ANNUAL REPORT **2013–14**

AURIZON®

Our Vision

Grow our People. Grow with our Customers. Grow the Nation.

Our Mission

To be a world leading transport business, to partner with customers for growth and to double the value of the Company every five years, while becoming the safest transport company in the world.

Our Employee Promise

To build a diverse, collaborative and creative workplace where people know what they are accountable to do and can count on having what they need to succeed.

Our Values

Safety – Safety of ourselves and others is our number one priority.

Integrity – We are honest and fair and conduct business with the highest ethical standards.

Leadership, Passion & Courage – We are passionate about leading change. We deliver results with energy and conviction.

World Class Performance – We deliver world-class performance and superior value for our shareholders, customers and staff.

Contents

FY2014 in Review

Financial Headlines

($m)	FY2014	FY2013	VARIANCE %
Total Revenue	3,832	3,766	2 %
EBIT – Statutory	465	685	(32 %)
Adjustments - Voluntary Redundancy Program (**VRP**)	69	96	
- Stamp Duty	-	(27)	
- Asset Impairments	317	-	
EBIT – Underlying	851	754	13 %
NPAT – Statutory	253	447	(43 %)
NPAT – Underlying	523	487	7 %
Final Dividend (cps)	8.5	8.2	4 %
Earnings Per Share – Underlying[1]	24.5	21.6	13 %
ROIC[2] (%)	8.8 %	8.0 %	0.8ppt
EBIT Margin – Underlying[3] (%)	22.3 %	20.2 %	2.1ppt
EBITDA Margin – Underlying[3] (%)	35.3 %	33.5 %	1.8ppt
Operating Ratio – Underlying[3,4] (%)	77.7 %	79.8 %	2.1ppt
Coal Volumes (mt)	210.4	193.7	9 %
Iron Ore Volumes (mt)	29.9	24.7	21 %
Freight Volumes (mt)	46.3	49.3	(6 %)
Gearing (net debt / net debt + equity) (%)	28.4 %	26.7 %	(1.7ppt)
People (FTE)	7,524	7,851	4 %

1 Earnings Per Share calculated on weighted average number of shares on issue of 2,137m in FY2014 (2,257m in FY2013)

2 ROIC is defined as last 12 months underlying EBIT divided by average net working capital plus net PP&E plus AUC plus gross intangible assets

3 Operating ratio, EBITDA and EBIT margins calculated using underlying revenue which excludes interest income and stamp duty refunds ($3,822m in FY2014 and $3,736m in FY2013)

4 Operating ratio – diesel fuel rebate is included as revenue for remuneration purposes

Operating Ratio (**OR**) Update

- OR improved to 77.7 % (77.0 % in 2H FY2014) and remains on track to meet the target of 75 % in respect of FY2015
- Transformation benefits delivered of $129m, further detail on page 15

FY2015 Financial Outlook

- Our expectations for FY2015 are for:
  - Coal haulage volumes between 210mt – 220mt (vs 210.4mt in FY2014)
  - Iron ore haulage volumes of 23mt (vs 29.9mt in FY2014)
- FY2015 earnings could be impacted by industrial action, UT4 delays or a materially worse wet season
- Accordingly, Aurizon plans to reduce the cost base further and increase transformation benefits to a range of $250m to $300m

Highlights in FY2014

- Statutory EBIT down 32 % due to asset impairments of $317m and VRP costs of $69m. Refer page 11 for further information
- Underlying EBIT up 13 % or $97m largely due to:
  - Strong volume growth in coal and iron ore
  - Further ramp up of contracted volumes in the Goonyella to Abbot Point Expansion (**GAPE**)
  - Transformation benefits of $129m
  - Improved revenue quality of $102m from new form coal contracts and iron ore
- Record coal volumes of 210.4mt were up 9 % on FY2013 (193.7mt)
- Final dividend declared of 8.5cps (unfranked), a dividend payout ratio of 70 % vs 65 % in FY2013. Record date is 2 September 2014 and payment date is 22 September 2014. Total FY2014 dividend of 16.5cps vs 12.3cps in FY2013
- Network – record volumes over Central Queensland Coal Network (**CQCN**) of 214.5mt (up 18 % on FY2013)
- Coal operations – significant cost productivity across all corridors
- Iron Ore – acquisition of Aquila with Baosteel completed. Focus turns now to development of West Pilbara Infrastructure Project
- Freight – 48 % increase ($11m) in underlying EBIT largely due to transformation benefits
- Enterprise Agreements (**EA**) – NSW finalised 4 year deal, Queensland agreements remain outstanding with Aurizon applying to terminate 14 EAs which will be heard by full bench of Fair Work Commission in November 2014

Chairman's Report

Aurizon's third full financial year as a listed entity has been another eventful and successful period for the Company.

The Company has marched forward with both its transformation and growth plans and again demonstrated an ability to deliver a solid financial performance in tough market conditions. As Chairman it is exciting to witness the progress at Aurizon as Managing Director & CEO Lance Hockridge and his leadership team implement the Company's transformational journey and create new growth opportunities.

In financial year (**FY**) 2014 Aurizon continued to build momentum towards achieving one of its core financial targets – a 75% Operating Ratio (**OR**) by FY2015. Across the Company this target is known as the "Drive to 75" and is an initiative motivating employees at every level of the organisation. In FY2014 our OR improved to 77.7%, which is a gain of 2.1 percentage points compared to FY2013's result of 79.8%. Whilst it is a stretch, Aurizon is well positioned to deliver on its target in FY2015.

Aurizon's many achievements in FY2014, including improvements with the OR, are detailed over the following pages of this Annual Report. We know we can and will deliver more in the years ahead. In FY2014 we have pursued opportunities to extend our reach beyond rail, through the integration of rail and port infrastructure, demonstrating we are laying the foundation for long-term growth and prosperity.

Overview of results

The past year has seen a further deterioration in domestic economic conditions, with continued downward pressure on commodity prices, as well as volatile global equity markets. This environment has impacted many of our major customers and presented significant challenges for Aurizon. However, through our Integrated Operating Plan and an unrelenting focus on cost control and business efficiency, a solid financial result has been delivered.

In the Network business, the Company achieved record full year below-rail tonnages across the Central Queensland Coal Network (**CQCN**) of 214.5 million tonnes (**mt**). In the Coal business, above-rail tonnages transported in New South Wales and Queensland also reached record levels of 210.4mt. These are important milestones for the Company, reflecting the ongoing operational and commercial transformation across the business.

Statutory Net Profit After Tax (**NPAT**) for the year was $253 million, down 43% due to the asset impairments, redundancy costs and write downs of strategic projects foreshadowed to the market in June. However Underlying Earnings Before Interest and Tax was up significantly to $851 million, a 13% increase over the prior year, and earned on increased revenues of $3.832 billion, up 2% on FY2013. The Company also delivered transformational benefits of $129 million, compared to $96 million in the prior year.

The Aurizon Board declared an unfranked final dividend of 8.5 cents per share, giving a full-year dividend of 16.5 cents per share. Previously the Board has outlined its policy to distribute between 60 and 70% of Underlying Earnings in dividends to shareholders. For the full year the Board has decided to distribute dividends at the upper end of this range. This represents an increase of 4.2 cents, or 34% over FY2013, with dividends to be paid to shareholders on 22 September 2014.

Aurizon's Total Shareholder Returns (**TSR**) for the year outperformed the S&P/ASX 200 index by 5.6%. Significantly the Company's TSR performance has outperformed the S&P/ASX 200 each year since listing by an average of 5.5%.

The financial performance for the FY2014 is set out in detail on pages 9 to 26.

Safety and sustainability

Safety is Aurizon's core value and highest priority. Our goal is ***ZERO***HARM, which means no workplace injuries to anyone, ever. Improved safety is one of the best measures of our overall performance. It reflects the collective achievement of our employees and is a key indicator of the broader cultural change occurring in the Company.

In FY2014 Aurizon was pleased to welcome industry recognition of our safety achievements, receiving multiple awards, including the 2013 Chartered Institute of Logistics and Transport Australia Industry Excellence Award for Safety.

Throughout the year key safety metrics, in particular the Lost Time Injury Frequency Rate (**LTIFR**) and Medically Treated Injury Frequency Rate (**MTIFR**), continued to trend downwards. With strong focus and discipline the Company has now driven the LTIFR to 0.28 and MTIFR to 2.52, which are now at benchmark performance. Certainly we are encouraged that our efforts to lift safety to world-class standards are gaining traction. However we know this is an area in which we can never become complacent or be satisfied with anything less than ***ZERO***HARM.

Our commitments and progress in the areas of safety, environment, community and people are discussed in detail in the sustainability section of this report on pages 50 to 53.

Remuneration

At Aurizon's Annual General Meeting (**AGM**) last year, 28% of the total vote received from shareholders did not support the Company's 2013 Remuneration Report. This constituted a "first strike" under the Corporations Act. The Board assures shareholders it takes this matter very seriously and following the AGM, the Chairman of the Remuneration, Nomination & Succession Committee Russell Caplan and I met with major shareholders and stakeholder advisory groups to better understand these concerns and to take the necessary action to ensure confidence in the Company's remuneration practices. As a result of feedback we received, a number of major changes to our short and long term incentive programs have been implemented, which are explained in detail on page 28 of this report. The Board is confident these changes have strengthened the Company's remuneration practices and still incentivise executives to deliver on the ambitious plans set out for the Company.

Growth and Transformation

In FY2014 Aurizon entered into a potential landmark growth project with one of the world's largest iron and steel companies, Baosteel Resources. Baosteel (85 % interest) and Aurizon (15 %) jointly acquired Aquila Resources in an off-market bid. Aquila has a number of iron ore, coal and manganese projects at pre-development stage in Western Australia, Queensland and South Africa. The acquisition of Aquila was completed in July 2014.

This is an unprecedented opportunity for Aurizon to participate in the development of multi-user, world-class rail and port infrastructure to unlock iron ore deposits for a range of customers in the West Pilbara in Western Australia.

We are now undertaking the next phases of work, including scoping the rail and port infrastructure requirements for the West Pilbara Iron Ore Project, while a strategic review of Aquila's other businesses is in progress. Any infrastructure development will be dependent on passing through several stages, the agreement of tariffs with mine owners (the Australian Premium Iron Joint Venture) and a Final Investment Decision by Aurizon.

Similarly the Company has continued to progress a large proposal in Queensland's emerging Galilee Basin with another end-customer GVK Hancock, to serve the growing needs of India's urbanisation. Aurizon intends to acquire a majority (51 %) interest in Hancock Coal Infrastructure Pty Ltd, which owns GVK's rail and port projects. The proposed multi-user rail and port infrastructure will facilitate a staged consolidation of tonnes from miners in the Galilee and Bowen Basins, exported through the Abbot Point Coal Terminal.

The transactions in the Pilbara and Galilee demonstrate Aurizon's ambition to pursue new avenues for growth and to foster a more sophisticated, value-adding approach in our business development strategy. Both of these growth projects enable Aurizon to leverage one of the Company's core capabilities – operating multi-user supply chains for customers. While transformative and exciting for the Company, they do not detract from our deeply held commitment to existing domestic customers and providing world-class services to support the global competitiveness of their products.

Outside of this growth pipeline Aurizon continues to transform and deliver on significant operational reforms to make the Company leaner, more efficient and more profitable. We are now carrying more freight with a fleet of locomotives and wagons reduced by about 20 % during the year. The impairment to our accounts from these initiatives (summarised on page 11), will be rewarded by lower operating and maintenance costs going forward.

Another initiative of FY2014 that is emblematic of Aurizon's preparedness to make difficult decisions and tackle inefficient practices of the past has been the restructure of our rollingstock maintenance operations in Queensland. This will involve progressively ceasing operations at the Townsville and Redbank (south east Queensland) maintenance workshops by 2017, with heavy maintenance and component overhaul work to be centralised in Rockhampton, which is closer to the majority of our services in Central Queensland.

Outlook

FY2015 is shaping up to be a pivotal year in the history of Aurizon. It is the Company's 150th year in operation – a monumental milestone and a reminder of the incredible heritage and capability that lies within Aurizon. The Company's predecessors over the past 150 years could not have imagined the scale of our transformation and growth journey over the past four years. However, while we are proud of our history we are squarely focused on the job ahead of us in transforming Aurizon into one of the world's great railroads.

FY2015 is also the year the Company is focused on achieving the 75 % OR target. Our efforts to drive down costs and increase productivity will not slow or stop at this achievement. Management has laid out the roadmap for achieving the next level of business improvement. Our leaders are building a business for 2025 and beyond by embedding a culture which will underpin a long term sustainable future for Aurizon.

From a macro perspective, we will continue to face challenges associated with weaker economic conditions and more moderate demand for Australian resources. However the Company maintains its confidence in the medium to long term global demand for Australian resources, particularly coal and increasingly iron ore.

At the Company level we will be focused on progressing Aurizon's transformational journey with the same sense of urgency and commitment displayed since our privatisation in 2010. Key challenges for the coming year will be to finalise the Access Undertaking (**UT4**) with the Queensland Competition Authority, our customers and other industry stakeholders, as well as reaching a resolution on new Enterprise Agreements for Queensland-based employees.

Acknowledgements

On behalf of the Board I thank all of Aurizon's employees for their hard work and enthusiasm towards achieving the Company's goals in FY2014. Widespread reform is never an easy task but under capable leadership Aurizon's transformation has continued with great clarity and precision.

We are also grateful to the ongoing support of our shareholders, customers, government and community stakeholders.

I look forward to welcoming you at the Company's AGM on 12 November 2014 in Perth.

John B Prescott AC
Chairman

Directors' Report

Aurizon Holdings Limited
For the year ended 30 June 2014

The Directors of Aurizon Holdings present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively "the Consolidated Entity" or "the Group") for the financial year ended 30 June 2014 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

Board of Directors

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

J B Prescott AC
(appointed 14 September 2010) (Chairman, Independent Non-Executive Director)

L E Hockridge
(appointed 14 September 2010) (Managing Director & CEO)

J Atkin
(appointed 14 September 2010) (Independent Non-Executive Director)

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

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

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

G T John AO
(appointed 14 September 2010) (Independent Non-Executive Director)

A J P Staines
(appointed 14 September 2010) (Independent Non-Executive Director)

G T Tilbrook
(appointed 14 September 2010) (Independent Non-Executive Director)

P Zito
(appointed 1 December 2013) (Independent Non-Executive Director)

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

J B Prescott AC

Experience: Mr Prescott has substantial experience in the mining, manufacturing, transport and government sectors. He was a long-term executive of The Broken Hill Proprietary Company Limited (now BHP Billiton Limited), serving 10 years as an Executive Director and seven years as Managing Director and Chief Executive Officer (1991–1998). He was also Chairman of ASC (formerly Australian Submarine Corporation Pty Ltd) (2000–2009) and a Director of Newmont Mining Corporation (2002–2013).

Mr Prescott has been a Global Counsellor of The Conference Board since 2001, a member of the Global Advisory Council since 2013 and a member of the Commonwealth Remuneration Tribunal since 2010. Other Directorships and consulting/advisory positions have included Conference Board USA, World Economic Forum, Booz Allen and Hamilton, J.P. Morgan Chase & Co, Proudfoot Consulting and Asia Pacific Advisory Committee of New York Stock Exchange.

Qualifications: BCom (Indus Rel), HonDsc, HonLLD, FAICD, FAIM, FTSE

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

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

L E Hockridge

Experience: Mr Hockridge became Managing Director & CEO (**MD & CEO**) of Aurizon Holdings in July 2010. He has guided Aurizon's transition to a top 50 ASX company after 145 years as a government owned railway.

From 2007 until 2010, Mr Hockridge was CEO of QR Limited which was split to form Aurizon Holdings and the passenger-focused Queensland Rail that remained in government ownership. Mr Hockridge has more than 30 years' experience in the transportation and heavy industrial sectors in Australia and the United States with BHP Billiton and BlueScope Steel. At BHP Billiton Limited, Mr Hockridge was a member of the leadership team that led BlueScope Steel's successful demerger from BHP and subsequent listing on the ASX. In 2005, Mr Hockridge was appointed President of BlueScope Steel's North American operations where he led a major turnaround in safety, production and financial performance.

Mr Hockridge is a member of the Business Council of Australia's Efficient Regulation policy committee and a regular participant in industry forums on transport infrastructure and reform.

Mr Hockridge has been appointed to Q20, the business leaders group promoting Queensland investment as part of the G20 Summit in Brisbane in November 2014.

Qualifications: FCILT, FAIM, MAICD

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

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

J Atkin

Experience: Mr Atkin has more than 30 years' experience in financial services and the legal profession in Australia and internationally. Mr Atkin is a Director of The Australian Outward Bound Foundation and a member of the Board of the State Library of NSW Foundation. Previously, Mr Atkin was Chief Executive Officer of The Trust Company Limited (2009–2013), was Managing Partner of Blake Dawson (2002–2008) and a Corporate and Mergers & Acquisitions partner at Mallesons Stephen Jaques (1987–2002).

Qualifications: BA (Hons), LLB (Hons), FAICD

Special Responsibilities: Chairman and Non-Executive Director of Aurizon Network Pty Ltd. Member of Remuneration, Nomination & Succession Committee.

Australian Listed Company Directorships held in the past three years: The Trust Company Limited – CEO and Executive Director (19 January 2009 –15 April 2013).

R Caplan

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

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

Qualifications: LLB, FAICD, FAIM

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

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

J D Cooper

Experience: Mr Cooper has more than 35 years' experience in the construction and engineering sector in Australia and overseas. Currently, Mr Cooper is Chairman and Non-Executive Director of Southern Cross Electrical Engineering Limited and also holds Non-Executive Directorships with NRW Holdings Limited.

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

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

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

Australian Listed Company Directorships held in the past three years: Southern Cross Electrical Engineering Limited – Chairman and Non-Executive Limited (24 August 2006 – 31 January 2010). Director commenced – 30 October 2007 (ongoing), Flinders Mines Limited – Non-Executive Director (13 September 2010 – 18 December 2012), NRW Holdings Limited – Non-Executive Director commenced – 29 March 2011 (ongoing), Neptune Marine Services Ltd – Non-Executive Director (4 April 2012 – 25 June 2013), Clough Limited (24 August 2006 – 31 January 2010).

G T John AO

Experience: Mr John has 30 years management experience in the transport operations sector including 16 years as Managing Director of Australia Post. He was also a Senior Executive of TNT Australia Ltd.

Mr John is a Director of Seven West Media Ltd. Mr John is former commissioner of the Australian Football League and board member of Racing Victoria.

His previous roles include Chairman of Australian Air Express, Chairman of Star Track Express, Chairman of the Kahala Posts Group, Director of the International Post Corporation (Netherlands), Vice Chairman of Sai-Cheng Logistics International (China) and a trustee of the Committee for Melbourne and the MCG. He has received the Australian Sports Medal and Centenary Medal.

Qualifications: FCILT, MAICD

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

Australian Listed Company Directorships held in the past three years: Seven West Media Ltd Non-Executive Director Commenced – 3 December 2008 (ongoing).

K L Field

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

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

Qualifications: B Econ, FAICD

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

Australian Listed Company Directorships held in the past three years: Sipa Resources Limited – Independent Non-Executive Director commenced – 16 September 2004 (ongoing), MACA Limited (27 May 2011 – 1 May 2012), Perilya Limited (16 August 2007 – 5 February 2009).

A J P Staines

Experience: Ms Staines has extensive corporate, financial and commercial and advisory experience in governance, strategy and risk management. Ms Staines is a Director of Goodstart Early Learning and the NSW Transport Advisory Board.

Former Directorships include the Australian Rail Track Corporation, Gladstone Ports Corporation, North Queensland Airports, Allconnex Water and Early Learning Services (now G8). Ms Staines is a former Chief Executive Officer of Australian Airlines, a Qantas subsidiary she co-launched in 2002 as a member of the carrier's 12-person senior team. Ms Staines has previously held various financial, strategy and economic roles at Qantas. Prior to this, Ms Staines held various financial roles at American Airlines' headquarters in Dallas. Ms Staines is a Member of CEW (Chief Executive Women).

Qualifications: BEcon, MBA, FAICD

Special Responsibilities: Member of Audit, Governance & Risk Management Committee. Member of Remuneration, Nomination & Succession Committee.

Australian Listed Company Directorships held in the past three years: G8 Education Limited (12 May 2009 – 27 May 2010).

G T Tilbrook

Experience: Mr Tilbrook has broad experience in corporate strategy, investment and finance. He joined Wesfarmers in 1985 and was an Executive Director from 2002 to 2009.

Between 2000 and 2006, when Wesfarmers was a joint owner of the Australian Railroad Group (ARG), he was a Director of ARG and Chairman of Westnet Rail. Mr Tilbrook is a Director of Fletcher Building, GPT Group, Orica Limited and the Bell Shakespeare Company. He is also a Councillor of Curtin University and the Australian Institute of Company Directors WA.

Qualifications: BSc, MBA, FAICD

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

Australian Listed Company Directorships held in the past three years: Orica Limited – Non-Executive Director commenced – 14 August 2013 (ongoing), GPT Group Limited – Non-Executive Director commenced – 11 May 2010 (ongoing), Fletcher Building Limited – Non-Executive Director commenced – 1 September 2009 (ongoing), Transpacific Industries Group Ltd – Non-Executive Chairman (3 September 2009 – 1 March 2013).

Directors' Report (continued)

P Zito

Experience: Mr Zito has extensive finance and operational experience both domestically and internationally, including as Finance Director for Australia and Europe, then President of European and Global operations with the Pilkington Group. He joined the Board of Pilkington Plc in 2002. He became President an Executive Director and President Global Automotive for Nippon Sheet Glass Co following its acquisition of Pilkington in 2007; and from 2007–2013 was a Non-Executive Director of global technology company, Invensys plc.

Qualifications: Diploma of Business Studies (Accounting). Fellow Australian Society of Accountants. Special Responsibilities: Non-Executive Director of Aurizon Network Pty Ltd. Member of Audit, Governance and Risk Management Committee.

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

Company Secretary

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

Mr Smith has over 20 years ASX listed company secretariat, governance, corporate legal and senior management experience across a range of industries. Mr Smith holds a Masters of Laws degree from the University of Sydney and is a Fellow of both the Governance Institute of Australia and the Australian Institute of Company Directors.

Qualifications: BA, LLB, LLM, DipLegS, FGIA, FCIS, FAICD

Principal activities

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

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

Coal

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

Iron ore

Transport of iron ore from mines in Western Australia to ports.

Freight

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

Network

Provision of access to, operation and management of, the Central Queensland Coal Network (**CQCN**).

Review of operations

A review of the Group's operations for the financial year and the results of those operations, are contained in the Operating and Financial Review as set out on pages 9 to 26 of this report.

Dividends

A 90% franked final dividend of 8.2 cents per fully paid ordinary share was paid on 23 September 2013 and an 80% franked interim dividend of 8.0 cents per fully paid ordinary share was paid on 28 March 2014. Further details of dividends provided for or paid are set out in Note 26 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 8.5 cents per fully paid ordinary share. The dividend will be unfranked and is payable on 22 September 2014.

State of affairs

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

Events since the end of the financial year

Other than those disclosures on page 100 of the Annual Report, the Directors are not aware of any events or developments which are not set out in this report that have, or would have, a significant effect on the Group's state of affairs, its operations or its expected results in future years.

Likely developments

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

Environmental regulation and performance

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

The *National Greenhouse and Energy Reporting Act 2007* (**NGER**) (Cth) requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the NGER Act. Further details of the Company's environmental management are set out on page 53 of this Annual Report.

Environmental prosecutions

There have been no environmental prosecutions during this financial year.

Risk management

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

The Audit, Governance & Risk Management Committee oversees the process for identification and management of risk in the Company (see page 58 of this Annual Report). The Company's Risk Management Division is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the MD & CEO and the Board.

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

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

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

Directors' meetings

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

During the year, the Aurizon Network Pty Ltd Board met on seven occasions. Apologies were recorded for two meetings only with Mr Carter and Mr Kummant (Director of Aurizon Network Pty Ltd effective 1 December 2013), unable to attend one meeting each.

Directors' interests

Directors' interests are as at 30 June 2014.

Only Mr Hockridge, the MD & CEO, receives performance rights and these details are set out in Section 7.0 of the Remuneration Report.

TABLE 1 – DIRECTORS' MEETINGS

DIRECTOR	AURIZON HOLDINGS		AUDIT, GOVERNANCE & RISK MANAGEMENT		REMUNERATION, NOMINATION & SUCCESSION		SAFETY, HEALTH & ENVIRONMENT	
	A	B	A	B	A	B	A	B
J B Prescott AC	17[1]	17	-	-	6	6	4	4
L E Hockridge	17[1]	17	-	-	-	-	4	4
J Atkin	17	17	-	-	6	6	-	-
R R Caplan	17	16	8	7	6	5	-	-
J D Cooper	17	17	-	-	-	-	4	4
K L Field	17	17	8	8	-	-	4	4
G T John AO	17	15	-	-	-	-	4	4
A J P Staines	17	16	8	8	6	6	-	-
G T Tilbrook	17	17	8	8	6	6	-	-
P Zito[2]	9	8	4	4	-	-	-	-

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

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

1 In addition to the meetings above, a Committee of the Board comprising of Mr J B Prescott and Mr L E Hockridge met on two occasions.

2 Mr P Zito was appointed Non-Executive Director of Aurizon Holdings Limited effective 1 December 2013 and Director of Aurizon Network Pty Ltd on 22 January 2014

TABLE 2 – DIRECTORS' INTERESTS AS AT 30 JUNE 2014

DIRECTOR	NUMBER OF ORDINARY SHARES	DIRECTOR	NUMBER OF ORDINARY SHARES
J B Prescott AC	220,981	A J P Staines	14,223
L E Hockridge	1,196,586	G T Tilbrook	49,112
J Atkin	35,072	K L Field	14,245
R R Caplan	82,132	J D Cooper	40,000
G T John AO	57,132	P Zito	Nil

Directors' Report (continued)

Non-audit services

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

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

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

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

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

	2014 $'000
OTHER ASSURANCE SERVICES	
PwC Australian firm:	
Audit of regulatory returns	Nil
Other assurance services	481
Total remuneration for other assurance services	**481**
TAXATION SERVICES	
PwC Australian firm:	
Tax compliance services	79
Total remuneration for taxation services	**79**
OTHER SERVICES	
PwC Australian firm:	
Advisory services	242
Total remuneration for other services	**242**

CEO and CFO declaration

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

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

Indemnification and insurance of officers

The Company's Constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other Executive Officers, against liabilities incurred whilst acting as such officers to the extent permitted by law. The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

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

Proceedings against the Company

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

Remuneration Report

The Remuneration Report is set out on pages 27 to 48 and forms part of the Directors' Report for the financial year ended 30 June 2014.

Rounding of amounts

The Group is within the class specified in ASIC Class Order 98/100 dated 10 July 1998 relating to the "rounding off" of amounts in the Directors' Report and the Financial Report. Amounts in the Directors' Report have been rounded to the nearest million dollars and amounts in the Financial Report have been rounded off to the nearest hundred thousand dollars in accordance with ASIC Class Order 98/100, except where stated otherwise.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Corporations Act, is set out on page 49. The Directors' Report is made in accordance with a resolution of the Directors of the Company.

John B Prescott AC
Chairman
18 August 2014

Directors' Report (continued)
Operating and Financial Review

CONSOLIDATED RESULTS

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measures. The non-IFRS financial information contained within this Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin – underlying, Operating Ratio – underlying, Return on Invested Capital **(ROIC)**, Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 104.

1. Annual Comparison

Financial Summary

($m)		FY2014	FY2013	VARIANCE %
Total Revenue		**3,832**	3,766	2 %
EBITDA	- Statutory	**965**	1,182	(18 %)
	- Underlying[1]	**1,351**	1,251	8 %
EBIT	- Statutory	**465**	685	(32 %)
	- Underlying[1]	**851**	754	13 %
Net finance costs		**(112)**	(103)	(9 %)
Income tax expense	- Underlying	**(216)**	(164)	(32 %)
NPAT	- Statutory	**253**	447	(43 %)
	- Underlying[1]	**523**	487	7 %
Earnings Per Share (cps)[2]	- Statutory	**11.8**	19.8	(40 %)
	- Underlying[1]	**24.5**	21.6	13 %
Final Dividend per share (cps)		**8.5**	8.2	4 %
ROIC[3]		**8.8%**	8.0 %	0.8ppt
Operating Ratio	- Underlying	**77.7%**	79.8 %	2.1ppt
Net operating cash flow		**1,068**	906	18 %
Gearing (net debt / net debt + equity)		**28.4%**	26.7 %	(1.7ppt)
Net tangible assets per share ($)		**3.0**	3.0	-

Other Operating Metrics

	FY2014	FY2013	VARIANCE %
Revenue / NTK ($/'000NTK)	**51.7**	55.8	(7 %)
Labour Costs / Revenue	**27.1%**	29.0 %	1.9ppt
NTK / employee (FTE) (MNTK)	**9.8**	8.5	15 %
Opex / NTK ($/'000 NTK)	**40.2**	44.5	10 %
NTK (bn)	**73.9**	67.0	10 %
Tonnes (m)	**286.6**	267.7	7 %

Underlying EBIT by Segment

	FY2014	FY2013	VARIANCE %
Network	**412**	417	(1 %)
Coal	**400**	320	25 %
Iron Ore	**103**	97	6 %
Freight	**34**	23	48 %
Unallocated[4,5]	**(98)**	(103)	5 %
Group	**851**	**754**	**13%**

1 Refer to page 11 for a reconciliation between statutory and underlying earnings
2 Earnings Per Share calculated on weighted average number of shares on issue of 2,137m in FY2014 (2,257m in FY2013)
3 ROIC is defined as last 12 months underlying EBIT divided by average net working capital plus net PP&E plus AUC plus gross intangible assets
4 Items of revenue and expense of a corporate nature and other operations within the Group including provision of overhaul and maintenance services to external customers
5 Note that some of the numbers in the operating and financial review may not match the financial statements due to rounding

Directors' Report (continued)
Operating and Financial Review

Variance Analysis – Annual

Statutory EBIT decreased 32 % to $465m, primarily due to $386m of significant items. Significant items included $317m of asset impairments and $69m of costs related to the Voluntary Redundancy Program (**VRP**). The asset impairments were related to transformation ($190m) and other matters ($127m) as announced on 25 June 2014 with the major item being $170m for rollingstock based on fleet efficiencies generated by the Integrated Operating Plan (**IOP**). The VRP costs reflected 410 employees that have accepted a voluntary redundancy plus a provision for additional employees impacted by the progressive closure of the Redbank and Townsville rollingstock maintenance operations in FY2015 and FY2016 as previously announced 8 May 2014.

Underlying EBIT increased 13 % to $851m due to stronger volumes, the continuing ramp up in contracted GAPE tonnes and transformation benefits more than offsetting lower Network regulated access revenue (excluding GAPE) that was capped under the transitional tariff arrangements. The Company realised sustainable transformation benefits of $129m during the year.

Coal volumes grew 9 % driven by higher customer demand in both Queensland and the Hunter Valley despite the closure of Peabody's Wilkie Creek mine in December 2013 and the end of Rio Tinto's Hail Creek contract in October 2013. Iron Ore volumes increased 21 % to reach full contractual capacity, while Freight volumes declined 6 % with higher Intermodal volumes (growth of 17 %) more than offset by declining Bulk volumes (decrease of 9 %).

Network regulated access revenue for the CQCN was determined in accordance with the transitional tariff arrangement as negotiated with customers which resulted in $60m reduction in regulated access revenues from FY2013 to FY2014. Regulated access revenues for the CQCN for FY2014 will be adjusted to reflect the outcome of UT4 when the final decision is made, expected by June 2015.

Additional information on the 13 % increase in underlying EBIT to $851m is below:

- A net increase of $109m from volume growth and new business in Intermodal (net of access and fuel):
  - $98m increase in the GAPE revenue due to the ramp up in contracted tonnes
  - $37m increase in Intermodal due to volume growth from new customers
  - $17m increase in Iron Ore revenue due to increased volumes
  - $10m increase in Coal revenue due to growth with an additional 16.7mt railed
  - $53m decrease in Bulk Freight revenue due to a 9 % reduction in volumes
- A net increase of $81m in revenue quality as follows:
  - $98m benefit from Coal including incentives for achieving performance targets
  - $4m benefit from Iron Ore
  - $21m decrease in Freight from lower payments for the Transport Services Contract (**TSC**) in Queensland
- Net impact of Network transitional tariffs of $85m as follows:
  - $60m decrease in access revenues (excludes GAPE) due to capped revenue agreed under the transitional tariff arrangements
  - $25m increase in maintenance costs reflecting impact of the higher volumes
- A benefit of $129m from transformation initiatives (refer to Section 4 for additional detail on transformation initiatives):
  - $96m from Operations including labour, fleet productivity, fuel and safety
  - $33m from centralised support areas including labour, professional services, lease costs and travel
- One off costs to deliver the transformation costs above (excluding VRP) of $18m
- A net increase in operating and other expenses of $119m to support the incremental volume growth including:
  - $39m of additional costs relating to Iron Ore, Coal and Intermodal volume growth (excluding fuel and access charges) with Intermodal also reflecting additional start-up costs for delivering new contracts
  - $20m from the increase in the fuel price
  - $19m additional non-cash costs associated with adjusting leave provisions to reflect the year end discount rate and land rehabilitation provisions in accordance with accounting standards
  - $17m increase in employee benefits due to escalation and increases in average rates
  - $12m increase in centralised strategic project costs
  - $11m increase in operating costs (excluding fuel and access) due to price escalation

Reconciliation to Statutory Earnings

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

($m)	2HFY2014	1HFY2014	FY2014	FY2013
Underlying EBIT	428	423	**851**	754
Significant Items:				
Voluntary Redundancy Program[1]	(44)	(25)	**(69)**	(96)
Stamp Duty[2]	-	-	**-**	27
Transformation related asset impairments	(43)	(147)	**(190)**	-
Other impairments	(77)	(50)	**(127)**	-
Statutory EBIT	264	201	**465**	685
Net Finance Costs	(59)	(53)	**(112)**	(103)
Statutory PBT	205	148	**353**	582
Taxation Expense	(59)	(41)	**(100)**	(135)
Statutory NPAT	146	107	**253**	447

1 The 2014 VRP resulted in 410 employees accepting the offer at a cost of $37m. In addition, a further $32m in costs associated with expected redundancies for the progressive closures of Redbank and Townsville as announced 8 May 2014 has also been recognised. In FY2013, 960 employees accepted the offer at a cost of $96m

2 Stamp duty paid in 2006 in relation to acquisition of Australian Railroad Group, recovered in FY2013 on successful appeal to Supreme Court of WA

Summary of asset impairments

Transformation related asset impairments of $190m refers to the following:

- Rollingstock ($170m) – the IOP identified 200 locomotives and almost 2,800 wagons that were surplus to Aurizon's needs. It is anticipated that there will be a sustainable annual benefit of ~$20m through reduced maintenance and depreciation spend over the next 5 years
- Non-core Freight assets ($20m) – a year-end review was undertaken on the carrying value of cash generating units with certain non-core Freight assets impaired

Other impairments of $127m refers to the following:

- Strategic projects ($73m) – includes costs previously capitalised for Abbot Point T4 expansion (now progressing with GVK Hancock on their Galilee corridor and T3 proposal), East Pilbara Independent Railway (less probable given progress on West Pilbara Infrastructure Project) and the Surat Basin Rail JV (termination of the JV in February 2014)
- Assets under construction ($54m) – includes costs previously capitalised for Dudgeon Point Coal Terminal Expansions and the Wiggins Island Rail Project Stage 2. These projects are now considered longer-term based on expected customer demand

Directors' Report (continued)
Operating and Financial Review

2. Other Financial Information

Cash Flow Summary

($m)	FY2014	FY2013
Statutory EBITDA	**965**	1,182
Working capital and other movement	**341**	(133)
Cash from operations	**1,306**	1,049
Net finance costs	**(114)**	(112)
Income taxes paid	**(124)**	(31)
Net cash inflow from operating activities	**1,068**	906
Cash flows from investing activities		
Proceeds from sale of PP&E	**37**	49
Payments for PP&E & intangibles	**(870)**	(944)
Net (payments for) / distributions from investment in associates	**3**	4
Net cash (outflow) from investing activities	**(830)**	(891)
Cash flows from financing activities		
Net proceeds from borrowings	**342**	1,306
Payment for share buy-back and share based payments	**(24)**	(1,112)
Dividends paid to Company shareholders	**(346)**	(200)
Net cash (outflow) / inflow from financing activities	**(28)**	(6)
Net increase / (decrease) in cash	**210**	9

Cash Flow Movements – Annual

Net cash inflow from operating activities increased 18 % from $906m to $1,068m largely due to:

- Growth in cash from operations of $257m or 24 % (from $1,049m to $1,306m)
  - Working capital and other inflow of $341m mainly due to the increase in trade payables relating to the over collection of Network access tariffs due to the fixed transitional tariffs, the non-cash impairments and the timing of payroll accruals. The over-collection of Network access tariffs of $70m will be returned to customers in 1HFY2015
  - Partly offset by decrease in statutory EBITDA from $1,182m to $965m due to an increase in underlying adjustments in respect of impairments to rollingstock and strategic projects as announced on 25 June 2014 ($317m) and VRP costs ($69m) more than offsetting a $100m increase in underlying EBITDA. The impairments are non-cash
- Partly offset by increase in income tax paid to $124m reflecting the increase in taxable profits

Net cash outflow from investing activities decreased from $891m to $830m, largely due to:

- A decrease in capital expenditure of $74m to $870m due to deferred spend in Network (timetable for Wiggins Island has been aligned to the delay in the Port) and Iron Ore (completion of growth projects in FY2013)

Net cash outflow from financing activities has increased from $6m to $28m, largely due to:

- Increase in dividend payments to $346m reflecting an increased dividend payout ratio and $24m in share-based payments
- Partly offset by net borrowing proceeds of $342m principally to fund Network's capital expenditure program and the acquisition of Aquila with Baosteel

Balance Sheet Summary

($m)	30 JUNE 2014	30 JUNE 2013
Total current assets	**1,336**	933
Property, plant & equipment	**9,441**	9,460
Other non-current assets	**172**	126
Total Assets	**10,949**	10,519
Other current liabilities	**(853)**	(782)
Total borrowings	**(2,841)**	(2,479)
Other non-current liabilities	**(882)**	(762)
Total Liabilities	**(4,576)**	(4,023)
Net Assets	**6,373**	6,496
Gearing (net debt / net debt plus equity)	**28.4%**	26.7 %

Balance Sheet Movements – 30 June 2014 vs 30 June 2013

Total current assets have increased by $403m largely due to:

- Increase in cash and cash equivalents of $210m to fund Aurizon's portion of the acquisition of Aquila completed in July 2014
- Increase in assets classified as held for sale of $88m reflecting certain non-core operations and other assets that are intended to be sold in the near future
- Increase in trade receivables of $24m principally reflecting year end billing of Network Take or Pay and Coal incentives

Total other non-current assets have increased due to the increase in intangible assets of $38m relating to acquisition of computer software.

