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ASX Market Announcements
ASX Limited
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Sydney NSW 2000

16 February 2015

BY ELECTRONIC LODGEMENT

Aurizon – Half Year Report

Please find attached for immediate release a copy of the Company's Half Year Report for the period ended 31 December 2014.

In accordance with the relief from dual lodgement of financial statements under ASIC Class Order 98/104, the Half Year Report will not be lodged separately with ASIC.

Yours faithfully



Dominic D Smith
VP & Company Secretary



Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report for the six months ended 31 December 2014

Aurizon Holdings Limited ABN 14 146 335 622

Interim Financial Report - 31 December 2014

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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 2014.

Directors

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

J B Prescott AC
 L E Hockridge
 J Atkin
 R R Caplan
 G T John AO
 A J P Staines
 G T Tilbrook
 K L Field
 J D Cooper

P Zito (resigned 24 October 2014)

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
- 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, responsible for the management of customer relationships.

Operations

Responsible for the national delivery of all coal, iron ore, bulk and intermodal haulage services. This includes yard operations, fleet maintenance, operations, engineering and technology, engineering program delivery and safety, health and environment.

Other

Includes costs for MD & 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 21 of this interim financial report.

Debt Refinancing

As announced on 12 September 2014, Aurizon Holdings Limited subsidiary Aurizon Network Pty Ltd has further diversified its funding sources by issuing a 10 year, €500 million, Euro Medium Term Note (EMTN) in the European market. The proceeds of the issue were used to repay existing bank debt. Cross currency interest rate swaps were executed concurrently to fully swap the issuance back to AUD fixed rate debt.

Share Buy-back

On 11 November 2014 the company announced its intention to undertake an on-market buy-back, over a 12 month period. As at 31 December 2014, the company has acquired 13,350,341 shares at a total consideration of \$60 million.

Dividends

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

	31 December 2014 \$m	31 December 2013 \$m
Final dividend for the year ended 30 June 2014 of 8.5 cents (2013: 8.2 cents, 90% franked) per share, paid 22 September 2014 (unfranked)	182	175

Dividends (continued)

The directors have declared an unfranked interim dividend of 10.1 cents per ordinary share for the six months ended 31 December 2014. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 3 March 2015. The payment date is 23 March 2015.

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 22.

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.

A handwritten signature in blue ink, appearing to read 'J B Prescott', with a stylized flourish at the end.

J B Prescott AC
Chairman

16 February 2015

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), 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 43.

1. Half on Half Comparison

Financial Summary

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

Other Operating Metrics

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

Underlying EBIT by Segment

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

Notes:

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

Variance Analysis – 1HFY2015 vs. 1HFY2014

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

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

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

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

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

- A net decrease of \$29m from volume growth (net of access and fuel):
 - \$17m decrease in Intermodal revenue due to 6% reduction in volumes
 - \$13m decrease in Iron Ore revenue due to a 14% reduction in volumes
 - \$2m decrease in Coal revenue due to a 1 % decrease in volumes, partly offset by
 - \$3m increase in Bulk revenue due to a 2% increase in volumes
- A net increase of \$9m in revenue quality as follows:
 - \$23m benefit from Coal (higher fixed revenue), offset by a \$6m increase in take or pay
 - \$3m benefit in Freight (higher fixed revenue in Bulk), and
 - \$11m decrease in Freight from lower contracted payments under the Transport Services Contract (TSC)
- A net benefit of \$11m from Network transitional tariffs
 - Indexation of transitional access tariffs to reflect CPI
- A benefit of \$69m from transformation initiatives (refer to section 3 for additional detail)
 - \$57m from Operations including labour, fleet productivity and fuel
 - \$12m from Support including labour, professional services, lease costs and travel
- A \$40m net benefit on sale of the Redbank maintenance facility
- \$13m of VRP costs
- A net increase in operating costs and other expenses of \$24m including:
 - \$18m increase in labour costs due to lower bonuses paid in the prior period due to EBIT and ROIC targets not being met and salary and wage escalation. Note also the labour transformation benefit, detailed in the 4th bullet point above, driven by the lower FTE count
 - \$14m non-cash increase in leave and land rehabilitation provisions to reflect decrease in period end discount rate in accordance with accounting standards
 - \$7m cost of a major derailment at Broadlea in the Goonyella system in December
 - \$3m loss on sale of CRT, partly offset by
 - \$13m reduction in Intermodal and Iron Ore costs (excluding fuel and access charges) reflecting the lower volumes

