Aurizon Holdings Limited
ABN 14 146 335 622

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ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

15 August 2016

Appendix 4E

Please find attached announcement for immediate release to the market a copy of the Company's Appendix 4E for the financial year ended 30 June 2016.

Kind regards

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Aurizon Holdings Limited

Appendix 4E

Results for announcement to the market on 15 August 2016
For the year ended 30 June 2016
Previous corresponding period (pcp) year ended 30 June 2015

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

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Appendix 4E

Results for announcement to the market on 15 August 2016
For the year ended 30 June 2016
Previous corresponding period (pcp) year ended 30 June 2015

FY2016 IN REVIEW

Financial Headlines

($m)	FY2016	FY2015	Variance %
Total revenue	3,458	3,780	(9%)
EBITDA - underlying	1,432	1,489	(4%)
EBIT – underlying	871	970	(10%)
Adjustments - Asset impairments	(528)	-	-
EBIT – statutory	343	970	(65%)
NPAT – underlying	510	604	(16%)
NPAT – statutory	72	604	(88%)
Free cash flow (FCF)	478	355	35%
Final dividend (cps)	13.3	13.9	(4%)
Total dividend (cps)	24.6	24.0	3%
Earnings per share – underlying (cps)	24.4	28.4	(14%)
Return on invested capital (ROIC)	8.6%	9.7%	(1.1ppt)
EBITDA margin – underlying (%)	41.4%	39.4%	2ppt
Operating ratio (OR) (%)	74.8%	74.3%	(0.5ppt)
Total Above Rail volumes (mt)	270.9	281.2	(4%)
Operations net opex / NTK (excluding access) ($/'000 NTK)	19.9	21.5	7%
Gearing (net debt / net debt + equity)	37.4%	30.2%	(7.2ppt)

Highlights

- 35% increase in free cash flow to $478 million (m) due to a reduction in capex and more efficient capital allocation
- Final FY2016 dividend of 13.3cps (100% payout ratio applied to underlying NPAT), total dividend of 24.6cps, an increase of 3%.
- $830m of cash distributed to shareholders for the year including $301m share buy back
- The share buyback has been stopped to manage near term balance sheet capacity for possible growth opportunities, noting also that free cash flow is expected to increase significantly during the next few years as capex is reduced and additional transformation savings are realised
- Below Rail underlying EBIT up $22m (5%) on record volumes and finalisation of UT4 tariffs
- Above Rail underlying EBIT down $117m (21%)
  - $123m transformation benefits delivered, ahead of target
  - $111m reduction in Freight net revenue as a result of lower volumes (9%), lower TSC payments ($70m) and the sale of CRT
  - $46m impact from non-recurring FY2015 asset sales (Redbank) and contract expiry (QR)
  - $43m impact from lower volumes in Coal (2%) and Iron Ore (7%)
  - One off cost for QNI bad debt ($20m)
- Coal revenue down $13m (1%) on full year volumes of 206.8mt
- OR and ROIC 74.8% (up 0.5ppts) and 8.6% (down 1.1ppts) respectively
- Statutory EBIT $343m includes $528m of asset impairments

Transformation

- Transformation program continues to deliver sustainable value:
  - $131m benefits delivered in FY2016 and $383m of cumulative benefits over the last three years
  - All operating metrics were favourable to FY2015 despite lower volumes, including a 7% improvement in Operations net opex per NTK (excluding access)
  - FY2016-2018 transformation target remains $380m+ with increasing confidence of delivery

Outlook

- FY2017 guidance: revenue $3.35bn - $3.55bn, underlying EBIT $900m - $950m, key assumptions as follows:
  - Above Rail: volumes 255-275mt, including Coal 200-212mt. Stable pricing with exception of Iron Ore for customer Karara
  - Below Rail: Flat EBIT (pre corporate overhead allocation) despite $73m one-off true up from revenue under collection in FY2014 and FY2015
    - Step up in Maximum Allowable Revenue (MAR) excluding true-up offset by prior year adjustments
    - $50-60m increase in depreciation (full year impact of WIRP commissioning and rail renewal capitalisation) and operating and energy costs due to inflation and higher electricity charges
  - Continued delivery of transformation benefits consistent with enterprise target but excluding significant restructuring costs, expected to be more than $100m in FY2017
  - No major weather impacts
- FY2018 OR target remains 70% but achievement dependent on:
  - Above Rail volume growth and delivery of transformation targets
  - UT5 outcome
  - Outcome of Freight performance review

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Appendix 4E

Results for announcement to the market on 15 August 2016
For the year ended 30 June 2016
Previous corresponding period (pcp) year ended 30 June 2015

CONSOLIDATED RESULTS

1. Annual Comparison

Financial Summary

($m)		FY2016	FY2015	Variance %
Total revenue		**3,458**	**3,780**	**(9%)**
Operating costs		**(2,026)**	**(2,291)**	**12%**
Employee benefits expense		(891)	(1,009)	12%
Energy and fuel		(245)	(291)	16%
Track access		(315)	(328)	4%
Consumables		(509)	(614)	17%
Other expenses		(66)	(49)	(35%)
EBITDA	**- underlying**	**1,432**	**1,489**	**(4%)**
	- statutory	904	1,489	(39%)
Depreciation and amortisation expense		(561)	(519)	(8%)
EBIT	**- underlying**	**871**	**970**	**(10%)**
	- statutory	343	970	(65%)
Net finance costs		(150)	(135)	(11%)
Income tax expense	**- underlying**	(211)	(231)	9%
	- statutory	(121)	(231)	48%
NPAT	**- underlying**	**510**	**604**	**(16%)**
	- statutory	72	604	(88%)
Earnings per share (1)	**- underlying**	**24.4**	**28.4**	**(14%)**
	- statutory	3.4	28.4	(88%)
Return on invested capital (ROIC)(2)		8.6%	9.7%	(1.1ppt)
Operating ratio		**74.8%**	**74.3%**	**(0.5ppt)**
Cash flow from operating activities		1,218	1,516	(20%)
Final dividend per share (cps)		13.3	13.9	(4%)
Gearing (net debt / net debt + equity)		37.4%	30.2%	(7.2ppt)
Net tangible assets per share ($)		2.7	3.0	(10%)

