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BY ELECTRONIC LODGEMENT

Aurizon – Appendix 4D

Please find attached for immediate release to the market a copy of the Company's Appendix 4D for the half year ended 31 December 2014.

Yours faithfully

Dominic D Smith
VP & Company Secretary

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As announced via ASX release on 2 December 2014, for the FY2015 period onwards, Aurizon has revised the format of its segment note to better reflect the Functional model that has been implemented within the business. Further details on these segments are shown in the Segment Review on page 11. For 1H FY2015 and FY2015 financial reports, Aurizon will provide segment information in both the revised and historical format for comparison purposes.

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1H FY2015 IN REVIEW

Financial Headlines

($m)		1HFY2015	1HFY2014	Variance %
Total Revenue		1,965	1,959	-
EBIT – Statutory		486	201	142%
Adjustments	- Voluntary Redundancy Program (VRP)	-	25	
	- Asset impairments	-	197	
EBIT – Underlying		486	423	15%
NPAT – Statutory		308	107	188%
NPAT – Underlying		308	263	17%
Interim Dividend (cps)		10.1	8.0	26%
Earnings per share – Underlying (cps)		14.4	12.3	17%
ROIC		9.4%	8.6%	0.8ppt
EBIT Margin – Underlying (%)		24.7%	21.6%	3.1ppt
EBITDA Margin – Underlying (%)		37.6%	34.4%	3.2ppt
Operating Ratio – Underlying (%)		75.3%	78.4%	3.1ppt
Coal Volumes (mt)		109.0	109.7	(1%)
Iron Ore Volumes (mt)		12.9	15.0	(14%)
Freight Volumes (mt)		24.9	24.6	1%
Operations Net Opex / NTK ($/000 NTK)		35.4	35.6	1%
Gearing (net debt / net debt + equity)		30.7%	27.9%	(2.8ppt)
People (FTE)		6,977	7,601	8%

Highlights in 1H FY2015

- Underlying EBIT up 15% ($63m) largely due to
  - Transformation benefits of $69m
  - Net benefit on sale of Redbank of $40m
  - Partly offset by:
    - Net $29m decrease in volumes (net of access and fuel). Mainly Intermodal & Iron Ore
    - VRP costs of $13m
- Statutory EBIT up 142% largely due to asset impairments ($197m) and VRP costs ($25m) in 1H FY2014
- Aurizon Network delivered $218m (45% of group's underlying EBIT in the half)
- Coal volumes of 109.0mt down 1% on 1H FY2014 (109.7mt)
- ROIC improved 0.8ppt to 9.4%
- Interim dividend declared is 10.1cps (unfranked), up 26% on pcp. Current expectations of 60-80% franking of final FY2015 dividend
- Share buy back – 13.4m shares purchased in 1HFY15 (of max 107m share program)
- Network access undertaking (UT4)
  - FY2015 Maximum Allowable Revenue (MAR) $777m (ex GAPE)
  - Regulator issued its UT4 Draft Decision on 30 Sept 2014 and plans to finalise by July 2015
- Queensland Enterprise Agreements – Staff EA was successful, however train crew and maintenance EA's going through due process with Fair Work Commission

Operating Ratio (OR) Update

- OR improved to 75.3% (vs 78.4% pcp) and on track to deliver 75% in respect of FY2015
- Report card for 1HFY 2015
  - Operations - $57m
  - Support - $12m
  - Net costs to deliver $18m

FY2015 Financial Outlook

- Coal haulage volume range 210 – 220 mt remains unchanged
- FY2015 earnings could be impacted by industrial action, failure to reach satisfactory UT4 outcome or adverse weather impacts

CONSOLIDATED RESULTS

1. Half on Half Comparison

Financial Summary

($m)		1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue		1,965	1,959	-	1,864
EBITDA	- Underlying	739	674	10%	677
	- Statutory	739	452	63%	513
EBIT	- Underlying	486	423	15%	428
	- Statutory	486	201	142%	264
Net Finance Costs		(68)	(53)	(28%)	(59)
Income Tax Expense	- Underlying	(110)	(107)	(3%)	(109)
NPAT	- Underlying	308	263	17%	260
	- Statutory	308	107	188%	146
Earnings per share (1)	- Underlying	14.4	12.3	17%	12.2
	- Statutory	14.4	5.0	188%	6.8
ROIC (2)		9.4%	8.6%	0.8ppt	8.8%
Operating Ratio		75.3%	78.4%	3.1ppt	77.0%
Cash flow from operating activities		686	573	20%	608
Interim Dividend per share (cps)		10.1	8.0	26%	8.5
Gearing (net debt / net debt + equity)		30.7%	27.9%	(2.8ppt)	28.4%
Net tangible assets per share ($)		3.0	3.0	-	3.0

Other Operating Metrics

	1HFY2015	1HFY2014	Variance %	2HFY2014
Revenue / NTK ($/'000NTK)	52.7	51.3	3%	52.2
Labour Costs / Revenue (3)	26.8%	26.9%	0.1ppt	27.2%
NTK / employee (FTE) (MNTK)	10.7	10.1	6%	9.5
Operations Net Opex / NTK ($/'000 NTK)	35.4	35.6	1%	34.6
NTK (bn)	37.3	38.2	(2%)	35.7
Tonnes (m)	146.8	149.4	(2%)	137.2

Underlying EBIT by Segment

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Network	218	217	-	195
Commercial and Marketing	1,595	1,616	(1%)	1,518
Operations	(1,322)	(1,361)	3%	(1,236)
Corporate Overhead	(5)	(49)	90%	(49)
Group	**486**	**423**	**15%**	**428**

Notes:

(1) Calculated on weighted average number of shares on issue – 2,135,565,000 in 1H FY2015 and 2,137,285,000 in 1H FY2014
(2) Last 12 months underlying EBIT divided by net working capital plus net PPE plus AUC plus gross intangible assets
(3) Excludes $13m of VRP costs in 1H FY2015

Variance Analysis – 1HFY2015 vs. 1HFY2014

Underlying EBIT increased $63m or 15% to $486m, principally due to a reduction in operating costs from the ongoing transformation program and a $40m net benefit from the sale of the Redbank maintenance facility. This was partly offset by non-recurring items including $13m in VRP costs, $14m in non-cash provision adjustments to reflect bond yield changes and a $3m loss on sale of CRT. The company realised sustainable transformation benefits of $69m in the period, with $18m of one-off costs (an increase of $13m) to deliver these benefits. Underlying EBIT was also adversely affected by a 2% reduction in overall volumes.

With no underlying adjustments in 1HFY2015, statutory EBIT was also $486m with the 142% increase due to the impact of $222m ($25m in VRP costs and $197m in asset impairments) of underlying adjustments in the prior corresponding period.

Coal volumes decreased 1% principally due to the end of Rio Tinto's Hail Creek contract in October 2013 and the closure of Peabody's Wilkie Creek mine in December 2013. This, combined with some operational issues which arose and were resolved in the December quarter, more than offset the increase in NSW coal volumes. Iron Ore volumes declined 14% as expected (and previously noted) due to the end of two customer contracts, while Freight volumes increased 1% with Bulk up 2% and Intermodal down 6%.

Network access revenues increased 2% or $11m despite a 7% volume increase, reflecting the fact that Network is still operating under the transitional tariff structure. Regulated access revenues for the CQCN will be adjusted to reflect the final outcome of UT4 which the QCA has indicated will be by July 2015.