Reconciliation to Statutory Earnings

Underlying earnings is a non-statutory measure and is the primary reporting measure used by Management and Group's chief operating decision making bodies for the purpose of managing and assessing financial performance of the business. Underlying earnings is derived by adjusting statutory earnings for significant items as noted in the following table:

(\$m)	1HFY2015	1HFY2014
Underlying EBIT	486	423
Significant Items		
Voluntary Redundancy Program ⁽¹⁾	-	(25)
Transformation related asset impairments	-	(147)
Other impairments	-	(50)
Statutory EBIT	486	201
Net Finance Costs	(68)	(53)
Statutory PBT	418	148
Taxation Expense	(110)	(41)
Statutory NPAT	308	107

Notes:

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

2. Other Financial Information

Cash Flow Summary⁽¹⁾

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

Notes:

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

Cash Flow Movements – 1HFY2015 vs. 1HFY2014

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

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

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

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

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

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

Balance Sheet Summary

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

Balance Sheet Movements – 1HFY2015 vs. 2HFY2014

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

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

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

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

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

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

Dividend

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

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

The relevant Interim Dividend dates are:

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

Share Buy-back

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

- Commenced 27 November 2014
- 13.4 million shares were bought back and subsequently cancelled in 1H FY2015, at a total cost of \$60m
- Timing and actual amount of shares bought back will depend on prevailing share price, business and market conditions
- Impact of buy-back will be excluded from calculation of EPS for remuneration purposes

Funding

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

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

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

As a result of the above, interest cost on drawn debt reduced to 4.5% for 1H FY2015, from 4.8% FY2014 and 4.6% for 1H FY2014.

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

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

Tax

Income tax expense for 1H FY2015 was \$110m, representing an effective tax rate of 26.3%. The cash tax rate for 1H FY2015 was 14.1%, due to accelerated fixed asset related adjustments.

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

3. 75% Operating Ratio Update

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

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

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

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

Key initiatives delivered in 1HFY2015:

Operations – \$57m

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

Support costs – \$12m

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

SEGMENT REVIEW

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

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

Network

Aurizon Network operates the 2,670km Central Queensland Coal Network (CQCN). The open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple customers from more than 50 mines to three ports. The CQCN includes four major coal systems the Moura, Blackwater, Goonyella and Newlands.

Network Financial Summary

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

Network Operating Metrics

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

Network Performance Overview

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

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

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

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

Network Variance Analysis – 1HFY2015 vs. 1HFY2014

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

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

Network Operations Update

(i) Access Undertaking 2013 (UT4)

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

(ii) Transitional Tariff arrangements

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

(iii) Standard User Funding Agreements (SUFA)

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

(iv) Growth

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

Commercial and Marketing

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

Commercial and Marketing Summary

(\$m)	1HFY2015	1HFY2014	Variance %
Total Revenue	1,654	1,698	(3%)
- Coal	970	958	1%
- Above Rail	612	598	2%
- Below Rail ⁽¹⁾	358	360	(1%)
- Freight	509	550	(7%)
- Iron Ore	175	190	(8%)
Operating Costs	(58)	(77)	25%
EBITDA	1,596	1,621	(2%)
Depreciation and amortisation expense	(1)	(5)	80%
Underlying EBIT	1,595	1,616	(1%)

Notes

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

Commercial and Marketing Operating Metrics

	1HFY2015	1HFY2014	Variance %
Coal			
Total Tonnes hauled (million)	109.0	109.7	(1%)
- Queensland	87.7	88.6	(1%)
- NSW	21.3	21.1	1%
% Volumes under new form Contracts (Coal)	63%	52%	11ppt
Contract Utilisation (Coal)	94%	93%	1ppt
Total NTK (billion)	25.2	25.5	(1%)
- Queensland	21.8	22.1	(1%)
- NSW	3.4	3.4	-
Above Rail Revenue / NTK (\$/000 NTK)	24.2	23.4	3%
Below Rail Revenue / NTK (\$/000 NTK)	14.2	14.1	1%
Total Revenue / NTK (\$/000 NTK)	38.5	37.6	2%
Above Rail Revenue / Gross Contracted NTK (\$/000 NTK)	22.5	21.9	3%
Freight			
Total Tonnes Hauled (million)	24.9	24.6	1%
Total NTK (billion)	6.8	6.6	3%
Total Revenue / NTK (\$/000 NTK)	74.9	83.3	(10%)
Iron Ore			
Total Tonnes Hauled (million)	12.9	15.0	(14%)
Contract Utilisation	105%	100%	5ppt
Total NTK (billion)	5.3	6.1	(13%)
Total Revenue / NTK (\$/000 NTK)	33.0	31.1	6%

Commercial and Marketing Performance Overview

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

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

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

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

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

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

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

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

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

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

Customer update

Coal

72% of Aurizon's above rail coal customers by volume are investment grade counterparties (Moody's Aaa – Baa3) with privately owned entities accounting for a further 10% of volumes. In 1H FY2015 coal railings accounted for 74% of total above rail volumes hauled of which 52% was Metallurgical coal and 48% Thermal. The geographic split for 1H FY2015 was 81% Queensland and 19% NSW.