Other current liabilities have increased $71m largely due to:

- Increase in trade and other payables of $140m principally relating to over-collection of Network transitional tariffs ($70m) and timing of payroll accruals ($21m)
- Partly offset by a reduction in current tax liabilities of $68m

Total borrowings have increased $362m to fund Network's capital expenditure program and the acquisition of Aquila with Baosteel.

Other non-current liabilities have increased $120m principally due to an increase in deferred tax liabilities of $84m.

Dividend

The Board has declared a final dividend of 8.5cps which was based on:

- Payout ratio of 70 % (applied to underlying NPAT, excluding significant items) compared to 65 % for the interim FY2014 dividend (underlying NPAT) and final FY2013 dividend (on statutory NPAT)
- The final dividend is unfranked, due principally to the impact on cash tax payable of the impairments. We anticipate being in a tax payable position during FY2015 and expect full franking of the final FY2015 dividend

The relevant final dividend dates are:

- 28 August – ex dividend date
- 2 September – record date
- 22 September – payment date

Funding

Group gearing increased from 26.7 % to 28.4 % due to higher debt levels. Credit ratings remain unchanged at BBB+/Baa1.

Interest cost on drawn debt reduced to 4.8 % for FY2014 from 5.1 % in FY2013 due to reduced margins following the refinancing in FY2013.

Aurizon further diversified funding sources with a debut issuance in the domestic capital markets in FY2014. Aurizon Network issued a 7 year $525 MTN in October 2013 with coupon of 5.75 % per annum. The proceeds were used to repay existing bank debt maturing in 2015.

The debt maturity profile is stable with an average tenor of 3.5 years (3.6 years in FY2013).

The Company is expecting to refinance its $1.5bn debt tranche (due June 2016) in FY2015.

Liquidity as at 30 June 2014 was $0.94bn (undrawn facility and cash).

Tax

Income tax expense for FY2014 was $100m, representing an effective tax rate of 28.5 %. The cash tax rate for FY2014 was 3.4 %, significantly below 30 % due to the following:

- tax effect of asset impairments of $317m as announced during the year
- an adjustment to the tax depreciation charge for prior years due to a recent Government announcement to not proceed with a proposed measure relating to the interaction between the tax consolidation rules and the tax depreciation rules
- items being deductible for tax purposes that have been capitalised on the balance sheet

The effective tax rate for FY2015 is expected to be in the range of 28-30 % and the cash tax rate is expected to be in the range of 15-20 %.

Directors' Report (continued)
Operating and Financial Review

3. Half Year Comparison

Financial Summary

($m)		2HFY2014	1HFY2014	VARIANCE %
Total Revenue		1,867	1,965	(5 %)
EBITDA	- Statutory	513	452	13 %
	- Underlying	677	674	-
EBIT	- Statutory	264	201	31 %
	- Underlying	428	423	1 %
Net finance costs		(59)	(53)	(11 %)
Income tax expense	- Underlying	(109)	(107)	(2 %)
NPAT	- Statutory	146	107	36 %
	- Underlying	260	263	(1 %)
Earnings Per Share (cps)	- Statutory	6.8	5.0	36 %
	- Underlying	12.2	12.3	(1 %)
Final / Interim Dividend per share (cps)		8.5	8.0	6 %
ROIC		8.8 %	8.6 %	0.2ppt
Operating Ratio	- Underlying	77.0 %	78.4 %	1.4ppt
Net operating cash flow		547	521	5 %
Gearing (net debt / net debt + equity)		28.4 %	27.9 %	(0.5ppt)

Other Operating Metrics

	2HFY2014	1HFY2014	VARIANCE %
Revenue / NTK ($/000NTK)	52.2	51.3	2 %
Labour Costs / Revenue	27.2 %	26.9 %	(0.3ppt)
NTK / employee (MNTK)	9.5	10.1	(6 %)
Opex / NTK ($/000 NTK)	40.2	40.2	-
NTK (bn)	35.7	38.2	(7 %)
Tonnes (m)	137.2	149.4	(8 %)

Underlying EBIT by Segment

	2HFY2014	1HFY2014	VARIANCE %
Network	195	217	(10 %)
Coal	213	187	14 %
Iron Ore	53	50	6 %
Freight	14	20	(30 %)
Unallocated	(47)	(51)	8 %
Group	**428**	**423**	**1%**

Variance Analysis – Half on Half

Underlying EBIT increased $5m or 1 % to $428m due to:

> A net decrease of $54m from lower volumes which decreased 8 %:
  - $43m decrease in Freight revenues due to volume declines, net of access and fuel, with decreases in both Bulk and Intermodal revenues
  - $20m decrease in coal revenue due to volume declines, net of access and fuel
  - $8m decrease in Iron Ore revenue due to volume declines, net of access and fuel
  - Partly offset by a $17m increase in GAPE revenue due to the ramp up in contracted tonnes

> A net increase of $30m in revenue quality principally due to:
  - $29m benefit from Coal revenue quality from improved rates including net incentives

> Net impact of Network transitional tariffs of $46m as follows:
  - $46m decrease in regulated access revenue (excluding GAPE) due to the assumption that a greater portion of tonnes would be railed in 1HFY2014 versus what actually happened for the year. Maintenance costs were constant from 1HFY2014 to 2HFY2014 so there is no further impact

> A benefit of $58m from transformation initiatives. Refer to Section 4 for additional detail on transformation initiatives with a summary provided below:
  - $22m in centralised support principally from lower labour costs of $13m and professional services of $9m
  - $36m in operations principally from lower labour costs of $13m, fleet productivity of $19m, fuel productivity of $2m and a $2m improvement in safety performance

> One off costs to deliver the transformation costs above (excluding VRP) of $11m

> A net decrease in operating and other expenses of $27m:
  - $10m due to the receipt of an outstanding invoice, previously written off as non-recoverable from a Freight customer
  - $9m decrease in electric traction costs for Network due to decrease in electric volumes
  - The balance representing other volume related costs (other than fuel and access) which decreased due to the lower volumes, more than offsetting cost and labour escalation

4. Operating Ratio Update

Aurizon remains on target to achieve a 75 % OR (25 % EBIT margin) in respect of FY2015. The underlying OR for FY2014 was 77.7 %, a 2.1ppts improvement from FY2013. The OR for 2HFY2014 was 77.0 %.

A key component of achieving the 75 % OR is the delivery of $230m+ of sustainable cost out and productivity improvements by FY2015, as announced in July 2013, with Operations delivering $130m and centralised support areas delivering $100m. Aurizon can report that the total amount delivered in FY2014 was $129m, comprised as follows:

> Operations $96m

> Centralised support costs $33m

The net costs to deliver the transformation benefits of $129m was $55m, comprised of $37m for VRP and $18m for non-VRP initiatives. A further $32m of VRP cost has been included in FY2014 to account for expected redundancies associated with the progressive closure of the Redbank and Townsville workshops during FY2015 and FY2016 as announced during the year. The non-VRP costs of $18m reflect specific costs associated with identifying and implementing key initiatives identified below, principally in the centralised support areas.

Due to the potential impact to FY2015 earnings from industrial action, a failure to reach a satisfactory outcome on UT4 in FY2015 and/or a materially worse wet season than FY2014, Aurizon has increased its cost reduction and productivity improvements target to a range of $250m–$300m, in order to achieve the 75 % OR target.

Below is further detail behind the key initiatives for FY2014:

Operations – $96m

> $42m reduction in labour costs – due to a 6 % reduction in average FTEs driven primarily by footplate hours, removal of deployment inefficiencies, holding natural attrition levels, progressive depot consolidation for maintenance and Intermodal, commencing workshop labour reform and corridor IOP initiatives (e.g. North West corridor)

> $29m in fleet productivity – IOP and improved operational practices have resulted in a reduction in active fleet requirements with savings in depreciation and maintenance

> $13m in fuel efficiency – due to a 5 % improvement in fuel consumption rates driven by improvements in gross train weights, rationalisation of older, less fuel efficient fleet and enablement of fuel technology solutions

> $12m in safety performance – lower casualty costs due to a significant reduction in major derailments from improved safety performance

In addition to the transformation cost reductions identified of $96m, Operations has also delivered an opportunity cost saving of $50m through the delivery of increased volumes on a flat cost base. These costs would have otherwise been incurred due to the record above rail volumes Aurizon has railed, if not for significant improvements in turn-around-time (**TAT**), payloads and pathing availability. In the Blackwater system alone, TAT improved 15 % and average payloads increased by 4 %, allowing a 23 % increase in volume to be delivered on the same asset and cost base. If the Blackwater system operated at FY2013 operating parameters without transformation, it would have required approximately 100 more FTEs and 6 additional consists to deliver the 23 % increase in volumes, an opportunity cost saving of $34m.

Centralised support costs – $33m

> $15m reduction in labour costs associated with a net reduction of FTEs

> $11m reduction in professional services and other discretionary spend

> $7m reduction in other costs including rationalisation of the property portfolio and improved procurement practices

Directors' Report (continued)

Operating and Financial Review

SEGMENT REVIEW

Network

Aurizon Network operates the 2,670km CQCN. The open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple customers from more than 50 mines to four ports. The CQCN includes four major coal systems the Moura, Blackwater, Goonyella and Newlands.

Network Financial Summary

($m)	FY2014	FY2013	VARIANCE %
Total Revenue	**1,012**	980	3 %
- Access	**951**	921	3 %
- Services	**17**	26	(35 %)
- Other	**44**	33	33 %
Operating Costs	**(402)**	(375)	(7 %)
EBITDA	**610**	605	1 %
EBITDA margin	**60.3%**	61.7 %	(1.4ppt)
Depreciation and amortisation expense	**(198)**	(188)	(5 %)
Underlying EBIT	**412**	417	(1 %)
Underlying Operating Ratio	**59.3%**	57.4 %	(1.9ppt)

($m)	2HFY2014	1HFY2014	VARIANCE %
Total Revenue	491	521	(6 %)
- Access	461	490	(6 %)
- Services	9	8	13 %
- Other	21	23	(9 %)
Operating Costs	(196)	(206)	5 %
EBITDA	295	315	(6 %)
EBITDA Margin	60.1 %	60.5 %	(0.4ppt)
Depreciation and amortisation expense	(100)	(98)	(2 %)
Underlying EBIT	195	217	(10 %)
Underlying Operating Ratio	60.3 %	58.3 %	(2.0ppt)

Network Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	VARIANCE %
Tonnes (m)	106.9	107.6	**214.5**	182.3	18 %
NTK (bn)	27.0	27.2	**54.2**	44.7	21 %
Access revenue / NTK ($/000 NTK)	17.1	18.0	**17.5**	20.6	(15 %)
Maintenance / NTK ($/000 NTK)	2.5	2.5	**2.5**	2.5	-
Opex / NTK ($000 NTK)	11.0	11.2	**11.1**	12.6	12 %

Network Performance Overview

The Network business delivered many performance records in FY2014, including record volumes over the CQCN of 214.5mt, an 18 % increase on FY2013. This was achieved whilst driving major improvements in safety performance and keeping the maintenance spend per NTK constant in nominal terms. Key operational achievements were:

- A significant enhancement in Network reliability, resulting in:
  - 33 % reduction in Network delays (measured as Below Rail minutes per train service) from 44mins in FY2013 to 29mins in FY2014
  - 47 % reduction in Network caused cancellations from 792 in FY2013 to 417 in FY2014
- 21 % increase in NTKs to 54.2bn
- A substantial capital program was delivered during the year with major progress achieved on the Wiggins Island, Hay Point and Rolleston expansion projects

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

Underlying EBIT decreased 1 % to $412m due to the fixed revenue nature of the transitional tariffs for the CQCN (ex GAPE) which was set at $739m inclusive of revenue cap. This resulted in Network not recognising all of the revenue associated with the 18 % volume growth, with $70m being classified as a provision at year-end, to be returned to customers as agreed in 1HFY2015. In addition, Network incurred additional maintenance costs of $25m to ensure performance levels were maintained in the strong volume environment, with no corresponding revenue recovery.

Offsetting the decrease in CQCN regulated revenues was the continued ramp-up of contracted GAPE tonnes which delivered a further $98m in revenue. The above, combined with an increase in depreciation of $10m resulted in a 1.9ppt increase (i.e. adverse movement) of the OR to 59.3 %. Transitional tariffs will again be in place for FY2015 until a final UT4 decision which is currently expected by June 2015.

Network Variance Analysis – Annual

The $5m decrease in underlying EBIT was due to:

- A net increase in revenue of $32m principally comprising:
  - $30m increase in regulated access revenue due to the ramp up in contracted GAPE volumes ($98m) more than offsetting the reduction in regulated access revenues ($68m) for the remainder of the CQCN due to the capped transitional tariffs as noted previously and inclusive of $8m of flood claim recovery in FY2013
- A net increase in operating costs of $27m principally comprising:
  - $7m increase in traction costs from an increase in tariffs and higher electric traffic (electric GTKs increasing 20 % from 48.9bn to 58.5bn)
  - A net $13m increase in maintenance activities. CQCN operational maintenance expenditure increased $25m as a result of increased volumes, partly offset by a reduction in non-recurrent maintenance costs of $9m relating to the floods maintenance works and a further $3m reduction in derailment and dewirement maintenance expenditure in FY2013
- A net increase in depreciation of $10m due to asset renewals, increased ballast renewal works and part commissioning of the Hay Point Expansion works

Network Variance Analysis – Half on Half

The $22m decrease in underlying EBIT was largely due to:

- A net decrease in revenue of $30m principally comprising:
  - $29m decrease in regulated access revenue despite a small reduction in volumes from 107.6mt to 106.9mt comprised of a decrease of $46m for fixed CQCN revenues (due to transitional tariff noted previously) partly offset by an increase of $17m for GAPE revenues. The forecast second half regulatory volumes were used to attribute the agreed FY2014 Transitional MAR of $739m between the first and second half of FY2014. This variance arose due to the second half volumes being much stronger than the second half regulatory volume forecast
- A net decrease in operating costs of $10m principally comprising:
  - $9m decrease in traction costs, as energy costs were aligned to revenue attribution between the first and second half of FY2014 as described above
- A net increase in depreciation of $2m mainly due to increased ballast renewal works, asset renewals and AFDs which were commissioned during the second half of the year

Directors' Report (continued)
Operating and Financial Review

Network Operations Update

(i) Access Undertaking 2013 (UT4)

- The next key regulatory milestone is the QCA issuing a draft revenue decision in September 2014
- A draft decision on all other pricing and policy aspects is to be published December 2014, based on the re-submitted UT4
- The final UT4 determination is currently expected to be finalised and take effect by June 2015

(ii) Transitional Tariff arrangements for FY2015

- In June 2014, a 'Transitional Tariffs' Draft Amending Access Undertaking (**DAAU**) was approved by the QCA to further extend UT3 to the earlier of 30 June 2015 and the QCA's final decision on UT4 and to apply transitional Reference Tariffs for FY2015
- The transitional Reference Tariffs recover a total Maximum Allowable Revenue (**MAR**) for FY2015 of $777m, inclusive of the FY2013 revenue cap (including interest) of circa $36m, but excluding Electric Charge (**EC**) and rebates, with forecast volumes of 193.7mt. Both the MAR and volumes are exclusive of the GAPE which operates under different contractual obligations

(iii) Standard User Funding Agreements (SUFA)

- The SUFA framework facilitates customers with an alternative mechanism to funding the expansion and growth of the CQCN. Where Aurizon Network chooses not to fund an expansion of the CQCN, SUFA enables a customer/s to directly fund the requisite expansion. SUFA further diversifies Aurizon Network's options for funding expansions to the CQCN
- The QCA issued a position paper in May 2014 highlighting its position regarding an effective SUFA outcome. The QCA is expected to issue a draft decision in September 2014 with a final decision expected in February 2015. The final decision will be encapsulated in the final UT4 agreement

(iv) Growth

Committed Project Status

Wiggins Island Rail Project (**WIRP**)

- WIRP is a project designed to link mines in the Southern Bowen Basin with the new Wiggins Island Coal Export Terminal (**WICET**) at the Port of Gladstone currently under construction and will increase the total capacity of the Moura and Blackwater systems by 27mtpa, or approximately 30%
- The rail works required for the first coal shipments will be commissioned progressively to align to the commencement of WICET's operations by the end of March 2015
- The WIRP fee (earnings above the regulated level) and ramp-up of regulated earnings are to commence in FY2016, with the total cost of the project estimated to be $858m (excluding capitalised interest)

Hay Point Terminal Expansion

- The expansion of the Goonyella system to support the Hay Point Port upgrade, adding a further 11mtpa of below rail capacity and lifting the Goonyella system capacity to 140mtpa, is nearing completion and under budget, at $121m
- The Wotonga Feeder Station was completed in June 2014 and is awaiting connection from Powerlink. This is expected before the completion of the Hay Point Coal Terminal expansion, with first shipment anticipated September 2015

Rolleston Electrification Project

- Construction of the electrification of the existing 107km Rolleston spur line commenced in July 2013 with completion and commissioning of the project to occur by December 2014, at a total cost estimated to be $163m

Other Project Status

Surat Basin Rail (**SBR**)

- The SBR Joint Venture was terminated in February 2014, with Aurizon Network through its subsidiary Aurizon Surat Basin Pty Ltd continuing to hold an interest in the intellectual property and other rights relating the terminated JV

Port of Hay Point Expansion (Dudgeon Point Coal Terminal (**DPCT**))

- On 20 June 2014, Northern Queensland Bulk Ports Corporation announced it was withdrawing its development proposal for the DPCT, noting the "current and short-term forecast market demand for coal does not support an expansion to the capacity proposed in the DPCT project"
- As a result, Aurizon Network has impaired its investment in the form of assets under construction for the Port of Hay Point Expansion project. It should be noted that these amounts being impaired are still underwritten by the regulatory revenue mechanism and that recovery will be sought through the normal regulatory process, notwithstanding the immediate accounting treatment

Wiggins Island Rail Project Stage 2 (**WIRP 2**)

- Aurizon Network has formed the view that the likelihood of Stage 2 proceeding in the short to medium term has materially diminished and as a result has impaired its investment in the form of assets under construction for the WIRP 2 project. The impairment excludes those components of the projects that have been specifically underwritten by customers. It should also be noted that these amounts being impaired are still underwritten by the regulatory revenue mechanism and that recovery will be sought through the normal regulatory process, notwithstanding the immediate accounting treatment

Coal

Aurizon's coal business is one of the world's largest rail transporters of coal from mine to port for export markets, hauling on average nearly 600,000 tonnes a day. Aurizon provides a critical link in Australia's six major coal chain systems for the majority of Australia's coal producers. Our coal transport operation links mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland and the Hunter Valley coal system in New South Wales, to domestic customers and coal export terminals.

Coal Financial Summary

($m)	FY2014	FY2013	VARIANCE %
Total Revenue	**1,864**	1,863	-
- Above Rail	**1,211**	1,079	12 %
- Below Rail[1]	**649**	776	(16 %)
- Other	**4**	8	(50 %)
Operating Costs[1]	**(1,291)**	(1,369)	6 %
EBITDA	**573**	494	16 %
EBITDA Margin	**30.7%**	26.5 %	4.2ppt
Depreciation and amortisation expense	**(173)**	(174)	1 %
Underlying EBIT	**400**	320	25 %
Underlying Operating Ratio	**78.5%**	82.8 %	4.3ppt

($m)	2HFY2014	1HFY2014	VARIANCE %
Total Revenue	906	958	(5 %)
- Above Rail	614	597	3 %
- Below Rail	289	360	(20 %)
- Other	3	1	200 %
Operating Costs	(608)	(683)	11 %
EBITDA	298	275	8 %
EBITDA Margin	32.9 %	28.7 %	4.2ppt
Depreciation and amortisation expense	(85)	(88)	3 %
Underlying EBIT	213	187	14 %
Underlying Operating Ratio	76.5 %	80.5 %	4.0ppt

1 An amount equivalent to below rail revenue is included in operating costs, reflecting the pass through nature of access tariffs

Coal Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	VARIANCE %
Total Tonnes hauled (m)	100.7	109.7	**210.4**	193.7	9 %
- Queensland	81.3	88.6	**169.9**	155.8	9 %
- NSW	19.4	21.1	**40.5**	37.9	7 %
% Volumes under new form contracts	53 %	52 %	**53%**	42 %	11ppt
Contract utilisation	88 %	93 %	**91%**	80 %	11ppt
Total NTK (bn)	23.7	25.5	**49.2**	43.6	13 %
- Queensland	20.7	22.1	**42.8**	37.8	13 %
- NSW	3.0	3.4	**6.4**	5.8	10 %
Above Rail revenue / NTK ($/000 NTK)	25.9	23.4	**24.6**	24.7	-
Below Rail revenue / NTK ($/000 NTK)	12.2	14.1	**13.2**	17.8	(26 %)
Total revenue / NTK ($/000 NTK)	38.2	37.6	**37.9**	42.7	(11 %)
Above Rail revenue / Gross contracted NTK ($/000 NTK)	23.1	21.9	**22.5**	19.6	15 %
Opex / NTK ($000 NTK)	29.2	30.2	**29.8**	35.4	16 %

Directors' Report (continued)
Operating and Financial Review

Coal Performance Overview

FY2014 saw Coal underlying EBIT improve 25 % to $400m despite flat revenue with operating costs decreasing by 6 % and underlying operating ratio improving 4.3ppts to 78.5 %. Volumes grew 9 % to 210.4mt and represent an annual record for Aurizon with strong growth in both Queensland (9 %) and NSW (7 %). The volume growth was achieved despite the closure of Peabody's Wilkie Creek mine in December 2013 and the end of Rio Tinto's Hail Creek contract in October 2013, which contributed to a 5 % reduction in contracted tonnes to 229mt. Coal revenue was flat despite the strong volume growth, reflecting a 16 % decrease in below rail revenue due to lower transitional access tariffs, offset by a 12 % increase in above rail revenue.

Volumes hauled under new form contracts increased 11ppts to 53 % principally due to two contracts converting from legacy to new form conditions, Rio Tinto's Clermont contract (now majority owned by Glencore) which commenced 1 July 2013 and the Ensham contract which commenced 1 April 2013. Contract utilisation increased 11ppts from 80 % to 91 % which was reflected in the 15 % increase in above rail revenue per GCNTK, given a 2 % decrease in GCNTK.

Total NTK growth of 13 % was greater than the 9 % increase in volumes due to increased GAPE volumes and the commencement of Whitehaven volumes from the Gunnedah Basin in NSW, both of which have a longer than average haul length.

The increasing haul length (up 4 %) as well as other factors including lower Deficit Tonnage Charge (**DTC**), customer mix impact and higher contract utilisation resulted in above rail revenue per NTK being in line when compared to FY2013.

While revenues were flat, a 6 % reduction in operating costs resulted in a 16 % decrease in operating costs per NTK with lower access costs and transformation benefits partly offset by incremental operating costs relating to higher volumes.

Aurizon retained a contract with Yancoal's Yarrabee mine, which converted to a new form contract on 1 July 2014. Volumes increased to 3.2mt for a term of 10 years and will include haulage to the new Wiggins Island terminal once complete.

Coal Variance Analysis – Annual

The $80m, or 25 % increase in underlying EBIT was largely due to:

- Revenue was constant compared to FY2013 despite 9 % volume growth:
  - Above rail revenue increased $132m or 12 % driven by the strong volumes with above rail revenue per NTK constant at $24.6 per '000 NTK. NTK growth was stronger than volume growth at 13 %, reflecting the longer hauls from the growth tonnes in both Queensland (GAPE) and NSW (Whitehaven, from the Gunnedah Basin). Average haul length increased 4 % to 233km
  - Above rail revenue per NTK was constant:
    - $29m reduction in DTC revenue to $8m. As DTC is a protective mechanism that relates to prior period's lost railings, it distorts volume based revenue metrics
    - A major customer operating under a lower yielding legacy contract contributed almost half of the volume growth
    - The average haul length increased 4 % to 233km
    - Increasing levels of contract utilisation for customers operating under new form contracts. Due to the higher level of fixed revenue under these contracts, actual tonnage will only determine the variable component of revenue which generally accounts for less than 30 % of above rail revenue. Average contract utilisation increased from 80 % to 91 % and for new form contracts is 95 % resulting in less variable revenue despite the strong volume growth. The high levels of fixed revenue combined with strong volumes is reflected in the 15 % growth of above rail per GCNTK, with the level of GCNTK reducing 2 %, yet Aurizon generating a 12 % increase in above rail revenue
  - Below rail revenue decreased $127m or 16 %, reflecting the impact of transitional tariffs and an increase in access tariffs paid directly from customers to Network. This revenue represents below rail access tariffs that are passed through to customers on behalf of Network and there is an equivalent operating cost. As Network operated under a fixed revenue environment in FY2014, the access costs and access revenue in Coal only represent Aurizon's above rail portion of Network's fixed revenue (i.e. Coal's portion of $739m). As a result, below rail revenue per NTK decreased 26 %
- A net decrease in operating costs of $78m or 6 %:
  - Access charges decreased $125m reflecting the agreed lower transitional tariffs for FY2014 and the impact from customers directly paying access tariffs to Network. Further details are noted above in below rail revenue
  - $41m in transformation benefits, principally lower labour, fuel efficiency and maintenance costs
  - Partly offset by an $88m increase in other operating costs reflecting volume related cost increases, increases in the underlying fuel price and operating cost escalation

Coal Variance Analysis – Half on Half

The $26m, or 14 % increase in underlying EBIT was largely due to:

- A net decrease in revenue of $52m, or 5 % comprising the following major items:
  - $17m (3 %) increase in above rail revenue despite the 8 % decline in volumes as above rail revenue per NTK increased 11 %. The volume decrease was due to:
    - An 8 % decline in both Queensland and NSW coal volumes reflecting normal seasonality
  - The increase in above rail revenue per NTK was due to:
    - Net incentives received from customers for achieving annual performance targets
    - Increase in the level of fixed revenue combined with a slight decline in contract utilisation
  - Below rail revenue decreased $71m or 20 % reflecting the impact of transitional tariffs in addition to the 8 % decrease in volumes. Below rail revenue per NTK decreased 13 %
- A net decrease in operating costs of $75m or 11 %, driven by:
  - An 8 % decline in volumes from 1HFY2014 reflecting seasonality with customers typically railing more in 1H ahead of the wet season

Coal Operations Update

During FY2014, Coal Operations continued focus has been on asset productivity and disciplined operations in delivering the increase in volumes, whilst driving significant cost productivity improvements across all corridors.

By driving the transformation program and focusing on running a more integrated railway, Coal Operations delivered record annual tonnes of 210.4mt in FY2014. This performance was achieved while continuing to reduce unit costs by 16 %.

The transformation initiatives around train consist design, integrated operating plan, energy consumption, rollingstock maintenance and technology enabled operations are demonstrating improvements through operational efficiencies in the key Coal operating metrics including payloads, energy consumption, turnaround time and labour efficiencies.

The focus on disciplined operations through the Integrated Operating Plan has continued through FY2014, through reduction of operational variability by design. At the execution level this includes a constant daily focus on key operational metrics and levers, together with critical review of variability, dwell and path availability within systems.

Asset productivity has been a key area of focus for Operations as a whole. Locomotive and Wagon productivity (as measured by millions of NTK's per active loco and wagon) increased in FY2014 by 20 % and 17 % respectively from FY2013. The significant productivity uplift of assets resulted from:

- Review of fleet requirements, including right sizing the fleet within CQCN, through removal of consists to optimise system velocity
- Focus on reduction in variability and dwell within the systems through disciplined operations
- Optimisation of train lengths and payloads in all Queensland Coal Corridors, leading to a 3 % increase in average payload

Fuel efficiency improved by 5 % compared to FY2013 driven through the implementation of fuel efficiency practices including:

- Rollout of the pilot for Driver Advisory Systems
- Active monitoring of idling assets
- Review of consist configurations for optimal fuel consumption
- Implementation of regenerative braking
- Replacement of older locomotives with more fuel efficient locomotives

Employee productivity measures continue to be an area of focus, with the key measure of Employee Productivity, measured as NTK/FTE increasing by 17 % compared to FY2013. This has been driven through:

- Reduction in FTEs achieved through structural reform
- Focus on daily train crew productivity (measured in footplate hours) through review of train crew configurations and workings to maximise workloads and minimise use of block leisure period workings
- Improved system productivity through reduction in cycle times, increased payloads and on time arrivals

The Whitehaven Implementation Project has secured all necessary rail infrastructure provider approvals that will allow operation of the standard Hunter Valley locomotive class, ensuring continuation of the homogeneous fleet strategy. New locomotive and wagon production remains on schedule with first rollingstock arriving in November 2014. Whitehaven short term haulage agreement continues to provide ongoing driver training for the long term contract whilst generating profitable revenue.

Aurizon has commenced construction of the Train Support Facility (**TSF**) at Hexham with the commissioning now expected to be up to six months later than the original date of November 2014 due to manageable delays in environmental approvals and latent conditions on site. The TSF will consolidate the maintenance and provisioning footprint in NSW for Aurizon, driving further improvements in operational efficiency and effectiveness.

Iron Ore

Aurizon is Australia's largest iron ore haulier outside of Western Australia's Pilbara region and has continued to grow the business rapidly from a base of 13.6mt in FY2012 to 29.9mt in FY2014. Volumes are expected to reduce to 23mt in FY2015 as noted below.

Directors' Report (continued)

Operating and Financial Review

Iron Ore Financial Summary

($m)	FY2014	FY2013	VARIANCE %
Total Revenue	**378**	357	6 %
Operating Costs	**(239)**	(223)	(7 %)
EBITDA	**139**	134	4 %
EBITDA Margin	**36.8%**	37.5 %	(0.7ppt)
Depreciation and amortisation expense	**(36)**	(37)	3 %
Underlying EBIT	**103**	97	6 %
Underlying Operating Ratio	**72.8%**	72.8 %	-

($m)	2HFY2014	1HFY2014	VARIANCE %
Total Revenue	188	190	(1 %)
Operating Costs	(119)	(120)	1 %
EBITDA	69	70	(1 %)
EBITDA Margin	36.7 %	36.8 %	(0.1ppt)
Depreciation and amortisation expense	(16)	(20)	20 %
Underlying EBIT	53	50	6 %
Underlying Operating Ratio	71.8 %	73.7 %	1.9ppt

Iron Ore Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	VARIANCE %
Tonnages hauled (m)	14.9	15.0	**29.9**	24.7	21 %
Contract utilisation	100 %	100 %	**100%**	82 %	18ppt
NTK (bn)	6.1	6.1	**12.2**	10.3	18 %
Revenue / NTK ($/000 NTK)	30.8	31.1	**31.0**	34.7	(11 %)
Opex / NTK ($000 NTK)	22.1	23.0	**22.5**	25.2	11 %

Iron Ore Performance Overview

FY2014 underlying EBIT increased 6 % to $103m as the Iron Ore business grew volumes 21 % to 29.9mt which represents full contractual capacity. OR was maintained at 72.8 % despite an 11 % decrease in revenue per NTK (impact of capacity charge revenue in FY2013 for volumes not railed) due to a strong operational performance resulting in an 11 % reduction in opex per NTK.

Whilst volumes were strong and at full contracted capacity, in FY2015 we estimate volumes will be 23mt due to the end of two contracts, namely Mount Gibson's 3.0mtpa Tallering Peak contract (ceased 31 July 2014) and Mineral Resources' 4.2mtpa Carina contract (to cease 31 August 2014). Tallering Peak ceased due to the end of the mine's effective life however we are continuing to rail due to stockpiled ore at the mine. The Carina contract is ending due to the customer deciding to manage their own rail haulage. Aurizon has identified opportunities to deploy the five locomotives currently used for this contract elsewhere in the above rail operations, possibly to the Intermodal business to replace locomotives that are currently leased.

The associated wagons are leased and that lease is due to expire on 31 August 2014. Accordingly, Aurizon does not expect to hold surplus wagons.

Iron Ore Variance Analysis – Annual

The $6m, or 6 % increase in underlying EBIT was due to:

- A net increase in revenue of $21m. Whilst volumes grew 21 % , revenue growth was lower at 6 % reflecting the impact of capacity charges arising in FY2013 for volumes contracted but not railed. The consequence of this is also reflected in the reduction in revenue per NTK of 11 %
- A net increase in operating costs of $16m reflecting the volume growth. Operating performance continued to improve with opex per NTK decreasing 11 % , due to the operational efficiencies gained as contractual capacity hit 100 %

Iron Ore Variance Analysis – Half on Half

The $3m, or 6 % increase in underlying EBIT was due to:

- A net decrease in revenue of $2m due to marginally lower volumes (0.1mt) and a 1 % decrease in revenue per NTK. This was the result of a derailment in May 2014 impacting Cliffs volumes
- The revenue decrease was more than offset by lower operating costs, which resulted in a reduction in opex per NTK of 4 %

Iron Ore Operations Update

The Iron Ore business transitioned into the Aurizon functional structure on 1 July 2013 with Commercial & Marketing assuming accountability for the customer relationships and Operations for the above rail operations. This followed an incubation period where it remained a stand-alone business unit during the initial ramp-up phase.