Other Operating Metrics

	FY2016	FY2015	Variance %
Revenue / NTK ($/'000 NTK)	48.3	52.2	(7%)
Labour costs / Revenue (3)	24.6%	25.7%	1.1ppt
NTK / FTE (MNTK)	11.4	10.5	9%
Operations net opex / NTK ($/'000 NTK)	34.1	34.9	2%
Operations net opex / NTK (excluding access) ($/'000 NTK)	19.9	21.5	7%
NTK (bn)	71.6	72.4	(1%)
Tonnes (m)	270.9	281.2	(4%)

Underlying EBIT by Segment

($m)	FY2016	FY2015	Variance %
Below Rail – Network	506	484	5%
Above Rail	435	552	(21%)
Commercial & Marketing	2,878	3,079	(7%)
Operations	(2,443)	(2,527)	3%
Corporate Overhead (Unallocated)	(70)	(66)	(6%)
Group	**871**	**970**	**(10%)**

Notes:
(1) Calculated on weighted average number of shares on issue – 2,129m in FY2015 and 2,088m in FY2016
(2) ROIC is defined as underlying rolling twelve month EBIT divided by the average invested capital. The average invested capital is calculated by taking the rolling twelve months average of net property, plant and equipment including assets under construction plus investments accounted for using the equity method plus current assets less cash, less current liabilities plus net intangibles
(3) Excludes $36m of redundancy costs in FY2015 and $24m in FY2016, and employee share gift of $16m in FY2016

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Group Performance Overview

Revenue declined $322m (9%) primarily due to a 4% reduction in Above Rail volumes, the impact from the sale of Redbank ($43m) and CRT ($38m) in FY2015, the end of the QR maintenance contract ($60m) and lower payments for TSC ($70m). These impacts were mostly realised in Freight (down $180m) with Coal revenue only down $13m (1%) on 2% lower volumes. Below Rail revenue increased $71m driven by record volumes of 225.9mt and finalisation of UT4 tariffs.

Underlying EBIT fell $99m (10%), with the revenue reduction, and a $43m increase in Below Rail depreciation associated with the commissioning of WIRP and capitalisation of rail renewals, partially offset by a reduction in operating costs of $265m (12%). This reduction in operating costs was driven by $131m in sustainable benefits from the ongoing transformation program and lower costs associated with the reduction in volumes and the impact of CRT, QR and TSC. The reduction in labour costs principally from transformation has resulted in labour costs as a proportion of revenue falling to 24.6%, a 1.1ppt improvement.

FY2016 operating ratio (OR) and return on invested capital (ROIC) were 74.8% (up 0.5ppts) and 8.6% (down 1.1ppts) respectively.

Statutory EBIT was $343m reflecting the impact of $528m in asset impairments for the year as detailed below.

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

($m)	FY2016	FY2015
Underlying EBIT	**871**	**970**
Significant Items - impairments	**(528)**	**-**
Investment in Associates	(226)	-
Rollingstock	(177)	-
Strategic infrastructure projects	(125)	-
Statutory EBIT	**343**	**970**
Net finance costs	(150)	(135)
Statutory PBT	**193**	**835**
Income Tax expense	(121)	(231)
Statutory NPAT	**72**	**604**

Aurizon reviewed the carrying value of its asset portfolio as at 30 June 2016 and has recognised a total impairment of $528m as noted below:

- Investment in associate $226m – impairment to the carrying value of the investment in Aquila Resources Limited (Aquila) to reflect the current market outlook. Aurizon has no remaining financial exposure to Aquila
- Rollingstock $177m – reduction in Rollingstock due to surplus fleet and inventory arising from productivity and efficiency improvements and a lower volume outlook
- Strategic infrastructure investment $125m – $83m greenfield feasibility study costs for the West Pilbara Infrastructure Project (WPIP), $30m Galilee Basin brownfield expansion feasibility costs for the expansion of the CQCN and $12m of other costs. The value of both projects remaining on the balance sheet is nil

2. Other Financial Information

Balance Sheet Summary

($m)	30 June 2016	30 June 2015
Total current assets	844	934
Property, plant & equipment (PP&E)	9,719	9,900
Other non-current assets	305	502
Total Assets	**10,868**	**11,336**
Total current liabilities	(732)	(845)
Total borrowings	(3,490)	(2,983)
Other non-current liabilities	(932)	(1,002)
Total Liabilities	**(5,154)**	**(4,830)**
Net Assets	**5,714**	**6,506**
Gearing (net debt / net debt plus equity)	**37.4%**	**30.2%**

Balance Sheet Movements

Total current assets have decreased by $90m largely due to:
- Reduction in cash and cash equivalents of $102m
- Reduction in trade and other receivables of $29m which predominantly relates to an increase in the provision for doubtful debt for QNI
- Reduction in inventory of $36m predominantly due to the impairment of Rollingstock inventory
- Increase in assets held for sale of $80m following the announcement of the sale of Moorebank ($95m) offset by other disposals ($15m) during the year

Total Property, Plant and Equipment has decreased by $181m due to $267m of impairments for Rollingstock and strategic projects more than offsetting a net increase in fixed assets.

Other non-current assets have decreased $197m due to impairing the Aquila investment ($226m) and reclassification of the investment in Moorebank to assets held for sale ($95m) offset by an increase in derivative financial instruments ($58m) relating to cross currency interest rate swaps and an increase in intangible assets ($63m) relating to software development costs.

Other current liabilities have decreased $113m due to a decrease in trade and other payables of $71m, a decrease in provisions of $72m reflecting improved leave management under the new EAs, lower FTE and lower bonus and redundancy provisions, offset by an increase in derivative financial instruments ($28m) relating to interest rate swaps.

Total borrowings increased by $507m principally due to an increase in the on market share buyback and higher dividend payments.

