Aurizon Holdings Limited

Appendix 4E
Results for announcement to the market on 14 August 2017
For the year ended 30 June 2017 (FY2017)
Previous corresponding period (pcp) the year ended 30 June 2016 (FY2016)

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

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FY2017 IN REVIEW

Financial Headlines

($m)	FY2017	FY2016	Variance %
Total revenue	3,452.3	3,457.9	0%
EBITDA - underlying	1,420.6	1,432.3	(1%)
EBIT – underlying	836.0	871.0	(4%)
Adjustments - Impairments	(811.2)	(527.6)	-
- Redundancy costs	(115.8)	-	-
EBIT – statutory	(91.0)	343.4	-
NPAT – underlying	461.0	510.0	(10%)
NPAT – statutory	(187.9)	72.4	-
Free cash flow (FCF)	634.2	340.2	86%
Final dividend (cps)	8.9	13.3	(33%)
Total dividend (cps)	22.5	24.6	(9%)
Earnings per share – underlying (cps)	22.5	24.4	(8%)
Return on invested capital (ROIC)	8.7%	8.6%	0.1ppt
EBITDA margin – underlying (%)	41.1%	41.4%	(0.3ppt)
Operating ratio (OR) – underlying (%)	75.8%	74.8%	(1ppt)
Total Above Rail volumes (mt)	259.4	270.9	(4%)
Operations net opex / NTK (excluding access) ($/’000 NTK)	20.7	19.9	(4%)
Gearing (net debt / net debt + equity) (%)	39.6%	37.5%	(2.1ppt)

Highlights

- Underlying EBIT down 4% to $836.0m
  - Cyclone Debbie impacted the business by approximately $89m, $20m in Above Rail and $69m in Below Rail which is expected to be recovered in future years
  - Above Rail down $33.3m (8%) due to cyclone and weaker Freight performance
  - Below Rail down $15.5m (3%) due to cyclone offsetting true up from the under-recovery of UT4 revenue from prior years
- Significant increase in FCF to $634.2m from working capital improvements, reduction in capital expenditure and the sale of Moorebank in 1HFY2017
- Final dividend of 8.9cps (100% payout ratio on underlying NPAT), a decrease of 33% due to 2H impact of the cyclone. Full year dividend of 22.5cps down 9%
- $300.0m on market buy–back announced demonstrating surplus capital will be distributed to shareholders
- Sale of the Queensland Intermodal business to a consortium of Pacific National (PN) and Linfox and sale of the Acacia Ridge terminal to PN. Total consideration for the two transactions is $220.0m. The remaining Intermodal business, outside of Queensland, will be closed
- Statutory EBIT of ($91.0m) includes $811.2m of asset impairments and $115.8m of redundancy costs

Transformation

- $129.0m of benefits delivered, $260.0m since 1 July 2015. On track for the $380.0m transformation target. The exit of Intermodal contributes to transformation by permanently removing the financial loss
- Benefits to be generated beyond FY2018 with the closure of the Rockhampton rollingstock workshop to be finalised CY2018 and changes to Queensland traincrew operations to be in place by the end of FY2018

Outlook

- Providing earnings guidance for FY2018 is challenging due to the unknown UT5 outcome. Underlying EBIT $900m - $960m, key assumptions as follows:
  - Above Rail:
    - Coal volumes 215 – 225mt
    - Bulk losses reduced
    - Intermodal losses and associated costs excluded due to exit process
  - Below Rail:
    - Transitional tariffs assumed for the full year FY2018
    - FY2016 revenue cap ($24m to be repaid to customers)
    - $21m cyclone repair costs recovery
  - Group: Continued delivery of transformation benefits in remaining core business and no major weather impacts

CONSOLIDATED RESULTS

1. Annual Comparison

Financial Summary

($m)		FY2017	FY2016	Variance %
Total revenue		**3,452.3**	**3,457.9**	**0%**
Operating costs		**(2,031.7)**	**(2,025.6)**	**0%**
Employee benefits		(849.6)	(891.4)	5%
Energy and fuel		(268.4)	(245.4)	(9%)
Track access		(263.0)	(314.7)	16%
Consumables		(573.1)	(508.8)	(13%)
Other		(77.6)	(65.3)	(19%)
EBITDA	**- underlying**	**1,420.6**	**1,432.3**	**(1%)**
	- statutory	493.6	904.7	(45%)
Depreciation and amortisation		(584.6)	(561.3)	(4%)
EBIT	**- underlying**	**836.0**	**871.0**	**(4%)**
	- statutory	(91.0)	343.4	-
Net finance costs		(178.5)	(150.5)	(19%)
Income tax expense	**- underlying**	**(196.5)**	**(210.5)**	**7%**
	- statutory	81.6	(120.5)	-
NPAT	**- underlying**	**461.0**	**510.0**	**(10%)**
	- statutory	(187.9)	72.4	-
Earnings per share [1]	**- underlying**	**22.5**	**24.4**	**(8%)**
	- statutory	(9.2)	3.5	-
Return on invested capital (ROIC) [2]		8.7%	8.6%	0.1ppt
Operating ratio		**75.8%**	**74.8%**	**(1ppt)**
Cash flow from operating activities		1,238.4	1,218.2	2%
Final dividend per share (cps)		8.9	13.3	(33%)
Gearing (net debt / net debt + equity) (%)		39.6%	37.5%	(2.1ppt)
Net tangible assets per share ($)		2.4	2.7	(11%)
People (FTE)		5,609	6,287	11%

Other Operating Metrics

	FY2017	FY2016	Variance %
Revenue / NTK ($/'000 NTK)	50.0	48.3	4%
Labour costs / Revenue [3]	24.5%	24.6%	0.1ppt
NTK / FTE (MNTK)	12.3	11.4	8%
Operations net opex / NTK (excluding access) ($/'000 NTK)	20.7	19.9	(4%)
NTK (bn)	69.0	71.6	(4%)
Tonnes (m)	259.4	270.9	(4%)

Underlying EBIT by Segment

($m)	FY2017	FY2016	Variance %
Below Rail - Network	490.4	505.9	(3%)
Above Rail	401.7	435.0	(8%)
Commercial & Marketing	2,718.2	2,877.8	(6%)
Operations	(2,316.5)	(2,442.8)	5%
Other	(56.1)	(69.9)	20%
Group	**836.0**	**871.0**	**(4%)**

[1] Calculated on weighted average number of shares on issue – 2,051.7m FY2017 and 2,088.2m FY2016
[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] FY2017 excludes $121.1m redundancy costs (FY2016 excludes $23.7m redundancy costs and $15.7m cost of employee share gift)

Group Performance Overview

Underlying EBIT reduced $35.0m (4%) primarily due to the impact of the cyclone, which is estimated to have reduced EBIT by approximately $89m. Approximately $69m of this impact is in the Below Rail business which is expected to be recovered through established regulatory processes in future years.

