Aurizon Holdings Limited

Appendix 4D

Results for announcement to the market on 12 February 2018

For the six-month period ended 31 December 2017 (1HFY2018)

Previous corresponding period (pcp) for the six-month period ended 31 December 2016 (1HFY2017)

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

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1HFY2018 IN REVIEW

Result Highlights (Underlying continuing operations)

($m)	1HFY2018	1HFY2017	Variance %
Total revenue	1,565.3	1,621.2	(3%)
EBITDA	744.3	788.8	(6%)
EBIT	485.3	511.5	(5%)
Adjustments - Impairments	-	(95.2)	nm
- Redundancy costs	-	(60.8)	nm
EBIT – statutory	485.3	355.5	37%
NPAT	281.5	295.0	(5%)
NPAT – statutory	281.5	185.8	52%
Free cash flow (FCF)	345.0	386.8	(11%)
Interim dividend (cps)	14.0	13.6	3%
Earnings per share (cps)	13.9	14.4	(3%)
Return on invested capital (ROIC)	9.6%	10.3%	(0.7ppt)
EBITDA margin (%)	47.5%	48.7%	(1.2ppt)
Operating ratio (OR) (%)	69.0%	68.4%	(0.6ppt)
Above Rail Tonnes (m)	136.3	133.8	2%
Above Rail opex / NTK (excluding access) ($/'000 NTK)	18.0	18.3	(2%)
Gearing (net debt / net debt + equity) (%)	41.2%	37.1%	(4.1ppt)

- EBIT down 5% to $485.3m
  - Network down $44.2m (15%) due to impact of true ups in prior year
  - Bulk up $17.7m (738%) due to transformation benefits and lower depreciation from FY2017 impairment
  - Coal up $4.3m (2%) due to 4% higher volumes and transformation benefits partly offset by increases in operating costs for new volumes
- FCF decreased $41.8m due to lower proceeds from asset sales offset in part by a 10% increase in net operating cashflows
- Interim dividend of 14.0cps, 50% franked (100% payout ratio on NPAT for continuing operations), an increase of 3%
- 75% of the $300m buy back complete, balance to be completed in 2HFY2018
- Intermodal Interstate ceased operation in December 2017; waiting for regulatory approval for Queensland Intermodal and Acacia Ridge terminal transactions

Major items

- $42.4m in sustainable transformation benefits, $302.4m since 1 July 2015. On track for $380.0m target including the $48.2m Intermodal losses to be removed with the closure and sale of the Intermodal business
- UT5 Draft Decision issued by the QCA on 15 December 2017 is extremely disappointing in its current form, causing damage to Aurizon, customers and the Queensland economy. The QCA view is inconsistent with commercial reality and will require an undesirable change to Aurizon's maintenance and operating practices

Outlook

- Earnings guidance range for FY2018 is unchanged with EBIT $900 - $960m for the continuing operations
- Coal volumes reduced to 210 – 220mt due to likely impact from implementing revised maintenance and operating practices in Network to align with UT5 Draft Decision
- Approved transitional tariffs, based on UT4 FY2017 MAR adjusted for:
  - $90m true ups relating to prior years
  - $24m revenue cap (FY2016 over collection repaid to customers)
  - $17m cyclone repair costs recovery in 2HFY2018
- Continued delivery of transformation in remaining core business
- No major weather impacts

CONSOLIDATED RESULTS (Underlying continuing operations)

1. Half on Half Comparison

Financial Summary

($m)		1HFY2018	1HFY2017	Variance %	2HFY2017
Total revenue		**1,565.3**	**1,621.2**	**(3%)**	**1,521.3**
Operating costs					
Employee benefits		(387.3)	(408.5)	5%	(373.4)
Energy and fuel		(126.6)	(118.7)	(7%)	(117.8)
Track access		(106.9)	(94.5)	(13%)	(109.7)
Consumables		(167.9)	(185.4)	9%	(207.5)
Other		(32.3)	(25.3)	(28%)	(50.2)
EBITDA		**744.3**	**788.8**	**(6%)**	**662.7**
	- statutory	744.3	632.8	18%	59.0
Depreciation and amortisation		(259.0)	(277.3)	7%	(290.0)
EBIT		**485.3**	**511.5**	**(5%)**	**372.7**
	- statutory	485.3	355.5	37%	(231.0)
Net finance costs		(80.8)	(92.1)	12%	(86.6)
Income tax expense		**(123.0)**	**(124.4)**	**1%**	**(86.5)**
	- statutory	(123.0)	(77.6)	(59%)	94.6
NPAT		**281.5**	**295.0**	**(5%)**	**199.6**
	- statutory	281.5	185.8	52%	(223.0)
Loss after tax from discontinued operations	- statutory	(71.1)	(132.2)	46%	(18.5)
NPAT (group)	**- statutory**	**210.4**	**53.6**	**293%**	**(241.5)**
Earnings per share[1]		**13.9**	**14.4**	**(3%)**	**9.7**
	- statutory	13.9	9.1	53%	(10.9)
Earnings per share[1] (group)		13.0	**13.6**	**(4%)**	**8.9**
	- statutory	10.4	2.6	300%	(11.8)
Return on invested capital (ROIC)[2]		9.6%	10.3%	(0.7ppt)	9.3%
Return on invested capital (ROIC)[2] (group)		8.8%	9.6%	(0.8ppt)	8.7%
Operating ratio		69.0%	68.4%	(0.6ppt)	75.5%
Net cashflow from operating activities		700.9	635.7	10%	637.5
Interim dividend per share (cps)		14.0	13.6	3%	8.9
Gearing (net debt / net debt + equity) (%) (group)		41.2%	37.1%	(4.1ppt)	39.6%
Net tangible assets per share ($) (group)		2.3	2.6	(12%)	2.4
People (FTE)		4,897	5,197	6%	5,024

Operating Metrics

	1HFY2018	1HFY2017	Variance %	2HFY2017
Above Rail[3] Revenue / NTK ($/'000 NTK)	37.6	37.5	-	40.1
Network Track Access Revenue / NTK ($/'000 NTK)	19.9	22.2	(10%)	22.9
Labour costs[4] / Revenue	23.8%	25.0%	1.2ppt	24.4%
NTK / FTE (MNTK)	13.4	12.7	6%	12.0
Above Rail opex / NTK (excluding access) ($/'000 NTK)	18.0	18.3	2%	20.2
Above Rail NTK (bn)	32.8	32.9	-	30.1
Above Rail Tonnes (m)	136.3	133.8	2%	122.7

[1] Calculated on weighted average number of shares on issue – 2,032m 1HFY2018 and 2,052m 1HFY2017
[2] ROIC is defined as underlying rolling twelve-month EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve-month average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles
[3] Above rail includes both Coal above rail revenue and Bulk freight transport revenue
[4] 1HFY2018 excludes $14.5 m redundancy costs (1HFY2017 excludes $3.3m redundancy costs)

EBIT by Segment

	1HFY2018	1HFY2017	Variance %	2HFY2017
Coal	222.5	218.2	2%	201.8
Bulk	20.1	2.4	738%	(16.8)
Network	248.5	292.7	(15%)	188.2
Other	(5.8)	(1.8)	(222%)	(0.5)
Group (Continuing operations)	**485.3**	**511.5**	**(5%)**	**372.7**

Group Performance Overview

EBIT decreased $26.2m or 5% to $485.3m due to lower Network earnings resulting from the positive impact of true-ups in the prior year. Strong demand from customers has resulted in an increase in coal volumes, with Network recording a 3% increase to a record 116.6mt and above rail Coal volumes increasing 4% to 107.8mt.

