Aurizon Holdings Limited

Appendix 4E

Results for announcement to the market on 18 August 2014
For the year ended 30 June 2014
Previous corresponding period (pcp) year ended 30 June 2013

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FY2014 IN REVIEW

Financial Headlines

($m)		FY2014	FY2013	Variance %
Total Revenue		3,832	3,766	2%
EBIT – Statutory		465	685	(32%)
Adjustments	- Voluntary Redundancy Program (VRP)	69	96	
	- Stamp Duty	-	(27)	
	- Asset Impairments	317	-	
EBIT – Underlying		851	754	13%
NPAT – Statutory		253	447	(43%)
NPAT – Underlying		523	487	7%
Final Dividend (cps)		8.5	8.2	4%
Earnings per share – Underlying (1)		24.5	21.6	13%
ROIC (2) (%)		8.8%	8.0%	0.8ppt
EBIT Margin – Underlying (3) (%)		22.3%	20.2%	2.1ppt
EBITDA Margin – Underlying (3) (%)		35.3%	33.5%	1.8ppt
Operating Ratio – Underlying (3)(4) (%)		77.7%	79.8%	2.1ppt
Coal Volumes (mt)		210.4	193.7	9%
Iron Ore Volumes (mt)		29.9	24.7	21%
Freight Volumes (mt)		46.3	49.3	(6%)
Gearing (net debt / net debt + equity) (%)		28.4%	26.7%	(1.7ppt)
People (FTE)		7,524	7,851	4%

Highlights in FY2014

- Statutory EBIT down 32% due to asset impairments of $317m and VRP costs of $69m. Refer page 5 for further information
- Underlying EBIT up 13% or $97m largely due to:
  - Strong volume growth in coal and iron ore
  - Further ramp up of contracted volumes in the Goonyella to Abbot Point Expansion (GAPE)
  - Transformation benefits of $129m
  - Improved revenue quality of $102m from new form coal contracts and iron ore
- Record coal volumes of 210.4mt were up 9% on FY2013 (193.7mt)
- Final dividend declared of 8.5cps (unfranked), a dividend payout ratio of 70% vs 65% in FY2013. Record date is 2 September 2014 and payment date is 22 September 2014. Total FY2014 dividend of 16.5cps vs 12.3cps in FY2013
- Network – record volumes over Central Queensland Coal Network (CQCN) of 214.5mt (up 18% on FY2013)
- Coal operations – significant cost productivity across all corridors
- Iron Ore – acquisition of Aquila with Baosteel completed. Focus turns now to development of West Pilbara Infrastructure Project
- Freight – 48% increase ($11m) in underlying EBIT largely due to transformation benefits
- Enterprise Agreements (EA) - NSW finalised 4 year deal, Queensland agreements remain outstanding with Aurizon applying to terminate 14 EAs which will be heard by full bench of Fair Work Commission in November 2014

Operating Ratio (OR) Update

- OR improved to 77.7% (77.0% in 2H FY2014) and remains on track to meet the target of 75% in respect of FY2015
- Transformation benefits delivered of $129m, further detail on page 11

FY2015 Financial Outlook

- Our expectations for FY2015 are for:
  - Coal haulage volumes between 210mt – 220mt (vs 210.4mt in FY2014)
  - Iron ore haulage volumes of 23mt (vs 29.9mt in FY2014)
- FY2015 earnings could be impacted by industrial action, UT4 delays or a materially worse wet season
- Accordingly, Aurizon plans to reduce the cost base further and increase transformation benefits to a range of $250m-$300m

Notes:
(1) Earnings per share calculated on weighted average number of shares on issue of 2,137m in FY2014 (2,257m in FY2013)
(2) ROIC is defined as last 12 months underlying EBIT divided by average net working capital plus net PP&E plus AUC plus gross intangible assets
(3) Operating ratio, EBITDA and EBIT margins calculated using underlying revenue which excludes interest income and stamp duty refunds ($3,822m in FY2014 and $3,736m in FY2013)
(4) Operating ratio – diesel fuel rebate is included as revenue for remuneration purposes

CONSOLIDATED RESULTS

1. Annual Comparison

Financial Summary

($m)		FY2014	FY2013	Variance %
Total Revenue		3,832	3,766	2%
EBITDA	- Statutory	965	1,182	(18%)
	- Underlying[1]	1,351	1,251	8%
EBIT	- Statutory	465	685	(32%)
	- Underlying[1]	851	754	13%
Net finance costs		(112)	(103)	(9%)
Income tax expense	- Underlying	(216)	(164)	(32%)
NPAT	- Statutory	253	447	(43%)
	- Underlying[1]	523	487	7%
Earnings per share (cps)[2]	- Statutory	11.8	19.8	(40%)
	- Underlying[1]	24.5	21.6	13%
Final Dividend per share (cps)		8.5	8.2	4%
ROIC[3]		8.8%	8.0%	0.8ppt
Operating Ratio	- Underlying	77.7%	79.8%	2.1ppt
Net operating cash flow		1,068	906	18%
Gearing (net debt / net debt + equity)		28.4%	26.7%	(1.7ppt)
Net tangible assets per share ($)		3.0	3.0	-

Other Operating Metrics

	FY2014	FY2013	Variance %
Revenue / NTK ($/'000NTK)	51.7	55.8	(7%)
Labour Costs / Revenue	27.1%	29.0%	1.9ppt
NTK / employee (FTE) (MNTK)	9.8	8.5	15%
Opex / NTK ($/'000 NTK)	40.2	44.5	10%
NTK (bn)	73.9	67.0	10%
Tonnes (m)	286.6	267.7	7%

Underlying EBIT by Segment

	FY2014	FY2013	Variance %
Network	412	417	(1%)
Coal	400	320	25%
Iron Ore	103	97	6%
Freight	34	23	48%
Unallocated[4],[5]	(98)	(103)	5%
Group	**851**	**754**	**13%**

Notes:
(1) Refer to page 5 for a reconciliation between statutory and underlying earnings
(2) Earnings per share calculated on weighted average number of shares on issue of 2,137m in FY2014 (2,257m in FY2013)
(3) ROIC is defined as last 12 months underlying EBIT divided by average net working capital plus net PP&E plus AUC plus gross intangible assets
(4) Items of revenue and expense of a corporate nature and other operations within the Group including provision of overhaul and maintenance services to external customers
(5) Note that some of the numbers in this document may not match the financial statements due to rounding
(6) The information contained in this report is based on financial accounts that have been audited

Variance Analysis – Annual

Statutory EBIT decreased 32% to $465m, primarily due to $386m of significant items. Significant items included $317m of asset impairments and $69m of costs related to the Voluntary Redundancy Program (VRP). The asset impairments were related to transformation ($190m) and other matters ($127m) as announced on 25 June 2014 with the major item being $170m for rollingstock based on fleet efficiencies generated by the Integrated Operating Plan (IOP). The VRP costs reflected 410 employees that have accepted a voluntary redundancy plus a provision for additional employees impacted by the progressive closure of the Redbank and Townsville rollingstock maintenance operations in FY2015 and FY2016 as previously announced 8 May 2014.

Underlying EBIT increased 13% to $851m due to stronger volumes, the continuing ramp up in contracted GAPE tonnes, and transformation benefits more than offsetting lower Network regulated access revenue (excluding GAPE) that was capped under the transitional tariff arrangements. The company realised sustainable transformation benefits of $129m during the year.

Coal volumes grew 9% driven by higher customer demand in both Queensland and the Hunter Valley despite the closure of Peabody's Wilkie Creek mine in December 2013 and the end of Rio Tinto's Hail Creek contract in October 2013. Iron Ore volumes increased 21% to reach full contractual capacity, while Freight volumes declined 6% with higher Intermodal volumes (growth of 17%) more than offset by declining Bulk volumes (decrease of 9%).

