Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

12 February 2018

Half Year Report

Please find attached for immediate release a copy of the Company's Half Year Report for the period ended 31 December 2017.

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

Kind regards

Dominic D Smith
Company Secretary

Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report
for the six months ended 31 December 2017

Aurizon Holdings Limited ABN 14 146 335 622
Interim Financial Report - 31 December 2017

Contents

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

Its registered office and principal place of business is:

Aurizon Holdings Limited
Level 17
175 Eagle Street
BRISBANE QLD 4000

Directors' Report

The Directors present their report on the consolidated entity consisting of Aurizon Holdings Limited and its controlled entities ("the Company" or "the Group") for the six months ended 31 December 2017.

Directors

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

T Poole (Chairman)
R Caplan
J Cooper
K Field
M Fraser
A Harding
S Lewis
K Vidgen
M Bastos (appointed 15 November 2017)

Principal activities

During the interim financial period the principal activities of the Group consisted of:

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

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

Coal

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

Bulk

Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia.

Network

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

Discontinued operations

On 14 August 2017, the Group announced its intention to exit the Intermodal business through a combination of closure and sale. On 23 December 2017 the final Interstate Intermodal customer service completed. Aurizon has signed a binding agreement to sell its Acacia Ridge Intermodal Terminal to Pacific National and has signed a binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National. These transactions are subject to approval by the Australian Competition and Consumer Commission and the Foreign Investment and Review Board. Aurizon is aiming to finalise the transactions by the end of FY2018.

Review of operations

A review of the Group's operations for the interim financial period and the results of those operations are set out in the Operating and Financial Review as set out on pages 3 to 19 of this Interim Financial Report.

Dividends

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

	2017 $m	2016 $m
Final dividend for the year ended 30 June 2017 of 8.9 cents 50% franked (2016: 13.3 cents, 70% franked) per share, paid 25 September 2017	**182.6**	272.9

Dividends (continued)

The Directors have declared a 50% franked interim dividend of 14.0 cents per ordinary share for the six months ended 31 December 2017. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 27 February 2018. The payment date is 26 March 2018.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

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

Tim Poole
Chairman
Brisbane
12 February 2018

OPERATING AND FINANCIAL REVIEW

CONSOLIDATED RESULTS

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measures. The non-IFRS financial information contained within this Directors' Report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor Group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin (Statutory and Underlying), NPAT Underlying, Operating Ratio – underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 48. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

1. Half on Half Comparison

Financial Summary

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

[1] Calculated on weighted average number of shares on issue – 2,032m 1HFY2018 and 2,052m 1HFY2017

[2] ROIC is defined as underlying rolling twelve-month EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve-month average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles

Operating Metrics

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

EBIT by Segment

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

Group Performance Overview

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

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

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

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

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

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

[3] Above rail includes both Coal above rail revenue and Bulk freight transport revenue
[4] 1HFY2018 excludes $14.5 m redundancy costs (1HFY2017 excludes $3.3m redundancy costs)

Reconciliation to Statutory Earnings

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

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

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

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

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

2. Other Financial Information

Balance Sheet Summary

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

Balance Sheet Movements

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

- Net increase in assets held for sale of $113.7m due to the closure and sale of Intermodal
- Net increase in inventory of $8.7m due to scheduling of rollingstock maintenance program

- Net increase in cash held of $77.1m, partly offset by
- Net decrease in trade and other receivables of $76.5m due to a decrease in GAPE revenue accruals and reclassification of Intermodal Queensland trade debtors to assets held for sale
- Net decrease in tax receivable of $17.8m due to the current tax liability

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

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

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

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

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

Cash Flow Summary

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

Cash Flow Movements

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

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

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

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

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

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

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

Funding

Aurizon has a target gearing level of ~40%.

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

In respect of 1HFY2018:

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

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

Dividend

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

The relevant interim dividend dates are:

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

Tax

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

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

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

Discontinued Operations

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

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

BUSINESS UNIT REVIEW

Coal

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

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

Metrics

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

Coal Performance Overview

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

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

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

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

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

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

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

An explanation of the key operating metrics is shown below:

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

Market update

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

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

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

Contract update

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

[10] Incorporates contract extension options where applicable

Bulk

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

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

Metrics

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

Bulk Financial Performance Overview

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

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

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

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

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

Market update

Iron ore

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

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

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

Contract update

- Executed a 10 year contract extension for the Cement Australia East End to Fisherman's Landing limestone haul
- Commenced a 7.4 year contract with Minerals and Metals Group Limited (MMG) for the transport of zinc deposits on the Mt Isa corridor
- Executed a 2+2 year contract extension for the Queensland Rail services contract covering both infrastructure trains and supporting the Inlander passenger train
- Contract variation for Mt Gibson Mining to rail additional volumes under the existing Rail Haulage Agreement
- Aurizon has a current iron ore Raul Haulage Agreement with Cliffs Asia Pacific Iron Ore Pty Ltd (Cliffs) that expires 21 January 2022. The contract provides for haulage up to 11mtpa and in the year ended 30 June 2017 Aurizon transported 10.9mt. Subsequent to 31 December 2017, Cliffs announced the planned closure of mining operations in Australia, which will more than likely occur in 2018. At this point in time no correspondence has been received from Cliffs and discussions are yet to commence with respect to the potential timing of the closure and the impact this may have on Aurizon's contractual obligations.

