secured on long-dated terms however failure to win or retain customer contracts will always be a risk to future financial performance.

### General regulatory risk

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

### Sustainability

Aurizon is committed to building a long-term sustainable business that delivers lasting value for its shareholders, customers, employees and communities. In November 2015, Aurizon released its second Sustainability Report, *Delivering for the Long Haul*. Please refer to [www.aurizon.com.au/sustainability](http://www.aurizon.com.au/sustainability) for a detailed analysis of material sustainability priorities. Aurizon's 2016 Sustainability Report is intended to be released in October 2016. Central to the reporting process is the process the Global Reporting Initiatives (GRI) describes as 'identifying material aspects', being those issues that reflect the organisation's significant economic, environmental and social impacts or issues that substantively influence assessments and decisions of stakeholders.

For consistency with prior reporting, a brief summary of Aurizon's performance in connection with Safety, Environmental Management and Organisational Capability is outlined below.

### Safety

Aurizon's commitment to safety ensured another period of sustained focus on improving Aurizon's performance. At 30 June 2016, Aurizon's Lost Time Injury Frequency Rate (LTIFR) was **ZERO**. The Total Recordable Injury Frequency Rate (TRIFR) was 4.24, a 76% deterioration on FY2015.

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

FY2016 key enterprise milestones include:

- › Achieving a Lost Time Injury free financial year now continuous since November 2014
- › Winning the Regional Asia Pacific Award for Excellence in Safety in the DuPont Global Safety & Sustainability Awards. The DuPont awards are arguably the most prestigious and recognised safety awards in the world. This award recognises companies with the most significant, innovative safety projects that deliver sustained and substantial safety improvements. It is an acknowledgement that our safety performance and culture are considered to be amongst the world's best
- › Record low Running Line Derailment rate of 0.32

### Environmental management

Aurizon has continued to focus on delivering environmental value through superior environmental performance. This has included setting a five year greenhouse gas (GHG) emissions intensity target for the organisation's locomotive fleet. The target covers approximately 90% of Aurizon's Scope 1 and Scope 2 emissions with the organisation aiming to achieve a 15% GHG reduction in our locomotive fleet by 2020 from a 2015 baseline. Aurizon has also undertaken a detailed sensitivity analysis to understand exposure to the Emissions Reduction Fund Safeguard Mechanism, which has been introduced by the Federal Government and commences on 1 July 2016, to ensure Aurizon is able to demonstrate compliance.

Aurizon's Environment Community of Competence continues to govern the management of key environmental issues including coal dust, diesel emissions and the Safeguard Mechanism.

### Organisational capability

To support our transformation opportunities Aurizon is growing the capability of its people through leadership, people-centred change and diversity and inclusion.

Aurizon continues to recognise the importance of building a diverse workforce, knowing it will deliver organisational performance outcomes as well as meet important social responsibilities. Aurizon has met a number of targets which support the achievement of our ambitious target of 30% women by the end of the decade.

Overall in FY2016 we improved the percentage of women in the workforce from 15.2% to 17.4% at 30 June 2016 (the largest single year increase since we started our diversity journey), while the percentage of Indigenous employees increased from 3.1% to 4.1%. FY2016 gender and cultural diversity achievements include:

- › 3 out of 8 (38%) female Non-Executive Directors as of 25 July 2016 (against a target of at least one)
- › 17.4% women in Aurizon (target 17%)
- › 31.6% women in the Management Leadership Team (target 31%)
- › 63% women in trainee, apprentice and graduate intakes (target 60%)
- › Recruitment of 51 Indigenous employees (target 33)

# Directors' Report (continued)

## REMUNERATION REPORT

Dear Fellow Shareholders,

On behalf of the Board, we are pleased to present Aurizon's Financial Year (FY) 2016 Remuneration Report.

The past 12 months have been challenging for Aurizon. The tough environment for our customers impacted earnings and, despite the transformation program delivering a further \$131 million in sustainable cost savings and operating efficiencies, Underlying Earnings Before Interest and Tax (EBIT) deteriorated in FY2016.

Earnings were further affected by the impairments announced in FY2016, writing off \$528 million on the West Pilbara and other strategic projects and on further rollingstock rationalisation. On the other hand, Aurizon has reached many milestones this year including a Lost Time Injury Frequency Rate of zero.

Consequently, despite continued credible underlying performance, including against several of the Short Term Incentive (STI) Key Performance Indicators (KPIs), the Board has exercised its discretion and determined not to award any STI to the Managing Director and Chief Executive Officer (MD & CEO) or to his direct reports for FY2016.

The 2013 Long Term Incentive (LTI) Award was tested in FY2016 and the remaining portion of the relative Total Sharehold Return (TSR) component of the 2012 Award was retested.

With an Operating Ratio (OR) of 74.8%, that component of the 2013 Award vested to 55% of maximum. Given Aurizon's earnings performance over the applicable periods, the Earnings Per Share (EPS) component did not vest. Relative TSR performance was tested over three years for the 2013 Award and four years for the 2012 Award. The relative TSR for the four year period (FY2012-FY2016) against our peer group rated between the median and top quartile. However, given that the relative TSR was lower than the original performance period (FY2012-FY2015), no portion of the 2012 relative TSR vested. Relative TSR for the 2013 Award (FY2013-FY2016) did not vest as our performance against our peer group rated below the median. Those parts of the 2013 Award which did not vest will be subject to a single retest in FY2017.

The Board considers these remuneration outcomes to be reflective of shareholder outcomes.

During the past year we have engaged with stakeholders on executive remuneration and reviewed market practice. Accordingly, the Board has determined to make several changes going forward to ensure the Remuneration Framework continues to be effective in driving performance and rewarding the creation of long-term shareholder value.

The changes will begin to take effect from FY2017 and will be reflected in next year's remuneration report. In summary, the weighting of the LTI Award within the remuneration mix will be increased, the performance period of the LTI Award will be increased to four years, the portion of the LTI Award depending on Return on Invested Capital (ROIC) will be increased and retesting will be removed from future LTI Awards.

Having regard to prevailing economic and market conditions and the competitiveness of the Company's current remuneration levels, the Board has determined not to increase Fixed Remuneration for the MD & CEO, which will be the fifth year since an increase was awarded.

As always, we are grateful for your ongoing support and we value all feedback. We look forward to welcoming you to our 2016 Annual General Meeting.

Yours faithfully



**Tim Poole**  
Chairman



**Russell R Caplan**  
Chairman, Remuneration Committee

# Directors' Report (continued)

## REMUNERATION REPORT

### 1. Remuneration Report Introduction

Aurizon's remuneration practices are aligned with the Company's strategy of providing Executive rewards that drive and reflect the creation of shareholder value.

The Remuneration Report for the year ended 30 June 2016 is set out as per Table 1. The information in this Report has been audited.

**TABLE 1 - TABLE OF CONTENTS**

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### 2. Directors and Executives

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

The Non-Executive Directors and Executives that formed part of the KMP for the Financial Year (FY) ended 30 June 2016 are identified in Table 2.

**TABLE 2 - KEY MANAGEMENT PERSONNEL**

NAME	POSITION
<b>NON-EXECUTIVE DIRECTORS</b>	
T M Poole <sup>1</sup>	Chairman, Independent Non-Executive Director
R R Caplan	Independent Non-Executive Director
J D Cooper	Independent Non-Executive Director
M A Fraser <sup>2</sup>	Independent Non-Executive Director
K L Field	Independent Non-Executive Director
S L Lewis	Independent Non-Executive Director
<b>EXECUTIVE KMP</b>	
L E Hockridge	Managing Director & Chief Executive Officer
M Carter <sup>3</sup>	Acting Executive Vice President, Operations
A Kummant	Executive Vice President, Network
K Neate	Executive Vice President and Chief Financial Officer
M Neves De Moraes	Executive Vice President, Commercial & Marketing

1 T M Poole was appointed a Director on 1 July 2015 and Chairman on 1 September 2015

2 M A Fraser was appointed a Director on 15 February 2016

3 M Carter was appointed Acting Executive Vice President Operations on 1 January 2016

As announced on 9 May 2016, K E Vidgen was appointed a Director of Aurizon and commenced on 25 July 2016.

Table 3 identifies other persons who were KMP at some time during FY2016.

**TABLE 3 - FORMER KEY MANAGEMENT PERSONNEL**

NAME	POSITION
<b>FORMER NON-EXECUTIVE DIRECTORS</b>	
J B Prescott AC <sup>1</sup>	Chairman, Independent Non-Executive Director
J Atkin <sup>2</sup>	Independent Non-Executive Director
G T John AO <sup>3</sup>	Independent Non-Executive Director
G T Tilbrook <sup>4</sup>	Independent Non-Executive Director
<b>FORMER EXECUTIVE KMP</b>	
J M Franczak <sup>5</sup>	Executive Vice President, Operations

1 J B Prescott AC ceased in the role on 1 September 2015

2 J Atkin ceased in the role on 12 February 2016

3 G T John ceased in the role on 13 November 2015

4 G T Tilbrook ceased in the role on 12 February 2016

5 J M Franczak ceased in the role on 31 December 2015 and with the Company on 31 March 2016

### 3. Remuneration Framework Components

#### Total Potential Remuneration

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

- › **Fixed Remuneration** (not subject to performance conditions) that comprises salary and other benefits, including superannuation
- › **STIA** ('at risk' component, awarded on the achievement of performance conditions over a 12 month period) that comprises both a cash component and a component deferred into equity
- › **LTIA** ('at risk' component, awarded on the achievement of performance conditions over, in general, a three year period) that comprises only an equity component

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

The mix of potential remuneration components for FY2016 for the Managing Director & Chief Executive Officer (MD & CEO) and Executive KMP is set out in Figure 1: Total Potential Remuneration Financial Year 2016.

From FY2017, new Executive appointments will have a greater proportion of their total potential remuneration weighted towards the LTIA.

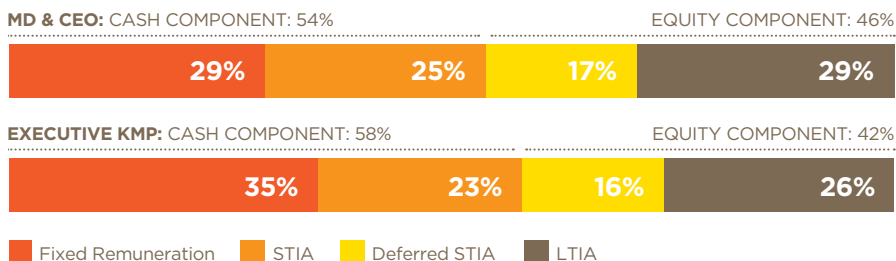
#### Executive Remuneration Governance

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

#### Remuneration Framework and objectives Financial Year 2016

Figure 3 summarises the Remuneration Framework and objectives for FY2016.

**FIGURE 1 - TOTAL POTENTIAL REMUNERATION FINANCIAL YEAR 2016<sup>1</sup>**



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

**FIGURE 2 - REMUNERATION GOVERNANCE FRAMEWORK**



# Directors' Report (continued)

## REMUNERATION REPORT

FIGURE 3 – REMUNERATION FRAMEWORK AND OBJECTIVES FOR FINANCIAL YEAR 2016

	PERFORMANCE MEASURE	STRATEGIC OBJECTIVES AND LINK TO PERFORMANCE
<b>FIXED REMUNERATION</b>	<p><b>Considerations:</b></p> <ul style="list-style-type: none"> <li>› Experience, qualifications</li> <li>› Role and responsibility</li> <li>› Retain key talent</li> <li>› Reference to remuneration paid by similar sized companies in similar industry sectors</li> <li>› Internal and external relativities</li> </ul>	<ul style="list-style-type: none"> <li>› To attract and retain Executives with the right capability and experience to achieve results</li> </ul>
<b>SHORT TERM INCENTIVE AWARD</b>	<ul style="list-style-type: none"> <li>› Safety and Environment (17.5%)</li> <li>› Transformation (17.5%)</li> <li>› Underlying EBIT (35%)</li> <li>› Individual (30%)</li> </ul> <p>Measured over a one year performance period</p> <p><b>STIA at Risk:</b>  <b>MD &amp; CEO: Target 100% of Fixed Remuneration and maximum 150% of Fixed Remuneration</b>  <b>Remaining Executive KMP: Target 75% of Fixed Remuneration and maximum 112.5% of Fixed Remuneration</b></p>	<ul style="list-style-type: none"> <li>› Participation levels set with reference to the appropriate levels of short-term incentive offered by our peers in the market</li> </ul> <p>The non-financial and financial performance measures were chosen because:</p> <ul style="list-style-type: none"> <li>› <b>Safety and Environment</b> captures the need to continuously improve safety and reduce our environmental footprint across all aspects of a heavy industry business</li> <li>› <b>Transformation</b> captures the need to strengthen and grow our current business through a focus on our customers and by improving productivity</li> <li>› <b>Underlying EBIT</b> delivers direct financial benefits to shareholders</li> </ul>
<b>LONG TERM INCENTIVE AWARD</b>	<ul style="list-style-type: none"> <li>› Operating Ratio (OR) Improvement (34%)</li> <li>› Relative Total Shareholder Return (TSR) (33%)</li> <li>› Return on Invested Capital (ROIC) (33%)</li> </ul> <p>Measured over a three year performance period</p> <p>In the event that the company hurdle is not achieved, a stronger hurdle is set and the performance period may be extended for a further year at the discretion of the Board</p> <p><b>LTIA at Risk:</b>  <b>MD &amp; CEO: Maximum 100% of Fixed Remuneration</b>  <b>Remaining Executive KMP: Maximum 75% of Fixed Remuneration</b></p>	<ul style="list-style-type: none"> <li>› <b>OR Improvement</b> is a key measure of our success in transforming Aurizon into a world class rail company – maximising the profit earned from each dollar of revenue generated</li> <li>› <b>Relative TSR</b> is a measure of the return generated for Aurizon's shareholders over the performance period relative to a peer group of companies (ASX100)</li> <li>› <b>ROIC</b> reflects the fact that Aurizon operates a capital intensive business and our focus should be on maximising the level of return generated on the capital we invest</li> </ul> <p>Note: Minimum shareholding requirements for Executives encourages retention of shares and alignment with shareholder interests</p>
<p><b>Total remuneration</b></p> <p>Overall, Executive remuneration is designed to support delivery of superior shareholder returns by placing a significant proportion of an Executive's total target remuneration at risk and awarding a significant portion of at risk pay in equity</p>		

## 4. Company Performance Financial Year 2016

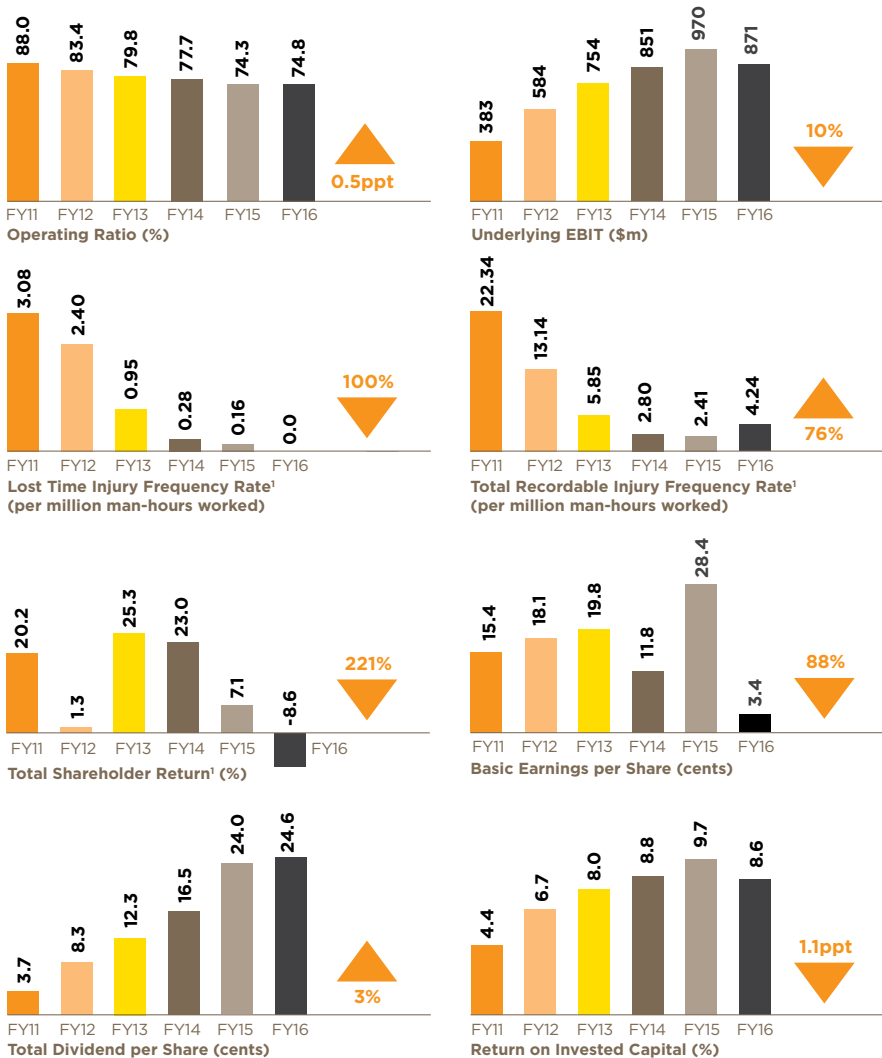
Underlying EBIT and Net Profit After Tax (NPAT) deteriorated in FY2016 reflecting the operating conditions described in the Chairman's letter (page 23) and the impact of the impairments announced during FY2016. In spite of the difficult external environment Aurizon has continued to transform and has reached many milestones throughout FY2016, highlights of which include:

- › Achieved a Lost Time Injury Frequency Rate of zero
- › Maintained an Operating Ratio (OR) below 75% in a deteriorating environment
- › Secured a long-term contract extension with BHP Billiton for its Mt Arthur coal mine to June 2028
- › Delivered over \$131 million in transformation benefits (cost reductions and efficiency improvements) and resolved the Enterprise Agreements which will improve the momentum of change and transformation
- › Commissioned the Wiggins Island Rail Project (WIRP) and implemented a number of key operational technology initiatives including wayside condition monitoring, an automated advanced scheduling system and the first stage of the Freight Management Technology (FMT) project

Further detail related to performance against the FY2016 STIA performance measures is provided in Table 5 (page 29) whilst Table 8 (page 31) provides additional information related to the LTIA performance outcomes.

A key benefit for Aurizon shareholders is the share price appreciation since IPO. In spite of the sharp share price decrease immediately after the impairments were announced in December 2015, Aurizon continues to outperform the ASX200. Figure 5 shows the movement in both the Aurizon share price and ASX200 index value over the period from listing date 22 November 2010 to 30 June 2016. The diagram assumes that a shareholder starts with an initial investment of \$100 in each of Aurizon and the ASX200 index and shows the change in the value of those investments over the period assuming dividend reinvestment. For Aurizon, the diagram assumes a starting price of \$2.45, being the initial retail share price at listing.

