Aurizon Holdings Limited

Appendix 4D

Results for announcement to the market on 15 February 2016

For the six month period ended 31 December 2015

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This document should be read in conjunction with the Financial Report, including any disclaimer.

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1H FY2016 IN REVIEW

Financial Headlines

($m)	1H FY2016	1H FY2015	Variance %
Total revenue	1,758	1,965	(11%)
EBIT – statutory	(23)	486	(105%)
Adjustments - Asset impairments	(426)	-	
EBIT – underlying	403	486	(17%)
NPAT – statutory	(108)	308	(135%)
NPAT – underlying	237	308	(23%)
Interim dividend (cps)	11.3	10.1	12%
Earnings per share – underlying (cps)	11.2	14.4	(22%)
Return on invested capital (ROIC)	8.8%	9.4%	(0.6ppt)
EBITDA margin – underlying (%)	38.9%	37.6%	1.3ppt
EBIT margin – underlying (%)	22.9%	24.7%	(1.8ppt)
Operating ratio (OR) – underlying (%)	77.1%	75.3%	(1.8ppt)
Coal volumes (mt)	104.4	109.0	(4%)
Iron Ore volumes (mt)	12.5	12.9	(3%)
Freight volumes (mt)	22.0	24.1	(9%)
Net operations opex / NTK ($/’000 NTK)	35.2	35.4	1%
Gearing (net debt / net debt + equity)	35.4%	30.7%	(4.7ppt)
People (FTE)	6,455	6,977	7%

Highlights

- Underlying EBIT down $83m or 17% to $403m:
  - $75m impact due to FY2015 revenue contract expiry and asset disposals (Redbank, TSC, CRT & QR) as previously announced
  - $47m impact due to 5% lower Above Rail volumes
  - $12m decrease in revenue quality from a mix shift towards lower yielding contracts and a reduction in incentive payments
  - $56m increase in other costs including $16m employee share gift and $18m QNI doubtful debts provision; partly offset by
  - $56m benefit from transformation initiatives
  - $51m increase in Below Rail revenue reflecting access revenues based on the QCA’s Consolidated Draft Decision UT4 (CDD)
- Excluding Redbank and previously announced items, underlying EBIT down 2% against 5% volume decline
- Statutory EBIT $23m loss includes $426m of asset impairments
- OR and ROIC impacted by lower volumes and revenue decline at 77.1% (up 1.8ppts) and 8.8% (down 0.6ppts) respectively
- Dividend payout ratio of 100% maintained, applied to underlying NPAT
- Interim FY2016 dividend of 11.3cps (70% franked), a 12% increase
- 42% of current buy-back completed to date, 64m shares outstanding

Transformation

- Transformation program started before the IPO and continues to deliver sustainable value:
  - $56m benefits delivered in 1HFY2016, $308m of cumulative benefits from 1 July 2013 to 31 December 2015
  - EAs and technology key enablers of future productivity improvements
  - FY2016-2018 transformation target set at $380m, with further initiatives being identified to accelerate program

Outlook

- In light of recent events, underlying EBIT guidance is being provided for FY2016 at $845m - $885m, key assumptions as follows:
  - Above Rail – coal volumes 204-209mt, stable Freight and Iron Ore volumes
  - Below Rail – UT4: no material change from latest Consolidated Draft
  - No material deterioration in trading environment
  - No major weather impacts
- FY2016 OR target unlikely to be met, FY2017 OR target challenging
- FY2018 OR target remains 70% underpinned by transformation, assuming volumes consistent with FY2016
- Capex spend reduced by a total of $150m-$200m over the next 18-months

CONSOLIDATED RESULTS

1. Half on Half Comparison

Financial Summary

($m)		1H FY2016	1H FY2015	Variance %	2H FY2015
Total revenue		1,758	1,965	(11%)	1,815
Operating costs		(1,075)	(1,226)	12%	(1,065)
Employee benefits expense		(481)	(539)	11%	(470)
Energy and fuel		(134)	(163)	18%	(128)
Track access		(162)	(172)	6%	(156)
Consumables		(260)	(327)	20%	(287)
Other expenses		(38)	(25)	(52%)	(24)
EBITDA	**- underlying**	**683**	**739**	**(8%)**	**750**
	- statutory	257	739	(65%)	750
Depreciation and amortisation expense		(280)	(253)	(11%)	(266)
EBIT	**- underlying**	**403**	**486**	**(17%)**	**484**
	- statutory	(23)	486	-	484
Net finance costs		(70)	(68)	(3%)	(67)
Income tax expense	- statutory	(15)	(110)	86%	(121)
NPAT	**- underlying**	**237**	**308**	**(23%)**	**296**
	- statutory	(108)	308	-	296
Earnings per share[1]	**- underlying**	**11.2**	**14.4**	**(22%)**	**13.9**
	- statutory	(5.1)	14.4	(135%)	13.9
Return on invested capital (ROIC)[2]		8.8%	9.4%	(0.6ppt)	9.7%
Operating ratio		**77.1%**	**75.3%**	**(1.8ppt)**	**73.3%**
Cash flow from operating activities		522	686	(24%)	830
Interim / Final dividend per share (cps)		11.3	10.1	12%	13.9
Gearing (net debt / net debt + equity)		35.4%	30.7%	(4.7ppt)	30.2%
Net tangible assets per share ($)		2.8	3.0	(7%)	3.0

Other Operating Metrics

	1H FY2016	1H FY2015	Variance %	2H FY2015
Revenue / NTK ($/’000 NTK)	48.2	52.7	(9%)	51.7
Labour costs / Revenue[3]	25.5%	26.8%	1.3ppt	24.6%
NTK / FTE (MNTK)	11.3	10.7	6%	10.2
Operations net opex / NTK ($/’000 NTK)	35.2	35.4	1%	34.3
NTK (bn)	36.5	37.3	(2%)	35.1
Tonnes (m)	138.9	146.0	(5%)	135.2

Underlying EBIT by Segment

($m)	1H FY2016	1H FY2015	Variance %	2H FY2015
Below Rail - Network	**245**	**218**	**12%**	**266**
Above Rail	**185**	**273**	**(32%)**	**279**
Commercial & Marketing	1,468	1,595	(8%)	1,484
Operations	(1,283)	(1,322)	3%	(1,205)
Corporate Overhead (Unallocated)	**(27)**	**(5)**	**-**	**(61)**
Group	**403**	**486**	**(17%)**	**484**

[1] Calculated on weighted average number of shares on issue – 2,109m in 1H FY2016 and 2,136m in 1H FY2015
[2] ROIC is defined as underlying rolling twelve month EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve months average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles
[3] Excludes $16m of redundancy costs ($13m in 1H FY2015) and $16m of employee share gift cost

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 purpose of managing and assessing the financial performance of the business. Underlying earnings is derived by adjusting statutory earnings for significant items as noted in the following table:

($m)	1H FY2016	1H FY2015	FY2015
Underlying EBIT	**403**	**486**	**970**
Significant Items - impairments			
Investment in Associates	(153)	-	-
Rollingstock	(148)	-	-
Strategic infrastructure projects	(125)	-	-
Statutory EBIT	**(23)**	**486**	**970**
Net finance costs	(70)	(68)	(135)
Statutory PBT	(93)	418	835
Taxation expense	(15)	(110)	(231)
Statutory NPAT	**(108)**	**308**	**604**

Aurizon reviewed the carrying value of its asset portfolio as at 31 December 2015 and has recognised a total impairment of $426m as noted below:

› Investment in associate $153m – impairment to the carrying value of the investment in Aquila Resources Limited (Aquila) to reflect the current market outlook. $75m remains on the balance sheet principally representing cash

› Rollingstock $148m – reduction in rollingstock due to surplus fleet and inventory arising from productivity and efficiency improvements and lower volume outlook

› Strategic infrastructure investment $125m – $83m greenfield feasibility study costs for the West Pilbara Infrastructure Project (WPIP), $30m Galilee Basin brownfield expansion feasibility costs for the expansion of the CQCN and $12m other costs. The value of both projects remaining on the balance sheet is nil

Group Performance Overview

Underlying EBIT decreased 17% to $403m due to a 5% decline in above rail volumes in addition to the impact of items recognised in the previous period. This includes $40m net benefit on sale of Redbank and a $35m reduction in EBIT associated with the disposal of CRT, the reduction in TSC and the end of the QR maintenance contract.

