# Aurizon Holdings Limited

## Appendix 4D

Results for announcement to the market on 17 February 2014
For the six months ended 31 December 2013
Previous corresponding period (pcp) six months ended 31 December 2012

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# 1H FY2014 IN REVIEW

## Financial Headlines

| ($m) | | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|---|
| Total Revenue | | 1,965 | 1,879 | 5% | 1,887 |
| EBIT - Statutory | | 201 | 268 | (25%) | 417 |
| Adjustments | - Voluntary Redundancy Program (VRP) | 25 | 88 | (72%) | 8 |
| | - Stamp Duty | - | - | - | (27) |
| | - Asset Impairments | 197 | - | - | - |
| EBIT - Underlying | | 423 | 356 | 19% | 398 |
| NPAT - Statutory | | 107 | 176 | (39%) | 271 |
| NPAT - Underlying | | 263 | 222 | 18% | 265 |
| Interim Dividend (cps) | | 8.0 | 4.1 | 95% | 8.2 |
| Earnings per share - Underlying[(1)] | | 12.3 | 9.4 | 31% | 12.4 |
| ROIC[(2)] | | 8.6% | 7.5% | 1.1ppt | 8.0% |
| EBIT margin - Underlying[(3)] (%) | | 21.6% | 19.0% | 2.6ppt | 21.4% |
| EBITDA margin - Underlying[(3)] (%) | | 34.4% | 32.1% | 2.3ppt | 34.9% |
| Operating Ratio - Underlying[(3)(4)] (%) | | 78.4% | 81.0% | 2.6ppt | 78.6% |
| Coal Volumes (mt) | | 109.7 | 97.3 | 13% | 96.4 |
| Iron Ore Volumes (mt) | | 15.0 | 10.6 | 42% | 14.1 |
| Freight Volumes (mt) | | 24.6 | 25.9 | (5%) | 23.4 |
| Gearing (net debt / net debt + equity) | | 27.9% | 27.8% | (0.1ppt) | 26.7% |
| People Full Time Equivalent (FTE) | | 7,601 | 7,940 | 4% | 7,851 |

## Highlights in 1H FY2014

- Statutory EBIT down 25% due to asset impairment of $197m and VRP costs of $25m. Refer to page 5 for further information
- Underlying EBIT up 19% or $67m 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 ("OR 75") delivered of $59m
  - Improved revenue quality from new form contracts
  - Partly offset by direct costs of increased volumes and impact of transitional tariffs in Network
- Coal volumes of 109.7m were up 13% on 1H FY2013 (97.3mt). Queensland volumes were up 13% to 88.6mt whilst NSW volumes increased 12% to 21.1mt
- Interim dividend payout ratio was maintained at 65% and will be paid based on underlying NPAT
- Interim dividend declared is 8.0cps (80% franked) vs 4.1cps (70% franked). Record date is 5 March 2014 and payment date is 28 March 2014
- Enterprise Agreement negotiations in Queensland are continuing. In NSW, Unions have commenced protected industrial action process
- Network access undertaking (UT4) discussions are progressing, however it is unlikely all matters will be resolved before 30 June 2014. Next milestone is the publishing of a position paper on revenue and pricing matters in March 2014 by the Queensland Competition Authority (QCA)
- Mauro Neves joined Aurizon in January 2014 as the new EVP Commercial and Marketing

## 75% Operating Ratio (OR) Update

- OR improved to 78.4% (vs 81.0% pcp) and remains on track to meet the target of 75% OR in respect of FY2015
- Report card for 1H FY2014 against target
  - Centralised support - $17m (target $100m by June 2015); and
  - Operations - $42m (target $130m by June 2015)
  - VRP benefits expected to be $28m in FY2014 and $42m in FY2015

## FY2014 Financial Outlook

The strong coal haulage volumes seen in 1H FY2014 have continued in January and early February, therefore our expectations for FY2014 have increased to 207-212mt (vs previous guidance of 200-205mt). This includes recent weather events in Queensland which impacted coal haulage by 1.5mt, an estimated loss of ~$5m in revenue (as of 11 February 2014). The revised guidance is subject to no further material disruptions from the wet season (outside normal expectations), nor disruptions from industrial action.

Notes:
(1) Earnings per share calculated on weighted average number of shares on issue of 2,137m in 1H FY2014 vs. 2,375m in 1H FY2013
(2) ROIC is defined as last 12 months underlying EBIT divided by net working capital plus net PP&E plus AUC plus Gross Intangible Assets
(3) Operating ratio and EBITDA and EBIT margins calculated using underlying revenue ($1,959m in 1H FY2014 and $1,878m in 1H FY2013) which excludes interest income
(4) Operating ratio - the diesel fuel rebate will be included in revenue for remuneration purposes

Aurizon Holdings Limited
Results for announcement to the market on 17 February 2014
For the six months ended 31 December 2013

# CONSOLIDATED RESULTS

## 1. Half on Half Comparison

### Financial Summary

| ($m) | | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|---|
| Total revenue | | 1,965 | 1,879 | 5% | 1,887 |
| EBITDA | - Statutory | 452 | 514 | (12%) | 668 |
| | - Underlying[1] | 674 | 602 | 12% | 649 |
| EBIT | - Statutory | 201 | 268 | (25%) | 417 |
| | - Underlying[1] | 423 | 356 | 19% | 398 |
| Net finance costs | | (53) | (42) | (26%) | (61) |
| Income tax expense | - Underlying | (107) | (92) | (16%) | (72) |
| NPAT | - Statutory | 107 | 176 | (39%) | 271 |
| | - Underlying[1] | 263 | 222 | 18% | 265 |
| Earnings Per Share[2] | - Statutory | 5.0 | 7.4 | (32%) | 12.7 |
| | - Underlying | 12.3 | 9.4 | 31% | 12.4 |
| Interim Dividend per share (cps) | | 8.0 | 4.1 | 95% | 8.2 |
| ROIC[3] | | 8.6% | 7.5% | 1.1ppt | 8.0% |
| Operating Ratio | - Underlying | 78.4% | 81.0% | 2.6ppt | 78.6% |
| Net operating cash flow | | 521 | 328 | 59% | 578 |
| Gearing (net debt / net debt + equity) | | 27.9% | 27.8% | (0.1ppt) | 26.7% |
| Net tangible assets per share ($) | | 3.0 | 2.9 | 3% | 3.0 |

### Other Operating Metrics

| | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| Revenue / NTK ($/000 NTK) | 51.3 | 56.0 | (8%) | 55.5 |
| Labour costs / Revenue | 26.9% | 30.0% | 3.1ppt | 28.0% |
| NTK / employee (FTE) (MNTK) | 10.1 | 8.4 | 20% | 8.5 |
| Opex / NTK ($/000 NTK) | 40.2 | 45.4 | 11% | 43.6 |
| NTK (bn) | 38.2 | 33.5 | 14% | 33.5 |
| Tonnes (m) | 149.4 | 133.8 | 12% | 133.9 |

### Underlying EBIT by Segment

| ($m) | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| Network | 217 | 221 | (2%) | 196 |
| Coal | 187 | 142 | 32% | 178 |
| Iron Ore | 50 | 45 | 11% | 52 |
| Freight | 20 | 5 | 300% | 18 |
| Unallocated[4][5] | (51) | (57) | 11% | (46) |
| **Group** | **423** | **356** | **19%** | **398** |

Notes:
(1) Refer to page 5 for a reconciliation between statutory and underlying earnings
(2) Earnings per share calculated on weighted average number of shares on issue of 2,137m vs 2,375m in pcp
(3) ROIC is defined as last 12 month underlying EBIT divided by 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 this document may not match the financial statements due to rounding

## Variance Analysis – 1H FY2014 vs 1H FY2013

The 25% decrease in statutory EBIT was principally due to a $197m asset impairment and $25m in VRP costs. Aurizon conducted a review of the value of Rollingstock based on the outcome of the Enterprise Rollingstock Master Plan (ERSMP). This impairment of $147m, combined with a review of strategic infrastructure projects ($50m), resulted in a total impairment of $197m. The $25m in VRP costs relate to 262 employees that accepted the offer between 1 July 2013 and 31 December 2013.