FIGURE 4 - HISTORICAL COMPANY PERFORMANCE



1 Unaudited

FIGURE 5 - INVESTMENT RETURN FROM AURIZON HOLDINGS (AZJ) AND ASX200 ACCUMULATION INDEX (22 NOVEMBER 2010 TO 30 JUNE 2016)



# Directors' Report (continued)

## REMUNERATION REPORT

### 5. Take Home Pay

Table 4 identifies the actual remuneration earned during FY2016 and Figure 6 represents the proportion of FY2016 actual and forfeited remuneration for the MD & CEO and an illustrative Executive KMP member. The sections shown in stripes in Figure 6 indicate potential awards either forfeited or subject to retesting.

The table and diagram have not been prepared in accordance with accounting standards but have been provided to ensure shareholders are able to clearly understand the remuneration outcomes for Executive KMP. Executive remuneration outcomes, which are prepared in accordance with the accounting standards, are provided in Section 10.

The remuneration outcomes identified in Table 4 and in Figure 6 are directly linked to the Company performance described in Section 6 and Section 7.

The actual STIA is dependent on Aurizon and individual performance as described in Section 6. Although some credible performance outcomes were achieved across many categories, the Board has decided not to award an STIA to the MD & CEO and his direct reports. The Board considers this outcome to be reflective of the shareholder outcomes during FY2016.

The actual vesting of the LTIA is dependent on Aurizon performance and the outcomes are further described in Section 7. The relative TSR component of the 2012 Award and all three components of the 2013 Award were tested in FY2016.

Aurizon's earnings performance and relative TSR performance for FY2016 has significantly impacted the vesting outcomes of the Awards.

As the OR was 74.8%, the OR component of the 2013 Award vested to 55% of maximum. Given Aurizon's earnings performance over the applicable periods, no portion of the EPS component vested.

Relative TSR was tested over the period FY2013-FY2016 and ranked below the median. The 2013 Award, therefore, did not vest. This and the other unvested components of the 2013 Award will be subject to a single retest next year.

The portion of the Relative TSR component for the 2012 Award, which did not vest last year, was retested this year over the period FY2012-FY2016. This portion ranked below the rank of the original test and will therefore lapse.

**TABLE 4 - REMUNERATION EARNED IN FINANCIAL YEAR 2016**

NAME	FIXED REMUNERATION \$'000	NON-MONETARY BENEFITS <sup>1</sup> \$'000	STIA CASH <sup>2</sup> \$'000	STIA DEFERRED FROM PRIOR YEAR <sup>3</sup> \$'000	LTIA VESTING <sup>4</sup> \$'000	ACTUAL FY2016 REMUNERATION OUTCOMES \$'000
<b>EXECUTIVE KMP</b>						
L E Hockridge	1,950	10	-	736	573	3,269
M Carter	840	2	-	232	165	1,239
A Kummant	840	116	-	216	185	1,357
K Neate	840	4	-	199	161	1,204
M Neves De Moraes	750	84	-	199	165	1,198

1 The amount relates to reportable fringe benefits (car parking, motor vehicle lease payments and travel benefits)

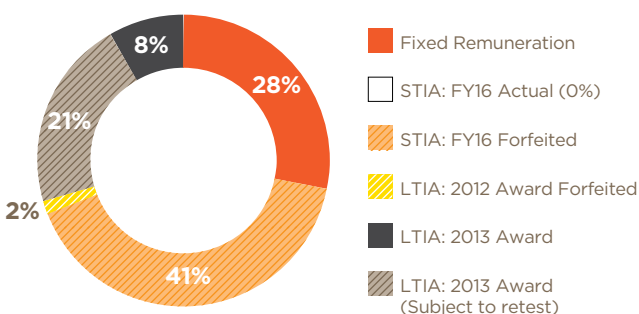
2 The amount relates to the cash component (60%) of the FY2016 STIA which would have been paid in September 2016

3 The amount relates to the deferred component (40%) of the FY2015 STIA which was awarded in performance rights and will become unrestricted in September 2016 (calculation assumes a share price of \$4.82). As no FY2016 STIA was made there will be no component deferred into equity next year

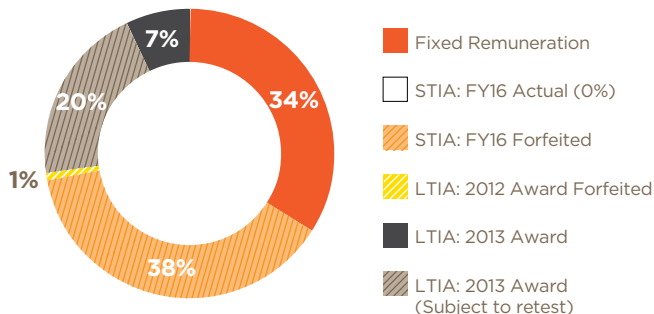
4 The amount is the value of rights which vest after the end of FY2016 (i.e. a portion of the 2013 Award) (calculation assumes a share price of \$4.82)

**FIGURE 6 - PROPORTIONAL REMUNERATION OUTCOMES FOR FINANCIAL YEAR 2016<sup>1</sup>**

#### Managing Director & CEO



#### Illustrative Executive KMP example



1 Remuneration outcomes are shown as a proportion of Total Potential Remuneration, addressed with reference to Company Performance and vesting outcomes of the FY2016 STIA (including the cash and deferral component), the 2012 Award and 2013 Award (calculation assumes a Share Price of \$4.82). The proportional remuneration outcome does not include the deferral component of the FY2015 STIA

## 6. Short Term Incentive Award

### What is the STIA and who participates?

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

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

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

### What are the company performance measures?

The performance measures which apply to all participants are Underlying EBIT, Transformation, Safety and Environment. The measures capture the need to continuously improve safety across all aspects of the business, reducing our environmental footprint and the need to strengthen and grow our current business. This is achieved through a focus on our customers and by improving productivity whilst at the same time, delivering benefits to shareholders. Individual performance hurdles relate to each specific role and measure an individual's contribution. Examples include outcomes in capital management, marketing, organisational change and leadership.

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

The employment agreements specify a target STIA, expressed as a percentage of Fixed Remuneration (100% for the MD & CEO and 75% for remaining Executive KMP). Each participant can earn between 0% up to a maximum of 150% of this target percentage, depending on performance and subject to Board discretion. Depending on performance assessed at year end, participants may earn for each enterprise measure: 0% for performance below *Threshold*, 50% at *Threshold* (for measures other than Underlying EBIT, for which *Threshold* earnings are 30%) with a linear scale up to 100% at *Target* performance; and a further linear scale to 200% at *Stretch* performance.

### What are the outcomes for FY2016?

Table 5 identifies the performance measures, relevant weightings and outcomes for FY2016. Despite the performance against the established KPIs, the Board has determined that no STIA will be made to the MD & CEO and his direct reports to reflect the impairments and financial performance in FY2016. The FY2016 actual outcomes for Executive KMP are identified within Table 6.

**TABLE 5 – SHORT TERM INCENTIVE AWARD FINANCIAL YEAR 2016 OBJECTIVES**

DESCRIPTION	WEIGHTING	TARGET	OUTCOME
<b>EBIT:</b> Underlying EBIT delivers financial benefits to shareholders through growth in underlying operating earnings	35%	\$980m	<b>\$871m<sup>1</sup></b> Below <i>Threshold</i>
<b>Safety &amp; Environment:</b> Captures the need to continuously improve across all aspects of the Company, measured through: <ul style="list-style-type: none"> <li>› Total accident rate (TAR) (Derailments and rollingstock collisions)</li> <li>› Total reportable injury frequency rate (TRIFR)</li> <li>› Total environmental notifiable incidents (ENI)</li> <li>› Safety interactions per employee per month (SI)</li> </ul>	17.5%	10% reduction in TAR and TRIFR. Maintain ENI at 2 and at least one SI per employee per month	<b>12%</b> reduction TAR; <b>76%</b> increase TRIFR; <b>1</b> ENI; <b>1.47</b> SI Between <i>Target</i> and <i>Stretch</i>
<b>Transformation:</b> Our priority to transform Aurizon continues to be a strategic imperative. Our priority is to strengthen and grow our current business through a relentless focus on our customers and by improving productivity. Performance is defined in terms of project and program completion (or milestone achievement) and benefits delivery (or progression towards delivery for lengthy transformational projects). An assessment is then performed by the Remuneration Committee of the level of achievement in relation to each transformation project, considering pre-determined levels of expected achievement. For FY2016 the transformation projects included: <ul style="list-style-type: none"> <li>› Customer focus</li> <li>› Specific commercial objectives</li> <li>› Operational &amp; productivity improvements</li> <li>› Market initiatives</li> <li>› People initiatives</li> </ul>	17.5%	Substantial transformation having regard to specified milestones and outcomes	Overall below <i>Stretch</i> but well above <i>Target</i>  Between <i>Target</i> & <i>Stretch</i>
<b>Aggregate Enterprise Outcome</b> (Sub-total)	70%		Between <i>Threshold</i> & <i>Target</i> <sup>2</sup>
<b>Individual:</b> Performance hurdles for the Executive KMP are established on an annual basis by the MD & CEO. In the case of the MD & CEO the individual hurdles are established by the Chairman after consultation with the Board. For FY2016 the MD & CEO's individual performance parameters included: <ul style="list-style-type: none"> <li>› Stakeholder and external relationship management</li> <li>› Measured growth and operational improvement</li> <li>› Capital management</li> </ul>	30%	Personal outcomes varied between <i>Threshold</i> and <i>Stretch</i> depending on performance against individual KPIs	Varies by individual

1 Underlying earnings for remuneration purposes has been adjusted to deduct the FY2016 impairments and is \$343m (\$871m less \$528m). No STIA participants will be rewarded for this component

2 The overall outcome for the STIA has been adjusted for all participants to take into consideration the overall financial performance during FY2016

**TABLE 6 – SHORT TERM INCENTIVE AWARDED IN FINANCIAL YEAR 2016**

NAME	TARGET STIA \$'000	MAXIMUM POTENTIAL STIA (\$'000)	AWARDED FY2016 (\$'000)			% OF TARGET STIA	% OF MAXIMUM STIA
			CASH COMPONENT	DEFERRED SHARE COMPONENT	TOTAL STIA PAYMENT		
<b>EXECUTIVE KMP</b>							
L E Hockridge	1,950	2,925	-	-	-	0%	0%
M Carter	630	945	-	-	-	0%	0%
A Kummant	630	945	-	-	-	0%	0%
K Neate	630	945	-	-	-	0%	0%
M Neves De Moraes	563	844	-	-	-	0%	0%



# Directors' Report (continued)

## REMUNERATION REPORT

### 7. Long Term Incentive Award

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

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

#### How is the LTIA determined?

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

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

#### What happens when performance rights vest?

Performance rights awarded under the LTIA vest subject to the satisfaction of company hurdles. Rights vest and the resulting shares are transferred to the Executive at no cost to the Executive.

Company Performance against LTIA subject to testing in FY2016 is identified in Table 8.

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

The maximum potential remuneration (expressed as a percentage of Fixed Remuneration) available through the LTIA is 100% in the case of the MD & CEO and 75% for the remaining Executive KMP.

#### What is the performance period?

The company hurdles for the LTIA are measured over a three year period. In the event that the company hurdle is not achieved in relation to the 2014 and 2015 Awards, the performance period may be extended for a further year at the discretion of the Board. In the event of a performance period extension, in order for any additional performance rights to vest on the later date, Aurizon has to achieve stronger performance than that required for the original performance period in the final year. There will be no retesting in relation to the 2016 and subsequent Awards.

**TABLE 7 - LONG TERM INCENTIVE AWARD PERFORMANCE HURDLES**

<b>OR</b>	OR improvement essentially measures the operating cost as a percentage of revenue. Aurizon is committed to reducing OR through further implementation of transformation initiatives, growth initiatives and continued tight operational and financial discipline. The target OR in FY2017 of 71.5%, FY2018 of 70% and FY2019 of 68.5% is considered by the Board to be very challenging in light of the macroeconomic outlook and the rate of improvement may not be maintained in the longer-term.
<b>TSR</b>	The vesting of rights for relative TSR growth is conditional on Aurizon's TSR performance relative to a peer group of companies in the ASX100 index that are broadly comparable to Aurizon (i.e. with which Aurizon competes for capital and/or talent). Accordingly, financial, medical, telecommunications, pharmaceutical, gaming and property trusts are excluded from this group. TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. The TSR of Aurizon over the performance period will be compared to the TSR of all of the companies in the peer group which are still listed at the end of the performance period. The relevant share prices will be determined by reference to a VWAP over a period to smooth any short-term 'peaks' or 'troughs'. Relative TSR performance is monitored by an independent expert at the end of each Financial Year.
<b>ROIC</b>	ROIC, for the purposes of the LTIA, will be calculated on the same basis as the published ROIC except to the extent of the differences explained in this section. Essentially, ROIC is Underlying EBIT divided by Invested Capital. For the purposes of LTIA, invested capital will not include major (infrastructure investments with an approved budgeted capital expenditure over \$250m) Assets Under Construction (AUC) until these investments are planned to generate income, subject to Board discretion (for example, in the case of a delay judged to be outside the control of management and not able to be foreseen or mitigated).

2015 AWARD	WEIGHTING	PERFORMANCE PERIOD (01/07/2015 - 30/06/2018)		RETESTING (01/07/2015 - 30/06/2019)
		MINIMUM VESTING POINT	MAXIMUM VESTING POINT	
<b>OR Improvement</b>	34%	50% of the rights will vest with an OR of 71.5%	100% of the rights will vest with an OR of 70%	100% of the rights will vest at or below an OR of 69%. 0% will vest with an OR above 69%
<b>Relative TSR:</b> <i>Against peer group within ASX100 Index</i>	33%	30% of the rights will vest at the 50 <sup>th</sup> percentile	75% of the rights will vest at the 62.5 <sup>th</sup> percentile	100% of the rights will vest at the 75 <sup>th</sup> percentile. 0% will vest below the 75 <sup>th</sup> percentile
<b>ROIC:</b> <i>Average annual ROIC FY2016 - FY2018</i>	33%	50% of the rights will vest with an average ROIC of 10.5%	100% of the rights will vest with an average ROIC of 11.5%	100% of the rights will vest with an average ROIC of 12.5%. 0% of the rights will vest below 12.5% ROIC
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

TABLE 7 - CONTINUED

2016 AWARD <sup>1</sup>	WEIGHTING	PERFORMANCE PERIOD (01/07/2016 - 30/06/2019) <sup>3</sup>		
		MINIMUM VESTING POINT		MAXIMUM VESTING POINT
<b>OR Improvement</b>	15%	50% of the rights will vest with an OR of 70%		100% of the rights will vest with an OR of 68.5%
<b>Relative TSR:</b> <i>Against peer group within ASX100 Index<sup>2</sup></i>	35%	30% of the rights will vest at the 50 <sup>th</sup> percentile	75% of the rights will vest at the 62.5 <sup>th</sup> percentile	100% of the rights will vest at the 75 <sup>th</sup> percentile
<b>ROIC:</b> Average annual ROIC FY2017 - FY2019	50%	50% of the rights will vest with an average ROIC of 10.5%		100% of the rights will vest with an average ROIC of 11.5%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

1 The company hurdles for the 2016 LTIA will be measured over a three year performance period. In the event that performance is not achieved the performance period will not be extended, as retesting will no longer form part of the LTIA from the 2016 Award

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

3 From the 2017 Award, company hurdles will be measured over an extended performance period, increasing from a three year performance period to a four year performance period

TABLE 8 - COMPANY PERFORMANCE AGAINST LONG TERM INCENTIVE AWARDS SUBJECT TO TESTING IN FINANCIAL YEAR 2016

COMPANY HURDLE AND PERFORMANCE MEASUREMENT PERIOD	WEIGHTING	RESULT	% VESTED	% FOR RETESTING	% LAPSED
<b>2012 AWARD: RETEST 01 JULY 2012 - 30 JUNE 2016</b>					
<b>Relative TSR:</b> <i>Against peer group within ASX100 Index</i>	50% of rights vest at the 50 <sup>th</sup> percentile, up to 100% at the 75 <sup>th</sup> percentile (with rights vesting pro-rata on a straight-line basis)	33%	Between median and top quartile (as at FY2015)	88%	12% of this component was subject to a single retest in FY2016
			Between median and top quartile (Retest as at FY2016) <sup>1</sup>	0%	12%
<b>2013 AWARD: 01 JULY 2013 - 30 JUNE 2016</b>					
<b>OR Improvement</b>	50% of rights will vest with a FY2016 OR of 75%, up to 100% at 73% (with rights vesting pro-rata on a straight-line basis)	50%	74.8% <sup>2</sup>	55%	45% of this component will be subject to a single retest in FY2017 <sup>3</sup>
<b>EPS:</b> Average annual EPS growth from FY2013 -FY2016	50% of rights vest with an average annual growth rate of 7.5%, up to 100% at an average annual growth rate of 10% (with rights vesting pro-rata on a straight-line basis)	25%	-52%	0%	100% of this component will be subject to a single retest in FY2017 <sup>3</sup>
<b>Relative TSR:</b> <i>Against peer group within ASX100 Index</i>	50% of rights vest at the 50 <sup>th</sup> percentile, up to 100% at the 75 <sup>th</sup> percentile (with rights vesting pro-rata on a straight-line basis)	25%	Below median (as at FY2016)	0%	100% of this component will be subject to a single retest in FY2017 <sup>3</sup>

1 Given the relative TSR performance was lower than the original performance period (FY2012-FY2015), the remaining portion of the relative TSR component has lapsed

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

3 The retesting hurdles are 71% (maximum) to 73% (minimum) for OR in the fourth year, EPS growth and relative TSR as per the original test but over the four year period

# Directors' Report (continued)

## REMUNERATION REPORT

### 8. Executive Service Agreements

#### Executive Service Agreements

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

#### Minimum shareholding policy for Executives

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

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

This is to be achieved within six years of the date of listing of the Company or their appointment (whichever is the later). This will be calculated with reference to the Directors' fees and Executives' Total Fixed Remuneration during the period divided by the number of years.

Details of KMP shareholdings as at 30 June 2016 are set out in Table 10.

