

Aurizon Network Pty Ltd

ABN 78 132 181 116

Interim Financial Report for the six months ended 31 December 2017

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Interim Financial Report - 31 December 2017

CONTENTS

Consolidated income statement.....	3
Consolidated statement of comprehensive income.....	4
Consolidated balance sheet.....	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows.....	7
About this report.....	8
Key Events and transactions for the reporting period	9
Results for the six months.....	10
1 Revenue	11
Capital management	12
2 Dividends.....	13
3 Borrowings.....	13
4 Fair value disclosure for financial instruments.....	14
Other information.....	15
5 Summary of significant accounting policies	16
6 Critical accounting estimates and judgements.....	16
Unrecognised items.....	17
7 Contingencies	18
8 Events occurring after the reporting period	18
Directors' declaration	19
Independent auditor's report to the members	20

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

Aurizon Network Pty Ltd
Consolidated income statement
For the six months ended 31 December 2017

	Notes	31 December 2017 \$m	31 December 2016 \$m
Revenue from continuing operations	1	607.5	671.1
Other income		0.1	-
Employee benefits expense		(65.9)	(64.4)
Energy and fuel		(76.1)	(73.0)
Consumables		(67.3)	(91.4)
Depreciation and amortisation		(144.4)	(141.7)
Other expenses		(5.4)	(10.0)
Operating profit		248.5	290.6
Finance income		0.2	0.7
Finance expenses		(74.3)	(84.2)
Net finance costs		(74.1)	(83.5)
Profit before income tax		174.4	207.1
Income tax expense		(52.7)	(61.9)
Profit after tax for the six months		121.7	145.2

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

Aurizon Network Pty Ltd
Consolidated statement of comprehensive income
For the six months ended 31 December 2017

	31 December 2017 \$m	31 December 2016 \$m
Profit after tax for the six months	121.7	145.2
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	5.8	44.4
Income tax relating to these items	(1.7)	(13.3)
Other comprehensive income for the six months, net of tax	4.1	31.1
Total comprehensive income for the six months	125.8	176.3

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

Aurizon Network Pty Ltd
Consolidated balance sheet
As at 31 December 2017

	Notes	31 December 2017 \$m	30 June 2017 \$m
ASSETS			
Current assets			
Cash and cash equivalents		2.0	21.0
Trade and other receivables		166.8	238.0
Inventories		37.5	35.3
Derivative financial instruments		-	0.1
Other assets		5.2	0.5
Assets classified as held for sale		0.6	0.6
Total current assets		212.1	295.5
Non-current assets			
Inventories		7.9	8.9
Derivative financial instruments		97.2	70.3
Property, plant and equipment		5,402.4	5,390.1
Intangible assets		86.8	80.7
Total non-current assets		5,594.3	5,550.0
Total assets		5,806.4	5,845.5
LIABILITIES			
Current liabilities			
Trade and other payables		112.3	122.4
Borrowings	3	81.0	5.0
Provisions		39.6	41.7
Other liabilities		34.6	42.9
Total current liabilities		267.5	212.0
Non-current liabilities			
Borrowings	3	3,202.7	2,923.5
Derivative financial instruments		36.5	70.7
Deferred tax liabilities		630.6	600.2
Provisions		2.1	3.3
Other liabilities		191.7	203.3
Total non-current liabilities		4,063.6	3,801.0
Total liabilities		4,331.1	4,013.0
Net assets		1,475.3	1,832.5
EQUITY			
Contributed equity		3.7	3.9
Convertibles notes		1,200.0	1,200.0
Reserves		(0.2)	(4.3)
Retained earnings		271.8	632.9
Total equity		1,475.3	1,832.5

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

Aurizon Network Pty Ltd
Consolidated statement of changes in equity
For the six months ended 31 December 2017