Other non-current liabilities decreased by $70m mainly due to the decrease in deferred tax liabilities ($17m), derivative financial instruments ($20m) and income in advance ($30m).

Gearing (net debt / net debt plus equity) is 37.4% as at 30 June 2016.

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Cash Flow Summary

($m)	FY2016	FY2015
Statutory EBITDA	904	1,489
Working capital and other movement	(85)	7
Non-cash adjustments - impairments	528	-
Cash from operations	**1,347**	**1,496**
Interest received	2	9
Income taxes (paid) / refunded	(131)	11
Net cash inflow from operating activities	**1,218**	**1,516**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment (PP&E)	38	170
Payments for PP&E & intangibles	(772)	(1,083)
Interest paid on qualifying assets	(12)	(28)
Net (payments for) / distributions from investment in associates	6	(220)
Net cash (outflow) from investing activities	**(740)**	**(1,161)**
Free cash flow (FCF)	**478**	**355**
Cash flows from financing activities		
Net proceeds from borrowings	442	103
Payment for share buy-back and share based payments	(355)	(81)
Interest paid	(138)	(128)
Dividends paid to Company shareholders	(529)	(396)
Net cash (outflow) from financing activities	**(580)**	**(502)**
Net increase / (decrease) in cash	**(102)**	**(147)**

Cash Flow Movements

Net cash inflow from operating activities decreased by $298m (20%) to $1,218m largely due to:

- $92m reduction in underlying EBITDA and an increase in working capital relating to lower employee related provisions
- $142m increase in income taxes paid due to lower taxes payable in FY2015

Net cash outflow from investing activities decreased by $421m (36%) to $740m, largely due to:

- $327m decrease in capital expenditure
- $214m decrease in investments in associates, reflecting the Aquila acquisition in FY2015, partly offset by
- $132m reduction in proceeds on sale of assets

Net cash outflow from financing activities increased by $78m to $580m, with a $339m increase in borrowings, an increase of $274m for share buy-back and share based payments, and a $133m increase in dividend payments in the year.

Dividend

In respect of the current full year, and taking into account the trading outlook and cash requirements of the business, the Board has declared a final dividend of 13.3cps (70% franked) based on a payout ratio of 100% of underlying NPAT (i.e. after adjusting for significant items).

The relevant interim dividend dates are:

- 29 August 2016 – ex-dividend date
- 30 August 2016 – record date
- 26 September 2016 – payment date

Share Buy-back

Since the commencement of the on-market buy-back program, the company has acquired 85.5m shares at a total consideration of $370m of which 70.3m shares were acquired at a total consideration of $301m during FY2016. The share buyback has been stopped to manage near term balance sheet capacity for possible growth opportunities, noting also that free cash flow is expected to increase significantly during the next few years as capex is reduced and additional transformation savings are realised.

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Funding

During the period the Group continued to focus on diversifying funding sources and lengthening tenor through the following funding activities:

- Re-priced and extended the existing Aurizon Network $490m bank debt facility in December 2015, with maturity extended to FY2022
- Re-priced and extended the existing Aurizon Finance $300m bank debt facility in April 2016, with maturity extended to FY2021 and tranche size increased to $500m
- Aurizon Network issued its second bond in the European debt capital markets, with a 10 year Euro 500m EMTN priced in May 2016 with a coupon of 3.125% per annum. After swapping into A$, proceeds were used to partially repay existing bank debt maturing in FY2019

In respect of FY2016:

- Interest cost on drawn debt is now 4.7% (FY2015 - 4.9%)
- Liquidity as at 30 June 2016 was $0.7bn (undrawn facilities plus cash)
- Weighted average debt maturity profile average tenor increased to 5.8 years (FY2015 - 4.3 years)
- Approximately 64% of interest rate exposure is fixed to align with the Below Rail regulatory period

Tax

Underlying income tax expense for FY2016 was $211m. The underlying effective tax rate[1] for FY2016 was 29.3%. The underlying cash tax rate[2] for FY2016 was 18.6% which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2017 is expected to be in the range of 28-30% and the underlying cash tax rate is expected to be in the range of 17-22%.

Statutory income tax expense for FY2016 was $121m. The statutory effective tax rate was 62.1%, due to the tax treatment of the Aquila impairment. No deferred tax benefit has been recognised in relation to the impairment of the Aquila investment, however the impairment loss for tax purposes will be recognised as a deferred tax asset when Aurizon disposes of its interest in Aquila.

Notes
(1) Underlying effective tax rate = income tax expense excluding the impact of significant items / underlying consolidated profit before tax
(2) Underlying cash tax rate = cash tax payable excluding the impact of significant items / underlying consolidated profit before tax

SEGMENT REVIEW

Above Rail Summary

'Above Rail' combines the Commercial & Marketing and Operations functions and represents the haulage operations for Aurizon's Coal, Freight and Iron Ore customers. It also includes an allocation of attributable corporate costs. The profit and loss statements for Operations and Commercial & Marketing are provided in the appendix.

($m)	FY2016	FY2015	Variance %
Total Revenue	3,146	3,483	(10%)
Coal	1,881	1,894	(1%)
Above Rail	1,147	1,187	(3%)
Track Access [(1)]	734	707	4%
Freight	739	919	(20%)
Iron Ore	311	338	(8%)
Other	215	332	(35%)
Operating Costs	(2,413)	(2,631)	8%
Employee benefits expense	(739)	(834)	11%
Energy and fuel	(120)	(184)	35%
Track Access	(1,016)	(973)	(4%)
Consumables	(501)	(633)	21%
Other expenses	(37)	(7)	-
EBITDA	733	852	(14%)
Depreciation and amortisation expense	(298)	(300)	1%
Underlying EBIT	435	552	(21%)