Sustainable transformation benefits continued to be delivered with $42.4m achieved during the period, with the company remaining on track to achieve its transformation targets by the end of FY2018.

Group revenue decreased $55.9m or 3% mainly due to the impact of true-ups in the prior year as noted above, which offset a moderate (2%) increase in total above rail volumes (coal and bulk) to 136.3mt.

Operating costs decreased $11.4m or 1% with transformation benefits partly offset by higher volume related costs in Coal (including pass-through access charges) and CPI related cost increases. Depreciation has decreased $18.3m or 7% mainly due to the impairments in FY2017 reducing depreciation in the Bulk business offsetting some moderate increases in Coal and Network.

Return on Invested Capital (ROIC) was 9.6%, a reduction of 70bps due to the reduction in EBIT. The full benefit of the 30 June 2017 impairments were not realised due to a 12 month average being used for the invested capital base.

With no underlying adjustments for continuing operations, statutory EBIT was also $485.3m, with the $129.8m (37%) increase from the prior year reflecting $156.0m in impairments and redundancy costs in the prior period as noted below. This excludes underlying adjustments that relate to Intermodal as this is treated as a discontinued operation due to the decision to exit the business through a combination of closure and sale.

Reconciliation to Statutory Earnings

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

($m)	1HFY2018	1HFY2017	FY2017
Underlying EBIT (Continuing operations)	**485.3**	**511.5**	**884.2**
Significant items (Continuing operations)	**-**	**(156.0)**	**(759.7)**
Asset impairments	-		
Freight Management Transformation project	-	(64.0)	(64.0)
Impairment of assets in exit of contracts	-	(10.2)	(10.2)
Transformation assets	-	(21.0)	(48.9)
Bulk			(525.9)
Redundancy costs	-	(60.8)	(110.7)
Statutory EBIT (Continuing operations)	**485.3**	**355.5**	**124.5**
Net finance costs	(80.8)	(92.1)	(178.7)
Statutory PBT (Continuing operations)	**404.5**	**263.4**	**(54.2)**
Taxation benefit/(expense)	(123.0)	(77.6)	17.0
Statutory NPAT (Continuing operations)	**281.5**	**185.8**	**(37.2)**
Profit after tax from Discontinued operations	5.9	33.2	16.6
Significant items (Discontinued operations)	**(77.0)**	**(165.4)**	**(167.3)**
Asset impairments	(4.5)	(162.2)	(162.2)
Intermodal closure	(60.2)	-	-
Redundancy	(12.3)	(3.2)	(5.1)
Statutory NPAT	**210.4**	**53.6**	**(187.9)**

There have been no significant items for the continuing operations this year. Due to the closure and sale of the Intermodal business, it has been classified as a discontinued operation with $77.0m of significant items as detailed below:

› $60.2m for closure costs, including contract, lease and supplier exit costs
› $12.3m in redundancy costs for 166 employees in the Interstate business
› $4.5m in asset impairments

The majority of these costs will be paid in 2HFY2018.

2. Other Financial Information

Balance Sheet Summary

($m)	31 December 2017	30 June 2017	31 December 2016
Assets classified as held for sale	121.0	7.3	5.7
Other current assets	719.8	722.1	748.6
Total current assets	**840.8**	**729.4**	**754.3**
Property, plant & equipment (PP&E)	8,731.8	8,835.0	9,454.4
Other non-current assets	302.6	281.5	256.6
Total non-current assets	**9,034.4**	**9,116.5**	**9,711.0**
Total Assets	**9,875.2**	**9,845.9**	**10,465.3**
Liabilities classified as held for sale	(12.6)	-	-
Other current liabilities	(705.0)	(665.2)	(594.4)
Total borrowings	(3,551.7)	(3,376.2)	(3,388.1)
Other non-current liabilities	(778.2)	(782.4)	(940.3)
Total Liabilities	**(5,047.5)**	**(4,823.8)**	**(4,922.8)**
Net Assets	**4,827.7**	**5,022.1**	**5,542.5**
Gearing (net debt/net debt plus equity) (%)	**41.2%**	**39.6%**	**37.1%**

Balance Sheet Movements

Total current assets increased by $111.4m largely due to:

› Net increase in assets held for sale of $113.7m due to the closure and sale of Intermodal
› Net increase in inventory of $8.7m due to scheduling of rollingstock maintenance program
› Net increase in cash held of $77.1m, partly offset by
› Net decrease in trade and other receivables of $76.5m due to a decrease in GAPE revenue accruals and reclassification of Intermodal Queensland trade debtors to assets held for sale
› Net decrease in tax receivable of $17.8m due to the current tax liability

Total non-current assets decreased by $82.1m largely due to net decrease in PP&E of $103.2m due to reclassification of PP&E to assets held for sale and depreciation, partly offset by capital expenditure and $26.9m increase in derivative financial instruments (favourable valuation).

Total current liabilities, excluding borrowings, increased by $52.4m due to increase in current tax liabilities and deposit received in relation to the sale of Intermodal business.

Total borrowings increased by $175.5m due to revaluation of medium term notes and increase in drawdowns on the syndicated debt facility, partly offset by repayment of working capital facility.

Other non-current liabilities have decreased by $4.2m due to lower derivative financial instruments (favourable valuations) and other liabilities, offset by increase in lease incentive liability and deferred tax liability.

Gearing (net debt/net debt plus equity) was 41.2% as at 31 December 2017.

Cash Flow Summary

($m)	1HFY2018	1HFY2017	2HFY2017
Statutory EBITDA (continuing operations)	**744.3**	**632.8**	**59.0**
Working capital and other movements	(0.3)	31.2	43.9
Non-cash adjustments asset impairments[5]	4.6	104.3	574.0
Cash flows from continuing operations	**748.6**	**768.3**	**676.9**
Interest received	0.8	1.7	1.1
Income taxes paid	(48.5)	(134.3)	(40.5)
Net cash inflow from operating activities from Continuing operations	**700.9**	**635.7**	**637.5**
Net operating cashflows from Discontinued operations	(19.1)	(11.0)	(23.8)
Net operating cash flows	**681.8**	**624.7**	**613.7**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment (PP&E) and associate	8.3	104.8	6.6
Payments for PP&E and intangibles	(285.1)	(264.8)	(241.6)
Interest paid on qualifying assets	(1.2)	(2.0)	(1.2)
Net cash (outflow) from investing activities from Continuing operations	**(278.0)**	**(162.0)**	**(236.2)**
Net investing cashflows from Discontinued operations	42.7	(20.2)	(12.8)
Net investing cashflows	**(235.3)**	**(182.2)**	**(249.0)**
Cash flows from financing activities			
Net proceeds / (repayments) from borrowings	121.0	(31.0)	(23.9)
Payment of transaction costs related to borrowings	(4.1)	(0.2)	(0.2)
Payment for share buy-back and share based payments	(225.8)	(7.2)	(0.3)
Interest paid	(77.9)	(86.9)	(86.1)
Dividends paid to Company shareholders	(182.6)	(272.9)	(279.0)
Net cash (outflow) from financing activities from Continuing operations	**(369.4)**	**(398.2)**	**(389.5)**
Net financing cashflows from Discontinued operations	-	-	-
Net financing cashflows	**(369.4)**	**(398.2)**	**(389.5)**
Net increase / (decrease) in cash from Continuing operations	**53.5**	**75.5**	**11.8**
Net increase / (decrease) in cash from Discontinued operations	**23.6**	**(31.2)**	**(36.6)**
Free Cash Flow (FCF)[6] from Continuing operations	***345.0***	***386.8***	***315.2***
Free Cash Flow (FCF)[6] from Discontinued operations	***23.6***	***(31.2)***	***(36.6)***

Cash Flow Movements

Net cash inflow from operating activities for continuing operations increased by $65.2m (10%) to $700.9m, largely due to:

- $85.8m reduction in income taxes paid mainly due to 1HFY2017 including a significant final tax payment relating to the tax liability for FY2016, partly offset by
- $19.7m decrease in operating cashflows

Net cash outflow from investing activities for continuing operations increased by $116.0m (72%) to an outflow of $278.0m, largely due to:

- $98.3m proceeds from the sale of the Moorebank investment in the prior year
- $20.3m increase in capital expenditure due to timing of capital payments

Net cash flow from investing activities for discontinued operations increased by $62.9m largely due to deposit received on sale of Intermodal Queensland business and a reduction in capital expenditure.