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 2017	3.9	1,200.0	(4.3)	632.9	1,832.5
Profit for the six months	-	-	-	121.7	121.7
Other comprehensive income	-	-	4.1	-	4.1
Total comprehensive income for the six months	-	-	4.1	121.7	125.8
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(482.8)	(482.8)
Capital distribution to the parent for share-based payments	(0.2)	-	-	-	(0.2)
	(0.2)	-	-	(482.8)	(483.0)
Balance at 31 December 2017	3.7	1,200.0	(0.2)	271.8	1,475.3
Balance at 1 July 2016					
	2.5	1,200.0	(33.6)	623.0	1,791.9
Profit for the six months	-	-	-	145.2	145.2
Other comprehensive income	-	-	31.1	-	31.1
Total comprehensive income for the six months	-	-	31.1	145.2	176.3
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	-	-	-	(14.5)	(14.5)
Capital contribution from the parent for share-based payments	0.1	-	-	-	0.1
	0.1	-	-	(14.5)	(14.4)
Balance at 31 December 2016	2.6	1,200.0	(2.5)	753.7	1,953.8

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

Aurizon Network Pty Ltd
Consolidated statement of cash flows
For the six months ended 31 December 2017

	31 December 2017 \$m	31 December 2016 \$m
Cash flows from operating activities		
Receipts from customers	761.5	796.5
Payments to suppliers and employees	(337.4)	(364.5)
Interest received	0.2	0.7
Income taxes paid	(28.4)	(73.0)
Net cash inflow from operating activities	395.9	359.7
Cash flows from investing activities		
Payments for property, plant and equipment	(147.3)	(119.0)
Payments for intangible assets	(9.9)	(8.6)
Interest paid on qualifying assets	(1.1)	(1.9)
Net cash (outflow) from investing activities	(158.3)	(129.5)
Cash flows from financing activities		
Proceeds from borrowings	245.0	-
Repayment of borrowings	(25.0)	(131.0)
Payment of transaction costs related to borrowings	(3.9)	(0.2)
Capital distribution to parent	(0.1)	(0.6)
Loans from related parties	81.0	27.0
Finance lease payments	-	(9.6)
Dividends paid to Company's shareholders (note 2(a))	(482.8)	(14.5)
Interest paid	(70.8)	(77.5)
Net cash (outflow) from financing activities	(256.6)	(206.4)
Net (decrease)/increase in cash and cash equivalents	(19.0)	23.8
Cash and cash equivalents at the beginning of the financial year	21.0	3.3
Cash and cash equivalents at end of the six months	2.0	27.1

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 2017 are for the consolidated entity consisting of the Company and its subsidiaries (together referred to as "the Group").

Basis of preparation

This consolidated Interim Financial Report for the six month reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*.

This 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 2017. The annual report for the Company is available at www.aurizon.com.au.

The consolidated Interim Financial Report is presented in Australian dollars with all values rounded to the nearest hundred thousand dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Key Events and transactions for the reporting period

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

Access undertaking (UT5)

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

Transitional tariffs have been approved for the period to the earlier of 30 June 2018 or the date the UT5 Undertaking takes effect. There is a risk that the final approved UT5 tariffs will be different to the transitional tariffs which may result in an under or over recovery of revenue payable or receivable in future years dependent on future railings.

Access revenue recognised in these financial statements is based on the transitional tariffs applying from 1 July 2017.

Revenue recognised for the six months ended 31 December 2016 was based on the approved UT4 Undertaking tariffs, applied to actual volumes railed and included \$45 million prior years true-ups.

Debt refinancing

In October 2017, the Company refinanced \$525 million of its revolving bank debt facility with a 5 year \$500 million revolving bank debt facility extending the maturity date to 20 October 2022.

Comparative Period

Key events and transactions affecting the performance of the Group in the comparative period are disclosed within the Financial Report for the year ended 30 June 2017.

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 11

1 Revenue

The Company recognises revenue from the provision of access to the Central Queensland Coal Network (CQCEN) 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 CQCEN.
- Other revenue comprises: Revenue from minor operations including access facilitation charges, revenue from telecommunications and items of a corporate nature.

	31 December	31 December
	2017	2016
	\$m	\$m
<hr/>		
Revenue from continuing operations		
Services revenue		
Track access	577.0	628.5
Other revenue	30.5	42.6
	<hr/> 607.5 <hr/>	<hr/> 671.1 <hr/>

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.....	13
3	Borrowings	13
4	Fair value disclosure for financial instruments	14

2 Dividends

(a) Ordinary shares

	31 December 2017 \$m	31 December 2016 \$m
Final dividend for the year ended 30 June 2017 of \$3,510,000 (2016: \$145,000) per share, paid September 2017 (unfranked)	351.0	14.5
Interim dividend for the year ended 30 June 2018 of \$1,318,000 (2017: nil) per share, paid November 2017 (unfranked)	131.8	-
	482.8	14.5