The 19% increase in underlying EBIT was due to stronger volumes and revenue quality benefits delivering 5% revenue growth and the realisation of $59m in sustainable benefits from the Enterprise Transformation Program (Drive to 75). These benefits, together with the operational efficiencies to unlock capacity, have resulted in the delivery of a 12% increase in total volumes with a cost base largely unchanged. This is despite additional costs associated with the higher volumes (especially start up costs for new Intermodal contracts) and escalation of employee benefits.

Coal volumes grew 13% and reflect the seasonality of demand ahead of the wet season and also an increasing level of contract utilisation. Coal revenue yield (as measured by above rail revenue per NTK) decreased 5% due to the higher utilisation, lower Deficit Tonnage Charges (DTC), customer mix with a major customer operating under a legacy contract contributing almost half the growth and an increase in average haul length. Despite this, underlying EBIT in Coal grew 32% due to the transformation benefits mentioned above.

As UT4 remains under consideration, in FY2014 Network is operating under a transitional tariff arrangement as negotiated with customers which has resulted in a $60m decrease in access revenues for the Central Queensland Coal Network (CQCN) from FY2013 to FY2014. With access revenues fixed in FY2014, any cost increases associated with the stronger volumes will not have a revenue recovery until UT4 is finalised. This decrease in CQCN access revenues partly offset the ramp up in contracted GAPE volumes. Access revenues for the CQCN for FY2014 will be adjusted to reflect UT4 once it is finalised.

Additional detail on the major movements is below:

- A net increase in revenue of $89m from volume growth and new business in Intermodal:
  - $44m increase in GAPE revenue due to the ramp up in contracted tonnes
  - $23m increase in Iron Ore revenue due to increased volumes, net of access and fuel
  - $13m increase in Coal revenue due to strong volume growth with an additional 12.4mt, railed net of access and fuel. This was impacted by customer mix with a major customer operating under a legacy contract contributing almost half of the growth and a $26m reduction in DTC
  - $9m increase in Freight revenue with volume growth from new customers in Intermodal ($20m) offsetting the volume decline in Bulk (-$11m), net of access and fuel
- A net increase of $28m in revenue quality as follows:
  - $46m benefit from Coal revenue quality from improved rates ($35m) and lower net take-or-pay expense ($11m)
  - $18m decrease in Freight from lower contracted payments for the Transport Services Contracts (TSC) in Queensland reflecting service reductions requested by the Queensland Government from 1 January 2013
- Net impact of Network transitional tariffs of $37m as follows:
  - $24m decrease in access revenues (excludes GAPE) due to lower tariffs as negotiated with customers
  - $13m increase in maintenance costs, for which Network does not receive revenue recovery as access fees are fixed for FY2014 under the transitional arrangements. This will be recovered in future years once UT4 is finalised
- A net benefit of $59m from transformational initiatives as follows:
  - $43m benefit from VRP for employees conducted both in 1H FY2014 and FY2013. 262 employees accepted the offer between 1 July 2013 and 31 December 2013 with more than 960 people accepting the offer in FY2013. It is estimated that the latest VRP (for 262 employees) will result in benefit of $28m in FY2014 and $42m in FY2015
  - $11m benefit from lower corporate services spend including consultants, travel and facilities costs
  - $5m benefit from reduced fuel due to improvements in consumption rates arising from the fuel management program
- One off costs to deliver transformation benefits above (excluding VRP) of $5m
- A net increase in operating and other expenses of $67m to support the incremental volume growth, including:
  - $27m increase in operating costs in Intermodal ($18m) and Iron Ore ($9m) to deliver volume growth (other than fuel and access charges as noted above). The cost increase in Intermodal reflects start up costs in delivering new contracts
  - $18m increase in employee benefits costs due to escalation
  - $13m increase in project costs
  - $10m increase in the underlying diesel fuel price

## Variance Analysis – 1H FY2014 vs 2H FY2013

Underlying EBIT increased $25m or 6% due to:

- A net increase in revenue of $92m from volume growth and new business in Intermodal:
  - $39m increase in Freight revenue principally due to volume growth in Intermodal due to new contracts commenced, net of access and fuel

  - $38m increase in GAPE revenue due to the ramp up in contracted tonnes
  - $18m increase in Coal revenue due to strong volume growth with an additional 13.3mt railed, net of access and fuel. The increase has been impacted by customer mix with a major customer operating under a legacy contract contributing almost half of the growth
  - $3m decrease in Iron Ore revenue due to increased fuel costs to support the higher volumes offsetting the incremental revenue increase

- A net increase of $27m in revenue quality as follows:
  - $24m benefit from Coal revenue quality from improved rates ($35m) partly offset by higher net take-or-pay expense ($10m)
  - $3m increase in Freight from additional TSC payments compared to 2H FY2013

- Net impact of network transitional tariffs of $13m as follows:
  - $1m increase in access revenues (excludes GAPE). This has increased as access revenues were lower in 2H FY2013 than 1H FY2013 due to the reversal of take or pay revenue accrued during 1H FY2013. The increase in access revenue is more than offset by
  - $14m increase in maintenance costs, for which Network does not receive revenue recovery as access tariffs are fixed for FY2014 under the transitional arrangements. This will be recovered in future years once UT4 is finalised

- A net benefit of $32m from transformation initiatives as follows:
  - $23m benefit from VRP for employees conducted both in 1H FY2014 and FY2013. 262 employees accepted the offer between 1 July 2013 and 31 December 2013 with more than 960 people accepting the offer in FY2013. It is estimated that the latest VRP (for 262 employees) will result in benefit of $28m in FY2014 and $42m in FY2015
  - $7m benefit from lower corporate services spend including consultants and travel
  - $2m benefit from reduced fuel due to improvements in consumption rates arising from the fuel management program

- One off costs to deliver transformation benefits above (excluding VRP) of $5m

- A net increase in operating and other expenses of $108m including:
  - $38m increase in incremental operating costs in Intermodal ($30m) and Iron Ore ($8m) to deliver volume growth (other than fuel and access charges as noted above). The cost increase in Intermodal reflects start up costs in delivering new contracts
  - $18m increase in project costs
  - $15m increase in employee benefits costs due to escalation
  - $11m increase in the underlying diesel fuel price
  - $11m decrease in asset sales
  - $10m increase in rollingstock maintenance

## Reconciliation to Statutory Earnings

Underlying earnings is a non-statutory measure and is the primary reporting measure used by Management and the Group's chief operating decision making bodies for the purposes of managing and assessing financial performance of the business. Underlying earnings is derived by adjusting statutory earnings for significant items as noted in the following table. For the six months ended 31 December 2013, the significant items include further VRP costs of $25m and an asset impairment[3] charge of $197m.