Notes

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

Above Rail Revenue Metrics

($m)	FY2016	FY2015	Variance %
Coal			
Total tonnes hauled (m)	206.8	211.2	(2%)
Queensland	163.0	168.3	(3%)
NSW	43.8	42.9	2%
% Volumes under new form contracts	79%	64%	15ppt
Contract utilisation	92%	92%	-
Total NTK (bn)	49.7	49.1	1%
Queensland	41.4	42.0	(1%)
NSW	8.3	7.1	17%
Average haul length (km)	240	233	3%
Total revenue / NTK ($/'000 NTK)	37.8	38.6	(2%)
Above rail revenue / NTK ($/'000 NTK)	23.0	24.2	(5%)
Freight			
Total tonnes hauled (m)	40.4	44.4	(9%)
Total NTK (bn)	12.3	12.9	(5%)
Total revenue / NTK ($/'000 NTK)	60.1	71.2	(16%)
Total Intermodal TEUs ('000)	372.6	372.0	-
Iron Ore			
Total tonnes hauled (m)	23.7	25.6	(7%)
Contract utilisation	101%	106%	(5ppt)
Total NTK (bn)	9.6	10.4	(8%)
Average haul length (km)	382	405	(6%)
Total revenue / NTK ($/'000 NTK)	32.4	32.5	-

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Above Rail Performance Overview

Revenue declined 10% ($337m) partly due to a 4% decline in volumes. Freight was down $180m (20%) as a result of lower TSC payments ($70m), the sale of CRT ($38m) and lower Bulk volumes, while Iron Ore revenues were down $27m due to lower volumes. Coal revenues declined $13m (1%) as a result of 2% lower volumes, which was partly offset by higher track access revenue. Revenue across all commodity groups was impacted by $53m due to lower fuel revenue (pass through) as a result of the decline in fuel price. Other revenue declined $117m (35%) due to the end of the QR maintenance contract ($60m), lower non-core maintenance revenue (including internal services to Below Rail), and lower asset sales.

Coal volumes were down 4.4mt or 2% to 206.8mt. Queensland volumes were down 3% at 163mt reflecting the 1HFY2016 ramp-up of BMA Rail, with volumes stable in 2HFY2016. NSW volumes were 2% higher at 43.8mt reflecting the ramp-up of the Whitehaven contract. Coal volumes hauled under new form contracts increased 15ppts to 79%, reflecting the commencement of the BMA Blackwater contracts and early conversion of the Anglo Dawson contract. Coal above rail revenue per NTK was 5% lower due to a reduction in incentives from customers actively managing their contracts, a reduction in fuel revenue and a change in customer mix. Excluding the impact of fuel (pass through), above rail revenue per NTK was down 3%.

Despite the challenging macro environment, Aurizon's coal business remains resilient with investment grade counterparties comprising 62% of Above Rail FY2016 volumes and a weighted average remaining contract length as at 30 June 2016 of 10.5 years. No material haulage contracts are due to expire until FY2022.

Freight volumes declined 4mt or 9% to 40.4mt with Bulk volumes down 8% and Intermodal volumes down 24% partly due to the CRT disposal. Twenty-Foot Equivalent Units (TEUs) were flat for the year as they are not impacted by the CRT disposal. Bulk volumes were impacted by the closure of QNI and lower mineral volumes, reflecting the challenging commodity price environment, as well as lower agricultural throughput, particularly wheat and livestock. Freight revenue per NTK declined 16% due to the impact of lower TSC payments, the sale of CRT and a reduction in fuel revenue and the impact of challenging market conditions on customer health and new contract pricing.

Iron Ore volumes declined 1.9mt or 7%, due to lower production from Karara and the end of the Mineral Resources contract in FY2015.

Above Rail underlying EBIT decreased $117m (21%) to $435m, with the revenue decline offset by a $218m (8%) reduction in operating costs. This reduction in operating costs was driven primarily by $123m of transformation benefits ($110m in Operations and $13m allocated from Support functions), the impact of CRT, QR and lower non-core maintenance services and lower fuel costs due to a $54m reduction in average fuel price. Excluding the impact of CRT, TSC and QR maintenance, underlying EBIT was down 6%.

Underlying EBIT also included a $20m bad debt provision for QNI, as well as the impact from the 4% wage uplift from the new Enterprise Agreements.

The operational transformation program continues to drive efficiencies, with improvements in all key operating metrics including a 7% improvement in net opex/NTK (excluding access) and a 7% improvement in labour productivity. A detailed analysis of operating metrics is provided on page 11.

Market update

Coal

As at July 2016, Aurizon estimates that 90% of volume hauled by Aurizon is sold on a cash positive basis, an improvement of 16ppts from December 2015. Market conditions showed some improvement in the second half as coal prices improved, customers continued to lower unit costs and supply chain efficiencies were realised.

Contract Update

There are no material haulage contracts due to expire until FY2022, with the weighted average remaining contract length as at 30 June 2016 now 10.5 years (QLD 10.6, NSW 10.2). 79% of volumes railed in FY2016 were under new form contracts, with 96% of contracts expected to be new form by FY2018 (based on contracted volumes). Developments include:

- A seven year contract extension with BHP Billiton for its Mt Arthur Coal mine in the Hunter Valley to June 2028. The contract allows for volumes of up to 26mtpa (currently 18mtpa) and delivers a modern and flexible agreement for both parties
- A new agreement with Syntech Resources extends our relationship with the Yancoal-operated Cameby Downs mine by up to four years with volumes of 1.7mtpa. An extension at the Yancoal-owned Duralie mine sees the contract extended for a further 1.5 years for up to 2.6mtpa
- Sojitz Minerva extended its coal haulage agreement of 2.4mtpa for up to five years
- A short-term contract renewal was executed with Vale for the Carborough Downs coal mine through to June 2017. Volumes of up to 1.8mt will be hauled during the term, which commenced in July 2016
- The new long-term performance-based contract with BMA/BMC (signed in March 2013) commenced on 1 July 2016 for the Goonyella corridor mines, representing approximately two thirds of the BMA/BMC portfolio volumes. The Blackwater corridor mines commenced under this new form contract on 1 July 2015, with the overall agreement extending for up to 12 years from the previous legacy agreement

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Freight

Aurizon's Freight business includes haulage of bulk commodities including base metals, minerals, grains and livestock in Queensland, New South Wales (East) and Western Australia (West) and Intermodal containerised freight and logistical solutions across Australia. Commodity prices continue to be depressed for a number of commodities that Aurizon hauls and with increased competition from surplus road capacity, market conditions remain challenging. Despite a 20% reduction in operating costs over the last two years, a 28% reduction in revenue over the same period has resulted in an EBIT loss for the year, and a performance review is underway to determine options to achieve appropriate risk adjusted returns for both Bulk and Intermodal.