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

Network

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

Financial Summary

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

Metrics

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

Network Financial Performance Overview

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

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

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

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

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

Regulation Update

2016 Access Undertaking (UT4)

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

2017 Draft Access Undertaking (UT5) Draft Decision

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

Operational Update

Performance

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

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

Transformation Initiatives delivered:

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

Wiggins Island Rail Project (WIRP)

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

Other

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

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

Performance Overview

EBIT decreased $4.0m mainly due to:
- Non-recurrence of $13.2m benefit from the UT4 corporate cost allocation true up included in 1HFY2017
- $7.5m impact from a favourable movement in discount rates in the prior year

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

TRANSFORMATION UPDATE

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

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

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

Rockhampton Rollingstock Workshop

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

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

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

Asset Maintenance

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

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

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

ADDITIONAL INFORMATION

Senior Management Changes

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

The executive team includes:

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

Risk

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

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

The most significant factors relating to future financial performance are:

› Regulatory Risk of the Access Undertaking (UT5)

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

› Product Demand, Commodity Prices and General Economic Conditions

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

› Customer Credit Risk

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

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

› Competition Risk

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

› Strategic Risk

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

› Capital Investment Plans

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

› Strategic Freight Review

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

› Asset Impairment

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

› WIRP Non-Regulated Revenue Dispute

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

› Delivery of Transformation Program

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

› Business Interruption

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

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

› General Regulatory Risk

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

› Climate Change Risk

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

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

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

Sustainability

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

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

› Safety

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

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

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

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

› Environment

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

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

› People

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

Auditor's Independence Declaration

As lead auditors for the review of Aurizon Holdings Limited for the half-year ended 31 December 2017, we declare that to the best of our knowledge and belief, there have been:

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

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

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

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Tim Allman
Partner
PricewaterhouseCoopers

Brisbane
12 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

	Notes	**31 December 2017 $m**	31 December 2016 $m
Revenue from continuing operations	1	**1,565.3**	1,621.2
Employee benefits expense		**(387.3)**	(469.3)
Energy and fuel		**(126.6)**	(118.7)
Track access		**(106.9)**	(94.5)
Consumables		**(167.9)**	(185.4)
Depreciation and amortisation		**(259.0)**	(277.3)
Impairment losses	2	**(4.6)**	(104.3)
Other expenses		**(27.7)**	(16.2)
Operating profit		**485.3**	355.5
Finance income		**1.1**	1.7
Finance expenses		**(81.9)**	(93.8)
Net finance costs		**(80.8)**	(92.1)
Profit before income tax		**404.5**	263.4
Income tax expense	3	**(123.0)**	(77.6)
Profit after tax for the six months from continuing operations		**281.5**	185.8
Loss after tax from discontinued operations	5	**(71.1)**	(132.2)
Profit after tax from continuing and discontinued operations		**210.4**	53.6
Profit is attributable to:			
Owners of Aurizon Holdings Limited		**210.4**	53.6
		Cents	Cents
Basic earnings per share for profit attributable to the ordinary equity holders of the Company:	**4(a)**		
- continuing and discontinued operations		**10.4**	2.6
- continuing operations		**13.9**	9.1
Diluted earnings per share for profit attributable to the ordinary equity holders of the Company:	**4(b)**		
- continuing and discontinued operations		**10.3**	2.6
- continuing operations		**13.8**	9.0

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

	31 December 2017 $m	31 December 2016 $m
Profit after tax for the six months from continuing and discontinued operations	**210.4**	53.6
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**6.2**	51.0
Income tax relating to these items	**(1.9)**	(15.3)
Other comprehensive income for the six months, net of tax	**4.3**	35.7
Total comprehensive income for the six months	**214.7**	89.3
Total comprehensive income for the six months is attributable to:		
Owners of Aurizon Holdings Limited	**214.7**	89.3