#### Hedging and margin lending policies

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

TABLE 9 - SERVICE AGREEMENTS

EXECUTIVE KMP	DURATION OF SERVICE AGREEMENT	FIXED REMUNERATION AT END OF FINANCIAL YEAR 2016 <sup>1</sup>	NOTICE PERIOD <sup>2</sup>	
			BY EXECUTIVE	BY COMPANY <sup>3</sup>
L E Hockridge	Ongoing	\$1,950,000	6 months	12 months
M Carter	Ongoing	\$ 840,000	3 months	6 months
A Kummant	Ongoing	\$ 840,000	3 months	12 months
K Neate	Ongoing	\$ 840,000	3 months	6 months
M Neves De Moraes	Ongoing	\$ 750,000	3 months	6 months

1 Fixed remuneration includes a superannuation component

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

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

TABLE 10 - KMP SHAREHOLDING AS AT 30 JUNE 2016

NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON VESTING	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	% OF FIXED REMUNERATION <sup>1</sup>
<b>NON-EXECUTIVE DIRECTORS</b>					
T M Poole	-	N/A	45,500	45,500	46%
R R Caplan <sup>2</sup>	82,132	N/A	-	82,132	208%
J D Cooper	45,000	N/A	25,000	70,000	178%
M A Fraser	-	N/A	40,000	40,000	101%
K L Field	14,245	N/A	26,213	40,458	103%
S L Lewis	14,600	N/A	18,425	33,025	84%
<b>EXECUTIVE KMP</b>					
L E Hockridge <sup>2</sup>	943,679	876,099	-	1,819,778	450%
M Carter <sup>2</sup>	268,507	226,502	(178,019)	316,990	182%
A Kummant	200,000	202,403	(70,000)	332,403	191%
K Neate	82,204	137,005	-	219,209	126%
M Neves De Moraes	100,000	75,000	(50,000)	125,000	80%

1 Assumes Directors fees and Fixed Remuneration as at 30 June 2016 and a share price of \$4.82

2 KMP required to achieve the minimum shareholding requirement by November 2016

## 9. Non-Executive Director Remuneration

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

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

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

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

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

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

### How are individual fees determined?

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

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

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

TABLE 11 - DIRECTORS' FEES

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

TABLE 12 - NON-EXECUTIVE DIRECTORS' REMUNERATION

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	TOTAL REMUNERATION \$'000
		SALARY AND FEES \$'000	NON-MONETARY BENEFITS <sup>1</sup> \$'000	SUPERANNUATION \$'000	
<b>NON-EXECUTIVE DIRECTORS<sup>2</sup></b>					
T M Poole	2016	403	-	18	421
R R Caplan	2016	174	-	16	190
	2015	174	-	16	190
J D Cooper	2016	174	-	16	190
	2015	174	-	16	190
M A Fraser	2016	63	-	6	69
K L Field	2016	174	-	16	190
	2015	174	-	16	190
S L Lewis	2016	174	-	16	190
	2015	63	-	6	69
<b>FORMER NON-EXECUTIVE DIRECTORS<sup>2</sup></b>					
J B Prescott AC	2016	60	24	24	108
	2015	447	4	28	479
J Atkin	2016	110	-	10	120
	2015	174	-	16	190
G T John AO	2016	66	-	6	72
	2015	174	-	16	190
A J P Staines	2015	131	-	21	152
G T Tilbrook	2016	110	-	10	120
	2015	174	-	16	190
P Zito	2015	53	-	21	74
<b>Total</b>	<b>2016</b>	<b>1,508</b>	<b>24</b>	<b>138</b>	<b>1,670</b>
	2015	1,738	4	172	1,914

1 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective FBT year ending 31 March and consist of the estimated value of car parking provided

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

# Directors' Report (continued)

## REMUNERATION REPORT

### 10. Executive Remuneration Financial Year 2016

The table below details the number and value of movements in LTIA equity awards during FY2016.

**TABLE 13 - RIGHTS GRANTED AS COMPENSATION**

NAME	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR	VALUE OF RIGHTS GRANTED IN YEAR <sup>1</sup>	VESTED IN YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	FORFEITED IN YEAR
		NO.	NO.	\$'000	%	NO.	NO.	%
<b>EXECUTIVE KMP</b>								
L E Hockridge	2011	247,093	-	-	100	(247,093)	-	-
	2012	582,090	-	-	96	(558,806)	-	-
	2013	432,373	-	-	-	-	-	-
	2014 STIAD	70,200	-	-	100	(70,200)	-	-
	2014	401,234	-	-	-	-	-	-
	2015 STIAD	-	152,699	776	-	-	-	-
	2015	-	374,280	1,497	-	-	-	-
M Carter	2011	45,785	-	-	100	(45,785)	-	-
	2012	167,910	-	-	96	(161,193)	-	-
	2013	124,723	-	-	-	-	-	-
	2014 STIAD	19,524	-	-	100	(19,524)	-	-
	2014	129,630	-	-	-	-	-	-
	2015 STIAD	-	48,217	245	-	-	-	-
	2015	-	120,921	484	-	-	-	-
A Kummant	2012	188,059	-	-	96	(180,536)	-	-
	2013	139,690	-	-	-	-	-	-
	2014 STIAD	21,867	-	-	100	(21,867)	-	-
	2014	129,630	-	-	-	-	-	-
	2015 STIAD	-	44,720	227	-	-	-	-
	2015	-	120,921	484	-	-	-	-
K Neate	2011	29,070	-	-	100	(29,070)	-	-
	2012	93,152	-	-	96	(89,426)	-	-
	2013	121,397	-	-	-	-	-	-
	2014 STIAD	18,509	-	-	100	(18,509)	-	-
	2014	112,654	-	-	-	-	-	-
	2015 STIAD	-	41,386	210	-	-	-	-
	2015	-	120,921	484	-	-	-	-
M Neves De Moraes	2013	124,722	-	-	-	-	-	-
	2014-Ret B	75,000	-	-	100	(75,000)	-	-
	2014	115,740	-	-	-	-	-	-
	2015 STIAD	-	41,357	210	-	-	-	-
	2015	-	107,966	431	-	-	-	-
<b>FORMER EXECUTIVE KMP</b>								
J M Franczak	2012	223,880	-	-	96	(214,924)	-	-
	2013	166,298	-	-	-	-	(13,304)	8
	2014 STIAD	26,419	-	-	100	(26,419)	-	-
	2014	154,321	-	-	-	-	(154,321)	100
	2015 STIAD	-	55,630	283	-	-	-	-
	2015	-	143,954	576	-	-	(143,954)	100

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

VALUE OF RIGHTS FORFEITED IN YEAR	BALANCE AT END OF YEAR	FAIR VALUE PER RIGHT AT GRANT DATE	GRANT DATE	DATE ON WHICH GRANT VESTS	EXPIRY DATE
\$'000	NO.	\$			
-	-	2.11	22-Aug-11	22-Aug-14	31-Dec-15
-	23,284	2.88	23-Aug-12	23-Aug-15	31-Dec-16
-	432,373	3.74	16-Aug-13	16-Aug-16	31-Dec-17
-	-	4.65	22-Sep-14	22-Sep-15	22-Sep-15
-	401,234	3.57	18-Aug-14	18-Aug-17	18-Aug-18
-	152,699	5.08	21-Sep-15	21-Sep-16	21-Sep-16
-	374,280	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	-	2.11	22-Aug-11	22-Aug-14	31-Dec-15
-	6,717	2.88	23-Aug-12	23-Aug-15	31-Dec-16
-	124,723	3.74	16-Aug-13	16-Aug-16	31-Dec-17
-	-	4.65	22-Sep-14	22-Sep-15	22-Sep-15
-	129,630	3.57	18-Aug-14	18-Aug-17	18-Aug-18
-	48,217	5.08	21-Sep-15	21-Sep-16	21-Sep-16
-	120,921	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	7,523	2.88	23-Aug-12	23-Aug-15	31-Dec-16
-	139,690	3.74	16-Aug-13	16-Aug-16	31-Dec-17
-	-	4.65	22-Sep-14	22-Sep-15	22-Sep-15
-	129,630	3.57	18-Aug-14	18-Aug-17	18-Aug-18
-	44,720	5.08	21-Sep-15	21-Sep-16	21-Sep-16
-	120,921	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	-	2.11	22-Aug-11	22-Aug-14	31-Dec-15
-	3,726	2.88	23-Aug-12	23-Aug-15	31-Dec-16
-	121,397	3.74	16-Aug-13	16-Aug-16	31-Dec-17
-	-	4.65	22-Sep-14	22-Sep-15	22-Sep-15
-	112,654	3.57	18-Aug-14	18-Aug-17	18-Aug-18
-	41,386	5.08	21-Sep-15	21-Sep-16	21-Sep-16
-	120,921	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	124,722	4.07	1-Jan-14	16-Aug-16	31-Dec-17
-	-	4.89	1-Jan-14	1-Jan-16	1-Jan-17
-	115,740	3.57	18-Aug-14	18-Aug-17	18-Aug-18
-	41,357	5.08	21-Sep-15	21-Sep-16	21-Sep-16
-	107,966	4.00	17-Aug-15	17-Aug-18	31-Dec-19
-	8,956	3.25	04-Apr-13	23-Aug-15	31-Dec-16
50	152,994	3.74	16-Aug-13	16-Aug-16	31-Dec-17
-	-	4.65	22-Sep-14	22-Sep-15	22-Sep-15
550	-	3.57	18-Aug-14	18-Aug-17	18-Aug-18
-	55,630	5.08	21-Sep-15	21-Sep-16	21-Sep-16
576	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19

# Directors' Report (continued)

## REMUNERATION REPORT

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

**TABLE 14 – EXECUTIVE REMUNERATION**

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS		EQUITY-SETTLED SHARE-BASED PAYMENTS		PROPORTION OF COMPENSATION PERFORMANCE RELATED <sup>4</sup> % (B+H)/I	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR % (H/I)
		CASH SALARY AND FEES \$'000	CASH BONUS \$'000	NON-MONETARY BENEFITS <sup>1</sup> \$'000	OTHER <sup>2</sup> \$'000	SUPER-ANNUATION \$'000	LONG-SERVICE LEAVE \$'000	TERMINATION BENEFITS \$'000	RIGHTS <sup>3</sup> \$'000	TOTAL \$'000		
		A	B	C	D	E	F	G	H	I		
<b>EXECUTIVE KMP</b>												
L E Hockridge	2016	1,915	-	(84)	-	34	19	-	1,314	3,198	41	41
	2015	1,915	1,164	42	-	35	82	-	2,242	5,480	62	41
M Carter	2016 <sup>5</sup>	349	-	(64)	-	69	7	-	176	537	33	33
A Kummant	2016	779	-	72	106	19	15	-	419	1,410	30	30
	2015	780	341	6	86	19	13	-	699	1,944	53	36
K Neate	2016	806	-	38	-	34	23	-	354	1,255	28	28
	2015	695	316	(5)	-	35	6	-	531	1,578	54	34
M Neves De Moraes	2016	723	-	5	79	19	14	-	418	1,258	33	33
	2015	723	315	3	38	16	5	-	772	1,872	58	41
<b>FORMER EXECUTIVE KMP</b>												
J M Franczak	2016 <sup>6</sup>	763	-	(18)	306	-	(23)	750	(13)	1,765	(1)	(1)
	2015	1,000	424	(24)	175	-	14	-	784	2,373	51	33
<b>Total Executive KMP compensation (group)</b>	2016	5,335	-	(51)	491	175	55	750	2,668	9,423	28	28
	2015	5,113	2,560	22	299	105	120	-	5,028	13,247	57	38

1 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided, motor vehicle lease payments and annual leave accrued or utilised during the financial year. Negative amounts represent the utilisation of annual leave

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

3 The accounting expense recognised in relation to rights granted in the year is the fair value independently calculated at grant date using an expected outcome model. This was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period. Refer to note 27 for further details regarding the fair value of Rights. These values may not represent the future value that the Executive will receive, as the vesting of the Rights is subject to the achievement of performance conditions. This includes the cost of deferred STIA and LTIA

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

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

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



## Auditor's Independence Declaration

As lead auditors for the audit of Aurizon Holdings Limited for the year ended 30 June 2016, we declare that to the best of our 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 Holdings Limited and the entities it controlled during the period.

John Yeoman  
Partner  
PricewaterhouseCoopers

Brisbane  
15 August 2016

Simon Neill  
Partner  
PricewaterhouseCoopers

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# Corporate Governance Statement

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

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

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

This Statement explains how Aurizon Holdings complies with the ASX Corporate Governance Council's '*Corporate Governance Principles and Recommendations - 3rd Edition*' (ASX Principles or Recommendations), published on 27 March 2014.

This Statement was adopted by the Board on 12 August 2016.

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

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

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>1.5 Diversity &amp; inclusion</b>	<p>Aurizon Holdings has adopted a Diversity Policy which sets out its objectives and reporting practices with respect to diversity and inclusion and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>The measurable objectives for gender diversity, agreed by the Aurizon Holdings Board for FY2016, are set out below:</p> <ul style="list-style-type: none"> <li>› At least one female Director at all times</li> <li>› 17% overall women in the workforce</li> </ul> <p>The outcomes and a comparative of Aurizon Holdings' female employees between 30 June 2015 and 30 June 2016 is set out below and illustrates the Company's progress towards achieving its objectives:</p> <ul style="list-style-type: none"> <li>› 25% (2/8) of the Board at 30 June 2016 (22% at FY15)</li> <li>› 17.4% overall women in the workforce at 30 June 2016 (15.3% FY15)</li> </ul> <p>Other targets monitored are set out below:</p> <ul style="list-style-type: none"> <li>› 31% of women in the Management Leadership Team (MLT)</li> <li>› 22% Women in Managers of Managers group</li> <li>› 17% Women in Managers of Others group</li> <li>› 60% Women as a percentage of Trainees, Apprentices &amp; Graduates (TAGs)</li> </ul> <p>The progress made against the above other targets are as follows:</p> <ul style="list-style-type: none"> <li>› 32% of MLT at 30 June 2016 (27% at FY15)</li> <li>› 15.8% of women in Managers of Managers group at 30 June 2016 (15.4% at FY15)</li> <li>› 16.9% of women in Managers of Others at 30 June 2016 (14.1% at FY15)</li> <li>› 63% of TAGs at 30 June 2016 (51% at FY15)</li> </ul> <p>Further details on the Company's diversity performance and activities can be found on the Company website <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>1.6 Board reviews</b>	<p>A performance review is undertaken annually in relation to the Board and the Board Committees. In addition to individual evaluation sessions between the Chairman and individual Directors, a formal self-evaluation questionnaire is used to facilitate the annual performance review process. Periodically the Board also engages a professional independent consultant experienced in Board reviews to conduct a review of the Board and its Committees and the effectiveness of the Board as a whole.</p> <p>During the year the annual review of the position of the Chairman of the Board was facilitated by the Board and a review and evaluation of the performance of the Board, the Chairman, each Director and each Board Committee was conducted in accordance with the internal assessment process described above.</p>	✓
<b>1.7 Management reviews</b>	<p>Each year the Board sets financial, operational, management and individual targets for the Managing Director &amp; CEO. The Managing Director &amp; CEO (in consultation with the Board) in turn, sets targets for direct reports.</p> <p>Performance against these targets is assessed periodically throughout the year, and a formal performance evaluation for senior management is completed for the year end. Details of the process followed are set out on page 25 of the Annual Report.</p>	✓

## Principle 2: Structure the Board to add value

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>2.1 Nominations committee</b>	<p>The Nomination &amp; Succession Committee comprises three members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Nomination &amp; Succession Committee, including the names and qualifications of the Committee members, are set out on pages four to six of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Nomination &amp; Succession Committee during the financial year are set out on page eight of the Directors' Report within the Annual Report.</p> <p>The Charter governing the conduct of the Nomination &amp; Succession Committee is reviewed annually and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓

# Corporate Governance Statement (continued)

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>2.2 Board skills matrix</b>	<p>The below skills and diversity attributes have been identified as the optimum skills and diversity attributes Aurizon Holdings seeks to achieve across its Board membership. The Aurizon Holdings Board currently possesses a very good blend of these skills and diversity attributes.</p> <p><b>General</b></p> <ul style="list-style-type: none"> <li>› Other Board experience</li> <li>› Senior management expertise including partnering and joint venture</li> </ul> <p><b>Governance</b></p> <ul style="list-style-type: none"> <li>› Understanding of legal, ethical and fiduciary duties</li> <li>› Governance committee experience</li> <li>› Risk management</li> </ul> <p><b>Behavioural</b></p> <ul style="list-style-type: none"> <li>› Communication</li> <li>› Analytical</li> <li>› Strategic</li> </ul> <p>Further details regarding the skills and experience of each Director are included on pages four to six of the Report.</p>	✓
	<p><b>Technical</b></p> <ul style="list-style-type: none"> <li>› Finance and accounting</li> <li>› Regulatory</li> <li>› Technology</li> <li>› Corporate strategy</li> <li>› Capital allocation including acquisitions and divestments</li> <li>› Information technology</li> <li>› Capital markets</li> <li>› Legal</li> <li>› Engineering, including transport, railway and port, infrastructure and operations</li> <li>› Human resources</li> </ul> <p><b>Industry/experience</b></p> <ul style="list-style-type: none"> <li>› Global/international</li> <li>› Transport and engineering</li> <li>› Mining and resources</li> <li>› Government</li> </ul> <p><b>Diversity</b></p> <ul style="list-style-type: none"> <li>› Female</li> <li>› Male</li> <li>› International</li> <li>› Language other than English</li> </ul>	
<b>2.3 Disclose independence and length of service</b>	<p>In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director &amp; CEO is not considered independent, by virtue of the role being an Executive of the Company.</p> <p>Details regarding which Directors are considered independent and the length of their service are set out on page four of the Annual Report.</p>	✓
<b>2.4 Majority of Directors independent</b>	<p>In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director &amp; CEO is not considered independent, by virtue of the role being an Executive of the Company.</p> <p>Details regarding which Directors are considered independent and the length of their service are set out on page four of the Annual Report.</p>	✓
<b>2.5 Chair independent</b>	<p>The Chairman, Mr Poole, is an Independent Non-Executive Director. The role of CEO is performed by another Director.</p> <p>Further details regarding the Directors are set out on pages four to six of the Annual Report.</p>	✓
<b>2.6 Induction and professional development</b>	<p>An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.</p> <p>In addition to peer review, interaction and networking with other Directors and industry leaders, Aurizon Holdings' Directors participate, from time to time, in Aurizon Holdings' leadership forums and actively engage with Aurizon Holdings employees by visiting Aurizon Holdings' operations to gain an understanding of our operational environment.</p> <p>During the course of the year Directors receive accounting policy updates, especially around the time when the Board considers the Half Year and Full Year accounts.</p> <p>The Board also includes educative sessions from time to time on legal, accounting, regulatory change, developments in communication including social media and human resource management.</p> <p>Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices in different locations. During the financial year, Directors made a number of visits to operational sites and to Company comparator sites.</p>	✓