Major developments for 1H FY2015:

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

Freight

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

Major Bulk developments for 1H FY2015:

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

Major Intermodal developments for 1H FY2015:

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

Iron Ore

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

Major developments for 1H FY2015:

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

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

Operations

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

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

Operations Summary

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

Operations Operating Metrics

	1HFY2015	1HFY2014	Variance %
Net Opex ⁽¹⁾ / NTK (\$'000 NTK)	35.4	35.6	1%
Net Opex ⁽²⁾ / NTK (ex access) (\$'000 NTK)	22.1	22.9	3%
Total Tonnes Hauled (m)	146.8	149.4	(2%)
Net Tonne Kilometres (bn)	37.3	38.2	(2%)
FTE	5,435	5,741	5%
NTK / FTE	13.7	13.3	3%
NTK / Active loco	10.46	9.63	9%
NTK / Active wagon	0.43	0.41	5%
Average Payload Coal (tonnes)	8,121	7,921	3%
Turnaround Time – CQCEN (hrs)	24.68	25.14	2%
Fuel Consumption (l/d GTK)	3.22	3.30	2%

Notes

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

Operations Performance Overview

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

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

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

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

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

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

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

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

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

Operations Variance Analysis – 1HFY2015 vs. 1HFY2014

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

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

Operational Update

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

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

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

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

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

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

Other

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

Other Summary

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

Other Metrics

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

Variance Analysis – 1HFY2015 vs. 1HFY2014

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

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

OTHER ACTIVITIES

Enterprise Agreement Update

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

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

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

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

Sustainability

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

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

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

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

The 2015 report will be released by November this year.

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

- **Safety**

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

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

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

- **Environment**

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

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

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

- **Our Communities**

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

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

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

- **Diversity**

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

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

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

- At least one female Director at all times (2 out of 9 or 22.9%)
- Minimum of 27% females in the Management Leadership Team (25% in 1H FY2015)
- Minimum of 35% of females in middle management roles (35.7% in 1H FY2015)
- Minimum of 33% females of trainees, apprentices and graduates (33.3% in 1H FY2015)

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

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

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



Auditor's Independence Declaration

As lead auditor for the review of Aurizon Holdings Limited for the half-year ended 31 December 2014, 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.

A handwritten signature in black ink, appearing to read 'John Yeoman'.

John Yeoman
Partner
PricewaterhouseCoopers

Brisbane
16 February 2015

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Aurizon Holdings Limited
Consolidated income statement
For the six months ended 31 December 2014

	Notes	31 December 2014 \$m	31 December 2013 \$m
Revenue from continuing operations	4	1,917	1,959
Other income		48	-
		<u>1,965</u>	<u>1,959</u>
Employee benefits expense		(539)	(553)
Energy and fuel		(163)	(215)
Track access		(172)	(164)
Consumables		(327)	(350)
Depreciation and amortisation		(253)	(251)
Impairment losses		-	(197)
Other expenses		(29)	(31)
Share of profit/(loss) from associates		4	3
Operating profit		<u>486</u>	<u>201</u>
Finance Income		4	6
Finance expenses		(72)	(59)
Net finance costs		<u>(68)</u>	<u>(53)</u>
Profit before income tax		<u>418</u>	<u>148</u>
Income tax (expense)/benefit	5	(110)	(41)
Profit for the six months		<u>308</u>	<u>107</u>
Profit is attributable to:			
Owners of Aurizon Holdings Limited		<u>308</u>	<u>107</u>
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	6	14.4	5.0

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

Aurizon Holdings Limited
Consolidated statement of comprehensive income
For the six months ended 31 December 2014

	31 December 2014 \$m	31 December 2013 \$m
Profit for the six months	308	107
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges recognised in equity	(28)	(6)
Income tax relating to components of other comprehensive income	8	2
Other comprehensive income for the six months, net of tax	(20)	(4)
Total comprehensive income for the six months	288	103
Total comprehensive income for the six months is attributable to:		
Owners of Aurizon Holdings Limited	288	103