Net cash outflow from financing activities for continuing operations decreased by $28.8m (7%) to $369.4m due to $152.0m increase in proceeds from borrowings, $90.3m reduction in dividends paid and $9.0m reduction in interest paid offset by $223.3m in share buy-backs.

[5] Total asset impairments of $4.6m included in underlying EBIT
[6] FCF - Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid

Funding

Aurizon has a target gearing level of ~40%.

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor. Aurizon Network repriced and extended an existing $525m bank facility in November 2017, with maturity extended to FY2023 and tranche size decreased to $500m.

In respect of 1HFY2018:

- Weighted average debt maturity[7] tenor was 5.1 years. This was lower than 1HFY2017 (5.3 years) due to the majority of the debt portfolio's duration reducing by 12 months
- Group interest cost on drawn debt decreased to 4.5% (1HFY2017 5.1%) due to the rolling off of UT4 hedges in June 2017
- Available liquidity (undrawn facilities plus cash) at 31 December 2017 was $1.1bn
- Group gearing (net debt / (net debt + equity) as at 31 December 2017 was 41.2% (1HFY2017 37.1%)
- Network gearing (net debt / RAB (excl AFDs)) as at 31 December 2017 was 61.1% (1HFY2017 51.9%)
- Network gearing (net debt/ RAB (incl AFDs)) as at 31 December 2017 was 56.7% (1HFY2017 48.2%)
- Credit rating remains unchanged at BBB+/Baa1

Share Buy Back
As part of its commitment to return surplus capital to shareholders, on 14 August 2017 Aurizon announced the intention to undertake an on-market buyback of up to 60 million shares or approximately $300m (~3% of issued share capital). The buyback commenced 29 August 2017 and prior to 31 December 2017, 45.5 million shares were bought back and subsequently cancelled at a cost of $225.9m. This represents approximately 75% of the buyback commitment.

Dividend

The Board has declared an interim dividend for 1HFY2018 of 14.0cps (50% franked) based on a payout ratio of 100% in respect of NPAT for continuing operations.

The relevant interim dividend dates are:

- 26 February 2018 – ex-dividend date
- 27 February 2018 – record date
- 26 March 2018 – payment date

Tax

Income tax expense for continuing operations for 1HFY2018 was $123.0m and for the group was $116.0m. The group effective tax rate[8] for 1HFY2018 was 30.5% which is greater than 30% due to the permanent components of the fixed asset adjustments and a decrease in expenditure eligible for the research and development tax incentive. The cash tax rate[9] for 1HFY2018 was 20.8%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The effective tax rate for FY2018 is expected to be in the range of 29-31% and the cash tax rate is expected to be less than 25% for the short to medium-term.

Aurizon publishes additional tax information in accordance with the voluntary Tax Transparency Code in its sustainability report. Please refer to www.aurizon.com.au/sustainability/overview for a copy of Aurizon's sustainability report (including tax transparency disclosures).

Discontinued Operations

On 14 August 2017 Aurizon announced it would exit the Intermodal business through a combination of closure and sale. As a result of this decision the Intermodal business has been treated as a discontinued operation in the profit and loss and excluded from segment disclosure.

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

BUSINESS UNIT REVIEW

Coal

Aurizon's coal business provides a critical link in Australia's major coal chain systems for the majority of Australia's coal producers. The coal transport operation links mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland and the Hunter Valley, including Ulan and Gunnedah coal system, in New South Wales to domestic customers and coal export terminals.

($m)	1HFY2018	1HFY2017	Variance %	2HFY2017
Revenue				
Above Rail	603.4	581.9	4%	574.9
Track Access	319.3	304.8	5%	325.5
Other	4.6	3.7	24%	4.2
Total	**927.3**	**890.4**	**4%**	**904.6**
Operating costs	(614.3)	(583.7)	(5%)	(607.6)
EBITDA	**313.0**	**306.7**	**2%**	**297.0**
Depreciation and amortisation	(90.5)	(88.5)	(2%)	(95.2)
EBIT	**222.5**	**218.2**	**2%**	**201.8**

Metrics

	1HFY2018	1HFY2017	Variance %	2HFY2017
Total tonnes hauled (m)	107.8	103.5	4%	94.7
CQCN	77.8	76.6	2%	66.9
NSW & SEQ	30.0	26.9	12%	27.8
Contract utilisation	95%	93%	2.0ppt	85%
Total NTK (bn)	25.8	24.8	4%	22.8
CQCN	19.7	19.5	1%	17.3
NSW & SEQ	6.1	5.3	15%	5.5
Average haul length (km)	239	240	-	241
Total revenue / NTK ($/'000 NTK)	35.9	35.9	-	39.7
Above Rail Revenue / NTK ($/'000 NTK)	23.4	23.5	-	25.2
Operating Ratio (%)	76.0%	75.5%	(0.5ppt)	77.7%
Opex / NTK ($/'000 NTK)	27.3	27.1	(1%)	30.8
Opex / NTK (excluding access costs) ($/'000 NTK)	14.8	14.5	(2%)	16.2
FTE (monthly average)	1,702	1,697	-	1,699
Labour productivity (NTK / FTE)	30.3	29.2	4%	26.8
Locomotive productivity ('000 NTK / Active locomotive day)	482.9	494.3	(2%)	442.5
Active locomotives (as at 31 December)	300	276	9%	288
Wagon productivity ('000 NTK / Active wagon day)	16.7	17.2	(3%)	15.4
Active wagons (as at 31 December)	8,472	7,887	7%	8,251
Payload (tonnes)	7,460	7,538	(1%)	7,314
Velocity (km/hr)	23.3	24.0	(3%)	23.1
Fuel Consumption (l/d GTK)	2.91	2.90	-	2.90

Coal Performance Overview

EBIT increased $4.3m (2%) to $222.5m, with increased volumes and ongoing benefits delivered from the transformation program more than offsetting an increase in operating costs due to price escalation and costs associated with installing capacity to deliver additional volumes.

Volumes increased by 4.3mt (4%) to 107.8mt with continued strength in coal prices reflected in high levels of customer demand. In NSW and South East Queensland (SEQ), volumes increased by 3.1mt (12%) to 30.0mt driven largely by the commencement of the AGL Macquarie contract in July 2017. Across the CQCN, volumes increased by 1.2mt (2%) to 77.8mt, with strong demand in the Goonyella and Newlands corridors and the commencement of contracts with Fitzroy Australia Resources and Batchfire Resources.