Excluding the impact of these items, underlying EBIT decreased 2% as growth in below rail earnings and $56m in sustainable transformation benefits was more than offset by the impact of the 5% above rail volume decline. Underlying EBIT of $403m also includes a $16m cost for shares gifted to employees in recognition of the company achieving an operating ratio of 75%, and an $18m provision for doubtful debts relating to Queensland Nickel Pty Ltd (QNI).

In 1H FY2016 Aurizon delivered sustainable benefits of $56m through the core transformation programs, with total cumulative benefits delivered since 1 July 2013 to 31 December 2015 of $308m. 1H FY2016 operating ratio (OR) and return on invested capital (ROIC) have been impacted by lower volumes and revenue decline at 77.1% (up 1.8ppts) and 8.8% (down 0.6ppts) respectively. In light of the current revenue outlook, FY2016 and FY2017 targets are challenging, however the FY2018 OR target remains 70% (assuming stable volumes) with the FY2016 – FY2018 transformation target set at $380m, with further cost-out opportunities being identified.

Depreciation increased $27m principally due to the full commissioning of the Wiggins Island Rail Project (WIRP) and the Train Support Facility (Hexham) in the Hunter Valley.

Statutory EBIT was a loss of $23m reflecting the impact of $426m in asset impairments for the period as detailed above.

Variance Analysis – 1H FY2016 vs. 1H FY2015

A detailed analysis of the half on half Group EBIT movements is below:

- A net impact of $75m due to FY2015 revenue contract expiry and asset disposals
  - $40m reduction reflecting the net benefit on sale of Redbank
  - $35m reduction associated with CRT, TSC and QR maintenance (as previously noted)
- An impact of the $16m employee share gift
- A net decrease of $47m in Above Rail revenue from lower volumes (net of access and fuel):
  - $25m decrease in Coal due to 4% lower volumes
  - $16m decrease in Bulk due to 6% lower volumes and customer/product mix
  - $4m decrease in Iron Ore due to a 3% reduction in volumes following expiry of the Mineral Resources contract in 1H FY2015
  - $2m decrease in Intermodal reflecting the expiry of a key customer contract and a 1% reduction in TEUs
- A net decrease of $12m in revenue quality principally from a reduction in incentive payments and a customer/product mix shift, partially offset by CPI rate escalations
- A net increase of $51m in Below Rail revenue reflecting access revenues based on the Consolidated Draft Decision (UT4) (CDD)
- A benefit of $56m from transformation initiatives:
  - $46m from Operations including labour and fleet productivity improvements, rollingstock maintenance transformation, consumables savings and improved fuel efficiency
  - $10m from Support including reductions in labour, professional services, lease costs and travel
- A net increase of $40m in operating costs and other expenses including:
  - $27m increase in depreciation principally due to commissioning of WIRP and Hexham
  - $18m provision for doubtful debts (QNI)
  - $16m in labour escalation following the implementation of the EAs, partially offset by:
  - $17m volume related reduction in consumables
  - $7m reduction in non-cash provisions

Variance Analysis – 1H FY2016 vs. 2H FY2015

Underlying EBIT decreased $81m or 17% due to:

- A $37m reduction associated with TSC and QR maintenance contracts (as previously noted)
- An impact of the $16m employee share gift
- A net increase of $30m in Above Rail revenue from higher volumes (net of access and fuel):
  - $12m increase in Coal revenue due to 2% increase in volumes
  - $10m increase in Intermodal revenue due to 9% increase in TEUs
  - $10m increase in Bulk revenue due to 9% increase in volumes mainly due to a strong sugar season
  - $2m decrease in Iron Ore revenue due to a 2% reduction in volumes due to Top Iron ceasing railing
- A net decrease of $29m in revenue quality principally from a reduction in incentive payments and a customer/product mix shift, partially offset by CPI rate escalations
- A net increase of $3m in Below Rail revenue reflecting access revenues based on the CDD
- A benefit of $34m from transformation initiatives:
  - $31m from Operations including labour and fleet productivity improvements, rollingstock maintenance transformation, consumables savings and improved fuel efficiency
  - $3m from Support including reductions in labour, professional services, lease costs and travel
- A net increase of $66m in operating costs and other expenses including:
  - $18m provision for doubtful debts (QNI)
  - $16m increase in depreciation principally due to commissioning of WIRP and Hexham
  - $16m in labour escalation following the implementation of the EAs
  - $7m increase in Below Rail fuel and energy costs

2. Other Financial Information

Balance Sheet Summary

($m)	31 December 2015	30 June 2015	31 December 2014
Total current assets	844	934	926
Property, plant & equipment (PP&E)	9,693	9,900	9,692
Other non-current assets	395	502	479
Total Assets	**10,932**	**11,336**	**11,097**
Total current liabilities	(625)	(845)	(706)
Total borrowings	(3,411)	(2,983)	(3,038)
Other non-current liabilities	(960)	(1,002)	(937)
Total Liabilities	**(4,996)**	**(4,830)**	**(4,681)**
Net Assets	**5,936**	**6,506**	**6,416**
Gearing (net debt / net debt plus equity)	**35.4%**	**30.2%**	**30.7%**

Balance Sheet Movements – 31 December 2015 vs. 30 June 2015

Total current assets have decreased by $90m largely due to:

› Reduction in cash and cash equivalents of $12m
› Reduction in trade and other receivables of $57m reflecting collection of Below Rail Take or Pay accrued as at 30 June 2015 and provision for QNI doubtful debts of $18m
› Reduction in assets classified as held for sale of $12m, following the disposal of surplus land in 1H FY2016

Total non-current assets have decreased by $314m largely due to:

› Net decrease in PP&E of $207m reflects the impairment of rollingstock and strategic projects together with asset disposals which more than offset net capital expenditure
› Decrease in investments of $150m, mainly related to the impairment of the Aquila investment ($153m)

Other current liabilities have decreased by $220m principally due to:

› Decrease in trade and other payables of $81m relating to the reduction in capital accruals and lower operating spend
› Decrease in current tax liabilities of $76m on payment of FY2015 liabilities
› Decrease in provisions of $64m due to improved management of annual leave and long service provisions under the new EAs, lower FTE and lower remuneration provisions

Total borrowings increased by $428m to fund the capital allocation program. This included capital expenditure of $418m, the on market share buyback of $140m and dividends of $295m reflecting the 100% dividend payout ratio for the FY2015 final dividend.

Gearing (net debt / net debt plus equity) is now 35.4%, which is consistent with current ratings agency investment grade metrics.

