Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

13 August 2018

2018 Annual Report

Please find attached a copy of the Company's 2018 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 2018 to all shareholders who have elected to receive a copy of the Annual Report.

Aurizon's Annual General Meeting will be held at 2.00pm (Brisbane time) on Thursday 18 October 2018. A copy of the Notice of Annual General Meeting is expected to be sent to all shareholders in September 2018.

Kind regards

Dominic D Smith
Company Secretary

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ANNUAL REPORT

AURIZON

Contents

Purpose

Growing regional Australia by delivering bulk commodities to the world.

Vision

The first choice for bulk commodity transport solutions.

Values

Safety: We have a relentless focus towards **ZERO**Harm.

People: We seek diverse perspectives.

Integrity: We have the courage to do the right thing.

Customer: We strive to be the first choice for customers.

Excellence: We set and achieve ambitious goals.

FY2018 in Review

Result Highlights (Underlying continuing operations)

($M)	FY2018	FY2017	VARIANCE %
Total revenue	3,112.7	3,142.5	(1%)
EBITDA	1,466.1	1,451.5	1%
EBIT	940.6	884.2	6%
Adjustments – Cliffs contract exit	34.5	–	–
– Impairments	(31.7)	(649.0)	nm
– Redundancy costs	22.9	(110.8)	nm
EBIT – statutory	966.3	124.4	677%
NPAT	542.1	494.7	10%
NPAT – statutory	560.1	(37.2)	nm
Free cash flow (FCF)	669.4	703.7	(5%)
Final dividend (cps)	13.1	8.9	47%
Total dividend (cps)	27.1	22.5	20%
Earnings per share (cps)	26.9	24.1	12%
Return on invested capital (ROIC)	10.9%	9.3%	1.6ppt
EBITDA margin (%)	47.1%	46.2%	0.9ppt
Operating ratio (OR) (%)	69.8%	71.9%	2.1ppt
Above Rail Tonnes (m)	267.1	256.5	4%
Above Rail opex/NTK (excluding access) ($/'000 NTK)	18.5	19.2	4%
Gearing (net debt/net debt + equity) (%)	42.3%	39.6%	(2.7ppt)

Highlights

- EBIT up 6% to $940.6m
  - Coal up $8.6m (2%) with 7% higher volumes and transformation benefits partly offset by higher operating costs due to price escalation and costs associated with installing capacity to deliver additional volumes
  - Bulk up $64.5m due to transformation benefits and lower depreciation from prior year impairments, partly offset by lower volumes
  - Network flat at $480.6m with operating cost savings offset by non-recurrence of UT4 true-ups in prior year
- FCF decreased $34.3m with a 3% increase in net cash from operations more than offset by lower proceeds from asset sales
- $300m buy-back completed in 2HFY2018, distributing surplus capital to investors
- Final dividend of 13.1cps, 60% franked (100% payout of underlying NPAT for continuing operations), an increase of 47% against prior year

Major items

- Achievement of three-year transformation target of $380m with $133.6m in benefits delivered during FY2018, including the removal of Intermodal's FY2017 losses, which principally relate to Intermodal Interstate
- Interstate Intermodal closed during the year. Australian Competition and Consumer Commission (ACCC) has blocked the sale transactions for the Queensland Intermodal business and Acacia Ridge Terminal and has commenced proceedings in the Federal Court. Aurizon will defend these proceedings and seek clearance of the sale of the Acacia Ridge Terminal
- UT5 draft response strategy in execution across multiple pathways being regulatory, commercial and legal activity
- Enterprise strategy re-set in June to provide framework for continued delivery of Enterprise strategic outcomes

Outlook

- Underlying EBIT guidance for above rail business $390m–$430m.
  Key assumptions as follows:
  - Coal – flat outlook with higher volumes (215-225mt) offset by increased maintenance and operating costs
  - Bulk – cessation of Cliffs and Mt Gibson contracts ~$50m impact in FY2019
  - Continued delivery of transformation in the remaining core business
  - No major weather impacts
  - Excludes redundancy costs
- Providing EBIT guidance for Network is challenging due to the uncertain UT5 outcome with a $130m range. Transitional tariffs currently in place until 31 December 2018

Chairman's Report

A message from the Chairman

Dear fellow shareholders

Against the backdrop of regulatory uncertainty, I am pleased to report Aurizon's solid financial performance for the 2018 financial year. Underlying Earnings Before Interest and Tax (EBIT) were $941 million, which was an increase of 6% from FY2017, and within the guidance communicated to shareholders in August 2017.

The growth in Underlying EBIT stems from transformation initiatives and improved earnings in the Coal and Bulk businesses. The Board commends our team for exceeding the $380 million three-year transformation target, with $134 million of benefits delivered this financial year. The Board supports management's commitment to the ongoing delivery of transformation benefits through building a culture of continuous improvement.

Returning capital to shareholders remains a priority for the Board. Since March 2017, we have distributed more than $1 billion to shareholders through dividend payments and share buybacks. This year, the Board declared a final dividend of 13.1 cents per share 60% franked, giving a full-year dividend of 27.1 cents per share. The total dividend has increased by 20% when compared with the prior year. The final dividend is paying out 100% of the Company's underlying continuing NPAT, and will be paid to shareholders on 24 September 2018.

As I reflect on my message from last year's Annual Report, I had identified four key priorities for Aurizon for the 2018 financial year. The first was to receive an acceptable draft decision from the Queensland Competition Authority in relation to the access undertaking of our regulated Network business. The second was to focus on resolving the future of our Intermodal business and the final two priorities were to improve the performance of our Bulk business and to achieve our transformation targets.

While we have delivered on priorities three and four, regulatory decisions have continued to be significant challenges for Aurizon and a source of uncertainty for customers, shareholders and those employees in Network and Intermodal. As we enter FY2019, we remain committed to pursuing commercially sustainable outcomes for both the Network access undertaking and the exit of the Queensland Intermodal business.

At the time of writing, these issues were subject to regulatory and legal review but nonetheless remain key priorities for the Board and our senior team. With respect to the Central Queensland Coal Network, in the longer term, we will continue to advocate for a regulatory framework that is simpler, commercially-oriented to provide certainty and stability that will support continued investment in and growth of, the Queensland coal sector.

In June 2018, we released *Strategy in Action*, a strategic framework that focuses on Aurizon's core strengths in delivering transport solutions for customers with bulk commodities. This represents a re-setting of our strategy that has been shaped by major initiatives undertaken during the past year, such as implementing outcomes from a review of our freight operations and the Business Unit restructure.

By concentrating our efforts on what we do well, and in growing markets where we can leverage the capability and talents of our employees, we know we can deliver strong customer and shareholder outcomes. The strategy embodies a commitment to continuous improvement in all parts of the Aurizon business, with the aim of being more efficient, responsive and agile in the markets we choose to compete in. Our Managing Director & CEO Andrew Harding and his leadership team are now driving the implementation of *Strategy in Action*, engaging with employees across the organisation. Integral to this is creating a values-driven safety and performance culture, where the safety of our people and our operations remains the highest priority. The Board will take a close and active interest in a new program of work that is being implemented to renew the Company's focus on safety.

In re-setting Company strategy, extensive analysis was undertaken on bulk commodity markets to understand future demand scenarios. For example, we track construction activity for thermal coal-fired power generation in Asia and steel capacity growth. These are long-life assets with strong demand profiles for high quality Australian coal.

More than 95% of Australian thermal coal exports are delivered to Asia. In key South East Asian nations, there is 17 gigawatts of coal-fired capacity considered under construction, in 22 locations. India is expected to be the single largest driver of seaborne demand for metallurgical coal over coming decades, and with Australia supplying around 90% of its imports this is positive for our customers and for the supply chain.

The Bulk business serves customers with industrial, mining, agricultural and fertiliser products that are in high demand. This includes commodities that are fuelled by growth in the demand for batteries, electric vehicles, computers, telecommunications and improving living standards overseas.

At Board level we are committed to providing oversight and strategic direction to the Company's social, environmental and economic risks and to ensuring appropriate disclosure of these risks through our annual Sustainability Report. In June 2018, the Australian Council of Superannuation Investors recognised Aurizon as one of 35 companies in the ASX200 that has consistently outperformed in sustainability disclosure over the past four years.

To support the best outcomes for the Company, our Board members have diverse skills and experience, with each member making significant contributions during a challenging year. In November last year, Marcelo Bastos joined Aurizon's Board as an Independent Non-Executive Director. Marcelo has more than 30 years' experience in the global mining industry and an excellent understanding of our business, our customers and our future opportunities.

On behalf of the Board, I would like to thank our dedicated group of employees for their hard work and for constantly looking at better and more innovative ways to do their jobs and to deliver for customers. The Board also acknowledges the efforts and contribution of our senior team under Andrew's leadership, during a year of major change and regulatory challenge. The momentum achieved in continuously improving business outcomes is reflected in the solid FY2018 financial results. Finally, thank you to our customers and shareholders for your ongoing support as we re-shape our Company and our strategy to deliver better outcomes for all our stakeholders.

Tim Poole

Tim Poole
Chairman
12 August 2018

Managing Director & CEO's Report

A message from the Managing Director & CEO

Dear fellow shareholders

Navigating Aurizon to reach its full potential for customers and for shareholders is an exciting prospect for me. These are the words I shared in the Annual Report last year and, despite some challenges, I remain just as enthusiastic about the opportunities for us to deliver improved value for shareholders, customers and within the communities in which we operate.

To lead the Company to the next phase of performance improvement and growth, there were significant changes to make. We need to work smarter and be more responsive to customers in highly-competitive markets.

Changing the operating model was one change that I moved quickly on. Under the previous structure, accountability for the commercial outcomes of the business was not clearly defined. A new organisational structure was implemented in July 2017, designed along the core customer-facing businesses – Bulk, Coal and Network – with streamlined central support and planning functions. Concurrently, the leadership teams were renewed to ensure we had the management experience and capability to deliver performance improvements.

I am pleased we are starting to see some good results.

The Coal business has secured 10% growth in contracted haulage volumes since 2017, with a number of major wins with customers in Queensland and New South Wales.

The Bulk business is well on track with its turnaround plan, returning to profitability in FY2018 through a disciplined program to lift efficiency, reduce costs and prioritise customer service.

While the turnaround plan is expected to take a number of years to fully implement, the improvements to date demonstrate our underlying capability in bulk commodity markets.

Another outcome from a review of our freight operations was the decision to exit our under-performing Intermodal business through a combination of closure and sale. In December 2017, we ran the final services of our interstate (outside of Queensland) operations before business closure. This had a major benefit by negating the losses we had been incurring in this part of our business.

We also announced in August 2017 the sale of the Queensland Intermodal business to a consortium of Linfox and Pacific National, and the sale of the Acacia Ridge Terminal to Pacific National, subject to regulatory approval. In July 2018, the Australian Competition and Consumer Commission (ACCC) decided to oppose both transactions and commenced proceedings against Pacific National and Aurizon in the Federal Court of Australia. We refute the allegations in the ACCC decision, and while the matter is currently before the courts, we acknowledge this provides uncertainty for our employees, customers and shareholders. We remain committed to the exit of Intermodal to ensure greater focus on our core strengths in bulk commodities.

In the Network business, we are also faced with regulatory challenges as we seek a better outcome with the UT5 Access Undertaking from the Queensland Competition Authority. Without this, we will be constrained in investing in the Central Queensland Coal Network and delivering the level of performance our customers expect on one of Australia's most important supply chains.

Again, it is important we stay the course in achieving a better outcome with UT5, and in pressing for long-term regulatory reform.

With the business operating model now established, we are focused on delivering on our *Strategy in Action*, which was launched in June 2018. Much of the work that has been done over the past year laid the foundation for the strategy, which articulates our role in growing regional Australia by delivering bulk commodities to the world.

As part of this strategy we are committed to locating more employees closer to our operations and the customers we serve. Building on the 75% of our workforce already living and working in regional Australia, during the year our Coal and Bulk Group Executives relocated to Mackay and Perth respectively to ensure key decision makers have stronger day-to-day connection with their businesses. Over the coming years, we will move more metropolitan-based roles to regional areas to support our business in regional Australia.

While markets we operate in offer attractive growth opportunities, we are conscious of the changing landscape in the rail haulage industry with existing and emerging competitors vying for business, haulage contracts regularly changing hands and margins constantly under pressure. Our future success depends on us being smarter, more efficient and agile. This includes investment in technology to increase safety, reliability and productivity and to reduce our costs.

In the three years to June 2018, we delivered more than $380 million of transformation benefits through reduced costs and improved productivity. We are now focused on achieving further transformation benefits by seeking opportunities to continuously improve business outcomes.

While our business strategy has been refined, safety remains our core value and we remain committed to achieving **ZERO**Harm. We have been operating under revised injury metrics for one year now and changing injury definitions was the first step in a broader program of work in safety. This coming financial year, we will be introducing a new program of work to enhance our safety systems and procedures and improve our safety leadership and culture.

While the year has not been without significant challenges, the changes we have made within the business have been important to support delivery of our strategy. We have a great team of people with diverse skills and expertise, and I continue to be energised and focused on the exciting opportunities ahead.

Andrew Harding
Managing Director & CEO
12 August 2018

Directors' Report

Aurizon Holdings Limited
For the year ended 30 June 2018

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 2018 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

Board of Directors

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

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

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

M Bastos
(Appointed 15 November 2017)
(Independent Non-Executive Director)

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

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

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

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

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

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

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

T Poole

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

Qualifications: BCom.

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

Australian Listed Company Directorships held in the past three years:
Chairman of Lifestyle Communities Limited (19 November 2007 – ongoing) and McMillan Shakespeare Limited (17 December 2013 – ongoing). Non-Executive Director of Reece Limited (28 July 2016 – ongoing). Formerly Non-Executive Director of Newcrest Mining Limited (14 August 2007 – 30 July 2015) and Japara Healthcare Limited (19 March 2014 – 1 September 2015).

A Harding

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

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

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

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

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

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

Special Responsibilities: Managing Director & CEO of Aurizon, Director of Aurizon subsidiary companies including 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.

M Bastos

Experience: Mr Bastos has more than 30 years' of experience globally in the mining industry. He has extensive experience in major project development, operations, logistics and senior leadership in most of the major sectors of the mining industry including iron ore, gold, copper, nickel, zinc and coal.

Previously Marcelo was the Chief Operating Officer of MMG Limited with responsibility for the business in four continents and a member of many of the company Boards. Before MMG he spent seven years with BHP Billiton where he served as President Nickel Americas, President Nickel West (based in Perth), and Chief Executive Officer and President of BHP Billiton Mitsubishi Alliance (based in Brisbane).

Marcelo also had a 19-year career with Vale in a range of senior management and operational positions in Brazil, including General Manager of Iron Ore and also Director of Non Ferrous – Copper business.

Marcelo is currently a Non-Executive Director of Iluka Resources Limited and an External Director (Non-Executive Independent) of Golder Associates.

Qualifications: B.Eng. Mechanical (Hons), MBA (FDC-MG), MAICD

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

Australian Listed Company Directorships held in the past three years: Iluka Resources Limited – Non-Executive Director (February 2014 – current)

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 & Human Resources Committee. Member of Audit, Governance & Risk Management Committee.

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

Directors' Report (continued)

J Cooper

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

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

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

Australian Listed Company Directorships held in the past three years: Southern Cross Electrical Engineering Limited – Chairman and Non-Executive Director (30 October 2007 – 5 May 2015), NRW Holdings Limited – Non-Executive Director (29 March 2011 – 23 November 2015), UGL Limited – Non-Executive Director (15 April 2015 – 28 October 2016) and Windlab Limited – Non-Executive Director (28 July 2017 – ongoing).

K Field

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

Mrs Field is 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 the University of Western Australia's Centenary Trust for Women and Perth College Anglican School for Girls (Chair of Foundation).

Qualifications: B Econ, FAICD.

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

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

M Fraser

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

Mr Fraser is currently Chairman and 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 & Human Resources Committee.

Australian Listed Company Directorships held in the past three years:
APA Group – Chairman and Non-Executive Director (1 September 2015 – ongoing).

S Lewis

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

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

K Vidgen

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

Qualifications: LLB (Hons), BA, GAICD.

Special Responsibilities: Non-Executive Director of Aurizon Network Pty Ltd. Member of Remuneration & Human Resources 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 24 of this report.

Dividends

A final dividend of 8.9 cents per fully paid ordinary share (50% franked) was paid on 25 September 2017 and an interim dividend of 14.0 cents per fully paid ordinary share (50% franked) was paid on 26 March 2018.

Further details of dividends provided for or paid are set out in note 15 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 13.1 cents per fully paid ordinary share.

The dividend will be 60% franked and is payable on 24 September 2018.

State of affairs

In the opinion of the Directors, other than the intention to exit its Intermodal business announced during the year and as set out in note 24 of the Financial Report, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Events since the end of the financial year

The Directors are not aware of any events or developments which are not set out in this report or note 34 of the Financial Report that have, or would have, a significant effect on the Group's state of affairs, its operations or its expected results in future years.

Likely developments

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report set out on page 2 of this report.

In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation and performance

Aurizon is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, Aurizon seeks to comply with all applicable environmental laws and regulations.

Aurizon acknowledges the strong scientific consensus that climate change is occurring and supports the objectives of the Paris Agreement, to find a pathway to limiting global warming to below two degrees Celsius. Notably, since 2017, the Company has adopted the Financial Stability Board's (FSB) Final Report: Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

As part of Aurizon's climate change strategy the Company has set and is tracking progress toward its 2020 greenhouse gas (GHG) emissions intensity target, it analyses climate change policy implications for Australia's thermal coal and has processes for preparing and adapting to severe weather events. In relation to the company's GHG emissions intensity target, FY2018 performance demonstrated an overall reduction in emissions intensity, with a 7% reduction achieved against our 2015 baseline. The Company is continuing to focus on improving the emissions intensity performance of its locomotive fleet.

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*.

At the close of the first Emissions Reduction Fund Safeguard Mechanism (Safeguard) compliance period (ending June 30, 2017), three of Aurizon's NGER facilities were captured. Through effective management of the Company's emissions, it achieved full compliance with the Safeguard and as such, was not required to purchase or generate Australian Carbon Credit Units for the reporting period.

Further details of the Company's environmental performance are set out in the Sustainability Report on the Aurizon website **aurizon.com.au/sustainability.**

Environmental prosecutions

There have been no environmental prosecutions during this financial year.

Directors' Report (continued)

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 44 of this Annual Report). The Company's Risk and Assurance Function is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the Managing Director & CEO and the Board.

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

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

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

TABLE 1 – DIRECTORS' MEETINGS AS AT 30 JUNE 2018

DIRECTOR	AURIZON HOLDINGS BOARD		AUDIT, GOVERNANCE & RISK MANAGEMENT COMMITTEE		REMUNERATION & HUMAN RESOURCES COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE		NOMINATION & SUCCESSION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
T Poole[1]	18	18	6	6	4	4	5	5	1	1
A Harding	18	18	–	–	–	–	5	5	–	–
M Bastos[2]	9	9	–	–	–	–	3	3	–	–
R Caplan	18	18	9	9	10	10	–	–	–	–
J Cooper[3]	18	16	–	–	6	3	5	5	1	1
K Field	18	18	9	9	–	–	5	5	1	1
M Fraser	18	18	–	–	–	–	–	–	–	–
S Lewis	18	18	9	9	6	6	–	–	0	0
K Vidgen	18	18	–	–	10	10	–	–	–	–

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 T Poole and A Harding met respectively on two occasions.
2 M Bastos was appointed a Non-Executive Director on 15 November 2017 and attended all meetings as a Non-Executive Director.
3 J Cooper was granted a Leave of Absence for two Aurizon Holdings Board meetings and was granted a Leave of Absence for two Remuneration & Human Resources Meeting and was an apology for one Remuneration & Human Resources Committee Meeting since being appointed to the Committee on 24 November 2017.

Directors' meetings

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

During the year, the Aurizon Network Pty Ltd Board met on 11 occasions.

Directors' interests

Directors' interests are as at 30 June 2018.

TABLE 2 – DIRECTORS' INTERESTS AS AT 30 JUNE 2018

DIRECTOR	NUMBER OF ORDINARY SHARES
T Poole	90,500
A Harding	10,000
M Bastos	11,400
R Caplan	82,132
J Cooper	95,000
K Field	40,458
M Fraser	40,000
S Lewis	33,025
K Vidgen	40,000

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

Non-audit services

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

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

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

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

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

	2018 $'000
OTHER ASSURANCE SERVICES	
Total remuneration for other assurance services	122
OTHER SERVICES	
Total remuneration for other services	282

CEO and CFO declaration

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

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

Indemnification and insurance of officers

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

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

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

Proceedings against the Company

The Directors are not aware of any current civil litigation proceedings, arbitration proceedings, administration appeals, or criminal or governmental prosecutions of a material nature which are not set out in this report or note 24 of the Financial Report 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 25 to 38 and forms part of the Directors' Report for the financial year ended 30 June 2018.

Rounding of amounts

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Corporations Act, is set out on page 39. The Directors' Report is made in accordance with a resolution of the Directors of the Company.

Tim Poole

Tim Poole

Chairman
12 August 2018

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

CONSOLIDATED RESULTS (Underlying continuing operations unless stated)

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measured. The non-IFRS financial information contained within this Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor Group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin (Statutory and Underlying), NPAT Underlying, Operating Ratio (Underlying), Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 105. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

1. Annual comparison

FINANCIAL SUMMARY

($M)		FY2018	FY2017	VARIANCE %
Total revenue		**3,112.7**	**3,142.5**	**(1%)**
Operating costs				
Employee benefits		(774.6)	(781.8)	1%
Energy and fuel		(252.4)	(236.5)	(7%)
Track access		(191.4)	(204.2)	6%
Consumables		(348.4)	(392.9)	11%
Other		(79.8)	(75.6)	(6%)
EBITDA		**1,466.1**	**1,451.5**	**1%**
	- statutory	1,491.8	691.7	116%
Depreciation and amortisation		(525.5)	(567.3)	7%
EBIT		**940.6**	**884.2**	**6%**
	- statutory	966.3	124.4	677%
Net finance costs		(165.0)	(178.6)	8%
Income tax (expense)/benefit		**(233.5)**	**(210.9)**	**(11%)**
	- statutory	(241.2)	17.0	nm
NPAT		**542.1**	**494.7**	**10%**
	- statutory	560.1	(37.2)	nm
Loss after tax from discontinued operations	- statutory	(77.1)	(150.7)	49%
NPAT (group)	**- statutory**	**483.0**	**(187.9)**	**nm**
Earnings per share[1]		**26.9**	**24.1**	**12%**
	- statutory	27.8	(1.8)	nm
Earnings per share[1] (group)		**25.7**	**22.5**	**14%**
	- statutory	24.0	(9.2)	nm
Return on invested capital (ROIC)[2]		10.9%	9.3%	1.6ppt
Return on invested capital (ROIC)[2] (group)		10.4%	8.7%	1.7ppt
Operating ratio		**69.8%**	**71.9%**	**2.1ppt**
Net cashflow from operating activities		1,307.7	1,273.2	3%
Final dividend per share (cps)		13.1	8.9	47%
Gearing (net debt/net debt + equity) (%) (group)		42.3%	39.6%	(2.7ppt)
Net tangible assets per share ($) (group)		2.3	2.4	(4%)
People (FTE)		4,835	5,024	4%

OPERATING METRICS

	FY2018	FY2017	VARIANCE %
Above Rail[3] Revenue/NTK ($/'000 NTK)	38.1	38.7	(2%)
Labour costs[4]/Revenue	24.4%	24.7%	0.3ppt
NTK/FTE (MNTK)	13.2	12.5	6%
Above Rail opex/NTK (excluding access) ($/'000 NTK)	18.5	19.2	4%
Above Rail NTK (bn)	63.8	63.0	1%
Above Rail Tonnes (m)	267.1	256.5	4%

1 Calculated on weighted average number of shares on issue – 2,013.4m FY2018 and 2,051.7m FY2017

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

3 Above Rail includes both Coal above rail revenue and Bulk freight transport revenue

4 FY2018 excludes $16.5m redundancy costs (FY2017 excludes $5.1m redundancy costs)

EBIT BY SEGMENT

($M)	FY2018	FY2017	VARIANCE %
Coal	428.6	420.0	2%
Bulk	50.1	(14.4)	nm
Network	480.6	480.9	–
Other	(18.7)	(2.3)	(713%)
Group (Continuing operations)	**940.6**	**884.2**	**6%**

Group Performance Overview

EBIT increased $56.4m or 6% due to increased earnings in Bulk resulting from transformation benefits and lower net depreciation. Earnings in Coal increased due to higher volumes and transformation benefits, while Network was flat due to the non-recurrence of UT4 true-ups received in FY2017. Both Coal and Network delivered record tonnages in the year at 212.4mt (7% increase) and 229.6mt (9% increase) respectively. The deterioration in Other EBIT was principally due to the non-recurrence of the UT4 corporate cost true-up from the prior year.

Aurizon has achieved its three-year transformation target of $380m with total Group transformation benefits of $133.6m being delivered in the year, including the removal of Intermodal's FY2017 losses, which principally relate to Intermodal Interstate.

Group revenue decreased $29.8m or 1% largely because of the prior period UT4 adjustments more than offsetting a 4% improvement in above rail volumes to 267.1mt.

Operating costs decreased $44.4m or 3% with transformation benefits and lower operating costs in Network and Bulk partly offset by higher costs in Coal relating to increased volumes and cost escalation. Depreciation has decreased $41.8m or 7% largely due to the impact of impairments in FY2017 in Bulk.

ROIC has improved 1.6ppt to 10.9% reflecting both the improvement in EBIT and the full year impact of the impairments taken in FY2017.

Statutory EBIT improved $841.9m to $966.3m reflecting the significant items recognised during the year totalling $25.7m namely, asset impairments of $31.7m offset by the net benefit of the Cliffs contract termination of $34.5m and the release of $22.9m of redundancy provision against total significant items of $759.8m recognised in the prior period.

Reconciliation to Statutory Earnings

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

($M)	FY2018	FY2017
Underlying EBIT (Continuing operations)	**940.6**	**884.2**
Significant items (Continuing operations)	**25.7**	**(759.8)**
Bulk contract exit — termination payment	66.3	–
Bulk contract exit — costs	(31.8)	–
Asset impairments	(31.7)	(649.0)
Freight Management Transformation project	–	(64.0)
Impairment of assets in exit of contracts	–	(10.2)
Transformation — assets	–	(48.9)
Bulk	(31.7)	(525.9)
Redundancy costs	22.9	(110.8)
Statutory EBIT (Continuing operations)	**966.3**	**124.4**
Net finance costs	(165.0)	(178.6)
Statutory PBT (Continuing operations)	**801.3**	**(54.2)**
Taxation (expense)/benefit	(241.2)	17.0
Statutory NPAT (Continuing operations)	**560.1**	**(37.2)**
Underlying EBIT (Discontinued operations)	(24.0)	(48.2)
Significant items (Discontinued operations)	**(74.7)**	**(167.2)**
Intermodal	(74.7)	(167.2)
Net finance cost (Discontinued operation)	–	0.1
Income Tax Benefit (Discontinued operation)	21.6	64.6
Statutory NPAT	**483.0**	**(187.9)**

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Reconciliation to Statutory Earnings (continued)

Significant items for the continuing operations of $25.7m were recognised in FY2018 including:

- Cliffs contract termination $34.5m — On 29 June 2018 Cliffs issued a contract termination notice to Aurizon effective 30 June 2018. An early termination payment of $66.3m (ex GST) was payable and recognised as other income. As a consequence of the contract termination, asset impairments of $27.9m have been recognised. In addition, a closure provision of $3.9m has been recognised which includes a redundancy provision of $3.5m for 63 FTEs
- Asset impairment $31.7m — As a result of the Cliffs contract early termination an impairment review of the Western Australia CGU was undertaken and a write down of $31.7m has been recognised in FY2018. Following the impairment, the residual carrying value of the Western Australia CGU is $170.7m
- Redundancy costs $22.9m — A provision for train crew redundancy, recorded as a significant item in FY2017, has been released in FY2018 with the planned transition to a flexible workforce not being implemented at this time due to operational requirements and stronger coal demand

2. Other financial information

BALANCE SHEET SUMMARY

($M)	30 JUNE 2018	30 JUNE 2017
Assets classified as held for sale	108.0	7.3
Other current assets	689.8	722.1
Total current assets	**797.8**	**729.4**
Property, plant & equipment (PP&E)	8,659.9	8,835.0
Other non-current assets	315.7	281.5
Total non-current assets	**8,975.6**	**9,116.5**
Total Assets	**9,773.4**	**9,845.9**
Liabilities classified as held for sale	(12.7)	–
Other current liabilities	(727.2)	(665.2)
Total borrowings	(3,501.9)	(3,376.2)
Other non-current liabilities	(801.5)	(782.4)
Total Liabilities	**(5,043.3)**	**(4,823.8)**
Net Assets	**4,730.1**	**5,022.1**
Gearing (net debt/net debt + equity) (%)	**42.3%**	**39.6%**

Balance sheet movements

Total current assets increased by $68.4m largely due to:

- Net increase in assets held for sale of $100.7m due to the assets relating to the sale and closure of the Intermodal business being included as assets held for sale
- An increase in trade and other receivables of $34.1m due to the recognition of the Cliffs contract termination payment ($66.3m), partly offset by reduction in other receivables

These increases in current assets were partly offset by:

- Reduction in cash and cash equivalents at 30 June 2018 compared to the prior period
- Reduction in current tax receivable to a current tax payable position at 30 June 2018

Total non-current assets decreased by $140.9m largely due to a net decrease in PP&E of $175.1m, including the reclassification of PP&E to assets held for sale, depreciation and impairments, partly offset by capital expenditure and a $37.2m increase in derivative financial instruments (favourable valuation).