### Principle 3: Act ethically and responsibly

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

### Principle 4: Safeguard integrity in corporate reporting

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

### Principle 5: Make timely and balanced disclosure

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

### Principle 6: Respect the rights of security holders

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

# Corporate Governance Statement (continued)

## Principle 7: Recognise and manage risk

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>7.1 Risk committee</b>	<p>Aurizon Holdings' Audit, Governance &amp; Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Risk Management, Compliance &amp; Assurance Policy (Risk Policy). A copy of the Risk Policy is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.</p>	✓
<b>7.2 Annual risk review</b>	<p>The Board has mandated Internal Audit to provide independent assurance on the effectiveness of the Company's risk management practices and report its findings to the Audit, Governance &amp; Risk Management Committee. The purpose of the review is to confirm the Company's governance processes and practices continue to be sound and that the Company manages risk within the Board approved risk appetite.</p> <p>Internal audit conducted its review during the financial year, utilising a specialist third party and concluded that controls over risk management processes were adequate and effective.</p>	✓
<b>7.3 Internal audit</b>	<p>The Company has an internal audit function that operates under a Board approved Internal Audit Charter.</p> <p>The internal audit function is independent of management and the external auditor and is overseen by the Audit, Governance &amp; Risk Management Committee. In accordance with the Committee Charter, the appointment or removal of the Chief Internal Auditor is a matter for this Committee.</p> <p>The Chief Internal Auditor provides ongoing internal audit reports to the Audit, Governance &amp; Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures.</p> <p>The Chief Internal Auditor provides regular reports to the Audit, Governance &amp; Risk Management Committee on controlled environment matters as well as an annual assessment of the adequacy and effectiveness of the Company's internal controls and risk management processes.</p>	✓
<b>7.4 Sustainability risks</b>	<p>Aurizon Holdings identifies and manages material exposures to economic, environmental and social sustainability risks in accordance with its enterprise risk management framework incorporating the Board-approved risk appetite.</p> <p>The Company's sustainability aspiration is to deliver world-leading performance underpinned by three sustainability commitments:</p> <ul style="list-style-type: none"> <li>› The Company is committed to building a long-term sustainable business that delivers lasting value for our shareholders, customers, employees and communities</li> <li>› The Company aims to take the safest, most efficient and least resource-intensive approach to the services we provide</li> <li>› The Company applies a balanced view when assessing risk and making decisions, encompassing social, environmental and economic considerations</li> </ul> <p>In our operations, we continue to make progress on a number of sustainability aspects, including our safety performance, our operational efficiency and environmental management. A key element of our approach is the ongoing reduction in resource use across all of our operations with a strong focus on longer trains, higher-density trains, increased reliability and improved average train velocity.</p> <p>During FY2016, the Company published its second Sustainability Report for the period ending 30 June 2015. A copy of this report is available in the Sustainability section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>The Company's inaugural Sustainability Report identified areas of focus and priority that relate to the Company's ability to create or preserve value for shareholders over the short, medium and long-term, and outlined how the Company manages or intends to manage the material risks identified. The Company has set appropriate benchmarks against which we will measure and report FY2016 performance and material economic, environmental and social sustainability risks.</p> <p>The Company's FY2016 Sustainability Report is intended to be released in October 2016. Consistent with the inaugural report, it will be based on the GRI G4 Sustainability Reporting Guidelines and will describe the impact of the Company's operations against the core elements of economic, environmental, social and governance performance. It will also identify those issues that reflect the organisation's significant economic, environmental and social impacts or that substantively influence assessments and decisions of stakeholders.</p>	✓

## Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>8.1 Remuneration Committee</b>	<p>Aurizon Holdings' remuneration function is performed by the Remuneration Committee, comprising four members all of whom are Independent Non-Executive Directors. Details of the membership of the Remuneration Committee, including the names and qualifications of the Committee members, are set out on pages four to six of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Remuneration Committee during the financial year are set out on page eight of the Annual Report.</p> <p>The Charter governing the conduct of the Remuneration Committee is reviewed annually and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>8.2 Disclosure of Executive and Non-Executive Director remuneration policy</b>	<p>The Company seeks to attract and retain high performing Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required.</p> <p>It reviews requirements for additional capabilities at least annually.</p> <p>Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and performance-based component.</p> <p>Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by Aurizon Holdings to a fund for the purposes of superannuation benefits for a Director. No other retirement benefits schemes are in place in respect to Non-Executive Directors.</p> <p>The Company has in place a Share Holding and Retention Policy which applies to Non-Executive Directors, the Managing Director &amp; CEO and the direct reports of the Managing Director &amp; CEO.</p> <p>Further details regarding remuneration and share retention policies and the remuneration of Executive and Non-Executive Directors, are set out on pages 28 to 36 of the Annual Report.</p>	✓
<b>8.3 Policy on hedging equity incentive schemes</b>	<p>Aurizon Holdings' Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or, once exercised, while the securities are subject to a transfer restriction.</p> <p>For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Executive' is broadly defined to include Aurizon Holdings Executive Vice Presidents and their direct reports, Directors and officers and any other person entitled to participate in an Aurizon Holdings performance rights plan.</p> <p>Further details regarding the Company's hedging policy are set out in the Company's Securities Dealing Policy which is available on the Governance section of the website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓

# Financial Report

## for the year ended 30 June 2016

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

## for the year ended 30 June 2016

	Notes	2016 \$m	2015 \$m
Revenue from continuing operations	2(a)	<b>3,458</b>	3,732
Other income	2(b)	-	48
<b>Total revenue and other income</b>		<b>3,458</b>	<b>3,780</b>
Employee benefits expense	3	<b>(891)</b>	(1,009)
Energy and fuel		<b>(245)</b>	(291)
Track Access		<b>(315)</b>	(328)
Consumables	3	<b>(509)</b>	(614)
Depreciation and amortisation	3	<b>(561)</b>	(519)
Impairment losses	3	<b>(302)</b>	(20)
Other expenses		<b>(79)</b>	(43)
<b>Operating profit</b>		<b>556</b>	956
Share of net profit of associates and joint venture partnerships accounted for using the equity method	19	<b>13</b>	14
Impairment loss of investment in associates	19(a)	<b>(226)</b>	-
<b>Share of net (loss)/profit from associates and joint venture partnerships accounted for using the equity method after impairment loss</b>		<b>(213)</b>	14
Finance income		<b>2</b>	9
Finance expenses	3	<b>(152)</b>	(144)
<b>Net finance costs</b>		<b>(150)</b>	(135)
<b>Profit before income tax expense</b>		<b>193</b>	835
Income tax expense	4	<b>(121)</b>	(231)
<b>Profit for the year attributable to owners of Aurizon Holdings Limited</b>		<b>72</b>	<b>604</b>
		Cents	Cents
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share	5	<b>3.4</b>	28.4
Diluted earnings per share	5	<b>3.4</b>	28.3

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

# Consolidated statement of comprehensive income

## for the year ended 30 June 2016

	Notes	2016 \$m	2015 \$m
<b>Profit for the year</b>		<b>72</b>	604
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	15(b)	<b>(6)</b>	(17)
Income tax relating to these items	4(c)	<b>2</b>	6
Share of other comprehensive income of an associate using equity account method	15(b)	<b>(2)</b>	-
<b>Other comprehensive income for the year, net of tax</b>		<b>(6)</b>	(11)
<b>Total comprehensive income for the year attributable to owners of Aurizon Holdings Limited</b>		<b>66</b>	<b>593</b>

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



# Consolidated balance sheet

as at 30 June 2016

	Notes	2016 \$m	2015 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		69	171
Trade and other receivables	6	514	543
Inventories	7	153	189
Derivative financial instruments	18	-	1
Prepayments		7	9
Assets classified as held for sale	24	101	21
<b>Total current assets</b>		<b>844</b>	<b>934</b>
<b>Non-current assets</b>			
Inventories	7	36	37
Derivative financial instruments	18	77	19
Property, plant and equipment	8	9,719	9,900
Intangible assets	9	190	127
Investments accounted for using the equity method	19	2	318
Other receivables		-	1
<b>Total non-current assets</b>		<b>10,024</b>	<b>10,402</b>
<b>Total assets</b>		<b>10,868</b>	<b>11,336</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	297	368
Borrowings	16	6	59
Derivative financial instruments	18	28	-
Current tax liabilities		80	76
Provisions	11	274	346
Other liabilities	12	53	55
<b>Total current liabilities</b>		<b>738</b>	<b>904</b>
<b>Non-current liabilities</b>			
Borrowings	16	3,484	2,924
Derivative financial instruments	18	23	43
Deferred tax liabilities	4(e)	589	606
Provisions	11	93	97
Other liabilities	12	227	256
<b>Total non-current liabilities</b>		<b>4,416</b>	<b>3,926</b>
<b>Total liabilities</b>		<b>5,154</b>	<b>4,830</b>
<b>Net assets</b>		<b>5,714</b>	<b>6,506</b>
<b>EQUITY</b>			
Contributed equity	15(a)	1,207	1,508
Reserves	15(b)	3,425	3,459
Retained earnings		1,082	1,539
<b>Total equity</b>		<b>5,714</b>	<b>6,506</b>

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

# Consolidated statement of changes in equity

## for the year ended 30 June 2016

	Notes	Attributable to owners of Aurizon Holdings Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
<b>Balance at 1 July 2014</b>		1,508	3,534	1,331	6,373
Profit for the year		-	-	604	604
Other comprehensive income	15(b)	-	(11)	-	(11)
Total comprehensive income for the year		-	(11)	604	593
<b>Transactions with owners in their capacity as owners:</b>					
Buy-back of ordinary shares	15(b)	-	(69)	-	(69)
Dividends provided for or paid	14(a)	-	-	(396)	(396)
Share-based payments	15(b)	-	5	-	5
		-	(64)	(396)	(460)
Balance at 30 June 2015		1,508	3,459	1,539	6,506
<b>Balance at 1 July 2015</b>		<b>1,508</b>	<b>3,459</b>	<b>1,539</b>	<b>6,506</b>
Profit for the year		-	-	72	72
Other comprehensive income	15(b)	-	(6)	-	(6)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>(6)</b>	<b>72</b>	<b>66</b>
<b>Transactions with owners in their capacity as owners:</b>					
Buy-back of ordinary shares	15(a)	(301)	-	-	(301)
Dividends provided for or paid	14(a)	-	-	(529)	(529)
Share-based payments	15(b)	-	(28)	-	(28)
		(301)	(28)	(529)	(858)
<b>Balance at 30 June 2016</b>		<b>1,207</b>	<b>3,425</b>	<b>1,082</b>	<b>5,714</b>

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

# Consolidated statement of cash flows

## for the year ended 30 June 2016

	Notes	2016 \$m	2015 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		<b>3,767</b>	4,170
Payments to suppliers and employees (inclusive of GST)		<b>(2,420)</b>	(2,674)
Interest received		<b>2</b>	9
Income taxes (paid)/received		<b>(131)</b>	11
<b>Net cash inflow from operating activities</b>	<b>23</b>	<b>1,218</b>	<b>1,516</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<b>(692)</b>	(1,013)
Proceeds from sale of business/property, plant and equipment		<b>38</b>	170
Payments for intangibles		<b>(80)</b>	(70)
Interest paid on qualifying assets	3	<b>(12)</b>	(28)
Payments for investment in associates		<b>(4)</b>	(226)
Distributions received from associates		<b>10</b>	6
<b>Net cash (outflow) from investing activities</b>		<b>(740)</b>	<b>(1,161)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>1,278</b>	1,142
Repayment of borrowings		<b>(828)</b>	(1,035)
Payment of transaction costs related to borrowings		<b>(8)</b>	(4)
Payments for share buy-back		<b>(301)</b>	(69)
Payments for shares acquired for share based payments	15(b)	<b>(54)</b>	(12)
Dividends paid to Company's shareholders	14(a)	<b>(529)</b>	(396)
Interest paid		<b>(138)</b>	(128)
<b>Net cash (outflow) from financing activities</b>		<b>(580)</b>	<b>(502)</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(102)</b>	(147)
Cash and cash equivalents at the beginning of the financial year		<b>171</b>	318
<b>Cash and cash equivalents at the end of the financial year</b>		<b>69</b>	<b>171</b>

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

# Notes to the consolidated financial statements

## 30 June 2016

### About this report

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

The financial statements were approved for issue by the Directors on 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 million dollars, unless otherwise indicated
- › Where necessary, comparative information has been restated to conform with changes in presentation in the current year
- › Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2015
- › Equity account for associates listed at note 19

#### The notes to the financial statements

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

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

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

#### KEEPING IT SIMPLE

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

#### SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

	Note
Revenue	2
Income tax	4
Depreciation	8
Impairment	8
Associates and joint arrangements	19

### Key events and transactions for reporting period

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

#### (a) Access Revenue

##### Access Undertaking

The original term of the 2010 Access Undertaking (UT3) expired on 30 June 2013 and Aurizon Network 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 Aurizon Network'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 FY18.

On 7 July 2016, Aurizon Network 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 transitional tariffs approved for that year applied to actual volumes.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### (b) Impairment

During the year, the following impairment losses have been recognised.

	2016 \$m	2015 \$m
Strategic infrastructure projects and assets under construction (i)	125	19
Aquila impairment (ii)	226	-
Rollingstock (iii)	177	-
Assets classified as held for sale	-	1
	528	20

### (i) Strategic Projects

#### West Pilbara Iron Ore Project

The +/-15% non-binding tariffs were submitted on 30 November 2015. The CEOs of the participating companies met in December 2015 to review the progress of the West Pilbara Iron Ore Project (WPIOP). While the CEOs received reports on considerable progress in areas such as the capital and operating costs of the mine and infrastructure, the current market conditions and uncertainty about future supply and demand were central to the CEOs' considerations.

The participants are committed to consolidating the high quality work to date and minimising project costs. However, no material further work will be undertaken on the definitive feasibility studies. Aurizon's period of exclusivity to develop the integrated infrastructure solution expired on 30 April 2016.

As a result of the above decisions and uncertainty surrounding the timing of the development as well as current market conditions, \$83 million of project costs were fully impaired at 31 December 2015. The carrying value of the project is now nil.

#### Galilee Basin

At 31 December 2015 an impairment of \$30 million was recorded in relation to the brownfield expansion of the Central Queensland Coal Network (CQCN). The amount represents directly attributable development costs such as engineering designs, environmental and building approvals, which could be recovered through the regulatory process at a future date. However, a decision has been made to impair these costs due to uncertainty surrounding the project's timing and the current market outlook. The carrying value of the project is now nil.

### (ii) Investment in Aquila Resources Limited

In July 2014, Aurizon completed the acquisition of 15% interest in Aquila Resources Limited (Aquila) for \$226 million. Following the acquisition, Aurizon equity accounts for its share of Aquila's assets, liabilities and profit or loss.

At 31 December 2015 Aurizon performed a review of the value of the individual projects within the Aquila investment. The results of this review are summarised below:

- The Aquila Board carried out a strategic review of the South African manganese and iron ore projects and decided to place the projects into care and maintenance while a divestment program was initiated. As a result, all South African assets were written down to nil
- A supplementary scoping study of the Eagle Downs project was initiated and the timing of full development is uncertain after the termination of a major contract for the project. As a result, the value of Eagle Downs was impaired to \$8 million given Aquila's expectation that the mine will continue to be developed
- All other Queensland coal assets were written down to nil based on the current market outlook and given that no substantial expenditure was planned for 2016
- As outlined in (i) above, due to the uncertainty surrounding the timing of the WPIOP development, current market conditions and the agreement that no further material work will be undertaken, the asset was fully written down

At 31 December 2015 an impairment of \$153 million for Aquila was recorded.

A further review was completed at 30 June 2016 which resulted in additional impairment of \$73 million. The total impairment for Aquila at 30 June 2016 was \$226 million. This follows further deferral in the timing of the development of its Queensland coal assets and reflects the material reduction in the long term hard coking coal price of 15% since the date of the last review on 31 December 2015. The impairment provides for all known exposures, including Aquila's contractual obligations in respect of power and port access arrangements, and results in Aurizon's investment being fully written down.

### (iii) Rollingstock

Due to the continued improvements in rollingstock efficiency and productivity coupled with a lower volume growth outlook, the Enterprise Rollingstock Master Plan, which forecasts the requirements of locomotives and wagons based on estimated volume demand for the next 10 years, was revised. This review of fleet resulted in 121 locomotives and 1,641 wagons being identified as surplus to the current requirements of the Group. Rollingstock identified as surplus and associated inventory has been impaired by \$177 million to net realisable value (of which \$148 million was recognised at 31 December 2015) representing approximately 6% of the carrying value of the rollingstock fleet.

### (c) Funding Activities

#### Debt refinancing

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

In April 2016, Aurizon Finance Pty Ltd refinanced a \$300 million tranche of its bank debt, increasing the tranche size by \$200 million to \$500 million and extending the maturity date to 1 July 2020.

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

On 23 May 2016, Aurizon Network Pty Ltd 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. Aurizon Network Pty Ltd used the proceeds to repay and cancel \$775 million of its syndicated debt facilities.

### (d) On-Market Share Buy-Back Scheme

On 11 November 2014, the Company announced an on-market buy-back program. The Company has acquired 70.3 million shares at a cost of \$301 million during the year ended 30 June 2016. Since commencement of this program, the Company has acquired 85.5 million shares at a total cost of \$370 million.

### (e) Enterprise Agreement (EA)

On 3 September 2015, the Fair Work Commission (FWC) approved Aurizon's final outstanding Enterprise Agreement (EA), the Aurizon Train Crew and Transport Operations EA. The approval by the FWC finalised the EA. It covers approximately 1,700 employees in Queensland and came into effect on 10 September 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.

This follows the approval of the Aurizon Construction and Maintenance EA on 21 August 2015, and the Aurizon Staff EA which was approved and implemented in January 2015. As a result of the three EA approvals, approximately 5,000 Queensland based employees will be rewarded with pay increases and competitive conditions, while providing Aurizon with the productivity enhancements and workplace flexibility that the Company needs to sustain and grow its business.

# Results for the year

## IN THIS SECTION

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

1	Segment information	Page 52
2	Revenue and other income	Page 55
3	Expenses	Page 56
4	Income tax	Page 57
5	Earnings per share	Page 59

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 1 Segment information

#### **KEEPING IT SIMPLE**

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

Aurizon determines and presents operating segments on a functional basis reflecting how the results are reported internally and how the business is managed. The Managing Director & CEO and the Executive Committee assess the performance of the Group based on the underlying earnings before interest and tax (Underlying EBIT).

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

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

##### **Network**

Provision of access to, operation and management of the Central Queensland Coal Network (CQCN). Provision of overhaul and maintenance of rail network assets.

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

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

##### **Operations**

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

##### **Other**

Corporate costs including costs in respect of the Managing Director & CEO, corporate finance, tax, treasury, internal audit, risk, governance and strategic projects.