Additional information on the 15% increase in underlying EBIT to $486m is below:

- A net decrease of $29m from volume growth (net of access and fuel):
  - $17m decrease in Intermodal revenue due to 6% reduction in volumes
  - $13m decrease in Iron Ore revenue due to a 14% reduction in volumes
  - $2m decrease in Coal revenue due to a 1 % decrease in volumes, partly offset by
  - $3m increase in Bulk revenue due to a 2% increase in volumes

- A net increase of $9m in revenue quality as follows:
  - $23m benefit from Coal (higher fixed revenue), offset by a $6m increase in take or pay
  - $3m benefit in Freight (higher fixed revenue in Bulk), and
  - $11m decrease in Freight from lower contracted payments under the Transport Services Contract (TSC)

- A net benefit of $11m from Network transitional tariffs
  - Indexation of transitional access tariffs to reflect CPI

- A benefit of $69m from transformation initiatives (refer to section 3 for additional detail)
  - $57m from Operations including labour, fleet productivity and fuel
  - $12m from Support including labour, professional services, lease costs and travel

- A $40m net benefit on sale of the Redbank maintenance facility

- $13m of VRP costs

- A net increase in operating costs and other expenses of $24m including:
  - $18m increase in labour costs due to lower bonuses paid in the prior period due to EBIT and ROIC targets not being met and salary and wage escalation. Note also the labour transformation benefit, detailed in the 4th bullet point above, driven by the lower FTE count
  - $14m non-cash increase in leave and land rehabilitation provisions to reflect decrease in period end discount rate in accordance with accounting standards
  - $7m cost of a major derailment at Broadlea in the Goonyella system in December
  - $3m loss on sale of CRT, partly offset by
  - $13m reduction in Intermodal and Iron Ore costs (excluding fuel and access charges) reflecting the lower volumes

Variance Analysis – 1HFY2015 vs. 2HFY2014

Underlying EBIT increased $58m or 14% to $486m due to:

- A net increase of $27m from volume growth (net of access and fuel):
  - $16m increase in Freight revenue due to a 15% increase in volumes
  - $23m increase in Coal revenue due to an 8% increase in volumes, partly offset by
  - $12m decrease in Iron Ore revenue due to a 13% decrease in volumes

- A net decrease of $14m in revenue quality as follows:
  - $18m decrease in Coal (lower fixed revenue) partly offset by $3m decrease in take or pay
  - $6m decrease in Freight from lower contracted payments for the Transport Services Contract (TSC), partly offset by
  - $4m improvement in Bulk and $3m improvement in Iron Ore due to higher levels of fixed revenue

- A net benefit of $40m from Network transitional tariffs
  - Timing of recognition of fixed transitional access tariffs in FY2014 due to regulatory volume forecasts. Transitional access tariffs (ex GAPE) have increased by 2.5% to reflect CPI in FY2015

- A benefit of $34m from transformation initiatives (refer to section 3 for additional detail)
  - $23m from Operations including labour, fleet productivity and fuel
  - $11m from Support including labour, professional services, lease costs and travel

- A $40m net benefit on sale of the Redbank maintenance facility

- $13m of VRP costs

- A net increase in operating costs and other expenses of $64m including:
  - $19m increase in labour costs due to salary and wage escalation
  - $12m non-cash increase in leave and land rehabilitation provisions to reflect decrease in period end discount rate in accordance with accounting standards
  - $7m cost of a major derailment at Broadlea in the Goonyella system in December
  - $6m increase in depreciation due to the commissioning of one stage of WIRP
  - $5m in additional Network maintenance
  - $3m loss on sale of CRT

Reconciliation to Statutory Earnings

Underlying earnings is a non-statutory measure and is the primary reporting measure used by Management and Group's chief operating decision making bodies for the purpose 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:

($m)	1HFY2015	2HFY2014	1HFY2014
Underlying EBIT	**486**	**428**	**423**
Significant Items			
Voluntary Redundancy Program [(1)]	-	(44)	(25)
Transformation related asset impairments	-	(43)	(147)
Other impairments	-	(77)	(50)
Statutory EBIT	**486**	**264**	**201**
Net Finance Costs	(68)	(59)	(53)
Statutory PBT	**418**	**205**	**148**
Taxation Expense	(110)	(59)	(41)
Statutory NPAT	**308**	**146**	**107**

Notes:

(1) The 2014 VRP resulted in 410 employees accepting the offer at a cost of $37m. In addition, a further $32m in costs associated with expected redundancies for the progressive closure of Redbank and Townsville as announced 8 May 2014 has also been recognised. $13m in VRP costs were incurred in 1HFY2015 however they have not been treated as an underlying adjustment.

2. Other Financial Information

Cash Flow Summary[1]

($m)	1HFY2015	2HFY2014	1HFY2014
Statutory EBITDA	739	513	452
Working capital and other movement	(48)	141	199
Cash from operations	**691**	**654**	**651**
Interest received	4	4	6
Income taxes paid	(9)	(40)	(84)
Net cash inflow from operating activities	**686**	**619**	**573**
Cash flows from investing activities			
Proceeds from sale of PP&E	139	32	5
Payments for PP&E & intangibles	(533)	(445)	(425)
Interest paid on qualifying assets	(19)	(19)	(15)
Net (payments for) / distributions from investment in associates	(214)	2	1
Net cash (outflow) from investing activities	**(627)**	**(430)**	**(434)**
Cash flows from financing activities			
Net proceeds from borrowings	130	262	80
Payment for share buy-back and share based payments	(72)	-	(24)
Interest paid	(62)	(52)	(37)
Dividends paid to Company shareholders	(182)	(171)	(175)
Net cash (outflow) / inflow from financing activities	**(186)**	**39**	**(156)**
Net increase / (decrease) in cash	(127)	227	(17)

Notes:

(1) Cash flow summary has changed from prior periods with interest paid on qualifying assets now classified as an investing activity and interest paid now classified as a financing activity. Both were previously classified as an operating activity.

Cash Flow Movements – 1HFY2015 vs. 1HFY2014

Net cash inflow from operating activities increased 20% from $573m to $686m largely due to:

- Growth in cash from operations of $40m or 6% (from $651m to $691m)
  - Increase in statutory EBITDA of $287m (63%)
  - Offset by the reduction in non-cash impairments ($197m) and net benefit on sale of Redbank ($40m) which is included in proceeds on asset sales in Investing activities
- Reduction in income taxes paid of $75m due to the tax effects relating to the impairments in FY2014

Net cash outflow from investing activities increased by $193m to $627m, largely due to:

- Increase in capital expenditure of $108m on WIRP, Hexham, Whitehaven, Rolleston electrification and Network sustaining capital
- Acquisition of Aurizon's share of Aquila completed in July 2014 ($217m including transaction costs)
- Offset by proceeds of asset sales including the sale Redbank, rollingstock and CRT ($139m)

Net cash outflow from financing activities increased from $156m to $186m due to:

- Increase in dividend payments of $7m reflecting the increased dividend payout ratio from 65% to 70%
- On market share buy back of 13.4m shares costing $60m during the period
- Increase in interest paid of $25m reflecting increased borrowings

Cash Flow Movements – 1HFY2015 vs. 2HFY2014

Net operating cash flows increased from $619m to $686m, largely due to:

- Growth in cash from operations of $37m or 6%
  - Increase in statutory EBITDA of $226m due to improved trading performance of $62m and the impairments in 2H FY2014 of $120m
  - Partly offset by reduction in working capital and other operating cash flow of $189m principally reflecting non-cash impairments in 2HFY2014 and a decrease in the working capital inflow due to the refund to customers of the over collection of Network access tariffs of $70m in FY2014
- Reduction in income taxes paid of $31m due to the tax effects relating to the asset impairments in FY2014

Net cash outflow from investing activities increased by $197m to $627m, largely due to:

- Increase in capital expenditure of $88m on WIRP, Hexham, Whitehaven rollingstock, Rolleston electrification and Network sustaining capital
- Acquisition of Aurizon's share of Aquila completed in July 2014 ($217m including transaction costs)
- Offset by proceeds of asset sales including the sale of Redbank, rollingstock and CRT ($139m)

Net cash outflow from financing activities has increased by $225m to $186m due to:

- Increase in dividend payments of $11m
- On market share buy back of 13.4m shares costing $60m during the period
- Increase in interest paid of $10m reflecting increased borrowings
- The balance relates to proceeds from borrowing which reflects the trading movements and movement in cash

Balance Sheet Summary

($m)	31 December 2014	30 June 2014	31 December 2013
Total current assets	926	1,336	868
Property, plant & equipment	9,692	9,441	9,460
Other non-current assets	479	171	111
Total Assets	**11,097**	**10,948**	**10,439**
Total current liabilities	(706)	(852)	(664)
Total borrowings	(3,038)	(2,841)	(2,569)
Other non-current liabilities	(937)	(882)	(802)
Total Liabilities	**(4,681)**	**(4,575)**	**(4,035)**
Net Assets	**6,416**	**6,373**	**6,404**
Gearing (net debt / net debt plus equity)	30.7%	28.4%	27.9%

Balance Sheet Movements – 1HFY2015 vs. 2HFY2014

Total current assets have decreased by $410m largely due to:

- Reduction in cash and cash equivalents of $127m, used to fund Aurizon's portion of the acquisition of Aquila in July 2014
- Reduction in trade and other receivables of $111m reflecting collection of Network Take or Pay and Coal incentives accrued as at 30 June 2014
- Reduction in assets classified as held for sale of $97m, following the disposal of CRT and rollingstock identified as surplus

Total non-current assets have increased by $559m largely due to:

- Net increase in property, plant and equipment of $251m reflecting capital spend on major projects including WIRP, Rolleston electrification and Hexham
- Increase in investments of $226m, mainly related to the acquisition of Aquila
- Increase in Derivative financial instruments of $44m with the issue of the Euro Medium Term Note (EMTN) and associated cross currency swaps

Other current liabilities have decreased by $146m principally due to a reduction in trade and other payables relating to the repayment of Network's over collection of FY2014 transitional tariffs ($70m) and timing of payroll accruals ($16m)

Total borrowings have increased by $197m to fund the capital program ($533m), on market share buyback ($60m) and acquisition of Aquila ($217m including transaction costs) partially offset by the proceeds from the sale of assets ($139m).