Other current liabilities, excluding borrowings, increased by $62.0m due to the recognition of a current tax liability position at balance date and the $45.0m ($35.0m non-refundable) deposit received in relation to the sale transactions for the Queensland Intermodal business and Acacia Ridge terminal.

Total borrowings increased by $125.7m due to the revaluation of medium term notes and net proceeds from borrowings facilities during the year.

Other non-current liabilities have increased by $19.1m due to lower derivative financial instruments (favourable valuations) and other liabilities, offset by recognition of lease incentives that are deferred and will be recognised over the lease term.

Gearing (net debt/net debt plus equity) was 42.3% as at 30 June 2018.

CASH FLOW SUMMARY

($M)	FY2018	FY2017
Statutory EBITDA (Continuing operations)	**1,491.8**	**691.7**
Working capital and other movements	(146.9)	75.2
Non-cash adjustments – asset impairments[5]	70.0	678.3
Cash flows from Continuing operations	**1,414.9**	**1,445.2**
Interest received	2.9	2.8
Income taxes paid	(110.1)	(174.8)
Net cash inflow from operating activities from Continuing operations	**1,307.7**	**1,273.2**
Net operating cashflows from Discontinued operations	(25.1)	(34.8)
Net operating cash flows	**1,282.6**	**1,238.4**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment (PP&E) and associate	19.0	111.4
Payments for PP&E and intangibles	(501.5)	(507.9)
Net cash (outflow) from investing activities from Continuing operations	**(482.5)**	**(396.5)**
Net investing cashflows from Discontinued operations	54.6	(34.7)
Net investing cashflows	**(427.9)**	**(431.2)**
Cash flows from financing activities		
Net proceeds/(repayments) from borrowings	12.2	(55.3)
Payment for share buy-back and share based payments	(302.9)	(7.5)
Interest paid	(155.8)	(173.0)
Dividends paid to Company shareholders	(462.1)	(551.9)
Net cash (outflow) from financing activities from Continuing operations	**(908.6)**	**(787.7)**
Net financing cashflows from Discontinued operations	–	–
Net financing cashflows	**(908.6)**	**(787.7)**
Net increase/(decrease) in cash from Continuing operations	**(83.4)**	**89.0**
Net increase/(decrease) in cash from Discontinued operations	**29.5**	**(69.5)**
Free Cash Flow (FCF)[6] from Continuing operations	***669.4***	***703.7***
Free Cash Flow (FCF)[6] from Discontinued operations	***29.5***	***(69.5)***

Cash flow movements

Net cash inflow from operating activities for continuing operations increased by $34.5m (3%) to $1,307.7m largely due to a $64.7m reduction in income taxes paid as FY2017 included a significant final tax payment relating to the tax liability for FY2016. This is partly offset by a net increase in working capital due to lower trade and other payables and an increase in trade and other receivables with the recognition of the Cliffs termination payment ($66.3m) at 30 June 2018.

Net cash outflow from investing activities for continuing operations increased by $86.0m (22%) largely due to $98.3m proceeds from the sale of the Moorebank investment in the prior year.

Net cash flow from investing activities for discontinued operations increased by $89.3m due to FY2018 including the deposit received for the sale transactions for the Queensland Intermodal business and Acacia Ridge terminal and proceeds from the sale of plant and equipment as part of the closure of Intermodal Interstate.

Net cash outflow from financing activities for continuing operations increased by $120.9m (15%) to $908.6m due to the on-market share buy-back of $300.0m, partly offset by a reduction in dividends paid and net proceeds from borrowings in FY2018.

5 Total asset impairments of $10.4 million included in underlying EBIT in FY2018

6 FCF — Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid

Directors' Report (continued)
OPERATING AND FINANCIAL REVIEW

Funding

Aurizon has a target gearing level of ~40%.

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor. Network repriced and extended an existing $525m bank facility in November 2017, with maturity extended to FY2023 and tranche size decreased to $500m. In respect of FY2018:

- Weighted average debt maturity tenor was 4.7 years. This was lower than FY2017 (5.0 years) due to the majority of the debt portfolio's duration reducing by 12 months which offset the extension of the facility noted above
- Group interest cost on drawn debt decreased to 4.5% (FY2017 5.0%) due to the rolling off of interest rate hedges in June 2017
- Available liquidity (undrawn facilities plus cash) at 30 June 2018 was $0.9bn
- Group gearing (net debt/(net debt + equity)) as at 30 June 2018 was 42.3% (FY2017 39.6%)
- Network gearing (net debt/RAB (excl AFDs)) as at 30 June 2018 was 62.4% (FY2017 54.1%)
- Network gearing (net debt/RAB (incl AFDs)) as at 30 June 2018 was 57.9% (FY2017 50.2%)
- Credit rating remains unchanged for Network and Aurizon Holdings at BBB+/Baa1

Share Buy-Back

As part of its commitment to return surplus capital to shareholders, on 14 August 2017 Aurizon announced the intention to undertake an on-market buy-back of $300 million. The buy-back was completed on 1 March 2018, with 61.6 million shares bought back and subsequently cancelled.

Dividend

The Board has declared a final dividend for FY2018 of 13.1cps (60% franked) based on a payout ratio of 100% in respect of underlying NPAT for continuing operations.

The relevant final dividend dates are:

- 27 August 2018 — ex-dividend date
- 28 August 2018 — record date
- 24 September 2018 — payment date

Tax

Income tax expense for continuing operations for FY2018 was $241.2m and for the continuing and discontinued operations was $219.6m. The Group effective tax rate[7] for FY2018 was 30.1% which is greater than 30% due to permanent differences in the fixed asset adjustments and a decrease in expenditure eligible for the research and development tax incentive. The cash tax rate[8] for FY2018 was 23.9%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The effective tax rate for FY2019 is expected to be in the range of 30% to 32% and the cash tax rate is expected to be less than 25% for the short to medium-term.

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

Discontinued Operations

On 14 August 2017 Aurizon announced the intention to exit the Intermodal business through a combination of closure and sale.

Aurizon's Interstate Intermodal business has been closed with the last operational service occurring on 23 December 2017.

Aurizon signed a binding agreement with Pacific National (PN) to sell its Acacia Ridge terminal. Aurizon signed a separate binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and PN. The transactions have been subject to regulatory approval.

The ACCC decision was announced on 19 July 2018. The ACCC decided to oppose both transactions and commenced proceedings against PN and Aurizon in the Federal Court of Australia. The ACCC has sought declarations, pecuniary penalties, orders restraining the existing sale transactions from proceeding and costs. The ACCC has also sought an injunction to prevent Aurizon from closing its Queensland Intermodal business while proceedings are on foot.

Aurizon refutes the ACCC's allegations and will defend the proceedings, including seeking clearance of the Acacia Ridge transaction.

On 12 August 2018 Aurizon provided PN with a notice to terminate the Business Sale Agreement for the Queensland Intermodal business, with effect from 13 August 2018. It is Aurizon's intention to not contest clearance of the transaction through the Federal Court and to exit the business. As clearance has not been obtained for the sale of the Queensland Intermodal business, $10m of the consideration received for the transactions to date (recognised as a liability at 30 June 2018) will be refunded to PN. The Business Sale Agreement for the Acacia Ridge Terminal remains in place while Aurizon seeks clearance of that transaction, and the remainder of the consideration received for the transactions to date ($35m) is not refundable.

On 10 August 2018 the Federal Court of Australia heard an application from the ACCC for an interlocutory injunction to require Aurizon to continue to operate the Queensland Intermodal business in the ordinary and usual course. The Court reserved judgement on the matter, and judgement is currently expected to be handed down on 13 August 2018.

For the year ended 30 June 2018 the Intermodal business is disclosed as discontinued with Acacia Ridge and Queensland Intermodal assets classified as assets held for sale. Financial information relating to discontinued operations is set out on page 21.

BUSINESS UNIT REVIEW

COAL

Aurizon's Coal business provides a critical link in Australia's major coal chain systems for the majority of Australia's coal producers. The coal transport operation links mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland and the Hunter Valley, including Ulan and Gunnedah coal systems, in New South Wales to domestic customers and coal export terminals.

7 Underlying effective tax rate = income tax expense excluding the impact of significant items/underlying consolidated profit before tax
8 Underlying cash tax rate = cash tax payable excluding the impact of significant items/underlying consolidated profit before tax

($M)	FY2018	FY2017	VARIANCE %
Revenue			
Above Rail	1,207.8	1,156.8	4%
Track Access	598.1	630.3	(5%)
Other	7.3	7.9	(8%)
Total revenue	**1,813.2**	**1,795.0**	**1%**
Operating costs	(1,202.0)	(1,191.3)	(1%)
EBITDA	**611.2**	**603.7**	**1%**
Depreciation and amortisation	(182.6)	(183.7)	1%
EBIT	**428.6**	**420.0**	**2%**

METRICS

	FY2018	FY2017	VARIANCE %
Total tonnes hauled (m)	212.4	198.2	7%
CQCN	152.5	143.5	6%
NSW & SEQ	59.9	54.7	10%
Contract utilisation	93%	89%	4ppt
Total NTK (bn)	50.4	47.6	6%
CQCN	38.3	36.8	4%
NSW & SEQ	12.1	10.8	12%
Average haul length (km)	237	240	(1%)
Total revenue/NTK ($/'000 NTK)	36.0	37.7	(5%)
Above Rail Revenue/NTK ($/'000 NTK)	24.0	24.3	(1%)
Operating Ratio (%)	76.4%	76.6%	0.2ppt
Opex/NTK ($/'000 NTK)	27.5	28.9	5%
Opex/NTK (excluding access costs) ($/'000 NTK)	15.4	15.3	(1%)
FTE (monthly average)	1,729	1,698	(2%)
Labour productivity (NTK/FTE)	29.1	28.0	4%
Locomotive productivity ('000 NTK/Active locomotive day)	462.8	468.0	(1%)
Active locomotives (as at 30 June)	308	288	7%
Wagon productivity ('000 NTK/Active wagon day)	16.4	16.3	1%
Active wagons (as at 30 June)	8,568	8,251	4%
Payload (tonnes)	7,447	7,430	–
Velocity (km/hr)	23.2	23.6	(2%)
Fuel Consumption (l/d GTK)	2.91	2.90	–

Coal Performance Overview

Underlying EBIT increased $8.6m (2%) to $428.6m, with increased volumes and ongoing benefits delivered from the transformation program more than offsetting an increase in operating costs due to price escalation and costs associated with installing capacity to deliver additional volumes.

Volumes increased by 14.2mt (7%) to 212.4mt reflecting the FY2017 volume impact of Cyclone Debbie, the commencement of new contracts and the continued strength in coal prices resulting in high levels of customer demand, partly offset by lower network availability in the Central Queensland Coal Network (CQCN) in 2HFY2018. In NSW and South-East Queensland (SEQ), volumes increased by 5.2mt (10%) to 59.9mt driven largely by the commencement of the AGL Macquarie contract in July. Across CQCN, volumes increased by 9.0mt (6%) to 152.5mt, reflecting the FY2017 volume impact of Cyclone Debbie and the commencement of new contracts in late FY2017 and FY2018.

Coal revenue increased $18.2m (1%) to $1,813.2m driven by the growth in volumes offset by lower access revenue.

› Above rail revenue increased $51.0m (4%) compared to FY2017 reflecting the 7% increase in volumes as outlined above
› Coal track access revenue decreased $32.2m (5%). This decrease is largely driven by customers on the Blackwater and West Moreton corridor converting to an End User Access Agreement (where access charges are paid direct to Network or Queensland Rail). As access charges are generally passed through to customers, there is a decrease in track access costs as noted below. This reduction was partly offset by a $29.8m credit from Queensland Rail received in 1HFY2017 following the approval of the access undertaking for the West Moreton system (SEQ) which lowered track access revenue in the prior year. Excluding the impact of this credit, coal track access in CQCN decreased by $62.0m

Directors' Report (continued)
OPERATING AND FINANCIAL REVIEW

Coal Performance Overview (continued)

Total operating costs (including depreciation) increased $9.6m (1%) to $1,384.6m. The transformation program continues to deliver savings, with $46.5m realised in FY2018 across labour, maintenance and overheads. This was offset by an increase in other operating costs with the major drivers noted below:

- Higher labour, fuel and maintenance costs totalling $78.6m including costs to meet additional volumes, wages and consumables escalation, fuel price increase, higher maintenance relating to reinstated fleet capacity in the CQCN, redundancies and other costs
- Track access costs reduced by $35.6m (6%), largely due the impacts discussed above, including Blackwater and West Moreton Corridor customers moving to End User Agreements and one off impacts of higher take or pay expenses offset by the impact of the 1HFY2017 credit from Queensland Rail
- With the transfer of locomotives from Intermodal Interstate to Coal and the commissioning of new wagons in the Hunter Valley, depreciation modestly increased in 2HFY2018

Key operating metrics remain broadly in line with prior year:

- During the period, labour productivity increased 4% with the additional volumes being delivered with a 2% increase in average FTEs
- Average payloads remained broadly flat from 7,430t to 7,447t
- Average velocity reduced slightly from 23.6km/hr to 23.2km/hr due to increased supply chain constraints and higher NSW volumes
- Average NTK per locomotive fell 1% due to the additional consists installed in both NSW and CQCN in order to meet growth volumes

Market update

The average hard coking coal price in FY2018 was US$204/t (+7% on the previous year), driven by continued growth in steel production in China and India. In the 12 months to June 2018, China crude steel production achieved a record 870mt, increasing by +6%. India recorded its 29th consecutive month in June 2018 of year-on-year growth in steel production. Given a structural deficiency of high quality coking coal, growth in Indian steel production flows directly to seaborne markets. Australia supplies around 90% of India's imported metallurgical coal and was the number one destination of Australian metallurgical coal exports in FY2018. India is expected to be the single largest driver of seaborne demand for metallurgical coal over the next decades. The Newcastle benchmark thermal coal price in FY2018 was US$99/t (+24% on the previous year), primarily driven by increased import demand from China, the largest importing nation of thermal coal. China's imports of thermal and lignite coal lifted +9%yr as domestic coal production remained flat (+1%yr) in conjunction with increased domestic thermal power generation (+6%yr).

From a supply perspective, Australian metallurgical and thermal coal exports reached 179mt (+1%yr) and 202mt (+1%yr) in FY2018 respectively. Given upward pressure on coal prices, opportunistic supply from the United States and Indonesia continued to be incentivised to the market. In the 12 months to May 2018, metallurgical coal exports from the United States lifted +33% and total coal export volume from Indonesia (almost entirely thermal coal) increased by +7% against the same period of the prior year.

Contract update

- Baralaba Coal Company entered an agreement for coal haulage from the Baralaba North Mine to the RG Tanna Coal Terminal for 2mtpa. Haulage is expected to commence 1HFY2019 for a term of up to 10 years
- Aurizon's 2.6mtpa haulage agreement with Yancoal's Duralie mine ended on 31 August 2017
- Aurizon entered into an agreement with MACH Energy for coal haulage of 8mtpa from the Mount Pleasant Mine to Newcastle ports as well as domestic power stations. The haul is expected to commence late 1HFY2019, for a contract term of 10 years
- Aurizon extended its relationship with the QCoal Group to include coal haulage of up to 10mtpa (5.0mtpa initially) from the greenfield Byerwen Mine to Abbott Point Coal Terminal, for a period of 10 years, which commenced January 2018
- Bounty Mining commenced railings in March 2018 under a new agreement with Aurizon, following its acquisition of the Cook Colliery which was completed during 3QFY2018.

BULK

Aurizon's Bulk business supports a range of customers nationally for bulk materials and commodities (including iron ore), agricultural products and mining and industrial inputs.

($M)	FY2018	FY2017	VARIANCE %
Revenue			
Freight Transport	592.1	622.3	(5%)
Other	26.0	22.9	14%
Total revenue	**618.1**	**645.2**	**(4%)**
Operating costs	(542.9)	(586.1)	7%
EBITDA	**75.2**	**59.1**	**27%**
Depreciation and amortisation	(25.1)	(73.5)	66%
EBIT	**50.1**	**(14.4)**	**nm**

METRICS

	FY2018	FY2017	VARIANCE %
Total tonnes hauled (m)	54.7	58.3	(6%)
Total NTK (bn)	13.4	15.4	(13%)
Average haul length (km)	245	264	(7%)
Total revenue/NTK ($/’000 NTK)	46.1	41.9	10%
Operating Ratio (%)	91.9%	102.2%	10.3ppt
Opex/NTK ($/’000 NTK)	42.4	42.8	1%
Opex/NTK (excluding access) ($/’000 NTK)	30.3	31.1	3%
FTE (monthly average)	904	1,066	15%
Labour productivity (NTK/FTE)	14.8	14.4	3%
Order Fulfilment (%)	98.0%	98.2%	(0.2ppt)
Fuel Consumption (l/d GTK)	3.01	3.06	2%

Bulk Financial Performance Overview

EBIT increased $64.5m to $50.1m, due to benefits from the transformation program and lower net depreciation from the impairments in FY2017 partly offset by lower volumes.

Revenue decreased $27.1m (4%) to $618.1m with a 6% reduction in volumes (13% in NTK terms):

- Iron Ore revenue decreased $3.9m (1%) predominately due to lower Cliffs volumes
- Bulk revenue decreased $23.2m (6%) due to the cessation of the Mt Isa Freighter in January 2017 and lower QLD/NSW grain volumes due to dry conditions and supply being directed to the domestic market (all Aurizon volumes are export). This was offset marginally by growth in bauxite volumes and the commencement of the Minerals and Metals Group Limited (MMG) contract on the Mt Isa corridor

Bulk revenue per NTK increased 10% predominately due to lower contract utilisation and the commencement of new contracts in Bulk East.

Total costs (including depreciation) decreased $91.6m (14%) driven by transformation savings and lower depreciation expense. The transformation program continued to deliver savings with $31.6m realised in FY2018. Rail access costs reduced by $18.4m due to the lower volumes, principally the cessation of the Mt Isa Freighter and lower Cliffs volumes. The direct cost savings from the cessation of the Mt Isa Freighter service were $14.5m through a reduction in crewing maintenance and terminal services costs. Depreciation expense reduced by $48.4m due to the bulk impairment in FY2017, with $10.4m of capital expenditure written off in FY2018 and included in operating costs resulting in a net benefit of $38.0m. Partly offsetting this were other cost increases including labour and consumables escalation and redundancy costs ($10.9m).

Market update

Iron Ore

The average iron ore price in FY2018 was US$69.0/t, remaining relatively flat against the previous year’s average of US$69.4/t. China, the world’s largest steel producer (and importer of iron ore) continued to drive demand, with hot metal production growing +2% in the 12 months to June 2018, against a backdrop of supply ramping up from Vale’s S11D project in Brazil and Roy Hill in the Pilbara.

China’s demand shift towards higher grade iron ore continued during FY2018, with prices for lower grade iron ore products remaining at historically lower levels compared to the 62% Fe benchmark price. Supported by higher steel prices and a pursuit for productivity, Chinese steel mills have an incentive to use better quality iron ore (and hard coking coal) to maximise efficiencies in steel production. In addition, China’s increasing focus on reducing pollution and environmental regulation is favouring the use of higher grade ores.

Freight

Aurizon’s Bulk business includes haulage of bulk commodities including base metals, minerals, grains and livestock in Queensland, New South Wales (East) and Western Australia (West). Despite stronger prices across the year for a number of commodities that Aurizon hauls, the ongoing challenge of market competitiveness remains.

Contract update

- Executed a contract extension for IPL’s acid and fertiliser hauls on the Mt Isa corridor, commencing January 2020
- Executed a 10-year contract extension for the Cement Australia East End to Fisherman’s Landing limestone haul which commenced January 2018
- Commenced a 7.4-year contract with MMG for the transport of zinc deposits on the Mt Isa corridor during November 2017
- Executed a 2+2 year contract extension for the Queensland Rail services contract, covering both infrastructure trains and supporting the Inlander passenger train
- Executed a short-term extension with Alcoa to rail additional bauxite export volumes into the Kwinana Bulk Terminal
- Contract variation for Mt Gibson Mining to rail additional volumes under the existing Rail Haulage Agreement. This contract will end in December 2018 in line with the end of mine life
- Cliffs Asia Pacific Iron Ore Pty Ltd (Cliffs) terminated its rail haulage agreement with Aurizon on 30 June 2018. This resulted in the closure of Aurizon’s Esperance operations and triggered an early termination payment of $66.3m, which was subsequently received in July 2018. As a consequence of the contract termination, asset impairments of $27.9m have been recognised. In addition, a closure provision of $3.9m has been recognised which includes a redundancy provision of $3.5m for 63 FTEs
- Aurizon was unsuccessful in recontracting the existing QLD Graincorp contract from December 2019

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

NETWORK

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

FINANCIAL SUMMARY

($M)	FY2018	FY2017	VARIANCE %
Revenue			
Track Access	1,167.1	1,199.9	(3%)
Services and other	51.6	62.2	(17%)
Total revenue	**1,218.7**	**1,262.1**	**(3%)**
Operating costs	(430.1)	(481.7)	11%
EBITDA	**788.6**	**780.4**	**1%**
Depreciation and amortisation	(308.0)	(299.5)	(3%)
EBIT	**480.6**	**480.9**	**–**

METRICS

	FY2018	FY2017	VARIANCE %
Tonnes (m)	229.6	210.8	9%
NTK (bn)	56.9	53.2	7%
Operating Ratio (%)	60.6%	61.9%	1.3ppt
Maintenance/NTK ($/'000 NTK) (excluding rail renewals)	2.2	2.3	4%
Opex/NTK ($/'000 NTK)	13.0	14.7	12%
Cycle Velocity (km/hr)	23.5	23.5	–
System Availability (%)	82.0%	83.7%	(1.7ppt)
Average haul length (km)	247.7	252.3	(2%)

Network Financial Performance Overview

EBIT declined marginally to $480.6m in FY2018, with reductions in operating costs ($51.6m) offset by decreased revenue ($43.4m), mainly due to the non-recurrence of the UT4 true-up of regulatory revenue in FY2017 and increased depreciation ($8.5m).

Track access revenue decreased $32.8m (3%). Regulatory access revenue in FY2018 is based on transitional tariffs pending approval of the UT5 Access Undertaking. This is lower than the FY2017 Allowable Revenue which included approximately $90m of regulatory revenue pertaining to the UT4 true-up for FY2014 to FY2015 which was recognised in FY2017 following the UT4 final decision. In addition, FY2017 also included non-recurring true-ups in relation to GAPE (non-regulated revenue) and AFD rebates totalling $11.4m. Volumes in FY2018 were higher than Cyclone Debbie impacted FY2017 resulting in approximately $53m additional revenue.

FY2018 also included higher Electric Charge (EC) revenue of $30.1m (there is an increase in EC operating expenses) and flood cost recovery of $18.4m mainly relating to Cyclone Debbie. This was partially offset by a $21.6m negative Revenue Cap Adjustment Amount relating to FY2016 which was repaid to Access Holders via tariffs.

Services and other revenue decreased $10.6m (17%) mainly due to the recognition of the Bandanna Group's $15.3m bank guarantee and a $6.0m insurance claim recovery in FY2017, partly offset by the recognition of $10.0m for the Caledon WIRP Deed bank guarantee held as security in FY2018.

Operating costs decreased $51.6m (11%) with a $45.6m reduction in consumables, mainly due to the non-recurrence of the FY2017 UT4 true-up for corporate costs ($26.4m), and reduced maintenance costs ($12.8m) which were impacted by Cyclone Debbie in the prior year.

This was partially offset by higher energy and fuel costs ($2.4m) from an increase in EC expense ($24.4m) from higher wholesale electricity prices and environmental rates, offset by lower electric connection expense ($20.2m) and increased fuel rebates ($1.8m).

Labour costs increased $8.8m (7%) primarily due to salary escalation and higher headcount. Other expenses decreased $17.3m (59%) due to the prior period impacts of inventory obsolescence, asset disposals and write offs. Depreciation increased $8.5m (3%) mainly from Ballast.

The Regulated Asset Base (RAB) roll-forward value is estimated to be $5.8bn (including all deferred capital but excluding AFDs of $0.4bn) at 1 July 2018.

Regulation Update

- Transitional tariffs are in place for the whole of FY2018 and the first half of FY2019 using the UT4 tariffs with appropriate one-off adjustments
- On 15 December 2017, the QCA released its Draft Decision on Network's UT5 proposal
- The QCA's Draft Decision proposes a MAR of $3.893bn over the four-year period with a proposed 5.41% Vanilla Nominal Post Tax WACC (2.97% Vanilla Real Post Tax WACC), using an averaging period of 20 days up to 30 June 2017. Primary drivers behind the reduction from Network's MAR proposal are:
  - A risk free rate of 1.90% based on the 4 year government bond rate
  - An inflation rate of 2.37% applying an inflation methodology using a geometric average of the RBA forecasting methodology
  - Reduction in equity beta to 0.73 (with an asset beta of 0.42)
  - Significantly higher Gamma with only a 0.01 reduction from UT4 to 0.46
  - A reduction in maintenance and operating expenditure allowances of $104m and $112m respectively over the four-year regulatory period
- The UT5 Draft Decision issued by the QCA is extremely disappointing in its current form, causing damage to Network, customers and the Queensland economy. The QCA view of return and allowances for maintenance and operating costs has resulted in Network implementing changes to its business decisions and operating practices in order to align with the position advocated by the QCA and its consultants in the UT5 Draft Decision. Network has estimated that the net impact of the changes implemented to date could be a reduction of system throughput of approximately 20 million tonnes annually.
- Network submitted a detailed response to the QCA's UT5 Draft Decision on 12 March 2018. This submission proposed an updated MAR of $4.75bn over the four-year regulatory period with a proposed 7.03% Vanilla Nominal Post Tax WACC (4.62% Vanilla Real Post Tax WACC). Primary drivers behind the revised MAR include:
  - Change in the risk free rate from 2.13% at the time of the November 2016 submission, to 2.76% at the time of the submission in response to the Draft Decision. This change reflects a change in market rates at the time of submitting its response. Inflation however changed from 1.22% to 2.30%. This change reflects changes in market conditions and a revised methodology that better aligns the risk free rate and inflation calculations to derive a realistic real risk free return
  - Change in gamma from 0.25 in the November 2016 submission to 0.31. This change reflects using the QCA methodology but updated to reflect the appropriate and latest ATO tax statistics at the time of the submission
  - An increase from the QCA's Draft Decision Maintenance Allowance of $111m to $928m, to reflect the change in the QCA's base year to FY2017 whilst addressing anomalies omitted from the Draft Decision, providing a more appropriate mechanised plant allowance and removal of the QCA's proposed efficiency factor applied to General Maintenance activities
  - Inclusion of the WIRP deferred capital across the Moura system as well as all the deferred WIRP capital across the Blackwater system due to known forecast railings in the Moura system that will utilise that capital.
- On 29 May 2018, the QCA published a Consultation Paper on Network's UT5 Maintenance Allowances and Practices. The Consultation Paper provided a preliminary view from the QCA that it was 'favourably disposed' to accepting Network's Draft Decision response on maintenance costs. Recognition of the correctness of Network's maintenance allowance is important, however Network has outlined concerns to the QCA that viewing the maintenance allowance independently of the other components of its operation (and the consequent build-up of the MAR) remains a flawed regulatory practice. There are inherent and interdependent linkages between the maintenance allowance, the WACC and operating costs. A lower WACC will generally drive lower investment likely resulting in greater reactive maintenance and hence even higher maintenance costs. Network's revised maintenance allowance was part of an overall maximum allowable revenue submission. The maintenance regime underlying the allowance was based on the other components of its submission being approved as those components supported the maintenance regime as part of Network's operating business model. Different outcomes in those components will necessarily require changes to the overall operations of the Network business and a subsequent impact on maintenance. Network has impressed on the QCA that it cannot consider critical components of business operations in isolation.
- The QCA is yet to confirm the timing for a final decision on UT5.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Operational Update

Performance

During FY2018 the network operational performance remained strong and five monthly railing records were achieved. Highlights include:

- Tonnes delivered over the CQCN increased 18.8mt (9%) from the Cyclone Debbie affected FY2017 to a record 229.6mt. Five new monthly records were achieved during FY2018 with each new record being over 19.0mt while June 2018 achieved 20.6mt, the highest ever monthly volume
- Performance to plan improved 3.5ppt to 90.3%
- Cancellations due to the Network increased marginally from 1.5% to 1.7%
- Cycle velocity averaged 23.5km/h and remains unchanged from the prior year

Following the release of the QCA's Draft Decision on Network's UT5 Draft Access Undertaking in December 2017, and in order to reduce costs, Network changed some of its operating practices and business decisions to align with a) the position effectively advocated by the QCA through its adoption in the Draft Decision of the maintenance allowance proposed by its consultants based on applying different maintenance regimes and b) the maintenance and operating cost allowances and WACC proposed by the QCA in its Draft Decision. This is because when the QCA's Final Decision on UT5 is released, it will apply retrospectively from 1 July 2017 (when the UT5 regulatory period commenced). At this time the Draft Decision is the best reflection of the Final Decision and therefore the appropriate basis for Network to modify its operating practices and business decisions to recognise the application of the Final Decision from 1 July 2017.