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 2014

	31 December 2014 \$m	30 June 2014 \$m
Notes		
ASSETS		
Current assets		
Cash and cash equivalents	191	318
Trade and other receivables	492	603
Inventories	210	237
Derivative financial instruments	8 1	1
Current tax receivables	-	47
Other assets	18	19
Assets classified as held for sale	14	111
Total current assets	926	1,336
Non-current assets		
Inventories	31	19
Derivative financial instruments	8 44	-
Property, plant and equipment	9,692	9,441
Intangible assets	94	64
Investments accounted for using the equity method	309	83
Other assets	1	5
Total non-current assets	10,171	9,612
Total assets	11,097	10,948
LIABILITIES		
Current liabilities		
Derivative financial instruments	8 3	2
Trade and other payables	341	461
Borrowings	7 30	42
Provisions	320	340
Other liabilities	39	42
Current tax liabilities	3	-
Liabilities directly associated with assets classified as held for sale	-	7
Total current liabilities	736	894
Non-current liabilities		
Derivative financial instruments	8 43	27
Provisions	116	103
Borrowings	7 3,008	2,799
Deferred tax liabilities	535	493
Other liabilities	243	259
Total non-current liabilities	3,945	3,681
Total liabilities	4,681	4,575
Net assets	6,416	6,373
EQUITY		
Contributed equity	9 4,986	5,046
Reserves	(26)	(3)
Retained earnings	1,456	1,330
Total equity	6,416	6,373

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

Aurizon Holdings Limited
Consolidated statement of changes in equity
For the six months ended 31 December 2014

	Notes	Attributable to owners of Aurizon Holdings Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 1 July 2013		5,046	26	1,424	6,496
Profit for the six months		-	-	107	107
Other comprehensive income		-	(4)	-	(4)
Total comprehensive income for the six months		-	(4)	107	103
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	10	-	-	(175)	(175)
Share-based payments		-	(20)	-	(20)
		-	(20)	(175)	(195)
Balance at 31 December 2013		5,046	2	1,356	6,404
Balance at 1 July 2014		5,046	(3)	1,330	6,373
Profit for the six months		-	-	308	308
Other comprehensive income		-	(20)	-	(20)
Total comprehensive income for the six months		-	(20)	308	288
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	9	(60)	-	-	(60)
Dividends provided for or paid	10	-	-	(182)	(182)
Share-based payments		-	(3)	-	(3)
		(60)	(3)	(182)	(245)
Balance at 31 December 2014		4,986	(26)	1,456	6,416

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

Aurizon Holdings Limited
Consolidated cash flow statement
For the six months ended 31 December 2014

	31 December 2014 \$m	31 December 2013 \$m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	2,192	2,215
Payments to suppliers and employees (inclusive of GST)	(1,501)	(1,564)
Interest received	4	6
Income taxes paid	(9)	(84)
Net cash inflow from operating activities	686	573
Cash flows from investing activities		
Payments for property, plant and equipment	(499)	(421)
Proceeds from sale of business/property, plant and equipment	139	5
Interest paid on qualifying assets	(19)	(15)
Payments for intangibles	(34)	(4)
Payments for investment in associates	(217)	(1)
Distributions received from associates	3	2
Net cash outflow from investing activities	(627)	(434)
Cash flows from financing activities		
Proceeds from borrowings	856	582
Repayment of borrowings	(722)	(500)
Payment of transaction costs related to borrowings	(4)	(2)
Payments for shares acquired for share based payments and share buy-back	(72)	(24)
Dividends paid to Company's shareholders	(182)	(175)
Interest paid	(62)	(37)
Net cash outflow from financing activities	(186)	(156)
Net (decrease)/increase in cash and cash equivalents	(127)	(17)
Cash and cash equivalents at the beginning of the financial year	318	108
Cash and cash equivalents at end of six months	191	91

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

1 Summary of significant accounting policies

The financial statements of Aurizon Holdings Limited ("the Company") for the six months ended 31 December 2014 are for the consolidated entity consisting of the Company and its subsidiaries (together referred to as "the Group" or "Aurizon"). The financial statements are presented in Australian currency.

(a) Basis of preparation

This condensed consolidated interim financial report for the six month reporting period ended 31 December 2014 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 2014 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 2014 is accessible at www.aurizon.com.au.

The principal accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year, except as modified as required for the adoption of new accounting standards. 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.