The cyclone, and a deterioration in the financial performance of the Freight business, more than offset the realisation of sustainable transformation benefits of $129.0m.

Group revenue was flat at $3.45bn with increased Below Rail revenue from the UT4 regulatory true up offset by lower Above Rail revenue from a 4% reduction in volumes.

Operating costs remain flat compared to the prior year with the transformation benefits being offset by higher energy and fuel costs, CPI impacts, recovery costs incurred due to the cyclone and the increased costs to serve in the Freight business.

Depreciation has increased $23.3m (4%) primarily in Below Rail reflecting the high levels of asset renewal activity, new mechanised maintenance plant and the impact of the completion of the Wiggins Island Rail Project (WIRP) during FY2016.

Return on Invested Capital (ROIC) was stable at 8.7%.

Statutory EBIT was a loss of ($91.0m) reflecting the impact of the $811.2m in asset impairments and $115.8m in redundancy costs as detailed below, which have been treated as a significant item due to materiality.

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)	FY2017	FY2016
Underlying EBIT	**836.0**	**871.0**
Significant items	**(927.0)**	**(527.6)**
Asset impairments		
Intermodal	(162.2)	-
Freight Management Transformation project	(64.0)	-
Impairment of assets in exit of contracts	(10.2)	-
Transformation assets	(48.9)	-
Bulk	(525.9)	-
Investment in Associate	-	(225.9)
Strategic infrastructure projects and assets under construction	-	(124.7)
Rollingstock	-	(177.0)
Redundancy costs	(115.8)	-
Statutory EBIT	**(91.0)**	**343.4**
Net finance costs	(178.5)	(150.5)
Statutory PBT	**(269.5)**	**192.9**
Taxation benefit/(expense)	81.6	(120.5)
Statutory NPAT	**(187.9)**	**72.4**

Aurizon reviewed the carrying value of its assets as at 30 June 2017 and has recognised asset impairments and significant items of $927.0m (pre-tax) as noted below. A further $29.3m of assets were impaired during the period and are included in underlying earnings.

Significant asset impairments of $811.2m:

› Bulk $525.9m (Bulk East $163.5m and Bulk West $362.4m) due to the ongoing clarity and visibility of financial performance provided by the Freight Review, the exit of certain contracts, the increase in financial losses in the bulk business and continued challenging market conditions. Following the impairment, the residual carrying value of the assets of the Bulk business is $254.4m.
› Intermodal $162.2m due to trading performance during the year being lower than expectation as disclosed in 1HFY2017
› Freight Management Transformation (FMT) $64.0m as disclosed in 1HFY2017
› Freight Review Contract Exit $10.2m as disclosed in 1HFY2017
› Other transformation assets $48.9m this includes $30.1m in asset impairments in relation to the closure of the Rockhampton rollingstock workshop, with the announcement made during the second half of the financial year

Redundancy costs $115.8m, 924 employees were made redundant across the business. This includes $74.2m relating to the ongoing business transformation, predominately the Operations' regional restructure that occurred in the first half, $14.3m for the Rockhampton rollingstock workshop closure and $27.3m in relation to changes in Queensland traincrew operations announced in the second half of the financial year.

2. Other Financial Information

Balance Sheet Summary

($m)	30 June 2017	30 June 2016
Total current assets	729.4	843.9
Property, plant & equipment (PP&E)	8,835.0	9,719.2
Other non-current assets	281.5	305.9
Total Assets	**9,845.9**	**10,869.0**
Other current liabilities	(665.2)	(733.3)
Total borrowings	(3,376.2)	(3,490.1)
Other non-current liabilities	(782.4)	(932.0)
Total Liabilities	**(4,823.8)**	**(5,155.4)**
Net Assets	**5,022.1**	**5,713.6**
Gearing (net debt/net debt plus equity) (%)	**39.6%**	**37.5%**

Balance Sheet Movements

Total current assets decreased by $114.5m largely due to:

› Net decrease in assets held for sale of $93.7m with the disposal of the investment in Moorebank
› Net decrease in inventory of $40.9m due to the impending closure of the Rockhampton site, improved inventory management and outsourcing of maintenance to Progress Rail
› Net decrease in trade and other receivables of $17.1m due to the collection of FY2016 GAPE fees, lower Bulk Freight trading and improved collections, partly offset by
› Net increase in tax receivables of $17.8m with a tax refund expected in FY2018
› Net increase in cash held of $19.5m

Total non-current assets decreased by $908.6m largely due to a net decrease in PP&E of $884.2m as a result of asset impairments previously mentioned and depreciation, offsetting capital expenditure.

Total current liabilities decreased $68.1m due to a reduction in current tax liabilities, reduction in derivative financial instruments, partially offset by higher provisions relating to redundancies (traincrew and Rockhampton closure).

Total borrowings decreased by $113.9m due to improved cashflow (refer cashflow commentary).

Other non-current liabilities have decreased by $149.6m due to higher derivative financial instruments (additional interest rate swaps) partially offset by lower land rehabilitation provision (discount rates), lower workers' compensation provision and lower other liabilities relating to Below Rail Access Facilitation Deeds.

Gearing (net debt/net debt plus equity) was 39.6% as at 30 June 2017.