Operationally it continues to perform at a high level given it was predominantly established as a greenfield business, but Aurizon continues to work with customers to identify and optimise supply chain performance resulting in increases to the capacity of train services without any increases in rollingstock requirements. In addition, as the IOP continues to be implemented across the business, we would anticipate generating further operational improvements.

West Pilbara Infrastructure Project

Aurizon and Baosteel have effected an off-market takeover of Aquila Resources which was delisted on 29 July 2014. The strategic intent of Aurizon's investment in Aquila is to facilitate development of rail and port infrastructure for the West Pilbara Infrastructure Project (**WPIP**).

There is strong strategic rationale for Aurizon participating alongside leading steel producers to unlock the mine assets in the West Pilbara province and to provide world-class multi-user infrastructure with the potential to unlock other presently stranded West Pilbara iron ore projects.

Aurizon's agreements with Baosteel, including an Infrastructure Framework Agreement, provide a minimum 12 month period of exclusivity during which Aurizon will review the existing infrastructure studies, develop infrastructure tariffs and, if these tariffs are accepted by the Australian Premium Iron Joint Venture (**APIJV**) participants, negotiate the agreements necessary to restructure the APIJV into a mine vehicle and an infrastructure vehicle. Aurizon's immediate priority is to negotiate the terms on which AMCI(IO) (American Metals & Coal International Inc. (51 %) and POSCO (49 %)) and/or its owners, as participants in the APIJV, become a party to similar agreements that set out the pathway by which Aurizon can secure the rights to develop the West Pilbara Infrastructure.

While these terms are being negotiated, a confidentiality agreement allows Aurizon access to APIJV information, including existing feasibility studies, for due diligence purposes.

Any infrastructure development will be subject to (among other things) a Final Investment Decision by Aurizon and will only occur following detailed planning and feasibility studies, concurrent development of West Pilbara Iron Ore Project (**WPIOP**) mines and entry into appropriate take or pay contracts to support the tonnage profile for viable rail and port infrastructure.

It is Aurizon's intention, following the successful development of the WPIP rail and port infrastructure, to divest its shareholding in Aquila.

Freight

Aurizon's Freight business supports a range of customers nationally for bulk minerals and commodities, agricultural products, mining and industrial inputs and general and containerised freight.

Freight Financial Summary

($m)	FY2014	FY2013	VARIANCE %
Total Revenue	**1,029**	1,082	(5 %)
Operating Costs	**(941)**	(1,002)	6 %
EBITDA	**88**	80	10 %
EBITDA margin	**8.6%**	7.4 %	1.2ppt
Depreciation and amortisation expense	**(54)**	(57)	5 %
Underlying EBIT	**34**	23	48 %
Underlying Operating Ratio	**96.7%**	97.9 %	1.2ppt

($m)	2HFY2014	1HFY2014	VARIANCE %
Total Revenue	479	550	(13 %)
Operating Costs	(440)	(501)	12 %
EBITDA	39	49	(20 %)
EBITDA margin	8.1 %	8.9 %	(0.8ppt)
Depreciation and amortisation expense	(25)	(29)	14 %
Underlying EBIT	14	20	(30 %)
Underlying Operating Ratio	97.1 %	96.4 %	(0.7ppt)

Freight Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	VARIANCE %
Tonnages hauled (m)	21.7	24.6	**46.3**	49.3	(6 %)
NTK (bn)	5.9	6.6	**12.5**	13.2	(5 %)
Revenue / NTK ($/000 NTK)	81.2	83.3	**82.3**	82.0	-
Opex / NTK ($000 NTK)	78.8	80.3	**79.6**	80.2	1 %

Directors' Report (continued)

Operating and Financial Review

Freight Performance Overview

The Freight business hauled 46.3mt of goods during FY2014, a decrease of 6 % compared to FY2013 with NTKs down 5 %. Bulk volumes decreased 9 % due lower Queensland grain volumes (below average grain harvest), an unscheduled customer plant shutdown and the supply of nickel being impacted by the Indonesian Government's export ban. Partly offsetting this was a 17 % increase in Intermodal volumes, against the trend of flat market conditions overall, due to new contracts commencing including Coles and Woolworths.

Revenue was also impacted by a reduction in services under the Transport Services Contract (**TSC**) with the Queensland Government which took effect from 1 January 2013 and resulted in revenue decreasing $21m when compared to FY2013. The two TSC contracts run until 30 June 2015 (regional freight) and 31 December 2015 (livestock). The above factors resulted in revenue per NTK being flat when compared to FY2013.

Underlying EBIT grew 48 % despite the revenue decrease with the realisation of $55m in transformation benefits driving a 6 % decrease in operating costs. With a 5 % reduction in NTKs, the lower cost base resulted in a 1 % improvement in opex per NTK and the OR improved 1.2ppts to 96.7 %.

Freight Variance Analysis – Annual

The $11m, or 48 % increase in underlying EBIT reflects:

- A net decrease in revenue of $53m (5 %), comprising the following major items:
  - $77m decrease in Bulk revenues due to the 9 % volume decline
  - $21m decrease in TSC revenue reflecting reduced services that took effect 1 January 2013
  - Partly offset by a $42m increase in Intermodal revenues, principally from new contracts and increased volumes (17 % increase)
- A net $61m decrease in operating costs comprising:
  - $55m in transformation benefits, principally lower labour, fuel efficiency and maintenance costs
  - Lower costs in Bulk associated with the 9 % volume reduction partly offset by cost escalation and costs associated with the 17 % increase in Intermodal volumes and start-up costs

Freight Variance Analysis – Half on Half

The $6m or 30 % decrease in underlying EBIT reflects:

- A net decrease in revenue of $71m (13 %):
  - $57m decrease in Bulk revenues driven by a 14 % decrease in volumes
  - $13m decrease in Intermodal revenues driven by a 6 % decline in revenue per NTK with volumes flat
- A net decrease in operating costs of $61m (12 %):
  - $29m in transformation benefits, principally lower labour, fuel efficiency and maintenance costs
  - $20m reduction in costs associated with the decrease in Bulk volumes
- A net decrease in depreciation of $4m

Freight Operations Update

Continuing to drive the transformation program for Freight operations within FY2014, the Integrated Operating Plan has expanded from its initial focus on North West Queensland and Western Australia to encompass the North Coast Line, Central West Queensland, South West Queensland and Interstate Intermodal. Opportunities have been realised across the Aurizon national footprint including:

- Optimisation of assets through train schedule and redesign
- Improved productivity of ground crew for shunting and switching activities across regional areas, through the consolidation of tasks
- Continued reviews around crew rostering, right sizing, positioning of train crew requirements and regional depot closures
- Closure of Charters Towers and Avon crew depots and East Cost Intermodal depots
- Closure of Hughenden & Kalgoorlie maintenance depots through consolidation of rollingstock maintenance work
- Consolidation of Queensland planning and control functions

Additional opportunities have been identified across all Freight corridors and are scheduled for implementation in FY2015 and beyond.

Disposal of non-core business post year-end

On 4 August 2014, Aurizon entered into an agreement to sell its wholly owned logistics subsidiary CRT Group (**CRT**) to Qube Logistics (Aust) Pty Limited, a subsidiary of Qube Holdings (**Qube**). The sale is consistent with Aurizon's strategy, as announced in July 2013, to maximise the value of the Intermodal business by retaining and integrating it within the enterprise but which also included the disposal of certain non-core assets.

CRT provides specialised bulk freight haulier services including handling, packaging, warehousing and distribution to the Australia polymer, food and industrial sectors and has a national network of depots, warehouses and container parks which, based on a strategic review, is considered non-core. The resources arm was separated from CRT in April 2014 and integrated into Aurizon's broader operations given its complementary focus on Aurizon's key growth sectors and commodities.

CRT employs approximately 250 people and has an annual turnover (revenue) of c$100m. The sale is subject to a number of conditions, with settlement expected in or about October 2014.

OTHER

Senior Management Changes

There were a number of changes in the senior management team during FY2014:

- On 13 November 2013 we announced the appointment of Mauro Neves to the role of EVP Commercial & Marketing. Mauro commenced with the Company on 1 January 2014. He brings further global experience to the Executive Committee and has strong commercial and operational capability, having spent much of the last decade with Vale, most recently as Global Director Coal
- On 4 November, 2014 Mike Carter moved from the role of EVP Network to lead a newly combined Strategy & Business Development function and Alex Kummant moved from Strategy to become the new EVP Network. These changes were announced on 19 August 2013, as part of Aurizon's transformation program
- The changes to the Executive Committee during the year included the departure of Paul Scurrah, EVP Commercial & Marketing, Ken Lewsey, EVP Business Development and Greg Robinson, EVP Business Sustainability.

Enterprise Agreement (**EA**) Update

New South Wales (NSW)

The renegotiation of the NSW Coal Operations EA was successfully approved within the set bargaining parameters of 4% per year for the first three years, with reduced hours in the fourth year, while also retaining the essential flexibilities around rostering which was the key objective.

Queensland

The 14 Queensland agreements that cover approximately 5,500 staff represented by 6 unions, expired on 31 December 2013. Aurizon's main efforts have been directed toward negotiating for replacement enterprise agreements that are fair, competitive and commercially sustainable. This involves significant reform to the current EAs which contain clauses that are no longer sustainable for a publically listed company.

Bargaining commenced on 29 April 2013 and during that time Aurizon has taken a number of measures to move the process forward, including:

- Obtaining the assistance of the Fair Work Commission (**FWC**) to facilitate bargaining
- Increasing bargaining meeting timetable
- Inviting unions to participate in consent arbitration of outstanding matters (declined)

Despite the Company's best efforts, and even after the assistance of the FWC, no real progress was made toward reaching new EAs.

The existing agreements are placing significant unreasonable restrictions on the Company. Aurizon has now made applications to the FWC under s.225 of the Fair Work Act to terminate all of the current 14 EAs. The applications to terminate have been referred to a Full Bench of the Fair Work Commission and the matter will be heard in Brisbane on 5–7 November and 10–13 November.

If the EAs are terminated, the terms and conditions of employment for Aurizon employees will be regulated by the relevant industry awards and the employee's individual contracts. As part of the application to terminate, Aurizon has provided a series of undertakings to maintain a number of the current terms and conditions, such as base wages, certain allowances, superannuation, leave accruals and redundancy pay. The undertakings are valid for a period of six months to enable a new EA to be negotiated.

Western Australia

Bargaining has commenced for Australia Western Railroad (**AWR**) Rail Operations and Rollingstock Maintenance agreements.

Sustainability

Refer to pages 50 to 53 of the Annual Report.

Directors' Report (continued)

Operating and Financial Review

Risk

Aurizon has reached a mature level of risk and opportunity management capability by focussing on structural and cultural building blocks. A key focus during FY2014 was the roll out of the revised Board-approved risk appetite as a representation of shareholder interests. The risk appetite is expressed as a series of 24 statements that collectively define the playing field in which Aurizon will operate.

An internal training package is the primary delivery mechanism for communicating Board expectations on managing risk and opportunity. As at 30 June 2014, 359 key decision-makers across Aurizon have undertaken the training. Attendees develop and share a common understanding of how to apply risk appetite to make informed every-day decisions aligned to Board expectations on risk management.

The sophistication of the Aurizon risk management approach is demonstrated by:

> improved safety performance;
> reduced operational incidents such as derailments;
> a strong track record in delivery of major projects; and
> recognition in the insurance underwriting market of best-in-class risk management practices acknowledged with a 58 % reduction in insurance premium for FY2015.

Advanced risk management capability has positioned Aurizon to succeed in ambitious large-scale growth projects such as the build and operation of integrated supply chains in the Galilee Basin and West Pilbara region.

The key risks that are currently facing Aurizon are as follows:

Enterprise Agreement negotiations

> A significant portion of Aurizon's employees belong to labour unions (more than 90 %)
> The majority of Aurizon's Enterprise Agreements expired in December 2013
> Any strike or industrial action or failure to resolve a material dispute with labour unions could have an adverse impact on Aurizon's business, operational performance and financial results

Finalisation of User Access Undertaking 2013 (UT4)

> User Access Undertaking 2010 (UT3) expired 30 June 2013
> Aurizon submitted a revised UT4 on 11 August 2014 reflecting industry consultation and is continuing discussions with the QCA and key stakeholders on the finalisation of reference tariffs – to apply retrospectively from 1 July 2013
> There is a risk that the QCA's final decision may result in an amended UT4 that is less favourable to Aurizon

Macro-economic global conditions and demand for coal and iron ore

> Aurizon's haulage business is highly dependent upon the Asian, domestic and global economies
> An adverse change in general economic conditions or a reduction in the demand for coal and iron ore may have a material adverse effect on Aurizon's operational performance and financial results

Adverse weather conditions

> Adverse weather conditions and natural disasters may directly impact Aurizon's operations. For example, severe flooding or cyclones could interrupt supply of commodities and/or the operation of normal haulage services
> This may have an adverse impact on Aurizon's business, operational performance and financial results

Directors' Report (continued)

Remuneration Report

Dear Fellow Shareholder,

On behalf of the Board, we are pleased to present Aurizon's 2014 Remuneration Report.

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

Since our Initial Public Offering (**IPO**) in 2010, Aurizon has successfully transitioned from a government-owned corporation to an ASX Top 50 company. We have delivered strong returns to our shareholders, with the share price increasing at a compound annual growth rate (**CAGR**) of 21.8 % since IPO compared to a CAGR of 4.9 % for the ASX 100.

A measure of our success, and a benchmark we use to compare our performance against the world's best railroads, is the Operating Ratio (**OR**). In 2010, our OR was 91 %. At the completion of FY2014, the Company's OR was 77.7 % and we remain on track with our target to reduce the OR to 75 % by FY2015, with continued reductions planned thereafter. This significant improvement is the result of a genuine organisation-wide commitment and is comparable to the OR journey of North America's best Class 1 railroads.

Success of this scale could not have been achieved without the strength of our Executive team, led by our MD & CEO Lance Hockridge. We are confident that we have a strong Executive team in place, including talent recruited from the North American Class 1 railroads, which equips us to aggressively pursue and achieve the Company's strategic objectives.

Our ability to attract, retain and reward high quality leaders is critical to our continued success. The Board is mindful of ensuring that our remuneration practices support this objective to the benefit of our shareholders and surveys show our Executive pay aligns with our peer group ASX 11-50 and comparator companies. Similarly the Board is cognisant of changes in market practice and of shareholder sentiment towards Executive remuneration more generally.

At our Annual General Meeting last November, 72 % of the total vote received from shareholders supported the 2013 Remuneration Report, below the 75 % threshold. This constituted a "first strike" against the Remuneration Report under the Corporations Act so we needed to understand why this occurred.

Accordingly the Board proactively engaged in detail with our key shareholders and stakeholder advisory groups. Using the feedback we received, the Board undertook a comprehensive review of Aurizon's remuneration practices. We retained a number of existing arrangements but made other changes to respond.

The decisions made and reflected in the attached remuneration report were as follows:

1. The Fixed Remuneration levels for our Executives are appropriate and comparable to similar roles within our market peer group and therefore we saw no need for an increase. Accordingly, for a second consecutive year, there will be no increase in Fixed Remuneration for Key Management Personnel (**KMP**) and the other Executives, except for those Executives who have been promoted, those with changed duties and those whose remuneration level is clearly anomalous.
2. The Short Term Incentive Award (**STIA**) performance measures for FY2015 will be Underlying Earnings Before Interest and Tax (**Underlying EBIT**) 35 %, Safety 17.5 % and Transformation 17.5 % and Individual 30 %. The specific targets in these areas have been reset for FY2015 with particular focus on the stringency of threshold levels.
3. Disclosure of STIA performance will be improved.
4. Earnings Per Share (**EPS**) growth will no longer be used as a Long Term Incentive Award (**LTIA**) performance measure and will be replaced by Return On Invested Capital (**ROIC**).
5. The LTIA performance measures will be OR, Relative Total Shareholder Returns (**TSR**) and ROIC weighted 34 %, 33 % and 33 % respectively.
6. For the Relative TSR component of the LTIA 30 % will vest at the median ranking, down from 50 % previously.
7. The LTIA performance measures will continue to allow for a once only retest a year after the initial assessments but at more stringent performance levels. No further benefit will flow to Executives in FY2014 as a result of this provision.
8. The Board will have a discretion to adjust outcomes for all performance targets but will generally avoid exercising that discretion in favour of Executives.

Consistent with this discretion the Underlying EBIT and ROIC components of the STIA will be zero for FY2014, despite the Company exceeding the FY2014 Underlying EBIT and ROIC targets. This is due to the Board's determination that the impairment charges, announced to the market in December 2013 and again in June 2014, will be taken into account for remuneration purposes and therefore the thresholds for Underlying EBIT and ROIC are deemed not to have been achieved.

Further details of these changes are set out in the Remuneration Report.

The Board recognises its responsibility to maintain shareholder confidence in Aurizon's leadership and remuneration practices. We assure you the Company remains focused on delivering sustainable value for our shareholders, and the Directors are committed to closely aligning the Executive remuneration framework to this objective.

We value your feedback and look forward to welcoming you to our 2014 Annual General Meeting.

Yours faithfully

John B Prescott AC
Chairman

Russell Caplan
Chairman, Remuneration, Nomination & Succession Committee

Directors' Report (continued)

Remuneration Report

The Remuneration Report for the year ended 30 June 2014 is set out below. The information in this Report has been audited.

1. Remuneration Report Introduction

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

Since incurring a "first strike" under the Corporations Act, Aurizon has engaged with shareholders to understand their concerns. The changes mentioned in the Chairmen's letter are incorporated in this Report and summarised in the following Table 1.

TABLE 1 – RESPONSE TO CONCERNS RAISED IN RELATION TO FINANCIAL YEAR 2013 REMUNERATION REPORT

<table>
<tr><th>CONCERN</th><th colspan="2">BOARD RESPONSE</th></tr>
<tr><td rowspan="3">Quantum of Total Remuneration</td><td colspan="2">The Board reviewed the Executive Total Fixed Remuneration and decided that, for the second consecutive year, there would be no Fixed Remuneration increase for the MD & CEO or the Executive KMP.</td></tr>
<tr><td>FY2013 FRAMEWORK</td><td>FY2014 FRAMEWORK</td></tr>
<tr><td>Actual remuneration MD & CEO:
The actual remuneration awarded by the Board for FY2013 was $6.110m, comprised of:
> $2.278m Fixed Remuneration & other non-monetary benefits;
> $2.505m STIA; and
> $1.327m of equity based payments.</td><td>Actual remuneration MD & CEO:
The actual remuneration awarded by the Board for FY2014 was $5.121m, comprised of:
> $2.249m Fixed Remuneration & other non-monetary benefits;
> $1.306m STIA (plus $0.326m in deferred STIA); and
> $1.566m of equity based payments.</td></tr>
<tr><td>Termination arrangements</td><td colspan="2">The MD & CEO and Executive KMP have agreed to enter into new employment contracts with effect from 1 July 2014. The new employment contracts ensure that the maximum termination payment (Notice & Severance payment) provided to the Executive is 12 months.</td></tr>
<tr><td rowspan="4">Performance hurdles & thresholds associated with the STIA</td><td colspan="2">The Board also reviewed the STIA performance hurdles and the performance targets, with a particular focus on the stringency of the threshold levels. It was decided that the ROIC performance hurdle will no longer form part of the STIA and the remaining hurdle weightings will be adjusted accordingly.</td></tr>
<tr><td>FY2013 FRAMEWORK</td><td>FY2014 FRAMEWORK</td></tr>
<tr><td>Performance hurdles for FY2014 STIA were:
> Underlying EBIT (28 %)
> ROIC (7 %)
> Safety (14 %)
> Transformation (21 %)
> Individual (30 %)</td><td>Performance hurdles for FY2015 STIA will be:
> Underlying EBIT (35 %)
> Safety (17.5 %)
> Transformation (17.5 %)
> Individual (30 %)</td></tr>
<tr><td colspan="2">The threshold EBIT level has been increased when compared to prior years. The thresholds for Transformation and Safety have also been increased.</td></tr>
<tr><td rowspan="3">Performance hurdles & thresholds associated with the LTIA. Shareholders raised the EPS growth hurdle in particular.</td><td colspan="2">The Board also reviewed the LTIA performance hurdles and the performance targets, with a particular focus on the stringency of the threshold levels. It was decided that the EPS performance hurdle will no longer form part of the LTIA and will be replaced by ROIC. Additionally, the hurdle weightings were adjusted and the amount vesting for a median ranking for the Relative TSR component was decreased to 30 % (previously 50 %).</td></tr>
<tr><td>FY2013 FRAMEWORK</td><td>FY2014 FRAMEWORK</td></tr>
<tr><td>Performance hurdles for the 2013 LTIA were:
> Operating Ratio Improvement (50 %)
> Average annual EPS growth (25 %)
> Relative TSR (25 %)</td><td>Performance hurdles for the 2014 LTIA will be:
> Operating Ratio Improvement (34 %)
> Relative TSR (33 %)
> ROIC (33 %)</td></tr>
<tr><td>Transparency of STIA operation & performance outcomes</td><td colspan="2">The Board has improved the disclosures relating to the operation of the STIA, the FY2014 targets and the determination of outcomes.</td></tr>
<tr><td>Questions raised at the last AGM</td><td colspan="2">Three matters were raised relating to remuneration. Firstly, a representative of the Australian Shareholders Association (ASA) observed that his organisation considered that the LTIA to the MD&CEO was excessive and asked about the fair value of the award and who else participates. The Chairman explained that the Board considered the award in line with market practice, explained that it was the market value on issue and described the participants. Secondly a shareholder asked the Chairman to confirm that the Board will award all employees $1000 worth of Aurizon shares under a general employee share plan. The Chairman did confirm. Finally, the ASA representative observed that the Chairman's Fees had increased. The Chairman responded that he was not present when the Directors made that decision but that he understood that the Fees were reviewed in the prior year when they were adjusted to be closer to the median of Aurizon's comparator companies.</td></tr>
</table>

2. Directors and Executives

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

The Non-Executive Directors and Executives that formed part of the KMP for the whole of the Financial Year ended 30 June 2014 are identified in Table 2 – Key Management Personnel.

Table 3: Former Executives identifies other persons whose remuneration was disclosed in the FY2013 Report.

During the year a review of the KMP was conducted. The Board determined that from 1 July 2014 support functions EVP's would no longer meet the definition of KMP given the change in functional segment reporting from FY2015. Although remuneration details have been disclosed in this report for all Executives previously considered KMP, next year it is proposed that details will be provided only for those roles that meet the new determination.

TABLE 2 – KEY MANAGEMENT PERSONNEL

NAME	POSITION
NON-EXECUTIVE DIRECTORS[1]	
J B Prescott AC	Chairman, Independent Non-Executive Director
J Atkin	Independent Non-Executive Director
R R Caplan	Independent Non-Executive Director
J D Cooper	Independent Non-Executive Director
K L Field	Independent Non-Executive Director
G T John AO	Independent Non-Executive Director
A J P Staines	Independent Non-Executive Director
G T Tilbrook	Independent Non-Executive Director
P Zito[2]	Independent Non-Executive Director
EXECUTIVES	
L E Hockridge	Managing Director & Chief Executive Officer[1]
M G Carter	Executive Vice President, Strategy & Business Development
J M Franczak	Executive Vice President, Operations[1]
A Kummant	Executive Vice President, Network[1]
K Neate	Executive Vice President and Chief Financial Officer[1]
M Neves De Moraes[3]	Executive Vice President, Commercial & Marketing[1]
G P Pringle	Executive Vice President, Enterprise Services
R J Stephens	Executive Vice President and Chief Human Resources Officer

1 Roles that meet the new determination of KMP and will be disclosed in FY2015
2 P Zito was appointed a Director on 1 December 2013
3 M Neves De Moraes commenced in the role on 1 January 2014

TABLE 3 – FORMER EXECUTIVES

NAME	POSITION
K R Lewsey[1]	Executive Vice President, Business Development
G Robinson[2]	Executive Vice President, Business Sustainability
P Scurrah[3]	Executive Vice President, Commercial & Marketing

1 K R Lewsey ceased in the role on 31 October 2013
2 G Robinson ceased in the role on 31 October 2013
3 P Scurrah ceased in the role on 31 October 2013

Directors' Report (continued)
Remuneration Report

3. Remuneration Framework Components

3.1 Total Potential Remuneration

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

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

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

The mix of potential remuneration components for FY2015 for the MD & CEO and remaining Executive KMP is set out in Figure 1: Total Potential Remuneration Financial Year 2015.

3.2 Remuneration Framework and Objectives Financial Year 2015

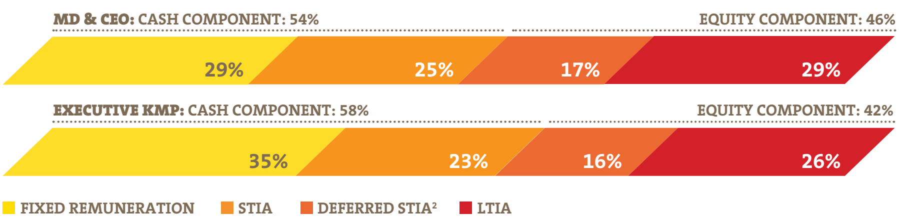
Figure 2, on page 31, summarises the revised remuneration framework for FY2015. The Remuneration Framework for FY2014 is available in the FY2013 Remuneration Report (Section 1.4).

3.3 Executive Remuneration Governance

Figure 3, on page 32, represents Aurizon's remuneration governance framework.

Details on the composition of the Remuneration, Nomination & Succession Committee (**Committee**) are set out on page 7 of this report. The Committee's Charter is available in the Governance section of the Company's website at **www.aurizon.com.au**

FIGURE 1 – TOTAL POTENTIAL REMUNERATION FINANCIAL YEAR 2015 [1]



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

2 From FY2014, any STIA will have a portion awarded in the form of rights to shares, which vest on the first anniversary of payment of the cash component subject to the Board's ability to 'claw-back'. This condition has been introduced over a two year period, 20 % in FY2014 which will increase to 40 % in FY2015. The total STIA opportunity has not been altered – only the portion to be deferred

FIGURE 2 – REMUNERATION FRAMEWORK FINANCIAL YEAR 2015

	PERFORMANCE MEASURE	STRATEGIC OBJECTIVES AND LINK TO PERFORMANCE
FIXED REMUNERATION	Considerations: > Experience, qualifications > Role and responsibility > Retain key talent > Reference to remuneration paid by similar sized companies in similar industry sectors > Internal and external relativities	> To attract and retain Executives with the right talent to achieve results (including being competitive internationally for those Executives with relevant Class 1 Rail experience)
SHORT-TERM INCENTIVE AWARD	> **Safety (17.5%)** > **Transformation (17.5%)** > **Underlying EBIT (35%)** > **Individual (30%)** Measured over a one year performance period[1] STIA at Risk: **MD & CEO: Target 100% of Fixed Remuneration and Maximum 150% of Fixed Remuneration** **Remaining Executive KMP: Target 75% of Fixed Remuneration and Maximum 112.5% of Fixed Remuneration**	> Participation levels set with reference to the appropriate levels of short term incentive offered by our peers in the market The non-financial and financial performance measures were chosen because: > **Safety** captures the need to continuously improve safety across all aspects of this heavy industry business > **Transformation** captures the need to quickly change from a statutory government owned organisation to a world-class, profitable listed company > **Underlying EBIT** delivers financial benefits to shareholders through growth in underlying operating earnings
LONG-TERM INCENTIVE AWARD	> **Operating Ratio Improvement (34%)** > **Relative TSR (33%)** > **ROIC (33%)** Measured over a three year performance period[2] LTIA at Risk: **MD & CEO: Maximum 100% of Fixed Remuneration** **Remaining Executive KMP: Maximum 75% of Fixed Remuneration**	> **Operating Ratio Improvement** was chosen as it is a key measure of our success in transforming Aurizon into a world class rail company – maximising the profit earned from each dollar of revenue generated > **Relative TSR** was chosen as it is a measure of the return generated for Aurizon's shareholders over the performance period relative to a peer group of companies (ASX100) > **ROIC** was chosen to reflect the fact that Aurizon operates a capital intensive business and our focus should be on maximising the level of return generated on the capital we invest Note: minimum shareholding requirements for Executives encourage retention of shares and alignment with shareholder interests

Total remuneration

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

1 FY2014 STIA performance measures were Safety (14 %), Transformation (21 %), Underlying EBIT (28 %), ROIC (7 %) and Individual (30 %)

2 FY2014 LTIA performance hurdles were Operating Ratio Improvement (50 %), Relative TSR (25 %) and EPS (25 %)

Directors' Report (continued)

Remuneration Report

FIGURE 3 – REMUNERATION GOVERNANCE FRAMEWORK

BOARD

The Board:

- approves the overall remuneration policy and ensures it is competitive, fair and aligned with the long-term interests of the Company
- approves Non-Executive Director remuneration, Executive Director and Executive remuneration
- assesses the performance of, and determines the STIA outcome for the MD & CEO giving due weight to objective performance measures while retaining discretion to determine final outcomes
- considers and determines the STIA outcomes of KMP based on the recommendations of the MD & CEO

REMUNERATION, NOMINATION & SUCCESSION COMMITTEE

The Remuneration, Nomination & Succession Committee is delegated responsibility by the Board to review and make recommendations on:

- the remuneration policies and framework for the Company
- Non-Executive Director remuneration
- remuneration for Executive Directors and Executives, and
- Executive incentive arrangements

MANAGEMENT

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

CONSULTATION WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

REMUNERATION CONSULTANTS AND OTHER EXTERNAL ADVISORS

In performing duties and making recommendations to the Board, the Chairman of the Remuneration, Nomination & Succession Committee appoints and engages independent advisors directly in relation to Executive remuneration matters. These advisors:

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

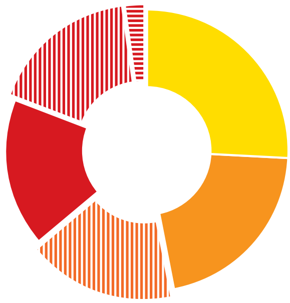
Any advice or recommendations provided by external advisors are used to assist the Board – they do not substitute for the Board and Remuneration, Nomination & Succession Committee processes

4. Proportional Remuneration Outcomes for Financial Year 2014

Figure 4 represents the proportion of FY2014 actual and forfeited remuneration for the MD & CEO and an illustrative Executive KMP member (Note: The sections shown in stripes indicate potential awards either forfeited or subject to re-testing). The remuneration outcomes identified in these diagrams are directly linked to the Company performance described in Table 5: Financial Year 2014 STIA Performance Outcomes and Table 7: Company Performance against LTIA Performance Hurdles.

Remuneration outcomes are shown as a proportion of Total Potential Remuneration, addressed with reference to Company performance and vesting outcomes of the 2010 and 2011 LTIA assuming a Share Price of $5.00.

FIGURE 4 – PROPORTIONAL REMUNERATION OUTCOMES FOR FINANCIAL YEAR 2014



Managing Director & CEO

Illustrative Example KMP

5. Short Term Incentive Award

5.1 Financial Year 2014 STIA framework and performance measures

What is the STIA and who participates?	The STIA is "at risk" remuneration subject to the achievement of pre-defined individual and Company performance hurdles which are set annually by the Board at the beginning of the performance period. For each component of the STIA, three performance levels are set: *Threshold*, below which no STIA is paid for that component; *Target*, which typically reflects a substantial improvement on historical achievement or a business improvement targeted outcome, in both cases in line with relevant corporate plans and budgets; and *Stretch*, which is significantly better than Target. The STIA applies in a similar manner to all non-enterprise agreement employees.
What are the Company performance measures?	The performance measures which apply to all participants are Underlying EBIT, Transformation, Safety and ROIC. The measures capture the need to continuously improve safety across all aspects of the business, the need to quickly change from a statutory government owned organisation to a world-class, profitable listed company and, at the same time, deliver benefits to shareholders. Individual performance hurdles relate to each specific role and measure an individual's contribution. Examples include outcomes in capital management, marketing, organisational change and leadership. Table 4, on page 34, identifies the detailed performance hurdles and relevant weightings for FY2014.
What is the amount that participants can earn through an STIA?	Employment agreements specify a target STIA, expressed as a percentage of Fixed Remuneration (100 % for the MD & CEO and 75 % for remaining Executive KMP). Each Participant can earn between 0 % up to a maximum of 150 % of this target percentage, depending on performance and subject to Board discretion. Depending on performance assessed at year end, participants may earn for each enterprise measure: 0 % for performance below *Threshold*; 50 % at *Threshold* (for measures other than Underlying EBIT, for which *Threshold* earnings are 30 %); with a linear scale up to 100 % at *Target* performance; and a further linear scale to 200 % at *Stretch* performance. All components are subject to Board discretion and subject to the total STIA not exceeding 150 % of the target.

Directors' Report (continued)

Remuneration Report

TABLE 4 – PERFORMANCE MEASURES FOR FINANCIAL YEAR 2014

	WEIGHTING	PERFORMANCE MEASURES		
		THRESHOLD	TARGET	STRETCH
COMPANY				
Underlying EBIT	28 %	$755m[1]	$834m	$917m
ROIC	7 %	7.8 %[1]	8.7 %	9.6 %
Safety	14 %	A consistent reduction in: > Lost Time Injuries Frequency Rate (**LTIFR**), > Medically Treated Injuries Frequency Rate (**MTIFR**) and > A consistent frequency of safety interactions. *It is not sufficient to maintain the number of LTIs and MTIs. It is a minimum requirement that the number of hours lost to injury and the number of injuries are reduced.*	10 % improvement in LTIFR 20 % improvement in MTIFR Greater than one safety interaction per employee per month.	The achievement of what would be considered a world-class reduction in LTIFRs and MTIFRs and a significant frequency of safety interactions.
		Safety captures the need to continuously improve and maintain safety across all aspects of the Company.		
Transformation	21 %	Demonstrable transformation having regard to specified milestones and outcomes.	Substantial transformation having regard to specified milestones and outcomes.	Transformation far exceeding the target level.
		Transformation of Aurizon very quickly after the IPO from the characteristics typical of a long-standing public sector organisation to an efficient, profitable, listed market leader has and continues to be a strategic imperative. Performance is defined in terms of project and program completion (or milestone achievement) and benefits delivery (or progression towards delivery for lengthy transformational projects). An assessment is then performed by the Remuneration, Nomination & Succession Committee of the level of achievement in relation to each transformation project, considering pre-determined levels of expected achievement. For FY2014 the transformation performance hurdles included: > Operational improvements > Customer focus > Specific commercial objectives > Growth initiatives > People initiatives		
INDIVIDUAL				
	30 %	Performance hurdles for the Executive KMP are established on an annual basis by the MD & CEO. In the case of the MD & CEO the individual hurdles are established by the Chairman after consultation with the Board. For FY2014 the MD & CEO's individual performance parameters included: > Measured operational improvement > Capital management > Management and organisational effectiveness Similar criteria are devolved to other Executive KMP.		
TOTAL				
	100 %			

1 The EBIT Threshold was set above the prior year actual outcome while the ROIC Threshold took account of the volatility of return measures where future capital outlays were uncertain. In any event, the Threshold level of performance for both EBIT and ROIC was not achieved due to the treatment of impairments discussed elsewhere in this report. The Board has set more stringent Thresholds for FY2015 and has committed to continue to do so in future

5.2 STIA performance hurdles historical outcomes

Figure 6 shows the historical performance of Aurizon's STIA performance measures from FY2011 to FY2014.

A 13 % improvement in Underlying EBIT and a 0.8ppt increase in return on invested capital were achieved from FY2013 to FY2014.