(i) New and amended standards adopted by the Group

The Group has adopted AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets as a result of the new accounting standard becoming mandatory for reporting periods beginning 1 July 2014. Application of the new standard has no impact for these financial statements as no impairments have been recorded during the six month period ended 31 December 2014.

The Group elected to early adopt AASB 9 Financial Instruments for reporting periods beginning 1 July 2014. The impact of early adopting AASB 9 is explained in Note 1(a)(ii).

No other new standards and amendments to standards that are mandatory for first time adoption for reporting periods beginning 1 July 2014 affected any of the amounts recognised in the current period or any prior period.

(ii) Early adoption of standards

The Group early adopted AASB 9 Financial Instruments (2014) with a date of initial application of 1 July 2014.

As a result, the Group's policies were amended to comply with AASB 9 issued in July 2014. This version of AASB 9 replaces the provisions of AASB 139 that relate to the recognition and measurement, impairment, derecognition and general hedge accounting.

While AASB 9 does not need to be applied until 1 January 2018, the Group has decided to adopt it early from 1 July 2014. It requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

The Group's management has assessed which business models apply to the financial assets held by the Group at the date of initial application of AASB 9 (1 July 2014).

The Group did not have any financial assets in the balance sheet that were previously designated as available for sale or fair value through profit or loss but are no longer so designated. Neither did it designate any financial asset at fair value through profit or loss on initial application of AASB 9.

There was no difference between the previous carrying amount and the revised carrying amount of the financial assets at 1 July 2014 to be recognised in opening retained earnings and there was no change in classification of the financial assets.

The adoption of the revised AASB 9 did not affect the Group's accounting for its financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Early adoption of standards (continued)

The Group elected to apply the hedge accounting in Chapter 6 of AASB 9 prospectively. The Group's management has assessed the existing hedging relationships in accordance with the qualifying criteria in AASB 9 at 1 July 2014. The hedging relationships continue to meet the requirement under AASB 9 and all hedge relationships are continuing and no hedge ratio rebalancing was required at the initial application of AASB 9.

The impairment model in AASB 9 is based on the premise of providing for expected losses. The change in the impairment model has no significant impact to the Group's impairment policy.

As outlined above, there has been no impact on adopting AASB 9 and no restatement of prior period has occurred.

Other than AASB 9 Financial Instruments, the Group has not elected to apply other pronouncements before their operative date in the annual reporting period beginning 1 July 2014.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and assets and liabilities (including derivative instruments) at fair value.

(iv) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars, unless otherwise indicated.

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Take or Pay

The calculation of Take or Pay is based on an assessment of access charges from contracted railings that have not been achieved subject to an adjustment for Aurizon Network Pty Ltd ("below rail") cause. Below rail cause is based on information on below rail versus operator/mine cancellations in the relevant year. The estimate of Take or Pay is based on management's judgement of below rail cause and is recognised in the year in which the contractual railings have not been achieved.

Take or Pay has not been accrued to December 2014 pending the UT4 Decision. Access revenue has been booked on the amounts invoiced applying the transitional tariffs to actual volumes.

(b) Strategic infrastructure projects

During the period, work continued on various significant infrastructure projects in relation to above and below rail development in West Pilbara and Galilee Basin. As at 31 December 2014, \$54 million (30 June 2014: \$42 million) of costs were capitalised. The development costs relate to directly attributable expenditure predominantly on engineering design, environmental and building approvals and project management. Management's judgement has been applied to the extent to which capitalisation of these development costs is appropriate. Whilst these strategically important projects continue to achieve key milestones, the application of this judgement will continue to be re-assessed throughout the life of the projects.

2 Critical accounting estimates and judgements (continued)

(c) Access Undertaking

On 30 April 2013, Aurizon Network submitted its 2013 Draft Access Undertaking (UT4) to the Queensland Competition Authority (QCA) for approval. As full approval of UT4 would not occur before 30 June 2013, Aurizon Network submitted to the QCA two Draft Amending Access Undertakings (DAAUs) to extend the terminating date of its 2010 Access Undertaking (UT3) from 30 June 2013 to 30 June 2014 and subsequently to 30 June 2015 (or earlier if UT4 is approved). The recent DAAU referencing the period from 30 June 2014 to 30 June 2015 was approved by the QCA on 12 June 2014 and applies transitional tariffs up until 30 June 2015. For the period ended 31 December 2014, access revenue recognised in these financial statements is based on actual volume at the transitional tariffs in the DAAU.