##### **Intersegment transactions**

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 1 Segment information (continued)

#### (b) Segment information

	Network \$m	Commercial & Marketing \$m	Operations \$m	Other \$m	Eliminations \$m	Total continuing operations \$m
<b>2016</b>						
External revenue	477	2,924	42	15	-	3,458
Internal revenue	702	7	173	-	(882)	-
<b>Total functional revenue</b>	<b>1,179</b>	<b>2,931</b>	<b>215</b>	<b>15</b>	<b>(882)</b>	<b>3,458</b>
<b>Functional costs</b>						
Employee benefits expense	(117)	(29)	(710)	(35)	-	(891)
Energy and fuel	(125)	-	(120)	-	-	(245)
Track Access	-	-	(1,016)	-	701	(315)
Consumables	(147)	(6)	(495)	(35)	174	(509)
Other	(26)	(14)	(23)	(10)	7	(66)
<b>Total functional costs excluding depreciation and amortisation</b>	<b>(415)</b>	<b>(49)</b>	<b>(2,364)</b>	<b>(80)</b>	<b>882</b>	<b>(2,026)</b>
EBITDA (underlying)*	764	2,882	(2,149)	(65)	-	1,432
Depreciation and amortisation	(258)	(4)	(294)	(5)	-	(561)
<b>EBIT (underlying)*</b>	<b>506</b>	<b>2,878</b>	<b>(2,443)</b>	<b>(70)</b>	<b>-</b>	<b>871</b>
Significant adjustments (note 1(c))						(528)
<b>EBIT*</b>						<b>343</b>
Net finance costs						(150)
<b>Profit before income tax</b>						<b>193</b>
Income tax expense						(121)
<b>Profit for the year</b>						<b>72</b>
<b>2015</b>						
External revenue	458	3,148	128	46	-	3,780
Internal revenue	650	3	204	-	(857)	-
<b>Total functional revenue</b>	<b>1,108</b>	<b>3,151</b>	<b>332</b>	<b>46</b>	<b>(857)</b>	<b>3,780</b>
<b>Functional costs</b>						
Employee benefits expense	(121)	(47)	(787)	(54)	-	(1,009)
Energy and fuel	(107)	(1)	(183)	-	-	(291)
Track Access	-	-	(973)	-	645	(328)
Consumables	(165)	(29)	(604)	(25)	209	(614)
Other	(16)	10	(17)	(29)	3	(49)
<b>Total functional costs excluding depreciation and amortisation</b>	<b>(409)</b>	<b>(67)</b>	<b>(2,564)</b>	<b>(108)</b>	<b>857</b>	<b>(2,291)</b>
EBITDA (underlying)*	699	3,084	(2,232)	(62)	-	1,489
Depreciation and amortisation	(215)	(5)	(295)	(4)	-	(519)
<b>EBIT (underlying)*</b>	<b>484</b>	<b>3,079</b>	<b>(2,527)</b>	<b>(66)</b>	<b>-</b>	<b>970</b>
Significant adjustments (note 1(c))						-
<b>EBIT*</b>						<b>970</b>
Net finance costs						(135)
<b>Profit before income tax</b>						<b>835</b>
Income tax expense						(231)
<b>Profit for the year</b>						<b>604</b>

\* Refer to page 95 for a reconciliation of Non-IFRS information



# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 1 Segment information (continued)

#### (c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis. There were no significant adjustments in the prior period. The significant adjustments for the current period are:

	2016 \$m
Strategic infrastructure projects and assets under construction impairment (i)	125
Aquila impairment (ii)	226
Rollingstock impairment (iii)	177
<b>Total significant adjustments</b>	<b>528</b>

#### (i) Strategic infrastructure projects impairment (\$125 million)

The impairment of strategic infrastructure projects relates to West Pilbara Infrastructure Project (\$83 million), Galilee Basin (\$30 million) and other projects (\$12 million). For details of the West Pilbara Infrastructure Project and Galilee Basin impairment refer to page 50 of this report. Other projects totalling \$12 million have also been impaired which primarily relate to CQCN expansion projects that are no longer expected to proceed.

#### (ii) Impairment of the investment in Aquila (\$226 million)

The impairment of Aurizon's investment in Aquila has been explained on page 50 of this report.

#### (iii) Impairment of rollingstock (\$177 million)

The impairment of rollingstock has been explained on page 50 of this report.

#### (d) Customer disclosure

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

	2016 \$m	2015 \$m	2016 credit rating	2015 credit rating
Customer 1	<b>515</b>	571	<b>A</b>	A+
Customer 2*	<b>385</b>	352	<b>BBB-</b>	BBB
<b>Total</b>	<b>900</b>	923		

\* Total revenue from Customer 2 was below 10% of the Group revenue in the prior year

### 2 Revenue and other income

#### KEEPING IT SIMPLE

Aurizon recognises revenue from the provision of access to the CQCN and the provision of freight haulage services across Australia.

#### (a) Revenue from continuing operations

Revenue by commodity is as follows:

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

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

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

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

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 2 Revenue and other income (continued)

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

	Network \$m	Coal \$m	Iron Ore \$m	Freight \$m	Other \$m	Total \$m
<b>2016</b>						
<b>External revenue</b>						
<b>Revenue from external customers</b>						
Services revenue						
Track Access	435	734	-	-	1	1,170
Freight transport	-	1,143	311	672	-	2,126
Other services	4	-	-	41	41	86
Other revenue	37	3	-	18	18	76
<b>Total revenue from external customers</b>	<b>476</b>	<b>1,880</b>	<b>311</b>	<b>731</b>	<b>60</b>	<b>3,458</b>
<b>Internal revenue</b>						
Services revenue						
Track Access	701	-	-	-	-	701
Freight transport	-	-	-	7	-	7
Other services	1	-	-	-	173	174
<b>Total internal revenue</b>	<b>702</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>173</b>	<b>882</b>
<b>Total revenue</b>	<b>1,178</b>	<b>1,880</b>	<b>311</b>	<b>738</b>	<b>233</b>	<b>4,340</b>
Other income (note 2(b))	1	1	-	1	(3)	-
<b>Total revenue and other income</b>	<b>1,179</b>	<b>1,881</b>	<b>311</b>	<b>739</b>	<b>230</b>	<b>4,340</b>
Internal elimination						(882)
<b>Consolidated revenue and other income</b>						<b>3,458</b>
<b>2015</b>						
<b>External revenue</b>						
<b>Revenue from external customers</b>						
Services revenue						
Track Access	403	707	-	-	-	1,110
Freight transport	-	1,182	338	787	-	2,307
Other services	8	-	-	111	43	162
Other revenue	45	5	-	17	86	153
<b>Total revenue from external customers</b>	<b>456</b>	<b>1,894</b>	<b>338</b>	<b>915</b>	<b>129</b>	<b>3,732</b>
<b>Internal revenue</b>						
Services revenue						
Track Access	645	-	-	-	-	645
Freight transport	-	-	-	3	-	3
Other services	5	-	-	-	204	209
<b>Total internal revenue</b>	<b>650</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>204</b>	<b>857</b>
<b>Total revenue</b>	<b>1,106</b>	<b>1,894</b>	<b>338</b>	<b>918</b>	<b>333</b>	<b>4,589</b>
Other income (note 2(b))	2	-	-	1	45	48
<b>Total revenue and other income</b>	<b>1,108</b>	<b>1,894</b>	<b>338</b>	<b>919</b>	<b>378</b>	<b>4,637</b>
Internal elimination						(857)
<b>Consolidated revenue and other income</b>						<b>3,780</b>

Other services includes \$41 million (2015: \$111 million) from the State of Queensland for Transport Service Contracts for Regional Freight and Livestock.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 2 Revenue and other income (continued)

#### SIGNIFICANT JUDGEMENTS

##### Take or pay revenue

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

Take or pay revenue of \$3 million has been accrued for the Moura system (2015: \$33 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.

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

##### (i) Track Access

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

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

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

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

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

##### (ii) Freight transport

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

##### (b) Other income

	2016 \$m	2015 \$m
Net gain on disposal of property, plant and equipment	-	47
Net foreign exchange gains	-	1
	-	48

#### Recognition and measurement

##### Disposal of assets

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

### 3 Expenses

Profit before income tax includes the following specific expenses:

	2016 \$m	2015 \$m
<b>Employee benefits expenses</b>		
Defined benefit superannuation expense	18	19
Defined contribution superannuation expense	63	67
Redundancies	24	36
Salaries, wages and allowances	478	532
Other employment expenses including on-costs	308	355
	891	1,009
<b>Consumables</b>		
Repairs and maintenance	314	357
Other	195	257
	509	614
<b>Depreciation and amortisation expense</b>		
Depreciation	550	512
Amortisation of intangibles	11	7
	561	519

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 3 Expenses (continued)

	2016 \$m	2015 \$m
<b>Impairment losses*</b>		
Assets classified as held for sale	-	1
Inventory – rollingstock	30	-
Property, plant and equipment	267	19
Other	5	-
	<b>302</b>	<b>20</b>

\* Refer to note 1(c) and note 8 for impairment information

	2016 \$m	2015 \$m
<b>Finance costs</b>		
Interest and finance charges paid/payable	153	153
Amortisation of capitalised borrowing transaction costs	10	20
Counterparty credit risk adjustments	1	(1)
	<b>164</b>	<b>172</b>
Amount capitalised to qualifying assets	(12)	(28)
<b>Total finance costs</b>	<b>152</b>	<b>144</b>

#### SIGNIFICANT JUDGEMENTS

The significant judgements in relation to depreciation and impairment have been explained on page 63 of this report.

### 4 Income tax

#### KEEPING IT SIMPLE

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

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

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

#### (a) Income tax expense

	2016 \$m	2015 \$m
Current tax	122	127
Deferred tax	1	118
Current tax relating to prior periods	13	(15)
Deferred tax relating to prior periods	(15)	1
	<b>121</b>	<b>231</b>
Income tax expense is attributable to:		
Profit from continuing operations	121	231
Deferred income tax expense included in income tax expense comprises:		
Decrease (Increase) in deferred tax assets (note 4(d))	7	3
Increase (Decrease) in deferred tax liabilities (note 4(e))	(21)	116
	<b>(14)</b>	<b>119</b>

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

	2016 \$m	2015 \$m
Profit before income tax expense	193	835
Tax at the Australian tax rate of 30% (2015: 30%)	58	251
Tax effect of amounts which are not (taxable) deductible in calculating taxable income:		
- Research and development	(2)	(2)
- Non-assessable income	(1)	(9)
- Other	-	5
Adjustments for tax of prior periods	(2)	(14)
Impairment of an associate for which no deferred tax asset is recognised	68	-
	<b>121</b>	<b>231</b>

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

	2016 \$m	2015 \$m
Cash flow hedges	(2)	(6)

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 4 Income tax (continued)

#### (d) Deferred tax assets

	2016 \$m	2015 \$m
<b>Total deferred tax assets</b>	<b>201</b>	205
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(201)</b>	(205)
<b>Net deferred tax assets</b>	<b>-</b>	-

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

Movements	Provisions/ accruals \$m	Customer contracts \$m	Unearned revenue \$m	Financial instruments \$m	Other \$m	Total \$m
<b>At 1 July 2014</b>	129	59	3	8	3	202
(Charged)/credited						
- to profit or loss	3	(13)	(2)	5	4	(3)
- to other comprehensive income	-	-	-	6	-	6
<b>At 30 June 2015</b>	132	46	1	19	7	205
<b>At 1 July 2015</b>	<b>132</b>	<b>46</b>	<b>1</b>	<b>19</b>	<b>7</b>	<b>205</b>
(Charged)/credited						
- to profit or loss	(6)	(13)	(1)	17	(4)	(7)
- to other comprehensive income	-	-	-	2	-	2
- directly to equity	-	-	-	-	1	1
<b>At 30 June 2016</b>	<b>126</b>	<b>33</b>	<b>-</b>	<b>38</b>	<b>4</b>	<b>201</b>

#### (e) Deferred tax liabilities

	2016 \$m	2015 \$m
<b>Total deferred tax liabilities</b>	<b>790</b>	811
Set-off of deferred tax assets pursuant to set-off provisions (note 4(d))	<b>(201)</b>	(205)
<b>Net deferred tax liabilities</b>	<b>589</b>	606

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

Movements	Non-current assets \$m	Consumables and spares \$m	Accrued income \$m	Financial instruments \$m	Other \$m	Total \$m
<b>At 1 July 2014</b>	670	21	3	-	1	695
Charged/(credited)						
- to profit or loss	119	(9)	-	6	-	116
<b>At 30 June 2015</b>	789	12	3	6	1	811
<b>At 1 July 2015</b>	<b>789</b>	<b>12</b>	<b>3</b>	<b>6</b>	<b>1</b>	<b>811</b>
Charged/(credited)						
- to profit or loss	(33)	(1)	(3)	17	(1)	(21)
<b>At 30 June 2016</b>	<b>756</b>	<b>11</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>790</b>

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 4 Income tax (continued)

#### SIGNIFICANT JUDGEMENTS

The deferred tax asset of \$68 million, attributable to the impairment of the investment in an associate has not been recognised as it is not considered probable that it will be recovered in the foreseeable future. The recoverability of the deferred tax asset is dependent on the sale of shares in the associate.

#### Recognition and measurement

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or 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 current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

### 5 Earnings per share

#### KEEPING IT SIMPLE

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

#### (a) Basic earnings per share

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

	2016 Cents	2015 Cents
Total basic EPS attributable to the ordinary equity holders of the Company	<b>3.4</b>	28.4

#### (b) Diluted earnings per share

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

	2016 Cents	2015 Cents
Total diluted EPS attributable to the ordinary equity holders of the Company	<b>3.4</b>	28.3

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

	2016 Number '000	2015 Number '000
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	<b>2,088,213</b>	2,129,414
Adjustments for calculation of diluted EPS:		
Rights	<b>3,221</b>	9,255
<b><i>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted EPS</i></b>	<b>2,091,434</b>	2,138,669

# Operating assets and liabilities

## IN THIS SECTION

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

6	Trade and other receivables	Page 61
7	Inventories	Page 61
8	Property, plant and equipment	Page 62
9	Intangible assets	Page 65
10	Trade and other payables	Page 66
11	Provisions	Page 66
12	Other liabilities	Page 67

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 6 Trade and other receivables

	2016 \$m	2015 \$m
<b>Current</b>		
Trade receivables	<b>383</b>	361
Provision for impairment of receivables	<b>(31)</b>	(8)
Net trade receivables	<b>352</b>	353
Other receivables *	<b>162</b>	190
	<b>514</b>	543

\* Other receivables predominantly relate to accrued revenue

#### Past due but not impaired

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

	2016 \$m	2015 \$m
Up to three months	<b>42</b>	43
Three to six months	<b>2</b>	-
Over six months	<b>20</b>	4
	<b>64</b>	47

#### 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.

On 18 January 2016, Aurizon customer Queensland Nickel (QNI) was placed into voluntary administration. The \$22 million owed by QNI has been fully provided for. Other than this one-off event, the lifetime expected loss assessment of the Group remains unchanged.

### 7 Inventories

	2016 \$m	2015 \$m
<b>Current</b>		
Raw materials and stores - at cost	<b>148</b>	185
Work in progress - at cost	<b>5</b>	4
	<b>153</b>	189
<b>Non-current</b>		
Raw materials and stores - at cost	<b>44</b>	43
Provision for inventory obsolescence	<b>(8)</b>	(6)
	<b>36</b>	37

#### Recognition and measurement

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

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

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



# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 8 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	769	144	351	370	3,103	5,163	9,900
Additions	653	-	-	11	-	1	665
Transfers between asset classes	(917)	2	24	65	91	735	-
Disposals	-	(3)	(1)	(7)	(4)	(18)	(33)
Impairment (note 3)	(120)	-	-	-	(147)	-	(267)
Assets classified as held for sale	-	2	2	-	-	-	4
Depreciation/amortisation (note 3)	-	-	(19)	(49)	(220)	(262)	(550)
<b>Closing net book amount</b>	<b>385</b>	<b>145</b>	<b>357</b>	<b>390</b>	<b>2,823</b>	<b>5,619</b>	<b>9,719</b>
Cost	385	145	521	722	4,921	7,033	13,727
Accumulated depreciation and impairment	-	-	(164)	(332)	(2,098)	(1,414)	(4,008)
<b>Net book amount</b>	<b>385</b>	<b>145</b>	<b>357</b>	<b>390</b>	<b>2,823</b>	<b>5,619</b>	<b>9,719</b>
Owned	385	145	328	377	2,823	1,448	5,506
Leased	-	-	29	13	-	4,171	4,213
	<b>385</b>	<b>145</b>	<b>357</b>	<b>390</b>	<b>2,823</b>	<b>5,619</b>	<b>9,719</b>
<b>2015</b>							
Opening net book amount	876	142	366	272	3,122	4,663	9,441
Additions	1,017	-	-	10	-	-	1,027
Transfers between asset classes	(1,093)	2	17	141	206	727	-
Disposals	(13)	-	(1)	(11)	(4)	(7)	(36)
Impairment (note 3)	(18)	-	-	(1)	-	-	(19)
Assets classified as held for sale	-	-	(14)	9	4	-	(1)
Depreciation/amortisation (note 3)	-	-	(17)	(50)	(225)	(220)	(512)
Closing net book amount	769	144	351	370	3,103	5,163	9,900
Cost	769	144	500	635	4,998	6,373	13,419
Accumulated depreciation and impairment	-	-	(149)	(265)	(1,895)	(1,210)	(3,519)
<b>Net book amount</b>	<b>769</b>	<b>144</b>	<b>351</b>	<b>370</b>	<b>3,103</b>	<b>5,163</b>	<b>9,900</b>
Owned	769	144	319	357	3,103	1,130	5,822
Leased	-	-	32	13	-	4,033	4,078
	<b>769</b>	<b>144</b>	<b>351</b>	<b>370</b>	<b>3,103</b>	<b>5,163</b>	<b>9,900</b>

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

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

#### SIGNIFICANT JUDGEMENTS

##### (i) Depreciation

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

##### (ii) Impairment

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.

**Cash generating units:** For the year ended 30 June 2016, the Queensland, Intermodal and Western Australia cash generating units (CGUs) had indicators of impairment due to decline in market conditions and reduced revenue and profitability compared to the corporate plan. The recoverable amounts of CGUs for 30 June 2016 have been determined based on value in use calculations. The value in use is calculated based on a three-year Board approved corporate plan, a terminal growth rate of 2.5% (2015: 2.7%) and a pre-tax discount rate ranging from 11.8% - 12.2% (2015: 12.5% - 12.9%). The value in use calculations indicate headroom to the carrying value of the respective CGUs, therefore no impairment expense has been recognised. However, the Intermodal and Western Australia CGUs are sensitive to key assumptions and are discussed further below.

**Intermodal:** The key judgement in the impairment assessment for the Intermodal CGU is that the Group can achieve the corporate plan for FY17 to FY19. The corporate plan includes a range of cost out initiatives largely within the control of Aurizon and revenue opportunities that will deliver improved earnings over the plan period to FY19. The achievement of cost out initiatives is critical to achieving the corporate plan. As at 30 June 2016, the carrying value of the Intermodal assets was \$248 million, which is comprised of \$155 million of rollingstock, \$43 million of land, buildings and infrastructure, and other assets of \$50 million. If FY19 EBITDA was 10% below corporate plan then this may result in an impairment of approximately \$26 million. Alternatively, if a 1% higher discount rate was used this may result in an impairment of approximately \$14 million.