Cash Flow Summary

($m)	1H FY2016	2H FY2015	1H FY2015
Statutory EBITDA	257	750	739
Working capital and other movements	(47)	55	(48)
Non-cash adjustments - impairments	426	-	-
Cash from operations	**636**	**805**	691
Interest received	1	5	4
Income taxes refunded / (paid)	(115)	20	(9)
Net cash inflow from operating activities	**522**	**830**	686
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment (PP&E)	28	31	139
Payments for PP&E & intangibles	(418)	(550)	(533)
Interest paid on qualifying assets	(8)	(9)	(19)
Net (payments for) / distributions from investment in associates	2	(6)	(214)
Net cash (outflow) from investing activities	**(396)**	**(534)**	(627)
Cash flows from financing activities			
Net proceeds from borrowings	388	(27)	130
Payment for share buy-back and share based payments	(168)	(9)	(72)
Interest paid	(63)	(66)	(62)
Dividends paid to Company shareholders	(295)	(214)	(182)
Net cash (outflow) from financing activities	**(138)**	**(316)**	(186)
Net (decrease) in cash	**(12)**	**(20)**	(127)

Cash Flow Movements - 1H FY2016 vs. 1H FY2015

Net cash inflow from operating activities decreased by $164m or 24% to $522m:

- $56m reduction in underlying EBITDA (excludes impact of $426m non-cash impairment)
- $106m increase in income taxes paid

Net cash outflow from investing activities decreased by $231m or 37% to $396m:

- $115m decrease in capital expenditure due to the completion of major infrastructure projects including WIRP, Hexham, Whitehaven rollingstock and the Rolleston electrification
- $216m decrease in net payments for investments in associates
- Offset by $111m decrease in proceeds on sale of assets

Net cash outflow from financing activities decreased by $48m or 26% to $138m due to:

- Increase in borrowings to fund capital allocations

Cash Flow Movements - 1H FY2016 vs. 2H FY2015

Net cash inflow from operating activities decreased by $308m or 37% to $522m:

- $169m (21%) decline in cash from operations is due to $67m reduction in underlying EBITDA, and $102m increase in working capital and other movements
- $135m increase in income taxes paid

Net cash outflow from investing activities decreased by $138m or 26% to $396m:

- $132m decrease in capital expenditure due to the completion of major infrastructure projects including WIRP, Hexham, Whitehaven rollingstock and the Rolleston electrification

Net cash outflow from financing activities decreased by $178m or 56% to $138m due to:

- Increase in borrowings to fund capital allocations

Dividend

The Board has set Aurizon's dividend payout ratio range at 70-100% of NPAT

- In respect of the current half year, and taking into account the trading outlook and cash requirements of the business, the Board has declared an interim dividend of 11.3cps (70% franked) based on a payout ratio of 100% of underlying NPAT (i.e. after adjusting for significant items)
- Based on current expectations, the FY2016 final dividend will be franked between 70%-100%

The relevant interim dividend dates are:

- 26th February 2016 – ex-dividend date
- 1st March 2016 – record date
- 29th March 2016 – payment date

Share Buy-back

On 11 November 2014, Aurizon announced its intention to undertake an on-market buy-back of up to 107m shares (5% of its issued share capital as at November 2014) over a 12 month period. This program was extended for another 12 months as announced on 12 November 2015.

Since the commencement of the on-market buy-back program, the company has acquired 43.9m shares at a total consideration of $209m of which 28.7m shares were acquired at a total consideration of $140m during 1H FY2016. This represents 41% of the total authorised buy-back.

The impact of the buy-back is excluded from the calculation of EPS for remuneration purposes.

Funding

The Group re-priced and extended the existing Aurizon Network $490m bank debt facility in December 2015 at competitive margins, with maturity extended to FY2022

- Interest cost on drawn debt is now 4.7% (FY2015 - 4.9%)
- Liquidity as at 31 December 2015 $613m (undrawn facility + cash)
- Weighted average debt maturity profile average tenor increased to 4.5 years (FY2015 - 4.3 years)[4]
- Approximately 70% of interest rate exposure is fixed
- Group gearing is now 35.4% (FY2015 - 30.2%) - Below Rail broadly consistent with QCA gearing assumptions
- Board is committed to maintaining investment grade credit rating
- Credit rating metrics are at upper end of range

Tax

Income tax expense for 1H FY2016 was $15m. The underlying effective[5] tax rate for 1H FY2016 was 29%. The underlying cash[6] tax rate for 1H FY2016 was 10.8% which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2016 is expected to be in the range of 28-30% and the underlying cash tax rate is expected to be in the range of 20-23%. The cash tax rate is expected to be higher for FY2016 than 1H FY2016 as a higher portion of key tax adjustments are attributable to 1H FY2016 rather than 2H FY2016.

[4] Weighted average debt maturity profile does not include working capital facility
[5] Underlying effective tax rate = income tax expense excluding the impact of significant items / underlying consolidated profit before tax
[6] Underlying cash tax rate = cash tax payable excluding the impact of significant items / underlying consolidated profit before tax

SEGMENT REVIEW

Above Rail Summary

'Above Rail' combines the Commercial & Marketing and Operations functions and represents the haulage operations for Aurizon's Coal, Freight and Iron Ore customers. It also includes an allocation of attributable corporate costs. The profit and loss statements for Operations and Commercial & Marketing are provided in the appendix.

($m)	1H FY2016	1H FY2015	Variance %	2H FY2015
Total revenue	**1,612**	**1,830**	**(12%)**	**1,653**
Coal	950	970	(2%)	924
Above Rail	577	612	(6%)	575
Below Rail	373	358	4%	349
Freight	397	509	(22%)	410
Iron Ore	163	175	(7%)	163
Other	102	176	(42%)	156
Operating Costs	**(1,274)**	**(1,412)**	**10%**	**(1,219)**
Employee benefits expense	(399)	(443)	10%	(391)
Energy and fuel	(71)	(112)	37%	(72)
Track access	(519)	(497)	(4%)	(476)
Consumables	(262)	(351)	25%	(282)
Other expenses	(23)	(9)	-	2
EBITDA	**338**	**418**	**(19%)**	**434**
Depreciation and amortisation expense	(153)	(145)	(6%)	(155)
Underlying EBIT	**185**	**273**	**(32%)**	**279**

Above Rail Operating Metrics

	1H FY2016	1H FY2015	Variance %	2H FY2015
Coal				
Total tonnes hauled (m)	104.4	109.0	(4%)	102.2
Queensland	82.0	87.7	(6%)	80.6
NSW	22.4	21.3	5%	21.6
% Volumes under new form contracts	80%	63%	17.0ppt	65%
Contract utilisation	93%	94%	(1.0ppt)	90%
Total NTK (bn)	25.0	25.2	(1%)	23.9
Queensland	20.9	21.8	(4%)	20.2
NSW	4.1	3.4	21%	3.7
Average haul length (Km)	240	231	4%	235
Total revenue / NTK ($/'000 NTK)	38.0	38.5	(1%)	38.7
Above rail revenue / NTK ($/'000 NTK)	23.1	24.3	(5%)	24.1
Below rail revenue / NTK ($/'000 NTK)	14.9	14.2	5%	14.6
Above rail revenue / GCNTK ($/'000 NTK)	21.0	22.5	(7%)	20.8
Freight				
Total tonnes hauled (m)	22.0	24.1	(9%)	20.3
Total TEUs ('000s)	192.9	195.3	(1%)	176.7
Total NTK (bn)	6.5	6.8	(4%)	6.1
Total revenue / NTK ($/'000 NTK)	61.1	74.9	(18%)	67.2
Iron Ore				
Total tonnes hauled (m)	12.5	12.9	(3%)	12.7
Contract utilisation	104%	105%	(1.0ppt)	107%
Total NTK (bn)	5.0	5.3	(6%)	5.1
Total revenue / NTK ($/'000 NTK)	32.6	33.0	(1%)	32.0
Average haul length (Km)	399	411	(3%)	399
Total Above Rail tonnes hauled (m)	138.9	146.0	(5%)	135.2