Cash Flow Summary

($m)	FY2017	FY2016
Statutory EBITDA	**493.6**	**904.7**
Working capital and other movements	76.3	(85.2)
Non-cash adjustments asset impairments[4]	840.5	527.6
Cash flows from operations	**1,410.4**	**1,347.1**
Interest received	2.9	2.3
Income taxes paid	(174.9)	(131.2)
Net cash inflow from operating activities	**1,238.4**	**1,218.2**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment (PP&E) and associate	112.1	37.4
Payments for PP&E and intangibles	(540.1)	(771.4)
Interest paid on qualifying assets	(3.2)	(11.6)
Net distributions from investment in associates	-	5.7
Net cash (outflow) from investing activities	**(431.2)**	**(739.9)**
Cash flows from financing activities		
Net (repayments) / proceeds from borrowings	(55.3)	442.3
Payment for share buy-back and share based payments	(7.5)	(355.4)
Interest paid	(173.0)	(138.1)
Dividends paid to Company shareholders	(551.9)	(529.3)
Net cash (outflow) from financing activities	**(787.7)**	**(580.5)**
Net increase / (decrease) in cash	**19.5**	**(102.2)**
Free Cash Flow (FCF)[5]	***634.2***	***340.2***

Cash Flow Movements

Net cash inflow from operating activities increased by $20.2m (2%) to $1,238.4m, largely due to:

- $63.5m reduction in working capital relating to lower receivables and inventory, in addition to an increase in redundancy provision
- Offset by a $43.7m increase in income taxes paid

Net cash outflow from investing activities decreased by $308.7m (42%) to $431.2m, largely due to:

- $231.3m decrease in capital expenditure
- $74.7m increase in the proceeds from asset sales primarily relating to the sale of Moorebank

Net cash outflow from financing activities increased by $207.2m (36%) to $787.7m with a $497.6m reduction in proceeds from borrowings, higher interest payments of $34.9m and increased dividends of $22.6m offset by a $347.9m reduction in share buy-back and share based payments.

[4] Total asset impairments of $840.5m include $811.2m of significant items excluded from underlying EBIT and $29.3m of other asset impairments included in underlying EBIT
[5] FCF - Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid

Funding

Aurizon is targeting a gearing level of ~40% in FY2018.

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor, with Aurizon Network issuing its second bond in the Australian debt capital market, a seven year, $425.0m A$MTN priced in June 2017 with a coupon of 4% per annum. Proceeds were used to repay existing bank debt maturing in FY2019.

In respect of FY2017:

› Weighted average debt maturity[6] tenor was 5.0 years. This was lower than FY2016 (5.8 years) due to the majority of the debt portfolio's duration reducing by 12 months
› Interest cost on drawn debt was 5.0% (FY2016 4.7%)
› Liquidity at 30 June 2017 $1.18bn (undrawn facility + cash)
› Group gearing as at 30 June 2017 was 39.6% (FY2016 37.5%)

Dividend

The Board has declared a final dividend for FY2017 of 8.9cps (50% franked) based on a payout ratio of 100% in respect of underlying NPAT (i.e. after adjusting for significant items, including asset impairments).

The relevant final dividend dates are:

› 28 August 2017 – ex-dividend date
› 29 August 2017 – record date
› 25 September 2017 – payment date

Tax

Underlying income tax expense for FY2017 was $196.5m. The underlying effective tax rate[7] for FY2017 was 29.9%. The underlying cash tax rate[8] for FY2017 was 13.9% which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2018 is expected to be in the range of 28-30% and the underlying 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).

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

SEGMENT REVIEW

Above Rail

'Above Rail' combines the Commercial & Marketing and Operations functions and represents the haulage operations for Aurizon's Coal, Freight and Iron Ore customers. The Strategy & Business Development function was managed within the Commercial & Marketing function during FY2017 however the associated costs remain within the Other segment, with attributable costs allocated to Commercial & Marketing consistent with prior years. The profit and loss statements for Operations and Commercial & Marketing are provided in the appendix.

($m)	FY2017	FY2016	Variance %
Total revenue	**2,981.2**	**3,146.1**	**(5%)**
Coal	1,795.0	1,881.4	(5%)
Above Rail	1,164.7	1,147.5	1%
Track Access[9]	630.3	733.9	(14%)
Freight	682.7	739.4	(8%)
Iron Ore	273.4	311.2	(12%)
Other	230.1	214.1	7%
Operating costs	**(2,289.2)**	**(2,412.1)**	**5%**
Employee benefits	(701.7)	(739.8)	5%
Energy and fuel	(127.5)	(120.7)	(6%)
Track access	(888.9)	(1,015.6)	12%
Consumables	(536.4)	(500.0)	(7%)
Other	(34.7)	(36.0)	4%
Underlying EBITDA	**692.0**	**734.0**	**(6%)**
Depreciation and amortisation	(290.3)	(299.0)	3%
Underlying EBIT	**401.7**	**435.0**	**(8%)**

Above Rail Revenue Metrics

	FY2017	FY2016	Variance %
Coal			
Total tonnes hauled (m)	198.2	206.8	(4%)
Queensland	150.5	163.0	(8%)
NSW	47.7	43.8	9%
% Volumes under new form contracts	96%	79%	17ppt
Contract utilisation	89%	92%	(3ppt)
Total NTK (bn)	47.6	49.7	(4%)
Queensland	38.6	41.4	(7%)
NSW	9.0	8.3	8%
Average haul length (km)	240	240	0%
Total revenue / NTK ($/'000 NTK)	37.7	37.9	(1%)
Above rail revenue / NTK ($/'000 NTK)	24.5	23.1	6%
Freight			
Total tonnes hauled (m)	38.5	40.4	(5%)
Total TEUs ('000s)	405.2	372.6	9%
Total NTK (bn)	12.2	12.3	(1%)
Total revenue / NTK ($/'000 NTK)	56.0	60.1	(7%)
Iron Ore			
Total tonnes hauled (m)	22.7	23.7	(4%)
Contract utilisation	100%	101%	(1ppt)
Total NTK (bn)	9.2	9.6	(4%)
Total revenue / NTK ($/'000 NTK)	29.7	32.4	(8%)
Average haul length (km)	406	405	0%
Total Above Rail tonnes hauled (m)	**259.4**	**270.9**	**(4%)**

[9] An amount equal to Track Access revenue is included in Operation's costs, reflecting the pass-through nature of tariffs

Above Rail Performance Overview

Underlying EBIT declined $33.3m (8%) to $401.7m, due to the impact of Cyclone Debbie, lower Iron Ore earnings and a deterioration in the performance of the Freight businesses. Coal continued to improve despite the cyclone, with improved revenue quality and further benefits delivered from the transformation program. The EBIT impact as a result of the cyclone totalled approximately $20m.