A Draft Decision on Maximum Allowable Revenue (MAR) was released on 30 September 2014. The QCA will have regard to any new issues raised by Aurizon Network and its stakeholders in response to the Draft Decision. Aurizon Network lodged its submission in response to the QCA's draft UT4 MAR decision on 19 December 2014 and is committed to continue collaboration with the QCA and industry to achieve the objective of finalising UT4 by July 2015 in line with the QCA's timetable published on 19 December 2014.

3 Segment information

(a) Operating segments

As announced on 2 December 2014, Aurizon changed its financial disclosure for FY 2015 and beyond to reflect the completion of the company's re-organisation to a functional structure. All future financial results will be disclosed under new operating segments (Commercial & Marketing, Network, Operations and Other) as it more accurately represents the operating structure of the company.

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, responsible for the management of customer relationships.

Operations

Responsible for the national delivery of all coal, iron ore, bulk and intermodal haulage services. This includes yard operations, fleet maintenance, operations, engineering and technology, engineering program delivery and safety, health and environment.

Other

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

3 Segment information (continued)

(b) Segment information

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 (underlying)	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)
Depreciation and amortisation	(106)	(1)	(144)	(2)	-	(253)
Other expenses	(9)	1	(10)	(10)	3	(25)
Total functional costs (underlying)	(312)	(59)	(1,498)	(52)	442	(1,479)
<i>EBITDA (underlying)*</i>	324	1,596	(1,178)	(3)	-	739
EBIT (underlying)*	218	1,595	(1,322)	(5)	-	486
Significant adjustments (note 3(c))						-
EBIT*						486
Net finance costs						(68)
Profit before income tax						418
Income tax expense						(110)
Profit for the year						308

The revenue by commodity is as follows:

Network revenue

Provision of access to and operation and management of the Central Queensland and 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.

3 Segment information (continued)

(b) Segment information (continued)

31 December 2014	Network \$m	Coal \$m	Iron Ore \$m	Freight \$m	Other \$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

* Refer to page 43 for Non-IFRS information

3 Segment information (continued)

(b) Segment information (continued)

31 December 2013	Network \$m	Commercial & marketing \$m	Operations \$m	Other \$m	Eliminations \$m	Total continuing operations \$m
External revenue	196	1,694	64	5	-	1,959
Internal revenue	325	4	127	-	(456)	-
Total functional revenue (underlying)	521	1,698	191	5	(456)	1,959
Functional costs						
Employee benefits expense	(64)	(32)	(401)	(31)	-	(528)
Energy & fuel	(60)	(3)	(152)	-	-	(215)
Track access	-	-	(488)	-	324	(164)
Consumables	(77)	(37)	(343)	(21)	128	(350)
Depreciation and amortisation	(98)	(5)	(147)	(1)	-	(251)
Other expenses	(5)	(5)	(21)	(1)	4	(28)
Total functional costs (underlying)	(304)	(82)	(1,552)	(54)	456	(1,536)
<i>EBITDA (underlying)*</i>	315	1,621	(1,214)	(48)	-	674
EBIT (underlying)*	217	1,616	(1,361)	(49)	-	423
Significant adjustments (note 3(c))						(222)
EBIT*						201
Net finance costs						(53)
Profit before income tax						148
Income tax expense						(41)
Profit for the year						107

31 December 2013	Network \$m	Coal \$m	Iron Ore \$m	Freight \$m	Unallocated \$m	Total \$m
External revenue						
Revenue from external customers						
Services revenue						
Track access	165	360	-	1	-	526
Freight transport	-	596	190	461	-	1,247
Other services	8	-	-	66	23	97
Other revenue	23	2	-	18	46	89
Total revenue from external customers	196	958	190	546	69	1,959
Services revenue						
Track access	324	-	-	-	-	324
Freight transport	-	-	-	4	-	4
Other services	1	-	-	-	123	124
Other revenue	-	-	-	-	4	4
Total internal revenue	325	-	-	4	127	456
Total revenue and other income	521	958	190	550	196	2,415
Internal elimination						(456)
Consolidated revenue and other income						1,959

* Refer to page 43 for Non-IFRS information

3 Segment information (continued)

(c) Significant adjustments

The Group's underlying results differs from the statutory result. 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 items in the current period. The significant adjustments for the prior period are:

	31 December 2013 \$m
Voluntary redundancy schemes (i)	25
Rollingstock impairment (ii)	147
Strategic infrastructure project impairment (iii)	50
Total significant adjustments	<u>222</u>

31 December 2013

(i) Voluntary redundancy schemes

A major voluntary redundancy scheme at a cost of \$25 million was carried out during the period. 206 employees have accepted a redundancy payment and a further 56 employees who have accepted voluntary redundancy are expected to leave the Group before 30 June 2014.