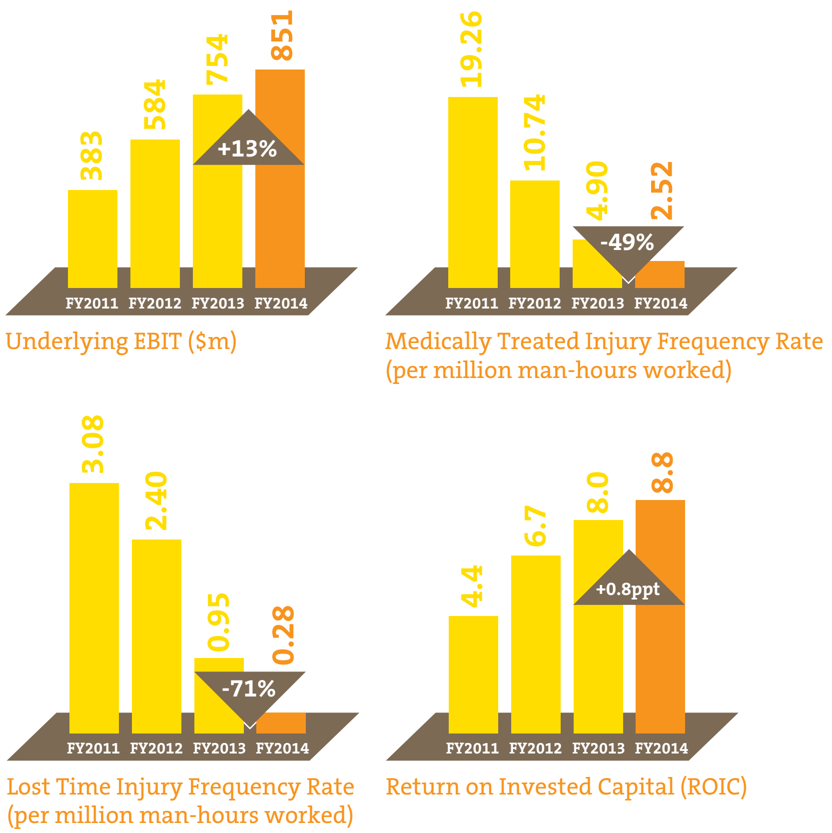
During FY2014 Aurizon achieved safety improvements of 71 % and 49 % in LTIFR and MTIFR respectively.

Growth and transformational advances relevant to the STIA during FY2014 include:

- A record 215 million tonnes hauled from mine to port across the Central Queensland Coal Network (previous record from FY2010, was 187mt);
- In excess of $129 million in transformation benefits;
- Approvals gained and construction commenced on the $150 million Hexham train support facility in the Hunter Valley;
- A positive vote for Aurizon NSW Coal Operations Enterprise Agreement 2014; and
- Development and commencement of the implementation of the Integrated Operating Plan to unlock the potential of our national footprint within the coal, iron ore and freight supply chains focussing on improved productivity and customer performance.

Company Performance related to FY2014 STIA performance measures is identified in Table 5: Financial Year 2014 STIA performance outcomes on page 36.

FIGURE 6 – PERFORMANCE AGAINST STIA PERFORMANCE HURDLES[1]



1 These are some of the hurdles for prior years. For future awards ROIC will be an LTIA performance hurdle

Directors' Report (continued)

Remuneration Report

TABLE 5: FINANCIAL YEAR 2014 STIA PERFORMANCE OUTCOMES

PERFORMANCE MEASURES	30 JUNE 2014			30 JUNE 2013	30 JUNE 2012	30 JUNE 2011
	WEIGHTING	PERFORMANCE	PERFORMANCE OUTCOMES			
UNDERLYING EBIT	28%	Target[1]	$851m	$754m	$584m	$383m
ROIC	7%	Target[1]	8.8 %	8.0 %	6.7 %	4.4 %
SAFETY	14%	Stretch				
Safety Interactions			1.23 per employee per month	1.15 per employee per month	1.13 per employee per month	1.10 per employee per month
MTIFR			2.52	4.90	10.74	19.26
LTIFR			0.28	0.95	2.4	3.08
TRANSFORMATION	21%	Target				
Project completion, benefit delivery & capability			Majority completed on-time, in full	Majority completed on-time, in full	Majority completed on-time, in full	Majority completed on-time, in full
INDIVIDUAL	30%	*Personal outcomes varied between Threshold and Stretch depending on performance against individual KPIs.*				
	100%					

1 Whilst the target underlying EBIT and ROIC outcomes were exceeded, the Board decided not to recognise these results for remuneration purposes because of the impairment charges announced in December 2013 and June 2014

5.3 STIA Awards for Financial Year 2014

TABLE 6 – FINANCIAL YEAR 2014 STIA OUTCOMES

NAME	TARGET STIA ($'000)	MAXIMUM POTENTIAL STIA ($'000)	ACTUAL FY2014 STIA ($'000) CASH COMPONENT	DEFERRED SHARE COMPONENT	TOTAL STIA PAYMENT	% OF TARGET STIA	% OF MAXIMUM STIA[1]
EXECUTIVE KMP							
L E Hockridge	1,950	2,925	1,306	326	1,632	84 %	56 %
M G Carter	563	844	363	91	454	81 %	54 %
J M Franczak	750	1,125	491	123	614	82 %	55 %
A Kummant	630	945	407	101	508	81 %	54 %
K Neate	548	821	344	86	430	79 %	52 %
M Neves De Moraes[2]	563	956	NIL	NIL	NIL	Not Applicable	
G P Pringle	459	689	288	71	359	78 %	52 %
R J Stephens	459	689	291	73	364	79 %	53 %

1 Executives have forfeited between 44 % and 48 % of their maximum potential outcome

2 M Neves De Moraes commenced in the role on 1 January 2014 & was ineligible to participate in the STIA for FY2014. He was awarded a sign-on bonus of $563,000 on commencement of his contract

5.4 Changes to the STIA Framework from Financial Year 2015

The following changes will be made to the STIA framework from FY2015:

- ROIC will no longer be used as a STIA performance measure. The Committee has determined that ROIC as a performance measure is better aligned with the LTIA, as the hurdle measures the generation of long term shareholder wealth;
- The ROIC measure will not be replaced by another performance measure and the weightings for the Company measures will be adjusted accordingly. The STIA weightings for FY2015 will be Underlying EBIT 35 %, Safety 17.5 %, Transformation 17.5 % and Individual measures 30 %;
- As identified in the FY2013 Remuneration Report (Section 5.1.1 2013 Remuneration Framework Review, page 47), from FY2014 any STIA for the MD & CEO and Executive KMP will have a portion awarded in rights to shares and deferred for a period of one year. In FY2015 this percentage will increase from 20 % to 40 %. Apart from its general discretion, the Board will also have the ability to "claw-back" the deferred portion of the award under the STIA in the event of material misstatement; and
- Given the importance of the transaction with Baosteel, the individual performance hurdles for the MD & CEO will include criteria relating to stakeholder relations.

6 Long Term Incentive Award

6.1 Terms of the LTIA

Shareholders provided significant feedback on many aspects of our long-term incentive arrangements following the "first strike". Taking into account this feedback and the outcome of an independent external review has resulted in substantial changes, which are described in section 6.5. The terms of both the 2013 and the 2014 LTIA are set out below:

What is the LTIA and who participates?	The LTIA is the component of Total Potential Remuneration linked to providing long-term incentives for selected Executives who the Board has identified as being able to contribute directly to the generation of long-term shareholder returns. This includes the MD & CEO, Executive KMP, the direct reports to the Executive KMP and a small number of other management employees.
How is the LTIA determined?	The number of performance rights issued under the LTIA to each employee is calculated by dividing their respective LTIA potential remuneration (expressed as a percentage of Fixed Remuneration) by the five day Volume Weighted Average Price (**VWAP**) of Aurizon shares at the time of their award. Each performance right is a right to receive one share in Aurizon upon vesting. The number of performance rights that vest is determined by performance outcomes compared with predetermined hurdles, described below.
What happens when performance rights vest?	Performance rights awarded under the LTIA vest subject to the satisfaction of performance hurdles. Rights vest and the resulting shares are transferred to the Executive at no cost to the Executive.
What is the amount that Executives can earn through an LTIA?	The maximum potential remuneration (expressed as a percentage of Fixed Remuneration) available through the LTIA is 100 % in the case of the MD & CEO and 75 % for the remaining Executive KMP.
What is the performance period?	The performance hurdles for the LTIA are measured over a three year period. In the event that the performance hurdle is not achieved, the performance period may be extended for a further year at the discretion of the Board. In the event of a performance period extension, in order for any additional performance rights to vest on the later date, Aurizon has to achieve stronger performance than that required for the original performance period in the final year.
What are the performance hurdles for the 2013 LTIA? **(Performance Period 1 July 2013 – 30 June 2016)**	The performance hurdles for the 2013 LTIA are as follows:
	OPERATING RATIO (OR)
	OR improvement essentially measures the operating cost as a percentage of revenue. Aurizon is committed to reducing OR through further implementation of transformation initiatives, growth initiatives and continued tight operational and financial discipline. The target OR in FY2016 of 73 % is considered by the Board to be very challenging and the rate of improvement may not be maintained in the longer-term. Figure 7 shows Aurizon's improvement in comparison to that achieved by the Class 1 Railroads in North America.
	RELATIVE TOTAL SHAREHOLDER RETURN
	The vesting of rights for relative TSR growth is conditional on Aurizon's TSR performance relative to a peer group of companies in the ASX100 index that are broadly comparable to Aurizon (i.e. with which Aurizon competes for capital and / or talent). Accordingly, financial, medical, telecommunications, pharmaceutical, gaming and property trusts are excluded from this group. The relative TSR comparator group comprises approximately 65 companies. TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. The TSR of Aurizon over the performance period will be compared to the TSR of all of the companies in the peer group which are still listed at the end of the performance period. The relevant share prices will be determined by reference to a VWAP over a period to smooth any short term "peaks" or "troughs". Relative TSR performance is monitored by an independent expert at the end of each financial year.
	EARNINGS PER SHARE GROWTH
	EPS is calculated by dividing Aurizon's Net Profit After Tax (**NPAT**) by the weighted average number of ordinary shares on issue during the relevant period. EPS growth measures the growth in earnings on a per share basis.

Directors’ Report (continued)

Remuneration Report

HURDLE	WEIGHTING	PERFORMANCE PERIOD (1 JULY 2013 – 30 JUNE 2016) MINIMUM VESTING POINT	MAXIMUM VESTING POINT	RETESTING (1 JULY 2013 – 30 JUNE 2017)
Operating Ratio Improvement	50 %	50 % of the rights will vest with an OR of 75 %	100 % of the rights will vest with an OR of 73 %	50 % of the rights will vest with an OR of 73 %, up to 100 % at an OR of 71 %
Relative TSR: *against peer group within ASX100 Index*	*25%*	50 % of the rights will vest at the 50th percentile	100 % of the rights will vest at the 75th percentile	50 % of the rights will vest at the 50th percentile, up to 100 % at the 75th percentile
EPS	*25%*	50 % of rights vest with an average annual growth rate of 7.5 %	100 % of the rights at an average annual growth rate of 10 %	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at 10 %
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points		

What are the performance hurdles for the 2014 LTIA?

(Performance Period 1 July 2014 – 30 June 2017)

The performance hurdles for the 2014 LTIA are as follows:

OPERATING RATIO

The target OR in FY2017 of 71.5 %

RELATIVE TOTAL SHAREHOLDER RETURN

As described in the 2013 LTIA

RETURN ON INVESTED CAPITAL

ROIC, for the purposes of the LTIA, will be calculated on the same basis as the published ROIC except to the extent of the differences explained in this section. Essentially, ROIC is Underlying EBIT (the “numerator”) divided by Invested Capital (the “denominator”). A ROIC Minimum and Maximum will be set at the commencement of the performance period with reference to the 3 year ROIC Forecast as set out in the annual, Board approved, Corporate Plan.

The Minimum will be set at the 3 year average in the Forecast and a result below Minimum will attract 0 % vesting. The Maximum will be set above the 3 year average in the forecast and a result at or above the Maximum will attract 100 % vesting. A result between Minimum and Maximum will attract vesting on a straight line basis between 50 % and 100 %. For the purposes of LTIA, invested capital will not include major (infrastructure investments with an approved budgeted capital expenditure over $250m) assets under construction (**AUC**) until these investments are planned to generate income, subject to Board discretion (for example, in the case of a delay judged to be outside the control of management and not able to be foreseen or mitigated).

The award to be made in relation to the performance period 1 July 2014 to 30 June 2017 will have a Minimum of 10.5 % average ROIC p.a. and a Maximum of 11.5 % average ROIC p.a. The average ROIC has been adjusted to exclude the Wiggins Island Rail Project currently under construction until it is planned to generate income (which is expected to be during this performance period). During this performance period both the West Pilbara infrastructure project and the Galilee infrastructure project are expected to commence and, in accordance with the methodology set out above, will be excluded from the calculation of ROIC for remuneration purposes until they are planned to produce income.

HURDLE	WEIGHTING	PERFORMANCE PERIOD (1 JULY 2014 – 30 JUNE 2017) MINIMUM VESTING POINT		MAXIMUM VESTING POINT	RETESTING (1 JULY 2014 – 30 JUNE 2018)
Operating Ratio Improvement	34 %	50 % of the rights will vest with an OR of 73 %		100 % of the rights will vest with an OR of 71.5 %	100 % of the rights will vest at or below an OR of 70 %. 0 % will vest with an OR above 70 %
Relative TSR: *against peer group within ASX100 Index*	*33%*	30 % of the rights will vest at the 50th percentile[1]	75 % of the rights will vest at the 62.5th percentile	100 % of the rights will vest at the 75th percentile	100 % of the rights will vest at the 75th percentile. 0 % will vest below the 75th percentile
ROIC	*33%*	50 % of the rights will vest with an average ROIC of 10.5 %		100 % of the rights will vest with an average ROIC of 11.5 %	100 % of the rights will vest with an average ROIC of 12.5 %. 0 % of the rights will vest below 12.5 % ROIC
	100%	All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points			

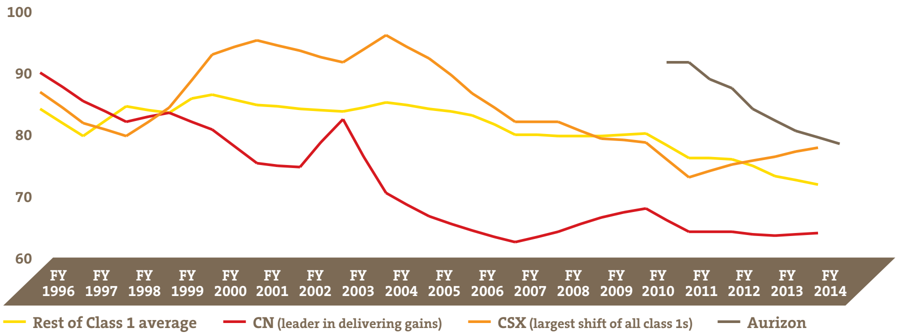
1 In previous years’ 50 % of the rights vest at the 50th percentile

6.2 LTIA performance hurdle outcomes

Figure 8 and the following information relate to the key performance measures which underpin the LTIA.

Aurizon is driving the business to achieve an Operating Ratio of 75 % for FY2015 and better in subsequent years. Delivering on this achievement will require further implementation of transformation initiatives, growth initiatives and continued tight operational and financial discipline. Since IPO, the Operating Ratio has been reduced each year and in FY2014 was 77.7 %.

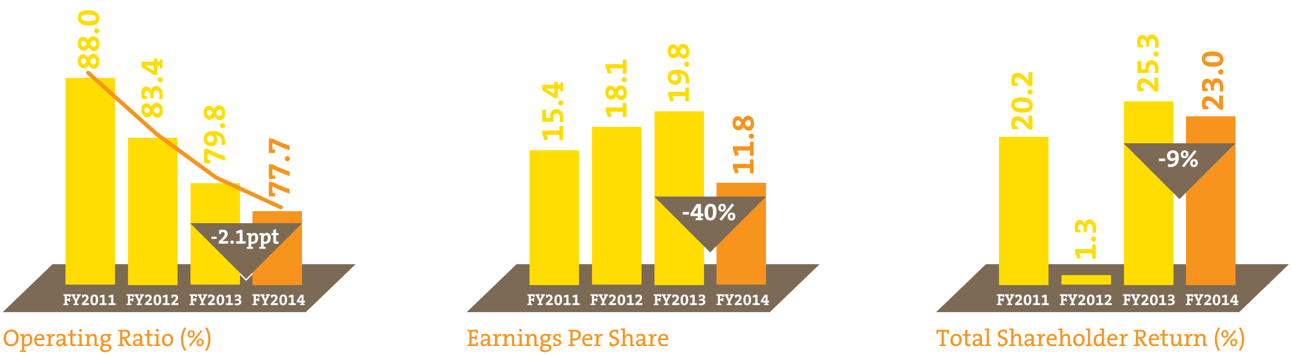
FIGURE 7 – HISTORICAL OPERATING RATIO COMPARISON



- Aurizon's financial year ends 30 June, while Class 1s financial year ends 31 December. Aurizon figure up to 30 June 2014 financial year
- CN achieved a reduction from high 80's to low 70's in a 7–8 year period
- CSX achieved a reduction from high 80's to low 70's in a 5–6 year period
- Rest of Class 1's consists of BNSF, UP, NS, KCS; in 1995–96 figures do not include figures from SF pre-merger with BN to form BNSF

Source: Analysis of Class 1 Railroads (Association of American Railroads (**AAR**)) up to December 2013

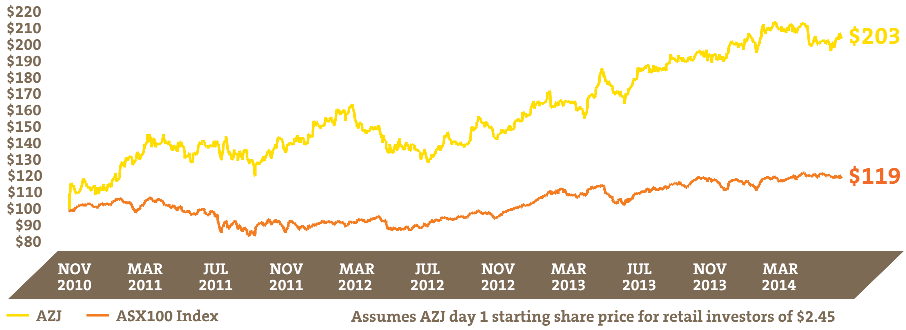
FIGURE 8 – HISTORICAL FINANCIAL PERFORMANCE OF LTIA PERFORMANCE HURDLES[1]



1 These are the hurdles for prior years. For future awards EPS is being replaced with ROIC

A key benefit for Aurizon shareholders is the share price appreciation since IPO. Figure 9 shows the movements in both the Aurizon share price and ASX100 index value over the period from listing date 22 November 2010 to 30 June 2014. The diagram assumes that a shareholder starts with an initial investment of $100 in Aurizon and the ASX100 index and shows the change in the value of that investment, based on changes in spare price / index value over the period. For Aurizon, the diagram assumes a starting price of $2.45, being the initial retail share price at listing, and excludes dividends and dividend reinvestment.

FIGURE 9 – SHARE PRICE GROWTH OF AZJ AND ASX100 INDEX (22 NOVEMBER 2010 TO 30 JUNE 2014)[1]



1 The diagram excludes the value that would have been received from dividend payments during the year and is not equivalent to TSR

Directors' Report (continued)

Remuneration Report

Performance related to the historical LTIA as at 30 June 2014 is identified in Table 7: Company Performance against LTIA Performance Hurdles.

TABLE 7: COMPANY PERFORMANCE AGAINST LTIA PERFORMANCE HURDLES

PERFORMANCE HURDLE AND PERFORMANCE MEASUREMENT PERIOD		WEIGHTING	RESULT	% VESTED	% FOR RETESTING[1]	% LAPSED
IPO (2010) AWARD: 1 JULY 2010 – 30 JUNE 2013 (EPS) & 22 NOVEMBER 2010 – 22 NOVEMBER 2013 (RELATIVE TSR)						
EPS: *IPO Offer Document FY2010 and FY2011 EBIT plus EPS growth from FY2012 – FY2013*	50 % of rights vest with an EPS growth rate of 7.5 %, up to 100 % at an EPS growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	50 %	9.4 %	92 %	Not applicable	8 %
Relative TSR: *against peer group within ASX100 Index*	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	*50%*	*Top Quartile*	*100%*		
2011 AWARD: 1 JULY 2011 – 30 JUNE 2014						
EPS: *IPO Offer Document FY2011 EBIT plus average annual EPS growth from FY2012 – FY2014*	50 % of the rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis). *FY2012 to FY2014 EPS growth was negative due to the impairment charges announced in December 2013 and June 2014*	*50%*	*-17.4%*	*0%*	*100% of this component will be retested in 2015*	
Relative TSR: *against peer group within ASX100 Index*	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	*50%*	*Top Quartile*	*100%*		
2012 AWARD: 1 JULY 2012 – 30 JUNE 2015						
Operating Ratio Improvement[2]	50 % of rights will vest with a FY2015 OR of 79.5 %, up to 100 % at 75 % (with rights vesting pro-rata on a straight-line basis)	*33%*				
EPS: *Average annual EPS growth from FY2012 – FY2015*	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	*33%*				
Relative TSR: *against peer group within ASX100 Index*	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	*33%*				
2013 AWARD: 1 JULY 2013 – 30 JUNE 2016						
Operating Ratio Improvement[2]	50 % of rights will vest with a FY2016 OR of 75 %, up to 100 % at 73 % (with rights vesting pro-rata on a straight-line basis)	*50%*				
EPS: *Average annual EPS growth from FY2013 – FY2016*	50 % of rights vest with an average annual growth rate of 7.5 %, up to 100 % at an average annual growth rate of 10 % (with rights vesting pro-rata on a straight-line basis)	*25%*				
Relative TSR: *against peer group within ASX100 Index*	50 % of rights vest at the 50th percentile, up to 100 % at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	*25%*				
2014 AWARD: 1 JULY 2014 – 30 JUNE 2017						
Operating Ratio Improvement[2]	50 % of rights will vest with a FY2017 OR of 73 %, up to 100 % at 71.5 % (with rights vesting pro-rata on a straight-line basis)	*34%*				
Relative TSR: *against peer group within ASX100 Index*	30 % of rights vest at the 50th percentile, 75 % at the 62.5th percentile, up to 100 % of at the 75th percentile (with rights vesting pro-rata on a straight-line basis)	*33%*				
ROIC	50 % of the rights will vest with an average ROIC of 10.5 %, up to 100 % with an average ROIC of 11.5 % (with rights vesting pro-rata on a straight-line basis)	*33%*				

1 Effective for all LTIs granted from 1 July 2014, where the performance conditions for the respective LTIA is not met by year 3, the LTIA is subject to retest in the fourth year at the discretion of the Board. Prior to 2014, the retest for LTIA grants before 1 July 2014 was not at the discretion of the Board as previously disclosed and no such discretion was previously made

2 The Operating Ratio improvement hurdle is measured against the ratio calculated by including any diesel fuel rebate in revenue

6.3 Changes to the LTIA Framework from Financial Year 2015

The following changes will be made to the LTIA framework from FY2015:

- EPS growth will no longer be used as an LTIA performance hurdle and will be replaced by ROIC. The Board is of the view that the OR hurdle sufficiently focuses on operational efficiency and profit maximisation and that the EPS growth hurdle does not provide significant additional motivation to the Executive team. ROIC, which has previously been part of our STIA program, will replace EPS. This performance measure focuses on the generation of superior returns from the capital that we have invested in the business and should strongly align with the generation of long term shareholder wealth;
- Thus, the LTIA performance measures will be changed to OR 34 %, Relative TSR 33 % and ROIC 33 %, reflecting the equal emphasis on ROIC and OR over the next three years as we approach our target of world class operating efficiency;
- For the Relative TSR component of LTIA, 30 % will vest at median TSR ranking, down from 50 % previously. This change has been made to reflect that median performance (i.e. requiring outperformance of half of comparator group) is a threshold level of performance and should result in a threshold level of vesting, with larger rewards reserved for progressively better performance; and
- Any vesting and retesting relating to the performance period 1 July 2014 to 30 June 2017 and subsequent awards will be at the discretion of the Board having regard to performance against the performance conditions.

Directors' Report (continued)

Remuneration Report

7 Executive Remuneration Financial Year 2014

Details of the remuneration paid to Executives are set out below:

TABLE 8 –EXECUTIVE REMUNERATION

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS		EQUITY-SETTLED SHARE-BASED PAYMENTS		PROPORTION OF COMPENSATION PERFORMANCE RELATED	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR
NAME	YEAR	CASH SALARY AND FEES $'000	CASH BONUS[1] $'000	NON-MONETARY BENEFITS[2] $'000	OTHER $'000[3]	SUPER-ANNUATION $'000	LONG-SERVICE LEAVE $'000	TERMINATION BENEFITS $'000	RIGHTS[4] $'000	TOTAL $'000	% (C+H / I)	% (H / I)
EXECUTIVE KMP		A	B	C	D	E	F	G	H	I	J	K
L E Hockridge	**2014**	**1,915**	**1,306**	**200**	**-**	**35**	**99**	**-**	**1,566**	**5,121**	**56**	**31**
	2013	1,927	2,505	205	-	17	129	-	1,327	6,110	63	22
M G Carter	**2014**	**626**	**363**	**(16)**	**-**	**124**	**52**	**-**	**463**	**1,612**	**51**	**29**
	2013	622	725	64	-	126	57	-	360	1,954	56	18
J M Franczak[5]	**2014**	**1,000**	**491**	**29**	**-**	**-**	**7**	**-**	**1,253**	**2,780**	**63**	**45**
	2013	242	750	33	430	-	2	-	242	1,699	58	14
A Kummant[6]	**2014**	**781**	**407**	**141**	**129**	**18**	**6**	**-**	**482**	**1,964**	**45**	**25**
	2013	586	750	69	150	12	4	-	782	2,353	65	33
K Neate[7]	**2014**	**705**	**344**	**21**	**-**	**25**	**21**	**-**	**325**	**1,441**	**46**	**23**
	2013	387	563	21	-	15	8	-	106	1,100	61	10
M Neves De Moraes[8]	**2014**	**369**	**-**	**30**	**563**	**-**	**3**	**-**	**725**	**1,690**	**43**	**43**
	2013	-	-	-	-	-	-	-	-	-	-	-
G P Pringle	**2014**	**587**	**288**	**(30)**	**-**	**25**	**17**	**-**	**390**	**1,277**	**53**	**31**
	2013	585	575	14	-	25	12	-	319	1,530	58	21
R J Stephens	**2014**	**594**	**291**	**32**	**-**	**18**	**24**	**-**	**390**	**1,349**	**50**	**29**
	2013	593	575	(44)	-	17	21	-	319	1,481	60	22
K R Lewsey[9]	**2014**	**413**	**-**	**(27)**	**-**	**9**	**(70)**	**719**	**154**	**1,198**	**13**	**13**
	2013	722	703	17	-	25	33	-	379	1,879	58	20
G Robinson[10]	**2014**	**209**	**-**	**(45)**	**-**	**9**	**(15)**	**494**	**85**	**737**	**12**	**12**
	2013	548	575	8	-	25	9	-	211	1,376	57	15
P Scurrah[11]	**2014**	**370**	**-**	**(89)**	**-**	**6**	**(81)**	**63**	**13**	**282**	**5**	**5**
	2013	813	825	8	-	17	46	-	292	2,001	56	15
Total Executive KMP compensation (group)	**2014**	**7,569**	**3,490**	**246**	**692**	**269**	**63**	**1,276**	**5,846**	**19,451**	**48**	**30**
	2013	7,025	8,546	395	580	279	321	-	4,337	21,483	60	20

1 The short-term incentives (cash bonus) and deferred short-term incentives and long-term incentives (equity-settled share-based payments) represent the at risk performance-related remuneration. Cash bonus for FY2014 represents 80 % STIA award

2 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

3 Other short-term employee benefits include sign on bonus and relocation assistance

4 The value of rights granted in the year is the fair value independently calculated at grant date using an expected outcome model. This was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period. Refer to Note 35 for further details regarding the fair value of Rights. These values may not represent the future value that the Executive will receive, as the vesting of the Rights is subject to the achievement of performance conditions. Share rights for FY2014 includes 10 % of deferred STIA expensed in FY2014. The remaining 10 % of the deferred STIA will be expensed in FY2015

5 J M Franczak commenced in the role 3 April 2013. The 2013 remuneration has been restated to include $73,000 performance rights

6 A Kummant commenced in the role 8 October 2012

7 K Neate commenced acting in the role 19 November 2012, confirmed in the role 8 April 2013

8 M Neves De Moraes commenced in the role 1 January 2014

9 K R Lewsey ceased in the role on 31 October 2013

10 G Robinson ceased in the role on 31 October 2013

11 P Scurrah ceased in the role on 31 October 2013

TABLE 9 – RIGHTS GRANTED AS COMPENSATION

NAME	DATE GRANTED	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	BALANCE AT END OF YEAR	FAIR VALUE PER RIGHT AT GRANT DATE	EXERCISE PRICE	VESTED IN YEAR	FORFEITED IN YEAR	VALUE OF RIGHTS GRANTED IN YEAR[1]	VALUE OF RIGHTS FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS	EXPIRY DATE
			NO.	NO.	NO.	NO.	NO.	$	$	%	%	$'000	$'000		
L E Hockridge	1-Dec-10	LTIAD - EPS	333,333	-	(306,666)	(26,667)	-	1.14	4.75	92.00	8.00	-	30	22-Nov-13	31-Dec-14
	1-Dec-10	LTIAD - TSR	333,333	-	(333,333)	-	-	0.94	4.75	100.00	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	247,093	-	-	-	247,093	2.93	-	-	-	-	-	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	247,093	-	-	-	247,093	1.28	-	-	-	-	-	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	194,030	-	-	-	194,030	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	194,030	-	-	-	194,030	2.06	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	194,030	-	-	-	194,030	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	16-Aug-13	LTIAD - TSR	-	108,093	-	-	108,093	2.78	-	-	-	301	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	108,093	-	-	108,093	4.07	-	-	-	439	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	216,187	-	-	216,187	4.07	-	-	-	879	-	16-Aug-16	31-Dec-17
J M Franczak	4-Apr-13	Retention	100,000	-	(100,000)	-	-	4.01	4.77	100.00	-	-	-	28-Jan-14	28-Jan-14
	4-Apr-13	Retention	100,000	-	-	-	100,000	4.01	-	-	-	-	-	28-Jan-15	28-Jan-15
	4-Apr-13	LTIAD - EPS	74,626	-	-	-	74,626	3.57	-	-	-	-	-	23-Aug-15	31-Dec-16
	4-Apr-13	LTIAD - TSR	74,627	-	-	-	74,627	2.59	-	-	-	-	-	23-Aug-15	31-Dec-16
	4-Apr-13	LTIAD - OR	74,627	-	-	-	74,627	3.57	-	-	-	-	-	23-Aug-15	31-Dec-16
	16-Aug-13	LTIAD - TSR	-	41,574	-	-	41,574	2.78	-	-	-	116	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	41,574	-	-	41,574	4.07	-	-	-	169	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	83,150	-	-	83,150	4.07	-	-	-	338	-	16-Aug-16	31-Dec-17
A Kummant	9-Oct-12	Retention	100,000	-	(100,000)	-	-	3.53	4.69	100.00	-	-	-	9-Oct-13	9-Oct-13
	23-Aug-12	LTIAD - EPS	62,686	-	-	-	62,686	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	62,686	-	-	-	62,686	2.06	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	62,687	-	-	-	62,687	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	16-Aug-13	LTIAD - TSR	-	34,922	-	-	34,922	2.78	-	-	-	97	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	34,922	-	-	34,922	4.07	-	-	-	142	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	69,846	-	-	69,846	4.07	-	-	-	284	-	16-Aug-16	31-Dec-17
K Neate	22-Aug-11	LTIAD - EPS	29,070	-	-	-	29,070	2.93	-	-	-	-	-	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	29,070	-	-	-	29,070	1.28	-	-	-	-	-	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	31,051	-	-	-	31,051	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	31,051	-	-	-	31,051	2.06	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	31,050	-	-	-	31,050	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	10-Oct-12	STIAD	16,567	-	(16,567)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	16,567	-	-	-	16,567	3.46	-	-	-	-	-	10-Oct-14	10-Oct-14
	16-Aug-13	LTIAD - TSR	-	30,349	-	-	30,349	2.78	-	-	-	84	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	30,349	-	-	30,349	4.07	-	-	-	123	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	60,699	-	-	60,699	4.07	-	-	-	247	-	16-Aug-16	31-Dec-17
M Neves De Moraes	1-Jan-14	Retention	-	75,000	(75,000)	-	-	4.78	4.78	100.00	-	359	-	28-Feb-14	1-Jan-17
	1-Jan-14	Retention	-	75,000	-	-	75,000	4.89	-	-	-	367	-	1-Jan-15	1-Jan-17
	1-Jan-14	Retention	-	75,000	-	-	75,000	4.89	-	-	-	367	-	1-Jan-16	1-Jan-17
	1-Jan-14	LTIAD - TSR	-	31,180	-	-	31,180	3.34	-	-	-	104	-	16-Aug-16	31-Dec-17
	1-Jan-14	LTIAD - EPS	-	31,181	-	-	31,181	4.32	-	-	-	135	-	16-Aug-16	31-Dec-17
	1-Jan-14	LTIAD - OR	-	62,361	-	-	62,361	4.32	-	-	-	269	-	16-Aug-16	31-Dec-17

Directors’ Report (continued)

Remuneration Report

NAME	DATE GRANTED	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	BALANCE AT END OF YEAR	FAIR VALUE PER RIGHT AT GRANT DATE	EXERCISE PRICE	VESTED IN YEAR	FORFEITED IN YEAR	VALUE OF RIGHTS GRANTED IN YEAR[1]	VALUE OF RIGHTS FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS	EXPIRY DATE
			NO.	NO.	NO.	NO.	NO.	$	$	%	%	$'000	$'000		
M G Carter	22-Nov-10	LTIAD - EPS	58,824	-	(54,118)	(4,706)	-	1.14	4.75	92.00	8.00	-	5	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	58,824	-	(58,824)	-	-	0.94	4.75	100.00	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	45,785	-	-	-	45,785	2.93	-	-	-	-	-	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	45,785	-	-	-	45,785	1.28	-	-	-	-	-	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	55,970	-	-	-	55,970	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	55,970	-	-	-	55,970	2.06	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	55,970	-	-	-	55,970	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	25,618	-	(25,618)	-	-	2.99	4.69	100.00	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	27,985	-	(27,985)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	27,985	-	-	-	27,985	3.46	-	-	-	-	-	10-Oct-14	10-Oct-14
	16-Aug-13	LTIAD - TSR	-	31,180	-	-	31,180	2.78	-	-	-	87	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	31,180	-	-	31,180	4.07	-	-	-	127	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	62,363	-	-	62,363	4.07	-	-	-	254	-	16-Aug-16	31-Dec-17
G P Pringle	22-Nov-10	LTIAD - EPS	53,922	-	(49,608)	(4,314)	-	1.14	4.75	92.00	8.00	-	5	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	53,922	-	(53,922)	-	-	0.94	4.75	100 .00	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	41,969	-	-	-	41,969	2.93	-	-	-	-	-	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	41,969	-	-	-	41,969	1.28	-	-	-	-	-	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	45,672	-	-	-	45,672	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	45,672	-	-	-	45,672	2.06	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	45,672	-	-	-	45,672	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	25,436	-	(25,436)	-	-	2.99	4.69	100.00	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	25,746	-	(25,746)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	25,746	-	-	-	25,746	3.46	-	-	-	-	-	10-Oct-14	10-Oct-14
	16-Aug-13	LTIAD - TSR	-	25,443	-	-	25,443	2.78	-	-	-	71	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	25,443	-	-	25,443	4.07	-	-	-	103	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	50,888	-	-	50,888	4.07	-	-	-	207	-	16-Aug-16	31-Dec-17
R J Stephens	22-Nov-10	LTIAD - EPS	53,922	-	(49,608)	(4,314)	-	1.14	4.75	92.00	8.00	-	5	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	53,922	-	(53,922)	-	-	0.94	4.75	100.00	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	41,969	-	-	-	41,969	2.93	-	-	-	-	-	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	41,969	-	-	-	41,969	1.28	-	-	-	-	-	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	45,672	-	-	-	45,672	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	45,672	-	-	-	45,672	2.06	-	-	-	-	-	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	45,672	-	-	-	45,672	3.29	-	-	-	-	-	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	25,436	-	(25,436)	-	-	2.99	4.69	100.00	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	25,746	-	(25,746)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	25,746	-	-	-	25,746	3.46	-	-	-	-	-	10-Oct-14	10-Oct-14
	16-Aug-13	LTIAD - TSR	-	25,443	-	-	25,443	2.78	-	-	-	71	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - EPS	-	25,443	-	-	25,443	4.07	-	-	-	103	-	16-Aug-16	31-Dec-17
	16-Aug-13	LTIAD - OR	-	50,888	-	-	50,888	4.07	-	-	-	207	-	16-Aug-16	31-Dec-17

NAME	DATE GRANTED	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	BALANCE AT END OF YEAR	FAIR VALUE PER RIGHT AT GRANT DATE	EXERCISE PRICE	VESTED IN YEAR	FORFEITED IN YEAR	VALUE OF RIGHTS GRANTED IN YEAR[1]	VALUE OF RIGHTS FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS	EXPIRY DATE
			NO.	NO.	NO.	NO.	NO.	$	$	%	%	$'000	$'000		
FORMER EXECUTIVE															
G Robinson	22-Aug-11	LTIAD - EPS	17,442	-	-	(3,837)	13,605	2.93	-	-	22.00	-	11	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	17,442	-	-	(3,837)	13,605	1.28	-	-	22.00	-	5	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	45,672	-	-	(25,576)	20,096	3.29	-	-	56.00	-	84	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	45,672	-	-	(25,576)	20,096	2.06	-	-	56.00	-	53	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	45,672	-	-	(25,576)	20,096	3.29	-	-	56.00	-	84	23-Aug-15	31-Dec-16
	10-Oct-12	STIAD	25,373	-	(25,373)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	25,373	-	-	(25,373)	-	3.46	-	-	100.00	-	88	10-Oct-14	10-Oct-14
P Scurrah	23-Aug-12	LTIAD - EPS	62,090	-	-	(62,090)	-	3.29	-	-	100.00	-	204	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	62,090	-	-	(62,090)	-	2.06	-	-	100.00	-	128	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	62,090	-	-	(62,090)	-	3.29	-	-	100.00	-	204	23-Aug-15	31-Dec-16
	10-Oct-12	STIAD	29,851	-	(29,851)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	29,851	-	-	(29,851)	-	3.46	-	-	100.00	-	103	10-Oct-14	10-Oct-14
K R Lewsey	22-Nov-10	LTIAD - EPS	63,725	-	(58,627)	(5,098)	-	1.14	4.75	92.00	8.00	-	6	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	63,725	-	(63,725)	-	-	0.94	4.75	100.00	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	49,600	-	-	(10,912)	38,688	2.93	-	-	22.00	-	32	22-Aug-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	49,600	-	-	(10,912)	38,688	1.28	-	-	22.00	-	14	22-Aug-14	31-Dec-15
	23-Aug-12	LTIAD - EPS	55,970	-	-	(31,343)	24,627	3.29	-	-	56.00	-	103	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - TSR	55,970	-	-	(31,343)	24,627	2.06	-	-	56.00	-	65	23-Aug-15	31-Dec-16
	23-Aug-12	LTIAD - OR	55,970	-	-	(31,343)	24,627	3.29	-	-	56.00	-	103	23-Aug-15	31-Dec-16
	28-Sep-11	STIAD	29,615	-	(29,615)	-	-	2.99	4.69	100.00	-	-	-	28-Sep-13	1-Oct-14
	10-Oct-12	STIAD	29,851	-	(29,851)	-	-	3.54	4.70	100.00	-	-	-	10-Oct-13	10-Oct-13
	10-Oct-12	STIAD	29,851	-	-	(29,851)	-	3.46	-	-	100.00	-	103	10-Oct-14	10-Oct-14
Total[2]			**4,861,970**	**1,537,751**	**(1,644,577)**	**(516,699)**	**4,238,445**					**6,050**	**1,435**		

1 The value of Rights granted in the year is the fair value independently calculated at grant date using an expected outcome model, this was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period

2 At 30 June 2014 no Rights had vested that had not yet been exercised. For the KMP identified above the total value of Rights granted but yet to vest is $13.2 million

Directors' Report (continued)

Remuneration Report

8 Executive Service Agreements

8.1 Executive Service Agreements

Remuneration and other terms of employment for the MD & CEO and Executives are formalised in a Service Agreement as summarised below.