Dividend

The Board has declared an interim dividend of 10.1cps, based on:

- Payout ratio of 70% of statutory NPAT compared to 65% for the interim dividend FY2014 and 70% for the final dividend FY2014 (after adjusting for significant items)
- The interim dividend is unfranked, due to the low cash tax payable in respect of FY2014 earnings, reflecting the tax impact of impairments. Based on current expectations, the final FY2015 dividend will be franked between 60%-80%

The relevant Interim Dividend dates are:

- 27 February - ex-dividend date
- 3 March - record date
- 23 March – payment date

Share Buy-back

On 11 November 2014, Aurizon announced the intention to undertake an on-market buy-back of up to 5% of its issued share capital, a maximum of 107 million shares, over a 12 month period. Additional details are as follows:

- Commenced 27 November 2014
- 13.4 million shares were bought back and subsequently cancelled in 1HFY2015, at a total cost of $60m
- Timing and actual amount of shares bought back will depend on prevailing share price, business and market conditions
- Impact of buy-back will be excluded from calculation of EPS for remuneration purposes

Funding

Group gearing increased from 28.4% to 30.7% reflecting higher debt levels. Credit rating remains unchanged at BBB+/Baa1.

During the period the Group further diversified funding sources with a debut issuance in the European debt capital markets. Aurizon Network issued a 10 year Euro 500m EMTN in September 2014 with coupon of 2.0% per annum. The proceeds were used to repay existing bank debt maturing in 2016.

In addition, remaining bank debt facilities were re-priced and extended during the period.

As a result of the above, interest cost on drawn debt reduced to 4.5% for 1HFY2015, from 4.8% FY2014 and 4.6% for 1HFY2014.

The Group debt maturity profile average tenor increased to 4.8 years (3.5 years in FY2014).

Liquidity as at 31 December 2014 was $1.0bn (undrawn facility and cash).

Tax

Income tax expense for 1HFY2015 was $110m, representing an effective tax rate of 26.3%. The cash tax rate for 1HFY2015 was 14.1%, due to accelerated fixed asset related adjustments.

The effective tax rate for FY2015 is expected to be in the range of 27-30% and the cash tax rate is expected to be in the range of 15-20%.

3. 75% Operating Ratio Update

Aurizon remains on target to achieve a 75% Operating Ratio (OR) (25% EBIT margin) in respect of FY2015.

The OR for 1HFY2015 was 75.3%, a 1.7ppt improvement from 2HFY2014 of 77.0% and a 3.1ppt improvement from 1HFY2014 of 78.4%.

Supporting the achievement of the 75% OR is the delivery of $250m-$300m of sustainable cost out and productivity improvements to be delivered by 30 June 2015, as announced in August 2014.

The cumulative amount delivered during the 18 months to 31 December 2014 was $198m (Operations $153m and Support costs $45m). This includes $69m in transformation benefits in 1HFY2015, with net costs to deliver of $18m, being $13m for VRP and $5m for implementation of key initiatives.

Key initiatives delivered in 1HFY2015:

Operations – $57m

- $27m in labour productivity – reflects a 5% reduction in average FTEs driven primarily by productivity improvements in footplate hours, removal of deployment inefficiencies, progressive depot consolidation for maintenance and Intermodal, commencing workshop labour reform and corridor IOP initiatives (e.g. North West corridor)
- $25m in fleet productivity – IOP and improved operational practices driving a reduction in active fleet requirements with savings in ownership and maintenance costs
- $3m in fuel efficiency – due to a 2% improvement in fuel consumption rates, driven by improvements in gross train weights, rationalisation of older, less fuel efficient fleet and enablement of fuel technology solutions
- $2m in other initiatives including lower consumable spend resulting from a review of Intermodal depots

Support costs – $12m

- $7m reduction in professional services and other discretionary spend
- $5m in labour productivity associated with a net reduction of FTE’s

Corporate support cost review
The next stage in the structure of the corporate support function has commenced, in order to further reduce costs and achieve alignment with global best practice. With $45m of cumulative cost savings to 31 December 2014, this next step is a key enabler for the company to achieve its target of $100m in cost reductions by FY2016 (previously FY2015). Areas of focus will include an analysis of layers and spans of all centralised areas, potential changes to remuneration structures and further and deeper centralisation. It is expected that this will be progressively implemented throughout CY2015.

SEGMENT REVIEW

As advised to the ASX on 2 December 2014, for the FY2015 period onwards, Aurizon has revised the format of its segment note to better reflect the Functional model that has been implemented within the business. Aurizon will report on the following segments:

- Network – responsible for operation, maintenance and managing access to the CQCN (no change from the Network segment reported in previous format)
- Commercial and Marketing - the key interface between customers and Aurizon, responsible for the management of customer relationships
- Operations - responsible for the national delivery of all coal, iron ore, bulk and intermodal haulage services. This includes yard operations, fleet maintenance, operations engineering and technology, engineering program delivery and safety, health and environment
- Other – includes miscellaneous activities such as non rollingstock asset sales and corporate overhead that has not been allocated to Network, Commercial & Marketing and Operations

Network

Aurizon Network operates the 2,670km Central Queensland Coal Network (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 three ports. The CQCN includes four major coal systems the Moura, Blackwater, Goonyella and Newlands.

Network Financial Summary

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**530**	**521**	**2%**	**491**
- Access	501	490	2%	461
- Services	6	8	(25%)	9
- Other	23	23	-	21
Operating Costs	(206)	(206)	-	(196)
EBITDA	324	315	3%	295
EBITDA Margin	61.1%	60.5%	0.6ppt	60.1%
Depreciation and amortisation expense	(106)	(98)	(8%)	(100)
Underlying EBIT	**218**	**217**	**-**	**195**
Operating Ratio	**58.9%**	**58.3%**	**(0.6ppt)**	**60.3%**

Network Operating Metrics

	1HFY2015	1HFY2014	Variance %	2HFY2014
Tonnes (million)	114.7	107.6	7%	106.9
NTK (billion)	28.4	27.2	4%	27.0
Access revenue / NTK ($/000 NTK)	17.6	18.0	(2%)	17.1
Maintenance / NTK ($/000 NTK)	2.4	2.5	4%	2.5
Opex / NTK ($000 NTK)	11.0	11.2	2%	11.0

Network Performance Overview

The Network business established new performance records in H1 FY2015, including record volumes over the CQCN of 114.7mt, a 7% increase on H1 FY2014. There were also a number of key operational achievements including:

- Maintaining reliability benchmarks set in FY2014 whilst delivering a 4% increase in NTKs, including:
  - Network delays (measured as Below Rail minutes per train service) remaining constant at 30 mins in 1HFY2015 compared to 29 mins in FY2014
  - Network caused cancellations for 1HFY2015 were 214 (428 annualised), remaining consistent with the FY2014 benchmark of 417 (these figures exclude unallocated cancellations)
- A substantial capital program was delivered during the period with major progress achieved on the Wiggins Island Rail Project and completion of the Hay Point Expansion and Rolleston electrification projects

Aurizon Network has maintained its focus on finalising UT4, in collaboration with the QCA and customers. The QCA issued its UT4 Draft Decision on Maximum Allowable Revenue (MAR) on 30 September 2014. Significant effort was focussed on developing a response to this draft decision including providing the QCA with more granular information on the key issues raised in their Draft UT4 MAR decision (e.g. ballast undercutting). Aurizon Network lodged its submission in response to the QCA's Draft UT4 MAR decision on 19 December 2014, and is committed to continuing collaboration with the QCA and Industry to achieve the objective of finalising UT4 consistent with the QCA's timetable by July 2015. We note that the QCA is also considering providing updated guidance on the MAR before 1 July 2015 in order to provide greater certainty to all stakeholders.