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

	Notes	31 December 2017 $m	30 June 2017 $m
ASSETS			
Current assets			
Cash and cash equivalents		**165.8**	88.7
Trade and other receivables		**420.3**	496.8
Inventories		**120.5**	111.8
Derivative financial instruments	9	**0.3**	0.1
Current tax receivables		**-**	17.8
Other assets		**12.9**	6.9
Assets classified as held for sale	5(d)	**121.0**	7.3
Total current assets		**840.8**	729.4
Non-current assets			
Inventories		**34.3**	35.5
Derivative financial instruments	9	**100.5**	73.6
Property, plant and equipment		**8,731.8**	8,835.0
Intangible assets		**165.5**	170.0
Investments accounted for using the equity method		**2.3**	2.4
Total non-current assets		**9,034.4**	9,116.5
Total assets		**9,875.2**	9,845.9
LIABILITIES			
Current liabilities			
Trade and other payables		**264.7**	309.7
Borrowings	8	**-**	79.0
Derivative financial instruments	9	**0.3**	0.3
Current tax liabilities		**4.9**	-
Provisions		**359.1**	314.5
Other liabilities		**76.0**	40.7
Liabilities directly associated with assets classified as held for sale	5(d)	**12.6**	-
Total current liabilities		**717.6**	744.2
Non-current liabilities			
Borrowings	8	**3,551.7**	3,297.2
Derivative financial instruments	9	**36.5**	70.9
Deferred tax liabilities		**446.4**	426.8
Provisions		**102.2**	78.7
Other liabilities		**193.1**	206.0
Total non-current liabilities		**4,329.9**	4,079.6
Total liabilities		**5,047.5**	4,823.8
Net assets		**4,827.7**	5,022.1
EQUITY			
Contributed equity	7	**980.7**	1,206.6
Reserves		**3,476.7**	3,473.0
Retained earnings		**370.3**	342.5
Total equity		**4,827.7**	5,022.1

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

	Notes	Attributable to owners of Aurizon Holdings Limited			
		Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2017		**1,206.6**	**3,473.0**	**342.5**	**5,022.1**
Profit/(loss) for the six months		**-**	**-**	**210.4**	**210.4**
Other comprehensive income		**-**	**4.3**	**-**	**4.3**
Total comprehensive income for the six months		**-**	**4.3**	**210.4**	**214.7**
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	7	**(225.9)**	**(0.2)**	**-**	**(226.1)**
Dividends provided for or paid	6	**-**	**-**	**(182.6)**	**(182.6)**
Share-based payments		**-**	**(0.4)**	**-**	**(0.4)**
		(225.9)	**(0.6)**	**(182.6)**	**(409.1)**
Balance at 31 December 2017		**980.7**	**3,476.7**	**370.3**	**4,827.7**
Balance at 1 July 2016		1,206.6	3,424.7	1,082.3	5,713.6
Profit/(loss) for the six months		-	-	53.6	53.6
Other comprehensive income		-	35.7	-	35.7
Total comprehensive income for the six months		-	35.7	53.6	89.3
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	6	-	-	(272.9)	(272.9)
Share-based payments		-	12.3	-	12.3
		-	12.3	(272.9)	(260.6)
Balance at 31 December 2016		1,206.6	3,472.7	863.0	5,542.3

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

	31 December 2017 $m	31 December 2016 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,782.8**	1,899.5
Payments to suppliers and employees (inclusive of GST)	**(1,034.2)**	(1,131.2)
Interest received	**0.8**	1.7
Income taxes paid	**(48.5)**	(134.3)
Net cash inflow from operating activities from continuing operations	**700.9**	635.7
Net cash (outflow) from operating activities from discontinued operations	**(19.1)**	(11.0)
Net cash inflow from operating activities	**681.8**	624.7
Cash flows from investing activities		
Payments for property, plant and equipment	**(262.5)**	(241.3)
Proceeds from sale of property, plant and equipment	**8.3**	6.5
Payments for intangibles	**(22.6)**	(23.5)
Interest paid on qualifying assets	**(1.2)**	(2.0)
Proceeds from sale of an associate	**-**	98.3
Net cash (outflow) from investing activities from continuing operations	**(278.0)**	(162.0)
Net cash inflow (outflow) from investing activities from discontinued operations	**42.7**	(20.2)
Net cash (outflow) from investing activities	**(235.3)**	(182.2)
Cash flows from financing activities		
Proceeds from borrowings	**245.0**	100.0
Repayment of borrowings	**(124.0)**	(131.0)
Payments for shares bought back	**(223.3)**	-
Dividends paid to Company's shareholders	**(182.6)**	(272.9)
Payments of transaction costs related to borrowings	**(4.1)**	(0.2)
Payments for shares acquired for share based payments	**(2.5)**	(7.2)
Interest paid	**(77.9)**	(86.9)
Net cash (outflow) from financing activities from continuing operations	**(369.4)**	(398.2)
Net cash inflow (outflow) from financing activities from discontinued operations	**-**	-
Net cash (outflow) from financing activities	**(369.4)**	(398.2)
Net increase in cash and cash equivalents from continuing operations	**53.5**	75.5
Net increase (decrease) in cash and cash equivalents from discontinued operations	**23.6**	(31.2)
Cash and cash equivalents at the beginning of the financial year	**88.7**	69.2
Cash and cash equivalents at end of interim financial period	**165.8**	113.5

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

About this report

Corporate information

The financial statements of Aurizon Holdings Limited ("the Company") for the six months ended 31 December 2017 are for the consolidated entity consisting of the Company and its subsidiaries (together referred to as "the Group" or "Aurizon").