Key changes included:

- Prioritised adherence to the initially formulated plan for planned maintenance and capital works
- Modified rail defect maintenance practices to reduce Network's risk on long-term track reliability and productivity
- Major maintenance activities being provided over longer production blocks

Transformation initiatives delivered:

- Tranche 2 of the Network Asset Management System went live in December 2017, delivering a core asset management system for the control systems, electrical assets and mechanised production activities
- Contractor management initiatives including the setting up of pre-approved panel members for wet hire and vegetation management activities. This has delivered improved safety performance and cost benefits
- A variety of initiatives in relation to electric traction which will deliver significant cost benefits through FY2019 and beyond

Wiggins Island Rail Project (WIRP)

- The QCA in its UT4 Final Decision applied a revenue deferral for WIRP customers who were not expected to rail during the UT4 period resulting in approximately $260m of WIRP capital expenditure being excluded for pricing purposes from the UT4 MAR, on an NPV neutral basis
- The UT5 Draft Decision issued by the QCA now includes approximately $235m of the WIRP capital expenditure deferred during UT4 in the UT5 RAB for pricing purposes
- Network has proposed in its response to the UT5 Draft Decision that the remaining deferred WIRP capital expenditure relating to Moura be included in the RAB for pricing purposes. This is subject to the QCA's UT5 Final Decision
- The legal proceedings continue in relation to the notices received by Network from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated component of the WIRP fee. Network maintains its position that the notices issued by the WIRP customers are invalid and the full non-regulated component of the WIRP fee is payable. Network issued proceedings in the Supreme Court of Queensland on 17 March 2016 to assert its rights in respect of the payment of the full non-regulated component of the WIRP fee. A trial is scheduled to commence in the Supreme Court of Queensland on 10 September 2018
- The Customers have initiated other disputes under their respective WIRP Deeds which will be the subject of an expert determination in November 2018. Those disputes go to various matters relating to the completion of the WIRP construction works and have the potential to impact recovery of the portion of WIRP non-regulated revenue payable. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and should not impact recovery of the regulated access charge component of WIRP capital expenditure
- Due to the ongoing dispute, no WIRP fee revenue in respect of the non-regulated component of the WIRP fee has been recognised in FY2018

OTHER

Other includes the provision of maintenance services (e.g. rail grinding) to internal and external customers and central costs not allocated such as the Board, Managing Director & CEO, Investor Relations, Strategy and Company Secretariat.

($M)	FY2018	FY2017	VARIANCE %
Total revenue	**90.8**	**107.0**	**(15%)**
Operating costs	(99.7)	(98.7)	(1%)
EBITDA	**(8.9)**	**8.3**	**nm**
Depreciation and amortisation	(9.8)	(10.6)	8%
EBIT	**(18.7)**	**(2.3)**	**(713%)**

Performance Overview

EBIT decreased $16.4m mainly due to:

- Non-recurrence of $26.4m benefit from the UT4 corporate cost allocation true-up included in FY2017
- $16.2m reduction in other revenue predominantly due to external construction work of $7.0m, and sale of workshop inventories of $9.0m that both took place in FY2017

This was partly offset by:

- $20.9m of asset write offs and minor inventory impairments in FY2017 (nil in FY2018)
- Reduction in central support costs including $7.5m of transformation benefits

INTERMODAL – DISCONTINUED OPERATIONS

($M)	FY2018	FY2017	VARIANCE %
Total revenue	**225.4**	**309.8**	**(27%)**
Operating Costs	(247.1)	(340.7)	27%
EBITDA	**(21.7)**	**(30.9)**	**30%**
Depreciation and amortisation	(2.3)	(17.3)	87%
EBIT	**(24.0)**	**(48.2)**	**50%**
Significant Items	(74.7)	(167.2)	55%
Net Finance Cost	–	0.1	–
Income Tax Benefit	21.6	64.6	(67%)
NPAT (Discontinued operations)	**(77.1)**	**(150.7)**	**49%**
Total TEUs ('000s)	266.0	405.2	(34%)

Performance Overview

EBIT loss improved $24.2m mainly due to:

- $9.2m reduction in operating losses with the closure of Intermodal Interstate in December 2017
- $15.0m reduction in depreciation due to the Intermodal impairment in FY2017

Significant items for the discontinued operation of ($74.7m) were recognised in FY2018 relating to the closure of Intermodal Interstate and includes:

- Contract, lease and supplier exit costs
- Redundancy costs for 168 employees
- Asset impairments

TRANSFORMATION UPDATE

Aurizon achieved its three-year transformation target by delivering $133.6m in transformation benefits during FY2018, resulting in total transformation since July 2015 of $393.6m including Intermodal's FY2017 losses, which principally relate to Intermodal Interstate, removed. The exit of the Intermodal business contributed to transformation by permanently removing the financial losses. The continuing operations generated $85.6m in benefits in FY2018. Further examples of transformation initiatives are detailed below:

Precision Railroading Operations

This initiative is focused on driving precision planning and disciplined delivery with the objective to improve on time departure and arrival of above rail services across CQCN. Centred around three principles; plan with precision, disciplined delivery and continuous improvements, this initiative will be a multiyear journey that will target ways to improve on time running performance. This initiative is targeted to deliver at least $50m in financial benefits by FY2021.

Restructure of Support Areas

Aurizon continues its transformation agenda focusing on support areas by providing innovative, flexible and lower cost services. Commencing in 2HFY2018 and continuing into FY2019 is the restructure of the Technical Services and Planning business unit. This restructure will focus on reducing headcount, further footprint consolidation and the transfer of certain functions to the Coal and Bulk business units where appropriate. It is expected that this initiative will deliver around $20m in cost reductions by FY2021.

Rockhampton Rollingstock Workshop

The Rockhampton Workshop closed for production on 29 June 2018 in line with the original announcement in June 2017 and reflects the staged closure of Locomotive, Brake, Wheel and Wagon Shops throughout FY2018. The successful transition of Aurizon's heavy haul maintenance activities from in-source to outsource maintenance providers throughout Australia has been enabled through Aurizon's investment in technologies such as condition monitoring equipment and Shopfloor II (rollingstock maintenance planning and scheduling tool) and process improvements to its in-bound supply chain and procurement processes. A small team will remain on site during the next six months to decommission the facility and site master planning is underway to determine its future use.

Asset Maintenance

A key dependency for the achievement of Aurizon's strategy and an enabler for the Optimise and Excel strategic levers is continued investment in technology. Aurizon continues to advance its condition monitoring program. These advances allow Aurizon to automate routine maintenance inspections, predict when components will fail, thereby reducing cost and increase reliability to keep assets in productive use for longer. Developments in these key initiatives include:

- Approval has now been received from ARTC for the installation of a wayside condition monitoring (WCM) super site in the Hunter Valley. Construction has commenced and the site is expected to be operational by December 2018. The deployment will support the extension of maintenance inspection intervals for wagons in the Hunter Valley and is the foundation step in moving the NSW predictive maintenance capability in line with CQCN
- iTrigger technology – has been deployed across two terminals in the CQCN. This technology is part of the suite of predictive maintenance initiatives and identifies the lead indicator of door faults in wagons which contributes to around 14% of cancellations by wagons in the CQCN
- Treadview technology - this provides a full 3D model of a wheel profile and will be deployed across the WCM supersites in Blackwater and Goonyella during FY2019. This technology will fundamentally change the way Aurizon manages wheel health by examining the entire surface of the wheel rather than just its profile, and is an enabler for the extension of rollingstock reliability examinations from 42 to 84 days
- On train repair facilities are now in place across the CQCN and Hexham in the Hunter Valley. This allows key maintenance activities on wagons (e.g. wheel change outs) to be performed without breaking trains, requiring spare rollingstock or shunting of consists

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Asset Maintenance (continued)

- The Locomotive and Operational Data Acquisition and Management project (LODAM) is now being initiated across the coal locomotive fleet. LODAM will deliver a step change in both the quality and quantity of operational and sensor data, allowing Aurizon to better optimise and standardise how the fleet is operated and managed. LODAM will provide real time visibility of train handling and equipment performance, improved fleet performance, reliability and energy consumption and in cab monitoring. LODAM sensor data will allow locomotive failures to be predicted earlier and further improve our maintenance strategies
- Shopfloor II is now fully deployed across all rollingstock maintenance facilities. The project was completed ahead of time and under budget. The key benefits to be delivered as part of this project include increased maintenance planning capability and accuracy, supply chain integration, warranty management, serialisation and lifecycle management of major components and improved operational efficiency through standardising business processes and metrics

ADDITIONAL INFORMATION

Risk

Aurizon promotes a risk-aware culture with an emphasis on frontline accountability for effective risk management. The consideration of risk features heavily in Aurizon's thinking, from the framing of strategy through to informing decision making. Aurizon's Enterprise Risk Management Framework is based on the international standard for risk management (AS/NZS ISO 31000:2009) and supports the identification, assessment and reporting of risk across the business, and includes both financial and non-financial risks.

Risks to the delivery of strategy have been categorised into the three strategic levers of Optimise (accelerate the competitiveness of Aurizon), Excel (achieve regulatory reform, secure contract wins, and gain competitive advantage through asset efficiency) and Extend (position Aurizon for growth, value creation and the next phase of Enterprise evolution).

Optimise Strategic Lever

Queensland Intermodal and Acacia Ridge Terminal Sale Transactions

The ACCC has opposed the sale of Aurizon's Queensland Intermodal business to a consortium of Linfox and Pacific National, and the sale of its Acacia Ridge Terminal to Pacific National and commenced proceedings against Pacific National and Aurizon in the Federal Court of Australia. The ACCC has sought declarations, pecuniary penalties, orders restraining the existing sale transactions from proceeding and costs. The ACCC has also sought an injunction to prevent Aurizon from closing its Queensland Intermodal business while proceedings are on foot. While Aurizon refutes the ACCC's allegations and will defend the proceedings, including seeking clearance of the Acacia Ridge transaction, there is a risk that the Acacia Ridge transaction will be prevented from completing and/or Aurizon incurs orders for pecuniary penalties and costs. There is also the risk that, in the interim whilst the matter is being determined by the Court, Aurizon is injuncted from closing the Queensland Intermodal business.

Delivery of Optimise Initiatives

Aurizon maintains a pipeline of transformation initiatives that are expected to deliver a cost effective and customer aligned model. Continued focus is required on these initiatives to ensure benefits are delivered as planned and flow through to improved financial performance.

Operational Agility

A lack of operational agility would result in Aurizon's inability to flex operations and support an alignment between costs and revenue. If operational agility is not achieved it may result in missed revenue during market upturns due to a lag in accessing the required resources, or static costs during downturns eroding financial performance.

Enterprise Agreement Renegotiations

Enterprise Agreement renegotiations are underway to support sustainable business transformation. There are risks that prolonged industrial action impacts Aurizon's critical operations or final agreements do not support business objectives.

Business Interruption

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

- Road Vehicle Fatality - death or injuries to our people from operating road vehicles
- Process Safety Fatality - major process safety event leading to fatality or loss of licence to operate
- Adverse weather events and climate change which could impact on Aurizon's operations, assets, customers and employees
- Cyber security incidents in relation to Aurizon's corporate and operational systems

Excel Strategic Lever

Regulatory Risk of the Access Undertaking (UT5)

Aurizon continues to work with the Queensland Competition Authority (QCA) and industry stakeholders to secure acceptable and sustainable regulatory outcomes for the CQCN in accordance with the processes set out in the *Queensland Competition Authority Act 1997* (Qld). In particular, Network's Maximum Allowable Revenue (MAR) and the nominal (vanilla) WACC used in deriving 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. Not attaining appropriate pricing and policy regulatory settings will adversely impact revenue, and may have an adverse effect on operational flexibility, capital investment and recovery of operational and administrative costs. The WACC of 5.41% proposed by the QCA in its UT5 Draft Decision, together with the proposed UT5 maintenance and operational expenditure allowances, if reflected in its Final Decision, will not adequately compensate Network for its regulatory and commercial risks, which will lead to a material adverse impact on the Network business, operational performance and financial results.

Further risks arising from UT5 include:

- The network business's immediate response to implementing the Draft UT5 determination may materially impact above rail volumes and EBIT plus damage relationships with key stakeholders which may impact future contracts, transformation and reform
- The network business credit rating may be downgraded due to insufficient cashflows based on the Draft UT5 determination
- The network business may be unable to achieve regulatory reform beyond UT5, impacting future company performance
- The network business unsuccessfully adopts a new operating model and the final ruling is unchanged from the draft

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.

Aurizon is also exposed to the risk of material regulatory breaches resulting in the loss of operating licences and financial penalties. In the event of a loss of licence, critical business operations may not be supplied to customers, impacting profitability and reputation.

Regulatory approval is a prerequisite to support the Extend strategy, including growth opportunities with adjacent assets. In the event regulatory approval is not forthcoming, Aurizon's ability to deliver the strategy and associated value will be limited.

Competition in Current Markets

Aurizon may face competition from parties willing to compete at reduced margins and/or accept lower returns and greater risk positions than Aurizon. This may potentially negatively impact Aurizon's competitiveness. Aurizon's most significant customer contracts are secured on long-dated terms, however failure to win or retain customer contracts at commercial rates will always be a risk to future financial performance. Increased competition may be experienced from new entrants to Aurizon's core markets in both above and below rail, and includes existing customers in-sourcing Aurizon's services.

Adverse Basin, Corridor Economics and General Economic Conditions

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

Aurizon's customers in core and adjacent markets are reliant on demand from large export markets such as China, India, Japan and South Korea. Increased volatility in coal and bulk commodity markets due to factors such as material change in government policies or economic slowdown or the increasing use of renewable energy may cause fluctuations in demand, which in turn impact commodity prices, product volume and investment in growth projects. Although Aurizon develops its own long-term outlook for seaborne coal demand, it also considers the best known and most widely used Sustainable Development Scenario produced by the International Energy Agency (IEA) through the annual release of the World Energy Outlook (WEO). Whilst long term demand is expected to increase, there may be variances in volumes, contract profitability and growth that impact on Aurizon's financial results.

Extend Strategic Lever

Competition in New Markets

Extending expertise into adjacent activities including strategic partnerships with road operators, new target basins, and optimisation of the supply chain may not deliver the expected benefits. Competition from incumbents in these markets has the potential to reduce the expected returns as they respond to a new entrant. In addition, market dynamics may change and reduce the attractiveness of these activities prior or during the extension period.

WIRP Non-Regulated Revenue Dispute

Aurizon has received notices from WIRP customers purporting to exercise a right under the WIRP Deed to reduce their financial exposure in respect of the non-regulated revenue component of the amounts payable by them to Network. Network maintains its position that the notices issued by WIRP customers in relation to the WIRP fee are not valid. Aurizon issued proceedings in the Supreme Court of Queensland to assert its contractual rights under the Project Deeds. The proceedings have been admitted to the Commercial List of the Supreme Court of Queensland and have been set down for a 10-day hearing commencing in FY2019. The Court has made orders to prepare the matter for trial. The risk is that the entire amount of the WIRP fee is deemed not payable by the WIRP customers.

Inability to Delivery Adjacencies

The strategy of leveraging expertise to adjacent assets and activities may not be delivered as planned due to:

- The infrequency of investment opportunities — only a limited number of assets are adjacent to the existing Aurizon markets, and they may not be made available for sale
- Aurizon's potential inability to construct a deal – many factors such as access to capital markets, agreement with consortium or joint venture partners, or other legal restrictions may prohibit the execution of an acceptable transaction
- Competitor valuations – available adjacencies are infrastructure assets which are currently in demand from institutional funds. These funds or other competitors may pay a higher price than Aurizon, resulting in limited opportunities for growth

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Climate Change Risk

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

› Demand for thermal coal is subject to energy policy and regulation of Green House Gas (GHG) emissions (including carbon pricing)
› Investor concern over climate related risks may impact the ability to access capital for Aurizon and its customers for funding coal mining, transport and coal fired power projects
› Carbon liability under the Safeguard Mechanism Rule and potential penalties for inappropriate carbon reporting under the National Greenhouse and Energy Reporting (NGER) Act
› Current and future disruption arising from increased severity and/or frequency of extreme weather events (higher temperatures, strong winds, flooding and associated erosion, bushfires and others)

Climate change risks and opportunities are disclosed annually in our submission to the CDP and in Aurizon's sustainability report.

Sustainability

Aurizon's Sustainability Report details how Aurizon takes account of social, environmental and economic considerations related to its operations. In October 2017, Aurizon released its fourth Sustainability Report. This report contributed to Aurizon maintaining a Leading rating by the Australian Council of Superannuation Investors (ACSI) in June 2018. This was the fourth consecutive year of recognition and resulted in Aurizon being one of 35 ASX200 companies being considered a Leader by ACSI.

This year will be the second reporting period in which we have incorporated recommendations from the Financial Stability Board's (FSB) Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), released in June 2017. Aurizon acknowledges that climate change is affecting a wide range of industries around the world, resulting in financial implications. Transition risks, related to energy policy, regulation, technology and market shifts (that are necessary to achieve the transition to a low-carbon economy) will affect the demand for the commodities that Aurizon hauls. Physical risks related to extreme weather events will also continue to affect Aurizon through supply chain disruptions.

Aurizon's 2018 Sustainability Report will be published in October 2018.

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

Safety

As reported in 1HFY2018 results, Aurizon's commitment to safety is continuing with the company introducing a revised set of injury definitions on 1 July 2017. The key changes were the inclusion of contractors in all injury metrics and widening the scope of total recordable injuries to include all restricted work injuries. Previously, Aurizon had used a set of metrics and injury definitions benchmarked against the rail industry. These new definitions have been benchmarked against a broader set of global transport and resource organisations, including many of Aurizon's customers.

FY2018 saw a deterioration in performance in the early part of the financial year, which was disappointing but a focus on newly identified areas for improvement has seen positive changes towards the latter part of FY2018, resulting in a Total Recordable Injury Frequency Rate (TRIFR) for FY2018 of 10.02, a reduction of 3% against the 1HFY2018 result. However, the full year performance was still a deterioration against FY2017 which was 7.12.

Changing injury definitions is the first step in a broader program that is underway to create a learning safety culture. This journey will require an underlying shift in beliefs from a control orientated environment towards interdependence and self-sustaining behaviours. To make this shift a program of work is being developed that will focus on:

› development of leadership behaviours and capabilities for our frontline leaders
› updating systems, processes, governance and tools to better support frontline operations
› clarification of accountabilities for operational and support roles

Environment

Aurizon delivers environmental value through effective management of material environmental risks and improved enterprise environmental performance. In recognition of our efforts, in November 2017 Aurizon received the results for its 2017 CDP (formally carbon disclosure project) submission which confirmed that Aurizon had retained a Management B score. This reflects Aurizon's ongoing efforts to improve visibility and transparency on issues relating to climate change.

Aurizon has continued progress against its Board endorsed locomotive greenhouse gas (GHG) emissions intensity target, achieving in FY2018 a 7% emissions intensity reduction compared with FY2015. This represents a 1% improvement on performance when compared with FY2017 which was hampered by challenges associated with severe weather events and above average mean temperatures.

In November 2017, the Rail Safety and Standards Board approved and published a Code of Practice (COP) on the Management of Locomotive Exhaust Emissions. This COP was developed by Australian rail freight operators (including Aurizon) as an industry led approach to improving locomotive diesel emissions. This industry led approach prioritises both particulate matter and greenhouse gas emissions, while being careful not to decrease fuel efficiency in pursuit of nitrogen oxide reductions (which was highlighted as a potentially negative impact by a locomotive upgrade trial undertaken by the New South Wales Environmental Protection Authority in 2015). The COP will form part of Aurizon's continuing efforts to improving air quality which also includes reducing diesel consumption, using cleaner diesel, operating electric locomotives and promoting rail over road freight.

In June 2018, Aurizon had two notifiable environmental incidents involving the spillage of hydrocarbons. The remediation of the two incidents is underway and is expected to be completed, with no long term environmental impact, during 1QFY2019.

People

At Aurizon our values (Safety, People, Integrity, Customer and Excellence) guide our people's work in delivering bulk commodities to the world. Our areas of focus to develop the capability of our people include:

› continuing to make Aurizon a more inclusive and diverse workplace, where everyone can work to their full potential
› improving our people, processes and systems (performance and succession) to achieve exceptional performance and build capability
› continuing to increase our employee presence through regional Australia

Directors' Report (continued)
REMUNERATION REPORT

Dear Fellow Shareholders,

On behalf of the Board, we are pleased to present Aurizon's Financial Year (FY) 2018 Remuneration Report.

Aurizon's financial performance for FY2018 has been solid. Underlying Earnings Before Interest and Tax (EBIT) for continuing operations increased 6% to $941m, within the guidance range of $900-$960m. The transformation program continued to deliver benefits and the company achieved the three-year transformation target of $380 million (including the removal of Intermodal losses, which principally relate to Intermodal Interstate).

The Company reported safety outcomes, under the revised metrics, saw disappointing results in safety performance over the year. Changing injury definitions was the first step in a broader program of work in safety that is being implemented to renew the Company's focus on safety. The Board will take an active interest in monitoring outcomes and were pleased to see improvements emerging in the second half.

Performance outcomes for the FY2018 Short Term Incentive have been mixed. Above Target performance was achieved for Underlying EBIT and Enterprise Transformation Program however Safety performance was below Threshold. The Board has determined that an overall outcome above Target will be awarded.

During FY2018, the 2015 Long Term Incentive (LTI) Award and unvested 2014 LTI Award were subject to testing however Aurizon's performance resulted in no components of these Awards vesting. Under the terms of the 2015 Award, the Board may decide to extend the performance period for one year, with the retest being at higher hurdles. The Board will consider this matter in FY2019.

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

The Board commends Andrew, the Executive Committee and all Aurizon employees on their achievements in the ongoing transformation of Aurizon. Reaching the three-year savings target is not the end of the transformation journey, rather, it is the foundation for Aurizon's strategy of continuing to optimise, excel and extend the business.

The Board is committed to ensuring the remuneration framework supports the strategic objectives of the Company whilst rewarding and retaining Executives and delivering shareholder returns. In FY2018 the remuneration framework changes foreshadowed last year were implemented including a greater proportion of the LTIA weighted towards relative TSR and the performance period extended to four years. As disclosed last year, the Total Fixed Remuneration of new Executive KMP appointments was reduced compared to predecessors and more weighting was given to the Long Term Incentive component of their packages, as appropriate for a long asset life infrastructure business.

We will continue to review the Executive remuneration framework in FY2019 to ensure it remains effective in driving the required performance.

A market review of the Non-Executive Director remuneration framework resulted in changes to the reward structure – the first since 2012. The Chairman's fee was increased marginally and the remaining Non-Executive Directors transitioned from an 'all-in-one' to a 'base plus committee' fee structure effective from 1 January 2018.

As always, we are grateful for your ongoing support and we value your feedback. We look forward to welcoming you to our 2018 Annual General Meeting.

Yours faithfully,

Tim Poole
Chairman

Russell Caplan
Chairman, Remuneration and Human Resources Committee

Directors' Report (continued)

REMUNERATION REPORT

1. Remuneration Report Introduction

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

The Remuneration Report for the year ended 30 June 2018 is set out as per Table 1. The information in this Report has been audited.

TABLE 1 – TABLE OF CONTENTS

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.

As previously identified a review of the KMP was conducted in FY2017. Given the change in Business Unit reporting from FY2018 the Board determined that from 1 July 2017 the Managing Director & Chief Executive Officer (MD & CEO), Chief Financial Officer & Group Executive Strategy, Group Executive Bulk, Group Executive Coal and Group Executive Network fulfil the definition of the KMP.

The Non-Executive Directors and Executives that formed part of the KMP for the Financial Year (FY) as at 30 June 2018 are identified in Table 2.

TABLE 2 – KEY MANAGEMENT PERSONNEL

NAME	POSITION
NON-EXECUTIVE DIRECTORS	
T Poole	Chairman, Independent Non-Executive Director
M Bastos[1]	Independent Non-Executive Director
R Caplan	Independent Non-Executive Director
J Cooper	Independent Non-Executive Director
K Field	Independent Non-Executive Director
M Fraser	Independent Non-Executive Director
S Lewis	Independent Non-Executive Director
K Vidgen	Independent Non-Executive Director
EXECUTIVE KMP	
A Harding	Managing Director & Chief Executive Officer
P Bains	Chief Financial Officer & Group Executive Strategy
C McDonald[2]	Group Executive Bulk
E McKeiver[3]	Group Executive Coal
M Riches[4]	Group Executive Network

1 M Bastos was appointed a Director on 15 November 2017
2 C McDonald was appointed Group Executive Bulk on 1 July 2017
3 E McKeiver was appointed Group Executive Coal on 1 July 2017
4 M Riches was appointed Group Executive Network on 24 July 2017

3. Remuneration Framework Components

Total Potential Remuneration

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

- **Fixed remuneration** (not 'at risk') that comprises salary and other benefits, including superannuation
- **STIA** ('at risk' component, awarded on the achievement of performance conditions over a 12-month period) that comprises both a cash component and a component deferred for 12 months into equity
- **LTIA** ('at risk' component, awarded on the achievement of performance conditions over a four-year period (excluding the 2017 Award three-year transitional arrangement)) that comprises only an equity component

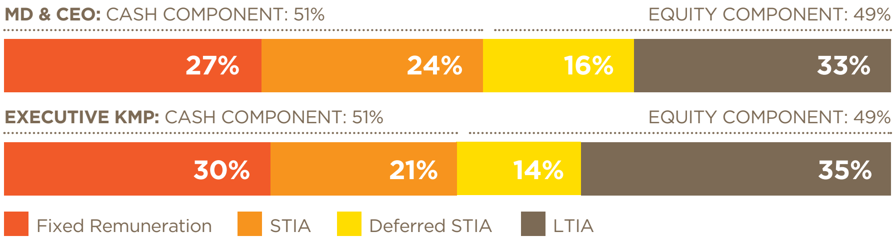
The structure is intended to provide an appropriate mix of fixed and variable remuneration, and provide a combination of incentives intended to drive performance against the Company's short and longer-term business objectives.

The mix of potential remuneration components for FY2018 for the MD & CEO and Executive KMP is set out in Figure 1: Total Potential Remuneration Financial Year 2018. This diagram demonstrates the revised remuneration mix for appointments, implemented in FY2017, where a greater proportion of the total potential remuneration is weighted towards the LTIA.

Executive Remuneration Governance

Figure 2 represents Aurizon's remuneration governance framework. Details on the composition of the Remuneration and Human Resources 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**

FIGURE 1 – TOTAL POTENTIAL REMUNERATION FINANCIAL YEAR 2018[1]



1 Assumes achievement of the stretch performance hurdle outcomes for STIA, full vesting of the Deferred STIA and LTIA at a value equal to the maximum opportunity of the original award i.e. assuming no share price appreciation and excluding the 2017 Award three-year transitional arrangement

FIGURE 2 – REMUNERATION GOVERNANCE FRAMEWORK

BOARD

The Board:

- Approves the overall remuneration policy and ensures it is competitive, fair and aligned with the long-term interests of the Company
- Approves Non-Executive Director remuneration, MD & CEO and Executive Committee (direct reports to the MD & CEO) remuneration
- Assesses the performance of, and determines the STIA outcome for the MD & CEO giving due weight to objective performance measures while retaining discretion to determine final outcomes
- Considers and determines the STIA outcomes of the Executive Committee based on the recommendations of the MD & CEO

REMUNERATION AND HUMAN RESOURCES COMMITTEE

The Remuneration and Human Resources Committee is delegated responsibility by the Board to review and make recommendations on:

- The remuneration policies and framework for the Company
- Non-Executive Director remuneration
- Remuneration for the MD & CEO and Executive Committee
- Executive incentive arrangements

MANAGEMENT

- Provides information relevant to remuneration decisions and makes recommendations to the Remuneration and Human Resources Committee
- Obtains remuneration information from external advisors to assist the Remuneration and Human Resources Committee (i.e. market data, legal advice, accounting advice, tax advice)

CONSULTATION WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

REMUNERATION CONSULTANTS AND OTHER EXTERNAL ADVISORS

In performing duties and making recommendations to the Board, the Remuneration and Human Resources Committee may from time to time appoint and engage independent advisors directly in relation to Executive remuneration matters. These advisors:

- Review and provide recommendations on the appropriateness of the MD & CEO and Executive Committee remuneration
- Provide independent advice, information and recommendations relevant to remuneration decisions

Any advice or recommendations provided by external advisors are used to assist the Board – they do not substitute Board and Remuneration and Human Resources Committee processes

Remuneration Framework and objectives Financial Year 2018

The Board is conducting a comprehensive review of Aurizon's remuneration framework which may be implemented from FY2020. The review is being conducted to ensure the framework continues to deliver against our remuneration principles and remains effective in driving strong performance. In the interim, and as referenced in the FY2017 Remuneration Report, further changes implemented in FY2018 are summarised in Figure 3.

