Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report for the six months ended 31 December 2015

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Interim Financial Report - 31 December 2015

Contents

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Aurizon Holdings Limited
Level 17
175 Eagle Street
BRISBANE QLD 4000

Directors' report

The directors present their report on the consolidated entity consisting of Aurizon Holdings Limited and its controlled entities ("the company" or "the Group") for the six months ended 31 December 2015.

Directors
The following persons were directors of the Company during the six months and up to the date of this report:

L E Hockridge
R R Caplan
K L Field
J D Cooper
S L Lewis
T M Poole (appointed 1 July 2015)
M Fraser (appointed 15 February 2016)

The following persons held office as directors of Aurizon Holdings Limited during the six months:

J B Prescott AC (resigned 1 September 2015)
G T John AO (resigned 12 November 2015)
G T Tilbrook (resigned 12 February 2016)
J Atkin (resigned 12 February 2016)

Principal activities
During the six months the principal activities of the Group consisted of:

- integrated heavy haul freight railway operator
- rail transporter of coal from mine to port for export markets
- rail transporter of bulk, iron ore, general and containerised freight
- large-scale rail services activities

Network
Provision of access to, and operation and management of, the Central Queensland Coal Network. Provision of overhaul and maintenance of Network assets.

Commercial & Marketing
The key interface between customers and Aurizon (excluding Network access customers), responsible for the commercial negotiation of sales contracts and customer relationship management.

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 costs for Managing Director & CEO, corporate finance, tax, treasury, internal audit, risk, governance and strategic projects.

Review of operations
A review of the Group's operations for the interim financial period and the results of those operations are set out in the Operating and Financial Review as set out on pages 4 to 18 of this interim financial report.

Debt Refinancing
In December 2015 Aurizon Network Pty Ltd refinanced $490 million of its syndicated debt facility with an extended maturity date of 1 July 2021.

Share Buy-back
On 11 November 2014 the Company announced its intention to undertake an on-market buy-back, 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 43.9 million shares at a total consideration of $209 million of which 28.7 million shares were acquired at a total consideration of $140 million during the six month period.

Dividends
Dividends paid to members during the six months were as follows:

	31 December 2015 $m	31 December 2014 $m
Final dividend for the year ended 30 June 2015 of 13.9 cents 30% franked (2014: 8.5 cents, unfranked) per share, paid 28 September 2015	**295**	182

The directors have declared a 70% franked interim dividend of 11.3 cents per ordinary share for the six months ended 31 December 2015. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 1 March 2016. The payment date is 29 March 2016.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

Rounding of amounts
The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and Interim Financial Report. Amounts in the Directors' report and Interim Financial Report have been rounded off to the nearest million dollars in accordance with that Class Order.

This Directors' report is made in accordance with a resolution of directors.

Tim Poole

T M Poole
Chairman
Brisbane
15 February 2016

OPERATING AND FINANCIAL REVIEW

Consolidated Results

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measures. The non-IFRS financial information contained within this Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor Group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin (Statutory and Underlying), NPAT Underlying, Operating Ratio – underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 49.

1. Half on Half Comparison

Financial Summary

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

Other Operating Metrics

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

[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

Underlying EBIT by Segment

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

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
Underlying EBIT	**403**	**486**
Significant Items - impairments		
Investment in Associates	(153)	-
Rollingstock	(148)	-
Strategic infrastructure projects	(125)	-
Statutory EBIT	**(23)**	**486**
Net finance costs	(70)	(68)
Statutory PBT	(93)	418
Taxation expense	(15)	(110)
Statutory NPAT	**(108)**	**308**

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 from 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 net 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

2. Other Financial Information

Balance Sheet Summary

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

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

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:

- 26 February 2016 – ex-dividend date
- 1 March 2016 – record date
- 29 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.

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

Above Rail Operating Metrics

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

	1H FY2016	1H FY2015	Variance %
Operations			
Net opex[7] / NTK ($/'000 NTK)	35.2	35.4	1%
Net opex[8] / NTK (excluding access) ($/'000 NTK)	20.9	22.1	5%
Total tonnes hauled (m)	138.9	146.0	(5%)
Net tonne kilometres - NTK (bn)	36.5	37.3	(2%)
FTE (monthly average)	5,104	5,435	6%
NTK / FTE	14.3	13.7	4%
NTK / Active loco (monthly)[9]	11.4	10.5	9%
Active locos (as at 31 December / 30 June)	514	592	13%
NTK / Active wagon (monthly)	0.45	0.43	5%
Active wagons (as at 31 December / 30 June)	13,082	13,731	5%
Average payload coal (tonnes)	8,245	8,121	2%
Velocity (km/hr)[10]	29.7	29.3	1%
Fuel consumption (l/d GTK)	3.13	3.22	3%

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 5% decline compared to 1H FY2015. On 23 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 years[11]. 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 22mt 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.