| ($m) | 1H FY2014 | 2H FY2013 | 1H FY2013 |
|---|---|---|---|
| **Underlying EBIT** | **423** | **398** | **356** |
| *Significant items* | | | |
| Voluntary Redundancy Program[1] | (25) | (8) | (88) |
| Stamp Duty[2] | | 27 | |
| Asset Impairments[3] | (197) | | |
| **Statutory EBIT** | **201** | **417** | **268** |
| Net Finance Costs | (53) | (61) | (42) |
| **Statutory PBT** | **148** | **356** | **226** |
| Taxation Expense | (41) | (85) | (50) |
| **Statutory NPAT** | **107** | **271** | **176** |

Notes:
(1) The VRP resulted in 262 employees accepting the offer at a cost of $25m in 1H FY2014. 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
(3) Aurizon conducted a review of the value of Rollingstock based on the outcome of the Enterprise Rollingstock Master Plan (ERSMP). This, combined with a review of strategic infrastructure projects, resulted in an impairment of $197m. Further information can be located in our presentation released to the ASX on 16 December 2013

## 2. Other Financial Information

### Cash Flow Summary

| ($m) | 1H FY2014 | 1H FY2013 | 2H FY2013 |
|---|---|---|---|
| **Statutory EBITDA** | 452 | 514 | 668 |
| **Working capital movement** | 41 | (49) | (8) |
| **Other** | 159 | (81) | 5 |
| **Cash from operations** | **652** | **384** | **665** |
| Net finance costs | (47) | (39) | (73) |
| Income taxes paid | (84) | (17) | (14) |
| **Net operating cash flows** | **521** | **328** | **578** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of PPE | 5 | 26 | 23 |
| Payments for PPE | (424) | (499) | (445) |
| Net (payments for) / distributions from investment in associates | 1 | 1 | 3 |
| **Net cash (outflow) from investing activities** | **(418)** | **(472)** | **(419)** |
| **Cash flows from financing activities** | | | |
| Net proceeds from borrowings | 82 | 1,235 | 71 |
| Payment for share buy-back and share based payments | (26) | (1,061) | (51) |
| Dividends paid to Company shareholders | (175) | (112) | (88) |
| **Net cash (outflow) / inflow from financing activities** | **(119)** | **62** | **(68)** |
| **Net (decrease) / increase in cash** | **(16)** | **(83)** | **92** |

### Cash Flow Movements – 1H FY2014 vs 1H FY2013

Net operating cash flows increased 59% from $328m to $521m, largely due to:

- Growth in cash from operations from $384m to $652m due to:
  - Decrease in statutory EBITDA from $514m to $452m due to underlying adjustments of $222m in respect of impairments to rollingstock and strategic projects as announced on 16 December 2013 ($197m) and VRP costs ($25m) more than offsetting the growth in underlying EBITDA of $72m. The impairments are non cash and are adjusted as noted below
  - Working capital inflow of $41m related mainly to the decrease in trade receivables of $27m
  - Other operating cash inflow of $159m principally reflecting non cash impairments of $197m
- Offset by increases in:
  - Net finance costs reflecting favourable interest conditions and reduced margins from recent refinancing program offset by higher debt
  - Tax paid reflecting higher tax paid in line with increasing taxable profits

Net cash outflows from investing activities decreased from $472m to $418m, largely due to:

- A reduction in capital expenditure to $424m due to lower spend in Network (delays in Wiggins Island spend necessary to align to port timetable) and Iron Ore (completion of growth projects)

Net cash outflow from financing activities decreased from $62m inflow to $119m outflow, largely due to:

- Increase in dividend payments from $112m to $175m, following increase in payout ratio to 65%

### Cash Flow Movements – 1H FY2014 vs 2H FY2013

Net operating cash flows decreased from $578m to $521m, largely due to:

- Decrease in cash from operations from $665m to $652m due to:
  - Decrease in statutory EBITDA from $667m to $452m principally due to impairments of $197m and VRP costs of $25m
  - Improvement in working capital to an inflow of $41m related mainly to the decrease in trade receivables of $43m reflecting the collection of take-or-pay outstanding at 30 June compared to working capital outflow of $8m in 2H FY2013
  - Other operating cash inflow of $159m principally reflecting non cash impairments of $197m as noted above as well as additional cash costs associated with the VRP of $33m

- In addition to the decrease in cash from operations:
    - There was a decrease in net finance costs of $26m to $47m reflecting the favourable interest conditions and reduced margins from recent refinancing program

An increase in tax paid of $70m to $84m including the final estimated tax payments for FY2013 and reflecting the improved earnings

Net cash outflows from investing activities remained constant at $419m with lower capex being offset by lower proceeds from asset sales

Net cash outflow from financing activities increased from $68m to $118m outflow, largely due to:

- Increase in dividend payments from $88m to $175m, following increase in payout ratio to 65%

## Balance Sheet Summary

| As at ($m) | 31 December 2013 | 30 June 2013 | 31 December 2012 |
|---|---|---|---|
| Total current assets | 868 | 933 | 854 |
| Property, plant & equipment | 9,460 | 9,473 | 9,281 |
| Other non-current assets | 111 | 113 | 118 |
| **Total Assets** | **10,439** | **10,519** | **10,253** |
| Total current liabilities | (664) | (791) | (766) |
| Total borrowings | (2,569) | (2,479) | (2,440) |
| Other non-current liabilities | (802) | (753) | (743) |
| **Total Liabilities** | **(4,035)** | **(4,023)** | **(3,949)** |
| **Net Assets** | **6,404** | **6,496** | **6,304** |
| Gearing (net debt / net debt plus equity) | 27.9% | 26.7% | 27.8% |

## Balance Sheet Movements – 31 December 2013 vs 30 June 2013

Total current assets have decreased by $65m since 30 June 2013 largely due to:

- Decrease in trade and other receivables of $44m
- Decrease in assets held for resale of $10m reflecting latest disposal program and market conditions
- Decrease in inventory of $10m principally resulting from impairment relating to locomotives and wagons no longer required or in use

Total current liabilities have decreased by $127m largely due to:

- Reduction in provisions of $55m due to lower head count and active leave management
- Reduction in current tax liability of $68m due to tax instalments paid during the period being based on FY2013 earnings. FY2014 income tax expense expected to be lower than FY2013 due to $197m of asset impairments

## Dividend

The Board has delivered an Interim Dividend of 8.0cps.

This was based on:

(i) a payout ratio of 65%
(ii) applied to underlying NPAT
(iii) 80% franked

The relevant Interim Dividend dates are:

- 27 February - ex-dividend
- 5 March - record date
- 28 March - payment

## Funding

Group gearing increased from 26.7% to 27.9% due to marginally higher debt levels. Credit ratings unchanged at BBB+/Baa1.

Interest cost on drawn debt reduced to 4.6% for 1H FY2014 (from 5.1% FY2013 and 5.3% 1H FY2013) due to reduced margins from recent refinancing program, and recent favourable interest conditions.

The Group further diversified funding sources with a debut issuance in the domestic capital markets. Aurizon Network issued a 7 year A$525 million medium term note 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 further lengthened, with average tenor increased to 4 years (from 3.6 years in FY2013).

Liquidity as at 31 December 2013 was $1.35bn (undrawn facility + cash).

### Tax

Income tax expense for 1H FY2014 was $41m, reflecting an effective tax rate of 27.6%. The cash tax rate for 1H FY2014 was 9.5%, which is lower than effective tax rate due to an increase in the deferred tax liability balance (principally due to amounts being capitalised to the balance sheet during the period that have been deducted for tax purposes). The effective tax rate for the full year is forecast to be in the range of 28 - 30%, and the cash tax rate is expected to be in the 15 - 20% range.