	1H FY2016	1H FY2015	Variance %	2H FY2015
Operations				
Net opex[7] / NTK ($/'000 NTK)	35.2	35.4	1%	34.3
Net opex[8] / NTK (excluding access) ($/'000 NTK)	20.9	22.1	5%	20.8
Total tonnes hauled (m)	138.9	146.0	(5%)	135.2
Net tonne kilometres - NTK (bn)	36.5	37.3	(2%)	35.1
FTE (monthly average)	5,104	5,435	6%	5,368
NTK / FTE	14.2	13.7	4%	13.1
NTK / Active loco (monthly)[9]	11.4	10.5	9%	10.2
Active locos (as at 31 December / 30 June)	514	592	13%	567
NTK / Active wagon (monthly)	0.45	0.43	5%	0.42
Active wagons (as at 31 December / 30 June)	13,082	13,731	5%	13,960
Average payload coal (tonnes)	8,245	8,121	2%	8,261
Velocity (km/hr)[10]	29.7	29.4	1%	29.5
Fuel consumption (l/d GTK)	3.13	3.22	3%	3.16

Above Rail Performance Overview

Above Rail underlying EBIT decreased 32% ($88m) to $185m due to a 5% volume decline and the impact associated with the disposal of CRT, the reduction in TSC and the end of the QR maintenance contract. EBIT also included the impact of the $13m employee share gift and the $18m QNI doubtful debts provision, partly offset by the delivery of transformation benefits. Excluding the impact of CRT, TSC and QR maintenance underlying EBIT was down 22%.

The operational transformation program continues to deliver, with $53m in sustainable benefits realised during the period. This was more than offset by the 5% decline in volumes, reflecting the high fixed cost nature of the business and the sensitivity to Above Rail volumes. Many benefits are yet to be fully realised from the recently implemented Queensland Enterprise Agreements (EAs) however, early positive examples from the EAs include significantly reduced overtime, traincrew cancellations, car driving hours and car kilometres.

Operations delivered volume of 138.9mt in 1H FY2016, a 3% improvement versus 2H FY2015, but a 5% decline compared to 1H FY2015. On 23rd December 2015 Aurizon updated the market on a number of business impacts associated with current trading conditions and a challenging near-term outlook for Australian commodities, particularly coal and iron ore. This included a revision to Above Rail's coal volume guidance range for FY2016 of 202 – 212mt (previously 210 – 220mt) a reduction of approximately 3-4%.

Coal volumes were down 4.6mt or 4% to 104.4mt, with Queensland volumes down 6% at 82.0mt reflecting the continued ramp-up of BMA Rail and the expiry of the Anglo German Creek Contract in November 2014. NSW volumes were 5% higher at 22.4mt reflecting the ramp-up of the Whitehaven contract which commenced 1 March 2015. Coal volumes hauled under new form contracts increased 17ppts to 80%, reflecting the commencement of the BMA Blackwater contracts and early conversion of the Anglo Dawson contract.

Despite the challenging macro environment, Aurizon's coal business remains resilient with 68% of Above Rail 1H FY2016 volumes contracted to investment grade counterparties, and a weighted average remaining contract length as at 31 December 2015 of 10.4 years11. No material haulage contracts are due to expire until FY2021. The only current out of cycle negotiation is with Cockatoo Coal (under voluntary administration).

Freight volumes declined 2.1mt or 9% to 22.0mt with Bulk volumes down 6% and Intermodal TEUs (Twenty-Foot Equivalent Units) down 1%. Bulk volumes were impacted by reduced TSC services, and lower nickel, alumina, lead and mineral concentrate volumes reflecting the challenging commodity price environment. This was partially offset by improvements in agricultural throughput with strong sugar and grain volumes. Intermodal volumes were impacted by the disposal of CRT and the loss of the Cement Australia contract.

Iron Ore volumes declined 3% as expected, reflecting the end of the Mineral Resources contract in 1H FY2015.

[7] 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

[8] Net opex / NTK (excluding 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)

[9] For FY2016, the calculation basis for NTK / active loco and NTK / active wagon will change to be calculated on a per day basis from a monthly basis, as it allows for a more accurate comparison between different time periods and will no longer be influenced by the number of days in a month (i.e. short months to long months)

[10] As flagged in FY2015, Aurizon have transitioned to report velocity – Km/hr (train speed) in lieu of average turnaround time to remove the influence of the mix of haul and mine/port combinations on the metric

[11] Includes contracted tonnes where extensions exist such as BMA (multiple mines), Anglo American (Dawson), Glencore (Newlands Collinsville) and New Hope (multiple mines)

Above Rail Variance Analysis – 1H FY2016 vs. 1H FY2015

Revenue

The $218m, or 12% decrease in revenue can be attributed to:

- Coal revenue decreased by $20m (2%):
  - $35m (6%) decrease in Above Rail revenue due to volumes being 4% lower, a reduction in pass-through fuel revenue due to lower diesel prices and lower revenue quality due to reduced incentive payments and customer haul mix. Removing the impact of fuel (pass through), Above Rail revenue decreased 4% consistent with the volume decline
  - $15m (4%) increase in Below Rail revenue reflecting pass through of the higher transitional tariffs
- Freight revenue decreased by $112m (22%):
  - $68m or 61% of the decline is due to the impact from the sale of CRT and the commencement of the new TSC contract
  - $44m or 39% of the decline is due to the 6% reduction in Bulk volumes, lower pass-through fuel revenue and a decrease in revenue quality due to customer haul mix
- Iron Ore revenue decreased $12m (7%) principally due to lower pass-through fuel revenue and marginal volume decline offset by improved revenue quality
- Other revenue decreased $74m (42%):
  - $30m or 41% of the decline is due to the impact from the termination of the QR rollingstock maintenance contract
  - $44m or 59% of the decline is due to the underlying business performance:
    - $27m lower internal revenue for below rail maintenance services provided to Below Rail as infrastructure projects mature (offset by lower consumables)
    - $17m lower principally due to asset sales including rollingstock

Costs

The $138m, or 10% improvement in operating costs can be attributed to the following key savings:

- $63m reduction in labour and consumables from expiry of the QR Maintenance contract and the CRT disposal
- $53m in transformation benefits principally labour savings (inclusive of $7m corporate savings allocation)
- $36m reduction in other costs related to the 5% volume decline and a reduction in support costs
- $30m in fuel costs due to the 18% reduction in diesel price ($1.24 to $1.02/litre)
- $27m reduction in labour and consumables from reduced internal services to Below Rail (offset by lower revenue as noted above)
- $22m increase in track access due to higher access charges partly offset by lower volumes
- $18m provision for doubtful debts (QNI)
- $15m labour escalation largely due to the agreed 4% uplift under the new EAs
- $13m cost relating to employee share gift

Depreciation increased $8m, or 6% principally due to new capital investment including the Hexham train provisioning facility in the Hunter Valley and overhauls of bulk wagon fleet completed in 2H FY2015.