Coal revenue increased $36.9m (4%) to $927.3m driven by the growth in volumes and higher pass-through access revenue.

- Above rail revenue increased $21.5m (4%) compared to 1HFY2017 reflecting the 4% increase in volumes. Above rail revenue per NTK remained broadly flat with a 2ppt increase in contract utilisation to 95%

- Coal track access revenue increased $14.5m (5%). The increase is largely driven by the impact of a $29.8m credit from Queensland Rail received in 1HFY2017 following the approval of the access undertaking for the West Moreton system (SEQ) which lowered track access revenue in the prior year. Excluding the impact of this credit, coal track access revenue decreased $15.3m, due to lower volumes from customers under Operator Access Agreements. As access charges are generally passed through to customers, there is an equivalent increase in track access costs as noted below

Total operating costs (including depreciation) increased $32.6m (5%) to $704.8m. The transformation program continues to deliver savings, with $26.8m realised in 1HFY2018 across labour, maintenance and overheads. This was offset by an increase in other operating costs with the major drivers noted below:

- Increased operating costs including higher labour, fuel and maintenance costs to meet additional volumes ($19.5m), wages and consumables escalation ($5.9m), redundancy and other one off costs ($8.8m)
- Track access costs increased by $10.6m (3%), largely due to the impact of the 1HFY2017 credit from Queensland Rail, discussed above. During the current period, Aurizon received a further credit of $2.1m from Queensland Rail in relation to access charges payable for Wilkie Creek for the period 1 July 2013 to 30 December 2013. Excluding these Queensland Rail credits, access costs decreased by $17.1m
- Depreciation increased $2.0m relating to the additional capacity installed to meet growth volumes in NSW and overhauls completed on CQCN rollingstock. With additional rollingstock cascaded from Intermodal as part of the Interstate shutdown during the half, we anticipate an increase in depreciation in the second half

An explanation of the key operating metrics is shown below:

- During the period, labour productivity increased 4% with the additional volumes being delivered with broadly flat monthly average FTEs
- However, despite ongoing transformation benefits, a number of operating metrics displayed a slight deterioration compared to the previous corresponding period due to the impact of supply chain constraints and the installation of additional consists to meet current and future demand
  - Average payloads decreased from 7,538t to 7,460t, with a shorter consist servicing new volumes in the Moura corridor and increased volumes in the low payload West Moreton system (SEQ)
  - Average velocity also reduced from 24.0km/hr to 23.3km/hr due to increased supply chain constraints and a slight change in portfolio mix
  - Average NTK per locomotive and wagon fell 2% and 3% respectively due to the lower payload and additional consists installed in both NSW and CQCN in order to meet growth volumes

Market update

Starting the period at US$150/t, the Hard Coking Coal Price increased throughout the half closing at US$260/t in December driven by steel production growth in key trading nations and periods of supply constraint. Crude steel production by Australia's largest metallurgical coal trading partner India, reached over 100 million tonnes in a calendar year for the first time in 2017, including production growth of 5% in the six months to December (compared to previous year). China crude steel production achieved growth of 5.7% during the half (compared to previous year), reaching a record high of 832mt for 2017, despite the advent of reform policy impacting industrial output in the north of the country. Australian metallurgical coal exports reached 91mt during the half, down 5% compared to the previous year when China's 276 day policy significantly reduced domestic coal production, forcing steel mills to import from the seaborne market to meet the coal shortage.

The Newcastle benchmark thermal coal price increased during the half from US$77/t at the start of the period, closing at US$100/t in December. Thermal energy generation in China achieved growth of 3% during the half (compared to the previous year) and South Korea added 5GW of thermal generation capacity during the year. Australian thermal coal exports reached 103mt during the half.

Aurizon's coal business has a weighted average remaining contract length as at 31 December 2017 of 9.4 years[10].

Contract update

- Baralaba Coal Company entered an agreement for coal haulage from the Baralaba North Mine to the RG Tanna Coal Terminal for 2mtpa. The expected commencement date is 1 May 2018 for a term of up to 10 years
- Aurizon's 2.6mtpa haulage agreement with Yancoal's Duralie mine expired on 31 August 2017
- Subsequent to the end of the half, Aurizon has entered into an agreement with MACH Energy for coal haulage of 8mtpa from the Mount Pleasant Mine to Newcastle ports as well as domestic power stations. The haul is expected to commence in first half of FY2019, for a contract term of 10 years
- Aurizon extended its relationship with the QCoal Group to include coal haulage of up to 10mtpa from the greenfield Byerwen Mine to Abbott Point Coal Terminal, for a period of 10 years, which commenced January 2018

[10] Incorporates contract extension options where applicable

Bulk

Aurizon's Bulk business supports a range of customers nationally for bulk materials and commodities (including iron ore), agricultural products and mining and industrial inputs.

($m)	1HFY2018	1HFY2017	Variance %	2HFY2017
Revenue				
Freight Transport	295.4	332.2	(11%)	290.1
Other	12.2	11.0	11%	11.9
Total revenue	**307.6**	**343.2**	**(10%)**	**302.0**
Operating costs	(274.5)	(305.3)	10%	(280.8)
EBITDA	**33.1**	**37.9**	**(13%)**	**21.2**
Depreciation and amortisation	(13.0)	(35.5)	63%	(38.0)
EBIT	**20.1**	**2.4**	**738%**	**(16.8)**

Metrics

	1HFY2018	1HFY2017	Variance %	2HFY2017
Total tonnes hauled (m)	28.5	30.3	(6%)	28.0
Total NTK (bn)	7.0	8.1	(14%)	7.3
Average haul length (km)	246	267	(8%)	261
Total revenue / NTK ($/'000 NTK)	43.9	42.4	4%	41.4
Operating Ratio (%)	93.5%	99.3%	5.8ppt	105.6%
Opex / NTK ($/'000 NTK)	41.1	42.1	2%	43.7
Opex / NTK (excluding access) ($/'000 NTK)	29.6	29.8	1%	32.6
FTE (monthly average)	944	1,129	16%	1,002
Labour productivity (NTK / FTE)	14.8	14.3	3%	14.6
Order Fulfilment (%)	98.4%	99.2%	(0.8ppt)	97.0%
Fuel Consumption (l/d GTK)	3.04	3.05	0%	3.07

Bulk Financial Performance Overview

EBIT increased $17.7m (738%) to $20.1m, due to benefits from the transformation program and lower net depreciation from the impairments in FY2017 partly offset by lower volumes on both the east and west coasts.

Revenue decreased $35.6m (10%) to $307.6m with a 6% reduction in volumes (14% in NTK terms):

- Iron Ore revenue decreased $13.1m (9%) due to production issues impacting volumes at a larger customer
- Bulk revenue decreased $22.5m (11%) due to the cessation of the Mt Isa Freighter in January 2017 and lower QLD/NSW grain volumes due to dry conditions and supply being directed to the domestic market (all Aurizon volumes are export)

Bulk revenue per NTK increased 4% predominately due to lower contract utilisation.

Total costs (including depreciation) decreased $53.3m (16%) driven by transformation savings and lower depreciation expenses. The transformation program continued to deliver savings with $11.2m realised in 1HFY2018. Rail access costs reduced by $19.0m due to the lower volumes, principally the cessation of the Mt Isa Freighter and lower iron ore volumes. The direct cost savings from the cessation of the Mt Isa Freighter service were $12.2m through a reduction in crewing/maintenance and terminal services costs. Depreciation expense reduced by $22.5m due to the bulk impairment in FY2017, with $4.5m in impairment expenses included in operating costs resulting in a net benefit of $18.0m. Partly offsetting this were other cost increases including labour and consumables escalation and redundancy costs ($7.1m).