## 3. "75% Operating Ratio" Update

Aurizon remains on target to achieving a 75% Operating Ratio (OR) (25% EBIT Margin) in respect of FY2015. The underlying OR was 78.4% for 1H FY2014.

Aurizon announced, in July 2013, its target of $230m in respect of costs out and productivity improvements of sustainable savings by FY2015, with some $90m expected to be delivered in FY2014 and the balance in FY2015. The report card for 1H FY2014 was:

- Centralised support - $17m
- Operations - $42m
- Net of costs to deliver of approximately $30m ($25m for VRP and $5m for other initiatives)

Following are some examples of what was achieved in 1H FY2014:

- Centralised support costs
  - Principally, a reduction of 121 FTE's relative to 2H FY2013
  - Reduction in contractors and consultants
  - Reduction in Brisbane CBD footprint
- Operations
  - The focus of Operations' transformation has been on asset productivity and disciplined train operations to deliver operational efficiencies. Operational costs per NTK[1] reduced 14% to 1H FY2014 with productivity programs of longer/denser trains, integrated operating plans, energy consumption, rolling stock maintenance and operating technology, supporting the increase in volumes
  - Locomotive and Wagon productivity (million NTK/Active Locomotive and Wagon) increased by 22% and 21% respectively to 1H FY2014, largely due to fleet rationalisation, reduction in variability and dwell within the system and increased payloads across all corridors
  - Reduction of FTEs through structural reform and productivity, with employee productivity (million NTK / Average FTE) increasing by 21% to 1H FY2014
  - Increase in average payloads by 4% (Coal only) to 1H FY2014 through optimising train configurations of the existing fleet, providing increased train lengths in Blackwater and Goonyella
  - Average turnaround time (CQCN only) improved by 6% against 1H FY2014 through focus on reduction in variability and dwell in the systems, with a corresponding increase to the average train speed of 7% against 1H FY2014
  - Fuel efficiency improved 4% from H1 FY2014 with focus on fuel efficiency practices through piloting of Driver Advisory Systems, active monitoring of idling assets, review of consist configurations for optimal fuel consumption
  - Further detail is included in the Coal Operations Update and the results presentation

Notes:
(1) Operations cost base includes Coal, Iron Ore and Freight costs but excludes Access, Electricity and Intermodal road solutions costs

# SEGMENT REVIEW

## Network

Aurizon Network operates the 2,670 kilometre 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) | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| **Total Revenue** | **521** | **498** | **5%** | **482** |
| – Access | 490 | 470 | 4% | 451 |
| – Services | 8 | 12 | (33%) | 14 |
| – Other | 23 | 16 | 44% | 17 |
| Operating costs | (206) | (183) | (13%) | (192) |
| EBITDA | 315 | 315 | 0% | 290 |
| EBITDA margin | 60.5% | 63.3% | (2.8ppt) | 60.2% |
| Depreciation and amortisation expense | (98) | (94) | (4%) | (94) |
| **Underlying EBIT** | **217** | **221** | **(2%)** | **196** |
| **Underlying Operating ratio** | **58.3%** | **55.6%** | **(2.7ppt)** | **59.3%** |

### Network Operating Metrics

| | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| Tonnes (million) | 107.6 | 90.0 | 20% | 92.3 |
| NTK (billion) | 27.2 | 22.1 | 23% | 22.6 |
| Access revenue/NTK ($/000 NTK) | 18.0 | 21.3 | (15%) | 19.9 |
| Maintenance/NTK ($/000 NTK) | 2.5 | 2.6 | 4% | 2.5 |
| Opex / NTK ($/000 NTK) | 11.2 | 12.5 | 10% | 12.7 |

Note: Historic financials for have been re-stated to reflect an internal restructure of Aurizon Network. Further details are contained in our release to the ASX on 13 January 2014

### Network Performance Overview

The Network business had a material increase in throughput to 107.6mt, an increase of 20% on 1H FY2013. This represented the largest six month period ever in tonnage throughput across the CQCN, and was combined with major improvements in safety performance. The substantial capital program continued on time and on budget with major progress on the Wiggins Island and Hay Point expansion projects. Overall earnings reduced marginally despite the increase in GAPE earnings from the ramp up in contracted tonnes. This was due to reduced fixed access revenue for the CQCN under the transitional tariffs and increased maintenance and other operating costs to enable improvements in Network efficiency. The decrease in full year access revenues for the CQCN (excluding GAPE) due to the transitional tariffs is approximately $60m from FY2013 to FY2014. Transformation of the business is continuing through driving improved efficiency and flexible cost structures, growing momentum in the asset renewal program, and increasing technology applications for world class maintenance and Network utilisation.

Work continues on the substantial regulatory program with significant engagement across all key stakeholders. In relation to UT4, the key milestones from the QCA include publishing a Position Paper on pricing and revenue matters by March 2014, a draft determination by mid CY2014 and a final determination by the end of CY2014.

As noted above, volumes for the six months ended 31 December 2013 were a record for the CQCN which also included weekly, monthly and quarterly records. Initiatives from the Enterprise transformation program delivered significant improvements in the efficiency and the productivity of the CQCN supported the increased customer demand, such as:

- A 22% and 41% reduction in below rail delays (greater than 15 minutes) in the Goonyella and Blackwater systems respectively
- A 59% and 41% reduction in average total speed restrictions in the Goonyella and Blackwater systems respectively

When combining the performance in 1H FY2014 with 2H FY2013, the CY2013 also represented record volumes for the CQCN with 197.3mt. This is 11.4mt or 6% greater than the previous record (2010) and has been achieved with 2% fewer train trips (23,525 compared to 24,018).

## Network Variance Analysis - 1H FY2014 vs 1H FY2013

The $4m decrease in underlying EBIT was due to:

- A net increase in total revenue of $23m largely due to:
  - $20m increase in Access Revenue due to the ramp up in contracted GAPE volumes ($44m) which have offset the reduction in regulated revenues for the CQCN from the transitional tariffs (reduction of $24m). As noted before, the full year reduction in access revenues due to transitional tariffs is approximately $60m with the record volumes in the first half resulting in less than half of the shortfall
- A net increase in operating costs of $23m largely due to:
  - $13m increase in consumables spend predominantly relating to additional maintenance costs to enable improvements in Network performance and efficiently support higher volumes. With access revenues for the CQCN fixed for the year, this will not be recovered until UT4 tariffs are in place
  - $6m increase in traction costs from an increase in electric traffic on the Goonyella and Blackwater Systems
- A net increase in depreciation of $4m due to increased Asset Maintenance Renewals and Ballast undercutting

## Network Variance Analysis - 1H FY2014 vs 2H FY2013

The $21m increase in underlying EBIT was due to:

- A net increase in access revenue of $39m due to:
  - The ramp up in contracted GAPE volumes. Access revenues for the rest of the CQCN remained constant despite the transitional tariffs due to lower access revenues in 2H FY2013 compared to 1H FY2013
- A net increase in operating costs of $14m comprising:
  - $10m increase in traction costs from an increase in electric traffic on the Goonyella and Blackwater Systems
  - $4m increase in consumables spend comprised of a $14m increase in maintenance costs to enable improvements in Network performance and efficiently support higher volumes partly offset by lower spend on flood and derailment repairs
- A net increase in depreciation of $4m mainly due to Asset Maintenance Renewals