Underlying EBIT increased $1m to $218m from a $9m increase in total revenue offset by $8m increase in depreciation expenditure. Operating expenditures remained flat as the business continued to execute its transformation initiatives. Transitional tariffs remain in place for FY2015 until finalisation of the UT4 Access Undertaking. Access Revenue per NTK was 2% lower than 1HFY2014 due to a combination of factors including the continuation of transitional tariffs, the ramp up of GAPE tonnes to total contracted levels (reducing the yield due to the fixed nature of the GAPE revenues), reduction in the electricity rate due to the removal of the carbon tax and change in revenue mix by system.

Network Variance Analysis – 1HFY2015 vs. 1HFY2014

The $1m increase in underlying EBIT was attributable to:

- A net increase in revenue of $9m comprising:
  - $11m increase in Access Revenue due to the continuation of transitional tariffs
  - $2m net decrease in Services and other revenue mainly due to reduced signalling and civil works for Queensland Rail as well as a reduction in external construction revenue
- Operating costs remained flat due to:
  - $8m decrease in traction costs from lower energy rates following negotiation of new energy contracts and the removal of the carbon tax
  - $5m increase in labour costs from wage escalation and voluntary redundancies
  - $3m increase in other
- A net increase in depreciation of $8m due to the completion and commissioning of WIRP Segment 4a (Rocklands to Stanwell duplication)

Network Variance Analysis – 1HFY2015 vs. 2HFY2014

The $23m increase in underlying EBIT was largely due to:

- A net increase in revenue of $39m comprising:
  - $40m increase in Access Revenue driven from higher tonnages across the CQCN and provisioning which occurred in the second half of FY2014 resulting from the decision to refund customers the regulatory access revenue collected ($70m) in excess of the FY2014 transitional Maximum Allowable Revenue. This resulted in a 3% increase in access revenue per NTK
- A net increase in operating costs of $10m comprising:
  - $5m increase in maintenance costs from higher track and signalling works in line with increased volumes
  - $4m increase in labour costs from wage escalation and voluntary redundancy
  - $1m increase in traction costs
- A net increase of depreciation of $6m due to the completion and commissioning of WIRP Segment 4a (Rocklands to Stanwell duplication)

Network Operations Update

(i) Access Undertaking 2013 (UT4)

- On 30 September 2014, the Queensland Competition Authority ("QCA") published its draft decision on Aurizon Network's 2014 DAU as it relates to the proposed maximum allowable revenue (MAR) for the 2014 DAU period
- The draft decision outlined the reasons for not approving Aurizon Network's submitted MAR for the 2014 DAU, and the manner in which they considered it appropriate for the 2014 DAU to be amended in respect of the MAR to enable the DAU to be approved by the QCA
- Aurizon Network and other stakeholders lodged submissions in response to the draft decision on 19 December 2014
- The QCA published the draft decision on other remaining pricing (e.g. tariffs) and policy matters in January 2015
- The QCA is expected to publish its final decision on UT4 in July 2015 based on the QCA timetable published on the 19 December 2014
- The QCA has also noted it is considering providing updated guidance on the MAR before 1 July 2015 in order to provide greater certainty to all stakeholders

(ii) Transitional Tariff arrangements

- In June 2014, a 'Transitional Tariffs' Draft Amending Access Undertaking (DAAU) was approved by the QCA to further extend UT3 to the earlier of 30 June 2015 and the QCA's final decision on UT4, and to apply transitional Reference Tariffs for FY2015
- The transitional Reference Tariffs recover a total Maximum Allowable Revenue (MAR) for FY2015 of $777m, inclusive of the FY2013 revenue cap (including WACC) of circa $36m, but excluding Electric Charge (EC) and rebates, with forecast volumes of 193.7mt. Both the MAR and volumes are exclusive of the GAPE which operates under different contractual obligations
- Based on the timetable issued by the QCA on 19th December 2014, it is expected that a MAR for FY2015 will be approved by the QCA by July 2015. The timing of the resulting adjustment is uncertain at this point
- The true-up of the FY2014 MAR between the finalised FY2014 Transitional MAR of $739M (excluding GAPE) and the final UT4 FY2014 MAR is to be determined by the QCA in its final UT4 decision

(iii) Standard User Funding Agreements (SUFA)

- The SUFA framework facilitates customers with an alternative mechanism for funding the expansion and growth of the CQCN, should Aurizon Network elect not to fund such an expansion
- The QCA issued its draft decision on 31 October 2014 and requested parties provide submissions on the matters raised by 16 January 2015
- Aurizon Network has lodged a submission in response to the draft decision to the QCA on 16 January 2015
- The QCA expects to have issued a final SUFA decision by May 2015 with inclusion of the applicable provisions in the final UT4 Access Undertaking

(iv) Growth

- Wiggins Island Rail Project (WIRP)
  - WIRP is a project designed to link mines in the Southern Bowen Basin with the new Wiggins Island Coal Export Terminal (WICET - currently under construction) at the Port of Gladstone and will increase the total capacity of the Moura and Blackwater systems by 27mtpa, or approximately 30%
  - The rail works required for the first coal shipments will be commissioned progressively to align to the commencement of WICET's operations expected to commence in the June quarter 2015
  - The WIRP fee (those earnings above the regulated fee) and ramp-up of regulated earnings are to commence in FY2016, with the total cost of the project estimated to be $831m (excluding capitalised interest)
- Hay Point Terminal Expansion
  - Construction of the Goonyella system expansion to support the Hay Point Port upgrade (a further 11mtpa, lifting the Goonyella system capacity to 140mtpa) has been completed. Commissioning of this infrastructure is predicated on the commissioning of the Wotonga Feeder Station which was completed in June 2014 and is awaiting connection from Powerlink. This is expected before the completion of the Hay Point Coal Terminal expansion, with first shipment anticipated in September 2015
  - The spend to date is $121m with some additional residual costs still expected
- Rolleston Electrification Project
  - Electrification of the existing 107km Rolleston spur line commenced in July 2013 and was completed in December 2014, at a total cost of $158m
  - First electric railings commenced on 15 December 2014

Commercial and Marketing

The Commercial and Marketing function is the key interface between customers and Aurizon, responsible for the management of customer relationships split into Coal, Freight and Iron Ore. Also included was the incubated CRT Industrials business until the business was divested on 1 December 2014.

Commercial and Marketing Summary

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**1,654**	**1,698**	**(3%)**	**1,572**
- Coal	970	958	1%	906
- Above Rail	612	598	2%	617
- Below Rail [(1)]	358	360	(1%)	289
- Freight	509	550	(7%)	479
- Iron Ore	175	190	(8%)	188
Operating Costs	(58)	(77)	25%	(48)
EBITDA	1,596	1,621	(2%)	1,524
Depreciation and amortisation expense	(1)	(5)	80%	(6)
Underlying EBIT	**1,595**	**1,616**	**(1%)**	**1,518**

Notes

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

Commercial and Marketing Operating Metrics

	1HFY2015	1HFY2014	Variance %	2HFY2014
Coal				
Total tonnes hauled (million)	109.0	109.7	(1%)	100.7
- Queensland	87.7	88.6	(1%)	81.3
- NSW	21.3	21.1	1%	19.4
% Volumes under new form contracts (Coal)	63%	52%	11ppt	53%
Contract utilisation (Coal)	94%	93%	1ppt	88%
Total NTK (billion)	25.2	25.5	(1%)	23.7
- Queensland	21.8	22.1	(1%)	20.7
- NSW	3.4	3.4	-	3.0
Above Rail revenue / NTK ($/000 NTK)	24.2	23.4	3%	25.9
Below Rail revenue / NTK ($/000 NTK)	14.2	14.1	1%	12.2
Total Revenue / NTK ($/000 NTK)	38.5	37.6	2%	38.2
Above Rail revenue / Gross contracted NTK (GCNTK) ($/000 NTK)	22.5	21.9	3%	23.1
Freight				
Total tonnes hauled (million)	24.9	24.6	1%	21.7
Total NTK (billion)	6.8	6.6	3%	5.9
Total revenue / NTK ($/000 NTK)	74.9	83.3	(10%)	81.2
Iron Ore				
Total tonnes hauled (million)	12.9	15.0	(14%)	14.9
Contract utilisation	105%	100%	5ppt	100%
Total NTK (billion)	5.3	6.1	(13%)	6.1
Total revenue / NTK ($/000 NTK)	33.0	31.1	6%	30.8

Commercial and Marketing Performance Overview

A number of challenges continue to face producers including; depressed coal prices, risks including regulation and tariffs, and tightening debt financing.