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[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.

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 current[14] 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.

[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

Contract update

There are no material haulage contracts due to expire until FY2021, with weighted average remaining contract length as at 31 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

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 18 January 2016, Aurizon nickel customer Queensland Nickel (QNI) was placed into voluntary administration. As at 31 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 31 December 2015 was 5.8 years.

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

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 28 August 2015 and 10 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 %
Total revenue	**581**	**530**	**10%**
Access	560	501	12%
Services and Other	21	29	(28%)
Operating costs	**(211)**	**(206)**	**(2%)**
Employee benefits expense	(63)	(66)	5%
Energy and fuel	(63)	(51)	(24%)
Consumables	(66)	(80)	18%
Other expenses	(19)	(9)	-
EBITDA	**370**	**324**	**14%**
EBITDA margin	63.7%	61.1%	2.6ppt
Depreciation and amortisation expense	(125)	(106)	(18%)
Underlying EBIT	**245**	**218**	**12%**
Operating ratio	**57.8%**	**58.9%**	**1.1ppt**

Below Rail Operating Metrics

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

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 QCA's 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 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:

- 16 December 2015 - Consolidated Draft Decision UT4 (CDD) released
- 26 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

[17] Access Facilitation Deeds

Advanced Planning & Execution (APEX) Operational Technology

- Implementation of the first stage of APEX commenced on 30 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 %
Total revenue	13	47	(72%)
Operating costs	(38)	(50)	24%
Employee benefits expense	(19)	(30)	37%
Consumables	(19)	(10)	(90%)
Other expenses	-	(10)	-
EBITDA	(25)	(3)	-
Depreciation and amortisation expense	(2)	(2)	0%
Underlying EBIT	(27)	(5)	-

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 increase in costs relating to employee share gift

OTHER ACTIVITIES

Senior Management Changes

On 16 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 2 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 our 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 31 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 27 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 11 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.

Auditor's Independence Declaration

As lead auditor for the review of Aurizon Holdings Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Aurizon Holdings Limited and the entities it controlled during the period.

John Yeoman
Partner
PricewaterhouseCoopers

Brisbane
15 February 2016

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Aurizon Holdings Limited
Consolidated income statement
For the six months ended 31 December 2015

	Notes	**31 December 2015 $m**	31 December 2014 $m
Revenue from continuing operations	2	**1,758**	1,917
Other income		**-**	48
		1,758	1,965
Employee benefits expense		**(481)**	(539)
Energy and fuel		**(134)**	(163)
Track access		**(162)**	(172)
Consumables		**(260)**	(327)
Depreciation and amortisation		**(280)**	(253)
Impairment charges	1(c)	**(273)**	-
Other expenses		**(46)**	(29)
Operating profit		**122**	482
Share of profit from associates		**8**	4
Impairment charge of investment in associates	1(c)	**(153)**	-
Share of (loss)/profit from associates after impairment charge		**(145)**	4
Finance income		**1**	4
Finance expenses		**(71)**	(72)
Net finance costs		**(70)**	(68)
(Loss)/profit before income tax		**(93)**	418
Income tax benefit/(expense)	3	**(15)**	(110)
(Loss)/profit for the six months		**(108)**	308
(Loss)/profit is attributable to:			
Owners of Aurizon Holdings Limited		**(108)**	308

	Notes	**Cents**	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted (loss)/earnings per share	4	**(5.1)**	14.4

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

	31 December 2015 $m	31 December 2014 $m
(Loss)/profit for the six months	**(108)**	308
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges recognised in equity	**3**	(28)
Share of other comprehensive income of associates and joint ventures	**(2)**	-
Income tax relating to components of other comprehensive income	**(1)**	8
Other comprehensive income/(expense) for the six months, net of tax	**-**	(20)
Total comprehensive (expense)/income for the six months	**(108)**	288
Total comprehensive (expense)/income for the six months is attributable to:		
Owners of Aurizon Holdings Limited	**(108)**	288