Basis of preparation

This consolidated Interim Financial Report for the six month reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this financial report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The annual report for the year ended 30 June 2017 is accessible at www.aurizon.com.au.

The consolidated Interim Financial Report is presented in Australian dollars with all values rounded to the nearest hundred thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Key events and transactions for reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

(a) Closure and sale of Intermodal

On 14 August 2017 the Group announced its intention to exit the Intermodal business through a combination of closure and sale and as a result the Intermodal business is disclosed as a discontinued operation.

Aurizon signed a binding agreement with Pacific National to sell its Acacia Ridge Intermodal Terminal. That transaction includes the transfer of approximately 30 employee positions, as well as assets, commercial and operational arrangements.

Aurizon signed a binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National. The transaction includes the transfer of approximately 330 employee positions as well as assets, commercial and operational arrangements to the Linfox and Pacific National consortium.

Aurizon is aiming to finalise the transactions by the end of FY2018, subject to:

- Approval by the Australian Competition & Consumer Commission; and
- Approval by the Foreign Investment & Review Board.

Total consideration for the two transactions is $225.0 million.

Aurizon's Interstate Intermodal business has been closed with the last operational service occurring on 23 December 2017. Approximately 160 employee positions have been affected by the closure of the interstate business.

The closure of Interstate Intermodal has resulted in $77.0 million of significant items being recognised in the interim financial period ended 31 December 2017. Significant items include $60.2 million for contract, lease and supplier exit costs, $12.3 million in redundancy costs for 166 employees in the Interstate business and asset write downs of $4.5 million.

(b) Access Revenue

On 15 December 2017 the Queensland Competition Authority (QCA) issued a draft decision pertaining to Aurizon Network's 2017 Draft Access Undertaking (UT5). The Draft Decision has proposed that Aurizon Network’s overall Maximum Allowable Revenue (“MAR”) for the regulatory period (FY18 to FY21) of the Undertaking is $3.893 billion, including a weighted average cost of capital of 5.41%.

Transitional tariffs have been approved for the period to the earlier of 30 June 2018 or the date the UT5 Undertaking takes effect. There is a risk that the final approved UT5 tariff will be different to the transitional tariffs, which may result in an under or over recovery of revenue payable or receivable in future years dependent on future railings.

Access revenue recognised in these financial statements is based on the transitional tariffs applying from 1 July 2017.

Key events and transactions for reporting period (continued)

(b) Access Revenue (continued)

Revenue recognised for the six months ended 31 December 2016 was based on the approved UT4 Undertaking tariffs, applied to actual volumes railed and included $45 million prior years true-ups.

(c) On-market share buy-back scheme

On 14 August 2017 the Company announced its intention to undertake an on-market buy-back of approximately $300 million, over a 12 month period. Since the commencement of the on-market buy-back program and during the interim period, the company has acquired 45.5 million shares at a total consideration of $225.9 million.

(d) Debt refinancing

In October 2017 Aurizon Network Pty Ltd (a wholly owned subsidiary of the Group) refinanced $525 million of its revolving bank debt facility with a 5 year $500 million revolving bank debt facility extending the maturity date to 20 October 2022.

(e) Business unit restructure

On 23 March 2017 the Group announced the transition to a new organisational structure effective from 1 July 2017. The organisational structure moved from a functional based model to a business unit model along the core areas of the business - Coal, Bulk (including Iron Ore), Network and Intermodal, as well as central support and planning functions. To reflect this reorganisation Aurizon changed its segment disclosure for financial year 2018 and the comparative period has also been restated.

Comparative Period

Key events and transactions affecting the performance of the Group in the comparative period are disclosed within the Annual Report for the year ended 30 June 2017.

Results for the six months

In this section…

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

1 Segment information

(a) Operating segments

As announced on 23 March 2017 Aurizon implemented the business unit structure on 1 July 2017. To reflect this reorganisation Aurizon changed its financial disclosure for financial year 2018 and the comparative period has also been restated. All future financial results will be disclosed under new operating segments (Network, Coal, Bulk and Other) as it more accurately represents the operating structure of the Group. The Managing Director & CEO and the Executive Committee assess the performance of the Group based on the underlying EBIT.

Unless otherwise noted, the segment reporting information excludes discontinued operations being Intermodal. Refer to Note 5 for further details.

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

Network

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

Coal

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

Bulk

Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia.

Other

Includes provision of maintenance services to internal and external customers and central costs not allocated such as Board, MD and CEO, company secretary, strategy and investor relations.