Network regulated access revenue for the Central Queensland Coal Network (CQCN) was determined in accordance with the transitional tariff arrangement as negotiated with customers which resulted in $60m reduction in regulated access revenues from FY2013 to FY2014. Regulated access revenues for the CQCN for FY2014 will be adjusted to reflect the outcome of UT4 when the final decision is made, expected by June 2015.

Additional information on the 13% increase in underlying EBIT to $851m is below:

- A net increase of $109m from volume growth and new business in Intermodal (net of access and fuel):
    - $98m increase in the GAPE revenue due to the ramp up in contracted tonnes
    - $37m increase in Intermodal due to volume growth from new customers
    - $17m increase in Iron Ore revenue due to increased volumes
    - $10m increase in Coal revenue due to growth with an additional 16.7mt railed
    - $53m decrease in Bulk Freight revenue due to a 9% reduction in volumes
- A net increase of $81m in revenue quality as follows:
    - $98m benefit from Coal including incentives for achieving performance targets
    - $4m benefit from Iron Ore
    - $21m decrease in Freight from lower payments for the Transport Services Contract (TSC) in Queensland
- Net impact of Network transitional tariffs of $85m as follows:
    - $60m decrease in access revenues (excludes GAPE) due to capped revenue agreed under the transitional tariff arrangements
    - $25m increase in maintenance costs reflecting impact of the higher volumes
- A benefit of $129m from transformation initiatives (refer to Section 4 for additional detail on transformation initiatives):
    - $96m from Operations including labour, fleet productivity, fuel and safety
    - $33m from centralised support areas including labour, professional services, lease costs and travel
- One off costs to deliver the transformation costs above (excluding VRP) of $18m
- A net increase in operating and other expenses of $119m to support the incremental volume growth including:
    - $39m of additional costs relating to Iron Ore, Coal and Intermodal volume growth (excluding fuel and access charges) with Intermodal also reflecting additional start-up costs for delivering new contracts
    - $20m from the increase in the fuel price
    - $19m additional non-cash costs associated with adjusting leave provisions to reflect the year end discount rate and land rehabilitation provisions in accordance with accounting standards
    - $17m increase in employee benefits due to escalation and increases in average rates
    - $12m increase in centralised strategic project costs
    - $11m increase in operating costs (excluding fuel and access) due to price escalation

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

($m)	2HFY2014	1HFY2014	FY2014	FY2013
Underlying EBIT	**428**	**423**	**851**	**754**
Significant Items:				
Voluntary Redundancy Program (1)	(44)	(25)	(69)	(96)
Stamp Duty (2)	-	-	-	27
Transformation related asset impairments	(43)	(147)	(190)	-
Other impairments	(77)	(50)	(127)	-
Statutory EBIT	**264**	**201**	**465**	**685**
Net Finance Costs	(59)	(53)	(112)	(103)
Statutory PBT	**205**	**148**	**353**	**582**
Taxation Expense	(59)	(41)	(100)	(135)
Statutory NPAT	**146**	**107**	**253**	**447**

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 closures of Redbank and Townsville as announced 8 May 2014 has also been recognised. In FY2013, 960 employees accepted the offer at a cost of $96m
(2) Stamp duty paid in 2006 in relation to acquisition of Australian Railroad Group, recovered in FY2013 on successful appeal to Supreme Court of WA

Summary of asset impairments

Transformation related asset impairments of $190m refers to the following:

- Rollingstock ($170m) – the IOP identified 200 locomotives and almost 2,800 wagons that were surplus to Aurizon's needs. It is anticipated that there will be a sustainable annual benefit of ~$20m through reduced maintenance and depreciation spend over the next 5 years
- Non-core Freight assets ($20m) – a year-end review was undertaken on the carrying value of cash generating units with certain non-core Freight assets impaired

Other impairments of $127m refers to the following:

- Strategic projects ($73m) – includes costs previously capitalised for Abbot Point T4 expansion (now progressing with GVK Hancock on their Galilee corridor and T3 proposal), East Pilbara Independent Railway (less probable given progress on West Pilbara Infrastructure Project) and the Surat Basin Rail JV (termination of the JV in February 2014)
- Assets under construction ($54m) – includes costs previously capitalised for Dudgeon Point Coal Terminal Expansions and the Wiggins Island Rail Project Stage 2. These projects are now considered longer-term based on expected customer demand

2. Other Financial Information

Cash Flow Summary

($m)	FY2014	FY2013
Statutory EBITDA	**965**	**1,182**
Working capital and other movement	341	(133)
Cash from operations	**1,306**	**1,049**
Net finance costs	(114)	(112)
Income taxes paid	(124)	(31)
Net cash inflow from operating activities	**1,068**	**906**
Cash flows from investing activities		
Proceeds from sale of PP&E	37	49
Payments for PP&E & intangibles	(870)	(944)
Net (payments for) / distributions from investment in associates	3	4
Net cash (outflow) from investing activities	**(830)**	**(891)**
Cash flows from financing activities		
Net proceeds from borrowings	342	1,306
Payment for share buy-back and share based payments	(24)	(1,112)
Dividends paid to Company shareholders	(346)	(200)
Net cash (outflow) / inflow from financing activities	**(28)**	**(6)**
Net increase / (decrease) in cash	**210**	**9**

Cash Flow Movements – Annual

Net cash inflow from operating activities increased 18% from $906m to $1,068m largely due to:

- Growth in cash from operations of $257m or 24% (from $1,049m to $1,306m)
  - Working capital and other inflow of $341m mainly due to the increase in trade payables relating to the over collection of Network access tariffs due to the fixed transitional tariffs, the non-cash impairments and the timing of payroll accruals. The over-collection of Network access tariffs of $70m will be returned to customers in 1HFY2015
  - Partly offset by decrease in statutory EBITDA from $1,182m to $965m due to an increase in underlying adjustments in respect of impairments to rollingstock and strategic projects as announced on 25 June 2014 ($317m) and VRP costs ($69m) more than offsetting a $100m increase in underlying EBITDA. The impairments are non-cash
- Partly offset by increase in income tax paid to $124m reflecting the increase in taxable profits

Net cash outflow from investing activities decreased from $891m to $830m, largely due to:

- A decrease in capital expenditure of $74m to $870m due to deferred spend in Network (timetable for Wiggins Island has been aligned to the delay in the Port) and Iron Ore (completion of growth projects in FY2013)

Net cash outflow from financing activities has increased from $6m to $28m, largely due to:

- Increase in dividend payments to $346m reflecting an increased dividend payout ratio and $24m in share-based payments
- Partly offset by net borrowing proceeds of $342m principally to fund Network's capital expenditure program and the acquisition of Aquila with Baosteel

Balance Sheet Summary

($m)	30 June 2014	30 June 2013
Total current assets	1,336	933
Property, plant & equipment	9,441	9,460
Other non-current assets	172	126
Total Assets	**10,949**	**10,519**
Other current liabilities	(853)	(782)
Total borrowings	(2,841)	(2,479)
Other non-current liabilities	(882)	(762)
Total Liabilities	**(4,576)**	**(4,023)**
Net Assets	**6,373**	**6,496**
Gearing (net debt / net debt plus equity)	28.4%	26.7%

Balance Sheet Movements – 30 June 2014 vs 30 June 2013

Total current assets have increased by $403m largely due to:

- Increase in cash and cash equivalents of $210m to fund Aurizon's portion of the acquisition of Aquila completed in July 2014
- Increase in assets classified as held for sale of $88m reflecting certain non-core operations and other assets that are intended to be sold in the near future
- Increase in trade receivables of $24m principally reflecting year end billing of Network Take or Pay and Coal incentives

Total other non-current assets have increased due to the increase in intangible assets of $38m relating to acquisition of computer software

Other current liabilities have increased $71m largely due to:

- Increase in trade and other payables of $140m principally relating to over-collection of Network transitional tariffs ($70m) and timing of payroll accruals ($21m)
- Partly offset by a reduction in current tax liabilities of $68m

Total borrowings have increased $362m to fund Network's capital expenditure program and the acquisition of Aquila with Baosteel

Other non-current liabilities have increased $120m principally due to an increase in deferred tax liabilities of $84m

Dividend

The Board has declared a final dividend of 8.5cps which was based on:

- Payout ratio of 70% (applied to underlying NPAT, excluding significant items) compared to 65% for the interim FY2014 dividend (underlying NPAT) and final FY2013 dividend (on statutory NPAT)
- The final dividend is unfranked, due principally to the impact on cash tax payable of the impairments. We anticipate being in a tax payable position during FY2015 and expect full franking of the final FY2015 dividend

The relevant final dividend dates are:

- 29 August – ex dividend date
- 2 September – record date
- 22 September – payment date

Funding

Group gearing increased from 26.7% to 28.4% due to higher debt levels. Credit ratings remain unchanged at BBB+/Baa1.

Interest cost on drawn debt reduced to 4.8% for FY2014 from 5.1% in FY2013 due to reduced margins following the refinancing in FY2013.

Aurizon further diversified funding sources with a debut issuance in the domestic capital markets in FY2014. Aurizon Network issued a 7 year $525 MTN in October 2013 with coupon of 5.75% per annum. The proceeds were used to repay existing bank debt maturing in 2015.

The debt maturity profile is stable with an average tenor of 3.5 years (3.6 years in FY2013).

The company is expecting to refinance its $1.5bn debt tranche (due June 2016) in FY2015.

Liquidity as at 30 June 2014 was $0.94bn (undrawn facility and cash).

Tax

Income tax expense for FY2014 was $100m, representing an effective tax rate of 28.5%. The cash tax rate for FY2014 was 3.4%, significantly below 30% due to the following:

- tax effect of asset impairments of $317m as announced during the year
- an adjustment to the tax depreciation charge for prior years due to a recent Government announcement to not proceed with a proposed measure relating to the interaction between the tax consolidation rules and the tax depreciation rules
- items being deductible for tax purposes that have been capitalised on the balance sheet

The effective tax rate for FY2015 is expected to be in the range of 28-30% and the cash tax rate is expected to be in the range of 15-20%.

3. Half Year Comparison

Financial Summary

($m)		2HFY2014	1HFY2014	Variance %
Total Revenue		1,867	1,965	(5%)
EBITDA	- Statutory	513	452	13%
	- Underlying	677	674	-
EBIT	- Statutory	264	201	31%
	- Underlying	428	423	1%
Net finance costs		(59)	(53)	(11%)
Income tax expense		(109)	(107)	(2%)
NPAT	- Statutory	146	107	36%
	- Underlying	260	263	(1%)
Earnings per share (cps)	- Statutory	6.8	5.0	36%
	- Underlying	12.2	12.3	(1%)
Final / Interim Dividend per share (cps)		8.5	8.0	6%
ROIC		8.8%	8.6%	0.2ppt
Operating Ratio	- Underlying	77.0%	78.4%	1.4ppt
Net operating cash flow		547	521	5%
Gearing (net debt / net debt + equity)		28.4%	27.9%	(0.5ppt)

Other Operating Metrics

	2HFY2014	1HFY2014	Variance %
Revenue / NTK ($/000NTK)	52.2	51.3	2%
Labour Costs / Revenue	27.2%	26.9%	(0.3ppt)
NTK / employee (MNTK)	9.5	10.1	(6%)
Opex / NTK ($/000 NTK)	40.2	40.2	-
NTK (bn)	35.7	38.2	(7%)
Tonnes (m)	137.2	149.4	(8%)

Underlying EBIT by Segment

	2HFY2014	1HFY2014	Variance %
Network	195	217	(10%)
Coal	213	187	14%
Iron Ore	53	50	6%
Freight	14	20	(30%)
Unallocated	(47)	(51)	8%
Group	**428**	**423**	**1%**

Variance Analysis – Half on Half

Underlying EBIT increased $5m or 1% to $428m due to:

- A net decrease of $54m from lower volumes which decreased 8%:
  - $43m decrease in Freight revenues due to volume declines, net of access and fuel, with decreases in both Bulk and Intermodal revenues
  - $20m decrease in coal revenue due to volume declines, net of access and fuel
  - $8m decrease in Iron Ore revenue due to volume declines, net of access and fuel
  - Partly offset by a $17m increase in GAPE revenue due to the ramp up in contracted tonnes
- A net increase of $30m in revenue quality principally due to:
  - $29m benefit from Coal revenue quality from improved rates including net incentives
- Net impact of Network transitional tariffs of $46m as follows:
  - $46m decrease in regulated access revenue (excluding GAPE) due to the assumption that a greater portion of tonnes would be railed in 1HFY2014 versus what actually happened for the year. Maintenance costs were constant from 1HFY2014 to 2HFY2014 so there is no further impact
- A benefit of $58m from transformation initiatives. Refer to Section 4 for additional detail on transformation initiatives with a summary provided below:
  - $22m in centralised support principally from lower labour costs of $13m and professional services of $9m
  - $36m in operations principally from lower labour costs of $13m, fleet productivity of $19m, fuel productivity of $2m and a $2m improvement in safety performance
- One off costs to deliver the transformation costs above (excluding VRP) of $11m
- A net decrease in operating and other expenses of $27m:
  - $10m due to the receipt of an outstanding invoice, previously written off as non-recoverable from a Freight customer
  - $9m decrease in electric traction costs for Network due to decrease in electric volumes
  - The balance representing other volume related costs (other than fuel and access) which decreased due to the lower volumes, more than offsetting cost and labour escalation

4. Operating Ratio Update

Aurizon remains on target to achieve a 75% Operating Ratio (OR) (25% EBIT margin) in respect of FY2015. The underlying OR for FY2014 was 77.7%, a 2.1ppts improvement from FY2013. The OR for 2HFY2014 was 77.0%.

A key component of achieving the 75% OR is the delivery of $230m+ of sustainable cost out and productivity improvements by FY2015, as announced in July 2013, with Operations delivering $130m+ and centralised support areas delivering $100m. Aurizon can report that the total amount delivered in FY2014 was $129m, comprised as follows:

- Operations $96m
- Centralised support costs $33m

The net costs to deliver the transformation benefits of $129m was $55m, comprised of $37m for VRP and $18m for non-VRP initiatives. A further $32m of VRP cost has been included in FY2014 to account for expected redundancies associated with the progressive closure of the Redbank and Townsville workshops during FY2015 and FY2016 as announced during the year. The non-VRP costs of $18m reflect specific costs associated with identifying and implementing key initiatives identified below, principally in the centralised support areas.

Due to the potential impact to FY2015 earnings from industrial action, a failure to reach a satisfactory outcome on UT4 in FY2015 and/or a materially worse wet season than FY2014, Aurizon has increased its cost reduction and productivity improvements target to a range of $250m-$300m, in order to achieve the 75% OR target.