Underlying EBIT decreased 1% to $1,595m from $1,616m due to a $44m (3%) decrease in revenue partly offset by $23m reduction in operating costs and depreciation. Revenue decreased due to Freight (down $41m) and Iron Ore (down $15m) partly offset by Coal (up $12m), with a reduction in volumes driving the revenue weakness.

Coal volumes were down 1% at 109.0mt, with Queensland volumes (-1%) impacted by the closure of Peabody's Wilkie Creek mine and the end of Rio Tinto's Hail Creek contract in the prior comparative period. NSW volumes were 1% higher at 21.3mt.

Coal volumes hauled under new form contracts increased 11ppts to 63% with contract utilisation increasing 1ppt from 93% to 94% which is reflected in the 3% increase in above rail revenue per GCNTK, despite flat GCNTKs. Coal above rail revenue was $14m higher due to improved revenue quality and performance incentives offset slightly by a $2m decrease in below rail revenue from reduced volumes.

Within Freight, Bulk volumes increased 2% due to a delayed sugar season in 2014, together with improved demand from a fertiliser customer in Queensland and an alumina customer in Western Australia. Offsetting this has been ongoing depressed grain and livestock markets due to drought conditions in Queensland as well as reduced mining input volumes. Intermodal volumes decreased 6% with growth from new customers secured last year offset by soft market conditions and the volume impact from the disposal of CRT (effective 1 December 2014).

Iron Ore volumes decreased 14% due to the end of Mineral Resources 4mtpa contract and Mt Gibson's 3mtpa Tallering Peak contract due to end of mine life.

Partly offsetting the lower revenue was a reduction in operating costs of $19m (25%) and depreciation of $4m (80%) largely due to the disposal of CRT.

Commercial and Marketing Variance Analysis – 1HFY2015 vs. 1HFY2014

The $21m decrease in underlying EBIT can be attributed to:

- Coal revenue increased by $12m (1%) largely due to:
  - An increase in coal above rail revenue of $14m (2%) despite the 1% decrease in volumes. Above rail revenue per NTK increased 3% reflecting:
  - Net incentives received from customers for achieving quarterly performance targets
  - Increase in the level of fixed revenue, offset by lower fuel prices and the repeal of the carbon tax
  - An 11ppt increase in volumes under new form contracts due to:
    - ➢ loss of Hail Creek and the closure of Wilkie Creek (contracts for both mines were old form)
    - ➢ milestone achieved in an existing contract in the Hunter Valley significantly improving the take or pay protection for Aurizon
    - ➢ recontracting of the Yarrabee mine in the Blackwater corridor for 3.2mtpa to a new form agreement
  - Below rail revenue decreased by $2m due to lower volumes in Queensland where Aurizon operations is the access holder on behalf of the customer and no take or pay provisions in 1HFY2015
- Freight revenue declined by $41m (7%) largely due to:
  - $32m decrease in Intermodal revenue due to changes in product mix and the 6% decline in volumes ($20m) and $12m decrease in CRT revenue following the disposal of the business
  - $11m decrease in TSC revenue reflecting lower contracted payments, partly offset by
  - $2m increase in Bulk revenue principally from the successful conversion of 2mt to new form contracts in 2014
- Iron ore revenue declined by $15m (8%) due to the 14% volume decrease noted above. The 6% increase in Revenue per NTK reflects the consequent change in haul length
- Operating costs and depreciation reduced by $23m (28%) principally reflecting the disposal of CRT in December 2014

Commercial and Marketing Variance Analysis – 1HFY2015 vs. 2HFY2014

The $77m increase in underlying EBIT can be attributed to:

- Coal revenue increased by $64m (7%) largely due to:
  - A decline in coal above rail revenue of $5m (-1%) despite an 8% increase in volumes, with above rail revenue per NTK decreasing 7%. The volume increase reflects normal seasonality
  - The decrease in above rail revenue per NTK was due to:
    - ➢ Net incentives received from customers for achieving annual performance targets (year ending 30th June)

    - Increasing levels of contract utilisation for customers operating under new form contracts. Due to the higher level of fixed revenue under these contracts, actual tonnage will only determine the variable component of revenue which generally accounts for less than 30% of above rail revenue. Average contract utilisation increased from 88% to 94%
    - Lower fuel prices than the prior corresponding period and repeal of the carbon tax
  - Below rail revenue increased by $69m (24%) reflecting the impact of transitional tariffs in addition to the 8% increase in volumes. Below rail revenue per NTK increased 16%
- Freight revenue increased by $30m (6%) largely due to:
  - $35m increase in bulk revenue due to the 18% volume increase supported by the usual seasonality of volumes and the impacts of the Indonesian Government trade embargo earlier in CY2014
  - $1m increase in Intermodal revenue driven by higher core business volumes in 1H FY2015 ($10m) partly offset by a $9m decrease in CRT revenue due to its disposal on 1 December 2014, partly offset by
  - $6m decrease in TSC revenue reflecting lower contracted payments
- Iron ore revenue declined by $13m (7%) due to the 13% volume decrease noted above. The 7% increase in Revenue per NTK reflects the consequent change in haul length
- Operating costs and depreciation increased $5m (10%) largely due to a lower doubtful debts provision ($5m) in 2HFY2014, increased insurance premiums and labour costs. This was offset by lower costs from the sale of CRT

Customer update

Coal

72% of Aurizon's above rail coal customers by volume are investment grade counterparties (Moody's Aaa – Baa3) with privately owned entities accounting for a further 10% of volumes. In 1HFY2015 coal railings accounted for 74% of total above rail volumes hauled of which 52% was Metallurgical coal and 48% Thermal. The geographic split for 1HFY2015 was 81% Queensland and 19% NSW.

Major developments for 1H FY2015:

- Yancoal's Yarrabee mine converted to a new form contract on 1 July 2014. Volumes increased to 3.2mt for a term of 10 years and are contracted to include haulage to the new Wiggins Island terminal (WICET) once complete
- Haulage for Whitehaven's Maules Creek mine commenced 1 January 2015 under an existing spot contract. The long term haulage contract commences 1 March 2015 at 6.4mtpa and during 1H FY2015, Whitehaven nominated to increase annual tonnage from 6.4mtpa to 7.6mtpa commencing 1 April 2016
- Anglo's German Creek 2mtpa contract ended on 30 November 2014 and was not renewed

Freight

Freight railings account for 17% of Aurizon's total railings with Alumina, Bauxite, Nickel and Sugar making up over half of the bulk commodities railed in Queensland, Western Australia and New South Wales.

Major Bulk developments for 1H FY2015:

- The focus in the Bulk business has been transitioning contracts to new form commercial arrangements
- On target to transform 80% of legacy contracts to new form, commercial contracts by FY2017
- Recent examples of new form contracts secured include:
  - Queensland Nickel – import nickel (10 years)
  - BHPB Cannington – bulk minerals (7 years)
  - Murrin Murrin Operations Pty Ltd (Minara) – sulphur, ammonia, nickel (10 years)
- Extensive sales pipeline including opportunities in grain, mine inputs, fuel and oils
- The Regional Freight and the Livestock Transport Services (TSC) contracts expire 30 June 2015 and 31 December 2015 respectively. Aurizon will engage with Department of Transport and Main Roads (DTMR) on future initiatives, to either extend or renew the contracts in line with DTMR's strategy

Major Intermodal developments for 1H FY2015:

- Improved market share on the North-South corridor and North Coast line by offering innovative supply chain solutions, converting volumes from road to rail, e.g. extra service on Melbourne to Brisbane (5-6 services per week), is the equivalent of 100 semi-trailer round trips
- Improved transit times Sydney to Perth (5 days to 3 days) providing opportunity to further compete on that corridor
- Capacity management, improved utilisation and yield management with train utilisation improvement of 7.5% on the North-South corridor and 14% on the East- West corridor
- The divestment of the CRT business effective 1 December 2014, has enabled a greater focus on core Intermodal rail
- Overall market conditions remain challenging however opportunities for Aurizon include:
  - Targeting specific industry customers seeking direct collaboration with rail provider to deliver optimum supply chain outcomes, e.g. Coles food and liquor in North Queensland

Iron Ore

Iron Ore railings account for 9% of Aurizon's total railings, operating solely in Western Australia.

Major developments for 1HFY2015:

- Overall volumes were down due to Mount Gibson's Tallering Peak mine reaching its end of life and the end of the Mineral Resources contract as previously indicated

We confirm our volume guidance of ~23mt for FY2015.