1 Segment information (continued)

(b) Segment results

31 December 2017	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	**278.0**	**319.3**	**-**	**-**	**597.3**
Freight transport	**-**	**603.4**	**295.4**	**-**	**898.8**
Other services	**3.0**	**0.2**	**12.1**	**19.1**	**34.4**
Other revenue	**24.8**	**0.6**	**0.1**	**9.3**	**34.8**
Total revenue from external customers	**305.8**	**923.5**	**307.6**	**28.4**	**1,565.3**
Internal revenue					
Services revenue					
Track access	**299.0**	**-**	**-**	**-**	**299.0**
Other services	**2.7**	**3.8**	**-**	**12.4**	**18.9**
Total internal revenue	**301.7**	**3.8**	**-**	**12.4**	**317.9**
Total revenue	**607.5**	**927.3**	**307.6**	**40.8**	**1,883.2**
Other income	**-**	**-**	**-**	**-**	**-**
Total revenue and other income	**607.5**	**927.3**	**307.6**	**40.8**	**1,883.2**
Internal elimination					**(317.9)**
Consolidated revenue and other income					**1,565.3**
Continuing EBITDA (Underlying)	**399.5**	**313.0**	**33.1**	**(1.3)**	**744.3**
Depreciation and Amortisation	**(151.0)**	**(90.5)**	**(13.0)**	**(4.5)**	**(259.0)**
Continuing EBIT (Underlying)	**248.5**	**222.5**	**20.1**	**(5.8)**	**485.3**
EBIT*					**485.3**
Net finance costs					**(80.8)**
Profit before income tax (continuing)					**404.5**

* Refer to page 48 for Non-IFRS information

1 Segment information (continued)

(b) Segment results (continued)

31 December 2016	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	309.3	304.8	-	0.1	614.2
Freight transport	-	581.9	332.2	0.4	914.5
Other services	2.1	0.1	8.8	24.5	35.5
Other revenue	38.5	-	2.2	16.3	57.0
Total revenue from external customers	349.9	886.8	343.2	41.3	1,621.2
Internal revenue					
Services revenue					
Track access	319.2	-	-	-	319.2
Freight transport	-	1.6	-	-	1.6
Other services	2.0	2.0	-	13.7	17.7
Total internal revenue	321.2	3.6	-	13.7	338.5
Total revenue	671.1	890.4	343.2	55.0	1,959.7
Other income	-	-	-	-	-
Total revenue and other income	671.1	890.4	343.2	55.0	1,959.7
Internal elimination					(338.5)
Consolidated revenue and other income					1,621.2
Continuing EBITDA (Underlying)	440.6	306.7	37.9	3.6	788.8
Depreciation and Amortisation	(147.9)	(88.5)	(35.5)	(5.4)	(277.3)
Continuing EBIT (Underlying)	292.7	218.2	2.4	(1.8)	511.5
Significant adjustments (note 1(c))					(156.0)
EBIT*					355.5
Net finance costs					(92.1)
Profit before income tax (continuing)					263.4

* Refer to page 48 for Non-IFRS information

(c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	31 December 2017 $m	31 December 2016 $m
Contract exit asset impairment	**-**	10.2
Freight Management Transformation (FMT) impairment	**-**	64.0
Transformation - asset impairment	**-**	21.0
Transformation - redundancy costs	**-**	60.8
Total significant adjustments (continuing operations)	**-**	156.0

For disclosure on the significant items relating to discontinued operations refer to Note 5(c).

1 Segment information (continued)

(c) Significant adjustments (continued)

Comparative Period

Impairment

For further disclosure on the impairment write downs for the half year ended 31 December 2017 and the comparative period refer to note 2.

2 Impairment of non-financial assets

(a) Impairment

Continuing operations	**31 December 2017 $m**	31 December 2016 $m
Bulk impairment (i)	**4.6**	-
Impairment of assets in exit of contracts	**-**	10.2
Freight Management Transformation impairment	**-**	64.0
Transformation - asset impairment	**-**	21.0
Other	**-**	9.1
	4.6	104.3
Discontinued operations		
Intermodal impairment (ii)	**4.5**	162.2
Total impairment of non-financial assets	**9.1**	266.5

Current Period

(i) Bulk impairment

At 30 June 2017, an impairment charge of $163.5 million was recorded in respect of the Bulk East business using a fair value less costs of disposal (FVLCD) methodology. Additional sustaining capital has been incurred during the period ended 31 December 2017 which has resulted in further impairment of $4.6 million.

(ii) Intermodal impairment

As a result of the closure and sale of the Intermodal business additional asset impairment of $4.5 million has been recorded in the period.

Prior Period

Information regarding impairment arising in the comparative period is disclosed within the Interim Financial Report for the period ended 31 December 2016.

3 Income tax expense

The Group’s statutory effective tax rate for the half year ended 31 December 2017 is 30.6%. The prior period effective tax rate was 28.1%. The statutory effective tax rate has increased compared to the prior period primarily due to a decrease in expenditure eligible for the Research and Development Tax Incentive. The statutory effective tax rate is greater than the statutory income tax rate (30%) due to the permanent components of the fixed asset adjustments.

