Aurizon Network Pty Ltd

ABN 78 132 181 116

Interim Financial Report for the six months ended 31 December 2015

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Aurizon Network Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 17
175 Eagle Street
BRISBANE QLD 4000

	Notes	31 December 2015 $m	31 December 2014 $m
Revenue from continuing operations	1	**580.1**	529.3
Other income		**0.8**	0.3
Employee benefits expense		**(62.8)**	(66.5)
Energy and fuel		**(62.6)**	(51.5)
Consumables		**(66.6)**	(79.7)
Depreciation and amortisation		**(125.5)**	(105.5)
Other expenses		**(26.4)**	(8.9)
Operating profit		**237.0**	217.5
Finance income		**0.6**	0.3
Finance expenses		**(68.5)**	(66.9)
Net finance costs		**(67.9)**	(66.6)
Profit before income tax		**169.1**	150.9
Income tax expense		**(51.4)**	(46.2)
Profit for the six months		**117.7**	104.7

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

	31 December 2015 $m	31 December 2014 $m
Profit for the six months	**117.7**	104.7
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges recognised in equity	**3.4**	(25.0)
Income tax relating to components of other comprehensive income	**(1.0)**	7.5
Other comprehensive income for the six months, net of tax	**2.4**	(17.5)
Total comprehensive income for the six months	**120.1**	87.2

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

	Notes	31 December 2015 $m	30 June 2015 $m
ASSETS			
Current assets			
Cash and cash equivalents		**3.7**	116.4
Trade and other receivables		**228.9**	209.8
Inventories		**44.9**	49.3
Derivative financial instruments		**-**	0.1
Other assets		**5.0**	0.3
Total current assets		**282.5**	375.9
Non-current assets			
Trade and other receivables		**-**	-
Inventories		**14.1**	12.4
Derivative financial instruments		**47.6**	18.4
Property, plant and equipment		**5,406.8**	5,360.4
Intangible assets		**54.6**	43.6
Total non-current assets		**5,523.1**	5,434.8
Total assets		**5,805.6**	5,810.7
LIABILITIES			
Current liabilities			
Trade and other payables		**133.1**	166.3
Derivative financial instruments		**-**	0.1
Borrowings	3	**1.1**	3.1
Provisions		**19.3**	21.6
Other liabilities		**70.6**	77.7
Total current liabilities		**224.1**	268.8
Non-current liabilities			
Derivative financial instruments		**34.1**	42.7
Provisions		**2.0**	1.9
Borrowings	3	**2,971.6**	2,935.2
Deferred tax liabilities		**519.5**	500.8
Other liabilities		**234.0**	248.1
Total non-current liabilities		**3,761.2**	3,728.7
Total liabilities		**3,985.3**	3,997.5
Net assets		**1,820.3**	1,813.2
EQUITY			
Contributed equity		**2.6**	1.9
Reserves		**(28.6)**	(31.0)
Convertibles notes		**1,200.0**	1,200.0
Retained earnings		**646.3**	642.3
Total equity		**1,820.3**	1,813.2

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

		Attributable to owners of Aurizon Network Pty Ltd				
	Notes	**Contributed equity $m**	**Convertible notes $m**	**Reserves $m**	**Retained profits $m**	**Total equity $m**
Balance at 1 July 2014		2.4	1,200.0	(19.0)	650.3	1,833.7
Profit for the six months		-	-	-	104.7	104.7
Other comprehensive income		-	-	(17.5)	-	(17.5)
Total comprehensive income for the six months		**-**	**-**	**(17.5)**	**104.7**	**87.2**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	2	-	-	-	(87.2)	(87.2)
Capital distribution to the parent for share-based payments		0.7	-	-	-	0.7
		0.7	-	-	(87.2)	(86.5)
Balance at 31 December 2014		**3.1**	**1,200.0**	**(36.5)**	**667.8**	**1,834.4**
Balance at 1 July 2015		1.9	1,200.0	(31.0)	642.3	1,813.2
Profit for the six months		-	-	-	117.7	117.7
Other comprehensive income		-	-	2.4	-	2.4
Total comprehensive income for the six months		**-**	**-**	**2.4**	**117.7**	**120.1**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	2	-	-	-	(113.7)	(113.7)
Capital contribution from the parent for share-based payments		0.7	-	-	-	0.7
		0.7	-	-	(113.7)	(113.0)
Balance at 31 December 2015		**2.6**	**1,200.0**	**(28.6)**	**646.3**	**1,820.3**