Below is further detail behind the key initiatives for FY2014:

Operations - $96m

- $42m reduction in labour costs – due to a 6% reduction in average FTEs driven primarily by footplate hours, removal of deployment inefficiencies, holding natural attrition levels, progressive depot consolidation for maintenance and Intermodal, commencing workshop labour reform and corridor IOP initiatives (e.g. North West corridor)
- $29m in fleet productivity – IOP and improved operational practices have resulted in a reduction in active fleet requirements with savings in depreciation and maintenance
- $13m in fuel efficiency – due to a 5% 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
- $12m in safety performance – lower casualty costs due to a significant reduction in major derailments from improved safety performance

In addition to the transformation cost reductions identified of $96m, Operations has also delivered an opportunity cost saving of $50m through the delivery of increased volumes on a flat cost base. These costs would have otherwise been incurred due to the record above rail volumes Aurizon has railed, if not for significant improvements in turn-around-time (TAT), payloads and pathing availability. In the Blackwater system alone, TAT improved 15% and average payloads increased by 4%, allowing a 23% increase in volume to be delivered on the same asset and cost base. If the Blackwater system operated at FY2013 operating parameters without transformation, it would have required approximately 100 more FTEs and 6 additional consists to deliver the 23% increase in volumes, an opportunity cost saving of $34m.

Centralised support costs - $33m

- $15m reduction in labour costs associated with a net reduction of FTEs
- $11m reduction in professional services and other discretionary spend
- $7m reduction in other costs including rationalisation of the property portfolio and improved procurement practices

SEGMENT REVIEW

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 four ports. The CQCN includes four major coal systems the Moura, Blackwater, Goonyella and Newlands.

Network Financial Summary

($m)	FY2014	FY2013	Variance %
Total Revenue	**1,012**	**980**	**3%**
- Access	951	921	3%
- Services	17	26	(35%)
- Other	44	33	33%
Operating Costs	(402)	(375)	(7%)
EBITDA	610	605	1%
EBITDA margin	60.3%	61.7%	(1.4ppt)
Depreciation and amortisation expense	(198)	(188)	(5%)
Underlying EBIT	**412**	**417**	**(1%)**
Underlying Operating Ratio	**59.3%**	**57.4%**	**(1.9ppt)**

($m)	2HFY2014	1HFY2014	Variance %
Total Revenue	**491**	**521**	**(6%)**
- Access	461	490	(6%)
- Services	9	8	13%
- Other	21	23	(9%)
Operating Costs	(196)	(206)	5%
EBITDA	295	315	(6%)
EBITDA Margin	60.1%	60.5%	(0.4ppt)
Depreciation and amortisation expense	(100)	(98)	(2%)
Underlying EBIT	**195**	**217**	**(10%)**
Underlying Operating Ratio	**60.3%**	**58.3%**	**(2.0ppt)**

Network Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	Variance %
Tonnes (million)	106.9	107.6	214.5	182.3	18%
NTK (billion)	27.0	27.2	54.2	44.7	21%
Access revenue / NTK ($/000 NTK)	17.1	18.0	17.5	20.6	(15%)
Maintenance / NTK ($/000 NTK)	2.5	2.5	2.5	2.5	-
Opex / NTK ($000 NTK)	11.0	11.2	11.1	12.6	12%

Network Performance Overview

The Network business delivered many performance records in FY2014, including record volumes over the CQCN of 214.5mt, an 18% increase on FY2013. This was achieved whilst driving major improvements in safety performance and keeping the maintenance spend per NTK constant in nominal terms. Key operational achievements were:

- A significant enhancement in Network reliability, resulting in:
  - 33% reduction in Network delays (measured as Below Rail minutes per train service) from 44mins in FY2013 to 29mins in FY2014
  - 47% reduction in Network caused cancellations from 792 in FY2013 to 417 in FY2014
- 21% increase in NTKs to 54.2bn
- A substantial capital program was delivered during the year with major progress achieved on the Wiggins Island, Hay Point and Rolleston expansion projects

In relation to UT4, there has been substantial engagement with key stakeholders on all key matters. On 11 August 2014, Aurizon Network withdrew and resubmitted its UT4 submission in order to reflect this engagement, enabling the QCA to base its draft decision on this new document. The QCA has advised Aurizon Network it will separate the draft decision into revenue and policy with a draft revenue decision to be published in September 2014. All other remaining pricing (e.g. tariffs) and policy matters will have a draft decision published in December 2014. A final decision is expected no later than 30 June 2015 including the reconciliation of Transitional Tariffs in place since 1 July 2013.

Underlying EBIT decreased 1% to $412m due to the fixed revenue nature of the transitional tariffs for the CQCN (ex GAPE) which was set at $739m inclusive of revenue cap. This resulted in Network not recognising all of the revenue associated with the 18% volume growth, with $70m being classified as a provision at year-end, to be returned to customers as agreed in 1HFY2015. In addition, Network incurred additional maintenance costs of $25m to ensure performance levels were maintained in the strong volume environment, with no corresponding revenue recovery.

Offsetting the decrease in CQCN regulated revenues was the continued ramp-up of contracted GAPE tonnes which delivered a further $98m in revenue. The above, combined with an increase in depreciation of $10m resulted in a 1.9ppt increase (i.e. adverse movement) of the OR to 59.3%. Transitional tariffs will again be in place for FY2015 until a final UT4 decision which is currently expected by June 2015.

Network Variance Analysis – Annual

The $5m decrease in underlying EBIT was due to:

- A net increase in revenue of $32m principally comprising:
  - $30m increase in regulated access revenue due to the ramp up in contracted GAPE volumes ($98m) more than offsetting the reduction in regulated access revenues ($68m) for the remainder of the CQCN due to the capped transitional tariffs as noted previously and inclusive of $8m of flood claim recovery in FY2013
- A net increase in operating costs of $27m principally comprising:
  - $7m increase in traction costs from an increase in tariffs and higher electric traffic (electric GTKs increasing 20% from 48.9bn to 58.5bn)
  - A net $13m increase in maintenance activities. CQCN operational maintenance expenditure increased $25m as a result of increased volumes, partly offset by a reduction in non-recurrent maintenance costs of $9m relating to the floods maintenance works and a further $3m reduction in derailment and dewirement maintenance expenditure in FY2013
- A net increase in depreciation of $10m due to asset renewals, increased ballast renewal works and part commissioning of the Hay Point Expansion works

Network Variance Analysis – Half on Half

The $22m decrease in underlying EBIT was largely due to:

- A net decrease in revenue of $30m principally comprising:
  - $29m decrease in regulated access revenue despite a small reduction in volumes from 107.6mt to 106.9mt comprised of a decrease of $46m for fixed CQCN revenues (due to transitional tariff noted previously) partly offset by an increase of $17m for GAPE revenues. The forecast second half regulatory volumes were used to attribute the agreed FY2014 Transitional MAR of $739m between the first and second half of FY2014. This variance arose due to the second half volumes being much stronger than the second half regulatory volume forecast
- A net decrease in operating costs of $10m principally comprising:
  - $9m decrease in traction costs, as energy costs were aligned to revenue attribution between the first and second half of FY2014 as described above
- A net increase in depreciation of $2m mainly due to increased ballast renewal works, asset renewals and AFDs which were commissioned during the second half of the year

Network Operations Update

(i) Access Undertaking 2013 (UT4)

- The next key regulatory milestone is the QCA issuing a draft revenue decision in September 2014
- A draft decision on all other pricing and policy aspects is to be published December 2014, based on the re-submitted UT4
- The final UT4 determination is currently expected to be finalised and take effect by June 2015

(ii) Transitional Tariff arrangements for FY2015

- 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 interest) 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

(iii) Standard User Funding Agreements (SUFA)