Above Rail Variance Analysis – 1H FY2016 vs. 2H FY2015

Revenue

The $41m, or 2% decrease in revenue can be attributed to:

- Coal revenue increased by $26m (3%) due to the increase in Below Rail revenue reflecting higher transitional tariffs and 2% higher volumes
- Freight revenue decreased by $13m (3%) due to the expiry of the TSC contract; offset by an increase in the underlying business including increase in Intermodal revenue driven by higher volumes and an increase in Bulk revenue principally due to higher seasonal volumes
- Iron Ore revenue was flat despite 2% lower volumes, with escalation offsetting volume impact
- Other revenue decreased $54m (35%) principally due to lower rollingstock maintenance revenue following the expiry of Queensland Rail maintenance contracts and reduced external property revenue and asset sales of $18m

Costs

The $55m, or 5% increase in operating costs can be attributed to the following key savings:

- $43m increase in track access due to higher charges
- $22m increase in other volumes and ancillary costs, including the impact of lower Moorebank revaluation
- $18m provision for doubtful debts (QNI)
- $14m labour escalation largely due to the agreed 4% uplift under the new EAs
- $13m cost relating to employee share gift, partially offset by;
- $34m in transformation benefits principally labour savings (inclusive of corporate savings allocation)
- $16m savings in labour and consumables from expiry of QR maintenance contract
- $12m reduction in redundancy payments

Coal market update

The strength of Australian coal supply can be seen in further increases in Australia's share of both the metallurgical and thermal coal seaborne export markets for the 2015 calendar year. Australian metallurgical coal supply dominance was reinforced as Australia's seaborne market share is expected to increase to 65%[12] (up 3.2ppt). Meanwhile, Australia's seaborne thermal coal market share is expected to increase to over 22%[13] (up 0.8ppt) with high cost seaborne exporters conceding market share to Australia including USA (Metallurgical) and Indonesia (Thermal).

Coal

Aurizon has continued to work closely with customers, employing a range of logistical and commercial strategies in response to the challenging market conditions. A key focus for all hauls continues to be identifying and executing cost saving initiatives and increasing operational efficiency through Aurizon's Integrated Operating Plan.

Aurizon estimates that approximately 74% of volumes hauled, producers are cash cost positive or neutral based on current14 commodity prices and $0.70 AUD/USD. However, cash cost is only one factor considered as part of a customer risk evaluation with other factors including credit rating, mine expandability, mine life and portfolio fit. Of Aurizon's coal customers 68% (by volume) are investment grade credit rated, with 27% from a single major customer.

Contract update

There are no material haulage contracts due to expire until FY2021, with weighted average remaining contract length as at 31st December 2015 10.4 years[15] (QLD 11.0 years, NSW 7.0 years). Cockatoo Coal, which is under voluntary administration, is the only contract currently under out of cycle negotiation. As at 1H FY2016, 80% of volumes railed were under New Form contracts, with 96% of contracts expected to be new form by FY2018 (based on contracted volumes). Contracts continue to be executed in the current environment to secure long-term capacity, in line with prior terms and meeting or exceeding hurdle rates. Other developments include:

› The new long-term performance-based contract with BMA/BMC commenced on 1 July 2015 for its Blackwater corridor mines, representing approximately a third of the BMA/BMC portfolio volumes. The new Goonyella corridor contracts commence 1 July 2016
› Executed a performance based contract with Syntech Resources to haul 1.7mtpa from its Cameby Downs mine for a 4 year contract
› Executed a 12 month extension with Yancoal to haul up to 2.6mt from its Duralie mine

[12] Wood Mackenzie Coal Markets (2016)
[13] Wood Mackenzie Coal Markets (2016)
[14] Based on an estimated blend of contract and spot pricing and FX of $0.70 AUD/USD as of January 2016
[15] Includes contracted tonnes where extensions exist such as BMA (multiple mines), Anglo (Dawson), Glencore (Newlands Collinsville) and New Hope (multiple mines)

Freight

Aurizon's Freight business includes haulage of Bulk commodities in Queensland (East) and Western Australia (West) and Intermodal containerised freight and logistical solutions across Australia.

Bulk

Commodity prices continue to be depressed and with increased competition from surplus road capacity. As a result, pressure remains high to review, or renew on more favourable commercial terms to align with market conditions.

1H FY2016 new agreements and renewals:

› The Transport Services Contracts (TSC) were renewed with the Queensland Government, to deliver more than 900 regional freight and livestock rail services to the end of December 2017. FY2016 revenue is expected to be in the order of $45m, some $65m lower than FY2015 revenues as per previous guidance
› A number of Bulk East contracts were renewed during the period on terms broadly consistent with current arrangements

On 18th January 2016, Aurizon nickel customer Queensland Nickel (QNI) was placed into voluntary administration. As at 31st December 2015, QNI owed a debt of $18m to Aurizon – which has been fully provided for. Aurizon is working closely with the administrators in order to achieve an optimal commercial outcome in relation to the recovery of the debt as well as to support continuing operations at QNI.

Intermodal

While conditions in the Queensland Intermodal market are soft, the business is seeing solid growth on the Melbourne to Brisbane route and has maintained volumes between Melbourne and Perth despite a weak outlook in the Western Australian market.

Intermodal continues to target beneficial freight owners (BFO). The BFO customers have increased from 71% of revenue in 1H FY2015 to 73% of revenue in 1H FY2016.

Supermarket retailers provided volume growth in the intermodal market in 1H FY2016, and Aurizon's focus on safety and customers was recognised by being awarded the prestigious 'Carrier of the Year' Award at the annual Woolworths customer awards in its first year of service to the customer.

Aurizon signed a Heads of Agreement with NSW Ports to operate the Enfield Intermodal Logistics Centre (ILC) in Western Sydney and lease the land at the site from March 2016, enabling Aurizon to accelerate growth plans for the intermodal freight business. The new site will allow Aurizon to run longer trains, improve scheduling and cycle times and also reduce shunting as well as provide an opportunity to expand into the import-export market with potential for services from Port Botany.

Iron Ore

Recognising the highly challenging current trading conditions in the iron ore markets, Aurizon continues to work closely with its iron ore customers in order to identify cost saving and productivity opportunities in the supply chain. Aurizon is in active discussions with Karara Mining Ltd regarding contract adjustments in return for appropriate exchange of value.

Contract utilisation continues to be above contracted volumes at 104%, and the weighted average remaining contract length as at 31st December 2015 was 5.8 years.

Operational transformation update

Operations' disciplined focus on continuous improvement through its core transformation programs has resulted in improvements in all core operational drivers, despite lower volumes, and underpin the additional $300m in gross transformation benefits targeted by FY2018. Significant opportunities have been unlocked and can be accelerated following the implementation of the new Enterprise Agreements.

People

- The Construction and Maintenance and the Traincrew and Transport Operators Enterprise Agreements covering ~5,000 Queensland employees were implemented during 1H FY2016 (effective 28th August 2015 and 10th September 2015 respectively)
- Since implementation, these agreements have increased workforce flexibility and enabled productivity improvements with further work to continue during 2H FY2016 to optimise master roster and crew deployment models as well as capitalising on the removal of role demarcations

Fleet productivity

Fleet productivity (NTKs) continued to improve in 1H FY2016 by 9% and 5% for active locomotives and wagons respectively. This has been driven by train design optimisation and the continued standardisation of the fleet. Availability and reliability of rollingstock has continued to improve through the use of technology in maintenance activities. Other benefits include increased velocities, reduction in leases and disposals of surplus fleet.

Energy and fuel efficiency

Fuel productivity improved 3% to 3.13 L/dGTK versus 1H FY2015 through the progressive implementation of the fuel program which includes the Driver Advisory System (DAS) and Fuel Trip Optimiser (FTO) technology initiatives as well as the use of cost effective higher grade fuel and driver behaviour improvements (e.g. notch limiting and idling initiatives). Fuel consumption improvements have been further supported by the move to more efficient train designs. Electricity consumption intensity improved 12.9% versus 1H FY2015 in part due to the success of regenerative braking technology initiatives introduced in FY2015.

Engineering and maintenance

Key technology investments are driving more efficient and safer operations, shifting rollingstock maintenance from prescriptive to condition based and shifting more tasks "on train":

- Wayside condition monitoring (WCM) and on train repairs (OTR):

  During 1H FY2016, Aurizon successfully completed the implementation of WCM at four CQCN super sites and rolled out OTR in Jilalan with implementation in the Callemondah, Hexham and Pring yards scheduled for 2H FY2016. Aurizon is now seeking to expand the super site model to other key networks.