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

Aurizon Holdings Limited
Consolidated balance sheet
As at 31 December 2015

	Notes	31 December 2015 $m	30 June 2015 $m
ASSETS			
Current assets			
Cash and cash equivalents		**159**	171
Trade and other receivables		**486**	543
Inventories		**167**	189
Derivative financial instruments	8	**1**	1
Current tax receivables		**3**	-
Prepayments		**19**	9
Assets classified as held for sale		**9**	21
Total current assets		**844**	934
Non-current assets			
Inventories		**22**	37
Derivative financial instruments	8	**48**	19
Property, plant and equipment		**9,693**	9,900
Intangible assets		**157**	127
Investments accounted for using the equity method		**168**	318
Other receivables		**-**	1
Total non-current assets		**10,088**	10,402
Total assets		**10,932**	11,336
LIABILITIES			
Current liabilities			
Trade and other payables		**287**	368
Borrowings	7	**100**	59
Current tax liabilities		**-**	76
Provisions		**282**	346
Other liabilities		**56**	55
Total current liabilities		**725**	904
Non-current liabilities			
Borrowings	7	**3,311**	2,924
Derivative financial instruments	8	**34**	43
Deferred tax liabilities		**585**	606
Provisions		**100**	97
Other liabilities		**241**	256
Total non-current liabilities		**4,271**	3,926
Total liabilities		**4,996**	4,830
Net assets		**5,936**	6,506
EQUITY			
Contributed equity	6	**1,368**	1,508
Reserves		**3,432**	3,459
Retained earnings		**1,136**	1,539
Total equity		**5,936**	6,506

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

	Notes	Attributable to owners of Aurizon Holdings Limited			
		Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2014		1,508	3,534	1,331	6,373
Profit/(loss) for the six months		-	-	308	308
Other comprehensive income/(expense)		-	(20)	-	(20)
Total comprehensive income/(expense) for the six months		**-**	**(20)**	**308**	**288**
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	6	-	(60)	-	(60)
Dividends provided for or paid	5	-	-	(182)	(182)
Share-based payments		-	(3)	-	(3)
		-	(63)	(182)	(245)
Balance at 31 December 2014		**1,508**	**3,451**	**1,457**	**6,416**
Balance at 1 July 2015		1,508	3,459	1,539	6,506
Profit/(loss) for the six months		-	-	(108)	(108)
Total comprehensive income/(expense) for the six months		**-**	**-**	**(108)**	**(108)**
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	6	(140)	-	-	(140)
Dividends provided for or paid	5	-	-	(295)	(295)
Share-based payments		-	(27)	-	(27)
		(140)	(27)	(295)	(462)
Balance at 31 December 2015		**1,368**	**3,432**	**1,136**	**5,936**

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

	31 December 2015 $m	31 December 2014 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,946**	2,192
Payments to suppliers and employees (inclusive of GST)	**(1,310)**	(1,501)
Interest received	**1**	4
Income taxes received (paid)	**(115)**	(9)
Net cash inflow from operating activities	**522**	686
Cash flows from investing activities		
Payments for property, plant and equipment	**(381)**	(499)
Proceeds from sale of business/property, plant and equipment	**28**	139
Payments for intangibles	**(37)**	(34)
Interest paid on qualifying assets	**(8)**	(19)
Payments for investment in associates	**(1)**	(217)
Distributions received from associates	**3**	3
Net cash outflow from investing activities	**(396)**	(627)
Cash flows from financing activities		
Proceeds from borrowings	**391**	856
Repayment of borrowings	**-**	(722)
Payment of transaction costs related to borrowings	**(3)**	(4)
Payments for shares acquired for share based payments/share buy-back	**(168)**	(72)
Dividends paid to Company's shareholders	**(295)**	(182)
Interest paid	**(63)**	(62)
Net cash outflow from financing activities	**(138)**	(186)
Net decrease in cash and cash equivalents	**(12)**	(127)
Cash and cash equivalents at the beginning of the financial year	**171**	318
Cash and cash equivalents at end of six months	**159**	191

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

About this report

Corporate information

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

Basis of preparation

This condensed consolidated interim financial report for the six month reporting period ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this financial report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The annual report for the year ended 30 June 2015 is accessible at www.aurizon.com.au.

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

Key events and transactions for reporting period

Access undertaking taking (UT4)

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

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

Strategic project - West Pilbara Iron Ore Project (WPIOP)

The +/-15% non-binding tariffs were submitted on 30 November 2015. The CEOs of the participating companies, Aurizon, Baosteel Resources, POSCO and AMCI, met in Hong Kong on 21 December 2015 to review the progress of the West Pilbara Iron Ore Project.

While the CEOs received reports on considerable progress in areas such as the capital and operating costs of the mine and infrastructure, the current market conditions and uncertainty about future supply and demand were central to the CEOs considerations.

The participants are committed to consolidating the high quality work to date and minimising project costs. However, no material further work will be undertaken on the definitive feasibility studies. The participants agreed to meet again around the end of first quarter 2016 to consider the market and project status at that time. Aurizon’s period of exclusivity to develop the integrated infrastructure solution will continue until 30 April 2016.