- The SUFA framework facilitates customers with an alternative mechanism to funding the expansion and growth of the CQCN. Where Aurizon Network chooses not to fund an expansion of the CQCN, SUFA enables a customer/s to directly fund the requisite expansion. SUFA further diversifies Aurizon Network's options for funding expansions to the CQCN
- The QCA issued a position paper in May 2014 highlighting its position regarding an effective SUFA outcome. The QCA is expected to issue a draft decision in September 2014 with a final decision expected in February 2015. The final decision will be encapsulated in the final UT4 agreement

(iv) Growth

Committed Project Status

- 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) at the Port of Gladstone currently under construction 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 by the end of March 2015
  - The WIRP fee (earnings above the regulated level) and ramp-up of regulated earnings are to commence in FY2016, with the total cost of the project estimated to be $858m (excluding capitalised interest)
- Hay Point Terminal Expansion
  - The expansion of the Goonyella system to support the Hay Point Port upgrade, adding a further 11mtpa of below rail capacity and lifting the Goonyella system capacity to 140mtpa, is nearing completion and under budget, at $121m
  - The Wotonga Feeder Station 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 September 2015
- Rolleston Electrification Project
  - Construction of the electrification of the existing 107km Rolleston spur line commenced in July 2013 with completion and commissioning of the project to occur by December 2014, at a total cost estimated to be $163m

Other Project Status

- Surat Basin Rail (SBR)
  - The SBR Joint Venture was terminated in February 2014, with Aurizon Network through its subsidiary Aurizon Surat Basin Pty Ltd continuing to hold an interest in the intellectual property and other rights relating the terminated JV
- Port of Hay Point Expansion (Dudgeon Point Coal Terminal)
  - On 20 June 2014, Northern Queensland Bulk Ports Corporation announced it was withdrawing its development proposal for the DPCT, noting the "current and short-term forecast market demand for coal does not support an expansion to the capacity proposed in the DPCT project"
  - As a result, Aurizon Network has impaired its investment in the form of assets under construction for the Port of Hay Point Expansion project. It should be noted that these amounts being impaired are still underwritten by the regulatory revenue mechanism and that recovery will be sought through the normal regulatory process, notwithstanding the immediate accounting treatment
- Wiggins Island Rail Project Stage 2 (WIRP 2)
  - Aurizon Network has formed the view that the likelihood of Stage 2 proceeding in the short to medium term has materially diminished and as a result has impaired its investment in the form of assets under construction for the WIRP 2 project. The impairment excludes those components of the projects that have been specifically underwritten by customers. It should also be noted that these amounts being impaired are still underwritten by the regulatory revenue mechanism and that recovery will be sought through the normal regulatory process, notwithstanding the immediate accounting treatment

Coal

Aurizon's coal business is one of the world's largest rail transporters of coal from mine to port for export markets, hauling on average nearly 600,000 tonnes a day. Aurizon provides a critical link in Australia's six major coal chain systems for the majority of Australia's coal producers. Our coal transport operation links mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland, and the Hunter Valley coal system in New South Wales, to domestic customers and coal export terminals.

Coal Financial Summary

($m)	FY2014	FY2013	Variance %
Total Revenue	**1,864**	**1,863**	**-**
- Above Rail	1,211	1,079	12%
- Below Rail[(1)]	649	776	(16%)
- Other	4	8	(50%)
Operating Costs[(1)]	(1,291)	(1,369)	6%
EBITDA	573	494	16%
EBITDA Margin	30.7%	26.5%	4.2ppt
Depreciation and amortisation expense	(173)	(174)	1%
Underlying EBIT	**400**	**320**	**25%**
Underlying Operating Ratio	**78.5%**	**82.8%**	**4.3ppt**

($m)	2HFY2014	1HFY2014	Variance %
Total Revenue	**906**	**958**	**(5%)**
- Above Rail	614	597	3%
- Below Rail	289	360	(20%)
- Other	3	1	200%
Operating Costs	(608)	(683)	11%
EBITDA	298	275	8%
EBITDA Margin	32.9%	28.7%	4.2ppt
Depreciation and amortisation expense	(85)	(88)	3%
Underlying EBIT	**213**	**187**	**14%**
Underlying Operating Ratio	**76.5%**	**80.5%**	**4.0ppt**

Notes:
(1) An amount equivalent to below rail revenue is included in operating costs, reflecting the pass through nature of access tariffs

Coal Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	Variance %
Total Tonnes hauled (million)	100.7	109.7	210.4	193.7	9%
- Queensland	81.3	88.6	169.9	155.8	9%
- NSW	19.4	21.1	40.5	37.9	7%
% Volumes under new form contracts	53%	52%	53%	42%	11ppt
Contract utilisation	88%	93%	91%	80%	11ppt
Total NTK (billion)	23.7	25.5	49.2	43.6	13%
- Queensland	20.7	22.1	42.8	37.8	13%
- NSW	3.0	3.4	6.4	5.8	10%
Above Rail revenue / NTK ($/000 NTK)	25.9	23.4	24.6	24.7	-
Below Rail revenue / NTK ($/000 NTK)	12.2	14.1	13.2	17.8	(26%)
Total revenue / NTK ($/000 NTK)	38.2	37.6	37.9	42.7	(11%)
Above Rail revenue / Gross contracted NTK ($/000 NTK)	23.1	21.9	22.5	19.6	15%
Opex / NTK ($000 NTK)	29.2	30.2	29.8	35.4	16%

Coal Performance Overview

FY2014 saw Coal underlying EBIT improve 25% to $400m despite flat revenue with operating costs decreasing by 6% and underlying operating ratio improving 4.3ppts to 78.5%. Volumes grew 9% to 210.4mt and represent an annual record for Aurizon with strong growth in both Queensland (9%) and NSW (7%). The volume growth was achieved despite the closure of Peabody's Wilkie Creek mine in December 2013 and the end of Rio Tinto's Hail Creek contract in October 2013, which contributed to a 5% reduction in contracted tonnes to 229mt. Coal revenue was flat despite the strong volume growth, reflecting a 16% decrease in below rail revenue due to lower transitional access tariffs, offset by a 12% increase in above rail revenue.

Volumes hauled under new form contracts increased 11ppts to 53% principally due to two contracts converting from legacy to new form conditions, Rio Tinto's Clermont contract (now majority owned by Glencore) which commenced 1 July 2013 and the Ensham contract which commenced 1 April 2013. Contract utilisation increased 11ppts from 80% to 91% which was reflected in the 15% increase in above rail revenue per GCNTK, given a 2% decrease in GCNTK.

Total NTK growth of 13% was greater than the 9% increase in volumes due to increased GAPE volumes and the commencement of Whitehaven volumes from the Gunnedah Basin in NSW, both of which have a longer than average haul length.

The increasing haul length (up 4%) as well as other factors including lower Deficit Tonnage Charge (DTC), customer mix impact and higher contract utilisation resulted in above rail revenue per NTK being in line when compared to FY2013.

While revenues were flat, a 6% reduction in operating costs resulted in a 16% decrease in operating costs per NTK with lower access costs and transformation benefits partly offset by incremental operating costs relating to higher volumes.

Aurizon retained a contract with Yancoal's Yarrabee mine, which converted to a new form contract on 1 July 2014. Volumes increased to 3.2mt for a term of 10 years and will include haulage to the new Wiggins Island terminal (WICET) once complete.