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

	31 December 2017 \$m	31 December 2016 \$m
Since 31 December 2017, the directors have recommended the payment of an interim dividend of \$368,000 (2016: \$964,000) per fully paid ordinary share, unfranked. The aggregate amount of the proposed dividend expected to be paid on 22 March 2018 out of retained earnings, but not recognised as a liability at 31 December 2017:	36.8	96.4

3 Borrowings

	31 December 2017 \$m	30 June 2017 \$m
Current		
<i>Unsecured</i>		
Working capital facility	-	5.0
Loans from related parties	81.0	-
Total current borrowings	81.0	5.0
Non-current		
<i>Unsecured</i>		
Medium-term notes	2,498.5	2,441.7
Syndicated facilities	715.0	490.0
Capitalised borrowing costs	(10.8)	(8.2)
Total non-current borrowings	3,202.7	2,923.5
Total borrowings	3,283.7	2,928.5

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

In October 2017, the Company refinanced \$525 million of its revolving bank debt facility with a 5 year \$500 million revolving bank debt facility extending the maturity date to 20 October 2022.

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 2017 and 30 June 2017 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 Network for similar financial instruments. For the period ended 31 December 2017, the borrowing rates were determined to be ranging from 3.0% to 4.1% depending on the type of borrowing (30 June 2017 – 2.6% to 4.8%).

	31 December 2017		30 June 2017	
	Carrying value	Fair value	Carrying value	Fair value
	\$m	\$m	\$m	\$m
Borrowings	3,202.7	3,386.4	2,928.5	3,096.3
	3,202.7	3,386.4	2,928.5	3,096.3

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 (including cross currency 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).

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

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

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

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.....	16
6	Critical accounting estimates and judgements	16

5 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of this consolidated Interim Financial Report 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.

New and revised accounting standards and interpretations

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 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, with the exception of AASB 9 *Financial Instruments* which was adopted from 1 July 2014.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early-adopted by the Group.

AASB 15 *Revenue from Contracts with Customers* outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including AASB 118 *Revenues*, AASB 111 *Construction Contracts* and related interpretations. The core principle is that an entity recognises revenue to depict the transfer of 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. This standard applies to the Aurizon Network reporting period beginning on 1 July 2018. The Group is currently assessing the effects of applying the new standard on the Group's financial statements. Work to date has focussed on access agreements as these account for the majority of the Group's revenue. We will continue to assess the impact, however to date, no material measurement differences have been identified between AASB 118 and AASB 15.

AASB 16 *Leases* addresses the recognition, measurement, presentation and disclosures of leases. This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with AASB 16's approach to lessor accounting substantially unchanged from its predecessor, AASB 117. This standard applies to the Aurizon Network reporting period beginning on 1 July 2019. The Group is in the process of assessing the impact for the Group of this new standard. However, at 30 June 2017 the lease commitments of the Group were \$4.6 million and therefore the impact of the new standard is not expected to be material.

6 Critical accounting estimates and judgements

A number of critical accounting estimates and judgements were disclosed in the 30 June 2017 financial report. Included within those judgement and estimates are the following which have particular relevance to the Interim Financial Report.

Access revenue

Access revenue recognised in these financial statements is based on the transitional tariffs applying from 1 July 2017. There is a risk that the final approved UT5 tariffs will be different to the transitional tariffs which may result in an under or over recovery of revenue, payable or receivable in future years dependent on future railings.

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..... 18
8 Events occurring after the reporting period 18

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 2017.

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.

**Aurizon Network Pty Ltd
Directors' declaration**

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 2017 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.



M Fraser
Chairman

Brisbane QLD
12 February 2018



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 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the consolidated income statement for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Aurizon Network Pty Ltd (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 consolidated financial statements and have determined that the accounting policies in the Notes, which form part of the half-year 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 half-year financial report is not presented fairly, in all material respects, in accordance with the accounting policies as described in the Notes to the financial statements. As the auditor of Aurizon Network Pty Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual 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 half-year financial report to determine whether it contains any material inconsistencies with the half-year 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.

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 2017 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 statements.

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Allman
Partner

Brisbane
12 February 2018

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