As a result of the above decisions and uncertainty surrounding the timing of the development as well as current market conditions, $83 million of project costs has been impaired. In addition, $91 million in respect of our investment in Aquila relating to WPIOP has been impaired (note 1(c)(ii)).

Strategic project - Galilee Basin

An impairment of $30 million has been recorded in relation to the brownfield expansion of the Central Queensland Coal Network. The amount represents directly attributable development costs such as engineering designs, environmental and building approvals, which could be recovered through the regulatory process at a future date. However a decision has been made to impair these costs due to uncertainty surrounding the project's timing and the current market outlook. The carrying value of the project is now nil.

Key events and transactions for reporting period (continued)

Impairment of the Investment in Aquila

As at 31 December 2015, Aurizon has performed a review of the value of the individual projects within the Aquila investment. The results of which are summarised below:

• The Aquila board has carried out a strategic review of the South African manganese and iron ore projects and decided to place the projects into care and maintenance while a divestment program is initiated. As a result all South African assets have been written down to nil.

• A supplementary scoping study of the Eagle Downs project has been initiated and the timing of full development is uncertain after the termination of a major contract for the project. As a result the value of Eagle Downs has been impaired to $8 million given Aquila's expectation that the mine will be developed.

• All other Queensland coal assets have been written down to nil based on the current market outlook and given no substantial expenditure is planned for 2016.

• As outlined above due to the uncertainty surrounding the timing of the WPIOP development, current market conditions and the agreement that no further material work will be undertaken, the asset has been written down to nil.

As a result of the above the investment in Aquila has been impaired by $153 million. The total carrying value at 31 December 2015 post impairment is $75 million, mainly representing cash balances.

Impairment of rollingstock

Due to the continued improvements in rolling stock efficiency and productivity coupled with a lower volume outlook, the Enterprise Rollingstock Master Plan, which forecasts the requirements of locomotives and wagons for the next 10 years, has been revised. This review of fleet has resulted in 131 locomotives and 1,337 wagons being identified as surplus to the current requirements of the Group. Rollingstock identified as surplus and associated inventory has been impaired by $148 million to net realisable value.

Debt refinancing

In December 2015 Aurizon Network Pty Ltd refinanced $490 million of its syndicated debt facility with an extended maturity date of 1 July 2021.

On-market share buy-back scheme

On 11 November 2014 the Company announced its intention to undertake an on-market buy-back, 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 43.9 million shares at a total consideration of $209 million of which 28.7 million shares were acquired at a total consideration of $140 million during the six month period.

Enterprise agreement

On 3 September 2015, the Fair Work Commission ("FWC") approved Aurizon's final outstanding Enterprise Agreement ("EA"), the Aurizon Train Crew and Transport Operations EA. The approval by the FWC finalised the EA. It covers approximately 1,700 employees in Queensland and came into effect on 10 September 2015. Employees will receive a 4% pay rise annually for three years along with more contemporary employment conditions that will underpin significant productivity and efficiency improvements.

This follows the approval of the Aurizon Construction and Maintenance EA on 21 August 2015, and the Aurizon Staff EA which was approved and implemented in January 2015. As a result of the three EA approvals, approximately 5,000 Queensland based employees will be rewarded with pay increases and competitive conditions, while providing Aurizon with the productivity enhancements and workplace flexibility that the Company needs to sustain and grow its business.

Results for the six months

In this section…

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

1 Segment information

(a) Operating segments

Aurizon determines and presents operating segments on a function basis reflecting how the results are reported internally and how the business is managed. The Managing Director & CEO and the Executive Committee assess the performance of the Group based on the underlying EBIT.

The following summary describes the operations in each of the Group's reportable segments:

Network
Provision of access to, and operation and management of, the Central Queensland Coal Network. Provision of overhaul and maintenance of Network assets.

Commercial & Marketing
The key interface between customers and Aurizon (excluding Network access customers), responsible for the commercial negotiation of sales contracts and customer relationship management.

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 costs for Managing Director & CEO, corporate finance, tax, treasury, internal audit, risk, governance and strategic projects.