Revenue declined 5% ($164.9m) due to lower pass-through access revenue and a 4% decline in volumes:

- Coal track access revenue declined $103.6m (14%) due to a major customer converting to an End User Access Arrangement (where access charges are paid direct to Aurizon Network) following the commencement of their new form contract. In addition, a $30.0m credit was received from Queensland Rail due to the overpayment of access charges on the West Moreton system following the finalisation of the access undertaking. As access charges are passed through to customers, there is a commensurate reduction in operating costs as noted below
- Coal Above Rail revenue was $17.2m (1%) higher reflecting improved revenue quality offsetting the volume decline due to the cyclone
- Freight revenue was down $56.7m (8%) due to 5% reduction in volumes and a reduction in revenue quality
- Iron Ore revenue declined $37.8m (12%) due to lower volumes and the impact on average freight rates due to rate relief granted to key customer Karara Mining Limited (KML)

Coal volumes were down 8.6mt (4%) to 198.2mt. Queensland volumes were down 8% at 150.5mt reflecting the ~11mt impact of the cyclone, expiry of BMA's GAPE contract and two customers being placed into care and maintenance (Baralaba Coal and Caledon Cook). NSW volumes were 3.9mt (9%) higher at 47.7mt reflecting increased spot tonnes and the continued ramp-up of the Whitehaven contract. Coal volumes hauled under new form contracts increased 17ppts to 96%, reflecting the new long-term performance contract for BMA/BMC which commenced 1 July 2016 in the Goonyella corridor. Coal above rail revenue per NTK improved 6% from lower contract utilisation as a result of the cyclone and customer mix benefits. As contract utilisation improves from increased volumes in FY2018, this is expected to reduce.

Freight volumes declined 1.9mt (5%) to 38.5mt with Bulk volumes down 5% primarily due to the closure of QNI in March 2016 and the Mt Isa Freighter ceasing in February 2017 partly offset by a 9% increase in Intermodal Twenty-Foot Equivalent Units (TEUs) following the commencement of the K&S Freighters contract in August 2016. Freight revenue per NTK declined 7% due to growth in Intermodal volumes which are typically longer and lower yielding hauls and the competitive pricing in the Intermodal market.

Iron ore volumes declined 1.0mt (4%) to 22.7mt, due to lower production from customers. Iron ore revenue per NTK declined 8% due to the impact of customer rate relief.

Operating costs reduced $122.9m (5%) in FY2017. The transformation program continued to deliver lower costs with $115.0m in FY2017 ($94.0m in Above Rail and $21.0m allocated from support functions) and access costs reduced by $127.6m with a key customer directly contracting access in Coal as noted above and reduced volumes in Bulk Freight. However, this was offset by other cost increases including one-off cyclone impacts, labour and consumables escalation ($34.0m), fuel price escalation ($10.0m) and costs associated with the cessation of the FMT project ($4.4m). In addition, $24.4m in costs to support growth were incurred in NSW Coal (ramp up of tonnes), Intermodal (interstate TEU growth) and Bulk West. In addition, a change in the mix of work in Aurizon's Queensland Coal maintenance depots from capital works such as wagon overhauls (where associated costs are capitalised) to more routine maintenance activities (where costs are expensed), resulted in less capital recoveries during FY2017. With less costs to capitalise this year, labour and consumable expenses increased by $15.8m. Depreciation reduced due to the lower fleet values following the impairment in FY2016.

Operational metrics were impacted by the cyclone in 2HFY2017 as well as other cost increases as noted above. Key operating metrics included a 4% deterioration in net operating costs per NTK (excluding access) but there was a 10% improvement in labour productivity. A detailed analysis of operating metrics is provided on page 11.

Market update

Coal

Following on from the relaxation of policy that had previously limited domestic coal production in China throughout 2016, coal prices retreated at the start of 2HFY2017 with the hard coking coal spot price (Peak Downs Region) trading in March at an average of US$160/t and the thermal coal spot price (Newcastle) trading at an average of US$81/t, down 39% and 5% respectively from three months prior. Short-term scarcity created by the impact of the cyclone pushed the hard coking coal spot price back above US$300/t in April before the resumption of supply returned the price to pre-cyclone levels from around mid-May.

The average hard coking coal price in FY2017 was US$192/t (+132% on the previous year) and the average thermal coal price was US$80/t (+49% on the previous year), providing relief to coal producers after subdued prices throughout FY2016. Australian metallurgical coal export volume in FY2017 was down 6% (to 177mt) compared to the previous year with the reduction primarily driven by the impact of the cyclone. Australian thermal coal export volume in FY2017 increased by 1% (to 202mt). At a global seaborne level, downward pressure has been placed on the Australian market share in both the metallurgical and thermal coal markets as increasing coal prices over the past 18 months have incentivised a resumption of export volume (higher cost) supply from competing coal producing nations.

Aurizon's coal business has a weighted average remaining contract length as at 30 June 2017 of 9.9 years.

Contract update

- A new agreement was executed with Carborough Downs Coal Management for coal haulage from the Carborough Downs mine in the Goonyella corridor to be hauled through to Dalrymple Bay Coal Terminal, with the agreement replacing the previous contract which expired on 30 June 2017
- Existing customer Yanzhou extended its contract for the Cameby Downs mine through to 2026 for volumes of up to 2.25mtpa
- Batchfire Resources executed a long term agreement for up to 6.7mtpa from the Callide mine, which ramps up in volumes over a period of 10 years, and commenced on 1 July 2017
- An extension to the existing agreement with Queensland Alumina Limited was signed during the year, extending the 1.3mtpa contract to December 2023
- Commencement of an eight year, 8.7mtpa contract with AGL Macquarie for the Bayswater and Liddell power stations occurred during July 2017.

Iron Ore

Iron ore spot prices continued to increase early in the second half of FY2017, reaching US$95/t in February, before retreating to US$53/t in early June and closing at US$63/t on 30 June 2017. Rising seaborne supply from Australia and Brazil, and weaker demand from Chinese steel mills due to increased use of scrap metal (excess supply in China at lower prices) in blast furnaces, placed downward pressure on iron ore prices. However, stronger Chinese steel margins in the short term is expected to provide support to iron ore prices.