Market update

Iron ore
Iron ore spot prices increased early in 1HFY2018, reaching US$78/t in mid-August, as a result of restocking demand in China as higher steel prices and margins continued to encourage Chinese steel mills to increase production. Prices started to fall at the end of September over supply concerns and the impending roll out of China's 2+26 policy (which aims at controlling pollution in Beijing & Tianjin and 26 cities in the surrounding Northern provinces by means of production cuts between mid-November to mid-March). Despite the implementation of the 2+26 policy and the seasonal winter slow-down, iron ore demand remained strong, with the spot price lifting to US$73/t by the end of the half. This was primarily due to Chinese steel mills located outside the production cut zone being able to lift output to meet demand, taking advantage of strong steel margins. In the medium term, seaborne supply is expected to outgrow demand, placing downward pressure on price.

Aurizon continues to support the long-term viability of customers by driving efficiencies in the supply chain to optimise throughput. Aurizon hauled 10% lower volumes than the previous comparable period primarily due to production issues with one of our larger customers. Mt Gibson volumes will continue through to contract end of December 2018, as Iron Hill volumes replace Extension Hill volumes.

Freight
Aurizon's Bulk business includes haulage of bulk commodities including base metals, minerals, grains and livestock in Queensland, New South Wales (East) and Western Australia (West). Despite stronger prices across the half for a number of commodities that Aurizon hauls, market conditions remain challenging due to weather conditions and ongoing market competitiveness.

Contract update

- Executed a 10 year contract extension for the Cement Australia East End to Fisherman's Landing limestone haul
- Commenced a 7.4 year contract with Minerals and Metals Group Limited (MMG) for the transport of zinc deposits on the Mt Isa corridor
- Executed a 2+2 year contract extension for the Queensland Rail services contract covering both infrastructure trains and supporting the Inlander passenger train
- Contract variation for Mt Gibson Mining to rail additional volumes under the existing Rail Haulage Agreement
- Aurizon has a current iron ore Raul Haulage Agreement with Cliffs Asia Pacific Iron Ore Pty Ltd (Cliffs) that expires 21 January 2022. The contract provides for haulage up to 11mtpa and in the year ended 30 June 2017 Aurizon transported 10.9mt.

  Subsequent to 31 December 2017, Cliffs announced the planned closure of mining operations in Australia, which will more than likely occur in 2018. At this point in time no correspondence has been received from Cliffs and discussions are yet to commence with respect to the potential timing of the closure and the impact this may have on Aurizon's contractual obligations.

  Aurizon will consider the financial impact of any potential decision once additional information becomes available. This may result in closure costs and potential impairment of assets. Termination payments may become due and payable on early termination of the contract.

Network

Network refers to the business of Aurizon Network Pty Ltd (Aurizon Network) which operates the 2,670km Central Queensland Coal Network (CQCN). The open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple customers from more than 40 mines to three ports. The CQCN includes four major coal systems (Moura, Blackwater, Goonyella and Newlands) and a connecting link (Goonyella to Abbot Point Expansion (GAPE)).

Financial Summary

($m)	1HFY2018	1HFY2017	Variance %	2HFY2017
Revenue				
Track Access	577.0	628.5	(8%)	571.4
Services and other	30.5	42.6	(28%)	19.6
Total revenue	**607.5**	**671.1**	**(9%)**	**591.0**
Operating costs	(208.0)	(230.5)	10%	(251.2)
EBITDA	**399.5**	**440.6**	**(9%)**	**339.8**
Depreciation and amortisation	(151.0)	(147.9)	(2%)	(151.6)
EBIT	**248.5**	**292.7**	**(15%)**	**188.2**

Metrics

	1HFY2018	1HFY2017	Variance %	2HFY2017
Tonnes (m)	116.6	112.9	3%	97.9
NTK (bn)	29.0	28.3	2%	24.9
Operating Ratio (%)	59.1%	56.4%	(2.7ppt)	68.2%
Track access revenue / NTK ($/'000 NTK)	19.9	22.2	(10%)	22.9
Maintenance / NTK ($/'000 NTK) (excluding rail renewals)	2.0	2.1	5%	2.4
Opex / NTK ($/'000 NTK)	12.4	13.4	7%	16.2
Cycle Velocity (km/hr)	23.6	23.8	(1%)	23.1
System Availability (%)	80.6%	85.1%	(4.5ppt)	82.1%
Average haul length (km)	248.3	250.8	1%	254.1

Network Financial Performance Overview

EBIT decreased $44.2m (15%) to $248.5m in 1HFY2018, with operating costs savings ($22.5m) only partially offsetting decreased revenues ($63.6m), mainly due to the non-recurrence of the UT4 true-up of regulatory revenue in FY2017.

Track access revenue decreased $51.5m (8%). Regulatory access revenue in FY2018 is being billed based on transitional tariffs pending approval of the UT5 Access Undertaking. The primary reason for the revenue variance is the non-recurrence of ~$45m of regulatory revenue pertaining to the UT4 true-up for FY2014 to FY2015 which was recognised in 1HFY2017 following the UT4 final decision issued by the Queensland Competition Authority (QCA) on 11 October 2016. In addition, 1HFY2017 also included non-recurring true-ups in relation to GAPE (non-regulated revenue) and AFD rebates totalling $12m, while 1HFY2018 included a $10.7m negative revenue cap amount (excluding GAPE) relating to FY2016 which is being repaid to Access Holders via tariffs this year. This was partly offset by higher Electric Charge (EC) revenue of $17.3m (as a pass through item, there is also an increase in EC operating expenses).

Services and other revenue decreased $12.1m (28%) mainly due to the recognition of the Bandanna Group's $15.3m bank guarantee and a $5.8m insurance claim recovery in 1HFY2017, partly offset by the recognition of $10.0m for the Caledon WIRP Deed bank guarantee held as security in 1HFY2018.

Operating costs (including depreciation) decreased $19.4m (5%) primarily due to a $27.3m decrease in consumables with the non-recurrence of the FY2017 UT4 true up for corporate costs ($13.2m), lower operating costs for Minerva and Blackwater power system renewals and reduction in maintenance costs in part due to lower non contract rectification works ($8.1m). The decrease in consumables was partly offset by a $4.6m increase in labour costs in part due to escalation and a $3.1m increase in energy and fuel costs from higher EC operating expenses as noted above partially offset by the removal of three connection points for Dingo, Rocklands and Moranbah South.

The Regulated Asset Base (RAB) roll-forward value is estimated to be $5.8bn (including all deferred capital but excluding AFDs of $0.4bn) at 1 July 2018, subject to QCA approval of the FY2017 capital claim.