  Benefits delivered include decreased shunting movements, increased asset reliability and availability, reduced frequency of key maintenance activities, reduction in materials and spares (e.g. wheels and brake blocks) and increased capacity in depots which will enable further consolidation and rationalisation

Operations Capital Programs

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

- Freight Management Transformation (FMT)

  The Freight Management Transformation (FMT) program involves the re-engineering and upgrading of Aurizon's core commercial and operations business processes and applications. The first deployment of the Freight Management Transformation (FMT) program was delivered to customers and employees in the Intermodal and Bulk (East) businesses in December 2015. Deployment into the Western Australian and Coal businesses is planned for early 2016. The program remains on track and on budget to deliver step change improvements in customer order capture, service scheduling, yard and train operations management, performance reporting and billing. Spend to date ~$67m.

- The Long Term Train Support Facility (LTTSF) - Hexham

  The Hexham LTTSF was completed during 1H FY2016 with a total spend of $173m. Hexham has de-risked Aurizon's operations by reducing dependency on third parties to provide core services including provisioning, light maintenance and inspection capabilities. Hexham has also alleviated capacity pressures by reducing bottlenecks, leading to improved fleet productivity and velocity.

- Stuart

  As part of Aurizon's footprint rationalisation, Aurizon progressed the closure of the South Townsville terminal. This will see the Intermodal operations transfer to a new $40m site which includes a freight distribution centre, a modern container terminal and three new rail tracks, strategically placed with direct links to the North Coast Rail Corridor, the North West Rail Corridor and the Stuart Bypass Road. This will drive significant operational efficiencies, reduce FTE requirements, improve safety and provide better customer service.

Below Rail

Below Rail refers to Aurizon's Network business which 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 (Moura, Blackwater, Goonyella and Newlands) and a connecting link GAPE.

Below Rail Financial Summary

($m) Year on Year	1H FY2016	1H FY2015	Variance %	2H FY2015
Total revenue	**581**	**530**	**10%**	**578**
Access	560	501	12%	547
Services and Other	21	29	(28%)	31
Operating costs	**(211)**	**(206)**	**(2%)**	**(203)**
Employee benefits expense	(63)	(66)	5%	(55)
Energy and fuel	(63)	(51)	(24%)	(56)
Consumables	(66)	(80)	18%	(85)
Other expenses	(19)	(9)	-	(7)
EBITDA	**370**	**324**	**14%**	**375**
EBITDA margin	63.7%	61.1%	2.6ppt	64.9%
Depreciation and amortisation expense	(125)	(106)	(18%)	(109)
Underlying EBIT	**245**	**218**	**12%**	**266**
Operating ratio	**57.8%**	**58.9%**	**1.1ppt**	**54.0%**

Below Rail Operating Metrics

	1H FY2016	1H FY2015	Variance %	2H FY2015
Tonnes (m)	114.0	114.7	(1%)	111.0
NTK (bn)	28.9	28.4	2%	27.8
Access revenue / NTK ($/'000 NTK)	19.4	17.6	10%	19.7
Maintenance / NTK ($/'000 NTK)	2.8	2.4	(17%)	2.6
Operating costs / NTK ($/'000 NTK)	11.6	11.0	(5%)	11.2
Average haul length (Km)	253	247	2%	251

Below Rail Performance Overview

Underlying EBIT increased $27m or 12% to $245m.

Revenue increased $51m or 10% despite a 1% volume decline due to revenue being recognised and aligned to the Queensland Competition Authority's (QCA) Consolidated Draft Decision for UT4 (CDD) December 2015. The final UT4 decision has been delayed by the QCA until April 2016, with any revenue adjustments unknown until then.

Volumes decreased 0.7mt (1%) to 114.0mt principally due to a decline in volumes in the Newlands corridor, offset by the ramp up of Blackwater/WIRP volumes. Despite the 1% decline, Below Rail achieved record monthly railings in four of the six months during the period with 'Performance to Plan'[16] improving 3.2ppts to 92.7%, driven by reduced speed restrictions, delays and Below Rail caused cancellations. Despite the 1% reduction in volumes, NTKs were up 2% reflecting the longer average haul length.

Operating costs were $5m (2%) higher and depreciation increased $19m (18%) due to commissioning of major projects. Operating costs / NTK increased due to the increased depreciation and increased energy costs ($12m).

Effective FY2016, and consistent with the policy included in the QCAs CDD, the accounting policy for Rail Renewals has been changed to capitalise rail renewal spend. Under this policy, rail renewal spend is no longer recovered through the operational allowance, but is now a capital recovery (through return on and return of capital building blocks). This has resulted in a $6m net benefit in operating costs with $14m reduction in consumables and $6m in labour cost offset by an $8m loss on disposal of rail (representing the WDV of the rail replaced) and $6m in additional depreciation.

The $0.9bn Wiggins Island Rail Project (WIRP) was completed during the period and commissioned in December 2015, creating 27mt of additional capacity through the Moura and Blackwater systems to the Wiggins Island Coal Export Terminal (WICET).

[16] Performance to plan is Below Rail's key metric which measures the number of scheduled services which successfully arrive at their destination, highlighting the efficiency of the overall supply chain

The Regulated Asset Base (RAB) value is estimated to be $5.6bn (excluding AFDs[17]) by the end of FY2016, inclusive of WIRP – representing an 81% increase since IPO.

The QCA has proposed that WIRP regulatory revenues ramp up in line with the WIRP customer access contracts. The final outcome on WIRP pricing will be decided as part of the UT4 final decision expected to be delivered in April 2016.

Below Rail Variance Analysis – 1H FY2016 vs. 1H FY2015

Revenue

The $51m, or 10% increase in revenue is principally due to access revenue being recognised based on the pro-rata revenue allowable under the CDD.

Costs

The $5m, or 2% net increase in operating costs can be attributed to:

› A $12m increase in fuel & energy spend primarily from the commissioning of the Rolleston and Wotonga Feeder Stations to support the electrification of the Rolleston spur
› A $6m net benefit arising from the change in accounting policy in respect of rail renewals, as noted earlier

The $19m increase in depreciation is principally due to the commissioning of all remaining WIRP segments, capitalisation of rail renewals and commissioning of the Rolleston and Wotonga feeder stations.

Below Rail Variance Analysis – 1H FY2016 vs. 2H FY2015

Revenue

The $3m, or 1% increase in revenue

› Increase in underlying access revenue is principally due to revenue being recognised based on the pro-rata revenue allowable under the CDD, offset by
› $10m decrease in Services and Other revenue from reduced veneering, telecommunications and other revenue

Costs

The $8m net increase in operating costs can be attributed to:

› $7m increase in fuel and energy spend primarily from an increase in energy and connection costs as well as the commissioning of the Wotonga (July 2015) feeder station
› $8m increase in employee costs due to $2m employee share gift, increased redundancy provisions and impact of the implementation of the Construction and Maintenance Enterprise Agreement
› A $7m net benefit principally arising from the change in accounting policy in respect of rail renewals, as noted earlier

The $16m net increase in depreciation is principally due to the commissioning of all remaining WIRP segments, capitalisation of rail renewals, and commission of the Rolleston and Wotonga feeder stations.