Bulk

The Company's focus has been on ensuring the sustainability of Aurizon's operations by securing contracts that support freighter services in addition to the continued drive for transformation of the cost base and improved operational efficiency. A number of new contracts were executed during FY2016:

- Five year contract with Australian Gold Reagents (AGR), a joint venture between CSBP and Coogee Chemicals
- Five year agreement with Cockburn Cement Limited (CCL) for their lime and cement volumes into the Goldfields
- Five year contract with BHP Billiton Nickel West (NiW), where Aurizon has taken on an additional road haulage and silo operation and maintenance activities, in addition to existing rail haulage
- Five year contract for pit-to-port services with Lynas, who mine a world-class rare earths deposit near Laverton in the north-east Goldfields

Intermodal

While conditions in the Queensland market remain difficult there was solid growth through the Melbourne to Brisbane rail corridor, with volume growth of 9% driven by improvement in customer service and on time performance. In June 2016 Aurizon established a new intermodal terminal at Enfield in Sydney which improves the national footprint and service offering and provides an opportunity to grow volumes to and from Sydney. While overall volumes were lower, they were stable on a TEU basis.

Iron Ore

Aurizon continued to support the long term viability of its Iron Ore customers by driving efficiencies in the supply chain to optimise throughput during challenging market conditions, including a mutually beneficial contract adjustment with Karara. Aurizon hauled 23.7mt during FY2016, with record tonnes for Mount Gibson's Extension Hill operations. Cliffs volumes were marginally lower and volumes for Karara were down as they transitioned to 100% magnetite production with direct shipping ore (DSO) mining ceasing during the December quarter.

Operations transformation update

Operating Metrics

($m)	FY2016	FY2015	Variance %
Net opex(1) / NTK ($/'000 NTK)	34.1	34.9	2%
Operations net opex(2) / NTK (excluding access) ($/'000 NTK)	19.9	21.5	7%
Total tonnes hauled (m)	270.9	281.2	(4%)
Net tonne kilometers - NTK (bn)	71.6	72.4	(1%)
FTE (monthly average)	5,013	5,403	7%
Labour productivity (NTK / FTE)	14.3	13.4	7%
Loco productivity ('000 NTK / Active loco day3)	375.7	339.5	11%
Active locos (as at 30 June)	508	567	10%
Wagon productivity ('000 NTK / Active wagon day3)	14.7	14.3	3%
Active wagons (as at 30 June)	13,008	13,960	7%
National Payload (tonnes)	4,659	4,538	3%
Velocity (km/hr4)	29.8	29.5	1%
Fuel consumption (l/d GTK)	3.10	3.19	3%

Notes
(1) Net opex / NTK is calculated as Operations Underlying EBIT / NTK (i.e. this metric represents operational expenditure net of revenue). Net expenditure is used to measure above rail productivity, as Operations revenue includes intercompany revenue for services provided (and therefore costs incurred) for Network. In addition, Operations also incurs expenditure in generating revenue on commercial Rollingstock and infrastructure maintenance contracts
(2) Net opex / NTK (excluding access) excludes track access costs in order to measure productivity net of access costs which are generally passed through to above rail customers (and shown in Commercial & Marketing revenue)
(3) For FY2016, the calculation basis for NTK / active loco and NTK / active wagon has changed to be calculated on a per day basis from a monthly basis, as it allows for a more accurate comparison between different time periods and will no longer be influenced by the number of days in a month (i.e. short months to long months)
(4) As average turnaround time can be influenced by the mix of hauls and mine/port combinations, in FY2016 Aurizon transitioned to report velocity (train speed)

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Transformation initiatives

Continued focus on productivity improvements through the transformation program resulted in improvements to all key operating metrics, despite the reduction in volumes. These programs delivered $123m in gross transformation benefits in FY2016 and a 7% improvement in Net opex per NTK (excluding access charges).

Workforce

Operations continued to drive productivity with a 7% reduction in FTE compared to FY2015, leading to a 7% improvement in labour productivity.

Labour productivity improvements have been achieved under the two new Enterprise Agreements executed in 1HFY2016 for Queensland operational staff, with full ramp of benefits expected over the next two years. These improvements have been achieved through improved flexibility and an ability to align resources with demand through tools such as:

- Ability to direct crew on leave through periods of low demand
- Demarcation of roles
- Removal of the no forced redundancy clause to enable Operations to react more quickly to market downturns
- Improved day of operations rostering flexibility through lift up and lay back provisions

Benefits delivered to date include:

- Reduction in overtime spend for train crew (23% Queensland, 17% nationally) and maintenance workers (23%) compared to FY2015
- 10% improvement in annual leave management
- Reduction in train crew cancellations in Queensland (5%) and nationally (3%)
- 9% reduction in hours spent transferring train crew by car to train location

Further efficiencies will be realised in 1HFY2017 through a reduction of management positions and flattening of the leadership structure across Operations, together with proposals to better align labour resources across Operations and the Below Rail business. These include:

- The proposed reduction of approximately 120 leadership positions in Operations, representing approximately 20% of management roles. This is primarily middle and senior management, aiming to simplify and improve service delivery and ensure accountability at the regional level
- The realignment of resources with forecast demand through the introduction of efficient work practices and new technology and revised work processes to reduce approximately 180 roles. The initiatives cover train crewing and yard operations, maintenance depots, and infrastructure production and maintenance

Fleet productivity

Locomotive and wagon productivity improved 11% and 3% respectively compared to FY2015. Benefits realised include a 3% increase in national payloads through longer, heavier trains, and a 1% improvement in average velocity through improvements in train design, availability and reliability as well as improvements in Below Rail Performance to Plan (see Below Rail commentary).