TABLE 10 – SERVICE AGREEMENT SUMMARY

	DURATION OF SERVICE AGREEMENT	FIXED REMUNERATION AT END OF FINANCIAL YEAR 2014[1]	NOTICE PERIOD[2]	
			BY EXECUTIVE	BY COMPANY[3]
EXECUTIVE KMP				
L E Hockridge	Ongoing	$1,950,000	6 months	12 months
M G Carter	Ongoing	$ 750,000	3 months	6 months
J M Franczak	Ongoing	$1,000,000	3 months	12 months
A Kummant	Ongoing	$ 840,000	3 months	12 months
K Neate	Ongoing	$ 730,000	3 months	6 months
M Neves De Moraes	Ongoing	$ 750,000	3 months	6 months
G P Pringle	Ongoing	$ 612,000	3 months	6 months
R J Stephens	Ongoing	$ 612,000	3 months	6 months

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

8.2 Minimum shareholding policy for Executives

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

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

This is to be achieved within six years of the date of listing of the Company or their appointment (whichever is the later). This will be calculated with reference to the Directors' fees/Executives' Total Fixed Remuneration during the period divided by the number of years. Details of KMP shareholdings as at 30 June 2014 are set out in Table 11, on the following page.

TABLE 11 – KMP SHAREHOLDINGS AS AT 30 JUNE 2014

NAME	BALANCE AT THE START OF THE YEAR '000	RECEIVED DURING THE YEAR ON VESTING '000	OTHER CHANGES DURING THE YEAR '000	BALANCE AT THE END OF THE YEAR '000
NON-EXECUTIVE DIRECTORS				
J B Prescott AC	215	n/a	6	221
J Atkin	35	n/a	-	35
R R Caplan	82	n/a	-	82
J D Cooper	20	n/a	20	40
K L Field	14	n/a	-	14
G T John AO	57	n/a	-	57
A J P Staines	14	n/a	-	14
G T Tilbrook	49	n/a	-	49
P Zito[1]	-	n/a	-	-
EXECUTIVES				
L E Hockridge	872	640	(315)	1,197
M G Carter	88	167	-	255
J M Franczak	-	100	-	100
A Kummant	100	100	-	200
K Neate	20	17	-	37
M Neves De Moraes[2]	-	75	-	75
G P Pringle	56	155	-	211
R J Stephens	120	155	(173)	102

1 P Zito was appointed a Director on 1 December 2013
2 M Neves De Moraes commenced in the role on 1 January 2014

8.3 Hedging and margin lending policies

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

9 Non-Executive Director Remuneration

9.1 Non-Executive Director remuneration policy

Overview of policy	Fees for Non-Executive Directors are set at a level to attract and retain Directors with the necessary skills and experience to allow the Board to have a proper understanding of and competence to deal with, current and emerging issues for Aurizon. The Directors' Fee is a composite fee and covers all responsibilities of the respective members including Board and Committee duties. The Fee is also a total fee in that it covers both cash and any contributions to a fund for the purposes of superannuation benefits. There are no other retirement benefits in place for Non-Executive Directors. Non-Executive Directors do not receive performance-based pay.
Aggregate fees approved by shareholders	$2.5 million. The cap does not include remuneration for performing additional or special duties for Aurizon at the request of the Board or reasonable travelling, accommodation and other expenses of Directors in attending meetings and carrying out their duties.
How are individual fees determined?	Within the aggregate cap, remuneration for Non-Executive Directors is reviewed by the Committee and set by the Board, taking into account recommendations from an external expert. Fees and payments to Non-Executive Directors are reviewed annually by the Board and reflect the demands which are made on, and the responsibilities of, the Directors. The Chairman's fees are determined independently to the fees of Non-Executive Directors, based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Directors' Report (continued)

Remuneration Report

9.2 Non-Executive Directors' Fees

The current annual base fees for the Non-Executive Directors are set out in Table 12 – Directors' Fees. There has been no increase applied to the Directors' fees since 1 July 2012.

TABLE 12 – DIRECTORS' FEES

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

9.3 Actual Remuneration Outcomes for Non-Executive Directors

The remuneration for the Non-Executive Directors of the Company is summarised below.

TABLE 13 – NON-EXECUTIVE DIRECTORS' REMUNERATION

		SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	
NON-EXECUTIVE DIRECTORS	YEAR	SALARY AND FEES $'000	NON-MONETARY BENEFITS $'000[1]	SUPERANNUATION $'000	TOTAL REMUNERATION $'000
J B Prescott AC	**2014**	**447**	**4**	**28**	**479**
	2013	457	6	16	479
J Atkin	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
R R Caplan	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
J D Cooper	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
K L Field	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
G T John AO	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
A J P Staines	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
G T Tilbrook	**2014**	**174**	**-**	**16**	**190**
	2013	174	-	16	190
P Zito[2]	**2014**	**72**	**-**	**38**	**110**
	2013	-	-	-	-
Total	**2014**	**1,737**	**4**	**178**	**1,919**
	2013	1,675	6	128	1,809

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

2 P Zito was appointed a Director on 1 December 2013

pwc

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Aurizon Holdings Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

John Yeoman
Partner
PricewaterhouseCoopers

Brisbane
18 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Sustainability

"Sustainability is one of our biggest challenges moving forward and also one of the biggest opportunities for our Company. In recognising this, Aurizon is now taking steps to embed sustainability within our wider business strategy and operations."

Sustainability Journey – Moving towards World Class

As Australia's largest private railroad operator, we are serious about responsibly managing our economic, social and environmental impacts, and building a pathway to a long-term and sustainable business.

Aurizon is both a freight operating and infrastructure development company. In our operations, we continue to make progress on a number of sustainability issues, including our safety performance, our operational efficiency and environmental management. A key element of our approach is the ongoing reduction in resource use across all of our operations with a strong focus on longer trains, higher-density trains, increased reliability and improved average train velocity.

In infrastructure development, we aim to incorporate best practice principles into our project design and management, including a commitment to quality and value and the minimisation of safety and environmental risks.

In addition to continuing the improvement in operations and development, Aurizon also recognises the need to formally embed broader sustainability objectives into our corporate strategy.

Specific steps have been taken to strengthen the governance of sustainability in the Company consistent with the recent inclusion of Recommendation 7.4 of the Corporate Governance Principles. During FY2014, Aurizon appointed a Vice President Sustainability and established a steering committee to help define and drive our sustainability approach to a new level, including broader sustainability reporting and disclosures in line with the ASX Listing Rule requirements. The Vice President Sustainability reports to the Executive Vice President Commercial & Marketing and with oversight from the MD & CEO and Aurizon Holdings Board, is developing an Aurizon sustainability framework and reporting process in compliance with the ASX Listing Rule requirements.

Aurizon has adopted the 3rd edition of the Corporate Governance Principles. While there has been insufficient time since adoption of the Corporate Governance Principles to fully identify the material economic, environmental and social sustainability risks we face, Aurizon has set appropriate benchmarks against which we will measure and report FY2014 performance.

Aurizon will prepare its inaugural sustainability report in accordance with the Global Reporting Initiative's (**GRI**) Sustainability Reporting Guidelines (G4 Reporting Guidelines) prior to the end of FY2015. Aurizon will report, for the first time on its sustainability performance and management of the Company's material priorities.

Our Sustainability Commitment

In FY2014, a Sustainability Commitment was approved by Aurizon's Executive Committee:

- *We are committed to building a long-term sustainable business that delivers lasting value for our shareholders, customers, employees and communities.*
- *We aim to take the safest, most efficient and least resource-intensive approach to the services we provide.*
- *We apply a balanced view when assessing risk and making decisions, encompassing social, environmental and economic considerations.*
- *Our sustainability strategy is integral to our journey to world class performance.*

Our Reporting Approach

Our Sustainability Commitment anchors our approach to sustainability and will guide the structure and content of our inaugural sustainability report.

In order to better understand the important sustainability factors impacting on the business, we conducted a materiality assessment for the first time in FY2014. We engaged an independent consulting firm to interview our key internal and external stakeholders about our material sustainability risks. This helped us to map the significant areas that impact the economic, social and environmental risks of the Company as well as the importance of particular issues to our stakeholders. As part of this process, Aurizon interviewed external stakeholders including investor, regulator, industry associates and customers.

The table below provides more detail on the materiality process undertaken in FY2014.

IDENTIFICATION	PRIORITISATION	REPORT
Research, analysis and review of information to establish a list of material sustainability priorities relevant to Aurizon including: › stakeholder engagement and feedback › strategic and operational risk assessments › media reviews; and › emerging challenges identified by international bodies. The outcome was the development of an initial list of material sustainability priorities for discussion with internal stakeholders.	Consultation and review through workshops with key internal stakeholders, including investor relations, strategy, operations, health and safety, human resources and enterprise risk services representatives. This includes ranking priorities in order of greatest impact to the business and to stakeholders. The prioritisation process is ongoing and will be discussed in the inaugural report.	Our aim is to release a sustainability report during FY2015 in accordance with GRI G4 Reporting Guidelines to achieve GRI G4 CORE compliance.

Four key sustainability areas of safety, environmental management, community engagement and organisational capability were disclosed in our 2013 Annual Report. Information pertaining to these four areas are outlined in this Annual Report and will be expanded through the inaugural sustainability report.

Safety

Safety is our core value and we are committed to the safety of our people, the safety of those we work with and the safety of the communities in which we operate. We put safety above all else.

Our safety accreditation as an above rail operator across Australia is evidence of our commitment to safe operations, regulatory compliance and continuous improvement.

A strong commitment to safety across all Aurizon operations has ensured continued improvement in our safety performance. Our safety goal of ***ZERO***HARM means no injuries to anyone, ever.

Since 2008, Aurizon has been on a path of continuous improvement in relations to the safety of our employees and locations across the Company. Between 30 June 2009 and 30 June 2014, Aurizon achieved a 96% reduction in Lost Time Injury Frequency Rate (**LTIFR**) to 0.28 and a 90% reduction in Medically Treated Injury Frequency Rate (**MTIFR**) to 2.52. These results demonstrate the Aurizon transformation and are the outcome of focussing on safety as a core value that is intrinsically linked to decision making.

Similarly, in relation to Signals Passed at Danger/MTKm there has been a 34% reduction to 0.65 in FY2014 and in relation to Running Line Derailments/MTKm, there has been a 23% reduction to 0.50 for FY2014.

Our comprehensive and embedded approach to safety management includes targeted initiatives to improve safety culture and establish robust systems and behaviours throughout the workforce. Aurizon has a Safety Policy which is endorsed by the MD & CEO and approved by the Aurizon Holdings Board. The Policy is supported by a Safety Principle document which is approved by the VP Safety, Health & Environment (**VP SHE**) and serves to bring into effect the Policy directives.

The Safety, Health & Environment (**SHE**) Committee is a Board Subcommittee which oversees Aurizon environment compliance through ongoing review.

In addition, Aurizon has established dedicated teams across the organisation with responsibility for:

> District Safety Improvement
> Isolation and Lock Out
> Road Safety
> Trackside Safety
> Derailment Prevention
> SPADs
> Level Crossing Safety
> Contractor Safety

During the past year, Aurizon has been setting a world class standard for its commitment to ***ZERO***HARM and has been recognised with the following industry awards:

1. Chartered Institute of Logistics and Transport Australia (**CILTA**) Industry Excellence Award for Safety. This award recognises an organisation that has demonstrated a practical and exceptional commitment to excellence in safety in Australian Passenger, Freight and Defence Transport or Logistics.
2. Top honours at the annual SAP Customer Awards of Excellence for Safety, Health and Environment Management (**SHEM**), the fully integrated IT system that Aurizon has implemented across the organisation to manage all aspects of safety including safety interactions, incidents, hazards and near misses.
3. ‘Highly Commended’ at the National Safety Council of Australia (**NSCA**) Safety Awards of Excellence for “Best Safety Leadership Program”.
4. Australasian Railway Association (**ARA**) Safety Award for community safety works, including sponsorship of the Newcastle Knights and Jets in the Hunter Valley and the rail safety school program presentations delivered to more than 12,000 children across approximately 80 primary schools in the Hunter region to date.

Organisational Capability

Aurizon encourages an inclusive and diverse culture through our practices, our interactions with each other, our customers and the communities we participate in and interact with.

Aurizon is striving to build a collaborative, capable and engaged workforce, passionate about delivering world class service to its customers. This objective forms a key part of our Enterprise People Strategy. Aurizon has completed its second Culture and Engagement employee survey since IPO and is working on key elements to continue to improve. Engagement is an integral part of this work – both how we engage with our people and how they provide input and innovative ideas. This work is always aligned to our strongly embedded values of:

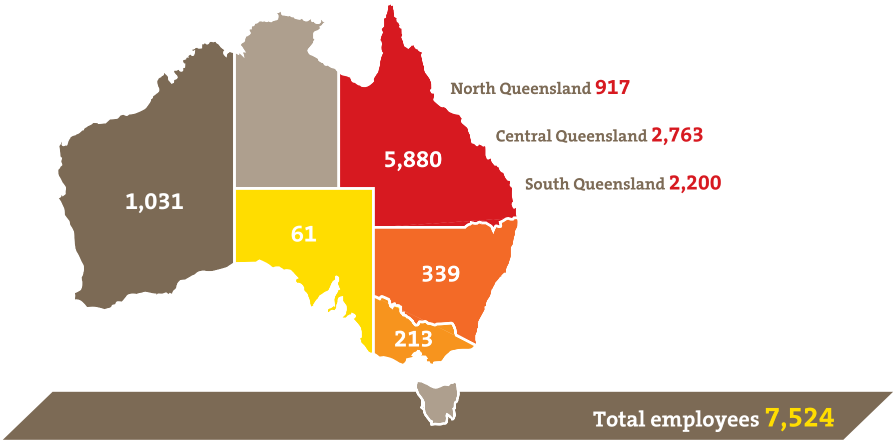
> Safety
> Integrity
> Leadership, passion and courage
> World class performance

The recognition of the efforts of our people continues to be a focus at all levels of the Company. In December 2013, Aurizon gifted employees a one-off allocation of $1,000 worth of Aurizon shares in recognition of their contribution to the Company’s performance. In addition, Aurizon’s annual Employee Excellence Awards continue to formally recognise individuals and teams for outstanding achievement across the Company. Recognition schemes at the functional and local level are tailored to the specific needs of the relevant parts of the business and are results and values focused.

Aurizon has launched a new capability development strategy aimed at building a world class railway talent pool. The capability development program focuses on building railway technical breadth through a newly developed Railway Foundation course; commercial acumen through the Railway Business Simulation; and frontline leadership in driving continuous improvement. Each capability program is facilitated through the lens of improving both results and the values and behaviours that make Aurizon the company it is.

As at 30 June 2014, 7,524 (full time equivalent) employees live and work in local communities throughout Australia where Aurizon operates. The majority of our employees live and work in regional Australia. Our commitment to building a world class railway talent pool is demonstrated by the reduction of our voluntary turnover rate from 6.75% to 5.43% at 30 June 2014. As part of the transformation journey to become a world class company, the total turnover rate has decreased from 20.56% to 12.21% at 30 June 2014.

Sustainability (continued)



Progress has also been made on Aurizon's journey towards a more diverse workforce and inclusive workplace. Due to the Company operating within a historically male dominated industry, it was acknowledged in 2012 that the need for a concerted diversity campaign was required.

This reality was and continues to be challenged through strong leadership and a rigorous Diversity Policy and plan that is actively implemented and monitored to drive results.

The measurable objectives for gender diversity, agreed by the Aurizon Holdings Board for 2014, have been extended and are set out below along with the FY2014 outcomes.

GOALS FOR 2014 DIVERSITY	OUTCOMES
At least one female Director at all times	20 % (2/10) of the Board are female
Minimum of 21 % females in the Management Leadership Team (**MLT**)	26 % of MLT are female
Minimum of 31 % of females in middle management roles	34 % of middle management are female
Minimum of 25 % females of trainees, apprentices and graduates (**TAGs**)	26.8 % of TAGs are female

As a signatory to the Australian Employment Covenant, Aurizon is committed to increasing ongoing indigenous employment opportunities. Aurizon has achieved 19.2 % of our target of 400 additional Aboriginal & Torres Strait Islander (**ATSI**) employees.

Aurizon was the recipient of the 2014 ARA Award for Workplace Diversity as a reflection of what we have achieved on our diversity journey for the Company and the industry.

Community Engagements

Aurizon is serious about developing and maintaining positive community and stakeholder relationships as part of its day-to-day operations, infrastructure project delivery and maintenance functions. We recognise that our business impacts many regional, rural and urban communities across the country and engagement with these communities is an integral part of our operations.

In FY2013, Aurizon introduced the Community Engagement Charter and feedback management process. The Community Engagement Charter reflects Aurizon's aspiration to be a world class high performing organisation and incorporates many elements of best practice in engagement.

Over the last 12 months, the Company introduced additional tools and templates to assist with the effective and consistent governance and management of our interactions with community stakeholders. This approach included a community complaints register and accompanying accountability matrix, streamlined contact points for community members, a company-wide database to manage our community and stakeholder interactions, stakeholder identification and consultation process. In addition, Aurizon ensures appropriate legislation and Aurizon's corporate safety principles are adhered to in all community interactions.

With the recent introduction of the Company's sustainability commitment, work has now commenced to review the Community Engagement Charter to ensure the frameworks, considerations and processes for engagement reflect the commitment. The Company will increasingly look to work together with our communities to find solutions to ensure sustainable and mutually beneficial outcomes in the areas where we operate and where our employees reside.

The Company remains committed to its diverse and established community investment portfolio. Since privatisation, Aurizon has invested in national, regional and local sponsorships and community partnerships as well as continued the important work driven from its bi-annual cash grants program, the Community Giving Fund.

Aurizon's commitment to our communities is also evident in the Aurizon Community Giving Fund, which since 2011 has distributed over $1.6 million in cash grants to just under 150 charitable groups across Australia. The Fund has been purposefully designed to distribute monies to projects that address relevant community needs. The work and outcomes as a result of the Community Giving Fund will continue well into the future.

Aurizon is also dedicated to raising awareness and to reduce the number of deaths caused by cardiovascular disease. Cardiovascular disease is Australia's single biggest killer affecting both men and women equally. Aurizon has partnerships with the Heart Foundation and the Wesley Research Institute. In partnership with the Heart Foundation, Aurizon conducted a six week employee based health program designed to improve the health and wellbeing of our employees in February 2014. Over 800 employees participated in the program with improved health results witnessed across the board.

In the Hunter Valley region, the Newcastle Knights and Jets sponsorships entered their third year. The sponsorships promote safety, health and well-being and education. Rail Safety is a key community program within both these partnerships and during FY2014, Aurizon's Rail Safety Team educated over 4,000 primary school students along the Hunter Valley rail corridor.

Environmental Management

Aurizon's commitment to environmental sustainability is crucial to its corporate identity and business activities. Our aim is to minimise the environmental impact of our operations. As a transport and logistics business, we support our customers by endeavouring to use lower carbon emissions intensive methods of land freight transportation – utilising rail over longer distances and a road fleet of over 200 trucks to pick up and deliver freight around the country. For example, a truck transporting 1,000 tonnes of freight would consume 17L of diesel/km compared to a train that would use 5L of diesel/km.

Aurizon is committed to both identifying and measuring initiatives to reduce the emissions intensity of its operations and has set a target to reduce energy consumed per thousand Gross Tonne Kilometres (**GTK**) by its locomotives by 4% each year over 3 years with FY2013 being the baseline year. In FY2014, we exceeded the target with a reduction of 4.8%.

Aurizon has an Environmental Policy which is endorsed by the MD & CEO and approved by the Aurizon Holdings Board. The Policy is supported by an Environment Principle document which is approved by the VP SHE and serves to bring into effect the Policy directives. The SHE Committee is a Board Subcommittee which oversees Aurizon's environment compliance performance through regular review.

Aurizon continues to meet its reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* (Cth) (**NGER**). The FY2014 NGER report is due to be submitted to the regulator by 31 October 2014.

Aurizon is committed to managing its operational activities and services in an environmentally responsible manner to meet legal and social obligations. As such, the Company seeks to comply with all applicable environmental laws and regulations.

Carbon disclosure project

2013 marked our inaugural participation in the Carbon Disclosure Project (**CDP**), an international independent not-for-profit organisation that compiles corporate climate change information for the investor community. CDP is the only global system for companies and cities to measure, disclose, manage and share vital environmental information. Through involvement in the CDP, we will increase the transparency of our carbon performance and demonstrate to investors that we are taking our carbon impacts and opportunities seriously.

In November 2013, Aurizon was recognised as a finalist in the CDP ASX 200 Climate Leadership Awards for 2013. The finalist nomination was in the category for 'Best New Responding Company' which recognises first-time ASX 200 companies with the highest CDP climate disclosure scores for that year.

Environmental compliance

Environmental compliance across the enterprise is achieved through an annual and routine audit schedule, employee environmental awareness training modules and through our SHEM incident reporting system.

We manage and monitor environmental incidents through our SHEM system and have managed the process internally by monthly environmental reporting through to the Environment Communities of Competence and the Central Safety, Health and Environment Committee (**CSC**).

Aurizon sites have emergency plans in place including provision for response and reporting of spills. Spills training is provided to employees and spill kits are provided at locations across Aurizon's portfolio of sites so that, in the event of a spill occurring, immediate action can be taken.

Corporate Governance Statement

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

The Board has adopted a suite of charters and key corporate governance documents which articulate the policies and procedures followed by Aurizon Holdings. These documents are available in the Governance section of the Company's website, **aurizon.com.au**. These documents are reviewed regularly to address any changes in governance practices and the law.

This Statement explains how Aurizon Holdings complies with the ASX Corporate Governance Council's '*Corporate Governance Principles and Recommendations – 3rd Edition*' (**ASX Principles or Recommendations**), which were published on 27 March 2014. Whilst Aurizon Holdings is not required to report against the new ASX Principles until the 2015 reporting period, consistent with the Company's commitment to corporate governance, it will be an early adopter of the Recommendations and is reporting against them in the current year.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
1.1 Role of Board and management	The Board has established a clear distinction between the functions and responsibilities reserved for the Board and those delegated to management, which are set out in the Aurizon Holdings Limited Board Charter **(Charter)**. The Charter also provides an overview of the roles of the Chairman, individual Directors, the Managing Director and CEO (**MD & CEO**) and the Company Secretary. A copy of the Charter is available in the Governance section of the Company's website, **aurizon.com.au**.	✓
1.2 Information regarding election and re-election of director candidates	Aurizon carefully considers the character, experience, education and skillset, as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate, prior to their election. During the year the Board used a professional search firm to assist in employing an additional Director and as part of the search received assurance on the background of the Director whom was subsequently appointed to the Board. Aurizon has appropriate procedures in place to ensure that material information relevant to a decision to elect or re-elect a director, is disclosed in the notice of meeting provided to shareholders.	✓
1.3 Written contracts of appointment	In addition to being set out in the Charter, the roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment. The letters of appointment specify the term of appointment, time commitment envisaged, expectations in relation to committee work or any other special duties attaching to the position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies, such as the Securities Dealing Policy. A copy of the key governance policies can be found on the Company's website **aurizon.com.au**. Each senior executive enters into a service contract which sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements and termination rights and entitlements. Contract details of senior executives which are KMP are summarised in the Company's Remuneration Report on page 46.	✓
1.4 Company Secretary	The Company Secretary is accountable to the Board for facilitating the Company's corporate governance processes and the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary. In accordance with the Company's Constitution, the appointment or removal of the Company Secretary is a matter for the Board as a whole. Details of the Company Secretary's experience and qualifications are set out on page 6 of the Annual Report.	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
1.5 Diversity	Aurizon Holdings has adopted a Diversity Policy setting out its objectives and reporting practices with respect to diversity, which is available in the Governance section of the Company's website, **aurizon.com.au**. The measurable objectives for gender diversity, agreed by the Aurizon Holdings Board for FY2013–14, are set out below: > At least one female Director at all times > 21 % of female representation on the Management Leadership Team (**MLT)** > 31 % of female representation in middle management > 25 % of female representation of combined Trainees, Apprentices and Graduates (**TAGs**). The outcomes and a comparative of Aurizon Holdings' female employees between 30 June 2013 and 30 June 2014 is set out below and illustrates the Company's progress towards achieving its objectives: > 20 % (2/10) of the Board at 30 June 2014 (20 % at 30 June 2012) > 26 % (20/77) of Management Leadership Team at 30 June 2014 (21 % at 30 June 2013) > 34 % (177/519) of Middle Management roles at 30 June 2014 (29.8 % at 30 June 2013) > 26.8 % (87/325) of Trainees, Apprentices and Graduates at 30 June 2014 (25.3 % as 30 June 2013) > 13.8 % of total employees at 30 June 2014 (13.2 % at 30 June 2013) Further details on the Company's diversity performance and activities can be found on the Company website **aurizon.com.au**.	✓
1.6 Board reviews	A performance review is undertaken annually in relation to the Board and the Board Committees. In addition to individual evaluation sessions between the Chairman and individual Directors, a formal self-evaluation questionnaire is used to facilitate the annual performance review process. Periodically the Board also engages a professional independent consultant experienced in Board reviews to conduct a review of the Board and its Committees and the effectiveness of the Board as a whole. During the year the annual review of the position of the Chairman of the Board was facilitated by the Chairman of the Remuneration, Nomination & Succession Committee and a review and evaluation of the performance of the Board, the Chairman, each Director and each Board Committee was conducted in accordance with the process described above by an external consultant.	✓
1.7 Management reviews	Each year the Board sets financial, operational, management and individual targets for the MD & CEO. The MD & CEO (in consultation with the Board), in turn set targets for their direct reports. Performance against these targets is assessed periodically throughout the year and a formal performance evaluation for senior management is completed for the year end. Details of the process followed are set out on page 32 of the Remuneration Report within the Annual Report.	✓

Corporate Governance Statement (continued)

Principle 2: Structure the Board to add value

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
2.1 Nominations committee	The Remuneration, Nomination & Succession Committee comprises five members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Remuneration, Nomination & Succession Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report. The number of meetings held and attended by each member of the Remuneration, Nomination & Succession Committee during the financial year are set out on page 7 of the Directors' Report within the Annual Report. The Charter governing the conduct of the Remuneration, Nomination & Succession Committee is reviewed annually and is available in the Governance section of the Company's website, **aurizon.com.au**.	✓
2.2 Board skills matrix	The below skills and diversity attributes have been identified as the optimum skills and diversity attributes Aurizon Holdings seeks to achieve across its Board membership. The Aurizon Holdings Board currently possesses an effective blend of these skills and diversity attributes. However, the Board is conscious that recently announced developments will require some dimensions to be supplemented in the near future, particularly having regard to the Company's involvement with port development and operations and partnering with international joint ventures. **General** > Other Board experience > Management expertise **Governance** > Understanding of legal, ethical and fiduciary duties > Governance committee experience > Risk management **Behavioural** > Communication > Analytical > Strategic **Technical** > Financial qualifications > Legal > Engineering > Human resources **Industry / experience** > Global / international > Transport > Mining and resources > Government **Diversity** > Female > Male > Non-Caucasian ethnicity > Language other than English Further details regarding the skills and experience of each Director are included on pages 4 to 6 of the Directors' Report.	✓
2.3 Disclose independence and length of service	In accordance with the Board Charter, the majority of Directors are independent. Only the MD & CEO is not considered independent, by virtue of him being an Executive of the Company. Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Directors' Report within the Annual Report.	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
2.4 Majority of directors independent	In accordance with the Board Charter and as disclosed against Recommendation 2.3, the majority of Directors are independent. Only the MD & CEO is not considered independent, by virtue of him being an Executive of the Company. Further details regarding the independence of the Directors are set out on page 4 of the Directors' Report within the Annual Report.	✓
2.5 Chair independent	The Chairman, Mr Prescott, is an Independent Non-Executive Director. The role of the MD & CEO is performed by another Director. Further details regarding the Directors are set out on pages 4 to 6 of the Directors' Report within the Annual Report.	✓
2.6 Induction and professional development	An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board. All Aurizon Holdings Directors are members of the Australian Institute of Company Directors (**AICD**) and are encouraged to further their knowledge through participation in seminars hosted by the AICD and other forums sponsored by professional, industry, governance and Government bodies. In addition to peer review, interaction and networking with other Directors and industry leaders, Aurizon Holdings' Directors participate, from time to time, in Aurizon Holdings' leadership forums and actively engage with Aurizon Holdings' employees by visiting the Company's operations to gain an understanding of the operational environment. During the course of the year Directors receive accounting policy updates, especially around the time when the Board considers the Half Year and Full Year accounts. The Board also includes educational sessions on legal, accounting, regulatory change, developments in communication including social media and human resource management. Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices in different locations. During the financial year, Directors made a number of visits to operational sites and to Company comparator sites.	✓

Principle 3: Act ethically and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
3.1 Code of conduct	The Board has established a Code of Conduct for its Directors, senior executives and employees, a copy of which is available in the Governance section of the Company's website, **aurizon.com.au**.	✓

Principle 4: Safeguard integrity in corporate reporting

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
4.1 Audit committee	The Audit, Governance & Risk Management Committee comprises five members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Audit, Governance & Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report. In addition to the Audit, Governance & Risk Management Committee members, the MD & CEO, CFO, Chief Internal Auditor, external auditors and Company Secretary regularly attend Audit, Governance & Risk Management Committee meetings. The number of meetings held and attended by each member of the Audit, Governance & Risk Management Committee during the financial year are set out on page 7 of the Directors' Report within the Annual Report. The Audit, Governance & Risk Management Committee Charter is reviewed annually and is available on the Aurizon Holdings website, **aurizon.com.au**.	✓
4.2 CEO and CFO certification of financial statements	The Board has obtained a written assurance from the MD & CEO and CFO that the declaration provided under section 295A of the Corporations Act (and for the purposes of Recommendation 4.2) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting and material business risks.	✓
4.3 External auditor at AGM	Aurizon Holdings' external audit function is performed by PricewaterhouseCoopers (**PwC**). Representatives of PwC will attend the Annual General Meeting and be available to answer shareholder questions regarding the audit.	✓

Corporate Governance Statement (continued)

Principle 5: Make timely and balanced disclosure

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
5.1 Disclosure and Communications Policy	Aurizon Holdings has adopted a Disclosure and Communications Policy which sets out the processes and practices that ensure its compliance with the continuous disclosure requirements under the ASX Listing Rules and the Corporations Act. Aurizon Holdings has also established guidelines to assist officers and employees of the Company to comply with the Company's Disclosure and Communications Policy. A copy of the policy and guidelines are available on the Aurizon Holdings' website, **aurizon.com.au**.	✓

Principle 6: Respect the rights of security holders

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
6.1 Information on website	Aurizon Holdings keeps investors informed of its corporate governance, financial performance and prospects via its website. Investors can access copies of all announcements to the ASX, notices of meetings, annual reports and financial statement, Investor presentations webcasts and/or transcripts of those presentations and a key events calendar via the 'Investors' tab and can access general information regarding the Company and the structure of its business under the 'About Us', 'Our Services', 'Networks', 'Projects' and 'Sustainability' tabs.	✓
6.2 Investor relations programs	Aurizon Holdings conducts regular briefings including interim and full year results announcements, Investor Days, site visits and attends regional and industry specific conferences in order to facilitate effective two way communication with investors and other financial markets participants. Access to Executive and Operational Management is provided at these events, with separate one-on-one or group meetings offered whenever possible. The presentation material provided at these events is posted on Aurizon Holding's Investor Centre website, including the webcast and transcript if applicable.	✓
6.3 Facilitate participation at meetings of security holders	Aurizon Holdings uses technology to facilitate the participation of security holders in meetings including live webcasting of meetings. Live teleconferences and in respect of Annual General Meetings (**AGM**), provide a direct voting facility to allow security holders to vote ahead of the meeting without having to attend or appoint a proxy. Shareholders are encouraged to participate in general meetings and are given an opportunity to ask questions of the Company and its auditor at the AGM.	✓
6.4 Facilitate electronic communications	Aurizon provides its investors the option to receive communications from and send communications to, the Company and the share registry electronically.	✓

Principle 7: Recognise and manage risk

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
7.1 Risk committee	Aurizon Holdings' Audit, Governance & Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Risk Management, Compliance & Assurance Policy (**Risk Policy**). A copy of the Risk Policy is available in the Governance section of the Company's website, **aurizon.com.au**. Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.	✓
7.2 Annual risk review	The Board has mandated Internal Audit to provide independent assurance on the effectiveness of the Company's risk management practices and report its findings to the Audit, Governance & Risk Management Committee. The purpose of the review is to confirm the Company's governance processes and practices continue to be sound and that the entity manages risk within the Board approved risk appetite. Internal Audit conducted its review during the financial year and concluded that controls over risk management processes were considered adequate and effective.	✓
7.3 Internal audit	The Company has an internal audit function that operates under a Board approved Internal Audit Charter. The internal audit function is independent of management and the external auditor and is overseen by the Audit, Governance & Risk Management Committee. In accordance with the Committee Charter the Chief Internal Auditor, the appointment or removal of the Chief Internal Auditor is a matter for this committee. The Chief Internal Auditor provides ongoing audit reports to the Audit, Governance & Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures. The external audit function is performed by PwC.	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
7.4 Sustainability risks	Aurizon identifies and manages material exposures to economic, environmental and social sustainability risks in accordance with its Enterprise Risk Management Framework incorporating the Board-approved risk appetite. Specific steps have been taken to strengthen the governance of sustainability in the Company during the year. During FY2014, Aurizon appointed a Vice President Sustainability and established a steering committee to help define and drive our sustainability approach to a new level, including broader sustainability reporting and disclosures in compliance with the ASX Listing Rule requirements. In our operations, we continue to make progress on a number of sustainability issues, including our safety performance, our operational efficiency and environmental management. A key element of our approach is the ongoing reduction in resource use across all of our operations with a strong focus on longer trains, higher-density trains, increased reliability and improved average train velocity. Aurizon has set appropriate benchmarks against which we will measure and report performance over the financial year and the Company is working on fully identifying its material economic, environmental and social sustainability risks. Aurizon will prepare its inaugural sustainability report in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines (G4 Reporting Guidelines) prior to the end of FY2015. Aurizon will report for the first time on its sustainability performance and management of the Company's material sustainability priorities. This inaugural sustainability report will identify material exposures that could impact the Company's ability to create or preserve value for shareholders over the short, medium or long term and outlines how Aurizon manages or intends to manage the identified risks.	✓

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
8.1 Remuneration committee	Aurizon Holdings' remuneration function is performed by the Remuneration, Nomination & Succession Committee. Further details regarding this Committee, its composition and members are set out in response to Recommendation 2.1.	✓
8.2 Disclosure of Executive and Non-Executive Director remuneration policy	The Company seeks to attract and retain high performance Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required. It reviews requirements for additional capabilities at least annually. Executive remuneration is to reflect performance and, accordingly, remuneration is structured with a fixed component and performance-based remuneration component. Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by Aurizon Holdings to a fund for the purposes of superannuation benefits for a Director. No other retirement benefits schemes are in place in respect to Non-Executive Directors. Further details regarding the remuneration of Executive and Non-Executive Directors are set out on pages 42 and 48 of the Remuneration Report within the Annual Report.	✓
8.3 Policy on hedging equity incentive schemes	Aurizon Holdings' Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or, once exercised, while the securities are subject to a transfer restriction. For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Executive' is broadly defined to include Aurizon Holdings Executive Vice Presidents and their direct reports, Directors and officers and any other person entitled to participate in an Aurizon Holdings performance rights plan. Further details regarding the Company's hedging policy are set out in the Aurizon Holdings' Securities Dealing Policy which is available in the Governance section of the Company's website **aurizon.com.au**.	✓

Financial Report
for the year ended 30 June 2014

AURIZON

ABN: 14 146 335 622

These financial statements are the consolidated financial statements of the consolidated entity consisting of Aurizon Holdings Limited and its subsidiaries (Group). The financial statements are presented in Australian dollars.