[17] Access Facilitation Deeds

Below Rail Operational Update

Performance

- The Below Rail business maintained high performance standards in FY2016, setting a number of operational and performance records in the delivery of 114.0mt and a 2% increase in NTKs. These include a 2.1% increase in average payloads despite 2.4% fewer services; a 10.9% decrease in Below Rail delays; a 1.5% reduction in system closure hours and a 63% reduction in Below Rail caused cancellations. January 2016 volumes hauled were a January record at 19.6mt, with all-time record volumes for the Goonyella system
- Below Rail's key metric 'performance to plan', which measures the number of scheduled services that successfully arrived at their destination, improved by 3.2ppt, highlighting the efficiency of the Below Rail planning and scheduling as well as the maintenance program

Maintenance

- During the period the amount of rail renewal works was materially increased to facilitate replacement of the majority of rail in the Goonyella and Blackwater systems. This rail was installed in the 1980s and is coming to the end of its operating life. The scope of this work will be maintained over the medium term.
- The mechanised maintenance fleet upgrade project remained on target with the delivery and commissioning into service of a tamper and regulator machine. In addition, 24 ballast spoil wagons are currently being commissioned into service. Total estimated capital cost of Mechanised Maintenance Fleet upgrade program is $175m and is expected to be completed by FY2019

Access Undertaking 2013 (UT4)

The QCA delayed release of its Final UT4 Decision. The revised timetable is as follows:

- 16th December 2015 - Consolidated Draft Decision UT4 (CDD) released
- 26th February 2016 - Consultations and submissions on the CDD due
- End April 2016 - Release of the final UT4 decision

Wiggins Island Rail Project (WIRP)

- All remaining segments were delivered in accordance with the WIRP Customer Deed and were commissioned by December 2015
- The QCA's CDD proposes WIRP Moura and Blackwater revenues be socialised within their existing systems, with the Moura and Rolleston WIRP traffic being subject to a system premium and all other WIRP traffic paying the respective system tariff
- The QCA proposes that WIRP regulatory revenues ramp up in line with the WIRP customer access contracts. The final outcome on WIRP pricing will be decided as part of the UT4 final decision
- Aurizon Network still maintains its position that the notices issued by the WIRP Customers in relation to the commercial fee are not valid. Aurizon Network is currently seeking a commercial resolution with the WIRP customers, however Aurizon reserves its rights under the WIRP Deed if a commercial resolution cannot be achieved

Advanced Planning & Execution (APEX) Operational Technology

- Implementation of the first stage of APEX commenced on 30th January 2016 and involved paper based systems being replaced with sophisticated, real time electronic train graphs that provide train controllers with a system wide view of train movements 12 hours into the future. Further deployment, including optimisation and automatic conflict resolution is to occur in CY2016 and CY2017. The total capex for the project is ~$32m, and on successful completion it is expected to deliver substantial benefits to the system, including increased capacity (potential for an additional 856 network paths), decreased delays, increased velocity and improved data collection

Other

Other includes miscellaneous activities such as non-rollingstock asset sales and corporate overheads that have not been allocated to the Below Rail or the Above Rail businesses. The percentage of support costs allocated to these functions in 1H FY2016 was 75% (1H FY2015 77%).

Other Summary

($m)	1H FY2016	1H FY2015	Variance %	2H FY2015
Total revenue	13	47	(72%)	(1)
Operating costs	(38)	(50)	24%	(58)
Employee benefits expense	(19)	(30)	37%	(24)
Consumables	(19)	(10)	(90%)	(15)
Other expenses	-	(10)	-	(19)
EBITDA	(25)	(3)	-	(59)
Depreciation and amortisation expense	(2)	(2)	0%	(2)
Underlying EBIT	(27)	(5)	-	(61)

Support functions performance Overview

Strong progress continues to be made in the transformation of the corporate support functions, with a further $10m in savings achieved in 1H FY2016 (in addition to the $57m for the two years to FY2015):

- $6m improvement in labour productivity from a net 10% reduction in FTE's since 30 June 2015
- $4m reduction in professional services and discretionary spend

Note: $7m of the Support transformation benefits above have been allocated to Above Rail

Cumulative savings since 1 July 2013 total $67m. The FY2018 target $80m for the Support functions remains on track with the focus continuing to include the following activities:

- Reduction in FTEs
- Reduction in layers and increases in spans of control across support functions
- Ongoing consolidation and rationalisation of the property portfolio
- Right sizing of remuneration levels
- Process and resourcing efficiencies driven through investment in technology

Unallocated Support Costs Variance Analysis – 1H FY2016 vs. 1H FY2015

Revenue

- A $34m decrease in revenue from lower asset sales (e.g. Redbank)

Costs

- A $12m net decrease in operating costs principally due to a reduction in FTEs, lower Strategy & Business Development (S&BD) project spend, an increased share of profits from associates, ongoing transformation benefits and a favourable non-cash provision adjustment (employee on-costs), partially offset by an increase in costs relating to employee share gift

Unallocated Support Costs Variance Analysis – 1H FY2016 vs. 2H FY2015

Revenue

- A $14m increase in revenue principally from surplus land asset sales

Costs

- A $20m net decrease in operating costs can be attributed to:
  - The 2H FY2015 non-cash impairment of $15m relating to the Galilee Basin Greenfield expansion project. Note: the 1H FY2016 non-cash impairment of $30m relating to Galilee Basin brownfield expansion has been treated as a significant item and hence excluded from underlying costs
  - A 10% reduction in FTEs, lower S&BD project spend, an increased share of profits from associates, ongoing transformation benefits and a favourable non-cash provision adjustment (employee on-costs), partially offset by increase in costs relating to employee share gift

OTHER ACTIVITIES

Senior Management Changes

On 16th December 2015 Aurizon announced that Mike Franczak Executive Vice President Operations would depart the company in March 2016. A global recruitment process is being undertaken to fill the role, with a number of internal candidates also being considered.

In the interim, Michael Carter has moved into the role as acting Executive Vice President Operations. Michael was previously Executive Vice President Strategy and Business Development. During this period David Welch, Vice President Business Development will act in the role of Executive Vice President Strategy and Business Development.

Risk

Aurizon operates a mature system of risk management that is focussed on delivering objectives and is aligned to international standards. Aurizon's Board is actively engaged in setting the tone and direction of risk management, with a clear articulation of risk appetite aligned to the company strategy and risk management practices that support consistent delivery of expected outcomes. Aurizon has full confidence in the management of Aurizon's key risks and acknowledge that internal and external factors can influence financial results.

The most significant factors relating to future financial performance are set out in the following commentary.

› Product Demand, Commodity Prices and General Economic Conditions

Aurizon's customers in core markets are reliant on demand from large export markets such as Japan, China, South Korea and India. Fluctuations in demand in turn impact commodity prices, product volumes and investment in growth projects. Whilst Aurizon has confidence in the long term prospects for the key commodities of coal and iron ore, in the short term Aurizon's core markets may not deliver the same levels of growth that have been experienced in the recent past.

› Concentration of Key Customers and Markets

Aurizon's earnings are concentrated in coal and iron ore markets across a relatively small number of customers. Issues relating to deterioration in counterparty credit quality and/or mine profitability, contract renewals, supply chain disruptions or macro-industry issues may have a material adverse impact on Aurizon's financial performance.

› Asset Impairment

Aurizon's assets are subject to impairment testing each year. With a large portfolio of fixed assets, there is the potential that if we were to experience reduced haulage volumes or continue to uplift asset productivity, some assets may become impaired.

› Major Growth Projects

Aurizon's involvement in significant projects in the West Pilbara and Galilee Basin, if proceeding to execution, will involve large-scale capital investment. We retain optionality regarding final investment decisions on these projects and material capital investment is unlikely in the near term.

› Delivery of Technology Transformation Projects

Aurizon is investing in important operational and information technology programs that are expected to deliver step change improvements in efficiency leading to reduced costs. Continued focus is required on these projects to ensure benefits are delivered and flow through to support cost-out targets.

› Regulatory Risk of the Access Undertaking (UT4)

Aurizon is continuing to work with the QCA and industry stakeholders to secure acceptable regulatory outcomes for the CQCN in accordance with the processes set out in the relevant legislation. Not attaining appropriate pricing and policy regulatory settings may negatively impact revenue, operational complexity, capital investment and administrative overhead.