Energy and fuel efficiency

Fuel consumption improved by 3% through the continual focus on both driver behaviour programs (supported by improved data and analytics, for example driver assist and driver methodology programs) and technology improvements (for example trip optimiser). Further savings are expected over future periods.

Engineering and Maintenance

Engineering and Maintenance continued to focus on key technology investments to deliver more efficient and safer operations, combined with a focus on labour productivity, footprint consolidation, and the outsourcing of non-core work.

- The roll out of wayside condition monitoring (WCM) and on train repair (OTR) programs continued across key yards in Central Queensland and Hexham in Newcastle. WCM has now been implemented across all four CQCN systems, while OTR has been implemented in Jilalan, Blackwater and Hexham, with Pring to come in 1HFY2017. This program has continued to deliver significant maintenance savings including:
  - Reduction in both planned and unplanned maintenance interventions
  - Extension of planned inspection and maintenance events for coal wagons; reliability examinations on 106T coal wagons have been extended from 21 days to 42 days in the Goonyella and Blackwater systems, while L1 inspections on these wagons now occur every two years, rather than annually
  - Reduction in wheel consumption, with consumption in Central Queensland down 51% in FY2016 relative to FY2015
  - Significant reduction in serious operational events such as a 77% reduction in train partings
- In August 2016 Aurizon entered into a long-term maintenance and parts supply agreement with Progress Rail Services, a global locomotive original equipment manufacturer (OEM), to out-source non-core maintenance work. This will be undertaken at the workshop facilities at Redbank. This agreement will deliver significant cost savings and productivity enhancements over the term of the contract, which runs until October 2024

- Engineering and Maintenance continued to consolidate its maintenance footprint and focus on rightsizing the labour force. During FY2016 the Rockhampton Locomotive Depot and Townsville Heavy Maintenance facility were both closed, with work consolidated into other workshops and depots, while headcount within the division reduced 20% to 1,168 FTE

Capital Programs

In addition to productivity improvement programs, Operations have focused on the delivery of its key capital programs:

- Continued deployment of the Freight Management Transformation (FMT) program, with the delivery of re-engineered customer ordering, pricing and invoicing functions, as well as enhanced reporting and analytics tools
- Implementation and roll out of Shopfloor, a SAP standardised system for maintenance management across all maintenance depots, delivering consistent, integrated and efficient business processes and improving information quality and analytics
- Relocation of Intermodal operations in Sydney from Yennora to Enfield, to enable growth opportunities in the Interstate business and to take advantage of Port shuttle services
- Consolidation of the Intermodal operations terminal into Stuart, allowing the closure of the South Townsville facility and enabling significant operational efficiencies, FTE reductions and safety improvements

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Below Rail

Below Rail refers to Aurizon's Network business 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 50 mines to three ports. The CQCN includes four major coal systems (Moura, Blackwater, Goonyella and Newlands) and a connecting link to GAPE.

Below Rail Financial Summary

($m)	FY2016	FY2015	Variance %
Total revenue	**1,179**	**1,108**	**6%**
Access	1,136	1,048	8%
Services and Other	43	60	(28%)
Operating costs	**(415)**	**(409)**	**(1%)**
Employee benefits expense	(117)	(121)	3%
Energy and fuel	(125)	(107)	(17%)
Consumables	(147)	(165)	11%
Other expenses	(26)	(16)	(63%)
EBITDA	**764**	**699**	**9%**
EBITDA margin	64.8%	63.1%	1.7ppt
Depreciation and amortisation expense	(258)	(215)	(20%)
Underlying EBIT	**506**	**484**	**5%**
Operating ratio	**57.1%**	**56.3%**	**(0.8ppt)**

Below Rail Operating Metrics

($m)	FY2016	FY2015	Variance %
Tonnes (m)	225.9	225.7	-
NTK (bn)	57.1	56.2	2%
Access revenue / NTK ($/'000 NTK)	19.9	18.6	7%
Maintenance / NTK ($/'000 NTK)	2.7	2.5	(8%)
Maintenance / NTK ($/'000 NTK) (excluding rail renewals)	2.2	2.1	(5%)
Opex / NTK ($/'000 NTK)	11.8	11.1	(6%)

Below Rail Performance Overview

Revenue increased $71m (6%) due to regulatory revenue being recognised and aligned to the May 2016 DAAU approved by the Queensland Competition Authority (QCA) on 23 June 2016. The May 2016 DAAU FY2016 tariffs closely align to the tariffs implicit in Final Decision for UT4 (FD) issued by the QCA in April 2016 aside from revenues attributable to the regulatory revenue shortfall in FY2014 and FY2015, which have been excluded from these tariffs. Aurizon Network expects the final UT4 FY2017 tariffs will recover these regulatory revenue shortfalls through the inclusion of approximately $73m of revenue true ups.

Volumes increased 0.2mt to 225.9mt establishing a new CQCN record, principally due to improvement from the Goonyella System whilst the volumes from the Blackwater and Moura systems reduced in line with the increase in WIRP tonnages. Record monthly volumes were achieved in seven of the twelve months, with June 2016 establishing an all-time monthly record. Performance to Plan improved 2.9ppts to 92.1% underpinned by successful execution of transformation initiatives which resulted in reduced speed restrictions, delays and Below Rail caused cancellations. The increase in NTKs (2%) primarily reflects longer average haul lengths.

Underlying EBIT increased $22m (5%) to $506m in 2016, with the increased revenues partly offset by higher depreciation.

Operating costs were broadly flat with higher fuel and energy costs from an increase in electricity prices offset by lower costs from the capitalisation of rail renewals. During FY2016 the accounting policy for Rail Renewals was changed to capitalise rail renewal spend, as proposed by the QCA under UT4. While this change resulted in a $12m net reduction in operating costs (from lower consumables and labour only partly offset by losses on asset disposal and higher depreciation) there is a lower regulatory revenue allocation of an equivalent amount. This change has the effect of Rail Renewal spend being recovered over a longer period on a net present value (NPV) neutral basis.