1 Segment information (continued)

(b) Segment information

31 December 2015	Network $m	Commercial & marketing $m	Operations $m	Other $m	Eliminations $m	Total continuing operations $m
External revenue	224	1,506	15	13	-	1,758
Internal revenue	357	4	87	-	(448)	-
Total functional revenue	**581**	**1,510**	**102**	**13**	**(448)**	**1,758**
Functional costs						
Employee benefits expense	(63)	(17)	(382)	(19)	-	(481)
Energy & fuel	(63)	-	(71)	-	-	(134)
Track access	-	-	(519)	-	357	(162)
Consumables	(66)	(5)	(257)	(19)	87	(260)
Other expenses	(19)	(17)	(6)	-	4	(38)
Total functional costs excluding depreciation and amortisation (underlying)	**(211)**	**(39)**	**(1,235)**	**(38)**	**448**	**(1,075)**
EBITDA (underlying)*	370	1,471	(1,133)	(25)	-	683
Depreciation and amortisation	(125)	(3)	(150)	(2)	-	(280)
EBIT (underlying)*	**245**	**1,468**	**(1,283)**	**(27)**		**403**
Significant adjustments (note 1 (c))						(426)
EBIT*						**(23)**
Net finance costs						(70)
Loss before income tax						**(93)**
Income tax expense						(15)
Loss for the year						**(108)**

* Refer to page 49 for Non-IFRS information

1 Segment information (continued)

(b) Segment information (continued)

31 December 2014	Network $m	Commercial & marketing $m	Operations $m	Other $m	Eliminations $m	Total continuing operations $m
External revenue	204	1,652	62	47	-	1,965
Internal revenue	326	2	114	-	(442)	-
Total functional revenue	**530**	**1,654**	**176**	**47**	**(442)**	**1,965**
Functional costs						
Employee benefits expense	(66)	(30)	(413)	(30)	-	(539)
Energy & fuel	(51)	(3)	(109)	-	-	(163)
Track access	-	-	(497)	-	325	(172)
Consumables	(80)	(26)	(325)	(10)	114	(327)
Other expenses	(9)	1	(10)	(10)	3	(25)
Total functional costs excluding depreciation and amortisation (underlying)	**(206)**	**(58)**	**(1,354)**	**(50)**	**442**	**(1,226)**
EBITDA (underlying)*	324	1,596	(1,178)	(3)	-	739
Depreciation and amortisation	(106)	(1)	(144)	(2)	**-**	(253)
EBIT (underlying)*	**218**	**1,595**	**(1,322)**	**(5)**	**-**	**486**
Significant adjustments						-
EBIT*						**486**
Net finance costs						(68)
Profit before income tax						**418**
Income tax expense						(110)
Profit for the year						**308**

* Refer to page 49 for Non-IFRS information

1 Segment information (continued)

(c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis. There were no significant adjustments in the prior period. The significant adjustments for the current period are:

	31 December 2015 $m
Strategic infrastructure projects and assets under construction impairment (i)	**125**
Aquila impairment (ii)	**153**
Rollingstock impairment (iii)	**148**
Total significant adjustments	**426**

31 December 2015

(i) Strategic infrastructure projects impairment ($125 million)

West Pilbara Infrastructure Project ($83 million)
The +/-15% non-binding tariffs were submitted on 30 November 2015. The CEOs of the participating companies, Aurizon, Baosteel Resources, POSCO and AMCI, met in Hong Kong on 21 December 2015 to review the progress of the West Pilbara Iron Ore Project.

While the CEOs received reports on considerable progress in areas such as the capital and operating costs of the mine and infrastructure, the current market conditions and uncertainty about future supply and demand were central to the CEOs considerations.

The participants are committed to consolidating the high quality work to date and minimising project costs. However, no material further work will be undertaken on the definitive feasibility studies. The participants agreed to meet again around the end of first quarter 2016 to consider market and project status at that time. Aurizon’s period of exclusivity will continue until 30 April 2016.

As a result of the above decisions and uncertainty surrounding the timing of the development as well as current market conditions, $83 million of project costs has been impaired. In addition, $91 million in respect of our investment in Aquila relating to WPIOP has been impaired (note 1(c)(ii)).

Galilee Basin ($30 million)
An impairment of $30 million has been recorded in relation to the brownfield expansion of the Central Queensland Coal Network. The amount represents directly attributable development costs such as engineering designs, environmental and building approvals, which could be recovered through the regulatory process at a future date. However, a decision has been made to impair these costs due to uncertainty surrounding the project's timing and the current market outlook. The carrying value of the project is now nil.

Other Projects ($12 million)
Other projects totalling $12m have also been impaired which primarily relate to Central Queensland Coal Network expansion projects that are no longer expected to proceed.

1 Segment information (continued)

(c) Significant adjustments (continued)

(ii) Impairment of the Investment in Aquila ($153 million)

As at 31 December 2015, Aurizon has performed a review of the value of the individual projects within the Aquila investment. The results are summarised below:

• The Aquila board has carried out a strategic review of the South African manganese and iron ore projects and decided to place the projects into care and maintenance while a divestment program is initiated. As a result all South African assets have been written down to nil.