› Adverse Weather Events

Aurizon's business is exposed to extreme weather events in core markets that, if experienced, could have a material impact on customers, supply chains and Aurizon's operational performance. Each of these factors in turn may impact Aurizon's financial performance. Weather can also have an impact on bulk haulage volumes for agricultural commodities such as grain, sugar and fertiliser.

› Competitor Activity and Customer Contracts

Aurizon's most significant customer contracts are secured on long-dated terms however failure to win or retain customer contracts will always be a risk to future financial performance.

› General Regulatory Risk

Aurizon's operations and financial performance are subject to legislative and regulatory oversight. Unfavourable changes may be experienced with respect to access regimes, safety accreditation, taxation, environmental and industrial (including occupational health and safety) regulation, government policy and approval processes. These changes may have a material adverse impact on project investment, Aurizon's business in general and Aurizon's customers.

Sustainability

On 2nd November 2015, Aurizon released its second Sustainability Report, "Delivering for the Long Haul" www.aurizon.com.au/sustainability . This report details how Aurizon aims to take the safest, most efficient and least resource-intensive approach to the services it provides. Specific highlights from the 2015 Sustainability Report include:

- Aurizon's economic contribution to regional Australia was $3.28bn in FY2015
- Aurizon developed an interactive carbon calculator to highlight the benefits of long haul rail freight transportation, including 75% less carbon emissions and 90% less accident costs than road
- The "Future of coal" chapter outlined the long-term drivers for Australian seaborne coal, including:
  - For metallurgical coal: global steel demand due to Asian urbanisation and industrialisation, a lack of substitutes for metallurgical coal in oxygen-based steelmaking and the availability and cost advantage of Australian metallurgical coal exports
  - For thermal coal: increasing global energy demand, coal's ongoing role in the Asian energy mix, Australia's higher quality thermal coal and increasingly efficient coal-fired power generation technology

- Safety

Aurizon's commitment to safety has ensured another period of significant improvement in Aurizon's performance. At 31st December 2015, Aurizon's Lost Time Injury Frequency Rate (LTIFR) was ZERO. The Total Reportable Injury Frequency Rate (TRIFR) was 3.01. The impact of the Julia Creek derailment in December 2015 (see below) is reflected in what Aurizon believes to be an isolated increase in the TRIFR rate.

Aurizon remains committed to ZEROHarm and is continuing to target exposures and high consequence activities as well as improving work processes using appropriate technology, standardisation and lean principles

1H FY2016 key enterprise milestones include:

  - Achieving a Lost Time Injury Frequency Rate of ZERO in October 2015, November 2015 and December 2015
  - Winning the Regional Asia Pacific Award for Excellence in Safety in the DuPont Global Safety & Sustainability Awards

- Environmental Management

Aurizon has continued to focus on improving environmental performance and has been rewarded for its efforts, winning the award for best year-on-year improvement in climate performance at the CDP 2015 Australian Climate Leadership Awards. This award reflects the work Aurizon has done to reduce emissions and energy consumption across its operations.

Aurizon's Environment Community of Competence continues to govern the management of key environmental issues such as coal dust, noise and diesel emissions.

On 27th December 2015, a derailment occurred on the North West corridor 20km east of Julia Creek. The service that derailed was an Incitec Pivot acid service travelling to Phosphate Hill from Townsville Suns Metal. A diesel locomotive under the control of Australia Eastern Railroad Pty Ltd, was hauling 26 GATX wagons leased by Incitec Pivot Ltd, on a railway line for which Queensland Rail Limited is the accredited rail infrastructure manager. The service was carrying in total approximately 819,000 litres of concentrated sulfuric acid.

An Aurizon Incident Management Team (IMT) was immediately established, meeting daily to assess the situation and to mobilise recovery plans that include the safety of Aurizon's people, the environment, assets and the community. Immediate actions were undertaken and continue at the site to assess, contain and treat the release of sulphuric acid from the derailed wagons at the derailment site.

Work to decant the acid and remove the rollingstock from the derailment site was completed on Thursday 11th February 2016, and final remediation plans for the site will be submitted to the Department of Environment and Heritage Protection.

Organisational Capability

Aurizon believes that a company should celebrate the diversity of thoughts, backgrounds and experiences of its workforce. By doing so, a company strengthens its organisational capability and ensures it reflects the broader marketplace and society in which it operates. For detailed information on Aurizon's Organisational Capability please refer to Aurizon's 2015 Sustainability Report www.aurizon.com.au/sustainability published November 2015.

Entities over which control was gained during the period

Not applicable

Entities over which control was lost during the period

Not applicable

Details of associate and joint venture entities

Entity	Country of incorporation	Ownership Interest	
		31 December 2015 %	31 December 2014 %
Investment in associates			
Moorebank Industrial Property Trust	Australia	33	33
Aquila Resources Limited	Australia	15	15
Moorebank Industrial Terminals Operations Hold Trust	Australia	33	-
Moorebank Industrial Terminals Assets Hold Trust	Australia	33	-
Moorebank Industrial Warehouse Hold Trust	Australia	33	-
Moorebank Industrial Hold Trust	Australia	33	-
Joint Ventures			
CHCQ	Hong Kong	15	15
Chun Wo/CRGL	Hong Kong	17	17
KMQR Sdn Bhd	Malaysia	30	30
ARG Risk Management Limited	Bermuda	50	50
Integrated Logistics Company Pty Ltd	Australia	14	14
QLM Pty Ltd	Australia	-	50
ACN 169 052 288	Australia	15	15

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.

APPENDIX

Commercial & Marketing

The Commercial & Marketing function is the key interface between customers and Aurizon, responsible for the management of Coal, Freight and Iron Ore customer relationships.

Commercial & Marketing P&L

($m)	1H FY2016	1H FY2015	Variance %	2H FY2015
Total revenue	1,510	1,654	(9%)	1,497
Coal	950	970	(2%)	924
Coal – Below Rail	373	358	4%	349
Coal – Other	577	612	(6%)	575
Freight	397	509	(22%)	410
Iron Ore	163	175	(7%)	163
Operating Costs	**(39)**	**(58)**	**33%**	**(9)**
Employee benefits expense	(17)	(30)	43%	(17)
Energy and fuel	-	(3)	100%	2
Consumables	(5)	(26)	81%	(3)
Other expenses	(17)	1	-	9
EBITDA	**1,471**	**1,596**	**(8%)**	**1,488**
Depreciation and amortisation expense	(3)	(1)	-	(4)
Underlying EBIT	**1,468**	**1,595**	**(8%)**	**1,484**

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 Below Rail business as well as external customers.
Operations is comprised of six divisions that leverage Aurizon's key operational capabilities, including Operations Planning, Engineering and Maintenance, Service Delivery Coal Markets, Service Delivery Freight Markets , Program Delivery and Safety, Health and Environment.

Operations P&L

($m)	1H FY2016	1H FY2015	Variance %	2H FY2015
Total revenue	102	176	(42%)	156
Total operating costs	(1,235)	(1,354)	9%	(1,210)
Employee benefits expense	(382)	(413)	8%	(374)
Energy and fuel	(71)	(109)	35%	(74)
Track access	(519)	(497)	(4%)	(476)
Consumables	(257)	(325)	21%	(279)
Other expenses	(6)	(10)	40%	(7)
EBITDA	(1,133)	(1,178)	4%	(1,054)
Depreciation and amortisation expense	(150)	(144)	(4%)	(151)
Underlying EBIT	(1,283)	(1,322)	3%	(1,205)
Underlying EBIT (excluding access)	(764)	(825)	7%	(729)