## Network Operations Update

**Regulation**

(i) UT4

- Aurizon Network submitted the 2013 Draft Access Undertaking (UT4) to the QCA for approval in April 2013
- UT4 represents the largest negotiation of value that occurs between Aurizon Network and our coal-producing customers
- The key outcomes include the following:
  - Better promote the long-term competitiveness of the Queensland Coal Industry
  - Ensure efficient and timely investment in the Network
  - Facilitate and strengthen the partnership with supply chain participants
- The QCA's consultants have produced their respective reports on certain aspects of the proposed revenue 'building block' parameters for UT4, being the weighted average cost of capital (WACC), maintenance costs and other operating costs with input from Aurizon Network. The QCA has recently published these consultant reports, providing stakeholders with the opportunity to provide responses. On 20th January 2014, Aurizon Network provided a formal response to the QCA on its series of consultant reports on the WACC parameters, and will be providing a formal response on 17th February 2014 on the reports on maintenance and other operating costs
- The next key regulatory milestone is expected to be the publishing by the QCA of a Position Paper on revenue and pricing matters for UT4. The Position Paper is expected to be published in March 2014 and will encapsulate the QCA's initial views on the revenue building blocks
- Aurizon Network will continue to work with stakeholders and the QCA to support the regulatory process and timeline. A draft determination on UT4 is expected to be published by the QCA in June 2014 and a final determination is expected in December 2014
- The scheduled commencement date for the UT4 document is expected to be 1 January 2015, with the pricing arrangements to be backdated to 1 July 2013

(ii) Transitional Tariff arrangements

- In May 2013, a 'Transitional Tariffs' Draft Amending Access Undertaking (DAAU) was approved by the QCA to extend UT3 to the earlier of 30 June 2014 and the QCA's final determination on UT4, and to apply transitional Reference Tariffs for FY2014
- The transitional Reference Tariffs recover a total Maximum Allowable Revenue (MAR) for FY2014 of $739m, inclusive of the FY2012 revenue cap (including interest) of circa $17m, but excluding Electric Charge (EC) and rebates, with forecast volumes of 186mt. Both the MAR and volumes are exclusive of the GAPE which has different contractual obligations. A DAAU confirming a separate transitional MAR and volumes for GAPE for FY2014 was approved in September 2013
- Given the QCA has now confirmed that full approval of UT4 will not occur before 30 June 2014, and to assist in providing some revenue and tariff certainty for FY2014 and subsequent fiscal years, the QCA will publish a draft position paper on revenue and pricing matters in March 2014.

(iii) Standard User Funding Agreements (SUFA)

- The purpose of SUFA is to provide customers with an alternative funding mechanism for CQCN expansions
- It will also substantially reduce Aurizon Network's investment for new growth projects funded under SUFA
- Significant industry and customer engagement has occurred, with revised SUFA documentation reflecting the agreed outcomes with customers being submitted in July 2013 to the QCA (2013 SUFA DAAU), followed by submissions from stakeholders
- The submissions highlighted areas where stakeholders are seeking further amendment to the SUFA documentation. The QCA has considered both Aurizon Network's proposed SUFA and stakeholder submissions as well as obtain separate commercial and legal advice. The QCA also notes that all stakeholders have made significant efforts to develop an effective SUFA, yet several issues do remain unresolved. In order to further progress the QCA's assessment of the SUFA, the QCA has requested further discussion on possible solutions

(iv) AT5 Tariffs (Electrification)

- On 24 April 2013 Aurizon Network submitted the 2013 Blackwater (AT5) Draft Amending Access Undertaking to the QCA
- On 21 November 2013 the QCA published a draft decision proposing to not approve the DAAU
- After careful consideration, Aurizon Network elected to withdraw the DAAU on 13 January 2014, enabling Aurizon Network and customers to focus on the timely and efficient approval of UT4 and the achievement of a defined pricing outcome by 30 June 2014. The current methodology in place for calculating the AT5 tariffs will remain unchanged
- Aurizon Network remains committed to achieving a satisfactory outcome to this issue which will provide clarity and investment certainty for Aurizon Network and above rail operators

**Growth**

Committed Project Status

- Wiggins island Rail Project (WIRP)
  - WIRP is a project designed to link mines in the Southern Bowen Basin with 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%
  - WIRP customers and Aurizon Network have executed a deed of variation which finalises the scope of the North Coast Line segment (providing more cost effective solution) and resets the project's target milestone dates to align with the delayed WICET commissioning date
  - Most of the project will be commissioned by March 2015 with full commissioning by December 2015 and a contracted ramp up profile of two years (i.e. complete by FY2017)
  - Regulated earnings expected to commence FY2015 with the WIRP fee to take effect from FY2016
  - The total cost of the project is now estimated to be $867m
- Hay Point Expansion
  - Revised target of ~$130m expansion to the Goonyella System to enhance system capacity from 129mtpa to 140mtpa to align with the Hay Point Coal Terminal expansion operated by the BHP Billiton Mitsubishi Alliance
  - Project expected to be completed by June 2014 in advance of the completion of the Hay Point Coal Terminal expansion for which timing has slipped with first shipment anticipated in CY2015
- Surat Basin Rail (SBR)
  - Proposed 204-kilometre open access rail link between Wandoan and Banana with an initial capacity to transport approximately 30 million tonnes of coal per year
  - In September 2013, Glencore announced that its Wandoan Project has been put on hold which would have provided the majority of volumes
  - In December 2013, the State and SBR Joint Venture have negotiated a mutual termination of the Exclusive Mandate and established an Memorandum of Understanding outlining the principles of engagement following the termination of the Exclusive Mandate
  - Aurizon Network's investment in the SBR Joint Venture has been reassessed following the recent developments and as noted on 16 December 2013 a decision was taken to impair its share of the SBR costs
- 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
  - The total cost of the project is estimated to be $170m

## 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 Morton systems in Queensland, and the Hunter Valley coal system in New South Wales, to domestic customers and coal export terminals.

### Coal Financial Summary

| ($m) | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| **Total Revenue** | **958** | **929** | **3%** | **934** |
| – Above Rail | 597 | 540 | 11% | 539 |
| – Below Rail | 360 | 385 | (6%) | 391 |
| – Other | 1 | 4 | (75%) | 4 |
| Operating costs | (683) | (701) | 3% | (668) |
| EBITDA | 275 | 228 | 21% | 266 |
| EBITDA margin | 28.7% | 24.6% | 4.1ppt | 28.5% |
| Depreciation and amortisation expense | (88) | (86) | (2%) | (88) |
| **Underlying EBIT** | **187** | **142** | **32%** | **178** |
| **Underlying Operating ratio** | **80.5%** | **84.7%** | **4.2ppt** | **80.9%** |

### Coal Operating Metrics

| | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| **Total Tonnes hauled (million)** | **109.7** | **97.3** | **13%** | **96.4** |
| - Queensland | 88.6 | 78.4 | 13% | 77.4 |
| - NSW | 21.1 | 18.9 | 12% | 19.0 |
| % Volumes under new form contracts | 52% | 41% | 11ppt | 43% |
| Contract utilisation(1) | 94% | 79% | 15ppt | 79% |
| **Total NTK (billion)** | **25.5** | **21.9** | **16%** | **21.7** |
| - Queensland | 22.1 | 19.0 | 16% | 18.8 |
| - NSW | 3.4 | 2.9 | 17% | 2.9 |
| Above Rail Revenue/NTK ($/000 NTK) | 23.4 | 24.7 | (5%) | 24.8 |
| Below Rail Revenue/NTK ($/000 NTK) | 14.1 | 17.6 | (20%) | 18.0 |
| Total Revenue/NTK ($/000 NTK) | 37.6 | 42.4 | (11%) | 43.0 |
| Above Rail Revenue/Gross Contracted NTK (GCNTK) | 21.9 | 19.4 | 13% | 19.7 |
| Opex/NTK ($/000 NTK) | 30.2 | 35.9 | 16% | 34.8 |

Notes:
(1) Volumes hauled as a % of volumes contracted

### Coal Performance Overview

1H FY2014 saw a strong performance in Coal with a 3% increase in revenue and 3% reduction in operating costs contributing to a 32% increase in underlying EBIT and a 4.2ppt improvement in the operating ratio to 80.5%. Volumes grew 13% to 109.7mt and represent a record six month period for Aurizon with strong growth in both Queensland (13%) and NSW (12%) as customer demand remained strong in both regions. The volume growth of 12.4mt was achieved despite the end of Rio Tinto's Hail Creek contract on 31 October 2013. Total revenue growth of 3% was lower than volume growth of 13% due to below rail revenue declining by 6% due to lower transitional access tariffs.