• A supplementary scoping study of the Eagle Downs project has been initiated and the timing of full development is uncertain after the termination of a major contract for the project. As a result the value of Eagle Downs has been impaired to $8 million given Aquila’s expectation that the mine will be developed.

• All other Queensland coal assets have been written down to nil based on the current market outlook and given no substantial expenditure is planned for 2016.

• As outlined above, due to the uncertainty surrounding the timing of the WPIOP development, current market conditions and the agreement that no further material work will be undertaken, the asset has been written down to nil.

As a result of the above the investment in Aquila has been impaired by $153 million. The total carrying value at 31 December 2015 post impairment is $75 million, mainly representing cash balances.

(iii) Impairment of rollingstock ($148 million)

Due to the continued improvements in rollingstock efficiency and productivity coupled with a lower volume outlook, the Enterprise Rollingstock Master Plan, which forecasts the requirements of the locomotives and wagons for the next 10 years, has been revised. This review of fleet has resulted in 131 locomotives and 1,337 wagons being identified as surplus to the current requirements of the Group. Rollingstock identified as surplus and associated inventory has been impaired by $148 million to net realisable value.

2 Revenue and other income

(a) Revenue from continuing operations

The revenue by commodity is as follows:

Network revenue
Provision of access to, and operation and management of, the Central Queensland Coal Network (CQCN).

Coal revenue
Transport of coal from mines in Queensland and New South Wales to end customers and ports.

Iron ore revenue
Transport of iron ore from mines in Western Australia to ports.

Freight revenue
Transport of bulk mineral commodities, agricultural products, mining and industrial inputs and general freight throughout Queensland, New South Wales and Western Australia and containerised freight throughout Australia.

Other revenue
Items of revenue of a corporate nature, ineffective hedging gains and losses and minor operations within the Group including third party above rail provision of overhaul and maintenance services to external customers.

31 December 2015	Network $m	Coal $m	Iron ore $m	Freight $m	Other $m	Total $m
External revenue						
Revenue from external customers						
Services revenue						
Track access	203	373	-	-	-	576
Freight transport	-	577	163	334	-	1,074
Other services	2	-	-	25	19	46
Other revenue	18	-	-	33	11	62
Total revenue from external customers	223	950	163	392	30	1,758
Services revenue						
Track access	357	-	-	-	-	357
Freight transport	-	-	-	4	-	4
Other services	-	-	-	-	87	87
Total internal revenue	357	-	-	4	87	448
Other income	1	-	-	1	(2)	-
Total revenue and other income	**581**	**950**	**163**	**397**	**115**	**2,206**
Internal elimination						(448)
Consolidated revenue and other income						**1,758**

2 Revenue and other income (continued)

(a) Revenue from continuing operations (continued)

31 December 2014	Network $m	Coal $m	Iron Ore $m	Freight $m	Unallocated $m	Total $m
External revenue						
Revenue from external customers						
Services revenue						
Track access	176	358	-	-	-	534
Freight transport	-	612	175	441	-	1,228
Other services	5	-	-	55	18	78
Other revenue	22	-	-	8	47	77
Total revenue from external customers	**203**	**970**	**175**	**504**	**65**	**1,917**
Services revenue						
Track access	325	-	-	-	-	325
Freight transport	-	-	-	2	-	2
Other services	1	-	-	-	114	115
Total internal revenue	**326**	**-**	**-**	**2**	**114**	**442**
Other income	1	-	-	3	44	48
Total revenue and other income	**530**	**970**	**175**	**509**	**223**	**2,407**
Internal elimination						(442)
Consolidated revenue and other income						**1,965**

3 Income tax expense

The Group's effective tax rate for the half year ended 31 December 2015 was not meaningful due to the impact of impairments recorded during the period.

The underlying effective tax rate excluding the impact of impairments was 29% which is lower than the Australian company tax rate of 30% primarily due to Research and Development tax incentives.