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

	31 December 2015 $m	31 December 2014 $m
Cash flows from operating activities		
Receipts from customers	**605.4**	647.5
Interest received	**0.9**	0.3
Payments to suppliers and employees	**(227.5)**	(294.8)
Income taxes received/(paid)	**(40.9)**	3.4
Net cash inflow from operating activities	**337.9**	356.4
Cash flows from investing activities		
Payments for property, plant and equipment	**(211.9)**	(299.1)
Payments for intangible assets	**(17.8)**	(14.9)
Interest paid for qualifying assets	**(5.9)**	(13.9)
Net cash (outflow) from investing activities	**(235.6)**	(327.9)
Cash flows from financing activities		
Proceeds from borrowings	**-**	849.9
Repayment of borrowings	**(2.0)**	(721.5)
Payment of transaction costs related to borrowings	**(2.5)**	(4.1)
Capital distribution to parent	**(0.4)**	-
Loans to related parties	**(33.0)**	-
Finance lease payments	**(1.0)**	(1.1)
Dividends paid to Company's shareholders	**(113.7)**	(87.2)
Interest paid	**(62.4)**	(59.1)
Net cash (outflow)/inflow from financing activities	**(215.0)**	(23.1)
Net increase/(decrease) in cash and cash equivalents	**(112.7)**	5.4
Cash and cash equivalents at the beginning of the financial year	**116.4**	1.1
Cash and cash equivalents at end of the six months	**3.7**	6.5

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

About this report

Corporate information

The financial statements of Aurizon Network Pty Ltd ("the Company" or “Aurizon Network”) for the six months ended 31 December 2015 are for the consolidated entity consisting of the Company and its subsidiaries (together referred to as "the Group").

Basis of preparation

This condensed consolidated interim financial report for the six month reporting period ended 31 December 2015 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this financial report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2015.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest hundred thousand dollars, unless otherwise stated, under the option available to the Company under Class Order 98/100, issued by the Australian Securities and Investment Commission. The Company is an entity to which the class order applies.

Key Events and transactions for the reporting period

Access undertaking (UT4)

The Queensland Competition Authority ("QCA") issued its Draft Decision on Aurizon Network's 2014 Draft Access Undertaking ("UT4") on 30 September 2014. A further Consolidated Draft Decision was issued on 16 December 2015, with a revised timetable for the release of the final decision by the end of April 2016.

The original term of the 2010 Access Undertaking ("UT3") expired on 30 June 2013 and the Company submitted a series of Draft Amending Access Undertakings ("DAAU") which extended the UT3 period and established transitional tariffs for the intervening period until the finalisation and approval of UT4. The transitional tariffs in place from 1 July 2015 closely align to the Draft Decision on Maximum Allowable Revenue ("MAR"). The total MAR for UT4 in the Consolidated Draft Decision is not significantly different to the Draft Decision. For the six months ended 31 December 2014, regulated access revenue was recognised as the amounts invoiced applying the transitional tariffs to actual volumes. For the six months ended 31 December 2015, regulated access revenue has been recognised as half of the MAR for the year ending 30 June 2016 in the Consolidated Draft Decision released on 16 December 2015.

Debt refinancing

In December 2015 the Company refinanced $490 million of its syndicated debt facility with an extended maturity date of 1 July 2021.

Enterprise agreement

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

Results for the six months

In this section …

Results for the six months provides a breakdown of individual line items in the consolidated income statement that the directors consider most relevant.

1 Revenue

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

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

	31 December 2015 $m	31 December 2014 $m
Revenue from continuing operations		
Services revenue		
Track access	**559.7**	501.0
Other services revenue	**2.6**	5.5
Other revenue	**17.8**	22.8
	580.1	529.3

Capital management

In this section …

Capital management provides information about the capital management practices of the Group and shareholder returns for the six months and the Group's fair value disclosure for financial instruments.

2 Dividends

(a) Ordinary shares

	31 December 2015 $m	31 December 2014 $m
Final dividend for the year ended 30 June 2015 of $470,000 (2015: $182,000) per share, paid September 2015 (unfranked)	**47.0**	18.2
Interim dividend for the year ended 30 June 2016 of $667,000 (2015: $690,000) per share, paid October 2015 (unfranked)	**66.7**	69.0
	113.7	87.2

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

	31 December 2015 $m	31 December 2014 $m
Since 31 December 2015, the directors have recommended the payment of a final dividend of $439,000 (2015: $585,000) per fully paid ordinary share, unfranked. The aggregate amount of the dividend expected to be paid on 23 March 2016 out of retained earnings, but not recognised as a liability at 31 December 2015, is:	**43.9**	58.5

3 Borrowings

	31 December 2015 $m	30 June 2015 $m
Current		
Secured		
Finance lease liabilities	**1.1**	1.1
Unsecured		
Working capital facility	**-**	2.0
Total current borrowings	**1.1**	**3.1**
Non-current		
Secured		
Finance lease liabilities	**8.7**	9.3
Unsecured		
Syndicated debt facilities	**1,690.0**	1,690.0
Medium term notes	**1,286.4**	1,249.7
Capitalised borrowing costs	**(13.5)**	(13.8)
Total non-current borrowings	**2,971.6**	**2,935.2**

In December 2015 the Company refinanced $490 million of its Syndicated facility with an extended maturity date of 1 July 2021.