Operations

The Operations function is responsible for the national delivery of all coal and freight haulage services. This includes yard operations, fleet maintenance, operations engineering and technology, program delivery and safety, health and environment. Operations also deliver below rail engineering, project management and maintenance services to the Network business as well as external customers.

Operations is comprised of six divisions that leverage Aurizon's key operational capabilities, including Operations Planning, Rollingstock Maintenance, Service Delivery Coal, Service Delivery Freight, Program Delivery and Safety, Health and Environment.

Operations Summary

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**176**	**191**	**(8%)**	**147**
Total Operating Costs	(1,354)	(1,405)	4%	(1,244)
- Employee Benefits Expense	(413)	(401)	(3%)	(389)
- Energy and Fuel	(109)	(152)	28%	(116)
- Track Access	(497)	(488)	(2%)	(428)
- Consumables	(325)	(343)	5%	(299)
- Other Expenses	(10)	(21)	52%	(12)
EBITDA	(1,178)	(1,214)	3%	(1,097)
Depreciation and amortisation expense	(144)	(147)	2%	(139)
Underlying EBIT	**(1,322)**	**(1,361)**	**3%**	**(1,236)**
Underlying EBIT (ex access)	**(825)**	**(873)**	**5%**	**(808)**

Operations Operating Metrics

	1HFY2015	1HFY2014	Variance %	2HFY2014
Net Opex[(1)] / NTK ($'000 NTK)	35.4	35.6	1%	34.6
Net Opex[(2)] / NTK (ex access) ($'000 NTK)	22.1	22.9	3%	22.6
Total Tonnes Hauled (m)	146.8	149.4	(2%)	137.2
Net Tonne Kilometres (bn)	37.3	38.2	(2%)	35.7
FTE (monthly average)	5,435	5,741	5%	5,590
NTK / FTE	13.7	13.3	3%	12.8
NTK / Active loco	10.46	9.63	9%	9.55
NTK / Active wagon	0.43	0.41	5%	0.40
Average Payload Coal (tonnes)	8,121	7,921	3%	7,917
Turnaround Time – CQCN (hrs)	24.68	25.14	2%	25.50
Fuel Consumption (l/d GTK)	3.22	3.30	2%	3.23

Notes

1. *Net Opex / NTK is calculated as Operations Underlying EBIT / NTK (i.e. this metric represents operational expenditure net of revenue). Net expenditure is used to measure above rail productivity, as Operations revenue includes intercompany revenue for services provided (and therefore costs incurred) for Network. In addition, Operations also incurs expenditure in generating revenue on commercial rollingstock and infrastructure maintenance contracts*
2. *Net Opex / NTK (ex access) excludes track access costs in order to measure productivity net of access costs which are generally passed through to above rail customers (and shown in Commercial & Marketing revenue)*

Operations Performance Overview

Underlying EBIT (net costs) improved 3% in 1HFY2015, as a result of cost reductions and productivity improvements driven by the ongoing transformation program.

Operations delivered total volumes of 146.8mt in 1HFY2015. This was an increase of 7% on the prior half (2HFY2014), however represented a reduction of 2% compared to 1HFY2014. Volumes were impacted by:

- Lower iron ore volumes as expected due to the end of two customer contracts
- Lower coal volumes in the Goonyella corridor with the introduction of a third above rail operator

In addition, there were also number of operational issues which included:

- Residual impact of the fatal motor vehicle accident in October on crew availability in the Blackwater system
- A derailment and dewirement in the Goonyella system in December
- A derailment in Callemondah yard (Blackwater) prior to Christmas

The combination of these events impacted Aurizon's ability to service continued strong levels of demand in the period, especially in Blackwater which had available spot tonnes. These issues have now been resolved with performance returning to normal.

Transformation benefits totalling $57m were delivered during the period, with key components of labour productivity ($27m), fleet productivity ($25m) and fuel efficiency ($3m).

These transformation benefits contributed to the 3% improvement in underlying EBIT and Net Opex / NTK (ex access) from 1HFY2014 despite the reduction in volumes. However the rate of the improvement in this metric was impacted by the lower volumes, due to the high fixed cost nature of the above rail business. With volume growth being less than the company expected since commencing the transformation program in 2013, the focus for Operations is on absolute cost reductions to offset this. When excluding access costs but including depreciation, Operations reduced total costs by $63m or 6% in 1H FY2015.

Continued progress was made on the Integrated Operating Plan, which drove improvement in other operational and productivity metrics including payloads, turnaround time and NTK per active locomotive and wagon.

Operations Variance Analysis – 1HFY2015 vs. 1HFY2014

The $39m, or 3% improvement in underlying EBIT was largely due to:

- A net decrease in revenue of $15m, driven by lower rollingstock maintenance revenues following the termination of Queensland Rail contracts in Townsville, as well as lower below rail maintenance services provided to Aurizon Network
- A reduction in operating costs (excluding access but including depreciation) of $63m comprised of:
  - Employee Benefits Expense – net increase of $12m driven by a number of factors including salary & wage escalation and VRP costs. These factors more than offset the $27m in transformation benefits delivered through reduced average FTE headcount, reduced overtime, contractor and depot costs
  - Fuel – reduction in fuel costs of $43m reflecting the 2% reduction in volumes and a decrease in the average diesel fuel price and a 7c increase in the diesel fuel rebate. Operations also delivered a 2% reduction in fuel consumption (l/d GTK) as a result of transformational initiatives, a $3m saving
  - Consumables and Other Expenses – decrease of $29m relates to transformation benefits from fleet reductions and revised maintenance schedules, and Intermodal depot reviews. Consumable costs relating to services provided to Network and Queensland Rail were also down in line with revenue. This offset costs associated with a major derailment in the Goonyella system in December
  - Depreciation – decrease of $3m
- A net increase of $9m in access charges due to one off payments for access relinquishment and Take or Pay arrangements

Operations Variance Analysis – 1HFY2015 vs. 2HFY2014

The $86m, or 7% decrease in underlying EBIT was largely due to:

- A net $29m increase in revenue, due to:
  - Higher external revenue as a result of profits on disposal of excess rollingstock
  - An increase in intercompany revenues from below rail infrastructure services provided to Network.
- An increase in operating costs (excluding access but including depreciation) of $46m comprised of:
  - Employee Benefits Expense – increase in costs of $24m driven by salary and wage escalation and VRP costs. This more than offset a $15m transformation benefit from a 4% reduction in headcount and reduced overtime
  - Fuel – reduction of $7m is primarily driven by a decrease in the average fuel price and a 7c increase in the diesel fuel rebate. Operations also delivered a 0.3% reduction in fuel consumption (l/d GTK) as a result of transformational initiatives
  - Consumables and Other Expenses – increase of $24m due to costs associated with a major derailment in the Goonyella system in December, as well as an increase in costs in line with the increase in revenue. This more than offset transformation benefits which resulted from the fleet reduction, revised maintenance schedules and Intermodal depot reviews

  - Depreciation – increase of $5m
- A net increase of $69m in access charges reflecting the impact of the transitional tariff adjustment in 2HFY2014 by Network, in addition to the 7% increase in volumes

Operational Update

Operations continued focus has been on disciplined and safe operations in delivering volumes across all corridors. The Integrated Operating Plan has continued driving progress, demonstrated through improvement in key operational metrics:

- Asset productivity improved against 1HFY2014, with increases in locomotive and wagon productivity of 9% and 5% respectively. This has resulted through the redesign of train services, allowing the removal of surplus fleet. A total of 101 locomotives and 2518 wagons have been disposed of since 1HFY2014
- Asset efficiency shows continuing improvement, with a further reduction in turnaround time for the CQCN from 25.5hrs in the previous period down 3% to 24.7hrs in 1HFY2015
- Average payloads have increased by 3% to 8,121 tonnes with initiatives focused on improvements in Blackwater, Newlands and Hunter Valley corridors. Trials continue on further payload development opportunities
- Fuel efficiency continues its positive trend relative to 1HFY2014 and 2HFY2014, with a significant improvement of 2% against 1HFY2014, which has been driven by changes to technology and disposal of ageing locomotives. The DAS (Driver Advice System) continues to be rolled out in CQCN, and notch limiting (power capped in proportion to trailing load) has delivered efficiencies in the Interstate Intermodal services
- Employee productivity has seen an improvement of 9% against the previous half despite lower volumes, driven by a reduction in FTEs of 5%. This was achieved through depot closures, consolidation of train services, reduction in train starts, and modifications to shift lengths. Optimising the crewing capabilities in the Blackwater corridor through changes to the crew deployment strategy and the temporary transfer of drivers from other regions has resulted in an improvement in the number of scheduled services
- A new interstate Intermodal service offering was implemented in October 2014, resulting in a 20% reduction in transit time for services East West, and 20% increase in services North South