Aurizon continues to support the long-term viability of customers by driving efficiencies in the supply chain to optimise throughput. Aurizon hauled 22.7mt in FY17, 4% lower than the previous comparable period primarily due to lower volumes from Cliffs and Mt Gibson, partially offset by increased volumes from Karara. Mt Gibson volumes will continue through to contract end of December 2018, as Iron Hill volumes replace Extension Hill volumes. As at 30 June 2017, Aurizon's iron ore customers have a weighted average contract life of 7.7 years.

Freight

Aurizon's Freight business includes haulage of bulk commodities including base metals, minerals, grains and livestock in Queensland, New South Wales (East) and Western Australia (West) and Intermodal containerised freight and logistical solutions across Australia.

As previously noted, due to challenging market conditions and as a result of the deteriorating performance in the diversified Bulk business, combined with the change to the business unit structure, Aurizon has recognised non-cash asset impairments of $525.9m relating to the Bulk business in FY2017.

Contract update Bulk

- Both BP (0.15mtpa) and Caltex (0.1mtpa) extended their fuel haulage agreements in WA for 3 years
- Louis Dreyfus (NSW) extended its 0.3mtpa grain haulage contract for a further 12 months to December 2017

Intermodal

Aurizon has entered into a binding agreement with a consortium of PN and Linfox to sell the Queensland Intermodal business. The transaction includes the transfer of employee positions, assets, commercial and operational arrangements. Aurizon is aiming to finalise the transaction by end of FY2018 and is subject to approval by the Australian Competition and Consumer Commission (ACCC) and the Foreign Investment Review Board (FIRB). Separately, Aurizon has signed a binding agreement with PN to sell the Acacia Ridge Intermodal terminal. This transaction includes the transfer of employee positions as well as assets, commercial and operational arrangements. It is also subject to approval by the ACCC and FIRB. Total consideration for the two transactions is $220.0m. The remainder of Aurizon's Intermodal business (outside of Queensland) will be closed. This is expected to take effect by December 2017, contingent on finalising transitional and commercial arrangements with customers.

Operations transformation update

Operating Metrics

	FY2017	FY2016	Variance %
Operations			
Net opex[10] / NTK ($/'000 NTK)	33.6	34.1	1%
Net opex[11] / NTK (excluding access) ($/'000 NTK)	20.7	19.9	(4%)
Total tonnes hauled (m)	259.4	270.9	(4%)
Net tonne kilometres - NTK (bn)	69.0	71.6	(4%)
FTE (monthly average)	4,393	5,013	12%
Labour productivity (NTK / FTE)	15.7	14.3	10%
Locomotive productivity ('000 NTK / Active locomotive day)	371.0	375.7	(1%)
Active locomotives (as at 30 June)	516	508	(2%)
Wagon productivity ('000 NTK / Active wagon day)	14.2	14.7	(3%)
Active wagons (as at 30 June)	13,504	13,008	(4%)
National Payload (tonnes)	4,677	4,659	0%
Velocity (km/hr)	29.3	29.8	(2%)
Fuel consumption (l/d GTK)	3.11	3.10	0%

Transformation initiatives

Aurizon's Above Rail business delivered $115.0m in transformation benefits during FY2017. Productivity and transformation efforts were impacted by the cyclone in the fourth quarter. Despite this, significant transformation effort was undertaken throughout FY2017 in order to set up a pipeline of initiatives to deliver value through FY2018 and beyond.

Workforce

Aurizon's continued workforce rationalisation through key labour initiatives resulted in a substantial improvement in labour productivity (NTK/FTE) of 10% in FY2017 despite lower tonnes overall. Key labour transformation initiatives included:

› Execution of Operations' regionalisation structure in 1HFY2017
  › Changes to the regional management structure in September 2016 resulted in the reduction of 143 positions including leadership and frontline staff, and reducing the management layer by one in most areas
› Changes to operating mode
  › The introduction of nine hour single driver only operations in two key areas in WA
  › Consultation with Queensland train crew commenced in late 2HFY2017 which will support a move away from traditional fixed labour models to one that can mirror fluctuating demand movements. Efforts will continue through FY2018 on creating the right balance of fixed and variable labour
› Centralisation of deployment into Brisbane
  › This initiative consolidated the five above rail live run areas into a single centre in Brisbane. This consolidation has enabled cross skilling, capability uplift and stronger redundancy management

Fleet productivity

The cyclone had an impact on rollingstock productivity metrics in FY2017. Despite this, Aurizon continued its efforts to improve overall rollingstock productivity with the implementation of longer trains in both the Goonyella (126 wagon consist) and Newlands (124 wagon consist) corridors.

Active locomotive and wagons numbers increased 2% and 4% respectively during FY2017, with wagons being commissioned for ramp up tonnages for Whitehaven in NSW and an additional two coal consists to meet demand in Queensland.

Energy and fuel efficiency

FY2017 has seen a continued focus on energy and fuel efficiency through the nationalisation of regionally piloted improvements including trip optimiser, the driver assist system (DAS) and the substitution of standard for higher grade fuelling options. A renewed effort was undertaken in 2HFY2017 which is expected to realise benefits in FY2018.

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

Asset Maintenance

With continued maintenance reform, including the deployment of technology and the outsourcing of heavy haul maintenance to Progress Rail (PRS), Aurizon announced the closure of its Rockhampton rollingstock workshop which will be completed by the end of 2018. This initiative is expected to deliver significant cost savings and efficiency benefits through:

- Net reduction of 140 positions, which will take place during CY2018
- ~25% efficiency benefit for the 106t wagon overhaul capital program (overhaul of ~5,500 wagons over 10 years) through more efficient wagon movements with the program moving from Rockhampton to Jilalan, due to occur in FY2019
- Reduction in unit cost of overhauling key locomotive components with the transition of activity to PRS
- Reduction in overhead costs once the site is exited at the end of CY2018

Further transformation continues including:

- The roll out of wayside condition monitoring (WCM) with the successful deployment of a super site at Raglan in July 2017 which provides redundancy for the Blackwater system and also coverage of the North Coast Line traffic that passes the site. Further rollout of WCM is forecast to take place in the Hunter Valley during 1HFY2018. Additional condition monitoring technologies are being trialled in FY2018 with the aim of enhancing Aurizon's ability to understand rollingstock condition and improve the safety and efficiency of operations
- Shopfloor II has entered the execution phase with the main phases of delivery and rollout within the next 12 months. This phase will integrate the condition monitoring systems directly with SAP Plant Maintenance enabling the automated creation of maintenance activities in SAP
- The Locomotive and Operational Data Acquisition and Management (LODAM) project entered the trial phase in 2HFY2017 and rollout is expected across Aurizon's fleet commencing in 2018. 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 how the fleet is operated and managed. The harvesting of sensor data will further enhance Aurizon's ability to predict and manage rollingstock faults
- The use of advanced data analytics to deliver insights into how Aurizon conducts business has commenced. This initiative is based on the rich, high quality data sets that have been or are being delivered by the Shopfloor II (SAP), WCM and the LODAM projects

Below Rail

Below Rail 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)).