Coal Variance Analysis – Annual

The $80m, or 25% increase in underlying EBIT was largely due to:

- Revenue was constant compared to FY2013 despite 9% volume growth:
  - Above rail revenue increased $132m or 12% driven by the strong volumes with above rail revenue per NTK constant at $24.6 per '000 NTK. NTK growth was stronger than volume growth at 13%, reflecting the longer hauls from the growth tonnes in both Queensland (GAPE) and NSW (Whitehaven, from the Gunnedah Basin). Average haul length increased 4% to 233km
- Above rail revenue per NTK was constant:
  - $29m reduction in DTC revenue to $8m. As DTC is a protective mechanism that relates to prior period's lost railings, it distorts volume based revenue metrics
  - A major customer operating under a lower yielding legacy contract contributed almost half of the volume growth
  - The average haul length increased 4% to 233km
  - Increasing levels of contract utilisation for customers operating under new form contracts. Due to the higher level of fixed revenue under these contracts, actual tonnage will only determine the variable component of revenue which generally accounts for less than 30% of above rail revenue. Average contract utilisation increased from 80% to 91%, and for new form contracts is 95% resulting in less variable revenue despite the strong volume growth. The high levels

  of fixed revenue combined with strong volumes is reflected in the 15% growth of above rail per GCNTK, with the level of GCNTK reducing 2%, yet Aurizon generating a 12% increase in above rail revenue
  - Below rail revenue decreased $127m or 16%, reflecting the impact of transitional tariffs and an increase in access tariffs paid directly from customers to Network. This revenue represents below rail access tariffs that are passed through to customers on behalf of Network and there is an equivalent operating cost. As Network operated under a fixed revenue environment in FY2014, the access costs and access revenue in Coal only represent Aurizon's above rail portion of Network's fixed revenue (i.e. Coal's portion of $739m). As a result, below rail revenue per NTK decreased 26%
- A net decrease in operating costs of $78m or 6%:
  - Access charges decreased $125m reflecting the agreed lower transitional tariffs for FY2014 and the impact from customers directly paying access tariffs to Network. Further details are noted above in below rail revenue
  - $41m in transformation benefits, principally lower labour, fuel efficiency and maintenance costs
  - Partly offset by an $88m increase in other operating costs reflecting volume related cost increases, increases in the underlying fuel price and operating cost escalation

Coal Variance Analysis – Half on Half

The $26m, or 14% increase in underlying EBIT was largely due to:

- A net decrease in revenue of $52m, or 5% comprising the following major items:
  - $17m (3%) increase in above rail revenue despite the 8% decline in volumes as above rail revenue per NTK increased 11%. The volume decrease was due to:
    - An 8% decline in both Queensland and NSW coal volumes reflecting normal seasonality
  - The increase in above rail revenue per NTK was due to:
    - Net incentives received from customers for achieving annual performance targets
    - Increase in the level of fixed revenue combined with a slight decline in contract utilisation
  - Below rail revenue decreased $71m or 20% reflecting the impact of transitional tariffs in addition to the 8% decrease in volumes. Below rail revenue per NTK decreased 13%
  - A net decrease in operating costs of $75m or 11%, driven by:
    - An 8% decline in volumes from 1HFY2014 reflecting seasonality with customers typically railing more in 1H ahead of the wet season

Coal Operations Update

During FY2014, Coal Operations continued focus has been on asset productivity and disciplined operations in delivering the increase in volumes, whilst driving significant cost productivity improvements across all corridors.

By driving the transformation program and focusing on running a more integrated railway, Coal Operations delivered record annual tonnes of 210.4mt in FY2014. This performance was achieved while continuing to reduce unit costs by 16%.

The transformation initiatives around train consist design, integrated operating plan, energy consumption, rollingstock maintenance and technology enabled operations are demonstrating improvements through operational efficiencies in the key Coal operating metrics including payloads, energy consumption, turnaround time and labour efficiencies.

The focus on disciplined operations through the Integrated Operating Plan has continued through FY2014, through reduction of operational variability by design. At the execution level this includes a constant daily focus on key operational metrics and levers, together with critical review of variability, dwell and path availability within systems.

Asset productivity has been a key area of focus for Operations as a whole. Locomotive and Wagon productivity (as measured by millions of NTK's per active loco and wagon) increased in FY2014 by 20% and 17% respectively from FY2013. The significant productivity uplift of assets resulted from:

- Review of fleet requirements, including right sizing the fleet within CQCN, through removal of consists to optimise system velocity
- Focus on reduction in variability and dwell within the systems through disciplined operations
- Optimisation of train lengths and payloads in all Queensland Coal Corridors, leading to a 3% increase in average payload

Fuel efficiency improved by 5% compared to FY2013 driven through the implementation of fuel efficiency practices including:

- Rollout of the pilot for Driver Advisory Systems
- Active monitoring of idling assets
- Review of consist configurations for optimal fuel consumption
- Implementation of regenerative braking
- Replacement of older locomotives with more fuel efficient locomotives

Employee productivity measures continues to be an area of focus, with the key measure of Employee Productivity, measured as NTK/FTE increasing by 17% compared to FY2013. This has been driven through:

- Reduction in FTEs achieved through structural reform
- Focus on daily train crew productivity (measured in footplate hours) through review of train crew configurations and workings to maximise workloads and minimise use of block leisure period workings
- Improved system productivity through reduction in cycle times, increased payloads and on time arrivals

The Whitehaven Implementation Project has secured all necessary rail infrastructure provider approvals that will allow operation of the standard Hunter Valley locomotive class, ensuring continuation of the homogeneous fleet strategy. New locomotive and wagon production remains on schedule with first rollingstock arriving in November 2014. Whitehaven short term haulage agreement continues to provide ongoing driver training for the long term contract whilst generating profitable revenue.

Aurizon has commenced construction of the Train Support Facility (TSF) at Hexham with the commissioning now expected to be up to six months later than the original date of November 2014 due to manageable delays in environmental approvals and latent conditions on site. The TSF will consolidate the maintenance and provisioning footprint in NSW for Aurizon, driving further improvements in operational efficiency and effectiveness.

Iron Ore

Aurizon is Australia's largest iron ore haulier outside of Western Australia's Pilbara region and has continued to grow the business rapidly from a base of 13.6mt in FY2012 to 29.9mt in FY2014. Volumes are expected to reduce to 23mt in FY2015 as noted below.

Iron Ore Financial Summary

($m)	FY2014	FY2013	Variance %
Total Revenue	**378**	**357**	**6%**
Operating Costs	(239)	(223)	(7%)
EBITDA	139	134	4%
EBITDA Margin	36.8%	37.5%	(0.7ppt)
Depreciation and amortisation expense	(36)	(37)	3%
Underlying EBIT	**103**	**97**	**6%**
Underlying Operating Ratio	**72.8%**	**72.8%**	-

($m)	2HFY2014	1HFY2014	Variance %
Total Revenue	**188**	**190**	**(1%)**
Operating Costs	(119)	(120)	1%
EBITDA	69	70	(1%)
EBITDA Margin	36.7%	36.8%	(0.1ppt)
Depreciation and amortisation expense	(16)	(20)	20%
Underlying EBIT	**53**	**50**	**6%**
Underlying Operating Ratio	**71.8%**	**73.7%**	**1.9ppt**

Iron Ore Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	Variance %
Tonnages hauled (million)	14.9	15.0	29.9	24.7	21%
Contract utilisation	100%	100%	100%	82%	18ppt
NTK (billion)	6.1	6.1	12.2	10.3	18%
Revenue / NTK ($/000 NTK)	30.8	31.1	31.0	34.7	(11%)
Opex / NTK ($000 NTK)	22.1	23.0	22.5	25.2	11%

Iron Ore Performance Overview

FY2014 underlying EBIT increased 6% to $103m as the Iron Ore business grew volumes 21% to 29.9mt which represents full contractual capacity. OR was maintained at 72.8% despite an 11% decrease in revenue per NTK (impact of capacity charge revenue in FY2013 for volumes not railed) due to a strong operational performance resulting in an 11% reduction in opex per NTK.