Regulation Update

2016 Access Undertaking (UT4)

- On 11 October 2016, the QCA approved the UT4 Access Undertaking
- The approval covers all elements of UT4 including:
  - Aurizon Network's Maximum Allowable Revenue (MAR) over the UT4 period (1 July 2013 to 30 June 2017) totalling $3.9bn
  - The way in which Aurizon Network must provide and manage access to the CQCN
- Due to the 2017 Draft Access Undertaking (UT5) not yet being approved by its commencement on 1 July 2017, the QCA has approved the use of transitional tariffs
- During this transitional tariff period, Aurizon Network also made a submission to recover $17.4m in costs incurred to repair the damage caused to the rail infrastructure by Cyclone Debbie. This was approved in November 2017 and is being recovered through tariffs from 1 January to 30 June 2018

2017 Draft Access Undertaking (UT5) Draft Decision

- On 30 November 2016 Aurizon Network submitted the 2017 Draft Access Undertaking (UT5), covering the period 1 July 2017 to 30 June 2021 to the QCA for approval
- Aurizon Network's UT5 submission proposed a MAR of $4.9bn over the four-year regulatory period with a proposed 6.78% Vanilla Nominal Post Tax WACC. Primary MAR drivers are:
  - Inflation at the time of submission was forecast at 1.22% (which was to be updated at the start of the regulatory period) compared to 2.5% in UT4, affecting the depreciation building block
  - Change in equity beta from 0.8 in UT4 to 1.0 affecting the return on capital building block
  - Change in gamma from 0.47 in UT4 to 0.25 affecting the tax building block
  - The submission also proposed UT5 RAB now include the majority of the WIRP capital expenditure with ~$235m (which relates to the Blackwater system only) of the ~$260m capital deferred during UT4 be included in the UT5 RAB for pricing purposes
- On the 15 December 2017, the QCA released its Draft Decision on Aurizon Network's UT5 proposal
- The QCA's Draft Decision proposes a MAR of $3.893bn over the four year period with a proposed 5.41% Vanilla Nominal Post Tax WACC. Primary drivers behind the reduction from Aurizon Network's MAR proposal are:
  - Inflation methodology uses a geometric average of the RBA forecasting methodology, resulting in a rate of 2.37%, affecting the depreciation building block
  - Reduction in equity beta to 0.73 (with an asset beta of 0.42) and a risk free rate to 1.9%pa affecting the return on capital building block
  - Minimal reduction in Gamma from UT4 to 0.46 affecting the tax building block
  - A reduction in maintenance and operating expenditure allowances of $104m and $112m respectively over the four year regulatory period
  - The QCA has included the deferred WIRP capital within the Blackwater system in the RAB
- UT5 Draft Decision issued by the QCA is extremely disappointing in its current form, causing damage to Aurizon, customers and the Queensland economy. The QCA view of risk is inconsistent with commercial reality and forces change to Aurizon's maintenance and operating practices and will impact volumes estimated at ~20mtpa
- Aurizon will submit a detailed response to the QCA's UT5 Draft Decision by 12 March 2018
- The QCA is yet to confirm the timing for a final decision on UT5

Operational Update

Performance

During 1HFY2018 the network operational performance remained strong and three monthly railing records were achieved. Highlights include:

- Tonnes delivered over the CQCN network increased 3.7mt (3%) to a record 116.6mt. This was delivered through working with the other members of the CQCN supply chain to respond to the increase in demand and the deferral of some maintenance activities. Three new monthly records were achieved during 1HFY2018 with each new record being over 19.5mt. A new daily record was set at 814kt on 21 December 2017. These higher volumes led to a 13ppt increase in system utilisation to 73.5% compared to the prior comparative period
- Performance to plan improved from 91.5% to 92.0%
- Cancellations due to the Network remained low at 1.5%, which is an improvement against the five year average of 1.7%
- Cycle velocity averaged 23.6km/h and remains above the five year average of 23.3km/h

Transformation Initiatives delivered:

- Tranche 2 of the Network Asset Management System went live in December 2017, delivering a core asset management system for the control systems, electrical assets and mechanised production activities
- Contractor Management initiatives including the setting up of pre-approved panel members for wet hire and vegetation management activities. This has delivered improved safety performance and cost benefits
- Transformational initiatives in inventory management have led to a decrease of $8m (12% from FY2017) in the average 12 month inventory holdings value

Wiggins Island Rail Project (WIRP)

- The QCA in its UT4 Final Decision applied a revenue deferral for WIRP customers who were not expected to rail during the UT4 period resulting in ~$260m of WIRP capital expenditure being excluded for pricing purposes from the UT4 MAR, on an NPV neutral basis
- The UT5 Draft Decision issued by the QCA now includes ~$235m of the WIRP capital expenditure deferred during UT4 in the UT5 RAB for pricing purposes
- Aurizon Network is confident that railings in the Moura system will increase during the UT5 period to enable the remaining deferred WIRP capital expenditure to be included in the RAB for pricing purposes
- Aurizon Network has received notices from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated component of the WIRP fee. Aurizon Network maintains its position that the notices issued by the WIRP customers are invalid and the full non-regulated component of the WIRP fee is payable. Aurizon Network issued proceedings in the Supreme Court of Queensland on 17 March 2016 to assert its rights in respect of the payment of the full non-regulated component of the WIRP fee. The proceedings have been admitted to the Commercial List of the Supreme Court of Queensland with a trial not expected to occur prior to 30 June 2018
- Due to the ongoing dispute, no WIRP fee revenue in respect of the non-regulated component of the WIRP fee has been recognised during the period

Other

Other includes the provision of maintenance services (e.g. rail grinding) to internal and external customers and central costs not allocated such as the Board, Managing Director & CEO, Investor Relations, Strategy and Company Secretariat.

($m)	1HFY2018	1HFY2017	Variance %	2HFY2017
Total revenue	**40.8**	**55.0**	**(26%)**	**52.0**
Operating costs	(42.1)	(51.4)	18%	(47.3)
EBITDA	**(1.3)**	**3.6**	**(136%)**	**4.7**
Depreciation and amortisation	(4.5)	(5.4)	17%	(5.2)
EBIT	**(5.8)**	**(1.8)**	**(222%)**	**(0.5)**

Performance Overview

EBIT decreased $4.0m mainly due to:

- Non-recurrence of $13.2m benefit from the UT4 corporate cost allocation true up included in 1HFY2017
- $7.5m impact from a favourable movement in discount rates in the prior year

This was partly offset by:

- $10.2m on asset write offs and minor inventory impairments in 1HFY2017 (nil in 1HFY2018)
- $6.5m reduction in central support costs including $4.4m of transformation benefits

TRANSFORMATION UPDATE

Aurizon delivered $42.4m in transformation benefits during 1HFY2018, which gives a total transformation since July 2015 of $302.4m. The exit of the Intermodal contributes to transformation by permanently removing the financial losses.

Continuing Operations	1HFY2018	1HFY2017	Variance %	2HFY2017
Above Rail Opex / NTK ($/'000 NTK)	30.3	30.8	2%	33.9
Above Rail Opex / NTK (excluding access) ($/'000 NTK)	18.0	18.3	2%	20.2
FTE[11] (monthly average)	3,460	3,827	10%	3,579
Labour productivity (NTK / FTE)	19.0	17.2	10%	16.8
Locomotive productivity ('000 NTK / Active locomotive day)	374.4	392.7	(5%)	375.0
Active locomotives (as at 31 December)	492	455	8%	464
Wagon productivity ('000 NTK / Active wagon day)	14.2	15.0	(5%)	13.5
Active wagons (as at 31 December)	12,963	12,044	8%	12,256
Fuel consumption (l/d GTK)	2.96	2.97	-	2.98

The focus on transformation continues with ongoing workforce rationalisation resulting in an improvement in labour productivity of 10% during 1HFY2018. Locomotive and wagon productivity fell 5% respectively, impacted in part by additional rollingstock in Coal CQCN and NSW to meet growth volumes. Further examples of transformation initiatives are detailed below.