Below Rail Financial Summary

($m)	FY2017	FY2016	Variance %
Total revenue	**1,262.1**	**1,178.4**	**7%**
Access	1,199.9	1,135.9	6%
Services and other	62.2	42.5	46%
Operating costs	**(484.3)**	**(414.8)**	**(17%)**
Employee benefits	(118.6)	(116.7)	(2%)
Energy and fuel	(140.9)	(124.7)	(13%)
Consumables	(196.2)	(146.9)	(34%)
Other	(28.6)	(26.5)	(8%)
Underlying EBITDA	**777.8**	**763.6**	**2%**
EBITDA margin	61.6%	64.8%	(3.2ppt)
Depreciation and amortisation	(287.4)	(257.7)	(12%)
Underlying EBIT	**490.4**	**505.9**	**(3%)**

Below Rail Metrics

	FY2017	FY2016	Variance %
Tonnes (m)	210.8	225.9	(7%)
NTK (bn)	53.2	57.1	(7%)
Access revenue / NTK ($/'000 NTK)	22.6	19.9	14%
Maintenance / NTK ($/'000 NTK) (excluding rail renewals)	2.3	2.2	(5%)
Opex / NTK ($/'000 NTK)	14.5	11.8	(23%)
Average haul length (km)	252	253	0%

Below Rail Performance Overview

Underlying EBIT decreased $15.5m (3%) to $490.4m in FY2017, with increased revenues offset by higher consumable costs, mainly due to the cyclone and higher depreciation expense.

Access revenue increased $64.0m (6%) primarily due to the UT4 true-up of regulatory revenue shortfall in FY2014 and FY2015 following the UT4 final decision issued by the Queensland Competition Authority (QCA) on 11 October 2016. The true-up amount is collected within tariffs based on volumes railed and Aurizon Network estimates it has collected $80.0m of the $89.0m true-up in FY2017, with the remainder to be recovered via the revenue cap mechanism in FY2019. Access revenue also includes GAPE one-off FY2016 true-up ($5.6m, non-regulated), one off Access Facilitation Deed (AFD) rebates ($5.8m), higher revenue attributable to electric traction, increases in operational and maintenance allowances and the Moura flood recovery ($4.5m) from FY2015. This compares to FY2016 where Aurizon Network over-recovered $23.6m in regulatory revenues, inclusive of WACC, which will be repaid in FY2018.

Services and other revenue increased $19.7m (46%) due to the recognition of the Bandanna Group's $15.3m bank guarantee held as security following the termination for insolvency of its WIRP Deed and a $6.7m insurance claim recovery.

Operating costs increased $69.5m (17%) primarily due to a $16.2m increase in energy and fuel from higher wholesale electricity prices, and a $49.3m increase in consumables from the alignment of the corporate cost allocation ($26.4m) to the UT4 final decision (FY2014 and FY2015 true-up), and recovery works undertaken following the cyclone (approximately $21m).

Depreciation increased $29.7m (12%) reflecting high levels of asset and rail renewals, increased ballast undercutting, impact of new mechanised maintenance plant and the completion of WIRP in FY2016.

Volumes decreased 15.1mt to 210.8mt principally due to the impact of the cyclone in March and April (~16mt). Despite this, FY2017 still achieved strong railings with four of the twelve months recording all time monthly records including the highest ever monthly volume of 20.5mt in June 2017.

The Regulated Asset Base (RAB) roll-forward value is estimated to be $5.8bn (excluding AFDs of $0.4bn) at 30 June 2017, subject to QCA approval of the FY2016 and FY2017 capital claims.

Regulation Update

Access Undertaking 2016 (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

Access Undertaking 2017 (UT5)

- 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 draft 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 forecast rate was at 1.22% compared to 2.5% in UT4
  - 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
  - UT5 RAB now includes the majority of the WIRP capital expenditure with ~$235m (which relates to the Blackwater system only) of the ~$260m in capital deferred during UT4 included in the UT5 RAB for pricing purposes
- The rate of inflation and risk free rate will be updated to reflect market based rates. This will result in both the WACC and the rate of inflation being updated from 6.78% and 1.22% to take into account the change in market based rates
- Aurizon Network has adopted an approach that prudently reflects the Pricing Principles of the QCA Act. This includes highlighting that the inherent risks faced by the business are higher than what the QCA has determined in previous Access Undertakings due to:
  - The increasingly volatile operating environment of the coal industry
  - Fragmentation of the RAB by system which increases the risk of asset stranding
  - Revenue deferrals which have resulted in ~$260m of expansion capital excluded from the RAB for pricing purposes in UT4 as part of WIRP
- In February, the QCA received submissions from interested stakeholders in response to Aurizon Network's UT5 submission
- These February submissions were then used as the basis for collaborative discussions with stakeholders to seek agreement on positions
  - Aurizon Network was able to successfully agree positions with industry on eight policy matters, which were submitted to the QCA on 17 March 2017
  - Agreement with industry on matters affecting the Maximum Allowable Revenue was not achieved
- The QCA is currently completing its detailed assessment of the complete UT5 proposal, taking into consideration the relevant submissions and agreed positions with industry
- Timing for the draft decision on UT5 is not yet known

Below Rail Operational Update

Performance

Despite the adverse impact of the cyclone, compounded by the unseasonably wet winter in central Queensland, the network operational performance remained strong and four monthly railing records were achieved. Highlights include:

- Effective planning, scheduling and maintenance programs resulted in a 26% reduction in system closure hours
- Performance to plan declined from 92.1% to 86.8%, mainly due to the impact of the cyclone with over 1,000 cancellations in March and April. The underlying performance to plan result excluding the impact of the cyclone was 90.6%
- Cancellations due to the Network remained low at 1.2%, which is an improvement against the five year average of 1.7%
- Cycle velocity decreased 2.0% to average 23.5km/h, however remains above the five year average of 23.3km/h

Transformation Initiatives delivered:

- Tranche 1 of the Network Asset Management System went live in February 2017, delivering a core asset management system for civil assets, supported by a mobile solution to assist field staff. It is expected that the system will reduce the level of reactive maintenance from 51% of our total maintenance cost to 20%, as we move to maintaining our system in a more planned way. The remaining asset classes (control systems, electrical assets and mechanised production) will be captured in the second tranche of the project with go live to be achieved within 12 months
- APEX – The first phase of Aurizon Network's advanced planning, scheduling and day of operations software went live in January 2017. This phase lead to the digitisation of train control diagrams
- Interpolation of wayside system data in particular wheel impact data has been provided to all above rail operators to enable them to proactively manage their wheel sets in order to reduce incidents on the network. This initiative is the primary factor in achieving a 30% reduction in cycle time delays related to rail defects
- Advanced monitoring techniques have been employed for the high voltage transformer fleet which has enabled more targeted renewal and life extension works, resulting in a 22% reduction in unplanned corrective and emergency maintenance works

- Innovative asset renewal approach to replacing aged corrugated metal pipe culverts using PVC spirally wound culvert liners has resulted in a 63% unit rate reduction whilst removing the need for track possessions as this activity can be performed under live traffic
- As a result of transformational initiatives in inventory management, inventory holdings decreased $12.3m (19% from prior year).

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
- In its UT5 submission Aurizon Network proposes that ~$235m of the deferred WIRP capital expenditure be included in the UT5 RAB for pricing purposes
- Aurizon Network is confident that railings in the Moura system will increase in the medium-term to enable the remaining deferred WIRP capital expenditure to be included in the RAB for pricing purposes
- Aurizon Network has received notices from WIRP customers purporting to exercise a right over the WIRP Deed to reduce their financial exposure in respect of the non-regulated relevant component of the charge payable by them to Aurizon Network. Aurizon Network maintains its position that the notices issued by the WIRP customers in relation to the commercial fee (WIRP fee) are not valid. As discussions with the customers failed to deliver a resolution, Aurizon Network issued proceedings in the Supreme Court of Queensland on 17 March 2016 to assert its rights under the WIRP Deed. 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
- Due to the ongoing dispute, no WIRP commercial fee revenue has been recognised during the period

Other

Other includes costs for the Managing Director & CEO, corporate finance, tax, treasury, internal audit, risk, governance and strategy. The percentage of corporate support costs allocated to the Above Rail and Below Rail businesses in FY2017 was 78% (FY2016 73%).

Other Summary

($m)	FY2017	FY2016	Variance %
Total revenue	6.5	15.4	(58%)
Operating costs	(55.7)	(80.7)	31%
Employee benefits	(29.3)	(34.9)	16%
Consumables	(8.6)	(36.0)	76%
Other	(17.8)	(9.8)	(82%)
Underlying EBITDA	(49.2)	(65.3)	25%
Depreciation and amortisation	(6.9)	(4.6)	(50%)
Underlying EBIT	(56.1)	(69.9)	20%

Performance Overview

Underlying EBIT improved $13.8m (20%) due to:

- $25.0m net decrease in operating costs mainly due to:
  - $26.4m benefit from the UT4 corporate cost allocation true up as noted in Below Rail
  - $16.0m in favourable non-cash provision moves due to changes in discount rates
  - $10.0m from the transformation program with lower FTEs and discretionary spending in all corporate areas, partly offset by
  - $24.9m in asset write offs and minor inventory impairments
  - $8.9m decrease in revenue mainly due to the sale of a warehouse at Forrestfield in FY2016

Corporate support functions continue to deliver transformation initiatives with $35.0m in savings achieved in FY2017:

- $23.0m labour productivity from a net FTE reduction of 11% (146 FTEs) driven by review of management and corporate services team structures
- $12.0m reduction in discretionary spend including professional services

Note: $21.0m of the support transformation benefits have been allocated to Above Rail consistent with the allocation of overheads.

The support function continues its drive for transformation with key initiatives ongoing, including:

- Ongoing consolidation of the property portfolio with the closure of South Townsville Yard
- Outsourcing of the property facility service centre and contract management activities with a reduction of 10 FTEs in FY2017
- Continued focus on discretionary spend in consumables and other procurement reform

ADDITIONAL INFORMATION

Senior management changes

Aurizon announced a change to its structure in March, moving to a business unit model effective 1 July 2017.

The move to the business unit model has seen the formation of the business units Network, Coal, Bulk and Intermodal with central support from Technical Services and Planning, Corporate and Finance and Strategy. As a result of these changes:

› Ed McKeiver was appointed as the Group Executive Coal. Ed is well known to Aurizon's customers having served in several senior roles across Aurizon over the past seven years, including four years running Coal Service Delivery Operations

› Clay McDonald was appointed as the Group Executive Freight. This includes the Diversified Bulk Freight and Iron Ore businesses. Clay has been with Aurizon for the past nine years and has served in several senior management roles including Vice President Network Commercial and Vice President Network Operations

› Michael Riches was appointed as the new Group Executive Network following the departure of Alex Kummant in June 2017. Michael is a very experienced executive with extensive regulatory and legal experience in Australia. Most recently he has held several senior roles at Alinta Energy. Prior to joining Alinta Energy, Michael spent over six years at Clayton Utz. Aurizon's regulated network business is a key part of the business portfolio and Michael's experience in negotiating regulatory outcomes will assist in driving reforms for the benefit of Aurizon and customers

› Mike Carter was appointed as the Group Executive Technical Services and Planning which is responsible for the management of Aurizon's above rail assets and will provide key enterprise specialist services such as Engineering, Technology, Supply Chain and Procurement and Project Management

› Tina Thomas joined Aurizon in March 2017 and was appointed as the Group Executive Corporate which consists of Human Resources, Safety, Corporate Affairs, Risk, Legal and Company Secretary. Tina is an experienced senior executive having spent twenty four years with Woodside Petroleum Limited in Western Australia including leading both corporate services and human resources functions

› CFO Pam Bains will lead the Finance and Strategy team under the new structure

› Andy Jakab continues to lead the Intermodal business until the completion of the disposal and shut down

In April 2017 Executive Vice President Customer & Strategy Mauro Neves resigned to pursue a senior leadership role overseas in the resources sector.