4 Earnings per share

(a) Basic earnings per share

	31 December 2017 Cents	31 December 2016 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	**10.4**	2.6
- continuing operations	**13.9**	9.1

(b) Diluted earnings per share

	31 December 2017 Cents	31 December 2016 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	**10.3**	2.6
- continuing operations	**13.8**	9.0

(c) Weighted average number of shares used as denominator

	31 December 2017 Number '000	31 December 2016 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**2,031,805**	2,051,745
Rights	**4,540**	4,426
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**2,036,345**	2,056,171

5 Discontinued operations

(a) Description

On 14 August 2017, Aurizon announced the intention to exit its Intermodal business through a combination of closure and sale.

Aurizon signed a binding agreement with Pacific National to sell its Acacia Ridge Intermodal Terminal. Aurizon signed a binding agreement to sell its Queensland Intermodal business to a consortium of Linfox and Pacific National.

The finalisation of the transactions is subject to:

- Approval by the Australian Competition and Consumer Commission; and
- Approval by the Foreign Investment and Review Board

Aurizon's Interstate Intermodal business has been closed with the last operational service occurring on 23 December 2017.

Intermodal is reported in the current and comparative period as a discontinued operation. Financial information relating to the discontinued operation for the period is set out below.

(b) Financial performance and cash flow information

	31 December 2017 $m	31 December 2016 $m
Revenue	**140.0**	159.3
Employee benefits expense	**(57.7)**	(38.5)
Energy and fuel	**(14.4)**	(15.6)
Track Access	**(29.7)**	(31.5)
Consumables	**(82.3)**	(89.9)
Depreciation and amortisation	**(2.5)**	(10.2)
Impairment losses	**(4.5)**	(162.2)
Other expenses	**(50.1)**	(0.4)
Net finance costs	**-**	0.1
Loss before income tax	**(101.2)**	(188.9)
Income tax benefit	**30.1**	56.7
Loss after income tax of discontinued operation	**(71.1)**	(132.2)
Loss from discontinued operations	**(71.1)**	(132.2)
Net cash (outflow) from operating activities	**(19.1)**	(11.0)
Net cash inflow/(outflow) from investing activities	**42.7**	(20.2)
Net cash inflow/(outflow) from financing activities	**-**	-
Net increase/(decrease) in cash generated by the discontinued operations	**23.6**	(31.2)

(c) Significant items - discontinued operations

Significant items are those items where their nature and amount is considered material to the financial statements. Items related to discontinued operations included within the Group's profit are detailed below:

5 Discontinued operations (continued)

(c) Significant items - discontinued operations (continued)

	31 December 2017 $m	31 December 2016 $m
Significant items		
Intermodal closure costs	**60.2**	-
Intermodal impairment	**4.5**	162.2
Redundancy costs	**12.3**	3.2
	77.0	165.4

$77.0 million of significant items comprises $60.2 million for contract, lease and supplier exit costs, $12.3 million in redundancy costs for 166 employees in the Interstate business and asset write downs of $4.5 million.

(d) Assets and liabilities classified as held for sale

The following assets and liabilities relating to Intermodal and Acacia Ridge business were reclassified as held for sale in relation to discontinued operations as at 31 December 2017:

	31 December 2017 $m
Assets classified as held for sale	
Property, plant and equipment	**82.8**
Trade and other receivables	**30.3**
Inventories	**1.4**
Total assets of disposal group held for sale*	**114.5**
Liabilities directly associated with assets classified as held for sale	
Employee benefit obligations	**(12.6)**
Net assets classified as held for sale	**101.9**

*Assets held for sale includes $6.5 million of other assets that are not part of the disposal group at 31 December 2017.

Capital management

In this section…

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

6 Dividends

(a) Ordinary shares

	31 December 2017 $m	31 December 2016 $m
Final dividend for the year ended 30 June 2017 of 8.9 cents, 50% franked (2016: 13.3 cents, 70% franked) per share, paid 25 September 2017	**182.6**	272.9

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

	31 December 2017 $m	31 December 2016 $m
Since 31 December 2017, the Directors have declared the payment of a 50% franked interim dividend of 14.0 cents per fully paid ordinary share (31 December 2016: 13.6 cents 70% franked). The aggregate amount of the proposed dividend expected to be paid on 26 March 2018 out of retained earnings, but not recognised as a liability at 31 December 2017.	**281.5**	279.0

7 Contributed equity

	31 December 2017 Shares '000	30 June 2017 Shares '000	**31 December 2017 $m**	30 June 2017 $m
Issued capital				
Fully paid	**2,006,280**	2,051,745	**980.7**	1,206.6

Date	**Details**	**Number of shares '000**	**$m**
1 July 2016	Opening balance	2,051,745	1,206.6
31 December 2016	Closing balance	2,051,745	1,206.6
1 July 2017	Opening balance	2,051,745	1,206.6
	On-market share buy-back	(45,465)	(225.9)
31 December 2017	Closing balance	2,006,280	980.7