FIGURE 3 – REMUNERATION FRAMEWORK AND OBJECTIVES FOR FINANCIAL YEAR 2018

	PERFORMANCE MEASURE	STRATEGIC OBJECTIVES AND LINK TO PERFORMANCE	FY2018 FRAMEWORK CHANGES
FIXED REMUNERATION	**Considerations:** › Experience, qualifications › Role and responsibility › Retain key capability › Reference to remuneration paid by similar sized companies in similar industry sectors › Internal and external relativities	› To attract and retain Executives with the right capability to achieve results	
SHORT TERM INCENTIVE AWARD	› Underlying EBIT (40%) › Enterprise Transformation Program (20%) › Safety (10%) › Individual (30%) Measured over a one-year performance period **STIA at Risk:** **MD & CEO**: Target 100% of Fixed Remuneration and maximum 150% of Fixed Remuneration **Other Executive KMP**: Target 75% of Fixed Remuneration and maximum 112.5% of Fixed Remuneration	The financial and non-financial performance measures were chosen because: › **Underlying EBIT** delivers direct financial benefits to shareholders › **Enterprise Transformation Program** captures the need for our people and our assets to operate more efficiently › **Safety** captures the need to continuously improve safety and embed safe, efficient and effective processes across all aspects of a heavy industry business Note: Participation levels are set with reference to the appropriate levels of short term incentive offered by our peers in the market	› A greater proportion of the Award has been weighted towards Underlying EBIT and Transformation Safety measures have been adjusted to: › Include Rail Process Safety › Remove Environmental Incidents, Safety Interactions and Female Representation › Provide reward for Threshold performance › Definition of Safety measure (TRIFR) revised
LONG TERM INCENTIVE AWARD	› Relative Total Shareholder Return (TSR) (50%) › Return on Invested Capital (ROIC) (50%) Measured over a four-year performance period (excluding the 2017 Award three-year transitional arrangement). Retesting was removed from the 2016 Award and has not formed part of any subsequent awards **LTIA at Risk (Maximum):** **MD & CEO:** 120% of Fixed Remuneration **New Executive appointments:** 112.5% of Fixed Remuneration	› **Relative TSR** is a measure of the return generated for Aurizon's shareholders over the performance period relative to a peer group of companies (ASX100) › **ROIC** 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 Note: Minimum shareholding requirements for Executive KMP and the remainder of the Executive Committee encourages retention of shares and alignment with shareholder interests	From the 2017 Award: › A greater portion of the award has been weighted towards relative TSR › Company hurdles are measured over an extended performance period, increasing from a three to four-year performance period › Telecommunications companies will no longer be excluded from the peer group The 2017 Award included a transition award offered to ensure there is no gap in LTIA vesting opportunity

Total remuneration

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

4. Company Performance Financial Year 2018

Results for performance metrics have been mixed. Aurizon delivered a solid underlying EBIT outcome of $941m for continuing operations – a 6% increase on last year. The Enterprise Transformation program delivered $86m in benefits in FY2018. In addition Operating Ratio has also continued to improve, achieving 69.8% for continuing operations and 72.5% at the Group level in FY2018. However, safety outcomes were disappointing.

Figure 4 shows historical Company performance across a range of key metrics.

Detail related to performance against the FY2018 STIA performance measures is provided in Table 4 page 31. Table 6 page 32 provides additional information related to the LTIA performance outcomes.

FIGURE 4 – HISTORICAL COMPANY PERFORMANCE

1 Continuing operations

2 From FY2018, TRIFR definition has been redefined and contractor statistics have been included. Historical performance has been restated to include the extended definition for FY2015 – FY2017. FY2014 has not been restated. Performance unaudited prior to FY2018. The line diagram depicts the historical performance under the previous definition

Directors’ Report (continued)

REMUNERATION REPORT

5. Take Home Pay

Table 3 identifies the actual remuneration earned during FY2018 for Executive KMP.

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

The remuneration outcomes identified in Table 3 are directly linked to the Company performance described in Section 6 page 31 and Section 7 page 32.

The actual STIA is dependent on Aurizon and individual performance as described in Section 6. Mixed performance across our key measures is also reflected directly in the payments for our Executive KMP, which range from 79% to 85% of their potential maximum.

The actual vesting of the LTIA is dependent on Aurizon’s performance and the outcomes are further described in Section 7.

During FY2018, the 2015 Award and unvested 2014 Award were subject to testing. However, Aurizon’s performance resulted in no components of these Awards vesting.

TABLE 3 – REMUNERATION EARNED IN FINANCIAL YEAR 2018

NAME	FIXED REMUNERATION $’000	NON-MONETARY BENEFITS[1] $’000	STIA CASH[2] $’000	STIA DEFERRED FROM PRIOR YEAR[3] $’000	LTIA VESTING[4] $’000	SHARE PRICE DEPRECIATION[5] $’000	ACTUAL FY2018 REMUNERATION OUTCOMES $’000
EXECUTIVE KMP							
A Harding	1,700	109	1,257	211	–	(29)	3,248
P Bains	700	2	389	102	–	(14)	1,179
C McDonald	600	58	344	64	–	(9)	1,057
E McKeiver	640	69	352	–	–	–	1,061
M Riches[6]	632	12	339	–	–	–	983

1 The amount relates to travel benefits and relocation assistance

2 The amount relates to the cash component (60%) of the FY2018 STIA which will be paid in September 2018

3 The amount relates to the deferred component (40%) of the FY2017 STIA which was awarded in performance rights and will become unrestricted in September 2018 (calculation assumes a share price of $5.01)

4 The amount is the number of rights which would have vested in August 2018. As the performance hurdles were not met no rights vested

5 The amount is the number of rights which vest in September 2018 multiplied by the decrease in the Aurizon share price over the period ended 30 June 2018 (calculation assumes share price depreciation of $0.68)

6 Pro-rata outcomes apply for Executives who were appointed after the performance year commenced (1 July 2017)

6. Short Term Incentive Award

What is the STIA and who participates?

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

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

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

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

What are the Company performance measures?

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

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

The employment agreements specify a target STIA, expressed as a percentage of Fixed Remuneration (100% for the MD & CEO and 75% for the remaining Executive KMP). Each participant can earn between 0% up to a maximum of 150% of this target percentage, depending on performance and subject to Board discretion. Depending on performance assessed at year end, participants may earn for each enterprise measure: 0% for performance below *Threshold*, 50% at *Threshold* (for measures other than Underlying EBIT, for which *Threshold* earnings are 30%) 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 FY2018?

Table 4 identifies the performance measures, relevant weightings and outcomes for FY2018. The FY2018 actual outcomes for Executive KMP are identified within Table 5.

TABLE 4 – SHORT TERM INCENTIVE AWARD FINANCIAL YEAR 2018 OBJECTIVES[1]

DESCRIPTION	WEIGHTING	TARGET	OUTCOME
EBIT: Underlying EBIT delivers financial benefits to shareholders through growth in underlying operating earnings	40%	$931m	**$941m** Between *Target* and *Stretch*
Enterprise Transformation: Our priority to transform Aurizon continues to be a strategic imperative. For FY2018, this objective was aligned to the Enterprise Transformation Program, which identifies cost-outs and capital management savings targeted over three years (FY2016 - FY2018)	20%	$80m	**$86m** Between *Target* and *Stretch*
Safety: The measures capture the need to continuously improve and maintain safety across all aspects of the Company measured through equally weighted parameters which included: › Total reportable injury frequency rate (TRIFR) › Rail Process Safety (Total Accident Rate and Signals Passed at Danger)	10%	› 15% reduction in TRIFR › 10% improvement in Rail Process Safety	› **57%** increase TRIFR › **75%** increase in Rail Safety Process Below *Threshold*
Aggregate Enterprise Outcome (Sub-total)	**70%**		
Individual: 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 FY2018 the MD & CEO's individual performance parameters included: › Redefine Enterprise strategic plan › Regulatory process › Implement strategic review outcomes relating to Intermodal, Bulk and support areas	**30%**	Individual performance targets vary for each specific role	Personal outcomes for MD & CEO and Executive KMP varied between *Target* and *Stretch* depending on performance against individual KPIs

1 Company performance hurdles relate to continuing operations

TABLE 5 – SHORT TERM INCENTIVE AWARDED IN FINANCIAL YEAR 2018

			AWARDED FY2018 ($'000)				
NAME	TARGET STIA $'000	MAXIMUM POTENTIAL STIA ($'000)	CASH COMPONENT	DEFERRED SHARE COMPONENT[1]	TOTAL STIA PAYMENT	% OF TARGET STIA	% OF MAXIMUM STIA[2]
EXECUTIVE KMP							
A Harding	1,700	2,550	1,257	838	2,095	123	82
P Bains	525	788	389	260	649	124	82
C McDonald	450	675	344	229	573	127	85
E McKeiver	480	720	352	234	586	122	81
M Riches[3]	474	711	339	226	565	119	79

1 A portion (40%) awarded in the form of rights to shares, which vest on the first anniversary of payment of the cash component subject to Board's ability to 'claw-back'
2 Executives have forfeited between 15% to 21% of their maximum potential outcome
3 Pro-rata outcomes apply for Executives who were appointed after the performance year commenced (1 July 2017)

Directors' Report (continued)

REMUNERATION REPORT

7. Long Term Incentive Award

What is the LTIA and who participates?

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

How is the LTIA determined?

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

Each performance right is a right to receive one share in Aurizon upon vesting.

The number of performance rights that vest is determined by performance outcomes compared with predetermined company hurdles as described in Table 6 and Table 7.

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. Value of the award will be subject to movements in the Aurizon share price over the performance period. Company performance against LTIA subject to testing in FY2018 is identified in Table 6.

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

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

What is the performance period?

From the 2017 Award, company hurdles are measured over an extended performance period, which increased from a three to a four-year performance period. In order to manage the transition on a value neutral basis for the Company, two LTIA grants were made in FY2018. Both grants were issued at 75% of the maximum vesting opportunity. The 2018 Award (to be issued in FY2019) will contain one grant at the maximum vesting opportunity.

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

Retesting was removed from the 2016 Award and has not formed part of any subsequent awards.

TABLE 6 – COMPANY PERFORMANCE AGAINST LONG TERM INCENTIVE AWARDS SUBJECT TO TESTING IN FINANCIAL YEAR 2018

COMPANY HURDLE AND PERFORMANCE MEASUREMENT PERIOD		WEIGHTING	RESULT	% VESTED	% FOR RETESTING	% LAPSED
2014 AWARD: RETEST 01 JULY 2014 – 30 JUNE 2018						
Relative TSR: against peer group within ASX100 Index	**Initial:** 30% of rights vest at the 50th percentile, 75% at the 62.5th percentile up to 100% at the 75th percentile	*33%*	*Below median (FY2017)*	*0%*	*100% of this component was subject to a single retest in FY2018*	
	Retest: 100% of rights vest at the 75th percentile. 0% will vest below the 75th percentile		*Below top quartile (FY2018)*	*0%*		100%
OR Improvement	**Initial**: 50% of rights vest with a FY2017 OR of 73%, up to 100% at or below 70%	*34%*	*75.8% (FY2017)*	*0%*	*100% of this component was subject to a single retest in FY2018*	
	Retest: 100% of rights vest at or below 70%. 0% will vest with an OR above 70%		*72.5%[1] (FY2018)*	*0%*		100%
ROIC: average annual ROIC **Initial:** FY2015 – FY2017 **Retest:** FY2015 – FY2018	**Initial**: 50% of rights vest with an average ROIC of 10.5%, up to 100% at 11.5%	*33%*	*8.8%[2]*	*0%*	*100% of this component was subject to a single retest in FY2018*	
	Retest: 100% of rights vest with an average ROIC of 12.5%. 0% below 12.5%		*9.0%[2]*	*0%*		100%
2015 AWARD: 01 JULY 2015 – 30 JUNE 2018						
Relative TSR: against peer group within ASX100 Index	30% of rights vest at the 50th percentile, 75% of rights vest at the 62.5th percentile up to 100% at the 75th percentile	*33%*	*Below median*	*0%*	*100% of this component may be subject to a retest in FY2019[3]*	
OR Improvement	50% of rights will vest with a FY2018 OR of 71.5%, up to 100% at 70%	*34%*	*72.5%[1] (FY2018)*	*0%*	*100% of this component may be subject to a retest in FY2019[3]*	
ROIC: average annual ROIC FY2016 – FY2018	50% of the rights will vest with an average ROIC of 10.5%, up to 100% at 11.5%	*33%*	*8.7%[2]*	*0%*	*100% of this component may be subject to a retest in FY2019[3]*	

1 OR for remuneration purposes has been adjusted to include Intermodal (until the divestment is completed or the business is closed). This adjustment ensures the definition used is consistent with when the performance hurdles were set. OR for continuing operations is 69.8%

2 ROIC for remuneration purposes has been adjusted to reflect asset impairments which have occurred during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements. Reported ROIC is 9% for the 2014 Award (FY2015 – FY2017), 9.5% for the 2014 Award (Retest FY2015 – FY2018) and 9.4% for the 2015 Award (FY2016 – FY2018)

3 The retesting hurdles are 69% for OR in the fourth year, top quartile performance for relative TSR over the four-year period and 12.5% average for ROIC over the four-year period. The Board has not yet determined whether the 2015 Award will be retested next year for either current or former Executives

TABLE 7 – LONG TERM INCENTIVE AWARD PERFORMANCE OVERVIEW AND HURDLES

TSR	The vesting of rights for relative TSR growth is conditional on Aurizon's TSR performance relative to a peer group of companies in the ASX100 index (approximately 70) that are broadly comparable to Aurizon (i.e. with which Aurizon competes for capital and/or capability). Property trusts (from 2016 Award) and telecommunications companies (from 2017 Award) are no longer excluded from the comparator group. Financial, healthcare, biotechnology, casinos and gaming companies are excluded from the comparator 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 verified by an independent expert at the end of each Financial Year.
ROIC	ROIC, for the purposes of the LTIA, will be calculated on the same basis as the published ROIC except to the extent of the differences explained in this section. Essentially, ROIC is Underlying EBIT divided by Invested Capital. For the purposes of LTIA, invested capital will not include major (infrastructure investments with an approved budgeted capital expenditure over $250m) assets under construction (AUC) until these investments are planned to generate income, subject to Board discretion (for example, in the case of a delay judged to be outside the control of management and not able to be foreseen or mitigated). ROIC for remuneration purposes will be adjusted (add-back depreciation charge and invested capital) to reflect asset impairments which occur during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements.
OR	OR improvement essentially measures the operating cost as a percentage of revenue. Aurizon is committed to reducing OR through further implementation of transformation initiatives, growth initiatives and continued tight operational and financial discipline. The Board determined that OR will no longer form part of the LTIA from the 2017 Award. It was always intended that the use of OR had a finite life-span. Whilst OR will continue to be managed and improved it will no longer be used for remuneration purposes with the balance of future awards weighted towards TSR and ROIC which are better aligned to a long asset life infrastructure company. In August 2017, Aurizon announced its intention to exit the Intermodal business. Accordingly, the entire Intermodal business has been treated as a discontinued item for reporting purposes. Shareholders have been unable to realise the benefit of fully exiting the Intermodal business in FY2018. As a result the Board have determined that OR for remuneration purposes will be adjusted to include Intermodal (until the divestment is completed or the business is closed). This adjustment ensures the definition used is consistent with when the performance hurdles were set.

		PERFORMANCE PERIOD (01/07/2017 – 30/06/2020)[1,2]		
2017 AWARD (3 YEAR)	**WEIGHTING**	**MINIMUM VESTING POINT**		**MAXIMUM VESTING POINT**
Relative TSR: against peer group within ASX100 Index	50%	30% of the rights will vest at the 50th percentile	75% of the rights will vest at the 62.5th percentile	100% of the rights will vest at the 75th percentile
ROIC: average annual ROIC FY2018 – FY2020[3]	50%	50% of the rights will vest with an average ROIC of 10.5%		100% of the rights will vest with an average ROIC of 11.5%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

		PERFORMANCE PERIOD (01/07/2017 – 30/06/2021)[1,2]		
2017 AWARD (4 YEAR)	**WEIGHTING**	**MINIMUM VESTING POINT**		**MAXIMUM VESTING POINT**
Relative TSR: against peer group within ASX100 Index	50%	30% of the rights will vest at the 50th percentile	75% of the rights will vest at the 62.5th percentile	100% of the rights will vest at the 75th percentile
ROIC: average annual ROIC FY2018 – FY2021[3]	50%	50% of the rights will vest with an average ROIC of 10.5%		100% of the rights will vest with an average ROIC of 11.5%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

		PERFORMANCE PERIOD (01/07/2018 – 30/06/2022)[1]		
2018 AWARD (4 YEAR)	**WEIGHTING**	**MINIMUM VESTING POINT**		**MAXIMUM VESTING POINT**
Relative TSR: against peer group within ASX100 Index	50%	30% of the rights will vest at the 50th percentile	75% of the rights will vest at the 62.5th percentile	100% of the rights will vest at the 75th percentile
ROIC: average annual ROIC FY2019 – FY2022	50%	50% of the rights will vest with an average ROIC of 9%		100% of the rights will vest with an average ROIC of 10%
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

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

2 From the 2017 Award, company hurdles are measured over an extended performance period, which increased from a three-year performance period to a four-year performance period. In order to facilitate this transition two awards were issued at 75% of the maximum vesting opportunity in FY2018

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

How does Aurizon utilise Retention awards?

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

During FY2018, no equity-based awards were issued however one equity-based award vested. This award pertained to the retention of the CFO & Group Executive Strategy as disclosed in FY2017. Further information is available in note 29 of the Financial Report (page 91). Additionally, 28 cash-based awards were issued. One award was linked to the retention of a critical employee leading a key strategic program and vested in FY2018. Two awards, which may vest in FY2019, were issued as a pre-emptive defence against the external targeting of Executives. The remaining awards were issued to key employees required to complete the Intermodal closure and sale process totalling approximately $660,000. Performance periods and conditions were tailored to the individual's role and therefore resulted in varying outcomes. A majority of the awards pertaining to the Intermodal process vested in FY2018.

8. Executive Service Agreements

Executive Service Agreements

Remuneration and other terms of employment for the MD & CEO and Executive KMP are formalised in a Service Agreement as summarised in Table 8.

Minimum shareholding policy for Executives

To align KMP and the Executive Committee (direct reports to the MD & CEO) with shareholders, the Company requires:

- Non-Executive Directors to accumulate and maintain one year's Total Directors' fees (consisting of Directors' fee plus applicable Committee fee/s) of shares in the Company
- the MD & CEO to accumulate and maintain one year's Fixed Remuneration of shares in the Company
- the remaining Executive KMP and Executive Committee to accumulate and maintain 50% of one year's Fixed Remuneration of shares in the Company

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

Details of KMP shareholdings as at 30 June 2018 are set out in Table 9.

Hedging and margin lending policies

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

TABLE 8 – SERVICE AGREEMENTS

NAME	DURATION OF SERVICE AGREEMENT	FIXED REMUNERATION AT END OF FINANCIAL YEAR 2018[1]	NOTICE PERIOD[2] BY EXECUTIVE	NOTICE PERIOD[2] BY COMPANY[3]
EXECUTIVE KMP				
A Harding	Ongoing	$1,700,000	6 months	12 months
P Bains	Ongoing	$700,000	3 months	6 months
C McDonald	Ongoing	$600,000	3 months	6 months
E McKeiver	Ongoing	$640,000	3 months	6 months
M Riches	Ongoing	$675,000	3 months	6 months

1 Fixed remuneration includes a superannuation component
2 Post employment restraints in any competitor business in Australia is aligned to the notice period
3 Any termination payment will be subject to compliance with the Corporations Act and will not exceed 12 months

TABLE 9 – KMP SHAREHOLDINGS AS AT 30 JUNE 2018

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[1]
NON-EXECUTIVE DIRECTORS					
T Poole	90,500	–	–	90,500	80%
M Bastos	–	–	11,400	11,400	25%
R Caplan[2]	82,132	–	–	82,132	171%
J Cooper[2]	85,000	–	10,000	95,000	198%
K Field[2]	40,458	–	–	40,458	84%
M Fraser	40,000	–	–	40,000	83%
S Lewis	33,025	–	–	33,025	69%
K Vidgen	40,000	–	–	40,000	87%
EXECUTIVE KMP					
A Harding	–	–	10,000	10,000	3%
P Bains	16,484	6,864	–	23,348	14%
C McDonald	57,972	47,722	–	105,694	76%
E McKeiver	48,692[3]	8,237	–	56,929	39%
M Riches	–	–	–	–	0%

1 Assumes Total Directors' fees and Fixed Remuneration as at 30 June 2018 and the calculation assumes a share price of $4.33
2 KMP required to meet the minimum shareholding requirement due to length of service in a KMP role being longer than six years
3 Restated from FY2017

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.

Remuneration for Non-Executive Directors is reviewed by the Committee and set by the Board, taking into account external benchmarking. 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 does not participate in any discussions relating to the determination of his own remuneration.

FY2018 Review Outcome

This year's review has resulted in changes to the remuneration of the Chairman and Non-Executive Directors – the first since 2012.

The Chairman's fee continues to be inclusive of fees for Committee memberships, however, at a higher rate.

For the other Non-Executive Directors, there has been a change to the structure to a 'base plus Committee' fee from an 'all-in-one' fee. This change has resulted in a decrease to the base Directors' fee. In addition to the base Directors' fee, other Non-Executive Directors will receive the applicable fee components for Committee chairperson and/or membership responsibilities.

The base Directors' fee continues to include 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 pay.

This change was effective from 1 January 2018 and is detailed in Tables 10 and 11. The actual remuneration outcomes for the Non-Executive Directors of the Company is summarised in Table 12. Details of the Non-Executive Director membership is disclosed on page 4.

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.

TABLE 10 – DIRECTORS' FEES

		SERVICE AGREEMENT SUMMARY	
DIRECTORS	TERM	FROM 1 JANUARY 2018	PRIOR FEE
Chairman	Directors' fees (inclusive of all responsibilities and superannuation)	$490,000	$475,000
Other Non-Executive Directors	Directors' fees (inclusive of all responsibilities and superannuation)	$170,000	$190,000

TABLE 11 – COMMITTEE FEES

	NETWORK BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND HUMAN RESOURCES COMMITTEE	SAFETY, HEALTH AND ENVIRONMENT COMMITTEE
Chairperson	$30,000	$30,000	$17,500	$17,500
Member	$20,000	$20,000	$8,750	$8,750

TABLE 12 – NON-EXECUTIVE DIRECTORS' REMUNERATION

		SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	
NAME	YEAR	SALARY AND FEES[1] $'000	NON-MONETARY BENEFITS[2] $'000	SUPERANNUATION $'000	TOTAL REMUNERATION $'000
NON-EXECUTIVE DIRECTORS[3]					
T Poole	**2018**	**461**	**–**	**20**	**481**
	2017	455	–	20	475
M Bastos	**2018**	**109**	**–**	**10**	**119**
R Caplan	**2018**	**181**	**–**	**17**	**198**
	2017	174	–	16	190
J Cooper	**2018**	**181**	**–**	**17**	**198**
	2017	174	–	16	190
M Fraser	**2018**	**181**	**–**	**17**	**198**
	2017	174	–	16	190
K Field	**2018**	**181**	**–**	**17**	**198**
	2017	174	–	16	190
S Lewis	**2018**	**181**	**–**	**17**	**198**
	2017	174	–	16	190
K Vidgen	**2018**	**177**	**–**	**17**	**194**
	2017	160	–	15	175
Total	**2018**	**1,652**	**–**	**132**	**1,784**
	2017	1,485	–	115	1,600

1 Salary and fees include any salary sacrificed benefits

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

3 Appointment dates for new Directors are provided in Table 2 on page 26

Directors' Report (continued)

REMUNERATION REPORT

10. Executive Remuneration Financial Year 2018

The table below details the number and value of movements in equity awards during FY2018.

TABLE 13 – RIGHTS GRANTED AS COMPENSATION

NAME	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR[1]	VALUE OF RIGHTS GRANTED IN YEAR	VESTED IN YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	FORFEITED IN YEAR
		NO.	NO.	$'000	%	NO.	NO.	%
EXECUTIVE KMP								
A Harding[3]	2016	463,636	–	–	–	–	–	–
	2017 STIAD[6]	–	42,076	211	–	–	–	–
	2017 (3 year)	–	295,938	914	–	–	–	–
	2017 (4 year)	–	295,938	885	–	–	–	–
P Bains	2013	38,582	–	–	18%	(6,864)	(31,718)	82%
	2014[3]	49,382	–	–	–	–	–	–
	2015[3]	46,066	–	–	–	–	–	–
	2016 – Ret[4]	25,000	–	–	–	–	–	–
	2016	60,776	–	–	–	–	–	–
	2017 STIAD[6]	–	20,279	102	–	–	–	–
	2017 (3 year)	–	114,241	363	–	–	–	–
	2017 (4 year)	–	114,241	351	–	–	–	–
C McDonald	2013	43,403	–	–	18%	(7,722)	(35,681)	82%
	2014[3]	55,555	–	–	–	–	–	–
	2015 – Ret[5]	40,000	–	–	100%	(40,000)	–	–
	2015[3]	51,824	–	–	–	–	–	–
	2016	60,776	–	–	–	–	–	–
	2017 STIAD[6]	–	12,774	64	–	–	–	–
	2017 (3 year)	–	97,921	311	–	–	–	–
	2017 (4 year)	–	97,921	301	–	–	–	–
E McKeiver	2013	46,297	–	–	18%	(8,237)	(38,060)	82%
	2014[3]	59,260	–	–	–	–	–	–
	2015[3]	55,279	–	–	–	–	–	–
	2016	64,656	–	–	–	–	–	–
	2017 (3 year)	–	104,449	332	–	–	–	–
	2017 (4 year)	–	104,449	321	–	–	–	–
M Riches	2017 (3 year)	–	110,161	350	–	–	–	–
	2017 (4 year)	–	110,161	339	–	–	–	–

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

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

3 Details of the vesting outcomes are described in Table 6. As described in Table 6, the Board has not yet determined whether the 2015 Award will be retested in FY2019 for either current or former Executives

4 Retention Award as described in Section 7

5 Retention Award as described in Section 7 in the FY2017 Remuneration Report

6 Deferred STIA component as described in Section 3 and Section 5 of this report and Table 6 in the FY2017 Remuneration Report

VALUE OF RIGHTS FORFEITED IN YEAR	BALANCE AT END OF YEAR	WEIGHTED FAIR VALUE PER RIGHT AT GRANT DATE	GRANT DATE	DATE ON WHICH GRANT VESTS[2]	EXPIRY DATE
$'000	NO.	$			
–	463,636	3.49	18-Oct-17	7-Sept-19	31-Dec-19
–	42,076	5.01	18-Sept-17	18-Sept-18	31-Dec-18
–	295,938	3.09	18-Oct-17	18-Oct-20	31-Dec-20
–	295,938	2.99	18-Oct-17	18-Oct-21	31-Dec-21
121	–	3.62	16-Aug-13	16-Aug-17	31-Dec-17
–	49,382	3.57	18-Aug-14	18-Aug-17	31-Dec-18
–	46,066	4.00	17-Aug-15	17-Aug-18	31-Dec-19
–	25,000	4.74	1-Jul-16	30-Jun-18	7-Jan-19
–	60,776	3.45	7-Oct-16	7-Oct-19	31-Dec-19
–	20,279	5.01	18-Sept-17	18-Sept-18	31-Dec-18
–	114,241	3.18	6-Oct-17	6-Oct-20	31-Dec-20
–	114,241	3.07	6-Oct-17	6-Oct-21	31-Dec-21
136	–	3.62	16-Aug-13	16-Aug-17	31-Dec-17
–	55,555	3.57	18-Aug-14	18-Aug-17	31-Dec-18
–	–	5.07	01-Oct-15	30-Jun-17	31-Dec-17
–	51,824	4.00	17-Aug-15	17-Aug-18	31-Dec-19
–	60,776	3.45	7-Oct-16	7-Oct-19	31-Dec-19
–	12,774	5.01	18-Sept-17	18-Sept-18	31-Dec-18
–	97,921	3.18	6-Oct-17	6-Oct-20	31-Dec-20
–	97,921	3.07	6-Oct-17	6-Oct-21	31-Dec-21
145	–	3.62	16-Aug-13	16-Aug-17	31-Dec-17
–	59,260	3.57	18-Aug-14	18-Aug-17	31-Dec-18
–	55,279	4.00	17-Aug-15	17-Aug-18	31-Dec-19
–	64,656	3.45	7-Oct-16	7-Oct-19	31-Dec-19
–	104,449	3.18	6-Oct-17	6-Oct-20	31-Dec-20
–	104,449	3.07	6-Oct-17	6-Oct-21	31-Dec-21
–	110,161	3.18	6-Oct-17	6-Oct-20	31-Dec-20
–	110,161	3.07	6-Oct-17	6-Oct-21	31-Dec-21

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

TABLE 14 – EXECUTIVE REMUNERATION

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	EQUITY-SETTLED SHARE-BASED PAYMENTS				
NAME	YEAR	CASH SALARY AND FEES $'000[1]	CASH BONUS $'000	ANNUAL LEAVE[2] $'000	NON-MONETARY BENEFITS[3] $'000	SUPER-ANNUATION[4] $'000	LONG-SERVICE LEAVE $'000	RIGHTS[5] $'000	CONTRACTUAL TERMINATION BENEFITS $'000	TOTAL $'000	PROPORTION OF COMPENSATION PERFORMANCE RELATED[6] % (B+G)/I	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR % (G/I)
EXECUTIVE KMP		**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**
A Harding	**2018**	**1,680**	**1,257**	**(4)**	**109**	**20**	**10**	**1,012**	**–**	**4,084**	**56**	**25**
	2017	947	316	19	25	11	7	387	–	1,712	41	23
P Bains	**2018**	**621**	**389**	**24**	**2**	**79**	**15**	**399**	**–**	**1,529**	**52**	**26**
	2017[7]	321	98	9	–	42	7	137	–	614	38	22
C McDonald	**2018[8]**	**580**	**344**	**18**	**58**	**20**	**14**	**307**	**–**	**1,341**	**49**	**23**
E McKeiver	**2018**	**620**	**352**	**24**	**69**	**20**	**53**	**293**	**–**	**1,431**	**45**	**20**
	2017[9]	90	33	10	–	4	3	46	–	186	42	25
M Riches	**2018[10]**	**612**	**339**	**11**	**12**	**19**	**4**	**148**	**–**	**1,145**	**43**	**13**
Total Executive KMP compensation (group)	**2018**	**4,113**	**2,681**	**73**	**250**	**158**	**96**	**2,159**	**–**	**9,530**	**51**	**23**
	2017	1,358	447	38	25	57	17	570	–	2,512	40	23

1 Cash salary and fees include any salary sacrifice benefits
2 Annual leave amount represents annual leave accrued or utilised during the financial year. Negative amounts represent the utilisation of annual leave
3 Non-monetary benefits includes travel benefits and relocation assistance
4 Superannuation amounts represent employers' contribution to superannuation
5 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 29 for further details regarding the fair value of Rights. These values may not represent the future value that the Executive will receive, as the vesting of the Rights is subject to the achievement of performance conditions. This includes the cost of deferred short-term incentives and long-term incentives.
6 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
7 P Bains was appointed EVP & Chief Financial Officer from 19 December 2016. The cash salary and fees and cash bonus reflect the salary attributable to the EVP Chief Financial Officer role
8 C McDonald was appointed Group Executive Bulk on 1 July 2017
9 E McKeiver was appointed Acting EVP Customer & Strategy from 18 April 2017. The cash salary and fees and cash bonus reflect the salary attributable to the EVP Customer & Strategy role
10 M Riches was appointed Group Executive Network on 24 July 2017

Auditors' Independence Declaration

As lead auditors for the audit of Aurizon Holdings Limited for the year ended 30 June 2018, we declare that to the best of our knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Nadia Carlin
Partner
PricewaterhouseCoopers

Tim Allman
Partner
PricewaterhouseCoopers

Brisbane
12 August 2018

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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**. These documents are reviewed regularly to address any changes in governance practices and the law.