(ii) Rollingstock impairment

The group has recently completed an Enterprise Rollingstock Master Plan which forecasts the requirements of the locomotives and wagons for the next 10 years. The strategy is based on estimated customer demand, expected productivity improvements through integrated service design to reduce cycle times and asset requirements, standardisation of the fleet to minimise operational complexity and maintenance cost. A review of asset lifecycles including overhauls, cascades and disposal timings for the fleet resulted in 180 locomotives and 2,581 wagons being immediately identified as surplus to the current requirements of the Group. Rollingstock identified as surplus has been decommissioned and written down to net realisable value resulting in an impairment of \$147 million.

(iii) Strategic infrastructure project impairment

A strategic infrastructure project review carried out during the period resulted in an impairment of \$50 million. An impairment has been recognised in respect of Surat Basin Rail Joint Venture costs given announcement of termination of the joint venture in November 2013 following recent announcement by Glencore Xstrata that its Wandoan Project is being put on hold. Costs associated with an alternative Galilee Basin rail development have also been impaired following the submission of a revised corridor proposal and Environmental Impact Study in August 2013 by alternative developers, together with consolidation of our own corridor with GVK Hancock, announced 25 November 2013.

4 Revenue

	31 December 2014 \$m	31 December 2013 \$m
Services revenue		
Track access	534	526
Freight transport	1,228	1,247
Other services	78	97
Other revenue	<u>77</u>	<u>89</u>
	<u>1,917</u>	<u>1,959</u>

5 Income tax expense

(a) Income tax expense

	31 December 2014 \$m	31 December 2013 \$m
Current tax	74	19
Deferred tax	49	22
Current tax relating to prior periods	(15)	(5)
Deferred tax relating to prior periods	2	5
	<u>110</u>	<u>41</u>

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	31 December 2014 \$m	31 December 2013 \$m
Profit before income tax expense	418	148
Tax at the Australian tax rate of 30% (2014: 30%)	<u>125</u>	<u>45</u>
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible offshore expenses	-	1
Research and development	(1)	(2)
Non-assessable income	(3)	(4)
Adjustments for tax of prior periods	(13)	-
Other	2	1
Income tax expense	<u>110</u>	<u>41</u>

6 Earnings per share

(a) Basic and diluted earnings per share

	31 December 2014 Cents	31 December 2013 Cents
Total basic and diluted Earnings Per Share attributable to the ordinary equity holders of the Company	14.4	5.0

6 Earnings per share (continued)

(b) Weighted average number of shares used as denominator

	31 December 2014 Number '000	31 December 2013 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,135,565	2,137,285
Rights	8,386	4,302
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>2,143,951</u>	<u>2,141,587</u>

7 Borrowings

	31 December 2014 \$m	30 June 2014 \$m
Current - Unsecured		
Bank facilities	30	42
Non-current - Unsecured		
Medium term notes	1,285	518
Bank facilities	1,745	2,310
Capitalised borrowing costs	(22)	(29)
Total unsecured non-current borrowings	<u>3,008</u>	<u>2,799</u>

In September 2014 Aurizon Network Pty Ltd issued a 10 year Euro Medium Term Note (EMTN) in the European market, allocating €500 million with a coupon of 2.00% per annum and repaid and cancelled its existing term loan facility of \$710 million. The EMTN is due to mature in September 2024. Cross currency interest rate swaps were executed concurrently to fully swap the issuance back to AUD fixed rate debt.

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 2014 and 30 June 2014 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 ending 31 December 2014, the borrowing rates were determined to be ranging from 3.0% to 4.6% depending on the type of borrowing (30 June 2014 - 3.4% to 5.0%).

	31 December 2014		30 June 2014	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
Short-term borrowings	30	30	42	43
Medium and long-term borrowings	3,008	3,143	2,799	2,867
	<u>3,038</u>	<u>3,173</u>	<u>2,841</u>	<u>2,910</u>

8 Fair value disclosure for financial instruments (continued)

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)

(i) Recognised fair value measurements

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
31 December 2014				
Derivative financial assets	-	45	-	45
Derivative financial liabilities	-	(46)	-	(46)
Net financial instruments measured at fair value	-	(1)	-	(1)
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
30 June 2014				
Derivative financial assets	-	1	-	1
Derivative financial liabilities	-	(29)	-	(29)
Net financial instruments measured at fair value	-	(28)	-	(28)

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

(ii) Disclosed fair values

The Group also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the full year financial statements. The net fair value of cash, cash equivalents and non interest bearing financial assets and liabilities approximates their carrying value due to their short maturity.