**Western Australia:** The impairment assessment of the Western Australian CGU is critically dependent on iron ore customers continuing to operate and comply with all current contractual arrangements. The terminal year EBITDA used in the impairment model calculation has been adjusted for iron ore customers whose mines are expected to close beyond the three-year corporate plan period. As at 30 June 2016, the carrying value of the Western Australian CGU was \$638 million, which is comprised of \$367 million of rollingstock, \$217 million of land, buildings and infrastructure, and other assets of \$54 million. The iron ore market in general remains volatile and challenging and a number of miners are facing significant financial and operating challenges. Should any of the current major iron ore customers either cease to operate before expected end of mine life or be unable to continue to comply with current contractual arrangements then the CGU may become partially impaired.

**Strategic infrastructure projects:** The long lead time in developing major rail infrastructure projects and the significant levels of work undertaken on design and approvals before the physical construction commences, requires judgement to be exercised in relation to the timing and nature of cost capitalisation, the probability of the project being completed and the recoverability of capitalised costs. Judgement has been applied in determining the level of uncertainty surrounding the timing of development of these projects and assessing the current market outlook. Due to the ongoing uncertainty surrounding the timing of the development of WPIOP and the brownfield expansion of the CQCN (Galilee Basin) capitalised project costs of \$83 million and \$30 million respectively have been fully impaired. Judgement will continue to be applied in relation to capitalisation of project development costs. For further details, refer to the key events and transactions for reporting period note (i) Strategic Projects on page 50 of this report.

**Individual non-current assets:** The Group is required to assess the recoverability of non-current assets at each reporting period. During the period, the Enterprise Rollingstock Master Plan has been revised as a result of continued improvements in rollingstock efficiency and productivity coupled with a lower volume growth outlook. This has resulted in an impairment of \$177 million recorded for the year (of which \$148 million was recognised at 31 December 2015) representing approximately 6% of the carrying value of the rollingstock fleet. As at 30 June 2016, the balance of rollingstock is \$2,823 million. Judgement has been applied to estimate the forecast volumes and productivity improvements from technological advancements, as well as the required level of contingent fleet, in determining the level of rollingstock required for the foreseeable future. However, in the absence of tonnage growth exceeding the rate of productivity improvement, it is anticipated that there may be further fleet reductions required in the future. The application of this judgement will continue to be re-assessed.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

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

#### Recognition and measurement

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

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

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

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

###### Leased coal infrastructure

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

##### (ii) Subsequent costs

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

##### (iii) Depreciation and amortisation

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

Buildings, infrastructure, rollingstock, 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
Rollingstock	8–35 years
Plant and equipment	3–20 years
Leased property	3–40 years

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

##### (iv) Derecognition

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

##### (v) Impairment of assets

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

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

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

#### 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 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.

### 9 Intangible assets

	Software \$m	Key customer contracts \$m	Software under development \$m	Total \$m
<b>2016</b>				
Opening net book amount	21	1	105	127
Additions	-	-	74	74
Transfers	50	-	(50)	-
Amortisation expense (note 3)	(10)	(1)	-	(11)
<b>Closing net book amount</b>	<b>61</b>	<b>-</b>	<b>129</b>	<b>190</b>
Cost	177	7	129	313
Accumulated amortisation and impairment	(116)	(7)	-	(123)
<b>Net book amount</b>	<b>61</b>	<b>-</b>	<b>129</b>	<b>190</b>
<b>2015</b>				
Opening net book amount	14	2	48	64
Additions	1	-	69	70
Transfers	12	-	(12)	-
Amortisation expense (note 3)	(6)	(1)	-	(7)
Closing net book amount	21	1	105	127
Cost	127	7	105	239
Accumulated amortisation and impairment	(106)	(6)	-	(112)
<b>Net book amount</b>	<b>21</b>	<b>1</b>	<b>105</b>	<b>127</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. Amortisation is calculated using the straight-line method over the estimated useful life which varies from three to eleven years.

##### (ii) Key customer contracts

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 9 Intangible assets (continued)

#### Recognition and measurement (continued)

##### (iii) Research and development

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

### 10 Trade and other payables

	2016 \$m	2015 \$m
<b>Current liabilities</b>		
Trade payables	279	341
Other payables	18	27
	<b>297</b>	<b>368</b>

#### Recognition and measurement

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

### 11 Provisions

	2016 \$m	2015 \$m
<b>Current</b>		
Employee benefits (a)	250	316
Provision for insurance claims	5	9
Litigation and workers' compensation provision	17	19
Land rehabilitation	2	2
	<b>274</b>	<b>346</b>
<b>Non-current</b>		
Employee benefits (a)	23	33
Litigation and workers' compensation provision	18	21
Decommissioning/make good and other provisions	4	5
Land rehabilitation	48	38
	<b>93</b>	<b>97</b>
<b>Total provisions</b>	<b>367</b>	<b>443</b>

#### (a) Employee benefits

	2016 \$m	2015 \$m
Annual leave	66	78
Long service leave	151	159
Other*	56	112
	<b>273</b>	<b>349</b>

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

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, bonuses and redundancy provision. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of \$109 million (2015: \$147 million) that is not expected to be taken or paid within the next 12 months.

#### Details of employee benefits

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

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 11 Provisions (continued)

#### Details of employee benefits (continued)

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

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

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

##### (iii) Bonus plans

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

##### (iv) Termination benefits

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

##### (v) Superannuation

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

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a whole of Government basis and reported in the whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund at least every three years. The latest valuation was completed as at 30 June 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 2.8% (2015: 3.4%).

To measure the estimated costs to remediate contaminated land an inflation rate of 2.3% (2015: 2.7%) has been applied, based on remediation dates ranging between 10 to 40 years. A weighted average discount rate of 2.3% (2015: 3.7%) has been used in determining present value, based on the interest rate which reflect the maturity profile of the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

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

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

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

### 12 Other liabilities

	2016 \$m	2015 \$m
<b>Current</b>		
Income received in advance	49	52
Other current liabilities	4	3
	<b>53</b>	<b>55</b>
<b>Non-current</b>		
Income received in advance	222	252
Other non-current liabilities	5	4
	<b>227</b>	<b>256</b>

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

# Capital and financial risk management

## IN THIS SECTION

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

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# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 13 Capital risk management

#### KEEPING IT SIMPLE

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

The Group and the Company monitor its capital structure by reference to its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is total equity plus net debt. There were no changes in the Group's approach to capital and financial risk management during the year. Refer to note 17 for further details.

	Notes	2016 \$m	2015 \$m
Total borrowings	16	<b>3,490</b>	2,983
Less: cash and cash equivalents		<b>(69)</b>	(171)
Net debt		<b>3,421</b>	2,812
Total equity		<b>5,714</b>	6,506
<b>Total capital</b>		<b>9,135</b>	9,318
<b>Gearing ratio</b>		<b>37.4%</b>	30.2%

### 14 Dividends

#### (a) Ordinary shares

	2016 \$m	2015 \$m
Interim dividend for the year ended 30 June 2016 of 11.3 cents 70% franked (2015: 10.1 cents unfranked) per share, paid 29 March 2016	<b>234</b>	214
Final dividend for the year ended 30 June 2015 of 13.9 cents 30% franked (2014: 8.5 cents, unfranked) per share, paid 28 September 2015	<b>295</b>	182
	<b>529</b>	396

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

	2016 \$m	2015 \$m
Since 30 June 2016, the directors have recommended the payment of a final dividend of 13.3 cents per fully paid ordinary share 70% franked (2015: 13.9 cents, 30% franked). The aggregate amount of the proposed dividend expected to be paid on 26 September 2016 out of retained earnings, but not recognised as a liability at year end is:	<b>273</b>	295

#### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2016 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ending 30 June 2017.

	2016 \$m	2015 \$m
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2015: 30%)	<b>91</b>	76

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

### 15 Equity and reserves

#### KEEPING IT SIMPLE

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

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

#### (a) Contributed equity

##### (i) Issued capital

	2016 Shares '000	2015 Shares '000	2016 \$m	2015 \$m
Ordinary shares				
- fully paid	<b>2,051,745</b>	2,122,010	<b>1,207</b>	1,508

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

Details	Number of shares '000	\$m
At 1 July 2014	2,137,285	1,508
On-market share buy-back	(15,275)	-
At 30 June 2015	2,122,010	1,508
On-market share buy-back	(70,265)	(301)
<b>At 30 June 2016</b>	<b>2,051,745</b>	<b>1,207</b>

The on-market share buy-back has been paid out of Issued Capital for the year ended 30 June 2016. In the prior year, the on-market share buy-back was paid out of Capital Reserves, refer note 15(b).

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



# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 15 Equity and reserves (continued)

#### (b) Reserves

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2015		-	(30)	20	3,469	3,459
Fair value losses taken to equity		-	(3)	-	-	(3)
Transfers to property, plant and equipment		-	(3)	-	-	(3)
Deferred tax		-	2	-	-	2
Share of an associate's other comprehensive income		(2)	-	-	-	(2)
Other comprehensive income		(2)	(4)	-	-	(6)
Transactions with owners in their capacity as owners						
Share-based payments expense	27(b)	-	-	25	-	25
Employee share trust to employees		-	-	(54)	-	(54)
Deferred tax		-	-	1	-	1
<b>At 30 June 2016</b>		<b>(2)</b>	<b>(34)</b>	<b>(8)</b>	<b>3,469</b>	<b>3,425</b>

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2014		-	(19)	15	3,538	3,534
Fair value losses taken to equity		-	(22)	-	-	(22)
Transfers to property, plant and equipment		-	5	-	-	5
Deferred tax		-	6	-	-	6
Other comprehensive income		-	(11)	-	-	(11)
Transactions with owners in their capacity as owners						
On-market share buy-back		-	-	-	(69)	(69)
Share-based payments expense	27(b)	-	-	17	-	17
Employee share trust to employees		-	-	(12)	-	(12)
<b>At 30 June 2015</b>		<b>-</b>	<b>(30)</b>	<b>20</b>	<b>3,469</b>	<b>3,459</b>

#### Nature and purpose of reserves

##### Cash flow hedges

The hedging reserve is used to record gains or losses on hedging instruments that are designated cash flow hedges and are recognised in other comprehensive income, as described in note 18(i). Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

##### Share-based payments

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

##### Capital reserves

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 16 Borrowings

#### KEEPING IT SIMPLE

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

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

	2016 \$m	2015 \$m
<b>Current - Unsecured</b>		
Working capital facilities	6	59
	<b>6</b>	<b>59</b>
<b>Non-current - Unsecured</b>		
Medium-term notes	2,086	1,250
Syndicated facilities	1,415	1,690
Capitalised borrowing costs	(17)	(16)
	<b>3,484</b>	<b>2,924</b>
<b>Total borrowings</b>	<b>3,490</b>	<b>2,983</b>

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

In April 2016, Aurizon Finance Pty Ltd refinanced a \$300 million tranche of its bank debt. For further details please refer to note 17(c).

On 23 May 2016, Aurizon Network Pty Ltd 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. Aurizon Network Pty Ltd used the proceeds to repay and cancel \$775 million of its syndicated debt facilities.

The Group uses floating-for-fixed interest rate swaps to manage its exposure to interest rate risk set out in note 17(a). Risk is managed in accordance with Board approved Treasury Policies.

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 Group can provide over assets in certain circumstances. The Group has complied with all required covenants and undertakings throughout the reporting period.

Details of the Group's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 17(c).

#### Recognition and measurement

##### (i) Borrowings

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

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

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

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

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

##### (ii) Borrowing costs

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings during the year of 4.7% (2015: 4.9%).

### 17 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 for speculation is strictly prohibited.

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

##### (a) Market risk

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

##### (i) Foreign exchange risk

###### Exposure to foreign exchange risk

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

###### 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 cash flow and fair value hedge relationships.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 17 Financial risk management (continued)

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

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

###### Foreign exchange contracts

The Group uses forward contracts to manage its foreign exchange risk arising from anticipated purchases of parts and equipment. These contracts are hedging highly probable forecast foreign currency exposures and are denominated in the same currency as the highly probable future purchases. The forward contracts are designated as cash flow hedges and are timed to mature when 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.

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

##### (ii) Interest rate risk

###### Exposure to interest rate risk

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

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

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

	30 June 2016		30 June 2015	
	Weighted average interest rate %	Balance \$m	Weighted average interest rate %	Balance \$m
Variable rate borrowings	3.6	2,910	4.3	2,460
Interest rate swaps (include debt margins)	4.8	(1,875)	4.9	(1,725)
<b>Net exposure to interest rate risk</b>		<b>1,035</b>		<b>735</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 64% (2015: 70%) of the variable loan principal outstanding. The weighted average maturity of the outstanding swaps is approximately 1.3 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 interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was \$23 million (2015: loss of \$17 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which have been recognised in interest expense.

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

The following table summarises the gain/(loss) impact of interest rate changes, relating to existing borrowings and financial instruments, on net profit and equity before tax. For the purpose of this disclosure, sensitivity analysis is isolated to a 100 basis points (bps) 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 \$m	2015 \$m	2016 \$m	2015 \$m
<b>100 bps movement in interest rates</b>				
100 bps decrease in interest rates	11	11	(40)	(37)
100 bps increase in interest rates	(11)	(11)	38	36

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 17 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 statement of financial position of the Group is as follows:

	Notional amount		Carrying amount assets/ (liability) refer to Note 18 \$m		Change in fair value used for measuring ineffectiveness for the year \$m	
	2016	2015	2016	2015	2016	2015
<b>Cash flow hedges</b>						
<b>Foreign exchange risk</b>						
Forward contracts	<b>US\$10m</b>	US\$24m	-	1	-	1
Forward contracts	<b>US\$3m</b>	US\$5m	-	-	-	-
Forward contracts	<b>US\$1m</b>	US\$3m	-	-	-	-
Forward contracts	-	€5m	-	-	-	-
Forward contracts	-	€3m	-	-	-	-
<b>Foreign exchange and interest rate risks</b>						
CCIRS — EMTN 1	<b>€500m</b>	€500m	<b>(9)</b>	5	<b>1</b>	-
CCIRS — EMTN 2	<b>€500m</b>	-	<b>(9)</b>	-	<b>(9)</b>	-
<b>Interest rate risk</b>						
Interest rate swaps	<b>A\$1,875m</b>	A\$1,725m	<b>(28)</b>	(43)	<b>16</b>	(16)
<b>Fair value hedge</b>						
<b>Foreign exchange and interest rate risks</b>						
CCIRS — EMTN 1	<b>€500m</b>	€500m	<b>86</b>	14	<b>76</b>	25
CCIRS — EMTN 2	<b>€500m</b>	-	<b>(14)</b>	-	<b>(14)</b>	-

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

	Cash flow hedge reserve \$m		Change in value used for measuring ineffectiveness during the year \$m	
	2016	2015	2016	2015
<b>Cash flow hedges (before tax)</b>				
<b>Foreign exchange risk</b>				
Firm commitments	-	(1)	-	(1)
<b>Foreign exchange and interest rate risk</b>				
EMTNs	<b>21</b>	1	<b>9</b>	-
<b>Interest rate risk</b>				
Forecast floating interest payments	<b>28</b>	43	<b>(16)</b>	17

	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>Fair value hedge</b>						
<b>Foreign exchange and interest rate risk</b>						
Non-current liabilities (borrowings) — EMTNs	<b>(1,576)</b>	(736)	<b>(87)</b>	(25)	<b>(62)</b>	(25)

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 17 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:

	Hedging gain or (loss) recognised in comprehensive income \$m	
	2016	2015
<b>Cash flow hedges</b>		
<b>Foreign exchange risk</b>		
Forward contracts	(1)	2
<b>Interest rate risk</b>		
Interest rate swaps	15	(18)
<b>Foreign exchange and interest rate risk</b>		
CCIRS	(20)	(1)
	<b>(6)</b>	<b>(17)</b>

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

#### (b) Credit risk

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

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

Historically, there has been no significant change in customers' credit risk. Other than the one-off event in relation to QNI, the lifetime expected loss assessment of the Group remains unchanged. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant

increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

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

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables, the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note 17(d) for further details.

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

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

#### (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 \$m	2015 \$m	2016 \$m	2015 \$m
<b>Aurizon Finance</b>						
Working capital facility	Unsecured	Jun-17	43	101	150	150
Syndicated facility	Unsecured	Jul-20	300	-	500	300
Syndicated facility	Unsecured	Jul-19	200	-	300	300
			<b>543</b>	101	<b>950</b>	750
<b>Aurizon Network</b>						
Working capital facility	Unsecured	Jun-17	8	6	100	100
Syndicated facility	Unsecured	Jul-21	490	490	490	490
Syndicated facility	Unsecured	Jul-18	425	1,200	525	1,300
Australian medium-term note	Unsecured	Oct-20	525	525	525	525
EMTN 1**	Unsecured	Sept-24	711	711	711	711
EMTN 2**	Unsecured	Jun-26	778	-	778	-
			<b>2,937</b>	2,932	<b>3,129</b>	3,126
<b>Total Group financing arrangements</b>			<b>3,480</b>	3,033	<b>4,079</b>	3,876

\* Amount utilised includes bank guarantees of \$45 million (2015: \$48 million) but excludes capitalised borrowing costs of \$17 million (2015: \$16 million) and discounts on medium-term notes of \$15 million (2015: \$11 million)

\*\* Amount utilised also excludes accumulated fair value adjustments of \$101 million (2015: \$25 million) for EMTN 1 and -\$14 million for EMTN 2 (2015: nil)

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 17 Financial risk management (continued)

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

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling \$250 million (2015: \$250 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 \$45 million (2015: \$48 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.

	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>2016</b>					
<b>Non-derivatives</b>					
Trade payables	297	-	-	297	297
Borrowings*	164	2,058	2,358	4,580	3,436
Financial guarantees	43	-	-	43	-
	<b>504</b>	<b>2,058</b>	<b>2,358</b>	<b>4,920</b>	<b>3,733</b>
<b>Derivatives</b>					
Interest rate swaps	27	(1)	-	26	28
Foreign exchange contracts	-	-	-	-	-
- (inflow)	(15)	(2)	-	(17)	-
- outflow	16	2	-	18	-
	<b>28</b>	<b>(1)</b>	<b>-</b>	<b>27</b>	<b>28</b>
<b>2015</b>					
<b>Non-derivatives</b>					
Trade payables	368	-	-	368	368
Borrowings*	191	2,078	1,412	3,681	2,965
Financial guarantees	48	-	-	48	-
	<b>607</b>	<b>2,078</b>	<b>1,412</b>	<b>4,097</b>	<b>3,333</b>
<b>Derivatives</b>					
Interest rate swaps	22	21	-	43	43
Foreign exchange contracts	-	-	-	-	(1)
- (inflow)	(47)	(7)	-	(54)	-
- outflow	46	7	-	53	-
	<b>21</b>	<b>21</b>	<b>-</b>	<b>42</b>	<b>42</b>

\* Borrowings include the effect of cross currency interest rate swap derivatives which have a carrying amount of \$77 million (non-current asset) and \$23 million (non-current liability) (2015: \$19 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 available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 17 Financial risk management (continued)

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

The fair value of forward foreign exchange contracts has been determined as the unrealised gain/(loss) at balance date by reference to market rates. The fair value of interest rate swaps has been determined as the net present value of contracted 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% to 5.8%, depending on the type of borrowing (30 June 2015: 2.8% to 4.9%).