Volumes hauled under new form contracts increased 11ppt to 52% of the total principally due to the commencement of two contracts that were previously legacy, namely Rio Tinto's Clermont contract and the Ensham contract. This will continue to increase over the coming years and will reach 97% by FY2018. Contract utilisation increased from 79% to 94% reflecting the increased demand across most customers with railings very close to full contractual levels. This increase combined with the increased levels of volumes under new form contracts resulted in a 13% increase in above rail revenue per GCNTK.

Total NTK growth was 16% compared to volume growth of 13% due to strong growth in Queensland which has an longer average haul length and new volumes under a spot contract in NSW for Whitehaven which also has a long haul length. These factors, as well as a significant reduction in DTC and the impact of customer mix with a major customer operating under a legacy contract contributing almost half of the volume growth contributed to above rail revenue per NTK decreasing by 5%. Total revenue per NTK decreased by 11% due to a 20% reduction in below rail revenue per NTK due to the lower access tariffs.

While revenue per NTK decreased, cost reductions and productivity improvements from the ongoing transformation program resulted in a 16% reduction in operating costs per NTK. Details of the initiatives are contained in the Coal Operations Update and we expect further benefits to be realised as we head towards the Enterprise goal of a 75% operating ratio in FY2015.

## Coal Variance Analysis - 1H FY2014 vs 1H FY2013

The $45m, or 32% increase in underlying EBIT was largely due to:

- A net increase in revenue of $29m (3%) comprising the following major items:
  - $57m increase in above rail revenue from volume growth of 13% (from 97.3mt to 109.7mt) despite a 5% decline in above rail revenue per NTK to $23.4 per '000 NTK. Volume growth was comprised of:
    - Queensland coal volumes increased 13% from 78.4mt to 88.6mt due to strong customer demand in the Goonyella and Blackwater systems
    - NSW coal volumes increased 12% from 18.9mt to 21.1mt due to additional spot volumes over and above existing contracts
  - The decline in above rail revenue per NTK was due to the following:
    - $26m decrease in DTC revenue to $7m. As DTC is a protective mechanism that relates to a prior period's lost railings, it can distort volume based revenue metrics. If both periods are adjusted for DTC impacts, above rail revenue per NTK is constant
    - A major customer operating under a lower yielding legacy contract contributed almost half of the growth
    - The average haul length increased 3% to 232km. Longer hauls generally earn a lower revenue per NTK relative to shorter hauls given the improved efficiencies of operating a high fixed cost operation over a longer distance
    - 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 has increased from 79% to 94%, and for new form contracts is now 99%, which has driven an increase in above rail revenue per GCNTK of 13%
  - $25m reduction in below rail revenue reflecting the impact of the transitional tariffs. Below rail revenue per NTK decreased 20% to $14.1 per '000 NTK
- A significant improvement in productivity, with operating costs down $18m despite the 13% increase in volumes:
  - $22m decrease in access charges reflecting the lower transitional tariffs
  - $11m decrease in non pass-through take-or-pay charged by Network, partly offset by
  - $11m increase in fuel costs relating to higher diesel prices and volumes
- As such, additional coal volumes were delivered with no increase in operating costs while absorbing wage and cost escalation. During 1H FY2013 the first VRP was implemented with the full benefits recognised in 2H FY2013 and 1H FY2014

## Coal Variance Analysis - 1H FY2014 vs 2H FY2013

The $9m, or 5% increase in underlying EBIT was largely due to:

- A net increase in revenue of $24m (3%) comprising the following major items:
  - $58m increase in above rail revenue from volume growth of 14% (from 96.4mt to 109.7mt) despite a 6% decline in above rail revenue per NTK to $23.4 per '000 NTK. Volume growth was comprised of:
    - Queensland coal volumes increased 14% from 77.4mt to 88.6mt due to strong customer demand in the Goonyella and Blackwater systems
    - NSW coal volumes increased 11% from 19.0mt to 21.1mt due to additional spot volumes over and above existing contracts
  - The decline in above rail revenue per NTK was due to the following
    - A major customer operating under a less profitable legacy contract contributed a significant portion of the growth
    - The average haul length increased 3% to 232km. Longer hauls generally earn a lower revenue per NTK relative to shorter hauls given the improved efficiencies of operating a high fixed cost operation over a longer distance
    - 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 has increased from 79% to 94%, and for new form contracts is now 99%, which has

driven an increase above rail revenue per GCNTK of 11%

– There was no material impact from DTC as it remained constant from 2H FY2013 to 1H FY2014

- $31m reduction in below rail revenue reflecting the impact of the transitional tariffs. Below rail revenue per NTK decreased 22% to $14.1 per '000 NTK

- The revenue increase was partly offset by a net increase in operating costs of $15m despite the significant productivity improvements due to the following major items:
  - $17m increase in operating costs associated with the 14% increase in volumes including wage and cost escalation
  - $12m increase in fuel costs relating to higher diesel prices and volumes
  - $10m increase in non pass-through take-or-pay charged by Network, partly offset by
  - $23m decrease in access charges reflecting the lower transitional tariffs offset by higher volumes

## Coal Operations Update

During 1H 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.

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, giving rise to a 16% improvement in unit cost measured on a Opex/NTK basis from 1H FY2013.

Operations delivered all time monthly record volumes for Queensland Coal Haulage in December and October 2013. Against the previous records set in FY2011, this has been done with less assets and people to provide these services - 23% lower active locomotives, 21% lower FTEs, 8% lower services and 8% increase in payloads.

Operations continue to expand in NSW during 1H FY2014 with record volumes hauled on a monthly, quarterly and six-monthly basis. We took delivery of the 11th and 12th consist during the period to support spot railings for Whitehaven's Gunnedah operations which commenced in August. This is in addition to our long-term contract which is due to commence in March 2015 for up to 16mtpa for a period of 12 years.