Whilst volumes were strong and at full contracted capacity, in FY2015 we estimate volumes will be 23mt due to the end of two contracts, namely Mount Gibson's 3.0mtpa Tallering Peak contract (ceased 31 July 2014) and Mineral Resources' 4.2mtpa Carina contract (to cease 31 August 2014). Tallering Peak ceased due to the end of the mine's effective life however we are continuing to rail due to stockpiled ore at the mine. The Carina contract is ending due to the customer deciding to manage their own rail haulage. Aurizon has identified opportunities to deploy the five locomotives currently used for this contract elsewhere in the above rail operations, possibly to the Intermodal business to replace locomotives that are currently leased. The associated wagons are leased, and that lease is due to expire on 31 August 2014. Accordingly, Aurizon does not expect to hold surplus wagons.

Iron Ore Variance Analysis – Annual

The $6m, or 6% increase in underlying EBIT was due to:

- A net increase in revenue of $21m. Whilst volumes grew 21%, revenue growth was lower at 6% reflecting the impact of capacity charges arising in FY2013 for volumes contracted but not railed. The consequence of this is also reflected in the reduction in revenue per NTK of 11%
- A net increase in operating costs of $16m reflecting the volume growth. Operating performance continued to improve with opex per NTK decreasing 11%, due to the operational efficiencies gained as contractual capacity hit 100%

Iron Ore Variance Analysis – Half on Half

The $3m, or 6% increase in underlying EBIT was due to:

- A net decrease in revenue of $2m due to marginally lower volumes (0.1mt) and a 1% decrease in revenue per NTK. This was the result of a derailment in May 2014 impacting Cliffs volumes
- The revenue decrease was more than offset by lower operating costs, which resulted in a reduction in opex per NTK of 4%

Iron Ore Operations Update

The Iron Ore business transitioned into the Aurizon functional structure on 1 July 2013 with Commercial & Marketing assuming accountability for the customer relationships and Operations for the above rail operations. This followed an incubation period where it remained a stand-alone business unit during the initial ramp-up phase.

Operationally it continues to perform at a high level given it was predominantly established as a greenfield business, but Aurizon continues to work with customers to identify and optimise supply chain performance resulting in increases to the capacity of train services without any increases in rollingstock requirements. In addition, as the IOP continues to be implemented across the business, we would anticipate generating further operational improvements.

West Pilbara Infrastructure Project

Aurizon and Baosteel have effected an off-market takeover of Aquila Resources which was delisted on 29th July 2014. The strategic intent of Aurizon's investment in Aquila is to facilitate development of rail and port infrastructure for the West Pilbara Infrastructure Project Project (WPIP).

There is strong strategic rationale for Aurizon participating alongside leading steel producers to unlock the mine assets in the West Pilbara province and to provide world-class multi-user infrastructure with the potential to unlock other presently stranded West Pilbara iron ore projects.

Aurizon's agreements with Baosteel, including an Infrastructure Framework Agreement, provide a minimum 12 month period of exclusivity during which Aurizon will review the existing infrastructure studies, develop infrastructure tariffs and, if these tariffs are accepted by the Australian Premium Iron Joint Venture (APIJV) participants, negotiate the agreements necessary to restructure the APIJV into a mine vehicle and an infrastructure vehicle. Aurizon's immediate priority is to negotiate the terms on which AMCI(IO) and/or its owners, as participants in the APIJV, become a party to similar agreements that set out the pathway by which Aurizon can secure the rights to develop the West Pilbara Infrastructure.

While these terms are being negotiated, a confidentiality agreement allows Aurizon access to APIJV information, including existing feasibility studies, for due diligence purposes.

Any infrastructure development will be subject to (among other things) a Final Investment Decision by Aurizon and will only occur following detailed planning and feasibility studies, concurrent development of West Pilbara Iron Ore Project (WPIOP) mines and entry into appropriate take or pay contracts to support the tonnage profile for viable rail and port infrastructure.

It is Aurizon's intention, following the successful development of the WPIP rail and port infrastructure, to divest its shareholding in Aquila.

Freight

Aurizon's Freight business supports a range of customers nationally for bulk minerals and commodities, agricultural products, mining and industrial inputs, and general and containerised freight.

Freight Financial Summary

($m)	FY2014	FY2013	Variance %
Total Revenue	**1,029**	**1,082**	**(5%)**
Operating Costs	(941)	(1,002)	6%
EBITDA	88	80	10%
EBITDA margin	8.6%	7.4%	1.2ppt
Depreciation and amortisation expense	(54)	(57)	5%
Underlying EBIT	**34**	**23**	**48%**
Underlying Operating Ratio	**96.7%**	**97.9%**	**1.2ppt**

($m)	2HFY2014	1HFY2014	Variance %
Total Revenue	**479**	**550**	**(13%)**
Operating Costs	(440)	(501)	12%
EBITDA	39	49	(20%)
EBITDA margin	8.1%	8.9%	(0.8ppt)
Depreciation and amortisation expense	(25)	(29)	14%
Underlying EBIT	**14**	**20**	**(30%)**
Underlying Operating Ratio	**97.1%**	**96.4%**	**(0.7ppt)**

Freight Operating Metrics

	2HFY2014	1HFY2014	FY2014	FY2013	Variance %
Tonnages hauled (million)	21.7	24.6	46.3	49.3	(6%)
NTK (billion)	5.9	6.6	12.5	13.2	(5%)
Revenue / NTK ($/000 NTK)	81.2	83.3	82.3	82.0	-
Opex / NTK ($000 NTK)	78.8	80.3	79.6	80.2	1%

Freight Performance Overview

The Freight business hauled 46.3mt of goods during FY2014, a decrease of 6% compared to FY2013 with NTKs down 5%. Bulk volumes decreased 9% due lower Queensland grain volumes (below average grain harvest), an unscheduled customer plant shutdown and the supply of nickel being impacted by the Indonesian Government's export ban. Partly offsetting this was a 17% increase in Intermodal volumes, against the trend of flat market conditions overall, due to new contracts commencing including Coles and Woolworths.

Revenue was also impacted by a reduction in services under the Transport Services Contract (TSC) with the Queensland Government which took effect from 1 January 2013 and resulted in revenue decreasing $21m when compared to FY2013. The two TSC contracts run until 30 June 2015 (regional freight) and 31 December 2015 (livestock). The above factors resulted in revenue per NTK being flat when compared to FY2013.

Underlying EBIT grew 48% despite the revenue decrease with the realisation of $55m in transformation benefits driving a 6% decrease in operating costs. With a 5% reduction in NTKs, the lower cost base resulted in a 1% improvement in opex per NTK and the OR improved 1.2ppts to 96.7%.