8 Borrowings

	31 December 2017 $m	30 June 2017 $m
Current - Unsecured		
Working capital facilities	-	79.0
	-	79.0
Non-current - Unsecured		
Medium-term notes	**2,498.5**	2,441.7
Syndicated facilities	**1,065.0**	865.0
Capitalised borrowing costs	**(11.8)**	(9.5)
	3,551.7	3,297.2
Total borrowings	**3,551.7**	3,376.2

The Group's unsecured syndicated facilities contain financial covenants. Both the syndicated facilities and medium-term notes contain general undertakings including negative pledge clauses which restrict the amount of security that the Group can provide over assets in certain circumstances. The Group has complied with all required covenants and undertakings throughout the reporting period.

In October 2017, Aurizon Network Pty Ltd refinanced $525 million of its revolving bank debt facility with a 5 year $500 million revolving bank debt facility extending the maturity date to 20 October 2022.

9 Fair value disclosure for financial instruments

Fair values of financial instruments

The carrying amounts and fair values of all of the Group's financial instruments which are not carried at an amount which approximates their fair value at 31 December 2017 and 30 June 2017 are shown in the following table.

The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. For the period ended 31 December 2017, the borrowing rates were determined to be ranging from 3.0% to 4.1% depending on the type of borrowing (30 June 2017 - 2.6% to 4.8%).

	Carrying amount		**Fair value**	
	31 December 2017 $m	30 June 2017 $m	**31 December 2017 $m**	30 June 2017 $m
Borrowings	**3,551.7**	3,376.2	**3,744.2**	3,556.5

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

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

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

(a) Fair value hierarchy

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

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

9 Fair value disclosure for financial instruments (continued)

(a) Fair value hierarchy (continued)

Recognised fair value measurements

At 31 December 2017	**Notes**	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Derivative financial assets		**-**	**100.8**	**-**	**100.8**
Derivative financial liabilities		**-**	**(36.8)**	**-**	**(36.8)**
Net financial instruments measured at fair value		**-**	**64.0**	**-**	**64.0**

At 30 June 2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	-	73.7	-	73.7
Derivative financial liabilities	-	(71.2)	-	(71.2)
Net financial instruments measured at fair value	-	2.5	-	2.5

There were no transfers between levels 1 and 2 for recurring fair value measurements during the interim financial period to 31 December 2017.

(b) Valuation techniques used to derive fair values

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

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

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

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

Other information

In this section…

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

10 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of this consolidated Interim Financial Report are consistent with those of the previous financial year. These policies have been consistently applied to both periods presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

(a) New and revised accounting standards and interpretations

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affect any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The Group has not early adopted any amendments, standards or interpretations that have been issued but are not yet effective with the exception of AASB 9 *Financial Instruments* which was adopted from 1 July 2014.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Group.

AASB 15 *Revenue from Contracts with Customers* outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including AASB 118 Revenues, AASB 111 Construction Contracts and related interpretations. The core principle is that an entity recognises revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also allows costs associated with obtaining a contract to be capitalised and amortised over the life of the new contract. This standard applies to the Aurizon reporting periods beginning on 1 July 2018. The Group is currently assessing the effects of applying the new standard on the Group's financial statements. Work to date has focused on Coal, Iron Ore and Network contracts as these together account for the majority of the Group's revenue. We will continue to assess the impact, however to date, no material measurement differences have been identified between AASB 118 and AASB 15.

AASB 16 *Leases* addresses the recognition, measurement, presentation and disclosures of leases. This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with AASB 16’s approach to lessor accounting substantially unchanged from its predecessor, AASB 117. This standard applies to the Aurizon reporting period beginning on 1 July 2019. The Group is in the process of assessing the impact for the Group of this new standard. However, at 30 June 2017 the lease commitments of the Group were $180 million and therefore the impact of the new standard is not expected to be material.

11 Critical accounting estimates and judgements

A number of critical accounting estimates and judgements were disclosed in the 30 June 2017 financial report. Included within those judgements and estimates are the following which have particular relevance to the Interim Financial Report.

(a) Intermodal closure costs

As part of the exit of the Interstate Intermodal business a number of closure cost provisions have been recognised at 31 December 2017. These provisions are based on management's best estimate at 31 December 2017 and are subject to finalisation of negotiations and could change.

(b) Impairment testing

Cash generating units (CGUs)

At the half year ended 31 December 2017 there are no indicators of impairment other than in relation to the Intermodal CGU as a result of the closure and sale. An impairment of the Intermodal CGU of $4.5 million has been recorded in the period, in respect of Interstate Intermodal.

A further $4.6 million of asset impairment has been recorded in respect of the Bulk East business due to additional sustaining capital incurred during the period ended 31 December 2017.