Depreciation increased $43m reflecting the rail renewals, increased ballast undercutting and the completion of the $0.9bn Wiggins Island Rail Project (WIRP) during the year. The final stage commissioned in December 2015, creating 27mt of additional capacity through the Moura and Blackwater systems to the Wiggins Island Coal Export Terminal (WICET).

The QCA Regulated Asset Base (RAB) roll-forward [1] value is estimated to be $5.6bn [2] (excluding AFDs of $0.4bn) by the end of FY2016, inclusive of $0.6bn in WIRP, representing an 81% increase since IPO. The QCA has currently chosen to defer $260m of the WIRP capital.

Below Rail Operational Update

Performance:

The Below Rail business set a number of operational and performance records in the delivery of a new railings record of 225.9mt and a 2% increase in NTKs for FY2016, highlighting the efficiency of Below Rail planning and scheduling as well as the maintenance program. Highlights include:

- 2.9ppts improvement in the key metric 'performance to plan' (number of scheduled services that arrived on target at their destination)
- 62% reduction in the number of train cancellations from below rail causes over the four year period FY2013-FY2016 against a 24% increase in railings
- 6.0% reduction in Below Rail delay impact
- 2.4% increase in cycle velocity
- 0.7% reduction in system closure hours and a 35% reduction in Below Rail cancellation impact

Transformation initiatives include:

- Installation of Wheel Impact Load Detectors in the Goonyella and Blackwater systems which resulted in significant reductions in rail high alarms and medium defects. This information is immediately provided to above rail operators enabling them to proactively manage their wheel maintenance and mitigating derailments due to wheel failures
- Improved rail lubrication strategy and a focus on rail stressing and welding which has led to material improvements in key rail health measures, including an 85% reduction in rail weld defects and a 33% reduction in track buckles from FY2015
- The first stage of the Network Asset Management System (NAMS) is being rolled out across the business with completion of Stage 1 expected in 1HFY2017. NAMS will deliver a new generation asset management system enabling a more efficient and effective maintenance and renewal regime, which will underpin enhanced reliability and availability of the CQCN
- The Possession Alignment & Capacity Evaluation (PACE) project, a software application to optimise network closure regimes, reached practical completion in June 2016. PACE will allow Network to fully design, test and evaluate the requirements for network outages and provide multiple strategies for track access. This project is the catalyst to redesign the Maintenance Access Regime and Closure plan for FY2017, resulting in a reduction of 12% in system closure hours
- Roll out of Movement Planner, part of the APEX (Advanced Planning and Execution) program will be finalised in 1HFY2017. This technology provides real time, predictive data to train controllers to enable optimised train movements

Sustaining capital

During FY2016 75kms of rail renewals was executed, an increase of 29kms (63%) from FY2015, primarily targeting the replacement of rail in the Goonyella and Blackwater systems. This rail was installed in the 1980s and is coming to the end of its operating life.

Access Undertaking 2013 (UT4)

- The QCA released the Final Decision (FD) for UT4 on 28 April 2016
- To ensure that FY2016 regulatory tariffs were finalised and FY2017 regulatory tariffs were in place over the interim period until UT4 takes effect, Aurizon Network consulted with customers and lodged a May 2016 Draft Amending Access Undertaking (May DAAU). The QCA approved the May DAAU on 23 June 2016 and it will remain in place until the earlier of approval by the QCA of Aurizon Network's UT4 Access Undertaking or 30 September 2016. The tariffs embedded in the May DAAU align with the final decision tariffs aside from the FY2014 and FY2015 true-ups which have been entirely allocated to FY2017 regulatory tariffs

Access Undertaking 2017 (UT5)

- On 11 May 2016, the QCA issued an initial undertaking notice to Aurizon Network requiring the submission of a draft access undertaking (DAU) known as UT5 to the QCA by 9 September 2016 for the period commencing 1 July 2017 to 30 June 2021.

Wiggins Island Rail Project (WIRP)

- In the UT4 FD, the QCA has applied a revenue deferral for WIRP customers who are not expected to rail during the FY2014 to FY2017 regulatory period
- WIRP regulatory revenues remain socialised within the existing Blackwater and Moura systems
- The revenue deferral has been achieved through deferring the inclusion of approximately $260m in WIRP capex for pricing purposes, which aligns with the non-railing customers' share of the WIRP capex. The QCA has stated that the revenue deferral is enacted on a Net Present Value (NPV) neutral basis
- As the railings increase Aurizon Network can seek QCA approval to earn a regulatory return on the deferred RAB
- Aurizon Network still maintains its position that the notices issued by the WIRP customers in relation to the commercial fee are not valid. Regrettably, discussions with the customers did not produce a resolution and on 17 March 2016 Aurizon issued proceedings in the Supreme Court of Queensland to assert its rights under the Project Deeds

(1) The RAB Roll-forward value may include items on which regulatory revenues has been deferred for pricing purposes
(2) Estimate subject to QCA Approval of RAB roll-forward and approval of FY2016 Capital Claim

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Other

Other includes miscellaneous activities such as non-Rollingstock asset sales and corporate overheads that have not been allocated to the Below Rail or the Above Rail businesses. The percentage of support costs allocated to these functions in FY2016 was 73% (FY2015 70%).

Other Summary

($m)	FY2016	FY2015	Variance %
Total revenue	**15**	**46**	**(67%)**
Operating costs	**(80)**	**(108)**	**26%**
Employee benefits expense	(35)	(54)	35%
Consumables	(35)	(25)	(40%)
Other expenses	(10)	(29)	66%
EBITDA	**(65)**	**(62)**	**(5%)**
Depreciation and amortisation expense	(5)	(4)	(25%)
Underlying EBIT	**(70)**	**(66)**	**(6%)**

Support functions performance overview

The corporate support functions continue to deliver transformation initiatives, with a further $21m in savings achieved in FY2016.