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

This Statement was adopted by the Board on 10 August 2018.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
1.1 Role of Board and management	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 & CEO and the Company Secretary. A copy of the Charter is available in the Governance section of the Company's website, **aurizon.com.au**.	✓
1.2 Information regarding election and re-election of Director candidates	Aurizon carefully considers the character, experience, education, skill set as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate prior to their appointment. During the financial year the Board used a professional search firm to assist in appointing a Non-Executive Director (Mr Marcelo Bastos). As part of this search, the Board received assurance on the background of the Director who was subsequently appointed to the Board. 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.	✓
1.3 Written contracts of appointment	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. A copy of the key governance policies can be found on the Company's website **aurizon.com.au**. 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, termination rights and entitlements. Contract details of senior executives who are Key Management Personnel can be found on page 26 of the Annual Report.	✓
1.4 Company Secretary	The Company Secretary is directly accountable to the Board, through the Chairman, for facilitating and advising on the Company's corporate governance processes and on all matters to do with the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary. The Board Charter also sets out the responsibilities of the Company Secretary. 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 7 of the Annual Report.	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	

1.5 Diversity & inclusion ✓

- Aurizon Holdings has had a Diversity Policy since 2011 which is reviewed annually and which sets out its objectives and reporting practices with respect to inclusion and diversity and is available in the Governance section of the Company's website, **aurizon.com.au**.
- The measurable objectives and outcomes for diversity, agreed by the Aurizon Holdings Board for FY2018, are set out below:

ENTERPRISE MEASURES	FY18 TARGET	FY18 ACTUAL
Gender representation on Board	Minimum 30% (each gender)	33% women/67% men
Representation of women in Aurizon	22.0%	21.0%
Representation of Aboriginal and Torres Strait Islander men and women in Aurizon	5.5%	5.0%

In addition, Aurizon's representation of women in senior executive positions (Group Executives and their direct reports) has increased to 22% in FY18 up from 20% in FY17.

Further details on the Company's inclusion and diversity performance and activities can be found on the Company website **aurizon.com.au**.

1.6 Board reviews ✓

A performance review is undertaken annually in relation to the Board and the Board Committees. Periodically the Board 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.

During the year a review and evaluation of the performance of the Board, the Chairman and each Board Committee was conducted in accordance with the internal assessment process described above.

1.7 Management reviews ✓

Each year the Board sets financial, operational, management and individual targets for the Managing Director & CEO. The Managing Director & CEO (in consultation with the Board) in turn, sets targets for direct reports.

Performance against these targets is assessed periodically throughout the year, and a formal performance evaluation for senior management is completed for the year-end.

Principle 2: Structure the Board to add value

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	

2.1 Nominations committee ✓

The Nomination & Succession Committee comprises four members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Nomination & Succession Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.

The number of meetings held and attended by each member of the Nomination & Succession Committee during the financial year are set out on page 8 of the Directors' Report within the Annual Report.

The Charter governing the conduct of the Nomination & Succession Committee is reviewed annually and is available in the Governance section of the Company's website, **aurizon.com.au**.

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	

2.2 Board skills ✓

The skills listed below have been identified as the optimum skills Aurizon Holdings seeks to achieve across its Board membership. The Aurizon Holdings Board possesses a good blend of these skills. During FY2015 and FY2016 the Aurizon Board underwent significant change, including a change in Chairman. During FY2018 one additional Director was appointed and since that time the Board has been consolidating the recent changes.

✓

General

- Board experience
- Senior management experience
- ASX listed company governance
- Risk management

Industry

- Transport and logistics
- Mining and resources
- Government relations
- Safety, health and environment

Technical

- Finance and accounting
- Regulatory
- Corporate strategy
- Capital allocation including acquisitions and divestments
- Information and operational technology
- Capital markets
- Engineering and construction
- Human resources

Further details regarding the skills and experience of each Director are included on pages 4 to 7 of the Report.

Corporate Governance Statement
(continued)

Principle 2: Structure the Board to add value (continued)

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
2.3 Disclose independence and length of service	Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.	✓
2.4 Majority of Directors independent	In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director & CEO is not considered independent, by virtue of the role being an Executive of the Company. Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.	✓
2.5 Chair independent	The Chairman, Tim Poole, is an Independent Non-Executive Director. The role of CEO is performed by another Director. Further details regarding the Directors are set out on pages 4 to 7 of the Annual Report.	✓
2.6 Induction and professional development	An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board. In addition to peer review, interaction and networking with other Directors and industry leaders, Aurizon Holdings' Directors participate, from time-to-time, in Aurizon Holdings' leadership forums and actively engage with Aurizon Holdings' employees by visiting operational sites to gain an understanding of the Company's operating environment. During the year Directors receive accounting policy updates, especially around the time the Board considers the half-year and full-year financial statements. The Board also includes briefings from time-to-time on legal, accounting, regulation, developments in communication and human resource management and technology. Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices and sites in different locations. During the financial year, Directors made visits to operational sites in Queensland and Western Australia.	✓

Principle 3: Act ethically and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
3.1 Code of Conduct	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, **aurizon.com.au**. The Company's Code of Conduct, amongst other things, articulates and discloses the Company's core values. Those core values are Safety, People, Integrity, Customer and Excellence. A description of those values is set out in the Company's Code of Conduct. The Company also has a Whistleblower Policy, a copy of which is available in the Governance section of the Company's website, aurizon.com.au and the Board, through the Audit, Governance and Risk Management Committee reviews and reports on concerns raised under the Whistleblower Policy.	✓

Principle 4: Safeguard integrity in corporate reporting

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
4.1 Audit Committee	The Audit, Governance & Risk Management Committee comprises four members, all of whom are Independent Non-Executive Directors. Details of the membership of the Audit, Governance & Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 7 of the Annual Report. In addition to the Audit, Governance & Risk Management Committee members, the Managing Director & CEO, CFO, Head of Risk & Assurance, external auditors and Company Secretary attend the Audit, Governance & Risk Management Committee meetings. The number of meetings held and attended by each member of the Audit, Governance & Risk Management Committee during the financial year are set out on page 8 of the Annual Report. The Audit, Governance & Risk Management Committee Charter is reviewed annually and is available on the Aurizon Holdings website, aurizon.com.au. Amongst other things, the Audit, Governance & Risk Management Committee reviews the processes that validate the Director's Report and the Annual Report. The Board, as a whole, has oversight of other corporate reporting, such as investor presentations.	✓
4.2 CEO and CFO certification of financial statements	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.	✓
4.3 External auditor at AGM	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	
5.1 Disclosure and Communications Policy	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. 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, **aurizon.com.au**. The Board, as a whole, receives a copy of all announcements under Listing Rule 3.1 immediately prior to those announcements being made to the ASX.	✓

Principle 6: Respect the rights of security holders

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
6.1 Information on website	Aurizon Holdings keeps investors informed of its corporate governance, financial performance and prospects via announcements to the ASX and our website. Investors can access copies of all announcements to the ASX, notices of meetings, annual reports, investor presentations, webcasts and/or transcripts of those presentations and a key event calendar via the 'Investors' tab. Investors can access general information regarding the Company and the structure of its business under the 'Company, 'What we deliver' and 'Sustainability' tabs.	✓
6.2 Investor relations programs	Aurizon Holdings conducts regular market briefings including interim and full year results announcements, investor days, site visits, and attends regional and industry specific conferences in order to facilitate effective two-way communication with investors and other financial markets participants. Access to Executive and Operational Management is provided to investors and analysts at these events, with separate one-on-one or group meetings offered whenever possible. 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.	✓
6.3 Facilitate participation at meetings of security holders	Aurizon Holdings uses technology to facilitate the participation of security holders in meetings including webcasting of the AGM. Shareholders are encouraged to participate and are given an opportunity to ask questions of the Company and its auditor at the AGM. All resolutions put to shareholders are determined by Poll.	✓
6.4 Facilitate electronic communications	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	
7.1 Risk committee	Aurizon Holdings' Audit, Governance & Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Aurizon Risk Management Policy (Risk Policy). A copy of the Risk Policy is available in the Governance section of the Company's website, **aurizon.com.au**. 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.	✓
7.2 Annual risk review	The Board has mandated the Company's internal audit group to provide independent assurance on the effectiveness of the Company's risk management practices and report periodically its findings to the Audit, Governance & Risk Management Committee. The purpose of the assurance 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. Internal audit has considered the operation of the Company's risk management framework through the delivery of its audit program and have concluded that it is adequate and effective.	✓
7.3 Internal audit	The Company has an internal audit function that operates under a Board-approved Internal Audit Charter. The internal audit function is independent of management and the external auditor and is overseen by the Audit, Governance & Risk Management Committee. In accordance with the Committee Charter, the appointment or removal of the Head of Risk & Assurance is a matter for this Committee. The Head of Risk & Assurance provides ongoing internal audit reports to the Audit, Governance & Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures.	✓
7.4 Sustainability risks	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. The Company's sustainability aspiration is to deliver world-leading performance underpinned by three sustainability commitments: › The Company is committed to building a long-term sustainable business that delivers lasting value for our shareholders, customers, employees and communities › The Company aims to take the safest, most efficient and least resource-intensive approach to the services we provide › The Company applies a balanced view when assessing risk and making decisions, encompassing social, environmental and economic considerations. In our operations, we continue to make progress on a number of sustainability aspects, including 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. During FY2018, the Company published its third Sustainability Report for the period ended 30 June 2017. A copy of this report is available in the Sustainability section of the Company's website, **aurizon.com.au**. The Company's previous Sustainability Report identified areas of focus and priority that relate to the Company's ability to create or preserve value for shareholders over the short, medium and long-term, and outlined how the Company manages or intends to manage the material risks identified. The Company has set appropriate benchmarks against which we will measure and report FY2018 performance and material economic, environmental and social sustainability risks. The Company's FY2018 Sustainability Report is intended to be released in October 2018. Consistent with the previous reports, it will be based on the GRI G4 Sustainability Reporting Guidelines and will describe the impact of the Company's operations against the core elements of economic, environmental, social and governance performance. It will also identify those issues that reflect the organisation's significant economic, environmental and social impacts or that substantially influence assessments and decisions of stakeholders	✓

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
8.1 Remuneration Committee	Aurizon Holdings' remuneration function is performed by the Remuneration & Human Resources Committee, comprising four members all of whom are Independent Non-Executive Directors. Details of the membership of the Remuneration Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report. The number of meetings held and attended by each member of the Remuneration & Human Resources Committee during the financial year are set out on page 8 of the Annual Report. The Charter governing the conduct of the Remuneration & Human Resources Committee is reviewed annually and is available in the Governance section of the Company's website, **aurizon.com.au**.	✓
8.2 Disclosure of Executive and Non-Executive Director remuneration policy	The Company seeks to attract and retain high performing Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required. It reviews requirements for additional capabilities at least annually. Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and a performance-based component. Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. The fee structure was changed during FY18. Further detail is set out in the Remuneration Report on page 35. The Company has in place a Share Holding and Retention Policy which applies to Non-Executive Directors, the Managing Director & CEO and the direct reports of the Managing Director & CEO. Further details regarding remuneration and share retention policies and the remuneration of Executive and Non-Executive Directors, are set out on pages 25 to 38 of the Annual Report. The Company also has in place a Related Party Transaction Policy. The policy and disclosures under that policy is reviewed annually by the Board. During the year there were no agreements entered into for the provision of consulting or similar services by a Director or Senior Executive or by a related party or a Director or Senior Executive.	✓
8.3 Policy on hedging equity incentive schemes	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. For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Executive' is broadly defined to include the Managing Director & CEO and his direct reports and any other person entitled to participate in an Aurizon Holdings performance rights plan. 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, **aurizon.com.au**.	✓

Financial Report
for the year ended 30 June 2018

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Consolidated income statement
for the year ended 30 June 2018

	Notes	2018 $m	2017 $m
Revenue from continuing operations	2	**3,112.7**	3,142.5
Other income	2	**66.3**	–
Total revenue and other income		**3,179.0**	**3,142.5**
Employee benefits expense	3	**(755.2)**	(892.6)
Energy and fuel		**(252.4)**	(236.5)
Track access		**(191.4)**	(204.2)
Consumables	3	**(348.4)**	(392.9)
Depreciation and amortisation	3	**(525.5)**	(567.3)
Impairment losses	4	**(70.0)**	(678.3)
Other expenses		**(70.6)**	(46.2)
Share of net profit/(loss) of associates and joint venture partnerships accounted for using the equity method		**0.8**	(0.1)
Operating profit		**966.3**	124.4
Finance income		**3.3**	2.7
Finance expenses	3	**(168.3)**	(181.3)
Net finance costs		**(165.0)**	(178.6)
Profit/(loss) before income tax		**801.3**	(54.2)
Income tax (expense)/benefit	5	**(241.2)**	17.0
Profit/(loss) from continuing operations after tax		**560.1**	(37.2)
Loss from discontinued operation after tax	24	**(77.1)**	(150.7)
Profit/(loss) for the year attributable to owners of Aurizon Holdings Limited		**483.0**	**(187.9)**
		Cents	Cents
Basic earnings/(loss) per share for profit attributable to the ordinary equity holders of the Company:	6		
– continuing and discontinued operations		**24.0**	(9.2)
– continuing operations		**27.8**	(1.8)
Diluted earnings/(loss) per share for profit attributable to the ordinary equity holders of the Company:	6		
– continuing and discontinued operations		**24.0**	(9.2)
– continuing operations		**27.8**	(1.8)

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 2018

	Notes	2018 $m	2017 $m
Profit/(loss) for the year		**483.0**	(187.9)
Other comprehensive income:			
Items that may be reclassified to profit or loss			
– changes in the fair value of cash flow hedges	16(b)	**(13.0)**	45.5
– income tax relating to these items	5(d)	**3.9**	(13.5)
Other comprehensive (expense)/income for the year, net of tax		**(9.1)**	32.0
Total comprehensive income/(expense) for the year attributable to owners of Aurizon Holdings Limited		**473.9**	**(155.9)**

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

Consolidated balance sheet
as at 30 June 2018

	Notes	2018 $m	2017 $m
ASSETS			
Current assets			
Cash and cash equivalents		**34.8**	88.7
Trade and other receivables	7	**530.9**	496.8
Inventories	8	**118.1**	111.8
Derivative financial instruments	19	**1.3**	0.1
Current tax receivables		**–**	17.8
Prepayments		**4.7**	6.9
Assets classified as held for sale	25	**108.0**	7.3
Total current assets		**797.8**	729.4
Non-current assets			
Inventories	8	**29.1**	35.5
Derivative financial instruments	19	**110.8**	73.6
Property, plant and equipment	9	**8,659.9**	8,835.0
Intangible assets	10	**172.6**	170.0
Investments accounted for using the equity method	20	**3.2**	2.4
Total non-current assets		**8,975.6**	9,116.5
Total assets		**9,773.4**	9,845.9
LIABILITIES			
Current liabilities			
Trade and other payables	11	**275.8**	309.7
Borrowings	17	**100.0**	79.0
Derivative financial instruments	19	**–**	0.3
Current tax liabilities		**61.2**	–
Provisions	12	**312.2**	314.5
Other liabilities	13	**78.0**	40.7
Liabilities directly associated with assets classified as held for sale	24	**12.7**	–
Total current liabilities		**839.9**	744.2
Non-current liabilities			
Borrowings	17	**3,401.9**	3,297.2
Derivative financial instruments	19	**21.3**	70.9
Deferred tax liabilities	5(f)	**479.5**	426.8
Provisions	12	**82.2**	78.7
Other liabilities	13	**218.5**	206.0
Total non-current liabilities		**4,203.4**	4,079.6
Total liabilities		**5,043.3**	4,823.8
Net assets		**4,730.1**	**5,022.1**
EQUITY			
Contributed equity	16(a)	**906.6**	1,206.6
Reserves	16(b)	**3,460.1**	3,473.0
Retained earnings		**363.4**	342.5
Total equity		**4,730.1**	**5,022.1**

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 2018

	Notes	Attributable to owners of Aurizon Holdings Limited			
		Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2017		**1,206.6**	**3,473.0**	**342.5**	**5,022.1**
Profit for the year		**–**	**–**	**483.0**	**483.0**
Other comprehensive expense	16(b)	**–**	**(9.1)**	**–**	**(9.1)**
Total comprehensive income for the year		**–**	**(9.1)**	**483.0**	**473.9**
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	16(a)	**(300.0)**	**(0.3)**	**–**	**(300.3)**
Dividends provided for or paid	15(a)	**–**	**–**	**(462.1)**	**(462.1)**
Share-based payments	16(b)	**–**	**(3.5)**	**–**	**(3.5)**
		(300.0)	**(3.8)**	**(462.1)**	**(765.9)**
Balance at 30 June 2018		**906.6**	**3,460.1**	**363.4**	**4,730.1**
Balance at 1 July 2016		1,206.6	3,424.7	1,082.3	5,713.6
Loss for the year		–	–	(187.9)	(187.9)
Other comprehensive income	16(b)	–	32.0	–	32.0
Total comprehensive expense for the year		–	32.0	(187.9)	(155.9)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	15(a)	–	–	(551.9)	(551.9)
Share-based payments	16(b)	–	16.3	–	16.3
		–	16.3	(551.9)	(535.6)
Balance at 30 June 2017		1,206.6	3,473.0	342.5	5,022.1

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 2018

	Notes	2018 $m	2017 $m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**3,474.9**	3,533.9
Payments to suppliers and employees (inclusive of GST)		**(2,060.0)**	(2,088.7)
Interest received		**2.9**	2.8
Income taxes paid		**(110.1)**	(174.8)
Net cash inflow from operating activities from continuing operations	26	**1,307.7**	1,273.2
Net cash (outflow) from operating activities from discontinued operations	24(b)	**(25.1)**	(34.8)
Net cash inflow from operating activities		**1,282.6**	**1,238.4**
Cash flows from investing activities			
Payments for property, plant and equipment		**(467.7)**	(443.4)
Proceeds from sale of property, plant and equipment		**19.0**	13.1
Payments for intangibles		**(31.0)**	(61.3)
Interest paid on qualifying assets	3	**(2.8)**	(3.2)
Proceeds from sale of an associate		**–**	98.3
Net cash (outflow) from investing activities from continuing operations		**(482.5)**	(396.5)
Net cash inflow (outflow) from investing activities from discontinued operations	24(b)	**54.6**	(34.7)
Net cash (outflow) from investing activities		**(427.9)**	(431.2)
Cash flows from financing activities			
Proceeds from borrowings		**291.0**	422.1
Repayment of borrowings		**(275.0)**	(477.0)
Payment of transaction costs related to borrowings		**(3.8)**	(0.4)
Payments for shares bought back	16(a)	**(300.0)**	–
Payments of transaction costs related to shares bought back		**(0.4)**	–
Dividends paid to Company's shareholders	15(a)	**(462.1)**	(551.9)
Payments for shares acquired for share based payments	16(b)	**(2.5)**	(7.5)
Interest paid		**(155.8)**	(173.0)
Net cash (outflow) from financing activities from continuing operations		**(908.6)**	(787.7)
Net cash inflow (outflow) from financing activities from discontinued operations	24(b)	**–**	–
Net cash (outflow) from financing activities		**(908.6)**	(787.7)
Net (decrease) increase in cash and cash equivalents from continuing operations		**(83.4)**	89.0
Net increase (decrease) in cash and cash equivalents from discontinued operations		**29.5**	(69.5)
Cash and cash equivalents at the beginning of the financial year		**88.7**	69.2
Cash and cash equivalents at the end of the financial year		**34.8**	88.7

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

Notes to the consolidated financial statements

30 June 2018

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 12 August 2018. The Directors have the power to amend and reissue the financial statements.

The financial statements are general purpose financial statements which:

- Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- Have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value
- Are presented in Australian dollars, with all amounts in the financial report being rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars, unless otherwise indicated
- Where necessary, comparative information has been restated to conform with changes in presentation in the current year
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2017
- Equity account for associates listed at note 20

The notes to the financial statements

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

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

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

KEEPING IT SIMPLE

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

SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

	Note
Revenue	2
Impairment	4
Income tax	5
Depreciation	9
Discontinued operation	24

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) Closure and sale of Intermodal

On 14 August 2017 the Group announced its intention to exit the Intermodal business through a combination of closure and sale.

Aurizon signed a binding agreement with Pacific National to sell its Acacia Ridge Intermodal Terminal. That transaction includes the transfer of approximately 30 employee positions, as well as assets, commercial and operational agreements.

Aurizon signed a separate binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National (QI BSA). The transaction includes the transfer of approximately 330 employee positions, as well as assets, commercial and operational arrangements to the Linfox and Pacific National consortium.

The transactions are subject to:

- Approval by the Australian Competition & Consumer Commission (ACCC); and
- Approval by the Foreign Investment & Review Board (FIRB)

Total consideration for the two transactions is $225.0 million of which $45.0 million has been received to date.

The ACCC decision was announced on 19 July 2018. The ACCC decided to oppose both transactions and commenced proceedings against Pacific National and Aurizon in the Federal Court of Australia. The ACCC has sought declarations, pecuniary penalties, orders restraining the existing sale transactions from proceeding and costs. The ACCC has also sought an injunction to prevent Aurizon from closing its Queensland Intermodal business while proceedings are on foot. While Aurizon refutes the ACCC's allegations and will defend the proceedings including seeking clearance of the Acacia Ridge transaction, there is a risk that the Acacia Ridge transaction will be prevented from completing and/or Aurizon incurs orders for pecuniary penalties and costs. There is also the risk that, in the interim whilst the matter is being determined by the Court, Aurizon is injuncted from closing the Queensland Intermodal business.

Key events and transactions for reporting period (continued)

(a) Closure and sale of Intermodal (continued)

On 12 August 2018 Aurizon provided Pacific National with a notice to terminate the Business Sale Agreement for the Queensland Intermodal business, with effect from 13 August 2018. It is Aurizon's intention to not contest clearance of that transaction through the Federal Court and to exit the business. As clearance has not been obtained for the sale of the Queensland Intermodal business, $10 million of the consideration received for the transactions to date (recognised as a liability at 30 June 2018) will be refunded to Pacific National. The Business Sale Agreement for the Acacia Ridge Terminal remains in place while Aurizon seeks clearance of that transaction, and the remainder of the consideration received for the transactions to date ($35 million) is not refundable.

Notwithstanding this Aurizon remains committed to exiting the Intermodal business and on this basis has continued to classify the Acacia Ridge and Queensland Intermodal business assets as held for sale and discontinued operations at 30 June 2018.

On 10 August 2018 the Federal Court of Australia heard an application from the ACCC for an interlocutory injunction to require Aurizon to continue to operate the Queensland Intermodal business in the ordinary and usual course. The Court reserved judgement on the matter, and judgement is currently expected to be handed down on 13 August 2018.

Aurizon's Interstate Intermodal business has been closed with the last operational service occurring on 23 December 2017. Approximately 160 employee positions were affected by the closure of the Interstate business.

The closure of Interstate Intermodal has resulted in $74.7 million of significant items being recognised in the year ended 30 June 2018. Significant Interstate Intermodal items include $61.0 million for contract, lease and supplier exit costs, $9.1 million in redundancy costs and asset write downs of $4.6 million.

(b) Access revenue

On 15 December 2017 the Queensland Competition Authority (QCA) issued a draft decision pertaining to Aurizon Network's 2017 Draft Access Undertaking (UT5). The draft decision has proposed that Aurizon Network's overall Maximum Allowable Revenue (MAR) for the regulatory period (FY18 to FY21) of the Undertaking is $3.893 billion, including a weighted average cost of capital of 5.41%.

In May 2018, the QCA approved transitional tariffs for the year ended 30 June 2018, set transitional tariffs for the period 1 July 2018 to 31 December 2018 and extended the 2016 Access Undertaking (UT4) to the earlier of 31 December 2018 or the date a replacement Undertaking takes effect.

Access revenue recognised in these financial statements is based on the transitional tariffs applying from 1 July 2017. Allowable revenue for the year ended 30 June 2018 on which the transitional tariffs were based may be different than the final approved UT5 revenue and will impact future year's revenue. The true-up of revenues is expected to be dealt with as part of the final approval of UT5 and is dependent on future railings.

Revenue recognised for the year ended 30 June 2017 was based on the approved UT4 Undertaking tariffs, applied to actual volumes railed and included $89 million of prior years' UT4 regulatory access true-ups (net of revenue cap of $31 million relating to the year ended 30 June 2015).

(c) Bulk contract exit

The Group had an iron ore Rail Haulage Agreement with Cliffs Asia Pacific Iron Ore Pty Ltd (Cliffs) that was due to expire 31 January 2022. The contract provided for haulage of up to 11mtpa and during the year ended 30 June 2018 the Group transported 7.8mt.

Cliffs formally advised the Group that it would be closing its Western Australia mining operations by 30 June 2018 including the ceasing of all rail services. On 29 June 2018, Cliffs issued a contract termination notice to the Group effective 30 June 2018. As a result, an early termination payment of $66.3 million (excluding GST) has been recognised as other income for the year ended 30 June 2018.

Aurizon has considered the financial impact of the contract termination and as a result an asset impairment of $27.9 million has been recognised for the year ended 30 June 2018. In addition, closure provisions of $3.9 million have been recognised which include a redundancy provision of $3.5 million in relation to 63 FTEs that serviced the Cliffs contract. The net contract exit benefit before cash generating unit (CGU) impairment is $34.5 million for the year ended 30 June 2018. Refer to (d) below.

