Financial Report
for the year ended 30 June 2018

FINANCIAL STATEMENTS

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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)**

	Notes	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

		Attributable to owners of Aurizon Holdings Limited			
	Notes	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.

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.

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

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

1 Segment information (continued)

(c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	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.

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

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).

Notes to the consolidated financial statements

30 June 2018 (continued)

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

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

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

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

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)

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.

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)

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%).

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

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

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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.

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

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.

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

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)

	2018 $m	2017 $m
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.

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

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 $0.3 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.

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

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.

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

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

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

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.

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: o the forecast long term growth rate of 2.2% by comparing it to economic forecasts; o that the discount rate of 11.7% (pre-tax nominal) appropriately reflects the risks of the CGU; and o 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

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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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Fortitude Valley QLD 4006

Auditors
PricewaterhouseCoopers

Share Registry
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