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Aurizon Holdings Limited
Level 17
175 Eagle Street
BRISBANE QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the review of operations and activities and in the Directors' Report, which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 18 August 2014. The Directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available at our Investor Centre on our website: www.aurizon.com.au

Consolidated income statement

For the year ended 30 June 2014

	Notes	2014 $m	2013 $m
Revenue from continuing operations	5	**3,811.9**	3,724.1
Other income	6	**20.3**	41.4
Consumables	7	**(1,390.5)**	(1,353.2)
Employee benefits expense	7	**(1,103.7)**	(1,182.5)
Depreciation and amortisation	7	**(499.2)**	(496.3)
Impairment losses	7	**(316.6)**	-
Other expenses	7	**(53.5)**	(51.0)
Finance costs	7	**(122.0)**	(105.6)
Share of net profit of associates and joint venture partnership accounted for using the equity method		**6.7**	5.4
Profit before income tax		**353.4**	582.3
Income tax expense	8	**(100.6)**	(135.4)
Profit for the year		**252.8**	446.9

		Cents	Cents
Earnings Per Share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted Earnings Per Share	34	**11.8**	19.8

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 2014

	Notes	2014 $m	2013 $m
Profit for the year		**252.8**	446.9
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	25(a)	**(26.6)**	3.0
Income tax relating to these items	8(c)	**8.0**	(0.9)
Other comprehensive income for the year, net of tax		**(18.6)**	2.1
Total comprehensive income for the year		**234.2**	449.0

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

Consolidated balance sheet

As at 30 June 2014

	Notes	2014 $m	2013 $m
ASSETS			
Current assets			
Cash and cash equivalents	10	**317.5**	107.6
Trade and other receivables	11	**603.5**	579.5
Inventories	12	**237.3**	212.2
Derivative financial instruments	13	**0.5**	0.4
Current tax receivables		**47.5**	-
Other assets	14	**19.3**	10.2
Assets classified as held for sale	9	**110.8**	23.0
Total current assets		**1,336.4**	932.9
Non-current assets			
Inventories	12	**19.4**	19.0
Derivative financial instruments	13	**-**	0.2
Property, plant and equipment	16	**9,440.7**	9,459.5
Intangible assets	17	**63.7**	25.3
Investments accounted for using the equity method	15	**83.1**	79.2
Other assets	14	**5.4**	3.0
Total non-current assets		**9,612.3**	9,586.2
Total assets		**10,948.7**	10,519.1
LIABILITIES			
Current liabilities			
Derivative financial instruments	13	**1.7**	0.8
Trade and other payables	19	**460.8**	320.7
Borrowings	20	**41.5**	-
Provisions	21	**340.5**	349.7
Other liabilities	22	**42.2**	42.3
Current tax liabilities		**-**	68.2
Liabilities directly associated with assets classified as held for sale	9	**7.3**	-
Total current liabilities		**894.0**	781.7
Non-current liabilities			
Derivative financial instruments	13	**26.6**	-
Borrowings	20	**2,799.4**	2,478.6
Provisions	21	**103.4**	88.2
Deferred tax liabilities	23	**492.6**	408.2
Other liabilities	22	**259.3**	266.8
Total non-current liabilities		**3,681.3**	3,241.8
Total liabilities		**4,575.3**	4,023.5
Net assets		**6,373.4**	6,495.6
EQUITY			
Contributed equity	24	**5,045.9**	5,045.9
Reserves	25	**(3.2)**	25.6
Retained earnings		**1,330.7**	1,424.1
Total equity		**6,373.4**	6,495.6

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 2014

		Attributable to owners of Aurizon Holdings Limited			
	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2012		6,100.0	17.1	1,177.1	7,294.2
Profit for the year		-	-	446.9	446.9
Other comprehensive income	25(a)	-	2.1	-	2.1
Total comprehensive income for the year		-	2.1	446.9	449.0
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares		(1,054.1)	-	-	(1,054.1)
Dividends provided for or paid	26(a)	-	-	(199.9)	(199.9)
Share-based payments	25(a)	-	6.4	-	6.4
		(1,054.1)	6.4	(199.9)	(1,247.6)
Balance at 30 June 2013		5,045.9	25.6	1,424.1	6,495.6
Balance at 1 July 2013		**5,045.9**	**25.6**	**1,424.1**	**6,495.6**
Profit for the year		**-**	**-**	**252.8**	**252.8**
Other comprehensive income	25(a)	**-**	**(18.6)**	**-**	**(18.6)**
Total comprehensive income for the year		**-**	**(18.6)**	**252.8**	**234.2**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	26(a)	**-**	**-**	**(346.2)**	**(346.2)**
Share-based payments	25(a)	**-**	**(10.2)**	**-**	**(10.2)**
		-	**(10.2)**	**(346.2)**	**(356.4)**
Balance at 30 June 2014		**5,045.9**	**(3.2)**	**1,330.7**	**6,373.4**

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 2014

	Notes	2014 $m	2013 $m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**4,162.0**	4,057.0
Payments to suppliers and employees (inclusive of GST)		**(2,856.2)**	(3,007.6)
Interest received		**9.5**	2.4
Interest and other costs of finance paid		**(123.3)**	(114.1)
Income taxes paid		**(123.8)**	(31.4)
Net cash inflow from operating activities	33	**1,068.2**	906.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**37.2**	48.9
Payments for property, plant and equipment		**(825.6)**	(929.6)
Payments for investment in associates		**(2.5)**	(1.8)
Distributions received from associates		**5.9**	5.5
Payments for intangibles		**(44.8)**	(13.9)
Net cash (outflow) from investing activities		**(829.8)**	(890.9)
Cash flows from financing activities			
Proceeds from borrowings		**844.5**	3,720.0
Payments for share buy-back		**-**	(1,049.8)
Payments for shares acquired for share based payments		**(24.4)**	(5.9)
Payment of transaction costs related to borrowings and share buy-back		**(2.4)**	(56.0)
Repayment of borrowings		**(500.0)**	(2,415.0)
Dividends paid to Company's shareholders	26(a)	**(346.2)**	(199.9)
Net cash (outflow) from financing activities		**(28.5)**	(6.6)
Net increase in cash and cash equivalents		**209.9**	8.8
Cash and cash equivalents at the beginning of the financial year		**107.6**	98.8
Cash and cash equivalents at end of year	10	**317.5**	107.6

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

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year. The financial statements are for the consolidated entity consisting of Aurizon Holdings Limited (the **Company**) and its subsidiaries and together are referred to as the **Group** or **Aurizon**.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Aurizon Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved for issue by the Directors on 18 August 2014. The Directors have the power to amend and reissue the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

(ii) New and amended standards adopted by the Group

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

> AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

> AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period

> AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

> AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

> AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle

> AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The adoption of AASB 11 and AASB 119 did not affect any of the amounts recognised in the current period or any prior periods. The other standards only affected the disclosures in the notes to the financial statements. Application of AASB 13 has introduced new disclosures and changed the Group's valuation methodology adopted in valuing derivative financial assets and liabilities used to hedge the Group's risk exposures. The impact of this revised fair value measurement was $0.3 million, recognised as a reduction in expense for the year ended 30 June 2014.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value.

(iv) New accounting standards and interpretations not yet adopted

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

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by Group
IFRS 15 Revenue from Contracts with Customers	IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 Revenues, IAS 11 Construction Contracts and related Interpretations. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also allows costs associated with obtaining a contract to be capitalised and amortised over the life of the new contract.	The Group has not yet assessed how its own revenue recognition would be affected by the new rule.	Must be applied for financial years commencing on or after 1 January 2017. Early adoption is permitted.
AASB 9 Financial Instruments	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.	There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. The Group has not yet assessed how its own hedging arrangements would be affected by the new rules and it has not yet decided whether to adopt any parts of AASB 9 early.	Must be applied for financial years commencing on 1 January 2017*. Early adoption is permitted.
AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	This amendment expanded the disclosure of recoverable amounts on non-financial assets when they are based on fair value less costs of disposal.	The amendment only affects the disclosure in the event non-financial assets are impaired based on fair value less costs of disposal.	Must be applied for financial year commencing on 1 July 2014.

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

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

(v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

(b) Principles of consolidation

(i) Subsidiaries

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

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

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

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

(ii) Associates

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 (see (iv) below), after initially being recognised at cost. Details of investment in associates are set out in Note 29(b).

(iii) Joint arrangements

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

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(iii) Joint arrangements (continued)

Joint operations

Where the Group has joint operations, it recognises its direct right to assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of joint operations are set out in Note 29(a).

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet. Details of joint ventures are set out in Note 29(c).

(iv) Equity method

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.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(v) 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 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.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee inclusive of the Managing Director & CEO (**MD & CEO**).

(d) Foreign currency and commodity transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

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

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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

Revenue is recognised for the major business activities as follows:

(i) Services revenue

Services revenue comprises revenue earned from the provision of the following services:

- track access
- freight transport, and
- other services revenue.

Track access

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

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

Where annual actual volumes railed are less than the regulatory forecast, an annual take or pay mechanism may become operative. A variable component of take or pay may also be applied where actual volumes do not meet certain consecutive monthly forecasts. The take or pay portion of access revenue is recognised in the year that the contractual railings were not achieved.

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(i) Services revenue (continued)

In addition, the majority of access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its system allowable revenue over the regulatory period such that where actual revenue is below the system allowable revenue, the revenue shortfall (net of take or pay) is recovered in subsequent years and conversely, where actual revenue is above the system allowable revenue, the excess revenue received is refunded through the access tariffs in subsequent years. The majority of under or over recovery in access tariffs (net of take or pay charges) are recognised as revenue in the second year following the period in which the variation to system allowable revenue occurred, in accordance with the regulatory framework and includes an adjustment at the weighted average cost of capital to account for the time lag in which the adjustment to reference tariffs occurs.

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

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.

In some circumstances, the Group is able to recover extra charges where the revenue receivable, based on tonnage hauled and agreed price, falls below minimum levels set in contractual arrangements with customers. These additional revenues include Deficit Tonnage Charges (**DTC**). Recognition of DTC revenue is considered on a contract by contract basis and generally recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than to reduce future tonnage entitlements.

Other services revenue

Revenue includes Transport Service Contract (**TSC**) payments received from the Queensland Department of Transport and Main Roads for some specific rail and road-based regional freight services and livestock transportation services. Base amounts receivable under the TSC (regional freight and livestock) are recognised on a straight-line basis over the term of the contract. Additional payments are recognised when the revenue can be measured reliably on a stage of completion basis over the term of the agreement. Refer to Note 5 for details related to TSC revenue recognised in the financial statements.

(ii) Other revenue

Revenue from other service works is recognised by reference to the contractual entitlement.

Access facilitation deeds for mine-specific infrastructure

The Group builds or acquires mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. In substance, charges under the deeds comprise capital charges and interest charges where the Group finances the assets. The capital charges are recognised on a straight-line basis over the term of the access facilitation deed while the interest charges are accrued in accordance with the contractual terms of the access facilitation deed arrangements. Where the customer prepays the future charges, the amounts received are recognised as deferred income and recognised within income on a straight-line basis over the term of the access facilitation deed.

Liquidated damages

Liquidated damages occur when contractors fail to meet the key performance indicators set out in their contract with the Group. Income resulting from claims for liquidated damages is recognised as other revenue when all performance obligations are met (including when a contractual entitlement exists), it can be reliably measured (including the impact of the receipt, if any, on the underlying asset's carrying value) and it is probable that the economic benefits will flow to the Group.

External maintenance and overhaul

External maintenance and overhaul revenue comprises revenue earned on the maintenance of third party rollingstock and components. The majority of the revenue arises from the overhaul of the Queensland Rail Passenger Fleet.

(f) Other income

(i) Disposal of assets

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

(ii) Interest revenue

Interest revenue is recognised using the effective interest method.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(g) Income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax 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.

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

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.

(h) Leases

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.

Cross border leases

The cross border lease arrangements involve transferring the legal title to, or head leasing, the rollingstock to the lessor but the Group substantially retains the risks and rewards incidental to ownership of the rollingstock and enjoys substantially the same rights to its use as before the arrangement. Under the cross border lease arrangements, the ability of the Group to dispose of or otherwise deal with its interest in the rollingstock is restricted and cannot be sold without the consent of the lessor. The rollingstock is depreciated based on its estimated useful life as the Group intends to re-acquire the legal title of these assets. Benefits received from the cross border lease arrangements were recognised as income at the inception of the arrangements.

Where it is necessary under the cross border lease provisions to terminate part or all of a lease due to damaged or disposed leased assets and there is a difference between the value of the owned asset and the termination cost of the leased asset, the net book value of the damaged asset is recognised in the income statement as loss (or gain) on disposal and termination costs incurred and are recognised in the income statement as other expenses.

(i) Impairment of assets

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

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

The recoverable amount is the greater of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables generally have credit terms ranging from seven to 31 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(l) Inventories

Inventories include items held in centralised stores, workshops and infrastructure and rollingstock depots and are stated at the lower of cost and net realisable value. Cost comprises the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to its present location and condition. Cost is determined predominantly on an average cost basis.

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

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure 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.

(m) Non-current assets (or disposal groups) held for sale and discontinued operations

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

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(m) Non-current assets (or disposal groups) held for sale and discontinued operations (continued)

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.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

(n) Investments and other financial assets

Classification

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (Note 11) in the balance sheet.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. A financial asset (or a group of financial assets) is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(o) Derivatives and hedging activities

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

The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions ("cash flow hedges").

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

The fair values of a derivative financial instruments used for hedging purposes are disclosed in Note 13. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

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

(ii) Derivatives that do not qualify for hedge accounting

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

(iii) Embedded derivatives

Through the Group's purchase and sale contracts, it is possible that embedded derivatives have been entered into. An embedded derivative will cause some or all of the cash flows of the purchase or sale contract (i.e. the host contract) to be modified by reference to a variable, such as a foreign exchange rate or a commodity price.

Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivative if the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract.

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment

(i) Methodology for valuation of fixed assets

Buildings, plant and equipment and rollingstock

Buildings, plant and equipment and rollingstock are carried at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment and capitalised interest.

Land

Land is carried at cost. As the *Transport Infrastructure Act 1994* (Queensland) stipulates that corridor land is owned by the State, only non-corridor land owned by the Group is recorded in the financial statements. Ownership of corridor land is with the Department of Environment and Resource Management, on behalf of the State. This land is leased to the Department of Transport and Main Roads and subsequently sub-leased to Aurizon Network Pty Ltd under two separate subleases, each with a rental of $1.00 per year if demanded. The subleases each expire on 30 June 2109.

The land subleases will automatically be renewed for a period of 99 years if the infrastructure leases are renewed for that period (refer leased coal infrastructure below).

Leased property, plant and equipment

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss on an effective interest rate basis.

Owned infrastructure

Infrastructure assets are transferred from Assets under construction once fully constructed and available for use. They are carried at cost less accumulated depreciation. The costs represent capitalised expenditures that are directly related to capital projects and may include materials, labour and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project that will provide future economic benefit and remain within the control of the Group.

Leased coal infrastructure

Coal infrastructure assets are owned by (a) the State, with respect to the CQCN and (b) Queensland Rail, with respect to the North Coast Line (each referred to as the Infrastructure Lessors). Under each infrastructure lease the infrastructure is leased to Aurizon Network Pty Ltd, a controlled entity. The term of each lease is 99 years (at a rate of $1.00 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years.

The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99 year term. To the extent that the lease expires at the end of 99 years, the Infrastructure Lessor will pay Aurizon Network Pty Ltd the fair market value of the infrastructure assets, including the infrastructure existing on commencement of the lease as well as any railway assets added during the lease term as are reasonably required to enable the infrastructure to be operated as a fully functioning railway network. As the assets are not considered to be providing a public service, the Group's economic interest in the assets is accounted for as property, plant and equipment.

Assets under construction

Assets under construction represent the cost of fixed assets currently under construction and includes the cost of all materials used in construction, direct labour, site preparation, interest, foreign currency gains and losses incurred where applicable. Also included in assets under construction are costs directly attributable with the development of significant strategic infrastructure projects (refer Note 2(iv)). The development costs relate to directly attributable expenditure predominantly on engineering design, environmental and building approvals and project management.

Costs of 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.

(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 basis (percentages range from 13.6% to 35.0%). Land and assets under construction are not depreciated.

Assets controlled by the Group under finance leases are amortised over the useful lives of the assets. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining life of the asset.

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

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

(iii) Depreciation and amortisation (continued)

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

– Owned and leased infrastructure, including:	
Tracks	30–45 years
Track turnouts	20–25 years
Ballast	8–20 years
Civil works	20–100 years
Bridges	50–100 years
Electrification	20–50 years
Field signals	15–40 years
– Buildings	10–40 years
– Rollingstock, including:	
Locomotives	25–35 years
Locomotives componentisation	8–12 years
Wagons	25–35 years
Wagons componentisation	10–17 years
– Plant and equipment	3–20 years
– Leased property	3–40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate (refer Note 2(ii)). An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

(q) Intangible assets

(i) Software and software development

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

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

Software (mainly comprising SAP development costs) has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the estimated useful life which varies from 3 to 11 years.

(ii) Key customer contracts

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

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services and direct labour.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days or within the terms agreed with the supplier. Trade and other payables are presented as current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(s) Borrowings and borrowing costs

(i) Borrowings

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

Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity. Commitment and agency fees are accrued monthly and paid quarterly. Interest is paid on the Medium Term Note semi-annually.

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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

(ii) Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a material qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. A qualifying asset is an internally funded asset that necessarily takes a substantial period of time to be prepared for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year of 4.89% (2013: 5.00%). Other borrowing costs are expensed.

(t) Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(t) Provisions (continued)

In accordance with the Group's environmental sustainability policy and applicable legal and constructive obligations, a provision for land rehabilitation in respect of contaminated land, is recognised when an obligation for rehabilitation is identified.

(u) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

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

(iii) Retirement allowance

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

> retire or who are paid according to Voluntary Redundancy Scheme or Medical Separation,
> are not members of an accumulation super fund, and
> were employed prior to 1 February 1995.

Liabilities for retirement allowance for employees who have fulfilled these requirements are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-current liabilities. The non-current liability for retirement allowance is measured at the present value of expected future payments to be made in respect of services provided by qualifying employees. Consideration is given to expected future wage and salary levels, experience of the departure of qualifying employees and periods of service. Expected future payments are discounted using market yields at the reporting date on Commonwealth Government bonds with maturities that match, as closely as possible, to the estimated future cash outflows.

(iv) Share-based payments

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.

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

For the year share-based compensation was settled by making on-market purchases of the Company's ordinary shares.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the Group and individual key performance indicators, including profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, 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 entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations 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.

(vii) Superannuation

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

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a whole of Government basis and reported in the whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund on a triennial basis. The latest valuation was completed as at 30 June 2013 and the State Actuary found the fund was in surplus from a whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the Super Defined Benefit Fund of QSuper. The State of Queensland has provided Aurizon with an indemnity if the Treasurer requires Aurizon to pay any amounts required to meet the potential deficit/surplus.

The 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.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the consolidated financial statements

30 June 2014

1 Summary of significant accounting policies (continued)

(v) Contributed equity (continued)

Where any Group company purchases the Company's equity instruments, for example as the result of a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the reporting date.

(x) Earnings Per Share

(i) Basic Earnings Per Share

Basic Earnings Per Share are calculated by dividing:

> the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and
> by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted Earnings Per Share

Diluted Earnings Per Share adjusts the figures used in the determination of basic Earnings Per Share to take into account:

> the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
> the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) 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.

Aurizon Holdings Limited and its subsidiaries are grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

(z) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 (Class Order), issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, unless otherwise indicated.

(aa) Parent entity financial information

The financial information for the parent entity, Aurizon Holdings Limited, disclosed in Note 36 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 controlled entities have implemented the tax consolidation legislation with effect from 22 November 2010. All Australian wholly-owned companies in the Aurizon Holdings Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. The head entity of the tax consolidated group is Aurizon Holdings Limited. The Group has notified the ATO that it has formed a tax consolidated group, applying from 22 November 2010.

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

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

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

(iii) Employee benefits – share-based payments

The grant by the Company of rights over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. 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 subsidiary undertakings, with a corresponding credit to equity.

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to the consolidated financial statements

30 June 2014

2 Critical accounting estimates and judgements (continued)

(i) Impairment

The Group considers annually whether there have been any indicators of impairment and then tests whether non-current assets, including goodwill, have suffered any impairment, in accordance with the accounting policy stated in Note 1(i). The recoverable amounts of cash generating units have been determined based on value in use calculations or fair value less costs to sell. For the assets and cash generating unit impaired during the year, the fair value less costs to sell is estimated based on recent market transaction information. These calculations require the use of assumptions. Refer to Notes 16 and 17 for further details on the carrying amounts of non-current assets subject to impairment testing.

(ii) Depreciation

Management estimates the useful lives and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. Management reviews useful life assumptions on an annual basis having given consideration to variables including historical and forecast usage rates, technological advancements and changes in legal and economic conditions. Refer to Note 1(p) for details of current depreciation rates used.

(iii) Take or pay

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

(iv) Significant strategic infrastructure projects

During the period, work continued on various significant infrastructure projects in relation to above and below rail development. A review of the current status of a number of projects resulted in an impairment of $72.9 million (refer Note 4(c) for more details). As at 30 June 2014, $41.9 million (2013: $108.1 million) of costs were capitalised. The balance relates to Galilee Basin rail development. Management's judgement has been applied to the extent to which capitalisation of these development costs is appropriate. Whilst these strategically important projects continue to achieve key milestones, the application of this judgement will continue to be re-assessed throughout the life of the projects.

(v) Access undertaking

On 30 April 2013, Aurizon Network submitted its 2013 Draft Access Undertaking (UT4) to the Queensland Competition Authority (**QCA**) for approval. As full approval of UT4 would not occur before 30 June 2013, Aurizon Network submitted to the QCA two Draft Amending Access Undertakings (DAAUs) to extend the terminating date of its 2010 Access Undertaking (UT3) from 30 June 2013 to 30 June 2014 and subsequently to 30 June 2015 (or earlier if UT4 is approved). The DAAU applies transitional tariffs up until 30 June 2015. The recent DAAU referencing the period from 30 June 2014 to 30 June 2015 was approved by the QCA on 12 June 2014. Access revenue recognised in these financial statements is based on the transitional tariffs contained in the DAAU. The DAAU also proposes a 'true-up' mechanism for dealing with over and under recoveries from 2013-14 (refer Note 19).

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

3 Financial risk management

The Group has exposure to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by a central Treasury function on behalf of the Group under Treasury Policies approved by the Board. Trading for speculation is strictly prohibited. Compliance with the Policies is monitored on an ongoing basis through regular reporting to the Board.

(a) Market risk

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

(i) Foreign exchange risk

Exposure to foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in or related to a currency that is not the entity's functional currency. These transactions apply in large part to the US Dollar (USD) and the Euro (EUR).

The Group's exposure to foreign currency risk together with the derivatives which have been entered into to manage these exposures at the end of the reporting period, expressed in Australian dollars (AUD), was as follows:

	2014		2013	
	USD $m	**EUR $m**	USD $m	EUR $m
Cash and cash equivalents	**0.6**	**2.8**	0.9	1.4
Net forward exchange contracts	**(14.7)**	**(28.5)**	(5.8)	(3.1)
Net exposures	**(14.1)**	**(25.7)**	(4.9)	(1.7)

Risk management

In order to protect against foreign exchange movements, the Group enters into forward foreign exchange contracts. These contracts are hedging highly probable forecast foreign currency exposures. Such contracts are designated as cash flow hedges. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

During the year, the net realised gain arising from foreign exchange hedging activities for the Group was $0.5 million (2013: loss of $1.0 million) as a result of the AUD depreciating below the average hedged price. Of this net amount, gross realised gains of $0.9 million (2013: loss of $0.5 million) represents the effective portion of the hedges which has been recognised in the relevant expenditure category or capitalised to a project and gross realised losses of $0.4 million (2013: loss of $0.5 million) represents the ineffective portion of hedges and non-designated derivatives, which have been recognised in other expenses.

(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. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

Notes to the consolidated financial statements

30 June 2014

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

	30 June 2014		30 June 2013	
	Weighted average interest rate %	Balance $m	Weighted average interest rate %	Balance $m
Bank overdrafts and bank loans	**4.2%**	**2,351.5**	4.3 %	2,525.0
Interest rate swaps	**3.4%**	**(1,725.0)**	3.5 %	(300.0)
Net exposure to cash flow interest rate risk		**626.5**		2,225.0

Risk management

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps.

Swaps currently in place cover approximately 73 % (2013: 12 %) of the variable loan principal outstanding. The weighted average maturity of the outstanding swaps is approximately 2.9 years (2013: 0.3 years).

The contracts require settlement of net interest receivable or payable each month. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The International Swaps and Derivatives Association agreements we hold with each of our counterparties allow for the netting of payments and receipts with respect to settlements for our interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was $8.4 million (2013: loss of $2.0 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 has been recognised in interest expense.

The Group accounts for financial assets at fair value through profit or loss and financial liabilities at amortised cost using the effective interest method.

(iii) Sensitivity on foreign exchange and interest rate risk

The following table summarises the gain/(loss) impact of reasonably possible changes in market risk, relating to existing financial instruments, on net profit and equity before tax. For the purpose of this disclosure, the following assumptions were used:

> 15 % (2013: 15 %) appreciation/depreciation of foreign currency rates;

> 100 basis points (bps) increase/decrease in interest rates;

> sensitivity analysis assumes hedge designations and effectiveness test results as at 30 June 2014 remain unchanged;

> sensitivity analysis is isolated for each risk assuming all other variables remain constant, and

> sensitivity analysis on foreign currency rates represent current market conditions.

	Profit (before tax)		Equity (before tax)	
	2014 $m	2013 $m	**2014 $m**	2013 $m
15% movement in foreign currency rates				
15 % decrease in foreign currency rates				
USD depreciation	**-**	-	**(1.8)**	1.0
EUR depreciation	**-**	-	**4.9**	0.6
15 % increase in foreign currency rates				
USD appreciation	**-**	-	**1.3**	(0.7)
EUR appreciation	**-**	-	**(3.7)**	(0.4)
100 bps movement in interest rates				
100 bps decrease in interest rates				
Borrowings	**21.1**	23.2	**-**	-
Derivatives	**-**	-	**(48.4)**	(0.8)
100 bps increase in interest rates				
Borrowings	**(21.1)**	(23.2)	**-**	-
Derivatives	**0.3**	-	**47.1**	0.8

(b) Credit risk

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

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

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables, the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to Note 3(d) for further details.

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

Credit risk on cash transactions and derivative contracts is managed through the Board approved Group Treasury Policies which restricts the Group to financial institutions whose long-term credit ratings, determined by a recognised ratings agency, are at or above the minimum rating of A- . This Policy also limits the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are regularly monitored.

An analysis of the Group's trade and other receivables that have been impaired and the ageing of those that are past due but not impaired at the balance date is presented in Note 11(b).

Notes to the consolidated financial statements

30 June 2014

3 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 period:

			Utilised*		Facility Limit	
	Security	Maturity	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Aurizon Finance						
Working capital facility	Unsecured	Jun-15	**54.4**	54.5	**150.0**	150.0
Syndicated facility	Unsecured	Jun-16	**300.0**	300.0	**300.0**	300.0
Syndicated facility	Unsecured	Jun-18	**25.0**	-	**300.0**	300.0
			379.4	354.5	**750.0**	750.0
Aurizon Network						
Working capital facility	Unsecured	Jun-15	**47.0**	6.2	**100.0**	100.0
Term loan facility	Unsecured	Jul-14	**-**	500.0	**-**	500.0
Syndicated facility	Unsecured	Jun-16	**1,200.0**	1,200.0	**1,200.0**	1,200.0
Syndicated facility	Unsecured	Jun-18	**785.0**	525.0	**1,300.0**	1,300.0
Medium Term Note	Corporate bond	Oct-20	**525.0**	-	**525.0**	-
			2,557.0	2,231.2	**3,125.0**	3,100.0
Total Group financing arrangements			**2,936.4**	2,585.7	**3,875.0**	3,850.0

* Amount utilised includes bank guarantees but excludes capitalised borrowing costs and discounts on Medium Term Note.

In October 2013, Aurizon Network Pty Ltd issued a $525 million Medium Term Note at a coupon of 5.75 % per annum, due to mature October 2020 and repaid and cancelled its existing Term loan facility of $500 million.

Within the working capital facilities, the Group has access to financial accommodation arrangements totaling $250 million (2013: $250 million) which may be utilised in the form of short-term working capital funding and the issuance of insurance bonds, bank guarantees and performance guarantees. At the end of the reporting period, the Group utilised $59.9 million (2013: $60.7 million) for financial bank guarantees.

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

Notes to the consolidated financial statements

30 June 2014

3 Financial risk management (continued)

(c) Liquidity risk (continued)

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

	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
2014					
Non-derivatives					
Trade payables (Note 19)	**460.8**	**-**	**-**	**460.8**	**460.8**
Borrowings (Note 20)	**171.0**	**2,613.8**	**570.3**	**3,355.1**	**2,840.9**
Financial guarantees	**59.9**	**-**	**-**	**59.9**	**-**
	691.7	**2,613.8**	**570.3**	**3,875.8**	**3,301.7**
Derivatives					
Interest rate swaps used for hedging (net settled)	**13.8**	**16.2**	**-**	**30.0**	**26.6**
Foreign exchange contracts used for hedging	**-**	**-**	**-**	**-**	**1.2**
- (inflow)	**(43.0)**	**(0.2)**	**-**	**(43.2)**	**-**
- outflow	**44.5**	**0.2**	**-**	**44.7**	**-**
	15.3	**16.2**	**-**	**31.5**	**27.8**
2013					
Non-derivatives					
Trade payables (Note 19)	320.7	-	-	320.7	320.7
Borrowings (Note 20)	98.9	2,784.3	-	2,883.2	2,478.6
Financial guarantees	60.7	-	-	60.7	-
	480.3	2,784.3	-	3,264.6	2,799.3
Derivatives					
Interest rate swaps used for hedging (net settled)	1.3	-	-	1.3	0.7
Foreign exchange contracts used for hedging	-	-	-	-	(0.5)
- (inflow)	(6.9)	(2.1)	-	(9.0)	-
- outflow	6.5	1.9	-	8.4	-
	0.9	(0.2)	-	0.7	0.2

Notes to the consolidated financial statements

30 June 2014

3 Financial risk management (continued)

(d) Fair value measurements

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

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

- Forward foreign exchange contracts
- Interest rate swaps

Application of AASB 13 has introduced new disclosures and changed the Group's valuation methodology adopted in valuing derivative financial assets and liabilities used to hedge the Group's risk exposures. The impact of this revised fair value measurement was $0.3 million, recognised as a reduction in expense for the year ended 30 June 2014.

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

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

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

	Carrying amount		Fair value	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Financial assets carried at fair value				
Forward exchange contracts (Note 13)	**0.5**	0.6	**0.5**	0.6
	0.5	0.6	**0.5**	0.6
Financial assets carried at amortised cost				
Cash and cash equivalents (Note 10)	**317.5**	107.6	**317.5**	107.6
Trade and other receivables (Note 11)	**603.5**	579.5	**603.5**	579.5
	921.0	687.1	**921.0**	687.1
Financial liabilities carried at fair value				
Forward exchange contracts (Note 13)	**(1.7)**	(0.1)	**(1.7)**	(0.1)
Interest rate swaps	**(26.6)**	(0.7)	**(26.6)**	(0.7)
	(28.3)	(0.8)	**(28.3)**	(0.8)
Financial liabilities carried at amortised cost				
Trade and other payables (Note 19)	**(460.8)**	(320.7)	**(460.8)**	(320.7)
Borrowings (Note 20)	**(2,840.9)**	(2,478.6)	**(2,910.3)**	(2,558.8)
	(3,301.7)	(2,799.3)	**(3,371.1)**	(2,879.5)
Off-balance sheet				
Unrecognised financial assets				
Third party guarantees	**-**	-	**30.2**	42.3
Bank guarantees	**-**	-	**243.3**	178.9
Insurance company guarantees	**-**	-	**8.3**	10.0
Unrecognised financial liabilities				
Bank guarantees	**-**	-	**(59.9)**	(60.7)
	-	-	**221.9**	170.5

Notes to the consolidated financial statements

30 June 2014

3 Financial risk management (continued)

(d) Fair value measurements (continued)

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), and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2014				
Derivative financial assets	**-**	**0.5**	**-**	**0.5**
Derivative financial liabilities	**-**	**(28.3)**	**-**	**(28.3)**
Net financial instruments measured at fair value	**-**	**(27.8)**	**-**	**(27.8)**
2013				
Derivative financial assets	-	0.6	-	0.6
Derivative financial liabilities	-	(0.8)	-	(0.8)
Net financial instruments measured at fair value	-	(0.2)	-	(0.2)

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

4 Segment information

(a) Description of segments

Business Segments

The Group has determined operating segments based on the operating structure of the Group and the different reports reviewed by the Executive Committee. The chief operating decision makers assess the performance of the operating segments based on the underlying earnings before interest and tax (**Underlying EBIT**). Amounts included in the report by the chief operating decision maker are in accordance with the Group's accounting policies.