The Rollingstock Maintenance transformation continued with ongoing focus on safe, reliable, available and low cost operations. Reform continued to gain traction with key aspects of facilities rationalisation, review of inspection periods for maintenance intervals, condition monitoring and on-train repair. More specifically:

- During the period, the workshop consolidation progressed with only the wheel shop remaining open in Townsville and the restructure of the Redbank Shops executed in line with the changing demand. Work under the Queensland Rail contract in Townsville ceased, with the Redbank contract for the overhaul of the QR passenger trains due to terminate at 30 June 2015. 133 employees have exited the workshops in the period as a result of the restructures
- Development continues for the proposed Wheel shop Centre of Excellence in Central Queensland. The wheel shop will consolidate the operations of three Wheel shops into one highly automated workshop in Central Queensland. Work continues on the development of the design and location options, moving to approvals to execute in 2HFY2015
- Condition monitoring technology allows the electronic inspection for assessing rollingstock condition, and is a key enabler for future transformation of the business including removal of Reliability Examinations and physical inspection tasks. During the period, activity focused on the development of the electronic examination approach, technology selection and completion in trials in Goonyella system. Implementation in the Central Queensland Coal Network has been planned in 2HFY2015. Early value has been extracted through use of the wayside images in early detection of fatigue that could have resulted in a pull-apart
- On-train repair will deliver the infrastructure and systems required to safely and sustainably deliver unit train maintenance, reducing requirements to break trains and shunt. During the period, various components of maintenance such as wheel change, brake and minor welding capability were trialled with a progressive rollout of methodology during 2HFY2015

Aurizon Operations continue to focus on growth and transformational projects. Significant project updates are as follows:

- The Whitehaven Implementation Project has focused on the delivery and testing of new rollingstock for the start-up of Whitehaven's Maules Creek mine. The first of the three new train sets was bought into service on the 28 December 2014, two months ahead of schedule. The second and third trains are planned to go into service in the first quarter of CY2015
- The construction of the Hexham Train Support Facility (TSF) is well advanced and will provide Aurizon existing and future fleet maintenance and provisioning capability, driving improvements in operational efficiency and effectiveness. The current expectation is that the commissioning of the full facility will occur in June quarter FY2015, with manageable delays arising from environmental approvals and latent conditions on site. The impact of the delays and latent conditions has seen an increase to the project budget of $36m (24%) from $150m
- The Overhead Line Equipment and Electric locomotives for Rolleston were commissioned in December with the first electric train successfully run on 15 December 2014
- The Freight Management Transport (FMT) project will provide a world class freight management system with end to end visibility across the supply chain replacing 18 legacy IT systems with a single integrated platform, resulting in standardised business processes across the organisation. FMT received Board approval in August 2014, with detailed planning on scope and design completed. Technical delivery schedule has been finalised resulting in a planned progressive rollout from mid CY2015 through CY2016

Other

Other includes miscellaneous activities such as non rollingstock asset sales and corporate overheads that have not been allocated to Network, Commercial & Marketing and Operations.

Other Summary

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**47**	**5**	**840%**	**11**
Operating Costs	(50)	(53)	6%	(57)
- Employee benefits expense	(30)	(31)	3%	(29)
- Consumables	(10)	(21)	52%	(25)
- Other Expenses	(10)	(1)	(900%)	(3)
EBITDA	(3)	(48)	94%	(46)
Depreciation and amortisation expense	(2)	(1)	(100%)	(3)
Underlying EBIT	**(5)**	**(49)**	**90%**	**(49)**

Other Metrics

	1HFY2015	1HFY2014	Variance %	2HFY2014
FTE	591	665	11%	671
Operating costs / Revenue	2.6%	2.8%	0.2ppt	3.2%

Variance Analysis – 1HFY2015 vs. 1HFY2014

The $44m increase in underlying EBIT was due to:

- A net increase in revenue of $42m principally comprising:
  - $40m net benefit on sale of Redbank maintenance facility
- A net decrease in operating costs of $3m principally comprising:
  - $11m decrease in consumables due to $5m in transformation benefits, lower levels of expensed project costs and tighter discretionary spend, partly offset by
  - $9m increase in other expenses which includes $7m in non-cash adjustments for the land rehabilitation provision

Variance Analysis – 1HFY2015 vs. 2HFY2014

The $44m increase in underlying EBIT was due to:

- A net increase in revenue of $36m principally comprising:
  - $40m net benefit on sale of Redbank maintenance facility
- A net decrease in operating costs of $7m principally comprising:
  - $15m decrease in consumables due to $8m in transformation benefits, lower levels of expensed project costs and tighter discretionary spend, partly offset by
  - $7m increase in other expenses which reflects $7m in non-cash adjustments for the land rehabilitation provision

OTHER ACTIVITIES

Enterprise Agreement Update

Following is an update of EA developments during 1H FY2015:

- Aurizon commenced negotiating with Unions in April 2013 on replacing the 14 Enterprise Agreements (EAs) that cover ~5,000 Queensland employees
- Aurizon applied to Fair Work Commission (FWC) to terminate all of the current 14 EAs in May 2014
- Employees were given the opportunity to vote on one of three proposed Aurizon EAs in October 2014:
  - Train crew and Transport Operations EA (unsuccessful)
  - Construction and Maintenance EA (unsuccessful)
  - Staff EA (successful, but union challenged the vote). FWC confirmed vote was valid on 21 January 2015 and Aurizon is implementing the new EA, effective 28 January 2015
- Full bench of FWC heard Aurizon's application to terminate the Queensland EAs in November 2014. The RTBU made an application to reopen the case so as to lead further evidence. This matter was heard on 10 February 2015 with no decision yet handed down

The RTBU took Protected Industrial Action (PIA) over the period 3-7 January, which involved a 24 hour stoppage in Jilalan and overtime bans in other coal train crew depots.

Bargaining is continuing with unions for the proposed Train crew and Transport Operations and Construction and Maintenance Enterprise Agreements.

Sustainability

Aurizon is committed to building a long-term sustainable business that delivers lasting value for its shareholders, customers, employees and communities.

The Sustainability team sits within the Commercial and Marketing function and has an enterprise-wide focus. This was a conscious decision to facilitate monitoring of long-term trends in Aurizon's industry and to drive consideration of sustainability within key investment decisions.

On 12 November 2014, Aurizon released its inaugural Sustainability Report, "Aurizon Beyond 2020". This report identifies the priority areas most important to Aurizon's business, including Safety, Operational Efficiency, Environmental Management and the Future of Coal. It details how Aurizon will take the safest, most efficient and least resource-intensive approach to the services it provides. It also details why Aurizon sees a robust future for Australian seaborne thermal coal underpinned by increasing global demand, Australia's higher quality thermal coal and increasingly efficient coal-fired power generation technology.

The Sustainability Report is available for download at: www.aurizon.com.au/sustainability.

The 2015 report will be released by November this year.

Following is an update of the core sustainable areas in respect of 1H FY2015:

- Safety

  Aurizon's LTIFR & TRIFR statistics show a slight downturn in trend over the first six months of this financial year following 5 years of continuous improvement, largely as a result of the tragic road accident on the Capricorn Highway in October 2014, which resulted in the death of two Aurizon employees and one contractor. This accident, in which an Aurizon vehicle was struck by a heavy vehicle, is currently under investigation by the Queensland Police Service. Aurizon is participating fully in the investigation.

  Aurizon remains fundamentally committed to Zero Harm, and maintains its focus on achieving a business in which there are no injuries. Aurizon is redoubling its efforts to meet the challenges by focussing on:

  - Accelerating the rationalisation, simplification and standardisation of safety systems & accreditations
  - Implementing an enterprise-wide health & wellbeing program
  - Implementing a standardised enterprise-wide training framework
  - Enhancing IT management system capability to accelerate business performance
  - Integrating casualty costs and lessons learnt in critical capital investment decisions

- Environment

Aurizon has continued to focus on working with internal and external stakeholders on improving its environmental performance and the implementation of our environmental sustainability strategy.