The recoverable amounts of CGUs for 30 June 2017 were determined based on value in use calculations except for Intermodal and Bulk East, which were valued using FVLCD. The value in use was calculated based on a three-year Board-approved corporate plan, a terminal growth rate of 1.5% per annum (2016: 2.5%) and a pre-tax discount rate ranging from 11.5% - 11.9% (2016: 11.9% - 12.3%). The value in use calculations indicated headroom to the carrying value of CGUs, with the exception of Intermodal, Bulk East and Western Australia.

As a result, an impairment test was completed and an impairment write down of $688.1 million was recognised in the prior period. The key assumptions used in the estimation of the recoverable amount of the Intermodal, Bulk East and Western Australia CGUs are set out in note 4(a)(i-ii) of the Annual Report for the year ended 30 June 2017.

Following the impairment loss recognised in the Intermodal, Bulk East and Western Australia CGUs for the year ended 30 June 2017, the recoverable amount is equal to the carrying amount. For Intermodal and Bulk East CGUs, a change in assumption regarding the market values of assets or asset additions may result in a change to the impairment recorded. For Western Australia a change in assumption regarding the forecast cashflows may result in a change to the impairment recorded.

Subsequent to 31 December 2017, a major Iron Ore customer announced the planned closure of mining operations in Australia, which will more than likely occur in 2018. Refer to Note 13 for further information.

Individual non-current assets

Each period the Group is required to assess the recoverability of non-current assets. Each year the Enterprise Rollingstock Master Plan is reviewed. This is a 10-year plan and judgement has been applied to estimate forecast volumes and productivity, as well as the required level of contingent fleet, in determining the level of rollingstock required for the foreseeable future. Any further changes to volumes and productivity, or a change in management’s view as to the level of contingent fleet required, could result in further reduction or reversal of previous impairment required in the future. The application of this judgement will continue to be assessed at each reporting date.

(c) Access undertaking

Access revenue recognised in these financial statements is based on the transitional tariffs applying from 1 July 2017. There is a risk that the final approved UT5 tariff will be different to the transitional tariffs which may result in an under or over recovery of revenue payable or receivable in future years dependent on future railings.

Unrecognised items

In this section…

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

12 Contingencies

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

There have been no material changes in contingent assets or liabilities since 30 June 2017.

13 Events occurring after the reporting period

The Group has a current iron ore Rail Haulage Agreement with Cliffs Asia Pacific Iron Ore Pty Ltd (Cliffs) that expires 31 January 2022. The contract provides for haulage of up to 11mt per annum and in the year ended 30 June 2017 the Group transported 10.9mt.

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

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

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

In the opinion of the Directors of the Company:

(a) the interim financial statements and notes set out on pages 21 to 44 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the six months ended on that date, and

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

Tim Poole
Chairman

Brisbane
12 February 2018

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Aurizon Holdings Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and consolidated income statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for Aurizon Holdings Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Aurizon Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Nadia Carlin
Partner

Tim Allman
Partner

Brisbane
12 February 2018

Non-IFRS Financial Information in 2017-18 Interim Financial Report

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

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

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

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

ROIC is defined as underlying rolling twelve month EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve month average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method, plus net intangibles plus current assets less cash, less current liabilities. This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

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

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

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

	Half-year ended 31 December 2017		Half-year ended 31 December 2016	
	Continuing operations $m	**Discontinued operations $m**	Continuing operations $m	Discontinued operations $m
Profit/(loss) before income tax	**404.5**	**(101.2)**	263.4	(188.8)
Finance costs (net)	80.8	-	92.1	(0.1)
EBIT – Statutory	**485.3**	**(101.2)**	355.5	(188.9)
Significant adjustments:				
- Intermodal impairment	**-**	**4.5**	-	162.2
- Contract exit impairment	**-**	**-**	10.2	-
- Freight Management Transformation (FMT) impairment	**-**	**-**	64.0	-
- Transformation – asset impairment	**-**	**-**	21.0	-
- Transformation – redundancy costs	**-**	**-**	60.8	3.2
- Intermodal closure costs	**-**	**72.5**	-	-
EBIT - Underlying	**485.3**	**(24.2)**	511.5	(23.5)
Depreciation and amortisation	**259.0**	**2.5**	277.3	10.2
EBITDA – Underlying	**744.3**	**(21.7)**	788.8	(13.3)
Operating Ratio (continuing operations)	**69.0%**		68.4%	
Average invested capital (continuing operations)	**8,972**		9,757	
ROIC (continuing operations)	**9.6%**		10.3%	

	Half-year ended 31 December 2017 $m	Year ended 30 June 2017 $m
Borrowings – Current	**-**	79.0
Borrowings – Non-current	**3,551.7**	3,297.2
Total borrowings	**3,551.7**	3,376.2
Cash and cash equivalents	**(165.8)**	(88.7)
Net debt	**3,385.9**	3,287.5
Total equity	**4,827.7**	5,022.1
Total capital	**8,213.6**	8,309.6
Net Gearing Ratio	**41.2%**	39.6%