(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 it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Interest rate swaps fair value has been determined as the net present value of future contracted cash flows. These values have been adjusted to reflect the credit risk of the Group and relevant counterparties, depending on whether the instrument is a financial asset or a financial liability. The Existing Exposure method, which discounts estimated future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted. For cross currency interest rate swaps, the fair values have been adjusted to reflect the credit risk of the Group and relevant counterparties based on potential future exposures, regardless of whether the instrument is an asset or liability position as at balance date.

9 Contributed equity

	31 December 2014 Shares '000	30 June 2014 Shares '000	31 December 2014 \$m	30 June 2014 \$m
Issued capital				
Fully paid	2,123,935	2,137,285	1,508	1,508
			31 December 2014 \$m	30 June 2014 \$m
<i>Other contributed equity</i>				
Opening balance			3,538	3,538
On-Market share buy-back			(60)	-
Closing balance			3,478	3,538
Total contributed equity			4,986	5,046

(a) Movements in ordinary share capital

Date	Details	Number of shares '000	\$m
1 July 2013	Opening balance	2,137,285	1,508
31 December 2013	Balance	2,137,285	1,508
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

Since the commencement of the on-market buy-back program on 11 November 2014 Aurizon Holdings Limited acquired 13,350,341 shares. As at 31 December 2014, the total cost of the on-market buy-back program was \$60 million.

10 Dividends

(a) Ordinary shares

	31 December 2014	31 December 2013
Final dividend for the year ended 30 June 2014 of 8.5 cents (2013: 8.2 cents, 90% franked) per share, paid 22 September 2014 (unfranked)	182	175

10 Dividends (continued)

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

	31 December 2014 \$m	31 December 2013 \$m
Since 31 December 2014, the directors have recommended the payment of an unfranked interim dividend of 10.1 cents per fully paid ordinary share (31 December 2013: 8.0 cents). The aggregate amount of the proposed dividend expected to be paid on 23 March 2015 out of retained earnings, but not recognised as a liability at 31 December 2014.	215	171

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 2014. The Group has not received the deficit tonnage charges relating to the year ended 30 June 2014 that were previously recognised as a contingent asset. The Group has a contingent asset of \$3 million in respect of deficit tonnage charges relating to contracts for the period ended 31 December 2014.

12 Net Tangible Assets per share

	31 December 2014	31 December 2013
Net tangible asset (per share)	2.98	2.99

Net tangible assets per share is calculated by dividing total equity attributable to the owners of Aurizon Holdings limited, less goodwill and intangible assets, by the number of shares on issue at period end. As at 31 December 2014 based on 2,124 million shares (31 December 2013: 2,137 million shares).

13 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 23 to 39 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 2014 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.

A handwritten signature in blue ink, appearing to read 'J B Prescott', with a stylized flourish at the end.

J B Prescott AC
Chairman

16 February 2015



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 2014, the consolidated income statement, 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 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 2014 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 2014 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*.

A stylized, handwritten signature in black ink, appearing to read "PricewaterhouseCoopers".

PricewaterhouseCoopers

A stylized, handwritten signature in black ink, appearing to read "John Yeoman".

John Yeoman
Partner

Brisbane
16 February 2015

Non-IFRS Financial Information in 2014-15 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, 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 because of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and/or amortisation.

Operating Ratio – is defined as 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 months average of net property, plant and equipment including assets under construction plus current assets less cash less current liabilities plus gross 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 below. 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.

Notes	Half-year ended 31 December 2014 \$'m	Half-year ended 31 December 2013 \$'m
Profit before income tax	418	148
Finance costs (net)	68	53
EBIT – Statutory	486	201
Significant adjustments:		
- Voluntary redundancy schemes	-	25
- Strategic infrastructure project impairment	-	50
- Rollingstock impairment	-	147
EBIT – Underlying	486	423
Depreciation and amortisation	253	251
EBITDA - Underlying	739	674
Operating Ratio	75.3%	78.4%
Average invested capital	9,692	9,563
ROIC	9.4%	8.6%

Notes	As at 31 December 2014 \$'m	As at 30 June 2014 \$'m
Borrowings – Current	30	42
Borrowings – Non-current	3,008	2,799
Total borrowings	3,038	2,841
Cash and cash equivalent	(191)	(318)
Net debt	2,847	2,523
Net Gearing Ratio	30.7%	28.4%