Freight Variance Analysis – Annual

The $11m, or 48% increase in underlying EBIT reflects:

- A net decrease in revenue of $53m (5%), comprising the following major items:
  - $77m decrease in Bulk revenues due to the 9% volume decline
  - $21m decrease in TSC revenue reflecting reduced services that took effect 1 January 2013
  - Partly offset by a $42m increase in Intermodal revenues, principally from new contracts and increased volumes (17% increase)
- A net $61m decrease in operating costs comprising:
  - $55m in transformation benefits, principally lower labour, fuel efficiency and maintenance costs
  - Lower costs in Bulk associated with the 9% volume reduction partly offset by cost escalation and costs associated with the 17% increase in Intermodal volumes and start-up costs

Freight Variance Analysis – Half on Half

The $6m or 30% decrease in underlying EBIT reflects:

- A net decrease in revenue of $71m (13%):
  - $57m decrease in Bulk revenues driven by a 14% decrease in volumes
  - $13m decrease in Intermodal revenues driven by a 6% decline in revenue per NTK with volumes flat
- A net decrease in operating costs of $61m (12%):
  - $29m in transformation benefits, principally lower labour, fuel efficiency and maintenance costs
  - $20m reduction in costs associated with the decrease in Bulk volumes
- A net decrease in depreciation of $4m

Freight Operations Update

Continuing to drive the transformation program for Freight operations within FY2014, the Integrated Operating Plan has expanded from its initial focus on North West Queensland and Western Australia to encompass the North Coast Line, Central West Queensland, South West Queensland and Interstate Intermodal. Opportunities have been realised across the Aurizon national footprint including:

- Optimisation of assets through train schedule and redesign
- Improved productivity of ground crew for shunting and switching activities across regional areas, through the consolidation of tasks
- Continued reviews around crew rostering, right sizing, positioning of train crew requirements and regional depot closures
- Closure of Charters Towers and Avon crew depots, and East Cost Intermodal depots
- Closure of Hughenden & Kalgoorlie maintenance depots through consolidation of rollingstock maintenance work
- Consolidation of Queensland planning and control functions

Additional opportunities have been identified across all Freight corridors and are scheduled for implementation in FY2015 and beyond.

Disposal of non-core business post year-end

On 4 August 2014, Aurizon entered into an agreement to sell its wholly owned logistics subsidiary CRT Group (CRT) to Qube Logistics (Aust) Pty Limited, a subsidiary of Qube Holdings (Qube). The sale is consistent with Aurizon's strategy, as announced in July 2013, to maximise the value of the Intermodal business by retaining and integrating it within the enterprise but which also included the disposal of certain non-core assets.

CRT provides specialised bulk freight haulier services including handling, packaging, warehousing and distribution to the Australia polymer, food and industrial sectors and has a national network of depots, warehouses and container parks which, based on a strategic review, is considered non-core. The resources arm was separated from CRT in April 2014 and integrated into Aurizon's broader operations given its complementary focus on Aurizon's key growth sectors and commodities.

CRT employs approximately 250 people and has an annual turnover (revenue) of c$100m. The sale is subject to a number of conditions, with settlement expected in or about October 2014.

OTHER

Senior Management Changes

There were a number of changes in the senior management team during FY2014:

- On 13 November, 2013 we announced the appointment of Mauro Neves to the role of EVP Commercial & Marketing. Mauro commenced with the Company on 1 January 2014. He brings further global experience to the Executive Committee and has strong commercial and operational capability, having spent much of the last decade with Vale, most recently as Global Director Coal
- On 4 November, 2014 Mike Carter moved from the role of EVP Network to lead a newly combined Strategy & Business Development function, and Alex Kummant moved from Strategy to become the new EVP Network. These changes were announced on 19 August 2013, as part of Aurizon's transformation program
- The changes to the Executive Committee during the year included the departure of Paul Scurrah, EVP Commercial & Marketing, Ken Lewsey, EVP Business Development, and Greg Robinson, EVP Business Sustainability.

Enterprise Agreement (EA) Update

New South Wales (NSW)

The renegotiation of the NSW Coal Operations EA was successfully approved within the set bargaining parameters of 4% per year for the first three years, with reduced hours in the fourth year, while also retaining the essential flexibilities around rostering which was the key objective.

Queensland

The 14 Queensland agreements that cover approximately 5,500 staff represented by 6 unions, expired on 31 December 2013. Aurizon's main efforts have been directed toward negotiating for replacement enterprise agreements that are fair, competitive and commercially sustainable. This involves significant reform to the current EAs which contain clauses that are no longer sustainable for a publically listed company.

Bargaining commenced on 29 April 2013 and during that time Aurizon has taken a number of measures to move the process forward, including:

- Obtaining the assistance of the Fair Work Commission (FWC) to facilitate bargaining
- Increasing bargaining meeting timetable
- Inviting unions to participate in consent arbitration of outstanding matters (declined)

Despite the Company's best efforts, and even after the assistance of the FWC, no real progress was made toward reaching new EAs.

The existing agreements are placing significant unreasonable restrictions on the Company. Aurizon has now made applications to the FWC under s.225 of the Fair Work Act to terminate all of the current 14 EAs. The applications to terminate have been referred to a Full Bench of the Fair Work Commission and the matter will be heard in Brisbane on 5 -7 November and 10 – 13 November.

If the EAs are terminated, the terms and conditions of employment for Aurizon employees will be regulated by the relevant industry awards and the employee's individual contracts. As part of the application to terminate, Aurizon has provided a series of undertakings to maintain a number of the current terms and conditions, such as base wages, certain allowances, superannuation, leave accruals and redundancy pay. The undertakings are valid for a period of six months to enable a new EA to be negotiated.

Western Australia

Bargaining has commenced for Australia Western Railroad (AWR) Rail Operations and Rollingstock Maintenance agreements.

Sustainability

Please refer to the detailed Sustainability Report in the Annual Report.

Risk

Aurizon has reached a mature level of risk and opportunity management capability by focussing on structural and cultural building blocks. A key focus during FY2014 was the roll out of the revised Board-approved risk appetite as a representation of shareholder interests. The risk appetite is expressed as a series of 24 statements that collectively define the playing field in which Aurizon will operate.

An internal training package is the primary delivery mechanism for communicating Board expectations on managing risk and opportunity. As at 30 June 2014, 359 key decision-makers across Aurizon have undertaken the training. Attendees develop and share a common understanding of how to apply risk appetite to make informed every-day decisions aligned to Board expectations on risk management.

The sophistication of the Aurizon risk management approach is demonstrated by:

- improved safety performance;
- reduced operational incidents such as derailments;
- a strong track record in delivery of major projects; and
- recognition in the insurance underwriting market of best-in-class risk management practices acknowledged with a 58% reduction in insurance premium for FY2015.

Advanced risk management capability has positioned Aurizon to succeed in ambitious large-scale growth projects such as the build and operation of integrated supply chains in the Galilee Basin and West Pilbara region.

The key risks that are currently facing Aurizon are as follows:

Enterprise Agreement negotiations

- A significant portion of Aurizon's employees belong to labour unions (more than 90%)
- The majority of Aurizon's Enterprise Agreements expired in December 2013
- Any strike or industrial action or failure to resolve a material dispute with labour unions could have an adverse impact on Aurizon's business, operational performance and financial results

Finalisation of User Access Undertaking 2013 (UT4)

- User Access Undertaking 2010 (UT3) expired 30 June 2013
- Aurizon submitted a revised UT4 on 11 August 2014 reflecting industry consultation and is continuing discussions with the QCA and key stakeholders on the finalisation of reference tariffs – to apply retrospectively from 1 July 2013
- There is a risk that the QCA's final decision may result in an amended UT4 that is less favourable to Aurizon

Macro-economic global conditions and demand for coal and iron ore

- Aurizon's haulage business is highly dependent upon the Asian, domestic and global economies
- An adverse change in general economic conditions or a reduction in the demand for coal and iron ore may have a material adverse effect on Aurizon's operational performance and financial results

Adverse weather conditions

- Adverse weather conditions and natural disasters may directly impact Aurizon's operations. For example, severe flooding or cyclones could interrupt supply of commodities and/or the operation of normal haulage services
- This may have an adverse impact on Aurizon's business, operational performance and financial results

Entities over which control was gained or lost during the period

Nil