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

Network

Provision of access to and operation and management of the Central Queensland Coal Network.

Coal

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

Iron ore

Transport of iron ore from mines in Western Australia to ports.

Freight

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

Unallocated

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

Interest expense for the entire Group is not allocated to specific segments but rather recorded as a corporate expense. With the exception of property, plant and equipment, asset and liability positions of the Group are only reviewed at the consolidated level.

As a result of the internal restructure of Aurizon Network that occurred on 1 July 2013, two divisions were transferred to Aurizon Operations, being Specialised Track Services and Engineering & Project Delivery. The comparative segment note disclosures for the Aurizon Network segment have been restated in accordance with the accounting standards to exclude these two divisions, to align the segment note with the operating and reporting structure that has been in effect from 1 July 2013. These two divisions continue to provide services to Aurizon Network but, for reporting purposes, now reside in the unallocated segment as they are not significant in their own right and therefore not reported separately.

Unrelated to the restructure, further adjustments were made to reclassify Enterprise Real Estate as a cost transfer from the central support function and not classify as internal other revenue to be consistent with all other internal cost transfers. This has no impact on Group Revenue, Group EBIT or the Group Operating Ratio as it is eliminated on consolidation.

Notes to the consolidated financial statements

30 June 2014

4 Segment information (continued)

(b) Segment information

2014	Network $m	Coal $m	Iron ore $m	Freight $m	Unallocated $m	Total $m
Segment revenue						
Revenue from external customers						
Services revenue						
Track access	363.1	649.3	-	0.4	-	1,012.8
Freight transport	-	1,210.7	377.8	873.5	-	2,462.0
Other services	14.6	-	-	126.2	46.7	187.5
Other revenue	44.6	2.7	0.2	16.3	85.8	149.6
Total revenue from external customers	**422.3**	**1,862.7**	**378.0**	**1,016.4**	**132.5**	**3,811.9**
Intersegment revenue						
Services revenue						
Track access	587.5	-	-	0.2	-	587.7
Freight transport	-	-	-	7.2	-	7.2
Other services	2.2	-	-	-	217.4	219.6
Other revenue	-	-	-	-	-	-
Total intersegment revenue	**589.7**	**-**	**-**	**7.4**	**217.4**	**814.5**
Total revenue	1,012.0	1,862.7	378.0	1,023.8	349.9	4,626.4
Other income (Note 6)	0.2	0.8	0.1	5.2	14.0	20.3
Total segment revenue and other income	**1,012.2**	**1,863.5**	**378.1**	**1,029.0**	**363.9**	**4,646.7**
Intersegment elimination						(814.5)
Consolidated revenue and other income						**3,832.2**
Segment result						
Underlying EBITDA*	**610.2**	**573.1**	**139.3**	**87.9**	**(59.9)**	**1,350.6**
Depreciation and amortisation	(198.5)	(173.4)	(36.4)	(53.9)	(37.0)	(499.2)
Underlying EBIT*	**411.7**	**399.7**	**102.9**	**34.0**	**(96.9)**	**851.4**
Significant adjustments (Note 4(c))						(385.9)
EBIT*						**465.5**
Net finance costs						(112.1)
Profit before income tax						**353.4**
Income tax expense						(100.6)
Profit for the year						**252.8**
Other segment information						
Property, plant and equipment	5,031.4	2,854.3	465.1	647.7	442.2	9,440.7
Impairment losses	66.1	113.1	-	77.0	60.4	316.6

* Refer to page 104 for Non-IFRS information

Notes to the consolidated financial statements

30 June 2014

4 Segment information (continued)

(b) Segment information (continued)

2013	Network $m	Coal $m	Iron ore $m	Freight $m	Unallocated $m	Total $m
Segment revenue						
Revenue from external customers						
Services revenue						
Track access	212.7	776.3	-	3.4	-	992.4
Freight transport	-	1,077.1	356.4	884.4	-	2,317.9
Other services	15.4	-	-	147.1	63.8	226.3
Other revenue	36.5	7.7	0.1	37.5	105.7	187.5
Total revenue from external customers	**264.6**	**1,861.1**	**356.5**	**1,072.4**	**169.5**	**3,724.1**
Intersegment revenue						
Services revenue						
Track access	708.2	-	-	0.2	-	708.4
Freight transport	-	1.5	-	8.6	-	10.1
Other services	10.7	-	-	-	175.3	186.0
Other revenue	-	-	-	-	6.0	6.0
Total intersegment revenue	**718.9**	**1.5**	**-**	**8.8**	**181.3**	**910.5**
Total revenue	983.5	1,862.6	356.5	1,081.2	350.8	4,634.6
Other income (Note 6)	(4.0)	0.1	-	0.5	44.8	41.4
Total segment revenue and other income	**979.5**	**1,862.7**	**356.5**	**1,081.7**	**395.6**	**4,676.0**
Intersegment elimination						(910.5)
Consolidated revenue and other income						**3,765.5**
Segment result						
Underlying EBITDA*	**605.2**	**494.3**	**133.4**	**79.6**	**(61.8)**	**1,250.7**
Depreciation and amortisation	(188.6)	(174.4)	(36.8)	(56.6)	(39.9)	(496.3)
Underlying EBIT*	**416.6**	**319.9**	**96.6**	**23.0**	**(101.7)**	**754.4**
Significant adjustments (Note 4(c))						(68.8)
EBIT*						**685.6**
Net finance costs						(103.3)
Profit before income tax						**582.3**
Income tax expense						(135.4)
Profit for the year						**446.9**
Other segment information						
Property, plant and equipment	4,704.5	2,967.9	505.0	756.4	525.7	9,459.5

* Refer to page 104 for Non-IFRS information

Notes to the consolidated financial statements

30 June 2014

4 Segment information (continued)

(c) Significant adjustments

The Group's underlying results differ from the statutory result. The exclusion of certain items permits a more appropriate and meaningful analysis of Group's underlying performance on a comparative basis. The significant adjustments for the current and prior year are:

	2014 $m	2013 $m
Voluntary redundancy schemes (i)	**69.3**	95.7
Assets impairment (ii)	**20.0**	-
Assets under construction impairment (iii)	**53.7**	-
Strategic infrastructure project impairment (iv)	**72.9**	-
Rollingstock impairment (v)	**170.0**	-
Stamp duty	**-**	(26.9)
Total significant adjustments	**385.9**	68.8

2014

(i) Voluntary redundancy schemes

A voluntary redundancy scheme was carried out during the year with 910 employees affected at a total cost of $69.3 million.

(ii) Assets impairment

Following a full review of the Freight business, certain operations have been identified as non-core. In undertaking the normal year end review of the carrying value of its separately identifiable assets (cash generating units), the Group has determined an impairment exists in respect of this non-core asset which has resulted in an impairment of $20.0 million.

(iii) Assets under construction impairment

The market conditions and the longer-term outlook within the global and domestic resources sector have seen many capital projects either deferred or cancelled. As a direct consequence two projects under development by Aurizon Network, Dudgeon Point and Wiggins Island Project Phase Two, are now considered unlikely to progress in the near term. On 20 June 2014, Northern Queensland Bulk Ports Corporation announced it was withdrawing its development proposal for the Dudgeon Point Coal Terminal (DPCT), noting a lack of demand to support the expansion. On a similar basis, whilst Aurizon remains fully committed to the Wiggins Island Project Phase One, the current and forecast demand does not support the continued development or investment in incremental capacity in respect of Phase Two. This has resulted in an impairment charge of $48.2 million and other minor projects of $5.5 million were also impaired.

(iv) Strategic infrastructure project impairment

A strategic infrastructure project review carried out during the year resulted in an impairment of assets under construction of $72.9 million. An impairment has been recognised in respect of Surat Basin Rail Joint Venture costs due to the termination of the joint venture in February 2014, following the announcement by Glencore Xstrata that its Wandoan Project is being put on hold. Costs associated with an alternative Galilee Basin rail development have also been impaired following the submission of a revised corridor proposal and Environmental Impact Study in August 2013 by alternative developers, together with consolidation of our own corridor with GVK Hancock, announced 25 November 2013. The Group also recognised an impairment on the East Pilbara Independent Rail (EPIR) project due to the project becoming less probable to progress in the short to medium term given the focus on the west Pilbara following the successful acquisition by Aurizon and its partner Baosteel of Aquila Resources Limited.

(v) Rollingstock impairment

The Group has completed its annual Enterprise Rollingstock Master Plan which forecasts requirements for locomotives and wagons for the next ten years. The strategy is based on estimated customer demand, expected productivity improvements through integrated service design and standardisation of the fleet to minimise operational complexity and maintenance cost. The review of equipment reallocation resulted in 200 locomotives and 2,775 wagons being immediately identified as surplus to the current requirements of the Group. Rollingstock and associated inventory identified as surplus has been decommissioned and written down to net realisable value resulting in an impairment of $170.0 million relating to inventory of $15.2 million and property, plant and equipment of $154.8 million.

2013

A voluntary redundancy scheme was carried out during the year, which 960 employees accepted at a total cost of $95.7 million.

In 2010, the Group recognised an expense of $24.9 million for stamp duty paid in relation to the 2006 acquisition of Australian Railroad Group (**ARG**). The amount was paid based on an assessment issued by the Western Australia (**WA**) Office of State Revenue (**OSR**) and as required under the Group's Joint Acquisition Agreement (**JAA**) with Brookfield Infrastructure Group (Australia) Pty Ltd (**Brookfield**) (previously Prime Infrastructure). Brookfield, as the primary legal party to the dispute successfully appealed the stamp duty assessment through to the Supreme Court of WA. On 24 June 2013, the WA OSR issued a reassessment of stamp duty and refunded the stamp duty together with interest to Brookfield. On 27 June 2013, Brookfield in turn refunded to Aurizon $26.9 million including penalty interest of $2.1 million.

(d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. One customer with A+ credit rating meets the 10% threshold that requires disclosure under the Accounting Standards and who represents approximately $554.1 million (2013: $470.8 million) of the Group's total revenue.

5 Revenue

	2014 $m	2013 $m
Services revenue		
Track access	**1,012.8**	992.4
Freight transport	**2,462.0**	2,317.9
Other services revenue	**187.5**	226.3
Other revenue	**149.6**	187.5
	3,811.9	3,724.1

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

Included within the Freight transport revenue is $7.6 million (2013: $37.4 million) of Deficit Tonnage Charges.

Included in Other services is revenue from Transport Service Contracts (for Regional Freight and Livestock Transport Services) from the State of Queensland of $126.2 million (2013: $146.8 million) including $20.6 million (2013: $18.5 million) of accrued additional payments due to Aurizon under the contract.

Notes to the consolidated financial statements

30 June 2014

6 Other income

	2014 $m	2013 $m
Net gain on disposal of property, plant and equipment	**10.3**	11.8
Foreign exchange gains (net)	**-**	0.1
Interest revenue	**9.9**	2.3
Stamp duty recovery	**-**	26.9
Other income	**0.1**	0.3
	20.3	41.4

7 Expenses

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

	2014 $m	2013 $m
Consumables		
Repairs and maintenance	**325.8**	284.8
Track access	**307.6**	328.9
Energy and fuel	**383.4**	374.8
Other	**373.7**	364.7
	1,390.5	1,353.2
Employee benefits expenses		
Defined benefit superannuation expense	**18.2**	18.5
Defined contribution superannuation expense	**68.7**	68.9
Voluntary redundancies and ex-gratia payments (Note 4(c))	**69.3**	95.7
Salaries, wages and allowances	**690.8**	721.4
Other employment expenses including on-costs	**256.7**	278.0
	1,103.7	1,182.5
Depreciation and amortisation expense		
Depreciation	**321.9**	305.8
Amortisation of leased assets	**171.3**	183.9
	493.2	489.7
Amortisation of intangibles		
Software	**4.9**	5.2
Customer contracts	**1.1**	1.4
	6.0	6.6
Total depreciation and amortisation expense	**499.2**	**496.3**
Impairment losses*		
Goodwill	**0.3**	-
Assets classified as held for sale	**17.3**	-
Inventory – rollingstock	**15.2**	-
Property, plant and equipment	**283.8**	-
	316.6	-

	2014 $m	2013 $m
Other expenses		
Rental expense relating to leases	**32.2**	36.2
Research and development	**0.4**	0.4
Losses on derivatives	**1.6**	0.3
Inventory obsolescence	**1.9**	2.0
Impairment losses – trade receivables	**3.5**	5.1
Other expenses	**13.9**	7.0
	53.5	51.0
Finance costs		
Interest and finance charges paid/payable	**134.7**	105.0
Provisions: unwinding of discount/change in discount rate	**1.2**	4.4
Amortisation of capitalised borrowing costs	**20.2**	18.4
Total finance costs	**156.1**	127.8
Amount capitalised to qualifying assets	**(34.1)**	(22.2)
Finance costs expensed	**122.0**	105.6

8 Income tax expense

(a) Income tax expense

	2014 $m	2013 $m
Current tax	**12.3**	85.2
Deferred tax	**88.4**	58.2
Deferred tax relating to prior periods	**4.7**	(12.6)
Current tax relating to prior periods	**(4.8)**	4.6
	100.6	135.4
Income tax expense is attributable to:		
Profit from continuing operations	**100.6**	135.4
Deferred income tax expense included in income tax expense comprises:		
(Increase) decrease in deferred tax assets (Note 18)	**25.7**	(43.8)
Increase (decrease) in deferred tax liabilities (Note 23)	**67.4**	89.4
	93.1	45.6

* Refer to Note 4(c) for further information on impairment

Notes to the consolidated financial statements

30 June 2014

8 Income tax expense (continued)

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

	2014 $m	2013 $m
Profit before income tax expense	**353.4**	582.3
Tax at the Australian tax rate of 30% (2013: 30%)	**106.0**	174.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**0.2**	0.2
Research and development	**(1.8)**	(6.5)
Non-assessable income (Note 8(d))	**(6.4)**	(17.5)
Stamp duty refund on acquisition of subsidiary (Note 4(c))	**-**	(8.1)
Other	**2.7**	0.6
Adjustment for current tax of previous periods	**(0.1)**	(8.0)
	100.6	135.4

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

	2014 $m	2013 $m
Cash flow hedges	**(8.0)**	0.9

(d) Tax expense – non assessable income

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

9 Assets and liabilities classified as held for sale

(a) Assets classified as held for sale

	2014 $m	2013 $m
Property, plant and equipment	**98.4**	23.0
Trade and other receivables	**12.0**	-
Inventories	**0.4**	-
	110.8	23.0

(b) Liabilities directly associated with assets classified as held for sale

	2014 $m	2013 $m
Trade creditors	**3.9**	-
Provisions	**3.4**	-
	7.3	-

Assets held for sale relate to non-core freight and coal assets which are currently in the process of being sold in the next 12 months.

10 Cash and cash equivalents

	2014 $m	2013 $m
Cash at bank	**317.5**	107.6
	317.5	107.6

11 Trade and other receivables

	2014 $m	2013 $m
Current		
Trade receivables	**382.9**	406.4
Provision for impairment of receivables (a)	**(9.3)**	(8.0)
Net trade receivables	**373.6**	398.4
Other receivables	**229.9**	181.1
	603.5	579.5

Other receivables include revenue for services performed but not yet invoiced under contracts including Take or Pay, Transport Services Contract and annual GAPE fees and a provision for impairment of $6.5 million (2013: $4.1 million).

(a) Impaired trade receivables

As at 30 June 2014, the amount of the provision for impaired trade receivables was $9.3 million (2013: $8.0 million).

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

	2014 $m	2013 $m
At 1 July	**8.0**	2.9
Provision for impairment recognised during the year	**4.4**	5.8
Receivables written off during the year as uncollectable	**(1.2)**	(0.4)
Unused amounts reversed	**(1.9)**	(0.3)
At 30 June	**9.3**	8.0

The creation or release of the provision for impaired receivables has been included in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Based on the credit history of other receivables, it is expected that these amounts will be received when due.

(b) Past due but not impaired

As at 30 June 2014, trade receivables of $56.6 million (2013: $64.2 million) were past due but not impaired. These trade receivables relate to a number of customers for whom there is no recent history of default. The ageing of these trade receivables is as follows:

	2014 $m	2013 $m
Up to 3 months	**47.8**	27.1
3 to 6 months	**2.0**	1.9
Over 6 months	**6.8**	35.2
	56.6	64.2

Notes to the consolidated financial statements

30 June 2014

12 Inventories

	2014 $m	2013 $m
Current		
Raw materials and stores – at cost	**231.6**	198.9
Work in progress – at cost	**5.7**	13.3
	237.3	212.2
Non-current		
Raw materials and stores – at cost	**26.6**	25.7
Provision for inventory obsolescence	**(7.2)**	(6.7)
	19.4	19.0

13 Derivative financial instrument

	2014 $m	2013 $m
Current assets		
Forward exchange contracts – cash flow hedges	**0.5**	0.4
Total current derivative financial instrument assets	**0.5**	**0.4**
Non-current assets		
Forward exchange contracts – cash flow hedges	**-**	0.2
Total non-current derivative financial instruments	**-**	**0.2**
Total derivative financial instrument assets	**0.5**	**0.6**
Current liabilities		
Forward exchange contracts – cash flow hedges	**1.7**	0.1
Interest rate swap contracts – cash flow hedges	**-**	0.7
Total current derivative financial instrument liabilities	**1.7**	**0.8**
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	**26.6**	-
Total non-current derivative financial instrument liabilities	**26.6**	**-**
Total derivative financial instrument liabilities	**28.3**	**0.8**

(a) Instruments used by the Group

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency and interest rate exposures in accordance with the Group's financial risk management policy (refer to Note 3).

14 Other assets

	2014 $m	2013 $m
Current		
Prepayments	**19.3**	10.2
Non-current		
Loan Receivable	**-**	3.0
Other Receivables	**5.4**	-
	5.4	3.0

15 Investments accounted for using the equity method

	2014 $m	2013 $m
Investment in associates (Note 29(b))	**82.6**	78.7
Interest in joint ventures	**0.5**	0.5
	83.1	79.2

Notes to the consolidated financial statements

30 June 2014

16 Property, plant and equipment

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Total $m
2014							
Opening net book amount	**857.4**	**150.6**	**414.4**	**298.5**	**3,388.3**	**4,350.3**	**9,459.5**
Additions	**871.7**	**-**	**-**	**7.1**	**-**	**1.6**	**880.4**
Transfers between asset classes	**(726.8)**	**4.1**	**7.8**	**70.1**	**119.9**	**524.9**	**-**
Disposals	**-**	**(2.4)**	**-**	**(3.1)**	**(9.9)**	**(9.3)**	**(24.7)**
Impairment (Note 7)	**(126.4)**	**-**	**(2.6)**	**-**	**(154.8)**	**-**	**(283.8)**
Asset classified as held-for-sale	**-**	**(10.7)**	**(32.2)**	**(46.4)**	**(6.1)**	**(2.1)**	**(97.5)**
Depreciation/amortisation (Note 7)	**-**	**-**	**(21.5)**	**(53.8)**	**(215.3)**	**(202.6)**	**(493.2)**
Closing net book amount	**875.9**	**141.6**	**365.9**	**272.4**	**3,122.1**	**4,662.8**	**9,440.7**
Cost	**875.9**	**141.6**	**502.1**	**530.2**	**4,756.1**	**5,671.5**	**12,477.4**
Accumulated depreciation and impairment	**-**	**-**	**(136.2)**	**(257.8)**	**(1,634.0)**	**(1,008.7)**	**(3,036.7)**
Net book amount	**875.9**	**141.6**	**365.9**	**272.4**	**3,122.1**	**4,662.8**	**9,440.7**
Owned	**875.9**	**141.6**	**329.4**	**271.8**	**3,122.1**	**963.0**	**5,703.8**
Leased	**-**	**-**	**36.5**	**0.6**	**-**	**3,699.8**	**3,736.9**
	875.9	**141.6**	**365.9**	**272.4**	**3,122.1**	**4,662.8**	**9,440.7**
2013							
Opening net book amount	426.3	175.3	356.0	280.5	3,433.4	4,365.7	9,037.2
Additions	927.2	-	1.6	23.2	12.5	0.8	965.3
Transfer between asset classes	(495.9)	(10.2)	78.2	50.5	197.1	179.7	(0.6)
Disposals	(0.2)	(0.7)	(2.6)	(7.7)	(19.9)	(5.3)	(36.4)
Assets classified as held for sale	-	(13.8)	(2.3)	-	-	(0.2)	(16.3)
Depreciation/amortisation expense (Note 7)	-	-	(16.5)	(48.0)	(234.8)	(190.4)	(489.7)
Closing net book amount	857.4	150.6	414.4	298.5	3,388.3	4,350.3	9,459.5
Cost	857.4	150.6	547.1	582.7	5,009.3	5,187.6	12,334.7
Accumulated depreciation and impairment	-	-	(132.7)	(284.2)	(1,621.0)	(837.3)	(2,875.2)
Net book amount	857.4	150.6	414.4	298.5	3,388.3	4,350.3	9,459.5
Owned	857.4	150.6	389.2	296.5	3,219.9	741.4	5,655.0
Leased	-	-	25.2	2.0	168.4	3,608.9	3,804.5
	857.4	150.6	414.4	298.5	3,388.3	4,350.3	9,459.5

Assets under construction includes $41.9 million (2013: $108.1 million) that relates to strategic infrastructure projects (refer Note 2(iv)).

(a) Non-current assets pledged as security

Leased rollingstock assets of nil (2013: $168.4 million) have been pledged as security under the terms of the cross border lease arrangements.

Notes to the consolidated financial statements

30 June 2014

17 Intangible assets

	Goodwill $m	Software $m	Key customer contracts $m	Software development $m	Total $m
2014					
Opening net book amount	**0.3**	**9.3**	**1.8**	**13.9**	**25.3**
Additions	**-**	**9.2**	**1.5**	**34.1**	**44.8**
Transferred to held for sale	**-**	**(0.1)**	**-**	**-**	**(0.1)**
Amortisation expense	**-**	**(4.9)**	**(1.1)**	**-**	**(6.0)**
Impairment charge	**(0.3)**	**-**	**-**	**-**	**(0.3)**
Closing net book amount	**-**	**13.5**	**2.2**	**48.0**	**63.7**
Cost	**73.3**	**111.1**	**12.2**	**48.0**	**244.6**
Accumulated amortisation and impairment	**(73.3)**	**(97.6)**	**(10.0)**	**-**	**(180.9)**
Net book amount	**-**	**13.5**	**2.2**	**48.0**	**63.7**
2013					
Opening net book amount	0.3	14.5	1.8	-	16.6
Additions	-	0.1	1.4	13.9	15.4
Transfers	-	0.6	-	-	0.6
Amortisation expense	-	(5.2)	(1.4)	-	(6.6)
Disposals	-	(0.7)	-	-	(0.7)
Closing net book amount	0.3	9.3	1.8	13.9	25.3
Cost	73.3	104.1	10.7	13.9	202.0
Accumulated amortisation and impairment	(73.0)	(94.8)	(8.9)	-	(176.7)
Net book amount	0.3	9.3	1.8	13.9	25.3

18 Deferred tax assets

	2014 $m	2013 $m
The balance comprises temporary differences attributable to:		
Provisions/accruals	**129.0**	129.8
Customer contracts	**59.2**	75.3
Unearned revenue	**2.9**	4.6
Cash flow hedges	**8.5**	0.2
Other temporary differences	**3.2**	9.9
	202.8	219.8
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 23)	**(202.8)**	(219.8)
Net deferred tax assets	**-**	-
Deferred tax assets expected to be recovered within 12 months	**102.1**	104.9
Deferred tax assets expected to be recovered after more than 12 months	**100.7**	114.9
	202.8	219.8

Notes to the consolidated financial statements

30 June 2014

18 Deferred tax assets continued

	Provisions/ accruals $m	Customer contracts $m	Unearned revenue $m	Cash flow hedges $m	Other $m	Total $m
Movements						
At 30 June 2012	70.5	91.4	2.9	1.0	9.3	175.1
(Charged)/credited						
– to profit or loss	59.3	(16.1)	1.7	0.1	(1.2)	43.8
– to other comprehensive income	-	-	-	(0.9)	-	(0.9)
Charged/(credited) – directly to equity	-	-	-	-	1.8	1.8
At 30 June 2013	129.8	75.3	4.6	0.2	9.9	219.8
At 30 June 2013	**129.8**	**75.3**	**4.6**	**0.2**	**9.9**	**219.8**
(Charged)/credited						
– to profit or loss	**(0.8)**	**(16.1)**	**(1.7)**	**0.3**	**(7.4)**	**(25.7)**
– to other comprehensive income	**-**	**-**	**-**	**8.0**	**-**	**8.0**
Charged/(credited) – directly to equity	**-**	**-**	**-**	**-**	**0.7**	**0.7**
At 30 June 2014	**129.0**	**59.2**	**2.9**	**8.5**	**3.2**	**202.8**

19 Trade and other payables

	2014 $m	2013 $m
Trade payables	**434.3**	283.4
Other payables	**26.5**	37.3
	460.8	320.7

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

20 Borrowings

	2014 $m	2013 $m
Current – Unsecured		
Working capital facility	**41.5**	-
Total unsecured current borrowings	**41.5**	-
Non-current – Unsecured		
Bank facilities	**2,828.0**	2,525.0
Capitalised borrowing costs	**(28.6)**	(46.4)
	2,799.4	2,478.6

During the year, Aurizon Network Pty Ltd issued Medium Term Notes (AUD corporate bond) with a face value of $525 million at a coupon of 5.75% per annum and repaid and cancelled its existing Term loan facility of $500 million. This facility is due to mature in October 2020.

The Unsecured bank facilities and Medium Term Notes restrict the amount of security that the Group and its subsidiaries can provide over their assets in certain circumstances.

The Unsecured bank facilities also impose certain covenants on the Group to ensure that certain financial ratios are met.

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

21 Provisions

	2014 $m	2013 $m
Current		
Employee benefits (a)	**317.0**	318.3
Provision for insurance claims (b)	**7.0**	13.7
Litigation and workers' compensation provision (c)	**16.3**	16.5
Decommissioning/make good and other provisions (d)	**0.2**	1.2
	340.5	349.7
Non-current		
Employee benefits (a)	**39.7**	28.0
Litigation and workers' compensation claim (c)	**25.2**	24.7
Decommissioning/make good and other provisions (d)	**4.1**	3.9
Land rehabilitation (e)	**34.4**	31.6
	103.4	88.2
Total provisions	**443.9**	437.9

(a) Employee benefits

	2014 $m	2013 $m
Annual Leave	**85.1**	85.5
Long service leave	**169.0**	169.1
Other	**102.6**	91.7
	356.7	346.3

Notes to the consolidated financial statements

30 June 2014

21 Provisions (continued)

(a) Employee benefits (continued)

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave and bonus accrual. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of $190.2 million (2013: $148.5 million) that is not expected to be taken or paid within the next 12 months.

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

(b) Provision for insurance claims

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.

(c) Litigation and workers' compensation

A provision of $41.5 million (2013: $41.2 million) is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. The outstanding liability is determined after factoring future claims inflation and discounting future claim payments. 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 (**IBNR**) are also included in the estimate.

(d) Decommissioning/make good and other provisions

A provision of $4.3 million (2013: $5.1 million) has been made for the anticipated costs of the future restoration of leased office premises. Make good requirements vary for different properties. The provision includes future cost estimates associated with the restoration of office fixtures and fittings to original condition, removal of all property and equipment to return the premises to a vacant shell and making good any damage caused by their removal and repairing and making good any damage which may be caused to land adjoining the premises as a result of carrying out structural work or other improvements. The provision has been calculated based on recent comparable make good costs or independent assessments.

(e) Land rehabilitation

A provision of $34.4 million (2013: $31.6 million) has been recognised for the estimated costs to remediate contaminated land in accordance with the Group's constructive obligations following the Board's review of its revised sustainability policy at 30 June 2010. The provision is based on an estimated long-term inflation rate in the order of 2.9 % (2013: 2.9 %). The projected remediation dates for the various sites range from 10 to 40 years. To measure the present value of the estimated costs, a discount rate in the order of 4.3 % (2013: 4.5 %) was used, based on the interest rate which reflects the maturity profile of the liability.

(f) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Provision for insurance claims $m	Litigation and workers compensation provision $m	Decommissioning/ make good and other provision $m	Provision for land rehabilitation $m	Total $m
2014					
Current and non-current					
Carrying amount at start of the year	13.7	41.2	5.1	31.6	91.6
Charged/(credited) to profit or loss					
Additional provision recognised	2.2	17.7	0.3	2.2	22.4
Unused amounts released or reversed	(4.9)	(5.8)	(1.1)	-	(11.8)
Charged/(credited) to the profit or loss – unwinding of discount	-	0.6	-	0.6	1.2
Amounts used during the year	(4.0)	(12.2)	-	-	(16.2)
Carrying amount at end of year	7.0	41.5	4.3	34.4	87.2

Notes to the consolidated financial statements

30 June 2014

22 Other liabilities

	2014 $m	2013 $m
Current		
Income received in advance	**34.9**	37.7
Other current liabilities	**7.3**	4.6
	42.2	42.3
Non-current		
Income received in advance	**255.7**	261.8
Other non-current liabilities	**3.6**	5.0
	259.3	266.8

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

23 Deferred tax liabilities

	2014 $m	2013 $m
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**670.6**	600.3
Consumables and spares	**21.1**	19.9
Accrued income	**3.4**	5.2
Cash flow hedges	**0.1**	0.2
Other temporary difference	**0.2**	2.4
Total deferred tax liabilities	**695.4**	628.0
Set-off of deferred tax assets pursuant to set-off provisions (Note 18)	**(202.8)**	(219.8)
Net deferred tax liabilities	**492.6**	408.2
Deferred tax liabilities expected to be settled after more than 12 months	**695.4**	628.0

	Property, plant and equipment $m	Consumables and spares $m	Accrued income $m	Cash flow hedges $m	Other $m	Total $m
Movements of deferred tax liabilities						
At 1 July 2012	500.4	16.7	12.4	-	9.1	538.6
Charged/(credited)						
– to profit or loss	99.9	3.2	(7.2)	0.2	(6.7)	89.4
At 30 June 2013	600.3	19.9	5.2	0.2	2.4	628.0
At 1 July 2013	**600.3**	**19.9**	**5.2**	**0.2**	**2.4**	**628.0**
Charged/(credited)						
– to profit or loss	**70.3**	**1.2**	**(1.8)**	**(0.1)**	**(2.2)**	**67.4**
At 30 June 2014	**670.6**	**21.1**	**3.4**	**0.1**	**0.2**	**695.4**

24 Contributed equity

(a) Issued capital

	2014 Shares '000	2013 Shares '000	2014 $m	2013 $m
Ordinary shares				
– fully paid	**2,137,285**	2,137,285	**1,508.3**	1,508.3

Notes to the consolidated financial statements

30 June 2014

24 Contributed equity (continued)

(b) Other contributed equity

	2014 $m	2013 $m
Other contributed equity	**3,537.6**	4,388.3
Selective share buy-back	**-**	(796.6)
On-Market share buy-back	**-**	(54.1)
	3,537.6	3,537.6
Total contributed equity	**5,045.9**	5,045.9

Other contributed equity represents capital contributions from Queensland State Government Pre-IPO less cumulative share buy-backs.

(c) Movements in ordinary share capital

Date	Details	Number of shares ('000)	$m
1 July 2012	Opening balance	2,440,000	1,711.7
23 November 2012	On-Market share buy-back	(14,531)	-
26 November 2012	Selective share buy-back	(288,184)	(203.4)
30 June 2013	**Closing balance**	2,137,285	1,508.3
30 June 2014	**Closing balance**	2,137,285	**1,508.3**

(d) Ordinary shares

Ordinary shares have no par value and the Group 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.

(e) Capital risk management

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 parent entity 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 calculated as 'equity' as shown in the balance sheet plus net debt. There were no changes in the Group's approach to capital management during the year.

	2014 $m	2013 $m
Total borrowings	**2,840.9**	2,478.6
Less: cash and cash equivalents	**(317.5)**	(107.6)
Net debt	**2,523.4**	2,371.0
Total equity	**6,373.4**	6,495.6
Total capital	**8,896.8**	8,866.6
Gearing ratio	**28.4%**	26.7 %

25 Reserves

(a) Reserves

	2014 $m	2013 $m
Hedging reserve – cash flow hedges	**(18.5)**	0.1
Share-based payments	**15.3**	25.5
	(3.2)	25.6
Movements:		
Hedging reserve – cash flow hedges		
Balance 1 July	**0.1**	(2.0)
Fair value gains (losses) taken to equity	**(25.9)**	2.2
Deferred tax	**7.8**	(0.7)
Fair value losses transferred to profit or loss	**0.2**	-
Deferred tax	**0.2**	(0.2)
Other transfers – transfer to property, plant and equipment (gross)	**(0.9)**	0.8
Balance 30 June	**(18.5)**	0.1
Share-based payments		
Opening balance	**25.5**	19.1
Employee share plan expense	**13.5**	12.3
Employee share trust to employee	**(24.4)**	(5.9)
Deferred tax	**0.7**	-
Balance 30 June	**15.3**	25.5

(b) Nature and purpose of reserves

Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 1(o). 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.

Notes to the consolidated financial statements

30 June 2014

26 Dividends

(a) Ordinary shares

	2014 $m	2013 $m
Interim dividend for the year ended 30 June 2014 of 8.0 cents (2013: 4.1 cents, 70 % franked) per share, paid 28 March 2014 (80 % franked)	**171.0**	87.6
Final dividend for the year ended 30 June 2013 of 8.2 cents (2012: 4.6 cents, unfranked) per share, paid 23 September 2013 (90 % franked)	**175.2**	112.3
	346.2	199.9

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

	2014 $m	2013 $m
Since 30 June 2014, the Directors have recommended the payment of a final dividend of 8.5 cents per fully paid ordinary share (2013: 8.2 cents), unfranked. The aggregate amount of the proposed dividend expected to be paid on 22 September 2014 out of retained earnings, but not recognised as a liability at year end is:	**181.7**	175.3

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the ending 30 June 2015.

	2014 $m	2013 $m
Franking credits available for subsequent reporting periods based on a tax rate of 30.0 % (2013 – 30.0 %)	**(47.2)**	71.4

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax,

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

27 Contingencies

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

(a) Contingent liabilities

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

Litigation

A number of common law claims are pending against the Group. Provisions are taken up for some of these exposures based on the management's determination where they expect to settle such claims and are included as such in Note 21.

Guarantees and letters of credit

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

Deed of cross guarantee

Cross guarantees are given by the Company and some of its wholly owned subsidiaries as described in Note 31.

Defined benefit fund liabilities

The State of Queensland has permitted existing employees of the Aurizon Group, as at the date of the IPO, to retain their existing superannuation arrangements with the State Superannuation Public Sector Scheme (**QSuper**) and has provided the Group an indemnity if the State of Queensland Treasurer requires the Group to pay any amounts required to meet the defined benefit obligations. An actuarial assessment of the fund as at 30 June 2013 has been completed which showed the fund to be in surplus. Existing contribution arrangements are to continue into the foreseeable future.