The results for its second submission to the Carbon Disclosure Project (CDP) were released in October 2014 with Aurizon's score improving from 73E to an 81D (100A being the best). This improvement reflects the company's management and ongoing efforts to be more transparent on issues relating to climate change. Initiatives implemented such as re-generative braking and driver assist software, the setting of energy reduction targets for Aurizon's locomotive fleet, along with its commitment to measuring and reporting GHG emissions also contributed. Aurizon is committed to continual improvement in the management of this key issue.

Aurizon has also, in Queensland, secured all of its remaining outstanding legislative obligations that relate to the provision of vegetative offsets associated with some of its major construction projects. Specifically, this relates to the securing of approximately 75 hectares of native vegetation offsets required as part of the Goonyella to Abbot Point Expansion Wiggins Island Balloon Loop projects. Furthermore, Aurizon is finalising the process to secure and enhance approximately 53 hectares of threatened wetland vegetation in New South Wales, on its own property, as part of its obligations for the development of the Hexham Train Support Facility.

- Our Communities

Aurizon continues to create long-term partnerships with the communities in which it operates based on an open dialogue and the pursuit of mutual benefits.

Aurizon is guided by a Community Engagement Charter designed to ensure consistency and accountable engagement practices across the organisation.

In 1H FY2015, Aurizon's Community Giving Fund provided grants to 19 charities across the country ranging from $1,000 to $20,000 in the areas of health and wellbeing; environment; community safety and education. The next round for Community Giving will open in March 2015. To understand more about Aurizon's community giving, visit www.aurizon.com.au/sustainability.

- Diversity

One of the key indicators of the success of Aurizon's ongoing transformational journey is the diversity of its workforce. Diversity has been a focus as it presents a rich source of innovation and creativity that builds organisational capability and performance.

A particular focus is gender diversity and Aurizon's MD&CEO Mr Lance Hockridge announced an aspirational target to increase the number of female employees across the company to 30% by 2019, from its current base of 14.2%. This bold target reflects our belief that Aurizon is no longer beholden to historical notions regarding the role of women within heavy industry.

The measurable objectives for gender diversity, agreed by the Aurizon Board for FY2015, (along with the 1HFY2015 outcomes):

- At least one female Director at all times (2 out of 9 or 22.9%)
- Minimum of 27% females in the Management Leadership Team (25% in 1HFY2015)
- Minimum of 35% of females in middle management roles (35.7% in 1HFY2015)
- Minimum of 33% females of trainees, apprentices and graduates (33.3% in 1HFY2015)

In recognition of Aurizon's efforts in its journey on creating and retaining a diverse workforce, it has received national awards both within and outside the industry including:

- The annual ' Workforce Diversity' Award from the Australasian Railway Association
- Two Inclusion and Diversity National Awards from the Australian Human Resources Institute (AHRI) for: 'Diversity Champion CEO' Award and the 'Gender Equity in the Workplace' Award

Aurizon is committed to growing its indigenous employee population which currently sits at 2.8%. As a signatory to the Australian Employment Covenant, Aurizon is growing opportunities for indigenous employment and also working on progressing its Indigenous employees through its leadership pipeline. To this end Aurizon recently held a Future leadership program for Indigenous supervisors.

Entities over which control was lost during the period

CRT Group Pty Ltd – 1 December 2014

Details of associate and joint venture entities

Entity	Country of incorporation	Ownership Interest	
		2014 %	2013%
Investment in associates			
Moorebank Industrial Property Trust	Australia	33	33
Aquila Resources Limited	Australia	15	-
Joint Ventures			
CHCQ	China – Hong Kong	15	15
Chun Wo/CRGL	China – Hong Kong	17	17
KMQR Sdn Bhd	Malaysia	30	30
ARG Risk Management Limited	Australia	50	50
QLM Pty Ltd	Australia	50	50
Rail Innovation Australia Pty Ltd	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 from the previous corresponding period.

HISTORICAL SEGMENT REVIEW

The below data is presented in the segment format previously used by Aurizon to allow comparison with prior year data. Aurizon will also provide data in this format for FY2015 results, however from FY16 onwards, data will be presented only in the functional format.

Underlying EBIT by Segment

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Network	218	217	-	195
Coal	204	187	9%	213
Iron Ore	46	50	(8%)	53
Freight	23	20	15%	14
Unallocated	(5)	(51)	90%	(47)
Group	**486**	**423**	**15%**	**428**

Network

The presentation of Network financials are unchanged from prior periods and therefore no additional disclosure is necessary.

Coal

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**970**	**958**	**1%**	**906**
- Above Rail	612	598	2%	617
- Below Rail	358	360	(1%)	289
Operating Costs	(681)	(683)	-	(608)
EBITDA	289	275	5%	298
EBITDA Margin	29.8%	28.7%	1.1ppt	32.9%
Depreciation and amortisation expense	(85)	(88)	3%	(85)
Underlying EBIT	**204**	**187**	**9%**	**213**
Underlying Operating Ratio	**79.0%**	**80.5%**	**1.5ppt**	**76.5%**

1H FY2015 vs 1H FY2014

The $17m, or 9% increase in underlying EBIT was largely due to:

- A net increase in revenue of $12m as previously discussed in the Commercial & Marketing section
- A net decrease in operating costs of $2m due to:
  - Transformation savings of $13m predominantly lower labour, fuel efficiency and maintenance, and
  - Lower fuel costs as a result of lower fuel prices (note there is also a reduction in revenue as a consequence of this)

  Offset by:
  - Incremental maintenance costs related to excessive rollingstock wheel wear in the Blackwater corridor
  - Salary and wage escalation
  - The impact of a derailment and dewirement in December
- $3m reduction in Depreciation associated with the reduction in rollingstock assets

1H FY2015 vs 2H FY2014

The $9m, or 4% reduction in underlying EBIT was largely due to:

- A net increase in revenue of $64m as previously discussed in the Commercial & Marketing section
- A net increase in operating costs of $73m, or 12% predominantly due to:
  - $61m increase in access costs due to the timing of recognising the access costs (and below rail revenue) between 1H and 2H in FY2014

Iron Ore

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**175**	**190**	**(8%)**	**188**
Operating Costs	(110)	(120)	8%	(119)
EBITDA	65	70	(7%)	69
EBITDA Margin	37.1%	36.8%	0.3ppt	36.7%
Depreciation and amortisation expense	(19)	(20)	5%	(16)
Underlying EBIT	**46**	**50**	**(8%)**	**53**
Operating Ratio	**73.7%**	**73.7%**	-	**71.8%**

1H FY2015 vs 1H FY2014

The $4m, or 8% decrease in underlying EBIT was largely due to:

- A net decrease in revenue of $15m as previously discussed in the Commercial & Marketing section, partly offset by
- A net decrease in operating costs of $10m, or 8% principally relating to the 14% reduction in volumes and $3m in transformation savings

1H FY2015 vs 2H FY2014

The $7m, or 13% reduction in underlying EBIT was largely due to:

- A net decrease in revenue of $13m as previously discussed in the Commercial & Marketing section
- A net decrease in operating costs of $9m, or 8% principally relating to the 13% reduction in volumes
- A net increase in depreciation of $3m

Freight

($m)	1HFY2015	1HFY2014	Variance %	2HFY2014
Total Revenue	**509**	**550**	**(7%)**	**479**
Operating Costs	(461)	(501)	8%	(440)
EBITDA	48	49	(2%)	39
EBITDA Margin	9.4%	8.9%	0.5ppt	8.1%
Depreciation and amortisation expense	(25)	(29)	14%	(25)
Underlying EBIT	**23**	**20**	**15%**	**14**
Operating Ratio	**95.5%**	**96.4%**	**0.9ppt**	**97.1%**

1H FY2015 vs 1H FY2014

The $3m, or 15% increase in underlying EBIT was largely due to:

- A net decrease in Bulk and Intermodal revenue of $41m or 7%, as previously discussed in the Commercial & Marketing section, offset by:
- A net decrease in operating costs of $40m or 8%:
  - Transformation savings of $23m
  - Incremental costs savings associated with the lower volumes
  - Cost reductions related to the sale of CRT Industrial effective 1 December 2014
- A net decrease in depreciation of $4m

1H FY2015 vs 2H FY2014

The $9m, or 64% improvement in underlying EBIT was largely due to:

- A net increase in Bulk and Intermodal revenue of $30m, as previously discussed in the Commercial & Marketing section, partly offset by:
- A net increase in operating costs of $21m, or 5%:
  - $24m of incremental costs associated with the increased external revenue