The focus on disciplined operations through the Integrated Operating Plan has continued in 1H FY2014, through reduction of operational variability by design. At the execution level this includes a daily, weekly, and monthly 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. Locomotive and Wagon productivity (as measured by millions of NTK's per active loco and wagon) increased in 1H FY2014 by 22% and 21% respectively from 1H 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 consist design through increase in Blackwater train length from 92 to 100 wagons, and increase in Goonyella train length from 120 to 124 wagons through optimisation of locomotive haulage capacity

Fuel efficiency improved by 4% compared to 1H 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 continues to be an area of focus, with the key measure of Employee Productivity, measured as NTK/FTE increasing by 21% compared to 1H 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
- Continued focus on attendance management, resulting in 22% improvement in absenteeism compared to 1H FY2013
- Improved system productivity through reduction in cycle times, increased payloads and on time arrivals

**Aurizon has commenced building the Train Support Facility at Hexham with commissioning expected in November 2014, which will consolidate the maintenance and provisioning footprint in NSW. We achieved planning approval for Hexham in December and contracts were signed with ARTC to commence construction of access roads. The total cost is estimated to be $150m.**

## 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 24.7mt in FY2013.

### Iron Ore Financial Summary

| ($m) | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| **Total Revenue** | **190** | **168** | **13%** | **189** |
| Operating costs | (120) | (105) | (14%) | (118) |
| EBITDA | 70 | 63 | 11% | 71 |
| EBITDA margin | 36.8% | 37.5% | (0.7ppt) | 37.6% |
| Depreciation & amortisation expense | (20) | (18) | (11%) | (19) |
| **Underlying EBIT** | **50** | **45** | **11%** | **52** |
| **Underlying Operating ratio** | **73.7%** | **73.2%** | **(0.5ppt)** | **72.5%** |

### Iron Ore Operating Metrics

| | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| Tonnages hauled (million) | 15.0 | 10.6 | 42% | 14.1 |
| Contract Utilisation[1] | 100% | 84% | 16ppt | 95% |
| NTK (billion) | 6.1 | 4.8 | 27% | 5.5 |
| Revenue/NTK ($/000 NTK) | 31.1 | 35.0 | (11%) | 34.4 |
| Opex/NTK ($/000 NTK) | 23.0 | 25.6 | 10% | 24.9 |

Notes:
(1) Volumes hauled as a % of volumes contracted. Based on contractual level of 25mt in 1H FY2013 and 30mt in 2H FY2013 and 1H FY2014

### Iron Ore Performance Overview

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 during the initial major ramp-up phase.

Volumes grew 42% to 15.0mt for 1H FY2014, and remain on track to achieve the full contractual capacity of 30mtpa in FY2014. However, this will decline to circa 27mt in FY2015 as previously noted due to the end of Mt Gibson's 3mtpa Tallering Peak contract on 31 July 2014 (end of mine life). Volumes may decline further with Mineral Resources likely deciding to manage its own rail haulage for their 4mt Carina to Kwinana contract from 1 September 2014. In this scenario, Aurizon has identified opportunities to deploy the five locomotives currently used for this contract elsewhere in the above rail operations. 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.

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.

### Iron Ore Variance Analysis - 1H FY2014 vs 1H FY2013

The $5m, or 11% increase in underlying EBIT was due to:

- A net increase in revenue of $22m. Whilst volumes grew 42%, the growth in revenue was lower at 13%, reflecting the impact of the capacity charges arising in 1H FY2013 for volumes contracted but not railed. The consequence of this protective revenue mechanism is a decrease in revenue per NTK of 11% to $31.1 per '000 NTK
- Offset by:
  - A net increase in operating costs of $15m reflecting the growth in volumes. Improvement in operating performance continued, with Opex per NTK decreasing from $25.6 per '000 NTK to $23.0 per '000 NTK, reflecting the haulage efficiencies with railings approaching contractual capacity
  - A net increase in depreciation of $2m reflecting asset growth associated with higher volumes

### Iron Ore Variance Analysis - 1H FY2014 vs 2H FY2013

The $2m, or 4% decrease in underlying EBIT was largely due to:

- A number of items received in 2H FY2013 (liquidated damages for wagons and take-or-pay revenue relating to FY2012 totalling $9m) did not recur in 1H FY2014 which resulted in revenue remaining flat despite an increase in volumes of 0.9mt or 6%
- This resulted in revenue per NTK decreasing by 10% from $34.4 per '000 NTK to $31.1 per '000 NTK
- Opex per NTK decreased 8% from $24.9 per '000 NTK to $23.0 per '000 NTK as a result of flat operating costs despite 11% NTK growth

## 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) | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| **Total Revenue** | **550** | **566** | **(3%)** | **516** |
| Operating costs | (501) | (534) | 6% | (468) |
| EBITDA | 49 | 32 | 53% | 48 |
| EBITDA margin | 8.9% | 5.6% | 3.3ppt | 9.3% |
| Depreciation & amortisation | (29) | (27) | (7%) | (30) |
| **Underlying EBIT** | **20** | **5** | **300%** | **18** |
| **Underlying Operating ratio** | **96.4%** | **99.1%** | **2.7ppt** | **96.5%** |

### Freight Operating Metrics

| | 1H FY2014 | 1H FY2013 | Variance | 2H FY2013 |
|---|---|---|---|---|
| Tonnages hauled (million) | 24.6 | 25.9 | (5%) | 23.4 |
| NTK (billion) | 6.6 | 6.8 | (3%) | 6.4 |
| Revenue/NTK ($/000 NTK) | 83.3 | 83.2 | 0% | 80.6 |
| Opex/NTK ($/000 NTK) | 80.3 | 82.5 | 3% | 77.8 |

### Freight Performance Overview

The Freight business hauled 24.6mt during 1H FY2014, a decrease of 5% compared to 1H FY2013. Within Freight, Bulk volumes decreased 7% due to the end of the grain haulage contract in Western Australia in October 2012, lower Queensland grain volumes this year and other issues including an unscheduled plant shutdown and closing of a customer's magnetite mine. Partly offsetting this was a 14% increase in Intermodal volumes, despite flat market conditions overall, due to new contracts commencing this year including Coles and Woolworths. Aurizon's Intermodal business continues to focus on being a niche operator providing long haul, linehaul solutions and creating value as a credible alternative service provider.

Revenue was also impacted by the decrease of services under the Transport Services Contract (TSC) with the Queensland Government. This reflects the amended contract that took effect 1 January 2013 with services (and revenue) lowered from that point. These contracts will now run until their terms finish in 30 June 2015 (regional freight) and 31 December 2015 (livestock).

The focus for Freight is consistent with the broader Enterprise strategy of growth and transformation. Growth is being achieved through new contracts in Intermodal and securing more commercial terms when re-negotiating Bulk contracts similar to the portfolio re-balancing that has taken place in Coal. With all of the Freight above rail operations now under the direction of the Operations function, the benefits of the Enterprise-wide transformation program will also flow to Freight.

### Freight Variance Analysis - 1H FY2014 vs 1H FY2013

The $15m increase in underlying EBIT reflects:

- A net decrease in revenue of $16m (3%) comprising the following major items:
  - $18m decrease in TSC revenue reflecting the amended contract that took effect in January 2013
  - $12m impact from the loss of the Consolidated Bulk Handling (CBH) contract in 1H FY2013
  - $20m increase in Intermodal principally from new contracts and increased volumes
- More than offset by a net decrease in operating costs of $33m comprising:
  - Lower operating costs in Bulk due to volume reduction, transformation initiatives (VRP) and lower maintenance spend
  - Higher operating costs in Intermodal principally to support start up of the new contracts. These costs will not recur

### Freight Variance Analysis - 1H FY2014 vs 2H FY2013

The $2m, or 11% increase in underlying EBIT:

- A net increase in revenue of $34m (7%) reflects:
  - $40m increase in Intermodal principally from new contracts and increased volumes, partly offset by
  - $5m decrease in Bulk revenue due to the lower Queensland grain volumes

- A net increase in operating costs of $33m reflecting:
  - $40m increase in operating costs associated with higher volumes in Intermodal (start up costs) partly offset by
  - $10m decrease in access costs associated with lower Bulk Freight volumes

## Freight Operations Update

The focus of the transformation program for Freight operations within 1H FY2014 has been to establish the Integrated Operating Plan, with particular initial focus within North West Queensland, and Western Australia with a view to reducing both fixed and variable costs by leveraging locomotive cascades, realising opportunities for longer and heavier train consists and subsequent reduction in train starts. These changes are proposed to be implemented in 2H FY2014:

- Bringing on the additional volumes for the Intermodal contracts which commenced this year including Coles and Woolworths as noted previously within the existing fleet capacity
- Closure of the Avon depot in Western Australia, and other costs associated with the CBH contract
- Closure of Intermodal East Coast depots, with a reduction of 45 depots to 23
- Review continues around right sizing and positioning of train crew requirements and consultation on regional depot closures
- Improved productivity of ground crew for shunting and switching activities across regional areas, through the consolidation of tasks
- The introduction of more efficient rostering for train crew and ground staff to improve productivity

# OTHER

## Senior Management Changes

- Mike Carter transitioned from the role of EVP Network to EVP Strategy & Business Development
- Alex Kummant transitioned from the role of EVP Strategy & Business Development to EVP Network
- Mauro Neves was appointed EVP Commercial & Marketing and commenced in January 2014. Mauro's most recent role was Global Coal Director for Vale, one of the world's largest resource companies
- Ken Lewsey (EVP Business Development), Greg Robinson (EVP Business Sustainability) and Paul Scurrah (EVP Commercial & Marketing) left Aurizon

## Enterprise Agreement Update

**New South Wales**

- Current enterprise agreements (EAs) expired 31 October 2013 (representing c. 200 coal staff in NSW)
- The unions have commenced the process for protected industrial action given no resolution on key issues
- The unions have received approval from Fair Work Australia for a ballot, the unions are now approaching their members for a ballot on whether industrial action is to take place
- Require 50% plus one to proceed, timing expected mid February; unions are required to provide 72 hours notification prior to any industrial action

**Queensland**

- Bargaining continues to progress slowly. Fair Work Australia continues to assist negotiations
- Have agreed with unions to bargaining timetable of 3 days a week to conclude end of March 2014
- Unions seek maintenance of status quo. Aurizon is seeking major reform
- Aurizon will continue to transform and restructure the business irrespective of EA timeline

## Risk

Key risks to Aurizon are as follows:

- Enterprise Agreement Negotiations
  - A significant proportion of Aurizon's employees belong to labour unions
  - 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 on 30 June 2013
  - Aurizon submitted UT4 on 20 April 2013 and is continuing discussions with the QCA and key stakeholders customers on the finalisation of reference tariffs – to apply retrospectively from 1 July 2013
  - There is a risk that the QCA's 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

## Sustainability

Aurizon is committed to the safety of its people, those it works with, the environment, and the communities in which it operates. A safety and performance-driven culture is a key enabler on Aurizon's journey to a sustainable future. It acknowledges investing in Our People, the Environment and Community is investing in the Company's future. It also acknowledges that governing fairly and appropriately, will enable it to maintain its licence to operate as well as further the financial success of the Company.

During the period it established a Sustainability Community of Competence to help define and drive its enterprise strategy for sustainability with a view to improving and integrating its sustainability reporting and disclosure in accordance with the Global Reporting Initiatives.

**Safety**

A strong commitment to safety across Aurizon's footprint has ensured continued improvement in its safety performance over the six months ending 31 December 2013. The company's safety goal of ZEROHARM means no injuries to anyone, ever.

Between June 2009 and 31 December 2013, Aurizon has achieved a 96% reduction in Lost Time Injury Frequency Rate (LTIFR) (0.42) and a 92% reduction in Medically Treated Injury Frequency Rate (MTIFR) (3.63).

These results demonstrate Aurizon's transformational journey to become an organisation in which safety is a core value and intrinsic in all decision making.

In CY2013 several new safety initiatives were introduced through Aurizon's Central Safety Committee and Communities of Competence (which focus on key risk areas for the Company).

Key initiatives include a strong emphasis on sharing learnings from incidents and improving understanding of human factors which can lead to injuries and incidents including distraction, complacency, rushing and fatigue.

As a result of these initiatives, Aurizon has achieved a 27% improvement in the running line derailment rate and 32% improvement in the running line Signal Passed at Danger (SPAD) rate.

Over the past two years Aurizon has also spent over $15 million to upgrade passive level crossings to boom gates and/or flashing lights on the CQCN as part of a continuous improvement program.

Key company safety milestones include:

- In October 2013 Aurizon was awarded the prestigious 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
- In the same month the Company received top honours at the annual SAP Customer Awards of Excellence for the successful implementation of a single enterprise integrated safety IT system
- To complete the hat-trick, Aurizon also received a 'Highly Commended' at the National Safety Council of Australia (NSCA) Safety Awards of Excellence for "Best Safety Leadership Program"

**Environment**

Aurizon's commitment to environmental sustainability is crucial to its corporate identity and business activities. The aim is to minimise the environmental impact of its operations. The company's Environmental Policy reinforces its commitment across the enterprise and provides guidance to its operational activities and services regarding continual environmental improvement.

This year marks Aurizon's inaugural participation in the Carbon Disclosure Project (CDP) — an independent not-for-profit organisation that compiles corporate climate change information for the investment community. Participation in the CDP improves the company's transparency around climate change performance and demonstrates to key stakeholders that it is serious about its climate change impacts and opportunities. Aurizon was a finalist in the CDP ASX Climate Disclosure Award 2013 for Best New Responding Company.

Aurizon, along with its industry partners in Queensland have collaborated to implement a Coal Dust Management Plan for both the central region and the South West System. This involves the addition of spray stations with dust suppressing chemicals, known as "veneers", to reduce coal dust produced from moving wagons. Aurizon has installed 22 veneering stations to service 13 mines in Central Queensland and provides monitoring reports to the Department of Environment, Heritage and Protection (DEHP). In the Hunter Valley, Aurizon continues to work with its supply chain partners and government and also participate in an industry working group to address stakeholder concerns.

Over the period of 2012-14 Aurizon has taken significant steps towards securing in excess of 290 hectares of vegetation for active rehabilitation and conservation purposes as part of its commitment to offset clearing activities associated with some of its major construction projects. The process involves active engagement with rural landholders and the department of Natural Resources and Mines, and will act to conserve endangered ecological communities listed under both Commonwealth and State legislation in addition to habitat for threatened fauna species

**Community**

Since privatisation, Aurizon continues to place very high importance on social responsibility. Aurizon understands that in order to successfully deliver for its customers and provide shareholder return, it must aim to minimise impacts where it operates across regional and rural towns across Australia.

As part of its sustained support of these communities, Aurizon's bi-annual Community Giving Fund has provided cash grants to over 130 charities focused on the areas of health and wellbeing, environment, education and community safety.

In 1H FY2014, Aurizon's Community Giving Fund provided grants to 21 charities across the country ranging from $1,000 to $20,000. To understand more about Aurizon's community spirit, visit www.aurizon.com.au/sustainability.

## Entities over which control was gained or lost during the period

- Nil

## Details of associate and joint venture entities

| | | Ownership Interest | |
|---|---|---|---|
| **Entity** | **County of incorporation** | **2013 %** | **2012 %** |
| CHCQ | China - Hong Kong | 15 | 15 |
| CCQ | China - Hong Kong | 17 | 20 |
| KMQR Sdn Bhd | Malaysia | 30 | 30 |
| ARG Risk Management Limited | Australia | 50 | 50 |
| QLM Pty Ltd | Australia | 50 | 50 |
| Rail Innovation Australia | Australia | 20 | 20 |
| Integrated Logistics Company Pty Ltd | Australia | 14 | 14 |

Note: The profit contribution from any one of these associate or joint venture entities is not material to the Group's profit or the profit for the previous corresponding period.