Rockhampton Rollingstock Workshop

On 1 June 2017 Aurizon announced the staged closure of Aurizon's rollingstock maintenance workshop in Rockhampton by the end of 2018, following significant reduction in the amount of work required at this facility in recent years and a review of future core maintenance requirements for our Queensland rollingstock fleet. Following this decision, the Rockhampton Locomotive Shop was closed in August 2017 and activities transitioned to Progress Rail under the existing outsourcing contract.

The Rockhampton Brake Shop was closed at the end of December 2017 and the staged reduction in the work carried out in the Rockhampton Wheel Shop commenced from December 2017. This follows detailed market engagement to source alternatives for the supply of maintenance services and components for brake equipment and wheel processing. It is expected the workshop will be closed by December 2018.

The Rockhampton Workshop Closure is a key transformation initiative which will enable Aurizon to focus on core business, optimise our existing maintenance footprint and supply chain.

Asset Maintenance

Initiatives continue to be progressed in the Asset Maintenance area with a focus on using predictive analysis driving further transformation in the business. These initiatives include:

› The further roll out of wayside condition monitoring (WCM) is expected to take place in the Hunter Valley during 1HFY2019. Two new condition monitoring technologies are currently being implemented in CQCN. The first is a technology, which is being installed on all CQCN port dump stations, that allows door issues on coal wagons to be predicted and prevented. The second is a technology that allows a more comprehensive understanding of wheel condition which is due to come on line in 2HFY2018, enabling maintenance intervals to be further increased in CQCN
› The successful implementation of a dedicated on train repair road in Jilalan will be followed by the further deployment of on train repair across CQCN depots. An expansion of on train repair to the locomotive fleet is currently under investigation
› The Locomotive and Operational Data Acquisition and Management project (LODAM) has now moved from trial phase to detailed design (Feasibility). This project will deliver a step change in both the quantity and quality of operational and sensor data in real-time, allowing Aurizon to better optimise and standardise how the fleet is operated and managed. The access to data will further enhance Aurizon's ability to predict and manage rollingstock faults, optimise fuel and energy, measure fleet and safety performance and asset utilisation. The project will also allow maintenance strategies to be further optimised, including the performance of basic locomotive inspections as part of the on train repair strategy
› Shopfloor II has successfully transitioned into the deployment phase with the initial go live into Stuart Depot completed in December 2017. The project has a significant number of business deployments over the next 6 months, before completing as planned in mid-2018. The key business benefits that will be delivered as part of the project include, increased maintenance planning capability and accuracy, improved management of repairable components and vendor collaboration and improved operational efficiency through standardising business processes and metrics

[11] FTEs represent the total FTEs within the Coal, Bulk and TSP business units

ADDITIONAL INFORMATION

Senior Management Changes

As previously announced, Aurizon moved to the business unit model from 1 July 2017. The change has delivered increased accountability for financial performance at all layers of leadership and provided stability in the executive leadership team.

The executive team includes:

- Andrew Harding – Managing Director & CEO
- Ed McKeiver – Group Executive Coal
- Clay McDonald – Group Executive Bulk
- Michael Riches – Group Executive Network
- Mike Carter – Group Executive Technical Services and Planning
- Tina Thomas – Group Executive Corporate
- Pam Bains – Chief Financial Officer and Group Executive Strategy

Risk

Aurizon operates a mature system of risk management that focusses on delivering objectives and is aligned to international standards. Aurizon's Board is actively engaged in setting the tone and direction of risk management, with a clear articulation of risk appetite aligned to the company's strategy and risk management practices that support consistent delivery of expected outcomes.

The Board has confidence in the management of Aurizon's key risks however acknowledges that internal and external factors can influence financial results.

The most significant factors relating to future financial performance are:

- Regulatory Risk of the Access Undertaking (UT5)

Aurizon continues to work with the Queensland Competition Authority (QCA) and industry stakeholders to secure acceptable and sustainable regulatory outcomes for the CQCN in accordance with the processes set out in the Queensland Competition Authority Act 1997 (Qld). In particular, Aurizon Network's Maximum Allowable Revenue (MAR) and the nominal (vanilla) weighted average cost of capital (WACC) used in deriving Aurizon Network's MAR is typically reset every four years as part of the access undertaking approval process with the QCA and the reference tariffs are reset annually based on projected system volumes and other variables. Not attaining appropriate pricing and policy regulatory settings will adversely impact revenue, and may have an adverse effect on operational flexibility, capital investment and recovery of operational and administrative costs. The WACC of 5.41% proposed by the QCA in its UT5 Draft Decision, together with the proposed UT5 maintenance and opex allowances, if reflected in its Final Decision, will not adequately compensate Aurizon Network for its regulatory and commercial risks, which will lead to a material adverse impact on the Aurizon Network business, operational performance and financial results.

- Product Demand, Commodity Prices and General Economic Conditions

Aurizon's customers in core markets are reliant on demand from large export markets such as Japan, China, South Korea and India. Increased volatility in the coal and iron ore markets due to factors such as material change in government policies or economic slowdown or the increasing use of renewable energy may cause fluctuations in demand, which in turn impact commodity prices, product volumes, and investment in growth projects. Aurizon references credible sources such as the International Energy Agency (IEA) in evaluating long term demand for the key commodities of coal and iron ore. Whilst long term demand is predicted to increase, in the short term there may by variances in volumes, contract profitability and growth that impact on Aurizon's financial results.

- Customer Credit Risk

Aurizon's earnings are concentrated in commodity markets across a relatively small number of customers and may be impacted by deterioration in counterparty credit quality, mine sale to a lower tier party, mine profitability, contract renewals, supply chain disruptions and / or macro-industry issues.

All coal customers are currently estimated at positive cash margins. At current spot price levels, we expect the majority of Aurizon's volume is cash margin positive.

- Competition Risk

Aurizon may face competition from parties willing to compete at reduced margins and / or accept lower returns and greater risk positions than Aurizon. This may potentially negatively impact Aurizon's comparative competitiveness. Aurizon's most significant customer contracts are secured on long-dated terms, however failure to win or retain customer contracts at commercial rates will always be a risk to future financial performance. Increased competition may be experienced from new entrants to Aurizon's core markets in both above and below rail.

› Strategic Risk

Aurizon may adopt a strategy that does not deliver optimal performance outcomes for shareholders. Whilst Aurizon is confident in its strategic planning practices, the nature of planning for strategy in uncertainty leads to a possibility of sub-optimal strategic settings.

› Capital Investment Plans

When allocating sustaining and growth capital, Aurizon must predict the rate of return associated with each opportunity. Calculations are based on certain estimates and assumptions that may not be realised. Accordingly, the calculation of a potential rate of return may not be reflective of the actual returns.

› Strategic Freight Review

Decisions taken with respect to the Freight Review (including any potential divestment of business line) may lead to negative short-term financial impacts before longer term benefits are realised. Aurizon and Pacific National have entered into a transaction for the sale of each of the Acacia Ridge terminal and Aurizon's Queensland Intermodal business. Both transactions are subject to merger clearance from the Australian Competition and Consumer Commission and Foreign Investment Review Board. There is a risk that one or both of the transactions do not receive regulatory clearance and Aurizon incurs costs and liabilities in circumstances where its next best alternative is to close the Queensland Intermodal business.