	Notes	Carrying amount		Fair value	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
<b>Financial assets carried at fair value</b>					
Foreign exchange contracts	18	-	1	-	1
CCIRS — EMTN 1	18	<b>77</b>	19	<b>77</b>	19
		<b>77</b>	20	<b>77</b>	20
<b>Financial assets carried at amortised cost</b>					
Cash and cash equivalents		<b>69</b>	171	<b>69</b>	171
Trade and other receivables	6	<b>514</b>	543	<b>514</b>	543
		<b>583</b>	714	<b>583</b>	714
<b>Financial liabilities carried at fair value</b>					
Interest rate swaps	18	<b>(28)</b>	(43)	<b>(28)</b>	(43)
CCIRS — EMTN 2	18	<b>(23)</b>	-	<b>(23)</b>	-
		<b>(51)</b>	(43)	<b>(51)</b>	(43)
<b>Financial liabilities carried at amortised cost</b>					
Trade and other payables	10	<b>(297)</b>	(368)	<b>(297)</b>	(368)
Borrowings	16	<b>(3,490)</b>	(2,983)	<b>(3,495)</b>	(3,091)
		<b>(3,787)</b>	(3,351)	<b>(3,792)</b>	(3,459)
<b>Off-balance sheet</b>					
<b>Unrecognised financial assets</b>					
Third party guarantees		-	-	<b>98</b>	97
Bank guarantees		-	-	<b>341</b>	339
Insurance company guarantees		-	-	<b>8</b>	9
<b>Unrecognised financial liabilities</b>					
Bank guarantees		-	-	<b>(45)</b>	(48)
		-	-	<b>402</b>	397

#### Fair value hierarchy

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

- › Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- › Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- › Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

	Notes	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>30 June 2016</b>					
Derivative financial assets	18	-	<b>77</b>	-	<b>77</b>
Derivative financial liabilities	18	-	<b>(51)</b>	-	<b>(51)</b>
<b>Net financial instruments measured at fair value</b>		-	<b>26</b>	-	<b>26</b>
<b>30 June 2015</b>					
Derivative financial assets	18	-	20	-	20
Derivative financial liabilities	18	-	(43)	-	(43)
Net financial instruments measured at fair value		-	(23)	-	(23)

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 18 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 17).

	2016 \$m	2015 \$m
<b>Current assets</b>		
Foreign exchange contracts	-	1
<b>Non-current assets</b>		
CCIRS — EMTN 1	77	19
<b>Total derivative financial instrument assets</b>	<b>77</b>	<b>20</b>
<b>Current liabilities</b>		
Interest rate swaps	28	-
<b>Non-current liabilities</b>		
Interest rate swaps	-	43
CCIRS — EMTN 2	23	-
<b>Total derivative financial instrument liabilities</b>	<b>51</b>	<b>43</b>

#### (a) Offsetting derivative financial instruments

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 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.

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts set off in the balance sheet \$m	Net amounts presented in the balance sheet \$m	Amounts subject to master netting arrangements \$m	Net amount* \$m
<b>2016</b>					
<b>Financial assets</b>					
Derivative financial instruments	77	-	77	(5)	72
<b>Financial liabilities</b>					
Derivative financial instruments	(51)	-	(51)	5	(46)
<b>2015</b>					
<b>Financial assets</b>					
Derivative financial instruments	20	-	20	-	20
<b>Financial liabilities</b>					
Derivative financial instruments	(43)	-	(43)	-	(43)

\* 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 different transaction types, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.



# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 18 Derivative financial instruments (continued)

#### Recognition and measurement

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

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

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

#### (i) Cash flow hedge

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

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

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

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

#### (ii) Fair value hedge

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

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

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

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

# Group structure

## IN THIS SECTION

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

19	Associates and joint arrangements	Page 80
20	Material subsidiaries	Page 81
21	Parent disclosures	Page 82
22	Deed of cross guarantee	Page 82

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 19 Associates and joint arrangements

#### KEEPING IT SIMPLE

Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

	2016 \$m	2015 \$m
<b>Non-current assets</b>		
Investment in associates (a)	-	317
Interest in joint ventures (b)	2	1
	2	318

#### (a) Investments in associates

The Group has an interest in the following associates:

Name	Country of operation	Ownership interest		Principal activity
		2016 %	2015 %	
Moorebank Industrial Property Trust	Australia	33	33	Land and potential intermodal development
Aquila Resources Limited*	Australia	15	15	Exploration and mining

\* Aquila Resources Limited is accounted for as an associated company because the Group has significant influence primarily through representation on its Board of Directors

#### (i) Movement in carrying values

	Aquila		Moorebank	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Opening balance	225	-	92	83
Additional investments	-	226	4	1
Share of profit/(losses) in associates	3	(1)	9	14
Share of other comprehensive income	(2)	-	-	-
Dividends received	-	-	(10)	(6)
Impairment loss	(226)	-	-	-
Reclassification to assets held for sale (note 24)	-	-	(95)	-
Closing balance	-	225	-	92

#### (ii) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Aquila		Moorebank	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Current assets	53	65	2	1
Non-current assets	20	200	93	92
Total assets	73	265	95	93
Current liabilities	(4)	(2)	-	(1)
Non-current liabilities	(69)	(38)	-	-
Total liabilities	(73)	(40)	-	(1)
<b>Net assets</b>	-	225	95	92
Revenue	9	3	11	15
Share of net profit/(loss) from associates	3	(1)	9	14
Impairment loss	(226)	-	-	-
Share of net (loss)/profit from associates after impairment loss	(223)	(1)	9	14
Other comprehensive income	(2)	-	-	-
<b>Total comprehensive income</b>	(225)	(1)	9	14
Distributions received (Aurizon's share)	-	-	10	6

#### (iii) Contingent liabilities of associates

There are no contingent liabilities relating to liabilities of the associate for which the Group is severally liable.

#### SIGNIFICANT JUDGEMENTS

##### Investment in associates

The recoverable amount of the Group's 15% interest in Aquila is dependent on the development and viability of Aquila's mining projects. Key judgements applied in determining the recoverable amount of the investment in Aquila include the long-term iron ore and metallurgical coal prices, the timing of the development of these projects, discount rates and foreign exchange rates. This has resulted in an impairment of \$226 million (of which \$153 million was recognised at 31 December 2015). As at 30 June 2016 the carrying value of the investment in Aquila is nil. For further details of impairment in Aquila, refer to note (ii) on page 50 of this report.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 19 Associates and joint arrangements (continued)

#### (b) Investments in joint ventures

The Group has an interest in the following joint ventures, which are equity accounted, contributed \$1 million to the Group results, have net assets of \$2 million and are not considered material to the Group.

Name	Country of operation	Ownership interest		Principal activity
		2016 %	2015 %	
CHCQ	China-Hong Kong	15	15	Construction
Chun Wo/CRGL	China-Hong Kong	17	17	Construction
KMQR Sdn Bhd	Malaysia	30	30	Consulting
ARG Risk Management Limited	Australia	50	50	Insurance
Integrated Logistics Company Pty Ltd	Australia	14	14	Consulting

#### Recognition and measurement

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 8(v). The recoverable amount of the investment in Aquila is dependent on judgements made in relation to the long-term foreign exchange rates, metallurgical coal and iron ore prices.

### 20 Material subsidiaries

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

Name of entity	Country of incorporation	Equity holding %
Aurizon Operations Limited	Australia	100
Interail Australia Pty Ltd	Australia	100
Australia Eastern Railroad Pty Ltd	Australia	100
Australia Western Railroad Pty Ltd	Australia	100
Aurizon Network Pty Ltd	Australia	100
Aurizon Property Pty Ltd	Australia	100
Aurizon Terminal Pty Ltd	Australia	100
Aurizon Finance Pty Ltd	Australia	100
Iron Horse Insurance Company Pte Ltd	Singapore	100
Aurizon Moorebank Unit Trust	Australia	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.

#### Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are classified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 21 Parent disclosures

The parent and ultimate parent entity within the Group is Aurizon Holdings Limited.

#### (a) Summary financial information

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

	2016 \$m	2015 \$m
Current assets	80	75
Non-current assets	6,093	6,122
<b>Total assets</b>	<b>6,173</b>	<b>6,197</b>
Current liabilities	(80)	(75)
Non-current liabilities	(1,425)	(1,126)
<b>Total liabilities</b>	<b>(1,505)</b>	<b>(1,201)</b>
<b>Net assets</b>	<b>4,668</b>	<b>4,996</b>

#### Shareholders' equity

Contributed equity	1,207	1,508
Retained earnings	3	-
Reserves	3,458	3,488
<b>Total equity</b>	<b>4,668</b>	<b>4,996</b>

The parent entity has several employees. All costs associated with these employees are borne by a subsidiary of the parent entity and are not included in the above disclosures.

Profit for the year	532	396
<b>Total comprehensive income</b>	<b>532</b>	<b>396</b>

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

There are cross guarantees given by Aurizon Holdings Limited and its subsidiaries as listed in note 22.

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

The parent entity did not have any material contingent liabilities as at 30 June 2016 or 30 June 2015. For information about guarantees given by the parent entity, please see above.

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

As at 30 June 2016, the parent entity did not have any contractual commitments for the acquisition of property, plant and equipment (2015: nil).

#### Recognition and measurement

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

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

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Aurizon Holdings Limited. Dividends received from associates are recognised in the parent entity's income statement, rather than being deducted from the carrying amount of these investments.

#### (ii) Tax consolidation legislation

Aurizon and its wholly-owned Australian entities elected to form a tax consolidation group with effect from 22 November 2010 and are therefore taxed as a single entity. The head entity of the tax consolidated group is Aurizon Holdings Limited.

The head entity, Aurizon Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Aurizon also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into tax sharing and tax funding agreements. The tax funding agreement sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset or deferred tax asset arising from unused tax losses and tax credits assumed by the head entity from a subsidiary member.

These tax funding arrangements result in the head entity recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed.

The tax sharing agreement limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

#### (iii) Employee benefits – share-based payments

The grant by the Company of rights over its equity instruments to the employees of subsidiaries are treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in the corresponding subsidiaries.

## 22 Deed of cross guarantee

Aurizon Holdings Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Property Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Operations Limited, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Aurizon Resource Logistics Pty Limited, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd and Australian Railroad Group Employment Pty Ltd are parties to a Deed of Cross Guarantee, under which each company guarantees the debts of the others. By entering into the cross guarantee, the wholly-owned entities have been relieved from the requirement to prepare separate financial and directors' reports under Class Order 98/1418 (as amended) by the Australian Securities and Investment Commission.

Aurizon Network Pty Ltd was released from its obligations under the Deed by executing Revocation Deeds which became operative on 16 January 2014. On 1 December 2014, CRT Group Pty Ltd was disposed of and ceased to be a member of the closed group. From these dates, the financial results of both Aurizon Network Pty Ltd and CRT Group Pty Ltd were no longer consolidated into the financial statements of the remainder of the Aurizon Deed Parties for the purposes of the Class Order.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 22 Deed of cross guarantee (continued)

Comparative information in this note has been restated to conform with changes in presentation in the current year. As a result, \$760 million has been reclassified between revenue and consumables.

#### (a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The Aurizon Deed Parties represent the 'closed group' for the purposes of the Class Order, and as there are no other parties to the cross guarantee that are controlled by Aurizon Holdings Limited, they also represent the 'extended closed group'.

	2016 \$m	2015 \$m
<b>Income statement</b>		
Revenue from continuing operations	3,083	3,385
Other income	268	300
Consumables	(1,610)	(1,718)
Employee benefits expense	(775)	(888)
Depreciation and amortisation expense	(304)	(304)
Impairment losses	(294)	(18)
Other expenses	(52)	(33)
Share of net profits of associates and joint venture partnership accounted for using the equity method	(222)	-
Finance costs	(10)	(8)
Finance income	1	8
<b>Profit before income tax</b>	<b>85</b>	<b>724</b>
Income tax expense	(13)	(120)
<b>Profit for the year</b>	<b>72</b>	<b>604</b>
<b>Statement of comprehensive income</b>		
<b>Profit for the year</b>	<b>72</b>	<b>604</b>
<b>Other comprehensive income</b>		
Items that may be reclassified to profit or loss		
- Share of other comprehensive income of associates and joint ventures	(2)	-
- Changes in the fair value of cash flow hedges	(2)	-
- Income tax relating to components of other comprehensive income	1	1
<b>Other comprehensive income for the year, net of tax</b>	<b>(3)</b>	<b>1</b>
<b>Total comprehensive income for the year</b>	<b>69</b>	<b>605</b>
<b>Summary of movements in consolidated retained earnings</b>		
<b>Retained earnings at the beginning of the financial year</b>	<b>901</b>	<b>688</b>
Total comprehensive income for the year	69	605
Dividends provided for or paid	(529)	(396)
Removal of CRT Group	-	4
<b>Retained earnings at the end of the financial year</b>	<b>441</b>	<b>901</b>

#### (b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented below.

	2016 \$m	2015 \$m
<b>Current assets</b>		
Cash and cash equivalents	61	30
Trade and other receivables	467	460
Inventories	109	139
Derivative financial instruments	-	1
Prepayments	6	9
Assets classified as held for sale	5	21
<b>Total current assets</b>	<b>648</b>	<b>660</b>
<b>Non-current assets</b>		
Inventories	22	25
Property, plant and equipment	4,314	4,558
Intangible assets	125	87
Investments accounted for using the equity method	2	226
Other receivables	62	71
Other financial assets*	1,223	1,222
<b>Total non-current assets</b>	<b>5,748</b>	<b>6,189</b>
<b>Total assets</b>	<b>6,396</b>	<b>6,849</b>
<b>Current liabilities</b>		
Trade and other payables	314	329
Borrowings	-	57
Current tax liabilities	80	37
Provisions	236	311
Other liabilities	9	8
<b>Total current liabilities</b>	<b>639</b>	<b>742</b>
<b>Non-current liabilities</b>		
Borrowings	497	-
Deferred tax liabilities	57	106
Provisions	91	96
Other liabilities	6	8
<b>Total non-current liabilities</b>	<b>651</b>	<b>210</b>
<b>Total liabilities</b>	<b>1,290</b>	<b>952</b>
<b>Net assets</b>	<b>5,106</b>	<b>5,897</b>
<b>Equity</b>		
Contributed equity	1,207	1,508
Reserves	3,458	3,488
Retained earnings	441	901
<b>Total equity</b>	<b>5,106</b>	<b>5,897</b>

\* Other financial assets represent investments in entities outside of the deed group

# Other information

## IN THIS SECTION

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

23	Reconciliation of profit after income tax to net cash inflow from operating activities	Page 85
24	Assets classified as held for sale	Page 85
25	Related party transactions	Page 85
26	Key management personnel compensation	Page 85
27	Share-based payments	Page 86
28	Remuneration of auditors	Page 87
29	Summary of other significant accounting policies	Page 87

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

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

	2016 \$m	2015 \$m
Profit for the year	72	604
Depreciation and amortisation	561	519
Impairment of non-current assets	267	20
Interest expense	152	144
Non-cash employee benefits expense - share-based payments	25	17
Net (gain) loss on sale of non-current assets	3	(47)
Non-cash tax adjustment on share based payment	1	-
Share of profits of associates and joint venture partnership	(13)	(14)
Impairment loss of investment in associate	226	-
Net exchange differences	-	(1)
Change in operating assets and liabilities:		
Decrease in trade debtors	29	60
Decrease in inventories	36	30
Decrease in other operating assets	3	14
Decrease in trade and other payables	(25)	(82)
(Decrease) Increase in other operating liabilities	(31)	10
Increase in provision for income taxes payable	4	123
(Decrease) Increase in deferred tax liabilities	(16)	119
Decrease in other provisions (note 11)	(76)	-
<b>Net cash inflow from operating activities</b>	<b>1,218</b>	<b>1,516</b>

### 24 Assets classified as held for sale

	2016 \$m	2015 \$m
Property, plant and equipment	6	21
Investment in an associate	95	-
	<b>101</b>	<b>21</b>

On 2 August 2016 Aurizon announced the sale of its 33.33% equity holding in the proposed Moorebank Intermodal Terminal project for \$98 million (net of transaction costs) to Qube Holdings Limited group entities. The sale is expected to be completed in August 2016.

### Recognition and measurement

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment property that are carried at fair value and contractual rights under insurance contracts which are specifically exempt from this requirement.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

### 25 Related party transactions

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

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

#### (b) Transactions with other related parties

There were no transactions with other related parties during the year.

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

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parent and its subsidiaries. All loans are non-interest bearing. Outstanding balances are unsecured.

### 26 Key management personnel compensation

	2016 \$'000	2015 \$'000
Short-term employee benefits	7,307	9,735
Post-employment benefits	313	277
Long-term benefits	55	120
Termination benefits	750	-
Share-based payments	2,668	5,028
	<b>11,093</b>	<b>15,160</b>

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



# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 27 Share-based payments

#### KEEPING IT SIMPLE

The share-based payments schemes described in this section were established by the Board of Directors to provide long-term incentives to the Group's senior executives based on shareholder returns, taking into account the Group's financial and operational performance. Eligible executives may be granted rights on terms and conditions determined by the Board from time to time. The fair value of rights granted under the schemes is recognised as an employee benefits expense with a corresponding increase in equity.

#### (a) Performance rights plan

Performance rights are granted by the Company for nil consideration. Participation in the plan is at the Board's discretion so that no individual has a contractual right to be awarded rights under the plan or to receive any guaranteed benefits. Each right is a right to receive one fully-paid ordinary share in Aurizon Holdings Limited at no cost if the vesting conditions are satisfied. Rights granted under the plan carry no dividend or voting rights.

The Board will determine the exercise price payable on exercise of a vested right and the exercise period of a right. The Board may, in its discretion, determine that early vesting of a right will occur if there is a takeover bid, scheme of arrangement or some other change of control transaction of the Group. The Board may also accelerate the vesting of some or all of the rights held by an executive in specified circumstances. These include but are not limited to death, total and permanent disablement, or cessation of employment.

The share-based payment schemes are described as follows:

#### Short Term Incentive Awards (STIA)

From financial year 2014 a portion of any STIA for the Managing Director & CEO as well as the executive management team will be awarded in rights to ordinary shares and deferred for a period of one year. This was introduced over a two-year period with a 20% deferral in financial year 2014, increasing to 40% in financial year 2015 and subsequent years. The rights will vest after one year and become exercisable provided that the executive remains employed by the Group at the vesting date, unless otherwise determined by the Board.