Risk

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

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:

› 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.

› 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.

› 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 relevant legislation. Not attaining appropriate pricing and policy regulatory settings may negatively impact revenue, operational complexity, capital investment and administrative overhead. 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. The WACC decided by the QCA may not adequately compensate Aurizon Network for its regulatory and commercial risks, which could lead to a material adverse impact on the Aurizon Network business, operational performance and financial results.

› 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:

- increased regularity or severity of weather events causing disruptions to operations and significant damage to assets
- reduced appetite for funding either for Aurizon and / or for Aurizon's customers
- increased regulation and/or reduced 'licence to operate' in the community, making various approvals and licenses more cumbersome and costly to achieve.

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 (previously Carbon Disclosure Project) and in Aurizon's sustainability report (refer below under heading 'Sustainability' for details of the release of the FY2017 Sustainability Report). For example, Aurizon seeks to integrate consideration of climate change risks and opportunities in the following ways:

- Business model – understanding policy and its potential to impact Aurizon's business long-term
- Future of coal – assessing greenhouse gas emission reduction benefits from Australia's high quality thermal coal
- Operational efficiency – Aurizon's progress in reducing locomotive energy use and associated greenhouse gas emissions
- Customer partnerships – preparing for, and adapting to, extreme weather events that impact the Network and rail haulage business
- Regulatory environment – assessing greenhouse gas emission reduction benefits from moving freight from road to rail

Sustainability

In October 2016, Aurizon released its third sustainability report. The report details how Aurizon takes into account social, environmental and economic considerations related to its operations. The FY2017 Sustainability Report is due to be released in October 2017, and will incorporate recommendations from the *Final Report: Recommendation of the Task Force on Climate related Financial disclosures,* released in June 2017.

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

› Safety

Aurizon's commitment to safety ensured another period of sustained focus on improving Aurizon's performance. At 30 June 2017, Total Recordable Injury Frequency Rate (TRIFR) was 2.69, a 37% improvement on FY2016 however, Lost Time Injury Frequency Rate (LTIFR) has risen to 0.59.

Aurizon can also report steady improvement in operational safety metrics in FY2017. Running Line Signal Passed at Danger (SPAD) frequency has improved 31%, while Running Line Derailment frequency has improved 19%. This improvement is driven by targeted initiatives designed and implemented by Communities of Competence, groups of subject matter experts in these key risk areas.

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 introduction of in vehicle monitoring across all of Aurizon's motor vehicle fleet. This has seen a significant improvement in the number of motor vehicle incidents and infringements recorded in FY2017.

In order to continue the journey to becoming world leading in safety, Aurizon has reviewed its injury definitions and implemented a new set of definitions effective 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 has 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.

› Environment

Aurizon delivers environmental value through effective management of material environmental risks and improved enterprise environmental performance. We continue to work with industry peers to progress the implementation of a voluntary diesel Standard and Code of Practice recognising that although our contribution to localised air quality impacts are small, we have a role to play in ensuring the communities we operate in maintain their world class air quality. Our contribution to improving air quality principally aligns with reducing our direct emissions at source and through the net environmental gains realised by the utilisation of rail freight.

› People

Aurizon believes its greatest asset is the collective capability of its people to safely and efficiently operate complex supply chains. A key focus has been the change to a business unit structure which has enabled a number of key executive and senior leadership talent moves building the capability required to deliver on transformation goals. Leadership, people-centred change and diversity remain a focus. For detailed information, please refer to Aurizon's 2016 sustainability report.

Entities over which control was gained or lost during the period

Not applicable.

Details of associate and joint venture entities

Entity	Country of incorporation	Ownership Interest	
		30 June 2017 %	30 June 2016 %
Investment in associates			
Moorebank Industrial Property Trust	Australia	-	33
Aquila Resources Limited	Australia	15	15
Moorebank Industrial Terminals Operations Hold Trust	Australia	-	33
Moorebank Industrial Terminals Assets Hold Trust	Australia	-	33
Moorebank Industrial Warehouse Hold Trust	Australia	-	33
Moorebank Industrial Hold Trust	Australia	-	33
Joint Ventures			
CHCQ	Hong Kong	15	15
Chun Wo/CRGL	Hong Kong	17	17
KMQR Sdn Bhd	Malaysia	-	30
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

Commercial & Marketing P&L

($m)	FY2017	FY2016	Variance %
Total revenue	2,751.1	2,932.0	(6%)
Coal	1,795.0	1,881.4	(5%)
Above Rail	1,164.7	1,147.5	1%
Track access	630.3	733.9	(14%)
Freight	682.7	739.4	(8%)
Iron Ore	273.4	311.2	(12%)
Operating Costs	(29.7)	(50.0)	41%
Employee benefits	(25.5)	(29.4)	13%
Energy and fuel	-	-	-
Consumables	(1.9)	(6.4)	70%
Other	(2.3)	(14.2)	84%
Underlying EBITDA	2,721.4	2,882.0	(6%)
Depreciation and amortisation	(3.2)	(4.2)	24%
Underlying EBIT	2,718.2	2,877.8	(6%)

Operations P&L

($m)	FY2017	FY2016	Variance %
Total revenue	230.1	214.1	7%
Total operating costs	(2,259.5)	(2,362.1)	4%
Employee benefits	(676.2)	(710.4)	5%
Energy and fuel	(127.5)	(120.7)	(6%)
Track access	(888.9)	(1,015.6)	12%
Consumables	(534.5)	(493.6)	(8%)
Other	(32.4)	(21.8)	(49%)
Underlying EBITDA	(2,029.4)	(2,148.0)	6%
Depreciation and amortisation	(287.1)	(294.8)	3%
Underlying EBIT	(2,316.5)	(2,442.8)	5%
Underlying EBIT (excluding access)	(1,427.6)	(1,427.2)	0%