(d) Impairment

Western Australia

An impairment charge of $362.4 million under a value in use (VIU) methodology was recorded at 30 June 2017 for the Western Australia CGU as a result of the low long-term iron ore price, high cash operating costs for our customers, challenging and competitive bulk markets and deterioration in our operating performance. As a result of the loss of the Cliffs iron ore contract earlier than expected during the year, a further impairment charge of $31.7 million (in addition to (c) above) has been recognised for the Western Australia CGU at 30 June 2018.

Bulk East

At 30 June 2017, an impairment charge of $163.5 million was recorded in respect of the Bulk East business using a fair value less costs of disposal (FVLCD) methodology. Additional sustaining capital has been incurred during the year ended 30 June 2018 which has resulted in a further impairment of $10.4 million.

(e) On-market share buy-back scheme

On 14 August 2017 the Company announced its intention to undertake an on-market buy-back of approximately $300.0 million, over a 12-month period. The on-market buy-back program was completed in March 2018 and the Company has acquired 61.6 million shares at a total consideration of $300.0 million.

(f) Debt refinancing

In November 2017 Aurizon Network Pty Ltd (a wholly owned subsidiary of the Group) replaced $525.0 million of its revolving bank debt facility with a 5 year $500.0 million revolving bank debt facility extending the maturity date to 20 October 2022.

(g) Business unit restructure

From 1 July 2017 the organisational structure moved from a functional based model to a business unit model along the core areas of the business – Coal, Bulk (including Iron Ore), Network and Intermodal, as well as central support and planning functions. To reflect this reorganisation Aurizon changed its segment disclosure for financial year 2018 and the comparative period has also been restated.

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.

Notes to the consolidated financial statements

30 June 2018 (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 & CEO and the Executive Committee (chief operating decision makers).

As announced on 23 March 2017 Aurizon implemented the business unit structure on 1 July 2017. To reflect this reorganisation Aurizon changed its financial disclosure for financial year 2018 and the comparative period has also been restated. All future financial results will be disclosed under the new operating segments (Network, Coal, Bulk and Other) as it represents the operating structure of the Group. The Managing Director & CEO and the Executive Committee assess the performance of the Group based on the underlying EBIT.

Unless otherwise noted, the segment reporting information excludes discontinued operations, which represents the Intermodal business. Refer to note 24 for further details.

(a) Description of segments

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

Network

Provision of access to, and operation of, the Central Queensland Coal Network (CQCN). Provision of maintenance and renewal of Network assets.

Coal

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

Bulk

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

Other

Includes provision of maintenance services to internal and external customers and central costs not allocated such as Board, Managing Director & CEO, company secretary and investor relations.

Notes to the consolidated financial statements
30 June 2018 (continued)

1 Segment information (continued)

(b) Segment information

	Network $m	Coal $m	Bulk $m	Other $m	Total continuing operations $m
2018					
External revenue					
Revenue from external customers					
Services revenue					
Track access	**581.5**	**598.1**	**–**	**–**	**1,179.6**
Freight transport	**–**	**1,207.8**	**590.5**	**–**	**1,798.3**
Other services	**7.3**	**0.2**	**24.9**	**36.9**	**69.3**
Other revenue	**37.7**	**0.6**	**0.4**	**26.8**	**65.5**
Total revenue from external customers	**626.5**	**1,806.7**	**615.8**	**63.7**	**3,112.7**
Internal revenue					
Services revenue					
Track access	**585.6**	**–**	**–**	**–**	**585.6**
Freight transport	**–**	**–**	**1.6**	**–**	**1.6**
Other services	**6.6**	**6.5**	**0.7**	**27.1**	**40.9**
Total internal revenue	**592.2**	**6.5**	**2.3**	**27.1**	**628.1**
Total revenue	**1,218.7**	**1,813.2**	**618.1**	**90.8**	**3,740.8**
Other income	**–**	**–**	**–**	**–**	**–**
Total revenue and other income	**1,218.7**	**1,813.2**	**618.1**	**90.8**	**3,740.8**
Internal elimination					**(628.1)**
Consolidated revenue and other income					**3,112.7**
Continuing EBITDA (Underlying)*	**788.6**	**611.2**	**75.2**	**(8.9)**	**1,466.1**
Depreciation and amortisation	**(308.0)**	**(182.6)**	**(25.1)**	**(9.8)**	**(525.5)**
Continuing EBIT (Underlying)*	**480.6**	**428.6**	**50.1**	**(18.7)**	**940.6**
Significant adjustments (note 1(c))					**25.7**
EBIT*					**966.3**
Net finance costs					**(165.0)**
Profit before income tax from continuing operations					**801.3**

* Refer to page 105 for Non-IFRS information

Notes to the consolidated financial statements
30 June 2018 (continued)

1 Segment information (continued)

	Network $m	Coal $m	Bulk $m	Other $m	Total continuing operations $m
2017					
External revenue					
Revenue from external customers					
Services revenue					
Track access	574.0	630.3	–	–	1,204.3
Freight transport	–	1,156.8	622.3	–	1,779.1
Other services	4.3	0.3	19.9	46.4	70.9
Other revenue	54.5	–	3.0	30.7	88.2
Total revenue from external customers	632.8	1,787.4	645.2	77.1	3,142.5
Internal revenue					
Services revenue					
Track access	625.9	–	–	–	625.9
Freight transport	–	1.7	–	0.7	2.4
Other services	3.4	5.9	–	29.2	38.5
Total internal revenue	629.3	7.6	–	29.9	666.8
Total revenue	1,262.1	1,795.0	645.2	107.0	3,809.3
Other income	–	–	–	–	–
Total revenue and other income	1,262.1	1,795.0	645.2	107.0	3,809.3
Internal elimination					(666.8)
Consolidated revenue and other income					3,142.5
Continuing EBITDA (Underlying)*	780.4	603.7	59.1	8.3	1,451.5
Depreciation and amortisation	(299.5)	(183.7)	(73.5)	(10.6)	(567.3)
Continuing EBIT (Underlying)*	480.9	420.0	(14.4)	(2.3)	884.2
Significant adjustments (note 1(c))					(759.8)
EBIT*					124.4
Net finance costs					(178.6)
Loss before income tax from continuing operations					(54.2)

* Refer to page 105 for Non-IFRS information

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.

	2018 $m	2017 $m
Bulk contract exit termination payment	**66.3**	–
Bulk contract exit asset impairment	**(27.9)**	(10.2)
Bulk contract exit – redundancy and closure costs	**(3.9)**	–
Bulk WA impairment	**(31.7)**	(525.9)
Freight Management Transformation (FMT) impairment	**-**	(64.0)
Transformation – asset impairment	**-**	(48.9)
Transformation – redundancy costs	**22.9**	(110.8)
Total significant adjustments (continuing operations)	**25.7**	(759.8)

Bulk contract exit

Cliffs formally advised the Group that it would be closing its Western Australian mining operations by 30 June 2018 including the ceasing of all rail services. On 29 June 2018, Cliffs issued a contract termination notice to the Group effective 30 June 2018. As a result, an early termination payment of $66.3 million (excluding GST) has been recognised as other income for the year ended 30 June 2018.

Aurizon has considered the financial impact of the contract termination and as a result an asset impairment of $27.9 million has been recognised for the year ended 30 June 2018. In addition, closure provisions of $3.9 million have been recognised which include redundancy of $3.5 million in relation to 63 FTEs that serviced the Cliffs contract. The net contract exit benefit before CGU impairment is $34.5 million for the year ended 30 June 2018.

Impairment

For further disclosure on the impairment write downs for the year ended 30 June 2018 and the comparative period refer to note 4.

Redundancy costs

A provision for train crew redundancy of $22.9 million that was recorded as a significant item in the year ended 30 June 2017 has been released in the year ended 30 June 2018 as the planned transition of those positions to a flexible workforce has not been implemented at this time due to operational requirements and stronger coal demand.

For disclosure on the significant items relating to discontinued operations refer to note 24.

(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.

	2018 $m	2017 $m	2018 credit rating	2017 credit rating
Customer 1	**487.3**	511.5	**A**	A
Customer 2	**424.7**	413.2	**BBB+**	BBB
Total	**912.0**	924.7		

2 Revenue and other income

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

The Group derives the following types of revenue:

	2018 $m	2017 $m
Services revenue		
Track access	**1,179.6**	1,204.3
Freight transport	**1,798.3**	1,779.1
Other services	**69.3**	70.9
Other revenue	**65.5**	88.2
Total revenue from continuing operations	**3,112.7**	3,142.5
Other income	**66.3**	
Total revenue and other income from continuing operations	**3,179.0**	3,142.5

Other income includes $66.3 million in relation to contract termination payments that have been recorded as a significant item for the year ended 30 June 2018.

SIGNIFICANT JUDGEMENTS

Take-or-Pay revenue

The calculation of access Take-or-Pay revenue included in track access 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 and force majeure events. 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 $27.1 million has been recognised at 30 June 2018. Take-or-Pay revenue of $42.3 million was accrued at 30 June 2017.

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.

2 Revenue and other income (continued)

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

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

During the transitional period, revenue is determined based on the most relevant and reliable information available. The basis of revenue recognition for 30 June 2018 is disclosed within the Key events and transactions for reporting period section.

(ii) Freight transport

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

3 Expenses

Profit/(loss) before income tax from continuing operations includes the following specific expenses:

	2018 $m	2017 $m
Employee benefits expenses		
Defined benefit superannuation expense	**12.6**	13.3
Defined contribution superannuation expense	**55.3**	58.7
Redundancies*	**(3.9)**	115.9
Salaries, wages and allowances including on-costs	**691.2**	704.7
	755.2	892.6

* $19.0 million of redundancy costs recognised offset by $22.9 million of redundancy costs provided for in the year ended 30 June 2017 which were released in the year ended 30 June 2018 as described in note 1(c).

	2018 $m	2017 $m
Consumables		
Repairs and maintenance	**248.2**	269.5
Other	**100.2**	123.4
	348.4	392.9

	2018 $m	2017 $m
Depreciation and amortisation expense		
Depreciation	**505.0**	551.2
Amortisation of intangibles	**20.5**	16.1
	525.5	567.3
Impairment losses*		
Inventory	**1.1**	12.6
Property, plant and equipment	**68.9**	599.0
Intangibles	**–**	66.7
	70.0	678.3

* Refer to note 4 for impairment information.

	2018 $m	2017 $m
Finance costs		
Interest and finance charges paid/payable	**160.3**	173.5
Provisions: unwinding of discount	**0.4**	–
Amortisation of capitalised borrowing transaction costs	**2.9**	8.0
Counterparty credit risk adjustments	**7.5**	3.0
	171.1	184.5
Amount capitalised to qualifying assets	**(2.8)**	(3.2)
	168.3	181.3

4 Impairment of non-financial assets

	2018 $m	2017 $m
Continuing operations		
Bulk impairment (i)	**42.1**	525.9
Impairment of assets in exit of contracts (ii)	**27.9**	10.2
Freight Management Transformation impairment (iii)	**–**	64.0
Transformation – asset impairment (iv)	**–**	48.9
Other (v)	**–**	29.3
	70.0	678.3
Discontinued operations		
Intermodal impairment (vi)	**4.6**	162.2
Total impairment of non-financial assets	**74.6**	840.5

(a) Impairment of non-financial assets

Current period

(i) Bulk impairment ($42.1 million)

Western Australia ($31.7 million)

Indicators of impairment were identified for the Western Australia CGU due to the cessation of the Cliffs iron ore contract earlier than expected during the year. As a result, an impairment test was completed.

The recoverable amount used in the impairment test is based on a VIU methodology based on the Board approved corporate plan, a terminal growth rate of 2.2% and a pre-tax discount rate of 11.7%.

The impairment write-down of $31.7 million has been allocated to rollingstock ($28.0 million), plant and equipment ($2.6 million) and land, buildings and infrastructure ($1.1 million).

4 Impairment of non-financial assets (continued)

Following the impairment, the residual carrying value of the assets of the Western Australia CGU as at 30 June 2018 is $170.7 million. The segment has a small number of customers and the VIU is sensitive to changes in customer contractual arrangements. Should any major contracts not be renewed or any remaining iron ore customers either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements then the CGU may become further impaired.

Bulk East ($10.4 million)

At 30 June 2017, an impairment charge of $163.5 million was recorded in respect of the Bulk East business using a FVLCD methodology. Additional sustaining capital has been incurred during the year which has resulted in a further impairment of $10.4 million. This was not classified as a significant item.

(ii) Impairment of assets in exit of contracts ($27.9 million)

As a result of Cliffs closing mining operations in Western Australia and the early termination of the rail haulage agreement with the Group in June 2018, $26.8 million of property, plant and equipment and $1.1 million of inventory was impaired at 30 June 2018.

(vi) Intermodal ($4.6 million)

Due to the closure and sale of Intermodal, an asset write-down of $4.6 million has been allocated to software ($2.2 million), rollingstock ($1.1 million) and plant and equipment ($1.3 million).

Prior period

(i) Bulk impairment ($525.9 million)

Western Australia ($362.4 million)

As a result of the low long-term iron ore price, high cash operating costs for our customers, challenging and competitive bulk markets, deterioration in operating performance and the changed business structure resulting in changes in cost allocations, a review of the operating cashflows of the Western Australia CGU was completed at 30 June 2017. A pre-tax impairment charge of $362.4 million was recorded. The residual carrying value of the assets at 30 June 2017 was $207.8 million.

Bulk East ($163.5 million)

The Queensland CGU was separated into Bulk East and Coal Queensland. This change in CGU together with operational performance issues and loss of specific contracts experienced by the Bulk East CGU resulted in a pre-tax impairment charge of $163.5 million under a FVLCD methodology. The fair value was determined with reference to external and internal valuations for assets. The residual carrying value of the Bulk East CGU as at 30 June 2017 was $46.6 million.

(ii) Asset impairment as a result of contract exits ($10.2 million)

As a result of a decision by Glencore to not renew its existing contract with Aurizon to haul mine inputs and outputs between Mt Isa and Townsville, a decision was made to cease operation of this daily multi-customer freight service from the contract expiry date of 31 January 2017. An impairment of $10.2 million relating to assets was recognised at 31 December 2016.

(iii) Freight Management Transformation (FMT) ($64.0 million)

Following a review, it was decided to terminate the project and as a result an impairment charge of $64.0 million was recorded.

(iv) Transformation – asset impairment ($48.9 million)

An impairment of $48.9 million was recorded as a result of a change in Queensland operations, the ongoing transformation program, various projects no longer proceeding and surplus assets.

(v) Impairment of other assets ($29.3 million)

Other minor assets and projects totalling $29.3 million have also been impaired as a result of normal operations. These asset impairments were not classified as significant items.

(vi) Intermodal ($162.2 million)

Due to the trading performance during the first half of financial year 2017 being lower than expectations, an impairment test was completed as at 31 December 2016 and updated at 30 June 2017. The recoverable amount used in the impairment test was based on a FVLCD methodology. The fair value was determined with reference to external and internal valuations for assets. The Intermodal CGU was impaired by $162.2 million with a residual value of $169.9 million as at 30 June 2017.

SIGNIFICANT JUDGEMENTS

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

Cash generating units

The recoverable amounts of CGUs for 30 June 2018 have been determined based on VIU calculations except for Bulk East, which is valued using FVLCD. The value in use is calculated based on a four-year Board approved corporate plan, a terminal growth rate of 2.2% per annum (2017: 1.5%) and a pre-tax discount rate ranging from 8.8% – 11.7% (2017: 9.1% – 11.8%). The value in use calculations indicate headroom to the carrying value of CGUs, with the exception of Western Australia. For the year ended 30 June 2018, the Western Australia CGU had indicators of impairment due to the cessation of services to a key iron ore customer during the year.

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

Following the impairment loss recognised in the Western Australia CGU for the year ended 30 June 2018, the recoverable amount is equal to the carrying amount. A change in assumption regarding the forecast cashflows may result in a change to the impairment recorded.

Individual non-current assets

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

Notes to the consolidated financial statements
30 June 2018 (continued)

5 Income tax

KEEPING IT SIMPLE

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

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

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

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

(a) Income tax expense

	2018 $m	2017 $m
Current tax	**151.3**	86.2
Deferred tax	**68.7**	(166.4)
Current tax relating to prior periods	**16.6**	(9.1)
Deferred tax relating to prior periods	**(17.0)**	7.7
	219.6	(81.6)
Income tax expense/(benefit) is attributable to:		
Profit/(loss) from continuing operations	**241.2**	(17.0)
Loss from discontinued operation (note 24(b))	**(21.6)**	(64.6)
	219.6	(81.6)
Deferred income tax expense included in income tax expense comprises:		
(Increase)/Decrease in deferred tax assets (note 5(e))	**(8.5)**	13.4
Increase/(Decrease) in deferred tax liabilities (note 5(f))	**60.2**	(172.1)
	51.7	(158.7)

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

	2018 $m	2017 $m
Profit/(loss) before income tax expense from continuing operations	**801.3**	(54.2)
Loss before income tax expense from discontinued operation	**(98.7)**	(215.3)
	702.6	(269.5)
Tax at the Australian tax rate of 30% (2017: 30%)	**210.8**	(80.9)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**0.2**	0.2
Research and development	**(0.7)**	(1.6)
Non-assessable income	**(0.3)**	0.1
Capital losses not recognised	**8.0**	–
Other	**2.0**	2.0
Adjustments for current tax of prior periods	**(0.4)**	(1.4)
	219.6	(81.6)

(c) Amounts recognised directly in equity

	2018 $m	2017 $m
Aggregate deferred tax arising in the reporting period and directly credited to equity	**4.9**	(17.2)

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

	2018 $m	2017 $m
Cash flow hedges	**(3.9)**	13.5

5 Income tax (continued)

(e) Deferred tax assets

	2018 $m	2017 $m
Total deferred tax assets	**199.1**	191.6
Set-off of deferred tax liabilities pursuant to set-off provisions	**(199.1)**	(191.6)
Net deferred tax assets	**–**	–

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

Movements	Provisions/ accruals $m	Customer contracts $m	Unearned revenue $m	Financial instruments $m	Other $m	Total $m
At 1 July 2017	**130.8**	**22.5**	**–**	**24.2**	**14.1**	**191.6**
(Charged)/credited						
- to profit or loss	**(9.5)**	**(7.8)**	**11.9**	**13.8**	**0.1**	**8.5**
- to other comprehensive income	**–**	**–**	**–**	**3.9**	**–**	**3.9**
- directly to equity	**–**	**–**	**–**	**–**	**(4.9)**	**(4.9)**
At 30 June 2018	**121.3**	**14.7**	**11.9**	**41.9**	**9.3**	**199.1**
At 1 July 2016	125.7	32.8	0.3	38.3	4.2	201.3
(Charged)/credited						
– to profit or loss	5.1	(10.3)	(0.3)	(0.6)	(7.3)	(13.4)
– to other comprehensive income	–	–	–	(13.5)	–	(13.5)
– directly to equity	–	–	–	–	17.2	17.2
At 30 June 2017	130.8	22.5	–	24.2	14.1	191.6

(f) Deferred tax liabilities

	2018 $m	2017 $m
Total deferred tax liabilities	**678.6**	618.4
Set-off of deferred tax liabilities pursuant to set-off provisions	**(199.1)**	(191.6)
Net deferred tax liabilities	**479.5**	426.8

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

Movements	Non-current assets $m	Consumables and spares $m	Accrued income $m	Financial instruments $m	Other $m	Total $m
At 1 July 2017	**588.3**	**5.2**	**2.6**	**22.1**	**0.2**	**618.4**
Charged/(credited)						
– profit or loss	**54.0**	**(4.0)**	**(0.9)**	**11.5**	**(0.4)**	**60.2**
At 30 June 2018	**642.3**	**1.2**	**1.7**	**33.6**	**(0.2)**	**678.6**
At 1 July 2016						
Charged/(credited)	756.3	10.3	0.3	23.2	0.4	790.5
– profit or loss	(168.0)	(5.1)	2.3	(1.1)	(0.2)	(172.1)
At 30 June 2017	588.3	5.2	2.6	22.1	0.2	618.4

5 Income tax (continued)

SIGNIFICANT JUDGEMENTS

The deferred tax asset of $67.8 million, attributable to the impairment of the investment in an associate in FY16 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 or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year 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 year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

6 Earnings per share

KEEPING IT SIMPLE

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

(a) Basic earnings per share

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

	2018 Cents	2017 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company:		
– continuing and discontinued operations	**24.0**	(9.2)
– continuing operations	**27.8**	(1.8)

(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.

	2018 Cents	2017 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company:		
– continuing and discontinued operations	**24.0**	(9.2)
– continuing operations	**27.8**	(1.8)

(c) Weighted average number of shares used as denominator

	2018 Number '000	2017 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**2,013,362**	2,051,745
Adjustments for calculation of diluted EPS:		
Rights	**1,865**	496
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted EPS	**2,015,227**	2,052,241

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.

Notes to the consolidated financial statements
30 June 2018 (continued)

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7 Trade and other receivables

	2018 $m	2017 $m
Current		
Trade receivables	**435.1**	350.7
Provision for impairment of receivables	**(27.7)**	(27.2)
Net trade receivables	**407.4**	323.5
Other receivables*	**123.5**	173.3
	530.9	496.8

* Other receivables predominantly relate to accrued revenue.

Past due but not impaired

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

	2018 $m	2017 $m
Up to three months	**4.9**	9.4
Three to six months	**-**	0.5
Over six months	**3.0**	1.5
	7.9	11.4

Recognition and measurement

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

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

8 Inventories

	2018 $m	2017 $m
Current		
Raw materials and stores – at cost	**133.1**	135.8
Work in progress – at cost	**0.2**	2.2
Provision for inventory obsolescence	**(15.2)**	(26.2)
	118.1	111.8
Non-current		
Raw materials and stores – at cost	**44.8**	47.4
Provision for inventory obsolescence	**(15.7)**	(11.9)
	29.1	35.5

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 2018 (continued)

9 Property, plant and equipment

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Total $m
2018							
Opening net book amount	184.8	159.7	273.5	377.0	2,329.2	5,510.8	8,835.0
Additions	502.4	–	–	–	–	–	502.4
Transfers between asset classes	(406.4)	(0.1)	(2.3)	20.6	131.5	263.6	6.9
Disposals	–	(2.3)	(7.7)	(10.9)	(4.9)	(7.1)	(32.9)
Impairment*	(5.2)	–	(3.5)	(3.9)	(53.1)	(5.6)	(71.3)
Assets classified as held for sale	(0.3)	(30.8)	(6.8)	(10.3)	(13.2)	(11.8)	(73.2)
Depreciation**	–	–	(21.9)	(44.9)	(157.8)	(282.4)	(507.0)
Closing net book amount	275.3	126.5	231.3	327.6	2,231.7	5,467.5	8,659.9
At 30 June 2018							
Cost or fair value	275.3	126.5	499.4	756.8	5,081.0	7,468.6	14,207.6
Accumulated depreciation and impairment	–	–	(268.1)	(429.2)	(2,849.3)	(2,001.1)	(5,547.7)
Net book amount	275.3	126.5	231.3	327.6	2,231.7	5,467.5	8,659.9
Owned	275.3	102.7	223.2	327.6	2,231.7	975.8	4,136.3
Leased	–	23.8	8.1	–	–	4,491.7	4,523.6
	275.3	126.5	231.3	327.6	2,231.7	5,467.5	8,659.9
2017							
Opening net book amount	385.4	160.5	340.9	389.6	2,823.4	5,619.4	9,719.2
Additions	468.3	–	–	–	–	–	468.3
Transfers between asset classes	(634.2)	1.9	32.8	117.5	193.9	288.1	–
Disposals	–	(1.8)	(2.8)	(6.1)	(3.5)	(8.8)	(23.0)
Impairment*	(34.7)	(0.9)	(75.1)	(58.9)	(483.5)	(106.9)	(760.0)
Assets classified as held for sale	–	–	(1.4)	–	–	(0.2)	(1.6)
Depreciation**	–	–	(20.9)	(65.1)	(201.1)	(280.8)	(567.9)
Closing net book amount	184.8	159.7	273.5	377.0	2,329.2	5,510.8	8,835.0
At 30 June 2017							
Cost	184.8	159.7	526.2	793.4	5,140.2	7,266.3	14,070.6
Accumulated depreciation and impairment	–	–	(252.7)	(416.4)	(2,811.0)	(1,755.5)	(5,235.6)
Net book amount	184.8	159.7	273.5	377.0	2,329.2	5,510.8	8,835.0
Owned	184.8	135.9	264.4	377.0	2,329.2	968.5	4,259.8
Leased	–	23.8	9.1	–	–	4,542.3	4,575.2
	184.8	159.7	273.5	377.0	2,329.2	5,510.8	8,835.0

* Impairment of $71.3 million (2017: $760.0 million) includes impairment from continuing operations of $68.9 million (2017: $599.0 million) (note 3) and discontinued operations of $2.4 million (2017: $161.0 million) (note 24).

** Depreciation of $507.0 million (2017: $567.9 million) includes depreciation from continuing operations of $505.0 million (2017: $551.2 million) (note 3) and discontinued operations of $2.0 million (2017: $16.7 million) (note 24).

9 Property, plant and equipment (continued)

SIGNIFICANT JUDGEMENTS

(i) Depreciation

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

Recognition and measurement

(i) Initial recognition and measurement

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

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

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

Leased coal infrastructure

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

(ii) Subsequent costs

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

(iii) Depreciation and amortisation

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

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

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

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

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

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

(iv) Derecognition

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

(v) Impairment of assets

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

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

The recoverable amount is the greater of an asset's FVLCD and VIU. In assessing VIU, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

10 Intangible assets

	Software $m	Key customer contracts $m	Software under development $m	Total $m
2018				
Opening net book amount	**123.0**	–	**47.0**	**170.0**
Additions	–	**0.5**	**32.0**	**32.5**
Transfers	**26.1**	–	**(33.0)**	**(6.9)**
Amortisation expense*	**(20.3)**	**(0.5)**	–	**(20.8)**
Impairment charge**	**(2.2)**	–	–	**(2.2)**
Closing net book amount	**126.6**	–	**46.0**	**172.6**
Cost	**291.1**	**3.0**	**46.0**	**340.1**
Accumulated amortisation and impairment	**(164.5)**	**(3.0)**	–	**(167.5)**
Net book amount	**126.6**	**–**	**46.0**	**172.6**
2017				
Opening net book amount	61.0	0.6	128.6	190.2
Additions	–	1.0	63.4	64.4
Transfers	79.8	–	(79.8)	–
Amortisation expense*	(16.3)	(0.4)	–	(16.7)
Impairment charge**	(1.5)	(1.2)	(65.2)	(67.9)
Closing net book amount	123.0	–	47.0	170.0
Cost	265.0	2.5	47.0	314.5
Accumulated amortisation and impairment	(142.0)	(2.5)	–	(144.5)
Net book amount	123.0	–	47.0	170.0

* Amortisation of $20.8 million (2017: $16.7 million) includes depreciation from continuing operations of $20.5 million (2017: $16.1 million) (note 3) and discontinued operations of $0.3 million (2017: $0.6 million) (note 24).

** Impairment of $2.2 million (2017: $67.9 million) includes impairment from continuing operations of $nil million (2017: $66.7 million) (note 3) and discontinued operations of $2.2 million (2017: $1.2 million) (note 24).

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) 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.

11 Trade and other payables

	2018 $m	2017 $m
Current liabilities		
Trade payables	**247.7**	273.8
Other payables	**28.1**	35.9
	275.8	309.7

Recognition and measurement

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

12 Provisions

	2018 $m	2017 $m
Current		
Employee benefits (a)	**244.1**	277.5
Provision for insurance claims	**3.9**	2.2
Litigation and workers compensation provision	**24.9**	24.6
Other provisions*	**39.3**	10.2
	312.2	314.5
Non-current		
Employee benefits (a)	**15.7**	20.7
Litigation and workers compensation provision	**11.2**	11.5
Decommissioning/make good	**3.0**	1.0
Land rehabilitation	**37.4**	40.5
Other provisions*	**14.9**	5.0
	82.2	78.7
Total provisions	**394.4**	393.2

(a) Employee benefits

	2018 $m	2017 $m
Annual leave	**55.1**	59.7
Long service leave	**113.6**	127.8
Other**	**91.1**	110.7
	259.8	298.2

* Included in other provisions are provisions for closure costs

** 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 $105.9 million (2017: $95.7 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.

(ii) Other long-term employee benefit obligations

The liabilities for retirement allowance and long service 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. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(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.

12 Provisions (continued)

(v) Superannuation (continued)

The latest valuation was completed as at 30 June 2017 and the State Actuary found the fund was in surplus from a whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the QSuper Defined Benefit Fund. The State of Queensland has provided Aurizon with an indemnity if the Treasurer requires Aurizon to pay any amounts required to meet the potential deficit/surplus. The indemnity is subject to Aurizon not taking any unilateral action, other than with the approval of the State that causes a significant increase in unfunded liabilities.

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

Recognition and measurement

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The pre-tax discount rates for employee benefits are based on Australian corporate bond rates and range between 2.5% and 3.9% (2017: 2.5% and 3.0%).