#### Long Term Incentive Award (LTIA)

Performance rights are granted to senior executives as part of the Group's LTIA. The first grant of LTIA rights was in November 2010. The rights are subject to employment service conditions and satisfying market based performance hurdles of Total Shareholder Return (TSR), non-market based Earnings Per Share (EPS) targets and Operating Ratio (OR). In 2015, the EPS hurdle was replaced with Return on Invested Capital (ROIC). In the event that performance hurdles are not achieved the performance period for the 2014 and 2015 Award may be extended for an additional year, at the discretion of the Board.

#### Retentions

At the Board's discretion, eligible executives may be granted retention rights that may vest at the end of the specified retention period provided that the executive remains employed by the Group at the vesting date.

Set out below are summaries of rights granted under the plans:

Grant Date	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year Number '000
<b>2016</b>					
STIAD	188	419	(188)	-	419
LTIA	15,931	3,714	(6,814)	(909)	11,922
Retentions	113	179	(167)	-	125
<b>Total</b>	<b>16,232</b>	<b>4,312</b>	<b>(7,169)</b>	<b>(909)</b>	<b>12,466</b>

#### 2015

STIAD	635	188	(628)	(7)	188
LTIA	13,267	4,321	(1,531)	(126)	15,931
Retentions	393	25	(305)	-	113
<b>Total</b>	<b>14,295</b>	<b>4,534</b>	<b>(2,464)</b>	<b>(133)</b>	<b>16,232</b>

At 30 June 2016, there were no vested but unexercised rights

The weighted average exercise price of rights granted during the year was nil (2015: nil), as the rights have no exercise price. The weighted average share price at the date of exercise for rights exercised during the period was \$5.33 (2015: \$5.03). The weighted average remaining contractual life of share rights outstanding at 30 June 2016 was 1.0 year (2015: 1.0 year).

#### Fair value of rights granted

In determining the fair value, market techniques for valuation were applied in accordance with AASB 2. The fair value of the STIAD and the portion of LTIA rights, that are subject to non-market based performance conditions, were \$5.08 and \$4.53 (2015: \$4.65 for STIAD and \$4.31 for LTIA) respectively, determined by the share price at grant date less an adjustment for estimated dividends payable during the vesting period. The fair value of the LTIA rights subject to the TSR market based performance condition has been calculated using the Monte-Carlo simulation techniques based on the inputs disclosed in the table below:

	2016	2015
Scheme	LTIA	LTIA
Grant date	17 Aug 2015	18 Aug 2014
Vesting date	17 Aug 2018	18 Aug 2017
Expiry date	31 Dec 2019	31 Dec 2018
Share price at grant date	\$5.24	\$4.88
Expected life	3.5 years	3.5 years
Company share price volatility	23%	15%
Risk free rate	2.0%	2.75%
Dividend yield	5.1%	4.3%
Fair value	\$2.92	\$2.05

The Company share price volatility is based on the Company's average historical share price volatility to the grant date.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 27 Share-based payments (continued)

#### (b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense was \$25 million (2015: \$17 million), which included a \$16 million cost for shares gifted to employees in recognition of the Group achieving an operating ratio of 75%.

#### Recognition and measurement

The fair value of rights granted under the Performance Rights Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Share-based compensation is settled by making on-market purchases of the Company's ordinary shares.

### 28 Remuneration of auditors

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

#### PwC Australia

##### Audit and other assurance services

	2016 \$'000	2015 \$'000
Audit and other assurance services		
Audit and review of financial statements	1,466	1,690
Other assurance services		
Other assurance services	204	153
<b>Total remuneration for audit and other assurance services</b>	<b>1,670</b>	<b>1,843</b>
Taxation services		
Tax advisory services	91	50
Other services		
Advisory services	275	329
<b>Total remuneration of PwC Australia</b>	<b>2,036</b>	<b>2,222</b>

### 29 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 65 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.

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 29 Summary of other significant accounting policies (continued)

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

##### (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.

Title of standard	Nature of change	Impact	Mandatory application date
AASB 15 Revenue from Contracts with Customers	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 Revenues, AASB 111 Construction Contracts 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 FY2019.
AASB 16 Leases	AASB 16 Leases 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 FY2020.

#### (b) Cash and cash equivalents

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

#### (c) Foreign currency and commodity transactions

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

##### (ii) Transactions and balances

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 29 Summary of other significant accounting policies (continued)

#### (d) Leases

##### Operating leases on property, plant and equipment

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Rental revenue from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. Where a sale and lease back transaction has occurred, the lease is classified as either a finance lease or operating lease based on whether risks and rewards of ownership are transferred or not.

#### (e) Financial instruments

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

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

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

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

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

- › The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows
- › 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.

#### (f) Goods and Services Tax (GST)

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

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

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

The Company and its subsidiaries are grouped for GST purposes. Therefore, any 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.**

30	Contingencies	Page 91
31	Commitments	Page 91
32	Events occurring after the reporting period	Page 91

# Notes to the consolidated financial statements

## 30 June 2016 (continued)

### 30 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 17(d).

#### (b) Contingent assets

#### Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 17(d).

### 31 Commitments

#### (a) Capital commitments

	2016 \$m	2015 \$m
Property, plant and equipment		
Within one year	<b>77</b>	141

There are no capital commitments beyond one year.

#### (b) Lease commitments

	2016 \$m	2015 \$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	<b>50</b>	36
Later than one year but not later than five years	<b>97</b>	57
Later than five years	<b>64</b>	25
	<b>211</b>	118

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to ten years, generally provide the Group with a right of renewal at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

### 32 Events occurring after the reporting period

On 2 August 2016 Aurizon announced the sale of its 33.33% equity holding in the proposed Moorebank Intermodal Terminal project for \$98 million (net of transaction costs) to Qube Holdings Limited group entities. The sale is expected to be completed in August 2016.

# Directors' Declaration

## 30 June 2016

In accordance with a resolution of the Directors of the Company, I state that:

In the opinion of the Directors of the Company:

- (a) the financial statements and notes set out on pages 44 to 91 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*,
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 22 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 22.

Page 49 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director & Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.



**T M Poole**  
Chairman

Brisbane  
15 August 2016



## **Independent auditor's report to the members of Aurizon Holdings Limited**

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

We have audited the accompanying financial report of Aurizon Holdings Limited (the company), which comprises the consolidated balance sheet as at 30 June 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 Holdings Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Notes, 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*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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*Auditor's opinion*

In our opinion:

- (a) the financial report of Aurizon Holdings Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 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 in the Notes to the consolidated financial statements.

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 23 to 36 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

John Yeoman  
Partner

Brisbane  
15 August 2016

Simon Neill  
Partner

# Non-IFRS Financial Information in 2015-16 Annual Report

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin - Underlying, Operating Ratio - Underlying, NPAT - Underlying, Return On Invested Capital (ROIC), Net debt and Net gearing ratio. These measurements are not defined under IFRS and are, therefore, termed Non-IFRS measures.

EBIT - Statutory is defined as Group profit before net finance costs, and tax while EBITDA - Statutory is Group profit before net finance costs, tax, depreciation and amortisation. EBIT underlying can differ from EBIT - Statutory due to exclusion of significant items that permits a more appropriate and meaningful analysis of the underlying performance on a comparative basis. EBITDA margin is calculated by dividing underlying EBITDA by the total revenue. These measures are considered to be useful measures of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and/or amortisation.

NPAT - Underlying represents the underlying EBIT less finance costs less tax expense excluding tax impact of significant adjustments.

Operating Ratio - is defined as one less underlying EBIT divided by total revenue. The Operating Ratio is the key measure of the operating cost of earning each dollar of revenue and it is used as one of the key performance measures of the Key Management Personnel.

ROIC is defined as underlying rolling twelve month underlying EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve month average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles. This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net gearing ratio is defined as Net debt divided by Shareholders Equity plus Net debt. Net debt and Net gearing ratio are measures of the Group's indebtedness and provides an indicator of the balance sheet strength.

These above mentioned measures are commonly used by management, investors and financial analysts to evaluate companies' performance.

A reconciliation of the Non-IFRS measures and specific items to the nearest measure prepared in accordance with IFRS is included in the table. The Non-IFRS financial information contained within this Directors' report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards.

	2016 \$m	2015 \$m
<b>Profit before income tax</b>	<b>193</b>	835
Finance costs (net)	<b>150</b>	135
<b>EBIT - Statutory</b>	<b>343</b>	970
Significant adjustments:		
- Impairment of investment in associates	<b>226</b>	-
- Strategic infrastructure project and assets under construction impairment	<b>125</b>	-
- Rollingstock impairment	<b>177</b>	-
<b>EBIT - Underlying</b>	<b>871</b>	970
Depreciation and amortisation	<b>561</b>	519
<b>EBITDA - Underlying</b>	<b>1,432</b>	1,489
<b>Operating Ratio</b>	<b>74.8%</b>	74.3%
<b>Average invested capital</b>	<b>10,086</b>	10,035
<b>ROIC</b>	<b>8.6%</b>	9.7%
Borrowings - Current	<b>6</b>	59
Borrowings - Non-current	<b>3,484</b>	2,924
Total borrowings	<b>3,490</b>	2,983
Cash and cash equivalent	<b>(69)</b>	(171)
<b>Net debt</b>	<b>3,421</b>	2,812
<b>Net Gearing Ratio</b>	<b>37.4%</b>	30.2%

# Shareholder Information

## RANGE OF FULLY PAID ORDINARY SHARES AS AT 8 AUGUST 2016

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 - 1,000	20,996	13,138,535	0.64
1,001 - 5,000	25,111	55,908,868	2.72
5,001 - 10,000	3,259	23,694,084	1.15
10,001 - 100,000	2,359	46,752,579	2.28
100,001 - 999,999,999	140	1,912,251,419	93.20
1,000,000,000 - 9,999,999,999	0	0	0
<b>Rounding</b>			<b>0.01</b>
<b>Total</b>	<b>51,865</b>	<b>2,051,745,485</b>	<b>100.00</b>

## UNMARKETABLE PARCELS

MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum \$500.00 parcel at \$5.15 per unit	98	599

The number of shareholders holding less than the marketable parcel of shares is 599 (shares: 17,805)

## SUBSTANTIAL HOLDERS OF 5% OR MORE OF FULLY PAID ORDINARY SHARES AS AT 8 AUGUST 2016\*

NAME	NOTICE DATE	SHARES
HSBC Holdings	18 May 2016	151,013,818
JP Morgan Chase & Co. and its affiliates	5 January 2016	127,444,497
TCI Fund Management Limited	15 July 2015	112,207,436
UBS Group AG and its related bodies corporate	10 August 2016	107,640,748
The Vanguard Group Inc	1 July 2016	105,111,167

\* As disclosed in substantial shareholder notices received by the Company

## INVESTOR CALENDAR

2017 DATES	DETAILS
13 February 2017	Half Year results and interim dividend announcement
27 March 2017	Interim dividend payment date
14 August 2017	Full Year results and final dividend announcement
25 September 2017	Final dividend payment date
20 October 2017	Annual General Meeting

The payment of a dividend is subject to the Corporations Act and Board discretion. The timing of any event listed above may change. Please refer to the Company website, [aurizon.com.au](http://aurizon.com.au), for an up-to-date list of upcoming events.

## ASX code: AZJ

### Contact details

Aurizon  
GPO Box 456  
Brisbane QLD 4001

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[aurizon.com.au](http://aurizon.com.au)

## Investor Relations

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit [investorcentre.com](http://investorcentre.com).

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 1127 or email: [investor.relations@aurizon.com.au](mailto:investor.relations@aurizon.com.au).

**TOP 20 HOLDERS OF FULLY PAID ORDINARY SHARES AS AT 8 AUGUST 2016**

NAME	ADDRESS	UNITS	% OF UNITS
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	GPO BOX 5302, SYDNEY NSW, 2001	680,290,342	33.16
J P MORGAN NOMINEES AUSTRALIA LIMITED	LOCKED BAG 20049, MELBOURNE VIC, 3001	408,896,690	19.93
CITICORP NOMINEES PTY LIMITED	GPO BOX 764G, MELBOURNE VIC, 3001	307,963,344	15.01
NATIONAL NOMINEES LIMITED	GPO BOX 1406, MELBOURNE VIC, 3001	160,150,615	7.81
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	57,593,382	2.81
QUEENSLAND TREASURY HOLDINGS PTY LTD	C/- QUEENSLAND TREASURY, CORPORATION, GPO BOX 1096, BRISBANE QLD, 4001	54,926,186	2.68
BNP PARIBAS NOMS PTY LTD <DRP>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	50,011,270	2.44
NATIONAL NOMINEES LIMITED <N A/C>	GPO BOX 1406, MELBOURNE VIC, 3001	37,514,245	1.83
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	C/O HSBC CUSTODY NOMINEES, (AUSTRALIA) LIMITED, GPO BOX 5302, SYDNEY NSW, 2001	21,149,990	1.03
AMP LIFE LIMITED	PO BOX R209, ROYAL EXCHANGE NSW, 1225	19,331,609	0.94
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	11,405,000	0.56
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	GPO BOX 5302, SYDNEY NSW, 2001	9,321,939	0.45
ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	GPO BOX 3804, SYDNEY NSW, 2001	8,683,414	0.42
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	GPO BOX 5302, SYDNEY NSW, 2001	8,336,993	0.41
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	GPO BOX 5430, SYDNEY NSW, 2001	7,342,809	0.36
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	GPO BOX 764G, MELBOURNE VIC, 3001	6,132,715	0.30
CPU SHARE PLANS PTY LTD <AZJ EXO CONTROL A/C>	GPO BOX 1501, SYDNEY NSW, 2001	3,135,638	0.15
NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	LEVEL 5, 700 BOURKE STREET, DOCKLANDS VIC, 3008	3,062,433	0.15
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	GPO BOX 5302, SYDNEY NSW, 2001	3,028,103	0.15
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <HARVESTER ETF>	GPO BOX 5430, SYDNEY NSW, 2001	2,999,773	0.15
<b>Totals: Top 20 holders of Fully Paid Ordinary Shares Only</b>		<b>1,861,276,490</b>	<b>90.72</b>
<b>Total Remaining Holders Balance</b>		<b>190,468,995</b>	<b>9.28</b>

# Glossary

Some terms and abbreviations used in this document, together with industry specific terms, have defined meanings.

These terms and abbreviations are set out in this glossary and are used throughout this document.

A reference to dollars, \$ or cents in this document is a reference to Australian currency unless otherwise stated. Any reference to a statute, ordinance, code or other law includes regulations and any other instruments under it and consolidations, amendments, re-enactments or replacements of any of them. Any reference to Annual Report is a reference to this document.

## **ABN**

Australian Business Number

## **Above Rail**

Rollingstock – including locomotives and wagons and associated infrastructure (e.g. maintenance and operational depots)

## **ACN**

Australian Company Number

## **ASIC**

Australian Securities and Investments Commission

## **ASX**

Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691)

## **ASX Listing Rules**

The official listing rules of ASX

## **Aurizon**

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

## **Below Rail**

Track, electric infrastructure, signalling and associated rail infrastructure

## **Board**

The Board of Directors of Aurizon Holdings Limited

## **CAGR**

Compound Annual Growth Rate, expressed as a percentage per year

## **CAPEX**

Capital Expenditure

## **CGT**

Capital Gains Tax

## **Coal**

The above rail coal haulage operating division of Aurizon Holdings Limited

## **Company or Aurizon Holdings**

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

## **Company Secretary**

The Company Secretary of Aurizon Holdings Limited

## **Constitution**

The constitution of Aurizon Holdings Limited

## **Corporations Act**

*Corporations Act 2001 (Cth)*

## **CPS**

Cents Per Share

## **CQCN**

Central Queensland Coal Network

## **CQIRP**

Central Queensland Integrated Rail Project

## **DTC**

Deficit Tonnage Charges

## **EBIT**

Earnings Before Interest and Tax

## **EBITDA**

Earnings Before Interest, Tax, Depreciation and Amortisation

## **EBIT Margin**

Underlying earnings before interest and tax divided by total revenue and other income

## **EEO**

Energy Efficiency Opportunity

## **EEO Act**

*Energy Efficiency Opportunity Act 2006 (Cth)*

## **EPS**

Earnings Per Share

## **Freight**

The above rail freight haulage operating division of Aurizon Holdings Limited

## **FMT**

Freight Management Transformation

## **FY**

Financial Year ended 30 June, as the context requires

## **GAP**

Goonyella to Abbot Point

## **GAPE**

Goonyella to Abbot Point Expansion

## **GAAP**

Generally Accepted Accounting Principles

## **IBNR**

Incurring But Not Reported

## **IFRS**

International Financial Reporting Standards

## **km**

Kilometre

## **LTIA**

Long Term Incentive Awards

**LTIFR**

Lost Time Injury Frequency Rate, being a measure of the number of lost time injuries per million hours worked over a 12 month period

**MTIFR**

Medically Treated Injury Frequency Rate, being a measure of the number of medically treated injuries per million hours worked over a 12 month period

**MAR**

Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN across the term of an access undertaking

**mt**

Millions of tonnes

**mtpa**

Millions of tonnes per annum

**Network**

Aurizon Network Pty Ltd (ACN 132 181 116) a wholly-owned subsidiary of Aurizon Holdings

**NGER**

National Greenhouse Energy Reporting

**NGER Act**

*National Greenhouse Energy Reporting Act 2007 (Cth)*

**ntk**

Net tonne kilometre, unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons

**OP - Operating Ratio**

1 - EBIT margin, expressed as a percentage

**OPEX**

Operating Expense including depreciation and amortisation

**PPT**

Percentage Point

**QCA**

Queensland Competition Authority

**Queensland Rail**

Queensland Rail Limited (ACN 132 181 090) - this entity is owned by the State and operates the core public rail passenger business

**RAB**

Regulated Asset Base the value of the asset base on which pricing is determined by the price regulator

**ROIC**

Return on Invested Capital

**Share**

A fully paid ordinary share in Aurizon Holdings

**STIA**

Short Term Incentive Award

**tonne**

One metric tonne, being 1,000 kilograms

**tonne kilometres**

The product of tonnes and distance

**TSC**

Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services

**WACC**

Weighted Average Cost of Capital, expressed as a percentage

**WICET**

Wiggins Island Coal Export Terminal

**WIRP**

Wiggins Island Rail Project

# Corporate Information

**Aurizon Holdings Limited**  
**ABN 14 146 335 622**

**Directors**

Tim Poole  
Lance E Hockridge  
Russell R Caplan  
John D Cooper  
Karen L Field  
Michael A Fraser  
Samantha L Lewis  
Kate E Vidgen

**Company Secretary**

Dominic D Smith

**Registered Office**

Level 17, 175 Eagle Street  
Brisbane QLD 4000

**Auditors**

PricewaterhouseCoopers

**Share Registry**

Computershare Investor Services Pty Limited

117 Victoria Street,  
West End, QLD 4001, Australia

Tel: 1800 776 476  
(or +61 3 9938 4376)

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