4 Earnings per share

(a) Basic and diluted earnings per share

	31 December 2015 Cents	31 December 2014 Cents
Total basic and diluted (loss)/earnings per share attributable to the ordinary equity holders of the Company	**(5.1)**	14.4

4 Earnings per share (continued)

(b) Weighted average number of shares used as denominator

	31 December 2015 Number '000	31 December 2014 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic EPS	**2,109,168**	2,135,565
Rights	**3,189**	8,386
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**2,112,357**	2,143,951

Capital management

In this section…

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

5 Dividends

(a) Ordinary shares

	31 December 2015	31 December 2014
Final dividend for the year ended 30 June 2015 of 13.9 cents 30% franked (2014: 8.5 cents, unfranked) per share, paid 28 September 2015	**295**	182

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

	31 December 2015 $m	31 December 2014 $m
Since 31 December 2015, the directors have recommended the payment of a 70% franked interim dividend of 11.3 cents per fully paid ordinary share (31 December 2014: 10.1 cents unfranked). The aggregate amount of the proposed dividend expected to be paid on 29 March 2016 out of retained earnings, but not recognised as a liability at 31 December 2015.	**237**	215

6 Contributed equity

	31 December 2015 Shares '000	30 June 2015 Shares '000	**31 December 2015 $m**	30 June 2015 $m
Issued capital				
Fully paid	**2,093,350**	2,122,010	**1,368**	1,508

(a) Movements in ordinary share capital

Date	**Details**	**Number of shares '000**	**$m**
1 July 2014	Opening balance	2,137,285	1,508
	On-market share buy-back*	(13,350)	-
31 December 2014	Balance	2,123,935	1,508
1 July 2015	Opening balance	2,122,010	1,508
	On-market share buy-back	(28,660)	(140)
31 December 2015	Balance	2,093,350	1,368

Since the commencement of the on-market buy-back program on 11 November 2014 Aurizon Holdings Limited acquired 43.9 million shares. As at 31 December 2015, the total cost of the on-market buy-back program was $209 million.

* Prior year share buy-back of $60 million was paid out of capital reserves.

7 Borrowings

	31 December 2015 $m	30 June 2015 $m
Current - Unsecured		
Bank facilities	**100**	59
Non-current - Unsecured		
Medium term notes	**1,286**	1,250
Bank facilities	**2,040**	1,690
Capitalised borrowing costs	**(15)**	(16)
Total unsecured non-current borrowings	**3,311**	2,924

In December 2015 Aurizon Network Pty Ltd refinanced $490 million of its syndicated debt facility with an extended maturity date of 1 July 2021.

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

8 Fair value disclosure for financial instruments

Fair values of financial instruments

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

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

	31 December 2015		30 June 2015	
	Carrying value $m	**Fair value $m**	Carrying value $m	Fair value $m
Borrowings	**3,411**	**3,482**	2,983	3,091

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

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

- Forward exchange contracts
- Interest rate swaps (including cross currency interest rate swaps)

(a) Fair value hierarchy

The table below analyses the Group's assets and liabilities carried at fair value. The different levels are defined as follows:

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

8 Fair value disclosure for financial instruments (continued)

(a) Fair value hierarchy (continued)

Recognised fair value measurements

31 December 2015	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Derivative financial assets	**-**	**49**	**-**	**49**
Derivative financial liabilities	**-**	**(34)**	**-**	**(34)**
Net financial instruments measured at fair value	**-**	**15**	**-**	**15**

30 June 2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	-	20	-	20
Derivative financial liabilities	-	(43)	-	(43)
Net financial instruments measured at fair value	-	(23)	-	(23)

There were no transfers between levels 1 and 2 for recurring fair value measurements during the six months to 31 December 2015.

(b) Valuation techniques used to derive fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

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

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

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

Other information

In this section…

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

9 Summary of significant accounting policies

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

(a) Voluntary change in accounting policy

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

The previous accounting policy was to expense rail renewal expenditure as incurred. The new accounting policy was adopted on 1 July 2015 prospectively as the retrospective impact was not material. The impact of this change in accounting policy for the current half year was $6 million. The change in useful life for rail and sleepers has also been adopted on the same date since it is inextricably related to the change in accounting policy.

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

(b) New and revised accounting standards and interpretations

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

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

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

10 Critical accounting estimates and judgements

A number of critical accounting estimates and judgements were disclosed in the 30 June 2015 financial report. Included within those judgements and estimates are the following which have particular relevance to the half year financial statements.

(a) Access undertaking

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

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

(b) Impairment testing

Cash generating units (CGUs)
In accordance with Australian Accounting Standards the Group is required to review, at the end of each reporting period, whether there is any indication that an asset may be impaired. Aurizon has reviewed each CGU for indicators of impairment using both external and internal sources of information. The review included an assessment of performance against expectations and changes in market values and discount rates.

Consistent with prior periods, where there is an indicator of impairment, an impairment assessment is undertaken using value-in-use based on a 3-year approved corporate plan, long-term business forecast and market-based valuation assumptions. Where there are significant changes in the corporate plan, long-term business forecasts or market-based valuation assumptions from those used in impairment testing in previous periods, this may cause the carrying values of non-current assets to exceed their recoverable amounts.