To measure the estimated costs to remediate contaminated land an inflation rate of 2.6% (2017: 2.6%) has been applied, based on remediation dates ranging between 5 to 40 years. A weighted average discount rate of 3.3% (2017: 3.2%) 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.

The closure of Aurizon's Interstate Intermodal business resulted in the recognition of a provision for contract, lease and supplier exit costs and represents the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Refer to note 24.

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

13 Other liabilities

	2018 $m	2017 $m
Current		
Income received in advance	**72.6**	39.3
Other current liabilities	**5.4**	1.4
	78.0	40.7
Non-current		
Income received in advance	**183.1**	203.4
Other non-current liabilities	**35.4**	2.6
	218.5	206.0

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.

Other liabilities include lease incentive payments. These amounts are deferred and earned over the term of the lease.

Capital and financial risk management

IN THIS SECTION

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

14 Capital risk management

KEEPING IT SIMPLE

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

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

	Notes	2018 $m	2017 $m
Total borrowings	17	**3,501.9**	3,376.2
Less: cash and cash equivalents		**(34.8)**	(88.7)
Net debt		**3,467.1**	3,287.5
Total equity		**4,730.1**	5,022.1
Total capital		**8,197.2**	8,309.6
Gearing ratio		**42.3%**	39.6%

The gearing ratio excludes the impact of financial derivative assets and liabilities (note 19). Aurizon Network Pty Ltd gearing ratio is 69.7% (2017: 61.3%).

15 Dividends

(a) Ordinary shares

	2018 $m	2017 $m
Interim dividend for the year ended 30 June 2018 of 14.0 cents 50% franked (2017: 13.6 cents 70% franked) per share, paid 26 March 2018	**279.5**	279.0
Final dividend for the year ended 30 June 2017 of 8.9 cents 50% franked (2016: 13.3 cents 70% franked) per share, paid 25 September 2017	**182.6**	272.9
	462.1	551.9

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

	2018 $m	2017 $m
Since 30 June 2018, the Directors have recommended the payment of a final dividend of 13.1 cents per fully paid ordinary share 60% franked (2017: 8.9 cents 50% franked). The aggregate amount of the proposed dividend expected to be paid on 24 September 2018 out of retained earnings, but not recognised as a liability at year end is:	**260.7**	182.6

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2018 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 2019.

	2018 $m	2017 $m
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2017: 30%)	**71.5**	2.8

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

16 Equity and reserves

KEEPING IT SIMPLE

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

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

(a) Contributed equity

(i) Issued capital

	2018 Shares '000	2017 Shares '000	2018 $m	2017 $m
Ordinary shares – fully paid	**1,990,128**	2,051,745	**906.6**	1,206.6

(ii) Movements in ordinary share capital

Details	Number of shares '000	$m
At 1 July 2016	2,051,745	1,206.6
At 30 June 2017	2,051,745	1,206.6
On-market share buy-back	(61,617)	(300.0)
At 30 June 2018	**1,990,128**	**906.6**

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.

16 Equity and reserves (continued)

(b) Reserves

	Notes	Share of an associate's OCI $m	Cash flow hedges $m	Share-based payments $m	Capital reserves $m	Total $m
Balance at 1 July 2017		(1.8)	(2.1)	9.1	3,467.8	3,473.0
Fair value gains taken to equity		–	(13.1)	–	–	(13.1)
Fair value losses transferred to property, plant and equipment		–	0.1	–	–	0.1
Deferred tax		–	3.9	–	–	3.9
Other comprehensive income		–	(9.1)	–	–	(9.1)
Transactions with owners in their capacity as owners						
Buy-back of ordinary shares		–	–	–	(0.3)	(0.3)
Share-based payments expense	29(b)	–	–	3.9	–	3.9
Employee share trust to employees		–	–	(2.5)	–	(2.5)
Deferred tax		–	–	(4.9)	–	(4.9)
Balance at 30 June 2018		(1.8)	(11.2)	5.6	3,467.5	3,460.1

	Notes	Share of an associate's OCI $m	Cash flow hedges $m	Share-based payments $m	Capital reserves $m	Total $m
Balance at 1 July 2016		(1.8)	(34.1)	(7.2)	3,467.8	3,424.7
Fair value losses taken to equity		–	45.7	–	–	45.7
Fair value losses transferred to property, plant and equipment		–	(0.2)	–	–	(0.2)
Deferred tax		–	(13.5)	–	–	(13.5)
Other comprehensive income		–	32.0	–	–	32.0
Transactions with owners in their capacity as owners						
Share-based payments expense	29(b)	–	–	6.6	–	6.6
Employee share trust to employees		–	–	(7.5)	–	(7.5)
Deferred tax		–	–	17.2	–	17.2
Balance 30 June 2017		(1.8)	(2.1)	9.1	3,467.8	3,473.0

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. 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 2018 (continued)

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17 Borrowings

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

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

	2018 $m	2017 $m
Current – Unsecured		
Working capital facilities	**100.0**	79.0
	100.0	79.0
Non-current – Unsecured		
Medium-term notes	**2,552.1**	2,441.7
Syndicated facilities	**860.0**	865.0
Capitalised borrowing costs	**(10.2)**	(9.5)
	3,401.9	3,297.2
Total borrowings	**3,501.9**	3,376.2

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

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

In November 2017, Aurizon Network Pty Ltd replaced $525.0 million of its revolving bank debt facility with a 5-year $500.0 million revolving bank debt facility extending the maturity date to 20 October 2022.

In June 2018, Aurizon Finance Pty Ltd voluntarily cancelled $200.0 million of Syndicated facilities, reducing the facility limit to $600.0 million.

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

Recognition and measurement

(i) Borrowings

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

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

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

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

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

(ii) Borrowing costs

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings, excluding working capital facilities, during the year of 4.5% (2017: 5.0%).

18 Financial risk management

KEEPING IT SIMPLE
Exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk arises in the normal course of the Group's business. A central treasury department oversees financial risk under Board-approved policies that cover specific areas related to these exposures, as well as the use of derivative and non-derivative financial instruments.

Compliance with the Board-approved policies is monitored on an ongoing basis, including regular reporting to the Board. Trading for speculation is prohibited.

(a) Market risk

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

(i) Foreign exchange risk

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

Risk management

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

18 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Foreign exchange contracts

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

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

(ii) Interest rate risk

Exposure to interest rate risk

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

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

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

	30 June 2018		30 June 2017	
	Weighted average interest rate %	Balance $m	Weighted average interest rate %	Balance $m
Variable rate exposure	**4.4**	**2,448.8**	3.9	2,432.8
Interest rate swaps (notional principal amount)	**4.2**	**(1,975.0)**	4.9	(2,125.0)
Net exposure to interest rate risk		**473.8**		307.8

Risk management

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

Interest rate swaps currently in place cover approximately 81% (2017: 87%) of the variable rate exposure. The weighted average maturity of the outstanding swaps is approximately 3.0 years (2017: 3.8 years).

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

During the year, the net realised loss arising from interest rate hedging activities for the Group was $4.9 million (2017: loss of $27.5 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which 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. The effect on equity is based on the financial instruments notional principal. For the purpose of this disclosure, sensitivity analysis is isolated to a 100 basis points increase/decrease in interest rates, assuming hedge designations and effectiveness and all other variables remain constant.

	Effect on profit (before tax)		Effect on equity (before tax)	
	2018 $m	2017 $m	2018 $m	2017 $m
100 bps movement in interest rates				
100 bps decrease in interest rates	**4.7**	3.1	**(46.7)**	(64.3)
100 bps increase in interest rates	**(4.7)**	(3.1)	**45.2**	61.3

Notes to the consolidated financial statements
30 June 2018 (continued)

18 Financial risk management (continued)

(a) Market risk (continued)

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

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

	Notional amount		Carrying amount assets/ (liability) refer to note 19 $m		Change in fair value used for measuring ineffectiveness for the year $m	
	2018	2017	2018	2017	2018	2017
Cash flow hedges						
Foreign exchange risk						
Forward contracts	**US$26.0m**	US$7.4m	**1.2**	(0.2)	**1.4**	(0.2)
Forward contracts	**€14.0m**	€18.5m	**0.5**	(0.2)	**0.7**	(0.2)
Interest rate risk						
Interest rate swaps	**A$1,975.0m**	A$2,125.0m	**4.3**	11.4	**(7.1)**	11.4
Foreign exchange and interest rate risks						
CCIRS – EMTN 1	**€500.0m**	€500.0m	**1.2**	(1.2)	**2.4**	(0.9)
CCIRS – EMTN 2	**€500.0m**	€500.0m	**(3.8)**	(13.0)	**9.2**	(1.9)
Fair value hedges						
Foreign exchange and interest rate risks						
CCIRS – EMTN 1	**€500.0m**	€500.0m	**101.0**	63.1	**49.4**	(25.9)
CCIRS – EMTN 2	**€500.0m**	€500.0m	**(16.9)**	(57.4)	**54.2**	(26.4)
Interest rate risk						
Interest rate swaps	**A$425.0m**	–	**3.3**	–	**3.4**	–

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

	Cash flow hedge reserve* $m		Change in fair value used for measuring ineffectiveness for the year $m	
	2018	2017	2018	2017
Cash flow hedges (before tax)				
Foreign exchange risk				
Firm commitments	**(1.6)**	0.3	**(2.1)**	0.4
Interest rate risk				
Forecast floating interest payments	**(4.3)**	(11.5)	**7.1**	(11.4)
Foreign exchange and interest rate risks				
EMTN 1	**6.5**	(0.2)	**(2.4)**	0.9
EMTN 2	**15.6**	14.4	**(9.2)**	1.9

* Cash flow hedge reserve includes the cumulative impact of cross currency basis relating to EMTN 1 and EMTN 2 of $23.5 million for the year ended 30 June 2018 (2017: $1.4 million).

Notes to the consolidated financial statements

30 June 2018 (continued)

18 Financial risk management (continued)

(a) Market risk (continued)

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

	Carrying amount* $m		Accumulated fair value adjustment $m		Change in fair value used for measuring ineffectiveness for the year $m	
	2018	2017	2018	2017	2018	2017
Fair value hedges (before tax)						
Interest rate risk						
AMTN 2	**(429.0)**	–	**(4.0)**	–	**(4.0)**	–
Foreign exchange and interest rate risks						
EMTN 1	**(826.6)**	(777.2)	**(116.0)**	(66.6)	**(49.4)**	25.9
EMTN 2	**(784.6)**	(730.4)	**(6.4)**	47.8	**(54.2)**	26.4

* Carrying amount excludes the effect of discounts.

The above hedging relationships affected other comprehensive income as follows:

	Hedging gain/(loss) recognised in comprehensive income $m	
	2018	2017
Cash flow hedges (before tax)		
Foreign exchange risk		
Forward contracts	**2.0**	–
Interest rate risk		
Interest rate swaps	**(7.1)**	39.1
Foreign exchange and interest rate risk		
CCIRS	**(7.9)**	6.4
	(13.0)	45.5

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 Queensland Nickel Pty Ltd in FY16, the lifetime expected loss assessment of the Group remains unchanged. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

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

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

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

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

18 Financial risk management (continued)

(c) Liquidity risk

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

Financing arrangements

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

			Utilised*		Facility limit	
	Security	Maturity	2018 $m	2017 $m	2018 $m	2017 $m
Aurizon Finance						
Working capital facility	Unsecured	Jun-19	**70.2**	102.4	**150.0**	150.0
Syndicated facility	Unsecured	Jul-19	**100.0**	300.0	**300.0**	300.0
Syndicated facility	Unsecured	Jul-20	**–**	75.0	**300.0**	500.0
			170.2	477.4	**750.0**	950.0
Aurizon Network						
Working capital facility	Unsecured	Jun-19	**52.1**	6.7	**100.0**	100.0
Syndicated facility	Unsecured	Oct-22	**270.0**	-	**500.0**	525.0
Syndicated facility	Unsecured	Jul-21	**490.0**	490.0	**490.0**	490.0
AMTN 1	Unsecured	Oct-20	**525.0**	525.0	**525.0**	525.0
AMTN 2**	Unsecured	Jun-24	**425.0**	425.0	**425.0**	425.0
EMTN 1***	Unsecured	Sept-24	**710.6**	710.6	**710.6**	710.6
EMTN 2***	Unsecured	Jun-26	**778.2**	778.2	**778.2**	778.2
			3,250.9	2,935.5	**3,528.8**	3,553.8
Total Group financing arrangements			**3,421.1**	3,412.9	**4,278.8**	4,503.8

* Amount utilised includes bank guarantees of $22.3 million (2017: $30.0 million) but excludes capitalised borrowing costs of $10.2 million (2017: $9.5 million) and discounts on medium-term notes of $13.1 million (2017: $16.0 million).

** Amount utilised excludes accumulated fair value adjustments of $4.0 million (2017: $nil) relating to changes in the interest rate due to the fair value hedging relationship.

*** Amount utilised also excludes accumulated fair value adjustments of $116.0 million (2017: $66.6 million) for EMTN 1 and $6.4 million (2017: ($47.8) million) for EMTN 2.

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling $250.0 million (2017: $250.0 million) which may be utilised in the form of short-term working capital funding and the issuance of bank guarantees. At the end of the reporting period, the Group utilised $22.3 million (2017: $30.0 million) for financial bank guarantees.

The Group has complied with externally imposed debt covenants during the 2018 and 2017 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.

18 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities* $m
2018					
Non-derivatives					
Trade payables	**275.8**	**–**	**–**	**275.8**	**275.8**
Borrowings*	**251.0**	**1,883.7**	**2,135.3**	**4,270.0**	**3,420.4**
Financial guarantees	**22.3**	**–**	**–**	**22.3**	**–**
	549.1	**1,883.7**	**2,135.3**	**4,568.1**	**3,696.2**
Derivatives					
Interest rate swaps	**1.3**	**(9.2)**	**(0.6)**	**(8.5)**	**7.6**
Foreign exchange contracts	**–**	**–**	**–**	**–**	**(1.7)**
- (inflow)	**(1.1)**	**–**	**–**	**(1.1)**	**–**
- outflow	**–**	**0.2**	**–**	**0.2**	**–**
	0.2	**(9.0)**	**(0.6)**	**(9.4)**	**5.9**
2017					
Non-derivatives					
Trade payables	309.7	–	–	309.7	309.7
Borrowings*	223.7	1,924.4	2,246.3	4,394.4	3,384.7
Financial guarantees	30.0	–	–	30.0	–
	563.4	1,924.4	2,246.3	4,734.1	3,694.4
Derivatives					
Interest rate swaps	5.5	(17.8)	–	(12.3)	(11.4)
Foreign exchange contracts	–	–	–	–	0.4
- (inflow)	(17.0)	(20.1)	–	(37.1)	–
- outflow	17.2	21.5	–	38.7	–
	5.7	(16.4)	–	(10.7)	(11.0)

* Borrowings include the effect of CCIRS derivatives which have a carrying amount of $102.2 million (non-current asset) and $20.7 million (non-current liability) (2017: $61.9 million non-current asset and $70.4 million non-current liability).

(d) Fair value measurements

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

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

- Forward foreign exchange contracts
- Interest rate swaps
- CCIRS

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

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

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

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ended 30 June 2018, the borrowing rates were determined to be between 2.7% to 4.5%, depending on the type of borrowing (30 June 2017: 2.6% to 4.8%).

18 Financial risk management (continued)

(d) Fair value measurements (continued)

	Notes	Carrying amount 2018 $m	Carrying amount 2017 $m	Fair value 2018 $m	Fair value 2017 $m
Financial assets carried at fair value					
Foreign exchange contracts	19	**1.7**	0.1	**1.7**	0.1
CCIRS – EMTN 1	19	**102.2**	61.9	**102.2**	61.9
Interest rate swaps	19	**8.2**	11.7	**8.2**	11.7
		112.1	73.7	**112.1**	73.7
Financial assets carried at amortised cost					
Cash and cash equivalents		**34.8**	88.7	**34.8**	88.7
Trade and other receivables	7	**530.9**	496.8	**530.9**	496.8
		565.7	585.5	**565.7**	585.5
Financial liabilities carried at fair value					
Foreign exchange contracts	19	**–**	(0.5)	**–**	(0.5)
Interest rate swaps	19	**(0.6)**	(0.3)	**(0.6)**	(0.3)
CCIRS – EMTN 2	19	**(20.7)**	(70.4)	**(20.7)**	(70.4)
		(21.3)	(71.2)	**(21.3)**	(71.2)
Financial liabilities carried at amortised cost					
Trade and other payables	11	**(275.8)**	(309.7)	**(275.8)**	(309.7)
Borrowings	17	**(3,501.9)**	(3,376.2)	**(3,641.2)**	(3,556.5)
		(3,777.7)	(3,685.9)	**(3,917.0)**	(3,866.2)
Off-balance sheet					
Unrecognised financial assets					
Third party guarantees		**–**	–	**20.8**	20.4
Bank guarantees		**–**	–	**220.9**	281.3
Insurance company guarantees		**–**	–	**4.8**	9.1
Unrecognised financial liabilities					
Bank guarantees		**–**	–	**(22.3)**	(30.0)
		–	–	**224.2**	280.8

On 25 January 2017, as a residual obligation under the project documents with Moorebank Intermodal Company (MIC) Aurizon provided a Parent Company Guarantee (PCG) in favour of MIC in relation to 50% of the cost to complete construction of the Terminal Works and 25% of the contract sum for design and construction of the Rail Access. The estimated maximum exposure under the guarantee is $85.6 million (30 June 2017: $101.5 million), however Aurizon has obtained a 100% cross indemnity guarantee from Qube Holdings Ltd in respect of any call under the Aurizon PCG.

Fair value hierarchy

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

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

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

30 June 2018	Notes	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	19	**–**	**112.1**	**–**	**112.1**
Derivative financial liabilities	19	**–**	**(21.3)**	**–**	**(21.3)**
Net financial instruments measured at fair value		**–**	**90.8**	**–**	**90.8**
30 June 2017					
Derivative financial assets	19	–	73.7	–	73.7
Derivative financial liabilities	19	–	(71.2)	–	(71.2)
Net financial instruments measured at fair value		–	2.5	–	2.5

19 Derivative financial instruments

KEEPING IT SIMPLE

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

Notes to the consolidated financial statements

30 June 2018 (continued)

19 Derivative financial instruments (continued)

	2018 $m	2017 $m
Current assets		
Foreign exchange contracts	**1.3**	0.1
Non-current assets		
Interest rate swaps	**8.2**	11.7
Foreign exchange contracts	**0.4**	–
CCIRS – EMTN 1	**102.2**	61.9
	110.8	73.6
Total derivative financial instrument assets	**112.1**	73.7
Current liabilities		
Foreign exchange forward contracts	**–**	(0.3)
Non-current liabilities		
Interest rate swaps	**(0.6)**	(0.3)
Foreign exchange forward contracts	**–**	(0.2)
CCIRS – EMTN 2	**(20.7)**	(70.4)
	(21.3)	(70.9)
Total derivative financial instrument liabilities	**(21.3)**	(71.2)

(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 2018 and 30 June 2017. The column 'net amount' shows the impact on the Group's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts $m	Gross amounts set-off in the balance sheet $m	Net amounts presented in the balance sheet $m	Amounts subject to master netting arrangements $m	Net amount* $m
2018					
Financial assets					
Derivative financial instruments	**112.1**	**–**	**112.1**	**(4.5)**	**107.6**
Financial liabilities					
Derivative financial instruments	**(21.3)**	**–**	**(21.3)**	**4.5**	**(16.8)**
2017					
Financial assets					
Derivative financial instruments	73.7	–	73.7	(14.5)	59.2
Financial liabilities					
Derivative financial instruments	(71.2)	–	(71.2)	14.5	(56.7)

* No financial instrument collateral.

19 Derivative financial instruments (continued)

Master netting arrangement

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

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 cashflows of recognised assets and liabilities, and highly probable forecast transactions (cashflow hedges). The Group has established a 100% hedge relationship against the identified exposure, therefore the hedge ratio is 1:1.

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

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

(i) Cash flow hedge

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

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

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

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

(ii) Fair value hedge

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

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

Group structure

IN THIS SECTION

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

20 Associates and joint arrangements

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.

	2018 $m	2017 $m
Non-current assets		
Interest in joint ventures (b)	**3.2**	2.4

(a) Investments in associates

The Group has an interest in the following associates:

		Ownership interest		
Name	Country of operation	2018 %	2017 %	Principal activity
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.

(b) Investments in joint ventures

The Group has an interest in the following joint ventures, which are equity accounted, contributed $0.8 million to the Group results, have net assets of $3.2 million and are not considered material to the Group.

		Ownership interest		
Name	Country of operation	2018 %	2017 %	Principal activity
Chun Wo/CRGL	China-Hong Kong	**17**	17	Construction
ARG Risk Management Limited	Bermuda	**50**	50	Insurance
Integrated Logistics Company Pty Ltd	Australia	**14**	14	Consulting
ACN 169 052 288	Australia	**15**	15	Dormant

Recognition and measurement

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

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

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in note 9(v). The recoverable amount of the investment in Aquila is dependent on judgements made in relation to the long-term foreign exchange rates, metallurgical coal prices, iron ore prices and the timing of development of Aquila's mining projects and is nil.

21 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

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.

21 Material subsidiaries (continued)

Changes in ownership interests

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

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

22 Parent disclosures

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

(a) Summary financial information

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

	2018 $m	2017 $m
Current assets	**61.1**	15.9
Non-current assets	**6,093.9**	6,092.6
Total assets	**6,155.0**	6,108.5
Current liabilities	**(61.1)**	(14.8)
Non-current liabilities	**(1,726.6)**	(1,428.2)
Total liabilities	**(1,787.7)**	(1,443.0)
Net assets	**4,367.3**	4,665.5
Shareholders' equity		
Contributed equity	**906.6**	1,206.6
Retained earnings	**1.7**	0.9
Reserves	**3,459.0**	3,458.0
Total equity	**4,367.3**	4,665.5
Profit for the year	**462.9**	550.1
Total comprehensive income	**462.9**	550.1

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

(b) Guarantees entered into by the parent entity

There are cross guarantees given by Aurizon Holdings Limited and its subsidiaries as listed in note 23.

(c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2018 or 30 June 2017. 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 2018, the parent entity did not have any contractual commitments for the acquisition of property, plant and equipment (2017: 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.

22 Parent disclosures (continued)

(ii) Tax consolidation legislation (continued)

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

(iii) Employee benefits – share-based payments

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

23 Deed of cross guarantee

Aurizon Holdings Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Property Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Operations Limited, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Aurizon Resource Logistics Pty 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 ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

(a) Consolidated statement of profit or loss, 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'.

	2018 $m	2017 $m
Income statement		
Revenue from continuing operations	**2,781.9**	2,984.1
Other income	**592.5**	216.5
Consumables	**(1,274.4)**	(1,536.8)
Employee benefits expense	**(694.2)**	(843.4)
Depreciation and amortisation expense	**(234.7)**	(298.2)
Impairment losses	**(74.6)**	(837.9)
Other expenses	**(112.5)**	(25.4)
Share of net profits/(losses) of associates and joint venture partnerships accounted for using the equity method	**0.8**	(0.1)
Finance costs	**(14.3)**	(21.1)
Finance income	**2.8**	1.6
Profit/(loss) before income tax	**973.3**	(360.7)
Income tax (expense)/benefit	**(117.0)**	182.7
Profit/(loss) for the year	**856.3**	(178.0)

	2018 $m	2017 $m
Statement of comprehensive income		
Profit/(loss) for the year	**856.3**	(178.0)
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Change in the foreign currency translation reserve	**(0.1)**	(0.1)
– Changes in the fair value of cash flow hedges	**0.2**	(3.7)
– Income tax relating to components of other comprehensive income	**(0.1)**	1.1
Other comprehensive income/(expense) for the year, net of tax	**-**	(2.7)
Total comprehensive income/(expense) for the year	**856.3**	(180.7)
Summary of movements in consolidated retained earnings		
Retained (losses)/earnings at the beginning of the financial year	**(283.6)**	446.3
Profit/(loss) for the year	**856.3**	(178.0)
Dividends provided for or paid	**(462.1)**	(551.9)
Retained earnings/(losses) at the end of the financial year	**110.6**	(283.6)

23 Deed of cross guarantee (continued)

(b) Consolidated balance sheet

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

	2018 $m	2017 $m
Current assets		
Cash and cash equivalents	**11.3**	48.7
Trade and other receivables	**441.3**	400.6
Inventories	**88.2**	76.5
Prepayments	**4.1**	24.4
Assets classified as held for sale	**108.0**	6.7
Total current assets	**652.9**	556.9
Non-current assets		
Inventories	**22.5**	26.6
Derivative financial instruments	**2.0**	3.4
Property, plant and equipment	**3,277.3**	3,475.2
Intangible assets	**77.6**	89.3
Investments accounted for using the equity method	**3.2**	2.4
Other financial assets*	**1,222.9**	1,224.1
Deferred tax assets	**148.4**	165.5
Total non-current assets	**4,753.9**	4,986.5
Total assets	**5,406.8**	5,543.4
Current liabilities		
Trade and other payables	**305.7**	365.8
Current tax liabilities	**49.0**	74.0
Provisions	**287.3**	246.7
Other liabilities	**48.0**	4.7
Liabilities directly associated with assets classified as held for sale	**12.7**	–
Total current liabilities	**702.7**	691.2
Non-current liabilities		
Borrowings	**99.4**	373.7
Provisions	**63.3**	70.5
Other liabilities	**50.4**	7.7
Total non-current liabilities	**213.1**	451.9
Total liabilities	**915.8**	1,143.1
Net assets	**4,491.0**	4,400.3
Equity		
Contributed equity	**906.6**	1,206.6
Reserves	**3,473.8**	3,477.3
Retained earnings	**110.6**	(283.6)
Total equity	**4,491.0**	4,400.3

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

24 Discontinued operation

(a) Description

On 14 August 2017 the Group announced its intention to exit the Intermodal business through a combination of closure and sale.

Aurizon signed a binding agreement with Pacific National to sell its Acacia Ridge Intermodal Terminal. That transaction includes the transfer of approximately 30 employee positions, as well as assets, commercial and operational agreements.

Aurizon signed a separate binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National (QI BSA). The transaction includes the transfer of approximately 330 employee positions, as well as assets, commercial and operational arrangements to the Linfox and Pacific National consortium.

The transactions are subject to:

› Approval by the Australian Competition & Consumer Commission (ACCC); and
› Approval by the Foreign Investment & Review Board (FIRB)

Total consideration for the two transactions is $225.0 million of which $45.0 million has been received to date.

The ACCC decision was announced on 19 July 2018. The ACCC decided to oppose both transactions and commenced proceedings against Pacific National and Aurizon in the Federal Court of Australia. The ACCC has sought declarations, pecuniary penalties, orders restraining the existing sale transactions from proceeding and costs. The ACCC has also sought an injunction to prevent Aurizon from closing its Queensland Intermodal business while proceedings are on foot. While Aurizon refutes the ACCC's allegations and will defend the proceedings including seeking clearance of the Acacia Ridge transaction, there is a risk that the Acacia Ridge transaction will be prevented from completing and/or Aurizon incurs orders for pecuniary penalties and costs. There is also the risk that, in the interim whilst the matter is being determined by the Court, Aurizon is injuncted from closing the Queensland Intermodal business.

On 12 August 2018 Aurizon provided Pacific National with a notice to terminate the Business Sale Agreement for the Queensland Intermodal business, with effect from 13 August 2018. It is Aurizon's intention to not contest clearance of that transaction through the Federal Court and to exit the business. As clearance has not been obtained for the sale of the Queensland Intermodal business, $10 million of the consideration received for the transactions to date (recognised as a liability at 30 June 2018) will be refunded to Pacific National. The Business Sale Agreement for the Acacia Ridge Terminal remains in place while Aurizon seeks clearance of that transaction, and the remainder of the consideration received for the transactions to date ($35 million) is not refundable.

Notwithstanding this Aurizon remains committed to exiting the Intermodal business and on this basis has continued to classify the Acacia Ridge and Queensland Intermodal business assets as held for sale and discontinued operations at 30 June 2018.

On 10 August 2018 the Federal Court of Australian heard an application from the ACCC for an interlocutory injunction to require Aurizon to continue to operate the Queensland Intermodal business in the ordinary and usual course. The Court reserved judgement on the matter, and judgement is currently expected to be handed down on 13 August 2018.

Aurizon's Interstate Intermodal business has been closed with the last operational service occurring on 23 December 2017. Approximately 160 employee positions were affected by the closure of the Interstate business.

The closure of Interstate Intermodal has resulted in $74.7 million of significant items being recognised in the year ended 30 June 2018. Significant Interstate Intermodal items include $61.0 million for contract, lease and supplier exit costs, $9.1 million in redundancy costs and asset write downs of $4.6 million.

SIGNIFICANT JUDGEMENTS

Notwithstanding the ACCC decision Aurizon remains committed to exiting the Intermodal business and on this basis has continued to classify the Acacia Ridge and Queensland Intermodal business assets as held for sale and discontinued operations at 30 June 2018.