› Asset Impairment

Aurizon's assets are subject to impairment testing each year. For rollingstock, there is potential that reduced haulage volumes or continued improvements to asset productivity may require some assets to be impaired. For the Intermodal and Bulk East cash generating units (CGU) a change in the market value of assets could result in a change in the impairment recorded. For the Western Australia CGU should any of the current major iron ore customers either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements, then the CGU may become further impaired.

› WIRP Non-Regulated Revenue Dispute

Aurizon has received notices from WIRP customers purporting to exercise a right under the WIRP Deed to reduce their financial exposure in respect of the non-regulated revenue component of the amounts payable by them to Aurizon Network. Aurizon Network maintains its position that the notices issued by WIRP customers in relation to the WIRP fee are not valid. Aurizon issued proceedings in the Supreme Court of Queensland to assert its contractual rights under the Project Deeds. The proceedings have been admitted to the Commercial List of the Supreme Court of Queensland and the Court has made orders to prepare the matter for trial. The risk is that the entire amount of the WIRP Fee is deemed not payable by the WIRP customers.

› Delivery of Transformation Program

Aurizon maintains a pipeline of transformation initiatives that are expected to deliver step change improvements in efficiency leading to reduced costs. Continued focus is required on these initiatives to ensure benefits are delivered as planned and flow through to improved financial performance.

› Business Interruption

Aurizon may experience business interruption and consequential financial impact from a range of circumstances including but not limited to:

- Adverse weather events and climate change which could impact on Aurizon's operations, assets and customers
- Cyber security incidents in relation to Aurizon's corporate and operational systems
- Operational events such as safety incidents, industrial action or environmental activism

› General Regulatory Risk

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

› Climate Change Risk

The long-term implications of climate change may impact Aurizon on several fronts. For example:

- Demand for thermal coal is subject to energy policy and regulation of Green House Gas (GHG) emissions (including carbon pricing);
- Investor concern over climate-related risks may result in higher cost of capital for Aurizon and its customers for funding coal mining, transport and coal-fired power projects;
- Carbon liability under the Safeguard Mechanism Rule and potential penalties for inappropriate carbon reporting under the National Greenhouse and Energy Reporting (NGER) Act; and
- Current and future disruption arising from increased severity and/or frequency of extreme weather events (higher temperatures, strong winds, flooding and associated erosion, bushfires and others).

These considerations are explicitly evaluated both in strategic planning and in the general management of risk within Aurizon. Aurizon's climate change risks and opportunities are disclosed annually in our submission to the CDP and in Aurizon's sustainability report.

Sustainability

In October 2017, Aurizon released its fourth sustainability report. The report details how Aurizon takes into account social, environmental and economic considerations related to its operations and incorporated recommendations from the *Final Report: Recommendation of the Task Force on Climate related Financial disclosures,* released in June 2017. Aurizon acknowledges that climate change is affecting a wide range of industries around the world, resulting in financial implications. Transition risks, related to energy policy, regulation, technology and market shifts (that are necessary to achieve the transition to a low-carbon economy) will affect the demand for the commodities that Aurizon hauls. Physical risks related to extreme weather events will also continue to affect Aurizon through supply chain disruptions.

A brief summary of Aurizon's performance in connection with safety, environment and people is outlined below.

› Safety

Aurizon's commitment to safety continued in 2017 with the company introducing a revised set of injury definitions on 1 July 2017. The key changes are the inclusion of contractors in all injury metrics and widening the scope of total recordable injuries to include all restricted work injuries. Previously, Aurizon had used a set of metrics and injury definitions benchmarked against the rail industry. These new definitions have been benchmarked against a broader set of global transport and resource organisations, including many of Aurizon's customers.

In 1HFY2018, Aurizon has seen an increase in total recordable injury frequency rate (TRIFR) by 45%. The revised injury definitions have identified areas for improvement in contractor safety and manual handling tasks. These are being addressed by the creation of a Contractor Safety Community of Competence, a group focussed on improving all elements of contractor safety, and an ongoing review of manual handling tasks, such as winding on handbrakes.

1HFY2018 has also seen multiple collisions at level crossings. Aurizon is continuing to work with Network providers through Safety Interface Agreements, as well as targeted community engagement initiatives.

Aurizon remains committed to ZEROHarm with significant focus on line management visibility through Safety Pauses, Safety Interactions, Efficiency Testing, High Consequence Activity monitoring, and intensifying the "STOP, Take Time & Switch On" safety initiative. Aurizon is also enhancing its efforts on integrating robust safety controls by improving the work processes through the use of technology, standardisation and lean principles. One such example is the trial of in-cab technology to identify opportunities for improvement in train handling techniques. A three month trial in the Blackwater System has seen a marked improvement in driver behaviour resulting in lower risk of safeworking incidents.

› Environment

Aurizon delivers environmental value through effective management of material environmental risks and improved enterprise environmental performance. In recognition of our efforts, in November 2017 we received the results for our 2017 CDP (formally carbon disclosure project) submission which confirmed that we had retained a Management B score. This reflects our ongoing efforts to improve visibility and transparency on issues relating to climate change.

In November 2017, the Rail Safety and Standards Board approved and published a Code of Practice (CoP) on the Management of Locomotive Exhaust Emissions. This COP was developed by Australian rail freight operators (including Aurizon) as an industry led approach to improving locomotive diesel emissions. This industry led approach prioritises both particulate matter and greenhouse gas emissions, while being careful not to decrease fuel efficiency in pursuit of great nitrogen oxide reductions (which was highlighted as a potentially negative impact by a locomotive upgrade trial undertaken by the New South Wales Environmental Protection Authority in 2015). The COP will form part of Aurizon's continuing efforts to improving air quality which also includes reducing diesel consumption, using cleaner diesel, operating electric locomotives and promoting rail over road freight.

› People

During the past year we have reshaped our company structure and moved more leadership and teams to regional hubs to bring people closer to our operations and customers. Over time, we will also have a smaller footprint and more roles will move to regional locations. Each area of the business is looking for opportunities for relocation as part of their strategy over the next few years, taking into consideration their business needs, capability requirements and mobility of individuals and teams.

Entities over which control was gained or lost during the period

None

Details of associate and joint venture entities

Entity	Country of incorporation	Ownership Interest	
		31 December 2017 %	31 December 2016 %
Investment in associates			
Aquila Resources Limited	Australia	15	15
Joint Ventures			
Chun Wo/CRGL	Hong Kong	17	17
KMQR Sdn Bhd (Liquidated)	Malaysia	-	30
ARG Risk Management Limited	Bermuda	50	50
Integrated Logistics Company Pty Ltd	Australia	14	14
ACN 169 052 288	Australia	15	15

The profit contribution from any one of these associate or joint venture entities is not material to the Group's profit.

APPENDIX

Intermodal – Discontinued Operations

($m)	1HFY2018	1HFY2017	Variance %	2HFY2017
Total revenue	**140.0**	**159.3**	**(12%)**	**150.5**
Operating Costs	(161.7)	(172.7)	6%	(168.0)
EBITDA	**(21.7)**	**(13.4)**	**(62%)**	**(17.5)**
Depreciation and amortisation	(2.5)	(10.2)	75%	(7.1)
EBIT	**(24.2)**	**(23.6)**	**(3%)**	**(24.6)**
Significant Items	(77.0)	(165.4)	53%	(1.9)
Net Finance Cost	-	0.1	-	0.1
Income Tax Benefit	30.1	56.7	(47%)	7.9
NPAT (Discontinued operations)	**(71.1)**	**(132.2)**	**46%**	**(18.5)**
Total TEUs ('000s)	187.3	212.2	(12%)	193.0