Whilst there has not been an indicator triggering an impairment of a specific CGU in the current period, we continue to monitor the performance of Intermodal and Western Australia CGUs as identified at 30 June 2015.

The group is also monitoring the counter party credit risk and mine production of its customers given the challenging environment of coal and iron ore prices and any impact that changes may have on the recoverable amount of respective CGUs.

Investment in associates
Detailed impairment testing has been completed for investments in associates when there is an indicator of impairment. Other than Aurizon’s investment in Aquila, the carrying value of these assets did not exceed their recoverable amounts determined for impairment testing purposes. For further details of impairment in Aquila, please see note 1(c).

Individual non-current assets
At each reporting period, the Group is required to review individual non-current assets which are no longer expected to be utlised. During the period, the Enterprise Rollingstock Master Plan has been revised as a result of continued improvements in rollingstock efficiency and productivity coupled with a lower volume outlook. This review of fleet has resulted in rollingstock and associated inventory being identified as surplus to the current requirements of the Group resulting in an impairment of $148 million. Management’s judgement has been applied to estimate the forecast volumes and productivity improvements from technological advancements in determining the level of rollingstock required for the foreseeable future. The application of this judgement will continue to be re-assessed.

Unrecognised items

In this section…

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

11 Contingencies

Issues relating to common law claims and product warranties are dealt with as they arise. A number of common law claims are pending against the Group. Provisions are taken up for some of these exposures based on management's determination.

There have been no material changes in contingent assets or liabilities since 30 June 2015.

12 Events occurring after the reporting period

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

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

In the opinion of the directors of the Company:

(a) the financial statements and notes set out on pages 20 to 45 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Tim Poole

T M Poole
Chairman
Brisbane
15 February 2016

Independent auditor's review report to the members of Aurizon Holdings Limited

Report on the Half-Year Financial Report

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

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Aurizon Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Aurizon Holdings Limited is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

John Yeoman
Partner

Brisbane
15 February 2016

Non-IFRS Financial Information in 2015-16 Interim Financial Report

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin – Underlying, Operating Ratio – Underlying, NPAT Underlying, Return On Invested Capital ("ROIC"), Net debt and Net gearing ratio. These measurements are not defined under IFRS and are, therefore, termed "Non-IFRS" measures.

EBIT – Statutory is defined as Group profit before net finance costs, and tax while EBITDA - Statutory is Group profit before net finance costs, tax, depreciation and amortisation. EBIT underlying can differ from EBIT – Statutory due to exclusion of significant items that permits a more appropriate and meaningful analysis of the underlying performance on a comparative basis. EBITDA margin is calculated by dividing underlying EBITDA by the total revenue. These measures are considered to be useful measures of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and/or amortisation.

NPAT Underlying represents the underlying EBIT less finance costs less tax expense excluding tax impact of significant adjustments.

Operating Ratio – is defined as one less underlying EBIT divided by total revenue. The Operating Ratio is the key measure of the operating cost of earning each dollar of revenue and it is used as one of the key performance measures of the Key Management Personnel.

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 month 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. This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net gearing ratio is defined as Net debt divided by Shareholders Equity plus Net debt. Net debt and Net gearing ratio are measures of the Group's indebtedness and provides an indicator of the balance sheet strength.

These above mentioned measures are commonly used by management, investors and financial analysts to evaluate companies' performance.

A reconciliation of the non-IFRS measures and specific items to the nearest measure prepared in accordance with IFRS is included in the table. The non-IFRS financial information contained within this Directors' report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards.

	Half-year ended 31 December 2015 $'m	**Half-year ended 31 December 2014 $'m**
Profit/(loss) before income tax	(93)	**418**
Finance costs (net)	70	68
EBIT – Statutory	**(23)**	**486**
Significant adjustments:		
- Impairment of investment in associates	153	-
- Strategic infrastructure project and assets under construction impairment	125	-
- Rollingstock impairment	148	-
EBIT – Underlying	**403**	**486**
Depreciation and amortisation	280	253
EBITDA - Underlying	**683**	**739**
EBIT - Underlying	403	486
Finance costs (net)	(70)	(68)
Tax - Underlying	(96)	(110)
NPAT - Underlying	**237**	**308**
Operating Ratio	**77.1%**	**75.3%**
Average invested capital	**10,132**	**9,692**
ROIC	**8.8%**	**9.4%**

	As at 31 December 2015 $m	**As at 30 June 2015 $m**
Borrowings – Current	100	59
Borrowings – Non-current	3,311	2,924
Total borrowings	3,411	2,983
Cash and cash equivalent	(159)	(171)
Net debt	**3,252**	**2,812**
Net Gearing Ratio	**35.4%**	**30.2%**