Financial information relating to the discontinued operation for the period is set out below.

(b) Financial performance and cash flow information

	2018 $m	2017 $m
Revenue	**225.4**	309.8
Employee benefits expense	**(79.6)**	(72.8)
Energy and fuel	**(19.1)**	(31.9)
Track access	**(35.1)**	(58.8)
Consumables	**(134.5)**	(180.2)
Depreciation and amortisation*	**(2.3)**	(17.3)
Impairment losses**	**(4.6)**	(162.2)
Other expenses	**(48.9)**	(2.0)
Net finance costs	**–**	0.1
Loss before income tax	**(98.7)**	(215.3)
Income tax benefit	**21.6**	64.6
Loss from discontinued operation after tax	**(77.1)**	(150.7)
Net cash (outflow) from operating activities	**(25.1)**	(34.8)
Net cash inflow/(outflow) from investing activities***	**54.6**	(34.7)
Net cash inflow/(outflow) from financing activities	–	–
Net increase/(decrease) in cash generated by the discontinued operation	**29.5**	(69.5)

* Includes $2.0 million depreciation (2017: $16.7 million) and $3.0 million amortisation expense (2017: $0.6 million).

** Includes $2.4 million relating to property, plant and equipment (2017: $161.0 million) and $2.2 million relating to intangible assets (2017: $1.2 million).

*** Net cash inflow from investing activities includes $45.0 million deposit in relation to the transactions.

24 Discontinued operation (continued)

(c) Significant items

Significant items are those items where their nature and amount is considered material to the financial statements. Items related to discontinued operations included within the Group's profit are detailed below:

	2018 $m	2017 $m
Significant items		
Closure costs	**(61.0)**	–
Impairment expense	**(4.6)**	(162.2)
Redundancy costs	**(9.1)**	(5.0)
	(74.7)	(167.2)

$74.7 million of significant items comprises $61.0 million for contract, lease and supplier exit costs, $9.1 million in redundancy costs for 158 employees in the Interstate business and asset write downs of $4.6 million.

(d) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities relating to Intermodal and Acacia Ridge businesses were reclassified as held for sale in relation to discontinued operations as at 30 June 2018:

	2018 $m
Assets classified as held for sale	
Property, plant and equipment	**78.6**
Trade and other receivables	**26.3**
Inventories	**1.2**
Total assets of disposal group held for sale	**106.1**
Liabilities directly associated with assets classified as held for sale	
Employee benefit obligations	**(12.7)**
Net assets classified as held for sale	**93.4**

25 Assets classified as held for sale

	2018 $m	2017 $m
Property, plant and equipment	**80.5**	7.3
Trade and other receivables	**26.3**	–
Inventories	**1.2**	–
Total assets held for sale	**108.0**	7.3

Assets held for sale includes $106.1 million related to discontinued operation. Refer to note 24.

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 FVLCD, 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.

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.

26 Notes to the consolidated statement of cash flows

(a) Reconciliation of net cash inflow from operating activities to profit from continuing operations

	2018 $m	2017 $m
Profit/(loss) for the year from continuing operations	**560.1**	(37.2)
Depreciation and amortisation	**525.5**	567.3
Impairment of non-financial assets	**70.0**	678.3
Interest expense	**168.3**	181.3
Non-cash employee benefits expense — share-based payments	**3.9**	6.6
Net loss on sale of assets	**4.7**	6.0
Share of net (profit)/loss of associates and joint venture partnership	**(0.8)**	0.1
Net exchange differences	**0.3**	–
Change in operating assets and liabilities:		
(Increase)/Decrease in trade and other receivables	**(90.4)**	16.8
(Increase)/Decrease in inventories	**(2.8)**	28.9
Decrease in other operating assets	**1.9**	0.1
(Decrease)/Increase in trade and other payables	**(17.9)**	22.0
Decrease in other liabilities	**(32.8)**	(33.0)
Increase/(Decrease) in current tax liabilities	**40.3**	(79.4)
Increase/(Decrease) in deferred tax liabilities	**90.7**	(112.4)
(Decrease)/Increase in provisions	**(13.3)**	27.8
Net cash inflow from operating activities from continuing operations	**1,307.7**	1,273.2

(b) Reconciliation of liabilities arising from financing activities to financing cash flows

	Current borrowings $m	Non-current borrowings $m	Liabilities held to hedge borrowings* $m	Assets held to hedge borrowings* $m	Total $m
Balance as at 1 July 2017	(79.0)	(3,297.2)	(70.7)	73.6	(3,373.3)
Financing cash flows**	(21.0)	8.8	–	–	(12.2)
Changes in fair value					
Effect of changes in exchange rates	–	(90.6)	45.3	45.3	–
Other changes in fair values	–	(20.0)	4.1	(8.5)	(24.4)
Other non-cash movements	–	(2.9)	–	–	(2.9)
Balance as at 30 June 2018	**(100.0)**	**(3,401.9)**	**(21.3)**	**110.4**	**(3,412.8)**

* Assets and liabilities held to hedge borrowings exclude foreign exchange contracts included in note 19.

**Financing cash flows consists of the net amount of proceeds from borrowings, repayment of borrowings and payments of transaction costs related to borrowings in the consolidated statement of cash flows.

Notes to the consolidated financial statements
30 June 2018 (continued)

27 Related party transactions

(a) Transactions with Directors and Key Management Personnel

There were no Key Management Personnel (KMP) related party transactions during the year (2017: nil).

(b) Transactions with other related parties

There were no transactions with other related parties during the year (2017: nil).

(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.

28 Key Management Personnel compensation

	2018 $'000	2017 $'000
Short-term employee benefits	**8,769**	7,602
Post-employment benefits	**290**	326
Long-term benefits	**96**	(57)
Termination benefits	**-**	3,110
Share-based payments	**2,159**	2,634
	11,314	13,615

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.

29 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 Award (STIA)

A portion of any STIA for the Managing Director & CEO as well as the executive management team will be awarded in rights to ordinary shares and 40% is deferred for a period of one year. The rights will vest after one year and become exercisable provided that the executive remains employed by the Group at the vesting date, unless otherwise determined by the Board.

Long-term Incentive Award (LTIA)

Performance rights are granted to senior executives as part of the Group's LTIA. The first grant of LTIA rights was in November 2010. The rights are subject to employment service conditions and satisfying market based performance hurdles of Total Shareholder Return (TSR), non-market based Operating Ratio (OR) and Return on Invested Capital (ROIC). In 2017, the OR hurdle was removed as a company hurdle. In the event that company hurdles are not achieved, in relation to the 2014 and 2015 awards, the performance period may be extended for a further year at the discretion of the Board. Retesting will no longer form part of the LTIA from the 2016 award.

Retentions

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

29 Share-based payments (continued)

(a) Performance rights plan (continued)

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

	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year Number '000
2018					
STIAD	**–**	**105**	**–**	**–**	**105**
LTIA	**10,462**	**3,982**	**(486)**	**(2,303)**	**11,655**
Retentions	**25**	**–**	**–**	**–**	**25**
Total	**10,487**	**4,087**	**(486)**	**(2,303)**	**11,785**
2017					
STIAD	419	–	(419)	–	–
LTIA	11,922	3,229	(1,127)	(3,562)	10,462
Retentions	125	25	(40)	(85)	25
Total	12,466	3,254	(1,586)	(3,647)	10,487

At 30 June 2018, there were no vested but unexercised rights (2017: nil).

The weighted average exercise price of rights granted during the year was nil (2017: 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 $5.22 (2017:$4.65). The weighted average remaining contractual life of share rights outstanding at 30 June 2018 was 1.4 years (2017:1.5 years).

Fair value of rights granted

In determining the fair value, market techniques for valuation were applied in accordance with AASB 2. The fair value of the portion of Short-term Incentive Award Deferred (STIAD) and the portion of LTIA rights, that are subject to non-market based performance conditions, were $5.01 and $4.27 (2017: $nil granted for STIAD and $4.09 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:

	2018		2017	
Scheme	**LTIA**	**LTIA**	LTIA	LTIA
Grant date	**7 Oct 2017**	**7 Oct 2017**	7 Sep 2016	7 Oct 2016
Vesting date	**1 Jul 2020**	**1 Jul 2021**	30 Jun 2019	30 Jun 2019
Expiry date	**31 Dec 2020**	**31 Dec 2021**	31 Dec 2019	31 Dec 2019
Share price at grant date	**$5.07**	**$5.07**	$4.43	$4.79
Expected life	**3.0 years**	**4.0 years**	3.5 years	3.5 years
Company share price volatility	**19.50%**	**19.50%**	32.75%	32.25%
Risk free rate	**2.00%**	**2.20%**	1.45%	1.65%
Dividend yield	**5.25%**	**5.50%**	5.85%	5.75%
Fair value	**$1.86**	**$1.93**	$1.83	$2.25

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

(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 $3.886 million (2017: $6.559 million).

Recognition and measurement

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

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Company 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.

30 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

	2018 $'000	2017 $'000
Audit and other assurance services		
Audit and review of financial statements	**1,295**	1,388
Other assurance services		
Other assurance services	**122**	37
Total remuneration for audit and other assurance services	**1,417**	1,425
Other services		
Advisory services	**282**	718
Total remuneration of PwC Australia	**1,699**	2,143

31 Summary of other significant accounting policies

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

(a) Basis of preparation

(i) New and amended standards adopted by the Group

Certain new accounting standards and amendments to standards have been published that are mandatory for 30 June 2018 reporting periods. The Group has assessed these new standards and amendments and they do not materially impact the amounts recognised in the current period or any prior period and are not likely to affect any 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 except for AASB 9 Financial Instruments which was early adopted in the year ended 30 June 2015.

(ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Group, other than AASB 9 as outlined above. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 15 Revenue from Contracts with Customers (mandatory for financial year beginning 1 July 2018)
Nature of change:

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services, and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact:

The Group has reviewed sales contracts that together account for 99% of the Group's sales revenue from continuing operations to identify the potential changes in: timing of revenue recognition, measurement of the amount of revenue and note disclosure between the current standard AASB 118 and AASB 15.

Revenue is currently derived from:

Freight Transport Services

› Transport of coal from mines in Queensland and New South Wales to end customers and ports
› Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia

Access

› Provision of access to, and operation of, the Central Queensland Coal Network; and

Other

› Other services including the provision of maintenance and rail grinding

Revenue for **freight transport services** is currently recognised under AASB 118 once the individual service has been provided and is calculated based on the rates agreed with customers on a tonnes per delivery basis. **Access revenue** is currently also recognised under AASB 118 once the individual service has been provided and is calculated based on a number of operating parameters, including the volume hauled and regulator approved tariffs.

On adoption of AASB 15, timing of recognition and measurement of revenue for freight services and access revenue will be consistent with the current treatment. Under AASB 15, individual services are considered separate performance obligations and freight transport and access revenue will continue to be recognised once the service has been provided.

Revenue from **other services** primarily includes rail grinding services and Transport Service Contract (TSC) payments received from the State Government for regional freight and livestock transport. Under AASB 118, revenue for other services is recognised once the service has been provided and is calculated in line with contractual arrangements. On adoption of AASB 15, there will be no change in the timing of recognition and measurement of revenue.

Other revenue earned by the Group includes payments in relation to Access Facilitation Deeds (AFD) for mine specific infrastructure which is currently recognised under AASB 118 over the term of the contract as services are provided and external maintenance which is recognised under AASB 118 once the service has been performed. Similarly as above, on adoption of AASB 15, there will be no change in the timing of recognition and measurement of other revenue.

Based on the completed assessment, there will be no impact on adoption of AASB 15.

The Group will adopt the modified transitional approach to implementation where any transitional adjustment is recognised in retained earnings at 1 July 2018 without adjustment of comparatives and the new standard will only be applied to contracts that remain in force at that date.

AASB 16 Leases (mandatory for financial year beginning 1 July 2019)
Nature of change:

AASB 16 was issued in February 2016 and replaces AASB 117 Leases. It will result in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting by lessors, however, will not significantly change.

Impact:

Management is currently assessing the effects of applying the new standard on the Group's financial statements. AASB 16 will result in higher assets and liabilities on the balance sheet. Information on the undiscounted amount of the Group's non-cancellable lease commitments defined under AASB 117 as at 30 June 2018 is disclosed in note 33. The present value of the Group's operating lease payments as defined under the new standard will be recognised as lease liabilities on the balance sheet and included in net debt.

Notes to the consolidated financial statements
30 June 2018 (continued)

31 Summary of other significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New standards and interpretations not yet adopted (continued)

To date, work has focused on the identification and understanding of the provisions of the standard which will most impact the Group, establishing the population of lease contracts which will extend beyond 1 July 2019, the provision of training, impact analysis, discount rate determination and the review of system requirements. In FY19, work on these issues and their resolution will continue. A significant proportion by value of the Group's current operating lease commitments relate to property and effort to date has focussed on this area.

The recognition of depreciation and interest expense instead of operating lease payments in the Consolidated Income Statement, will result in an increase in EBITDA, depreciation and interest.

This standard must be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognised as at 1 July 2019 under the modified retrospective approach. The Group currently expects to use the modified retrospective approach.

Under the modified retrospective approach, the right of use asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease, on a lease-by-lease basis.

(b) Cash and cash equivalents

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

(c) Foreign currency and commodity transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

(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.

31 Summary of other significant accounting policies (continued)

(e) Financial instruments

(i) Non-derivative financial assets

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

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

(ii) Financial assets measured at amortised cost

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

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

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

(iii) Non-derivative liabilities

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

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

(f) Goods and Services Tax (GST)

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

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

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

The Company and its subsidiaries are grouped for GST purposes. Therefore, any 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.

32 Contingencies

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

(a) Contingent liabilities

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

Guarantees and letters of credit

For information about guarantees, including the Moorebank parent company guarantee, and letters of credit given by the Group, refer to note 18(d).

(b) Contingent assets

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 18(d).

33 Commitments

(a) Capital commitments

	2018 $m	2017 $m
Property, plant and equipment		
Within one year	**91.4**	131.7

(b) Lease commitments

	2018 $m	2017 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**29.8**	55.9
Later than one year but not later than five years	**122.3**	85.6
Later than five years	**169.7**	38.7
	321.8	180.2

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 time 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.

34 Events occurring after the reporting period

On 14 August 2017, the Group announced the intention to exit the Intermodal business through a combination of closure and sale. Aurizon signed a binding agreement with Pacific National to sell its Acacia Ridge Intermodal Terminal. Aurizon signed a separate binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National (QI BSA). The transactions are subject to Approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment & Review Board (FIRB). Refer to Key events and transactions for reporting period and note 24 for further information.

The ACCC decision was announced on 19 July 2018. The ACCC decided to oppose both transactions and commenced proceedings against Pacific National and Aurizon in the Federal Court of Australia. The ACCC has sought declarations, pecuniary penalties, orders restraining the existing sale transactions from proceeding and costs. The ACCC has also sought an injunction to prevent Aurizon from closing its Queensland Intermodal business while proceedings are on foot. While Aurizon refutes the ACCC's allegations and will defend the proceedings including seeking clearance of the Acacia Ridge transaction, there is a risk that the Acacia Ridge transaction will be prevented from completing and/or Aurizon incurs orders for pecuniary penalties and costs. There is also the risk that, in the interim whilst the matter is being determined by the Court, Aurizon is injuncted from closing the Queensland Intermodal business.

On 12 August 2018 Aurizon provided Pacific National with a notice to terminate the Business Sale Agreement for the Queensland Intermodal business, with effect from 13 August 2018. It is Aurizon's intention to not contest clearance of that transaction through the Federal Court and to exit the business. As clearance has not been obtained for the sale of the Queensland Intermodal business, $10 millon of the consideration received for the transactions to date (recognised as a liability at 30 June 2018) will be refunded to Pacific National. The Business Sale Agreement for the Acacia Ridge Terminal remains in place while Aurizon seeks clearance of that transaction, and the remainder of the consideration received for the transactions to date ($35 million) is not refundable.

On 10 August 2018 the Federal Court of Australian heard an application from the ACCC for an interlocutory injunction to require Aurizon to continue to operate the Queensland Intermodal business in the ordinary and usual course. The Court reserved judgement on the matter, and judgement is currently expected to be handed down on 13 August 2018.

Directors' Declaration

30 June 2018

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 46 to 97 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*,

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23.

Page 51 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director & Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

T Poole
Chairman

Brisbane
12 August 2018

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Independent auditor's report

To the members of Aurizon Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Aurizon Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated income statement for the year ended 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of other significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	***Audit scope***	***Key audit matters***
• For the purpose of our audit we used overall Group materiality of $36 million, which represents approximately 5% of the Group's adjusted profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. To calculate materiality, we adjusted profit before tax for significant unusual items such as impairment, closure and contract exit costs. These adjustments were tested separately using a specific	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group is a large rail-based freight operator and transports coal, iron ore and other bulk commodities across Australia. • The Group also owns and operates the Central Queensland Coal Network (CQCN) which is a multi-user track network that comprises of four major coal systems and one connecting system serving Queensland's Bowen Basin coal region. The Group has a centralised accounting function in Brisbane at its corporate head office where our audit procedures were predominantly performed. We also visited the Mackay, Townsville, Forrestfield and Rockhampton depots to	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Governance and Risk Management Committee: – Impairment assessment of the Western Australia cash-generating unit (CGU) – Closure and sale of the Intermodal business • These are further described in the *Key audit matters* section of our report.

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materiality level.

- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

perform audit procedures on inventory.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Impairment assessment of the Western Australia cash-generating unit (WA CGU) In the second half of FY2018, an iron ore customer, Cliffs Asia Pacific Iron Ore Pty Ltd (Cliffs) announced the planned closure of mining operations in Australia. The contract provided for haulage of up to 11mt of iron ore per annum and was due to expire on 31 January 2022. On 29 June 2018 Cliffs issued a contract termination notice, effective 30 June 2018. This is an indicator of impairment for the WA CGU and the Group performed an impairment assessment of the carrying value of the WA CGU. This resulted in a pre-tax impairment of $27.9 million in respect of contract specific assets and a further $31.7 million in relation to the WA CGU. The recoverable amount of the WA CGU ($170.7 million) was determined using a value in use (VIU) methodology utilising a discounted cashflow model (the model). The recoverable amount used in the impairment test is based on the Board-approved corporate plan, a terminal growth rate of 2.2% and a pre-tax discount rate of 11.7%. We considered this a key audit matter due to the judgements required by the Group in formulating the Board approved corporate plan and estimating the terminal growth rate and pre-tax discount rate. *Refer to Key events and transactions for the reporting period and Note 4 Impairment of non-financial assets in the Annual Report for further details.*	To evaluate the Group's assessment of the recoverable amount of the WA CGU, we performed the following procedures, amongst others: • Assessed whether the division of the Group's property, plant and equipment assets into CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the Group's operations and internal Group reporting. • Assessed whether the carrying value of the WA CGU included all assets, liabilities and cashflows directly attributable to the CGU and a reasonable allocation of corporate overheads. • Evaluated if VIU was the highest basis upon which the CGU is recoverable as required by the Australian Accounting Standards. • Evaluated the Group's historical ability to forecast future cashflows by comparing budgets with reported prior year actual results. • Tested that forecast cashflows used in the model were consistent with the most up-to-date corporate plan formally approved by the Board. • Evaluated the terminal value EBITDA and sustaining capital assumptions used in the model including consideration of the forecast value of sustaining capital expenditure against actual capital expenditure incurred over prior periods.

Key audit matter	*How our audit addressed the key audit matter*

	• Assessed, with the assistance of PwC valuation experts:
	  ○ the forecast long term growth rate of 2.2% by comparing it to economic forecasts;
	  ○ that the discount rate of 11.7% (pre-tax nominal) appropriately reflects the risks of the CGU; and
	  ○ the mathematical accuracy of the model.
	• Evaluated the Group's sensitivity analysis to assess if further impairment would occur and whether this was reasonably possible.
	• Evaluated the adequacy of the disclosures made in note 4, including the key assumptions and sensitivities to changes in such assumptions in light of the requirements of Australian Accounting Standards.

Closure and Sale of the Intermodal business On 14 August 2017 the Group announced its intention to exit the Intermodal business through a combination of closure and sale. The Group signed binding agreements to sell its Acacia Ridge Intermodal Terminal and Queensland Intermodal Business for total consideration of $225 million. The transactions have been subject to approval by the Australian Competition & Consumer Commission (ACCC) and the Foreign Investment & Review Board (FIRB). Subsequent to the year-end, on 19 July 2018, the ACCC opposed both transactions and commenced proceedings against Pacific National and the Group in the Federal Court of Australia. The ACCC has also sought an injunction to prevent the Group from closing its Queensland Intermodal Business while proceedings are on foot. On 12 August 2018 the Group issued a termination notice to terminate the Queensland Intermodal Business sale agreement with effect from 13 August 2018. The Group will defend the ACCC proceedings and remains committed to the exit of Intermodal. On this basis the Acacia Ridge and Queensland Intermodal Business assets remain classified as held for sale and discontinued operation at 30 June 2018. We considered this a key audit matter given: • it was a significant transaction in the year; and	To assess the impact of the closure and sale of the Intermodal business, the following procedures were performed, amongst others: • We developed our understanding of the transaction through discussions with the Group, reading the binding sale agreements and other supporting documentation including the decision made by the ACCC. • We considered the Group's decision to disclose the Intermodal Business as discontinued and we assessed the classification of the assets and liabilities as held for sale in light of the requirements of Australian Accounting Standards. • We evaluated the adequacy of the disclosures made in the Financial Report in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
• the judgement required by the Group regarding the continued classification of the Intermodal businesses as held for sale and discontinued operation due to the ACCC decision and proceedings in the Federal Court of Australia. *Refer to Key events and transactions for the reporting period and Note 24 Discontinued operation in the Annual Report for further details.*	

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the FY2018 in Review, Chairman's Report, Managing Director & CEO's Report, Directors' Report, Corporate Governance Statement, Non-IFRS financial information, Shareholder Information, Glossary and Corporate Information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.

This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the Remuneration Report included in pages 25 to 38 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Nadia Carlin
Partner

Tim Allman
Partner

Brisbane
12 August 2018

Non-IFRS Financial Information in 2017-18 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 a performance 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 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 net intangibles plus current assets less cash, less current liabilities. 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.

Non-IFRS Financial Information in 2017-18 Annual Report (continued)

	2018		2017	
	Continuing operations $m	Discontinued operation $m	Continuing operations $m	Discontinued operation $m
Profit/(loss) before income tax	**801.3**	**(98.7)**	(54.2)	(215.3)
Finance costs (net)	**165.0**	**–**	178.6	0.1
EBIT – Statutory	**966.3**	**(98.7)**	124.4	(215.2)
Significant adjustments:				
Bulk contract exit impairment	**27.9**	**–**	10.2	–
Bulk contract exit termination payment	**(66.3)**	**–**	–	–
Bulk contract exit costs – redundancy and closure costs	**3.9**	**–**	–	–
Bulk impairment	**31.7**	**–**	525.9	–
Freight Management Transformation (FMT) impairment	**–**	**–**	64.0	–
Transformation – asset impairment	**–**	**–**	48.9	–
Transformation – redundancy costs	**(22.9)**	**–**	110.8	5.0
Intermodal closure costs	**–**	**70.1**	–	–
Intermodal impairment	**–**	**4.6**	–	162.2
EBIT – Underlying	**940.6**	**(24.0)**	884.2	(48.0)
Depreciation and amortisation	**525.5**	**2.3**	567.3	17.3
EBITDA – Underlying	**1,466.1**	**(21.7)**	1,451.5	(30.7)
Operating Ratio (continuing operations)	**69.8%**		71.9%	
Average invested capital (continuing operations)	**8,615**		9,473	
ROIC (continuing operations)	**10.9%**		9.3%	

	2018 $m	2017 $m
Total borrowings	**3,501.9**	3,376.2
Less: cash and cash equivalents	**(34.8)**	(88.7)
Net debt	**3,467.1**	3,287.5
Total equity	**4,730.1**	5,022.1
Total capital	**8,197.2**	8,309.6
Net Gearing Ratio	**42.3%**	39.6%

Shareholder Information

RANGE OF FULLY PAID ORDINARY SHARES AS AT 6 AUGUST 2018

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 – 1,000	18,523	11,792,971	0.59
1,001 – 5,000	22,966	50,366,979	2.53
5,001 – 10,000	2,855	20,632,650	1.04
10,001 – 100,000	1,924	38,008,586	1.91
100,001 Over	100	1,869,327,146	93.93
Total	**46,368**	**1,990,128,332**	**100**

UNMARKETABLE PARCELS AS AT 6 AUGUST 2018

	MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum $500.00 parcel at $4.54 per unit	111	770	33,039

The number of shareholders holding less than the marketable parcel of shares is 770 (shares: 33,039).

SUBSTANTIAL HOLDERS OF 5% OR MORE OF FULLY PAID ORDINARY SHARES AS AT 6 AUGUST 2018*

NAME	NOTICE DATE	SHARES
HSBC Holdings PLC	18 May 2016	151,013,818
BlackRock Group	28 Mar 2017	105,643,028
The Vanguard Group Inc	20 Dec 2017	108,337,155
JP Morgan Chase & Co and its affiliates	3 Jan 2018	153,470,787
BNP Paribas Nominees Pty Ltd	16 Jul 2018	149,457,188

* As disclosed in substantial shareholder notices received by the Company.

INVESTOR CALENDAR

2019 DATES	DETAILS
12 February 2019	Half Year results and interim dividend announcement
25 March 2019	Interim dividend payment date
12 August 2019	Full Year results and final dividend announcement
23 September 2019	Final dividend payment date
17 October 2019	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**, for an up-to-date list of upcoming events.

ASX code: AZJ

Contact details

Aurizon
GPO Box 456
Brisbane QLD 4001

For general enquiries, please call 13 23 32 within Australia. If you are calling from outside Australia, please dial +61 7 3019 9000.

aurizon.com.au

Investor Relations

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit **investorcentre.com**.

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**.

TOP 20 HOLDERS OF FULLY PAID ORDINARY SHARES AS AT 6 AUGUST 2018

NAME	UNITS	% OF UNITS
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	598,713,944	30.08
CITICORP NOMINEES PTY LIMITED	373,128,722	18.75
J P MORGAN NOMINEES AUSTRALIA LIMITED	361,437,751	18.16
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	194,537,887	9.78
NATIONAL NOMINEES LIMITED	107,548,803	5.40
QUEENSLAND TREASURY HOLDINGS PTY LTD	54,926,186	2.76
NATIONAL NOMINEES LIMITED <N A/C>	39,095,203	1.96
BNP PARIBAS NOMS PTY LTD <DRP>	31,586,673	1.59
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	16,245,342	0.82
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	11,227,765	0.56
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	9,314,017	0.47
UBS NOMINEES PTY LTD	5,924,215	0.30
AMP LIFE LIMITED	5,823,071	0.29
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	3,515,119	0.18
AVANTEOS INVESTMENTS LIMITED <ENCIRCLE IMA A/C>	3,350,123	0.17
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	3,282,283	0.16
WOODROSS NOMINEES PTY LTD	3,200,000	0.16
NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	3,051,683	0.15
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,526,600	0.13
AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	2,500,000	0.13
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)	**1,830,935,387**	**92.00**
Total Remaining Holders Balance	**159,192,945**	**8.00**

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
Includes the business unit segments of Coal, Bulk and Other of Aurizon Holdings Limited

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
The business unit segment of Network — Aurizon Network Pty Ltd (ACN 132 181 116) a wholly owned subsidiary of Aurizon Holdings Limited

Board
The Board of Directors of Aurizon Holdings Limited

Bulk
The Above Rail Bulk freight haulage operating division 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

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

FY
Financial Year ended 30 June, as the context requires

GAP
Goonyella to Abbot Point

GAPE
Goonyella to Abbot Point Expansion

GAAP
Generally Accepted Accounting Principles

IBNR
Incurred But Not Reported

IFRS
International Financial Reporting Standards

km
Kilometre

LTIA
Long Term Incentive Awards

M
Million

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

OTHER
A business unit segment of Aurizon Holdings Limited

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

Rail Process Safety
The cumulative number of SPAD, derailment and rollingstock to rollingstock collision incidents, per million train kilometres, over a given recording period.

Note: Infrastructure Caused SPADs have been removed from the SPAD element of Aurizon's Rail Process Safety metric.

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

TRIFR
The cumulative number of Lost Time Injuries, Medical Treatment Injuries and Restricted Work Injuries sustained by employees and contractors, per million hours worked, over a given recording period

TSC
Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services

WACC
Weighted Average Cost of Capital, expressed as a percentage

WICET
Wiggins Island Coal Export Terminal

WIRP
Wiggins Island Rail Project

Corporate Information

Aurizon Holdings Limited
ABN 14 146 335 622

Directors
Tim Poole
Andrew Harding
Marcelo Bastos
Russell Caplan
John Cooper
Karen Field
Michael Fraser
Samantha Lewis
Kate Vidgen

Company Secretary
Dominic D Smith

Registered Office
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Auditors
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Share Registry
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