Joint venture arrangements

Refer to Note 29 for details of the Group's share of the net asset deficiencies in joint venture investments. The Group is required to contribute additional capital, if requested, to make good any deficiency under the terms of the joint venture agreements.

(b) Contingent assets

Revenue cap adjustments

The Group has a contingent asset in respect of revenue cap adjustments. Refer to Note 1(e)(i) for further details. Subject to regulatory approval and any adjustments resulting from below rail cause, recovery and shortfalls via the revenue cap of $39.1 million (2013: $53.0 million), plus interest, is expected to be received during the year ending 30 June 2015. Management estimates that the revenue cap attributable to the year ended 30 June 2014 will be $7.0 million plus interest.

Deficit tonnage charges

The Group has a contingent asset of $2.8 million (2013: $6.9 million) in respect of deficit tonnage charges relating to contracts with a period ending 30 June 2014. Deficit tonnage charges are recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than reduce future tonnage entitlements.

Flood recovery

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

Guarantees and letters of credit

For information about guarantees given to the Group, refer to Note 3(d).

28 Commitments

(a) Capital commitments

	2014 $m	2013 $m
Property, plant and equipment		
Within one year	**290.6**	96.5
Later than one year but not later than five years	**-**	2.0
	290.6	98.5

Notes to the consolidated financial statements

30 June 2014

28 Commitments (continued)

(b) Lease commitments

	2014 $m	2013 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**37.4**	27.1
Later than one year but not later than five years	**42.0**	57.7
Later than five years	**5.8**	7.6
	85.2	92.4

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to ten years, generally provide the Group with a right of renewal at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

(c) Lease commitments receivable: where the Group is the lessor

	2014 $m	2013 $m
Some fixed assets are leased to tenants with rents payable monthly. Minimum lease payments (excluding GST) not recognised in the financial statements are receivable as follows:		
Within one year	**4.8**	4.4
Later than one year but not later than five years	**4.7**	6.2
Later than five years	**4.9**	5.6
	14.4	16.2

29 Interests in joint arrangements and associates

(a) Joint operations

(i) Nickel West Land Logistics

The Group has an interest in the Nickel West Land Logistics Joint Venture Agreement. The Group severally provides rail freight services under this arrangement and the Joint Arrangement partner severally provides road freight services. There are no assets jointly controlled by the operation.

(ii) Surat Basin

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

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

The Group's share of the joint assets, any liabilities that it has incurred directly and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint operation, its share of expenses incurred by the joint operation and expenses incurred directly in respect of its interest in the joint operation are detailed below.

The amounts are included in the consolidated financial statements under their respective asset, liability, income and expense categories:

	2014 $m	2013 $m
Group's share of:		
Current assets	**4.1**	0.4
Non-current assets	**-**	16.3
Current liabilities	**(0.2)**	(0.2)
Non-current liabilities	**-**	(0.8)
	3.9	15.7

	2014 $m	2013 $m
Revenue	**-**	-
Expenses*	**(18.0)**	-
Tax benefit	**5.4**	-
Net profit/(loss) after tax	**(12.6)**	-

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

* Relates to impairment losses, refer to Note 4(c).

(b) Investments in associates

The Group has an interest in the following associate:

		Ownership interest		
Name	Country of operation	2014 %	2013 %	Principal activity
Moorebank Industrial Property Trust	Australia	**33**	33	Investment

(i) Movement in carrying values

	2014 $m	2013 $m
Opening balance	**78.7**	77.5
Additional investments	**2.5**	1.8
Share of profit in associates	**6.7**	5.4
Dividends received	**(5.8)**	(5.5)
Share of increment of revaluation of freehold land	**0.5**	(0.5)
Closing balance (Note 15)	**82.6**	78.7

Notes to the consolidated financial statements

30 June 2014

29 Interests in joint arrangements and associates (continued)

(b) Investments in associates (continued)

(ii) Summarised financial information of associates

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

	2014 $m	2013 $m
Current assets	2.3	0.5
Non-current assets	80.9	78.8
Total assets	83.2	79.3
Current liabilities	(0.6)	(0.6)
Non-current liabilities	-	-
Total liabilities	(0.6)	(0.6)
Total net assets	82.6	78.7
Revenue	8.1	7.4
Profit from continuing operations	6.7	5.4
Other comprehensive income	-	-
Total comprehensive income	6.7	5.4

(iii) Contingent liabilities of associates

	2014 $m	2013 $m
Share of contingent liabilities incurred jointly with other investors	-	-
Contingent liabilities relating to liabilities of the associate for which the Company is severally liable	-	-
	-	-

(c) Investments in joint ventures

The joint ventures in which the Group has an interest and which are equity accounted in the financial statements are as follows:

Name	Country of operation	Ownership interest 2014 %	Ownership interest 2013 %	Principal activity
CHCQ	China-Hong Kong	15	15	Construction
Chun Wo/CRGL	China-Hong Kong	17	17	Construction
KMQR Sdn Bhd	Malaysia	30	30	Consulting
ARG Risk Management Limited	Australia	50	50	Insurance
QLM Pty Ltd	Australia	50	50	Dormant
Rail Innovation Australia Pty Ltd	Australia	20	20	Consulting
Integrated Logistics Company Pty Ltd	Australia	14	14	Consulting

30 Related party transactions

(a) Parent entities

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

(b) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2014 %	Equity holding 2013 %
Aurizon Operations Limited	Australia	Ordinary	100.0	100.0
Aurizon Intermodal Pty Ltd	Australia	Ordinary	100.0	100.0
Interail Australia Pty Ltd	Australia	Ordinary	100.0	100.0
Logistics Australasia Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Resource Logistics Pty Limited	Australia	Ordinary	100.0	100.0
CRT Group Pty Ltd	Australia	Ordinary	100.0	100.0
NHK Pty Ltd	Australia	Ordinary	100.0	100.0
Australian Rail Pty Ltd	Australia	Ordinary	100.0	100.0
Australia Eastern Railroad Pty Ltd	Australia	Ordinary	100.0	100.0
Australian Railroad Group Employment Pty Ltd	Australia	Ordinary	100.0	100.0
Australia Western Railroad Pty Ltd	Australia	Ordinary	100.0	100.0
AWR Lease Co Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Network Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Surat Basin Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Property Holding Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Property Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Terminal Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Moorebank Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Moorebank Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Finance Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon International Pty Ltd	Australia	Ordinary	100.0	100.0
Aurizon Moorebank Unit Trust	Australia	Units	100.0	100.0
Iron Horse Insurance Company Pte Ltd	Singapore	Ordinary	100.0	-

Notes to the consolidated financial statements
30 June 2014

30 Related party transactions (continued)

(c) Key Management Personnel compensation

	2014 $'000	2013 $'000
Short-term employee benefits	**13,738**	20,154
Post-employment benefits	**447**	476
Long-term benefits	**63**	(127)
Termination benefits	**1,276**	1,295
Share-based payments	**5,846**	4,631
	21,370	26,429

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.

(d) Transactions with Directors and Key Management Personnel

There were no KMP related party transactions during the year.

(e) Transactions with other related parties

The following transactions occurred with related parties:

	2014 $'000	2013 $'000
Dividend revenue – Other related parties	**-**	1

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

All other transactions, other than those with the State of Queensland as described below, 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.

(g) Transactions with State of Queensland controlled entities

Until its 22 November 2010 listing on the ASX, the Group was a Queensland Government Owned Corporation, with all shares held by the Shareholding Ministers on behalf of the State. The State currently holds 2.6 % (2013: 8.9 %) interest in the Company and is no longer a significant related party of the Group.

Transport Services Contracts

The Group has entered into Transport Services Contracts (TSCs) with the State of Queensland (acting through the Department of Transport and Main Roads) to provide general freight and livestock transportation services. The contracts commenced on 1 July 2010 and expire on 30 June 2015 and 31 December 2015 respectively.

Under the contracts, for the initial two and a half years, the Group will receive monthly base payments and quarterly payments in aggregate totaling $150.0 million for the year ended 30 June 2011, $148.1 million for the year ended 30 June 2012 and $75.1 million for the six months ended 31 December 2012.

After 31 December 2012 and until expiry of the contract, there has been a Deed of Variation for each contract agreed for the remaining terms. The monthly base payments and quarterly payments, in aggregate, total $52.8 million for the 6 months to 30 June 2013, $109.8 million for the year ended 30 June 2014, $85.0 million for the year ended 30 June 2015 and $13.7 million for the year ended 30 June 2016.

In addition, the contracts provide for additional payments of $90.0 million (general freight) and $13.0 million (livestock) between 31 December 2012 and the expiry of the contracts (refer to Note 5).

Service contracts with Queensland Rail

There exist a number of related party transactions between the Group and Queensland Rail Limited (Queensland Rail) arising from the separation of Queensland Rail from the Group on 30 June 2010. These transactions relate to service contracts entered into between the parties that are broadly priced on the basis of cost recovery plus a profit margin. At the conclusion of each contract (tenures range between one and five years), they will ordinarily be renegotiated.

The largest service contracts (by financial value) are for the provision of maintenance services; repairs, manufacture and overhaul of rollingstock; hook and pull services for passenger rollingstock; IT services; and stowing services.

31 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, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and Aurizon Network Pty Ltd (the "Aurizon Deed Parties" and each a "Aurizon Deed Party") entered into a Deed of Cross Guarantee dated 11 March 2011 (the "Cross Guarantee") with Aurizon Holdings Limited as the 'Holding Entity', under which each Aurizon Deed Party guarantees the debts of each other Aurizon Deed Party. By entering into the cross guarantee and lodging it with the Australian Securities and Investments Commission (**ASIC**) on 29 March 2011, the wholly-owned Aurizon Deed Parties have been relieved from the requirement to prepare separate financial and directors' reports by the operation of ASIC Class Order 98/1418 (as amended) (the "Class Order"). The cross guarantee became effective on lodgement with ASIC on 29 March 2011.

On 5 June 2013, each Aurizon Deed Party entered into a Revocation Deed pursuant to which the Cross Guarantee is to be revoked in respect of Aurizon Network Pty Ltd from the date the Revocation Deed becomes operative. The Revocation Deed was lodged with ASIC on 15 July 2013 and a public notice to creditors was printed in a national daily newspaper on 17 July 2013. Pursuant to the provisions of the Revocation Deed, the revocation became operative on 16 January 2014, being the date six months and one day after the date the Revocation Deed was lodged with ASIC. From the time the Revocation Deed became operative, the financial results of Aurizon Network Pty Ltd were no longer consolidated into the financial statements of the remainder of the Aurizon Deed Parties for the purposes of the Class Order. The consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings for the financial year ended 30 June 2014 are set out below.

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

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

The results of all the Aurizon Deed Parties are presented below in the consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings. This represents the results of the Group excluding Aurizon Network Pty Ltd, NHK Pty Ltd, AWR Lease Co Pty Ltd, Aurizon Moorebank Holdings Pty Ltd, Aurizon Moorebank Pty Ltd, Aurizon Moorebank Unit Trust, Aurizon Surat Basin Pty Ltd and Aurizon International Pty Ltd.

Notes to the consolidated financial statements

30 June 2014

31 Deed of cross guarantee (continued)

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

	2014 $m	2013* $m
Income statement		
Revenue from continuing operations	**3,329.9**	3,728.5
Other income	**157.0**	41.5
Consumables	**(1,274.1)**	(1,353.2)
Employee benefits expense	**(1,040.6)**	(1,182.5)
Depreciation and amortisation expense	**(395.4)**	(495.9)
Impairment losses	**(253.7)**	-
Other expenses	**(37.6)**	(51.0)
Finance costs	**(65.4)**	(105.6)
Profit before income tax	**420.1**	581.8
Income tax expense	**(83.6)**	(135.4)
Profit for the year	**336.5**	446.4
Statement of comprehensive income		
Profit for the year	**336.5**	446.4
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(4.7)**	3.0
Income tax relating to components of other comprehensive income	**(0.1)**	(0.9)
Other comprehensive income for the year, net of tax	**(4.8)**	2.1
Total comprehensive income for the year	**331.7**	448.5
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**1,422.5**	1,176.0
Profit for the year	**336.5**	446.4
Dividends provided for or paid	**(346.2)**	(199.9)
Removal of Network Pty Ltd	**(737.9)**	-
Retained earnings at the end of the financial year	**674.9**	1,422.5

* Includes Aurizon Network Pty Ltd, which was removed from deed on 16 January 2014 as previously stated.

(b) Consolidated balance sheet

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

	2014 $m	2013* $m
Current assets		
Cash and cash equivalents	**316.0**	106.3
Trade and other receivables	**593.8**	580.0
Inventories	**160.0**	212.2
Derivative financial instruments	**0.5**	0.4
Other assets	**19.3**	10.1
Assets classified as held for sale	**110.8**	23.0
Tax receivables	**55.7**	-
Total current assets	**1,256.1**	932.0
Non-current assets		
Other assets	**57.2**	3.0
Inventories	**14.6**	19.0
Property, plant and equipment	**4,399.2**	9,426.9
Intangibles	**43.1**	25.3
Investments accounted for using the equity method	**0.5**	0.5
Other financial assets	**1,215.2**	18.8
Derivative financial instruments	**-**	0.2
Total non-current assets	**5,729.8**	9,493.7
Total assets	**6,985.9**	10,425.7
Current liabilities		
Trade and other payables	**402.7**	288.3
Derivative financial instruments	**-**	0.8
Current tax liabilities	**-**	68.2
Provision	**318.0**	359.3
Other liabilities	**19.9**	42.4
Total current liabilities	**740.6**	759.0
Non-current liabilities		
Borrowings	**320.1**	2,478.6
Deferred tax liabilities	**79.4**	407.0
Provisions	**101.8**	78.5
Other liabilities	**9.9**	209.4
Total non-current liabilities	**511.2**	3,173.5
Total liabilities	**1,251.8**	**3,932.5**
Net assets	**5,734.1**	6,493.2
Equity		
Contributed equity	**5,045.9**	5,045.9
Reserves	**13.3**	24.8
Retained earnings	**674.9**	1,422.5
Total equity	**5,734.1**	6,493.2

* Includes Aurizon Network Pty Ltd, which was removed from deed on 16 January 2014 as previously stated.

Notes to the consolidated financial statements

30 June 2014

32 Remuneration of auditors

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

PwC Australia

	2014 $'000	2013 $'000
Audit and other assurance services		
Audit and review of financial statements	**2,167**	1,950
Other assurance services		
Audit of regulatory returns	**-**	285
Other assurance services	**481**	584
Total remuneration for audit and other assurance services	**2,648**	2,819
Taxation services		
Tax advisory services	**79**	422
Other services		
Advisory services	**242**	846
Total remuneration of PwC Australia	**2,969**	4,087

(a) Non-PwC Australia related audit firms

	2014 $'000	2013 $'000
Audit and other assurance services		
Audit and review of financial statements	**9**	9

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

	2014 $m	2013 $m
Profit for the year	**252.8**	446.9
Depreciation and amortisation	**499.2**	496.3
Impairment of non-current assets	**301.4**	-
Amortisation of borrowing costs	**20.2**	18.4
Non-cash employee benefits expense – share-based payments	**13.5**	12.3
Interest capitalised to qualifying assets	**(34.1)**	(22.2)
Net (gain) loss on sale of non-current assets	**(10.3)**	(11.8)
Share of profits of associates and joint venture partnership	**(6.7)**	(5.4)
Change in operating assets and liabilities:		
(Increase) in trade debtors	**(35.2)**	(30.9)
(Increase) in inventories	**(26.0)**	(6.6)
(Increase) decrease in other operating assets	**(12.6)**	(5.3)
(Decrease) increase in trade and other payables	**126.4**	(40.1)
(Decrease) increase in other operating liabilities	**4.8**	(35.5)
(Decrease) increase in provision for income taxes payable	**(115.7)**	68.2
(Decrease) increase in deferred tax liabilities	**84.4**	44.7
(Decrease) increase in other provisions	**6.1**	(22.7)
Net cash inflow from operating activities	**1,068.2**	**906.3**

34 Earnings Per Share

(a) Basic Earnings Per Share

	2014 Cents	2013 Cents
Total basic Earnings Per Share attributable to the ordinary equity holders of the Company	**11.8**	19.8

(b) Diluted Earnings Per Share

	2014 Cents	2013 Cents
Total diluted Earnings Per Share attributable to the ordinary equity holders of the Company	**11.8**	19.8

(c) Reconciliation of earnings used in calculating Earnings Per Share

	2014 $m	2013 $m
Basic and diluted Earnings Per Share		
Profit from continuing operations	**252.8**	446.9

(d) Weighted average number of shares used as denominator

	2014 Number '000	2013 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic Earnings Per Share	**2,137,285**	2,257,248
Adjustments for calculation of diluted Earnings Per Share:		
Rights	**4,619**	6,475
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted Earnings Per Share	**2,141,904**	2,263,723

(e) Information on the classification of securities

All shares issued by Aurizon Holdings Limited are fully paid ordinary shares that participate equally in profit distributions.

35 Share-based payments

(a) Performance rights plan

The Performance rights plan was 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. Under the Plan, eligible executives may be granted rights on terms and conditions determined by the Board from time to time. 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.

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.

Notes to the consolidated financial statements

30 June 2014

35 Share-based payments (continued)

(a) Performance rights plan (continued)

Performance rights are granted by the Company for nil consideration. 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.

*Deferred Short-term Incentive Award (**STIAD**)*

The STIAD was implemented in the 2011 financial year under which rights to the value of 50 % of the cash Short-term Incentive Awards (**STIA**) received by eligible executives would be granted as rights to ordinary shares. The rights will vest equally over a two year period and become exercisable provided that the executive remains employed by the Group at the vesting date, unless otherwise determined by the Board. This plan has not terminated with the last of the tranches vesting in the October 2014.

From Financial Year 2014 a portion of any STIA for the MD & CEO as well as the KMP will be awarded in rights to ordinary shares and deferred for a period of one year. This will be introduced over a two year period with a 20 % deferral in Financial Year 2014, increasing to 40 % in Financial Year 2015. 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 the executives remaining employed by the Group and satisfying market based performance hurdles of Total Shareholder Return (**TSR**) and non-market based Earnings Per Share (**EPS**) targets and Operating Ratio (**OR**).

The proportion of the LTIA rights that become exercisable will depend upon the TSR achieved by the Group relative to a peer group of companies over a three year period. The peer group comprises the companies in the ASX Top 100 index other than financial, medical, telecommunications, pharmaceutical and gaming companies. To determine to what extent the TSR related performance rights will vest, the TSR of the Group, over the performance period, will be compared to the TSR of all the companies in the peer group. Each of these peer companies will be ranked from highest to lowest based on their TSR over the performance period and the number of rights that vest will depend on where the Group is ranked amongst the peer group. For the purposes of calculating the TSR measurement the relevant share prices will be determined by reference to the volume weighted average share price over the 20 business days after the grant date and 20 business days before the end of the performance period.

OR, which essentially measures the operating cost (in cents) of earning each dollar of revenue, remains a key metric for Aurizon for measuring its success. Aurizon is committed to its target of reducing OR to 75 % by 2015. This will require further implementation of transformation and growth initiatives and continued tight operational and financial discipline. Accordingly, the Board determined to increase the proportion of the LTIA that is subject to the OR performance condition to 50 % of the grant. The OR hurdle is measured against the ratio calculated by including any diesel fuel rebate in revenue.

It should be noted that the target OR in 2016 is a significant decrease below the 2015 target of 75 % and that this rate of decline cannot be expected to be maintained indefinitely into the future. The Board considers 72 % to be an extremely difficult target in such a short time. To put the target in perspective, to achieve 72 % by 2016 will require a 3 % reduction year-on-year from IPO to 2016.

Retentions

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

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

Grant Date	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year Number '000
2014					
STIAD	**2,278**	**-**	**(1,361)**	**(282)**	**635**
LTI	**13,476**	**4,816**	**(3,694)**	**(1,331)**	**13,267**
Retentions	**355**	**330**	**(282)**	**(10)**	**393**
Total	**16,109**	**5,146**	**(5,337)**	**(1,623)**	**14,295**
2013					
STIAD	1,715	1,749	(1,024)	(162)	2,278
LTI	7,719	6,669	(137)	(775)	13,476
Retentions	420	455	(465)	(55)	355
Total	9,854	8,873	(1,626)	(992)	16,109

At 30 June 2014 there was no vested but unexercised rights.

The weighted average exercise price of rights granted during the year was nil (2013: 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 $4.73 (2013: $3.56). The weighted average remaining contractual life of share rights outstanding at 30 June 2014 was 1.5 years (2013: 1.2 years).

Fair value of rights

In determining the fair value, the below standard market techniques for valuation were applied in accordance with AASB 2. The fair value of the STIAD and the portion of LTIA rights, that are subject to non-market based performance conditions, are 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. In estimating expected vesting it was assumed an equal chance that each company in the TSR peer group may finish the performance period ranked at any position within the Group. Analysis was performed comparing this approach to the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. The model inputs for performance rights granted during the year ended 30 June 2014 included:

		LTIA	
Tranche	**TSR**	**EPS**	**OR**
Grant date	**16 Aug 2013**	**16 Aug 2013**	**16 Aug 2013**
Vesting date	**16 Aug 2016**	**16 Aug 2016**	**16 Aug 2016**
Expiry date	**31 Dec 2017**	**31 Dec 2017**	**31 Dec 2017**
Share price at grant date	**$4.57**	**$4.57**	**$4.57**
Expected life	**3.5 years**	**3.5 years**	**3.5 years**
Volatility	**20%**	**n/a**	**n/a**
Risk free rate	**2.9%**	**n/a**	**n/a**
Dividend yield	**3.90%**	**3.90%**	**3.90%**
Fair value	**$2.78**	**$4.07**	**$4.07**

Notes to the consolidated financial statements

30 June 2014

35 Share-based payments (continued)

(a) Performance rights plan (continued)

The key assumptions adopted for the valuation of performance rights granted during 2013 are contained below:

	STIAD		LTIA		
Tranche	**Year 1**	**Year 2**	**TSR**	**EPS**	**OR**
Grant date	10 Oct 2012	10 Oct 2012	23 Aug 2012	23 Aug 2012	23 Aug 2012
Vesting date	10 Oct 2013	10 Oct 2014	23 Aug 2015	23 Aug 2015	23 Aug 2015
Expiry date	10 Oct 2013	10 Oct 2014	31 Dec 2016	31 Dec 2016	31 Dec 2016
Share price at grant date	$3.62	$3.62	$3.55	$3.55	$3.55
Expected life	1 year	2 years	3.5 years	3.5 years	3.5 years
Volatility	n/a	n/a	25 %	n/a	n/a
Risk free rate	n/a	n/a	2.7 %	n/a	n/a
Dividend yield	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %
Fair value	$3.54	$3.46	$2.06	$3.29	$3.29

(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 $13.5 million (2013: $12.3 million).

36 Parent entity financial information

(a) Summary financial information

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

	2014 $m	2013 $m
Current assets	**60.9**	68.2
Non-current assets	**6,107.4**	6,129.2
Current liabilities	**(75.5)**	(68.2)
Non-current liabilities	**(1,031.6)**	(1,057.7)
Net assets	**5,061.2**	5,071.5
Shareholders' equity		
Contributed equity	**5,045.8**	5,045.8
Retained earnings	**0.1**	0.1
Reserves	**15.3**	25.6
Total equity	**5,061.2**	5,071.5

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

Profit or loss for the year	**346.2**	199.9
Total comprehensive income	**346.2**	199.9

(b) Guarantees entered into by the parent entity

There are cross guarantees given by Aurizon Holdings Limited, Aurizon Operations Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Property Pty Ltd, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Aurizon Resource Logistics Pty Limited, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and Aurizon Network Pty Ltd as described in Note 31.

(c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2014 or 30 June 2013. For information about guarantees given by the parent entity, please see above.

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

As at 30 June 2014, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment (2013: nil).

37 Events occurring after the reporting period

(a) Aquila Resources Limited transaction

On 5 May 2014, Baosteel Resources Australia Pty Ltd and Aurizon's wholly-owned subsidiary, Aurizon Operations Limited, (together, the Bidders) announced their intention to make a joint takeover offer to acquire 100 % of the ordinary shares in Aquila Resources Limited (Aquila) that they did not then own (the Offer). The Offer opened for acceptance on 6 June 2014 and closed on 25 July 2014.

At the date of signing this report, the Bidders (and their associates) are registered holders of, in aggregate, 98.95 % of Aquila's ordinary shares on issue.

The Bidders have exercised their rights to seek to compulsorily acquire outstanding shares. Once this process successfully completes, Aurizon is expected hold in total 15 % of Aquila's ordinary shares on issue (total Aurizon cash consideration – approximately $210 million).

(b) Disposal of non-core assets

On 4 August 2014, Aurizon entered into an agreement to sell its wholly owned logistics subsidiary CRT Group (**CRT**) to Qube Logistics (Aust) Pty Limited, a subsidiary of Qube Holdings (**Qube**). The sale is consistent with Aurizon's strategy, as announced in July 2013, to maximise the value of the Intermodal business by retaining and integrating it within the enterprise which also included the disposal of certain non-core assets.

CRT provides specialised bulk freight hauler services including handling, packaging, warehousing and distribution to the Australia polymer, food and industrial sectors and has a national network of depots, warehouses and container parks which, based on a strategic review, is considered non-core. The resources arm was separated from CRT in April 2014 and integrated into Aurizon's broader operations given its complementary focus on Aurizon's key growth sectors and commodities. CRT employs approximately 250 people and has an annual turnover (revenue) of c$100m. The sale is subject to a number of conditions, with settlement expected in October 2014.

Directors' Declaration
30 June 2014

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 60 to 100 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 2014 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 31 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 31.

Note 1(a) 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*.

John B Prescott AC
Chairman

Brisbane
18 August 2014

pwc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AURIZON HOLDINGS LIMITED

Report on the financial report

We have audited the accompanying financial report of Aurizon Holdings Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Aurizon Holdings Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

pwc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AURIZON HOLDINGS LIMITED

Auditor's opinion

In our opinion:

(a) the financial report of Aurizon Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 27 to 48 of the Directors' Report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Yeoman
Partner

Brisbane
18 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Non-IFRS Financial Information

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBIT (Statutory and Underlying), EBITDA (Statutory/Underlying), EBITDA margin – Underlying, Operating Ratio – 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 differs from EBIT – Statutory due 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 because of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and/or amortisation.

Operating Ratio – Underlying is defined as underlying EBIT divided by total revenue (excluding interest income). The Operating Ratio is the key measure of the operating cost of earning each dollar of revenue and it is used as one of the key performance measures of the KMP.

ROIC is defined as underlying EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve months average of net property, plant and equipment including assets under construction plus current assets less cash less current liabilities plus gross intangibles. This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net gearing ratio is defined as Net debt divided by Shareholders Equity plus Net debt. Net debt and Net gearing ratios 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 the Company's 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 below. 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.

	Notes	2014 $m	2013 $m
Profit before income tax	4(b)	**353.4**	582.3
Finance costs (net)	4(b)	**112.1**	103.3
EBIT – Statutory		**465.5**	685.6
Significant adjustments:			
– Voluntary redundancy schemes	4(c)	**69.3**	95.7
– Assets impairments	4(c)	**20.0**	-
– Assets under construction impairment	4(c)	**53.7**	-
– Strategic infrastructure project impairment	4(c)	**72.9**	-
– Rollingstock impairment	4(c)	**170.0**	-
– Stamp duty		**-**	(26.9)
EBIT – Underlying		**851.4**	754.4
Depreciation and amortisation	7	**499.2**	496.3
EBITDA – Underlying		**1,350.6**	1,250.7
Operating Ratio		**77.7%**	79.8 %
Average invested capital		**9,651.9**	9,418.9
ROIC		**8.8%**	8.0 %
Borrowings – Current	20	**41.5**	-
Borrowings – Non-current	20	**2,799.4**	2,478.6
Total borrowings		**2,840.9**	2,478.6
Cash and cash equivalent	10	**(317.5)**	(107.6)
Net debt		**2,523.4**	2,371.0
Net Gearing Ratio	24(e)	**28.4%**	26.7 %

Shareholder Information

Range of Fully Paid Ordinary Shares as at 14 August 2014

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 – 1,000	22,105	14,063,113	0.66
1,001 – 5,000	27,802	63,065,128	2.95
5,001 – 10,000	4,096	30,164,066	1.41
10,001 – 100,000	3,293	66,592,352	3.12
100,001 – 999,999,999	159	1,963,399,844	91.86
1,000,000,000 – 9,999,999,999	0	0	0
Rounding			
Total	**57,455**	**2,137,284,503**	**100.00**

Unmarketable Parcels

	MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum $500.00 parcel at $5.00 per unit	100	536	16,121

The number of shareholders holding less than the marketable parcel of shares is 536 (shares: 16,121)

Substantial Holders of 5% or more of Fully Paid Ordinary Shares as at 14 August 2014*

NAME	NOTICE DATE	SHARES
UBS AG and its related bodies corporate	7 July 2014	132,953,567
HSBC Holdings	24 December 2013	132,671,318
Children's Investment Fund Management	8 May 2012	125,051,143

* As disclosed in substantial shareholder notices received by the Company.

Investor Calendar

2015 DATES	DETAILS
16 February 2015	Half Year results and interim dividend announcement
23 March 2015	Interim dividend payment date
24 August 2015	Full Year results and final dividend announcement
21 September 2015	Final dividend payment date
12 November 2015	Annual General Meeting

Note:
The payment of a dividend is subject to the Corporations Act and Board discretion.
The timing of any event listed above may change. Please refer to the Company website, **aurizon.com.au**, for an up-to-date list of upcoming events.

ASX code: AZJ

Contact details

Aurizon
GPO Box 456
Brisbane QLD 4001

For general enquiries, please call 13 23 32 within Australia.
If you are calling from outside Australia, please dial +61 7 3019 9000
www.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/au**

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 1412 or email: **investor.relations@aurizon.com.au**

Shareholder Information (continued)

Top 20 Holders of Fully Paid Ordinary Shares as at 14 August 2014

NAME	ADDRESS	UNITS	% OF UNITS
J P MORGAN NOMINEES AUSTRALIA LIMITED	LOCKED BAG 20049, MELBOURNE VIC, 3001	534,903,128	25.03
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	GPO BOX 5302, SYDNEY NSW, 2001	501,194,376	23.45
CITICORP NOMINEES PTY LIMITED	GPO BOX 764G, MELBOURNE VIC, 3001	318,720,895	14.91
NATIONAL NOMINEES LIMITED	GPO BOX 1406, MELBOURNE VIC, 3001	251,136,335	11.75
BNP PARIBAS NOMS PTY LTD <DRP>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	60,507,803	2.83
QUEENSLAND TREASURY HOLDINGS PTY LTD	C/- QUEENSLAND TREASURY, CORPORATION, GPO BOX 1096, BRISBANE QLD, 4001	54,926,186	2.57
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	GPO BOX 5302, SYDNEY NSW, 2001	21,625,456	1.01
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	GPO BOX 764G, MELBOURNE VIC, 3001	18,699,494	0.87
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	GPO BOX 5430, SYDNEY NSW, 2001	14,405,436	0.67
AMP LIFE LIMITED	PO BOX R209, ROYAL EXCHANGE NSW, 1225	13,487,919	0.63
WARBONT NOMINEES PTY LTD <ACCUMULATION ENTREPOT A/C>	PO BOX 4151, SYDNEY NSW, 2001	11,845,076	0.55
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	11,817,000	0.55
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	11,441,499	0.54
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	GPO BOX 5302, SYDNEY NSW, 2001	10,682,258	0.50
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSAM A/C>	GPO BOX 5430, SYDNEY NSW, 2001	9,342,379	0.44
UBS NOMINEES PTY LTD	PO BOX 4151, SYDNEY NSW, 2001	8,150,000	0.38
ECAPITAL NOMINEES PTY LIMITED <SETTLEMENT A/C>	GPO BOX 3804, SYDNEY NSW, 2001	7,158,275	0.33
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	GPO BOX 5302, SYDNEY NSW, 2001	6,338,361	0.30
UBS NOMINEES PTY LTD	LEVEL 16, CHIFLEY TOWER, 2 CHIFLEY SQUARE, SYDNEY NSW, 2000	5,933,419	0.28
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	GPO BOX 1257, MELBOURNE VIC, 3001	5,363,139	0.25
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES		**1,877,678,434**	**87.85**
Total Remaining Holders Balance		**259,606,069**	**12.15**

Glossary

Some terms and abbreviations used in this document, together with industry specific terms, have defined meanings.

These terms and abbreviations are set out in this glossary and are used throughout this document.

A reference to dollars, $ or cents in this document is a reference to Australian currency unless otherwise stated. Any reference to a statute, ordinance, code or other law includes regulations and any other instruments under it and consolidations, amendments, re-enactments or replacements of any of them. Any reference to Annual Report is a reference to this document.

ABN
Australian Business Number

above rail
Rollingstock – including locomotives and wagons and associated infrastructure (e.g. maintenance and operational depots)

ACN
Australian Company Number

ASIC
Australian Securities and Investments Commission

ASX
Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691)

ASX Listing Rules
The official listing rules of ASX

Aurizon
Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

below rail
Track, electric infrastructure, signalling and associated rail infrastructure

Board
The Board of Directors of Aurizon Holdings Limited

CAGR
Compound annual growth rate, expressed as a percentage per year

CGT
Capital Gains Tax

Coal
The above rail coal haulage operating division of Aurizon Holdings Limited

Company or Aurizon Holdings
Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

Company Secretary
The Company Secretary of Aurizon Holdings Limited

Constitution
The constitution of Aurizon Holdings Limited

Corporations Act
Corporations Act 2001 (Cth)

cps
Cents per share

CQCN
Central Queensland Coal Network

CQIRP
Central Queensland Integrated Rail Project

DTC
Deficit Tonnage Charges

EBIT
Earnings Before Interest and Tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

EBIT Margin
Underlying earnings before interest and tax divided by total revenue and other income

EEO
Energy Efficiency Opportunity

EEO Act
Energy Efficiency Opportunity Act 2006 (Cth)

EPS
Earnings Per Share

Freight
The above rail freight haulage operating division of Aurizon Holdings Limited

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

LTIFR
Lost Time Injury Frequency Rate, being a measure of the number of lost time injuries per million hours worked over a 12 month period

MTIFR
Medically Treated Injury Frequency Rate, being a measure of the number of medically treated injuries per million hours worked over a 12 month period

MAR
Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN across the term of an access undertaking

mt
Millions of tonnes

mtpa
Millions of tonnes per annum

Glossary (continued)

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

Operating Ratio
1 – EBIT margin, expressed as a percentage

OPEX
Operating expense including depreciation and amortisation

PPT
Percentage point

QCA
Queensland Competition Authority

Queensland Rail
Queensland Rail Limited (ACN 132 181 090) – this entity is owned by the State and operates the core public rail passenger business

RAB
Regulated Asset Base the value of the asset base on which pricing is determined by the price regulator

ROIC
Return on Invested Capital

share
A fully paid ordinary share in Aurizon Holdings

STIA
Short-term Incentive Award

tonne
One metric tonne, being 1,000 kilograms

tonne kilometres
The product of tonnes and distance

TSC
Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services

WACC
Weighted Average Cost of Capital, expressed as a percentage

WICET
Wiggins Island Coal Expansion Terminal

WIRP
Wiggins Island Rail Project

Corporate Information

Aurizon Holdings Limited
ABN 14 146 335 622

Directors
- John B Prescott AC
- Lance E Hockridge
- John Atkin
- Russell R Caplan
- John Cooper
- Karen Field
- Graeme John AO
- Andrea Staines
- Gene Tilbrook
- Pasquale Zito

Company Secretary
- Dominic D Smith

Registered Office
Level 17, 175 Eagle Street
Brisbane QLD 4000 Australia

Auditors
PricewaterhouseCoopers

Share Registry
Computershare Investor
Services Pty Limited
117 Victoria Street
West End QLD 4001 Australia

Tel: 1800 776 476
(or +61 3 9938 4376)

AURIZON®

ANNUAL REPORT **2013–14**