The non-current unsecured borrowings impose certain covenants on the Company to ensure that certain financial ratios are met and restrict the amount of security that the Company can provide over its assets in certain circumstances.

Lease liabilities are secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

4 Fair value disclosure for financial instruments

Fair values of financial instruments

The carrying amounts and fair values of all of the Group's financial instruments which are not carried at an amount which approximates their fair value at 31 December 2015 and 30 June 2015 are shown in the following table.

The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ended 31 December 2015, the borrowing rates were determined to be between 2.9% and 4.7% depending on the type of borrowing (30 June 2015 – 2.8% to 4.9%).

	31 December 2015		**30 June 2015**	
	Carrying value $m	**Fair value $m**	**Carrying value $m**	**Fair value $m**
Borrowings	**2,972.7**	**3,045.6**	2,938.3	3,044.2
	2,972.7	**3,045.6**	2,938.3	3,044.2

Valuation hierarchy of financial instruments carried at fair value on a recurring basis

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

- Forward exchange contracts
- Interest rate swaps

(a) Fair value hierarchy

Financial instruments carried at fair value may be grouped into three valuation categories:

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

(i) Recognised fair value measurements
All of the Group's financial instruments measured at fair value are categorised as Level 2. There were no transfers between Levels 1, 2 and 3 fair value hierarchies during the current or prior six month period.

(b) Valuation techniques used to derive fair values

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 determine the fair value of an instrument are observable, the instrument is included in Level 2.

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

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

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

Other information

In this section …

Other information provides information on other items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements.

5 Summary of significant accounting policies

Except as noted below, the principal accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year. These policies have been consistently applied to both periods presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

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

The previous accounting policy was to expense rail renewal expenditure as incurred. The new accounting policy was adopted on 1 July 2015 prospectively as the retrospective impact was not material. The impact from the change in accounting policy for the current half year is $5.5 million. The change in useful life for rail and sleepers has also been adopted on the same date since it is inextricably related to the change in accounting policy.

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

(ii) New and amended standards adopted by the Group
None of the new standards and amendments to standards that are mandatory for first time adoption for reporting periods beginning 1 July 2015 affect any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The Group has not early-adopted any amendments, standards or interpretations that have been issued but are not yet effective.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early-adopted by the Group.

IFRS 16 *Leases* addresses the recognition, measurement, presentation and disclosures of leases. This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, AASB 117. This standard applies to annual reporting periods beginning on or after 1 January 2019. The Group has not yet assessed the impact for the Group of this new standard.

6 Critical accounting estimates and judgements

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

(b) Access Undertaking

The Queensland Competition Authority (“QCA”) issued its draft decision on Aurizon Network’s 2014 Draft Access Undertaking (“UT4”) on 30 September 2014. A further consolidated draft decision was issued on 16 December 2015, with a revised timetable for the release of the final decision by the end of April 2016.

The original term of the 2010 Access Undertaking (“UT3”) expired on 30 June 2013 and the Company submitted a series of Draft Amending Access Undertakings (“DAAU”) which extended the UT3 period and established transitional tariffs for the intervening period until the finalisation and approval of UT4. The transitional tariffs in place from 1 July 2015 closely align to the Draft Decision on Maximum Allowable Revenue (“MAR”). The total MAR for UT4 in the Consolidated Draft Decision is not significantly different to the Draft Decision. For the six months ended 31 December 2014, regulated access revenue was recognised as the amounts invoiced applying the transitional tariffs to actual volumes. For the six months ended 31 December 2015, regulated access revenue has been recognised as half of the MAR for the year ending 30 June 2016 in the Consolidated Draft Decision released on 16 December 2015.

Unrecognised items

In this section …

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

7 Contingencies

Issues relating to common law claims and product warranties are dealt with as they arise. There have been no material changes in contingent assets or liabilities since 30 June 2015.

8 Events occurring after the reporting period

There have been no matters or circumstances occurring subsequent to the reporting period that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group.

In accordance with a resolution of the directors of the Company, I state that:

In the opinion of the directors of the Company:

(a) the financial statements and notes set out on pages 3 to 18
  (i) comply with Accounting Standards; and
  (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the six months 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.

J Atkin
Chairman

Brisbane QLD
12 February 2016

Independent auditor's review report to the members of Aurizon Network Pty Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Aurizon Network Pty Ltd (the Company), which comprises the consolidated balance sheet as at 31 December 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Aurizon Network Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the accounting policies as described in the Notes to the financial statements and have determined that the accounting policies in the Notes, which form part of the financial report, are appropriate to meet the needs of the members. The directors' are also responsible for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the accounting policies as described in the Notes to the financial report. As the auditor of Aurizon Network Pty Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the half-year financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Aurizon Network Pty Ltd does not present fairly, in all material respects, the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date, in accordance with the accounting policies as described in the Notes to the financial report.

PricewaterhouseCoopers

Brisbane
12 February 2016

Partner
Simon Neill