› $13m improvement in labour productivity from a net 16% reduction in FTEs since 30 June 2015
› $8m reduction in discretionary spend including professional services

Note: $13m of the Support transformation benefits above have been allocated to Above Rail, consistent with the allocation of corporate overheads.

The Support functions remain focussed on achieving transformation targets by continuing efforts in the following activities:

› Further reduction in FTEs
› Reduction in layers and increases in spans of control across support functions, including the merging of four functions into two and the reduction of two Executive Vice President (EVP) and other senior management roles
› Ongoing consolidation and rationalisation of the property portfolio
› Process and resourcing efficiencies driven through investment in technology

Unallocated Support Costs Variance Analysis

Underlying EBIT decreased $4m (6%) to ($70m) due to:

› $31m decrease in revenue, due primarily to lower asset sales with the Redbank sale completed in FY2015 ($43m)
› $28m net decrease in operating costs due to:
  › $19m reduction in employee costs from 16% reduction in FTEs and lower bonuses
  › $9m lower costs including a reduction in Strategy & Business Development (S&BD) project spend

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OTHER ACTIVITIES

Senior Management Changes

On 4 July 2016 Aurizon announced that four EVP roles would be merged into two, with the Commercial and Marketing function to be combined with Strategy and Business Development (effective immediately), and Human Resources combined with Enterprise Services (effective end of calendar year 2016). The merging of functions and reduction in senior management will help to deliver greater efficiencies in Aurizon's drive to continued improvement in financial performance.

As a result of these changes:

› EVP Commercial and Marketing Mauro Neves will lead the new Customer and Strategy Function and will assume the responsibilities of both existing functions. David Welch, the current Acting EVP for Strategy and Business Development will report into Mauro as Vice President Market Development

› EVP Enterprise Services Jennifer Purdie left Aurizon at the end of July 2016, and EVP Human Resources John Stephens will depart at the end of calendar year 2016. During the transition to the new structure, Steve Mann will act in the role of EVP Enterprise Services. A recruitment search, including internal candidates, will be undertaken for the new role leading the merged function

As previously advised, Mike Franczak departed the company in March 2016. Michael Carter continues to act as EVP Operations while a global recruitment process, including internal candidates, is undertaken to fill this role.

Risk

Aurizon operates a mature system of risk management that is focussed on delivering objectives and is aligned to international standards. Aurizon's Board is actively engaged in setting the tone and direction of risk management, with a clear articulation of risk appetite aligned to the company strategy and risk management practices that support consistent delivery of expected outcomes. The Board has full confidence in the management of Aurizon's key risks and acknowledges that internal and external factors can influence financial results.

The most significant factors relating to future financial performance are:

› Product Demand, Commodity Prices and General Economic Conditions

Aurizon's customers in core markets are reliant on demand from large export markets such as Japan, China, South Korea and India. Fluctuations in demand in turn impact commodity prices, product volumes and investment in growth projects. Whilst Aurizon has confidence in the long term prospects for the key commodities of coal and iron ore, in the short term Aurizon's core markets may not deliver the same levels of volumes, contract profitability and growth that have been experienced in the recent past.

› Customer Credit Risk

Aurizon's earnings are concentrated in commodity markets across a relatively small number of customers. Issues relating to deterioration in counterparty credit quality and/or mine profitability, contract renewals, supply chain disruptions or macro-industry issues may have a material adverse impact on Aurizon's financial performance.

› Capital Expenditure Plans

When deciding which opportunities for expansion and improvement to pursue, Aurizon must predict the rate of return associated with each project. 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.

› Asset Impairment

Aurizon's assets are subject to impairment testing each year. With a large portfolio of fixed assets, there is the potential that reduced haulage volumes or continued improvements to asset productivity may require some assets to be impaired.

› WIRP Non-Regulated Revenue Dispute

Aurizon has received notices from seven WIRP customers purporting to exercise a right under the relevant agreements to reduce their financial exposure in respect to the non-regulated revenue component. Aurizon issued proceedings in the Supreme Court of Queensland to assert its contractual rights under the Project Deeds.

› Aurizon Credit Rating

Aurizon's increased business risk profile, as a result of its significant exposure to coal and iron ore, combined with the related increase in Aurizon's customer credit risk profile, could adversely impact Aurizon's credit rating. The implications of a lower credit rating are increased cost of borrowing and in addition it may impact on the ability to borrow additional debt or refinance existing debt.

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› Delivery of Technology Transformation Projects

Aurizon is investing in important operational and information technology programs that are expected to deliver step change improvements in efficiency leading to reduced costs. Continued focus is required on these projects to ensure benefits are delivered and flow through to support cost-out targets.

› Regulatory Risk of the Access Undertaking (UT5)

Aurizon continues to work with the QCA and industry stakeholders to secure acceptable and sustainable regulatory outcomes for the CQCN in accordance with the processes set out in the relevant legislation. Not attaining appropriate pricing and policy regulatory settings may negatively impact revenue, operational complexity, capital investment and administrative overhead. In particular Aurizon Network's Maximum Allowable revenue (MAR) and the nominal (vanilla) weighted average cost of capital (WACC) used in deriving Aurizon Network's MAR is typically reset every four years as part of the access undertaking approval process with the QCA and the reference tariffs are reset annually based on projected system volumes and other variables. The WACC decided by the QCA may not adequately compensate Aurizon Network for its business and operational risks which could lead to a material adverse impact on the Aurizon Network business, operational performance and financial results.

› Adverse Weather Events

Aurizon's business is exposed to extreme weather events in core markets that, if experienced, could have a material impact on customers, supply chains and Aurizon's operational performance. Each of these factors in turn may impact Aurizon's financial performance. Weather can also have an impact on bulk haulage volumes for agricultural commodities such as grain, sugar and fertiliser.

› Competitor Activity and Customer Contracts

Aurizon's most significant customer contracts are secured on long-dated terms however failure to win or retain customer contracts will always be a risk to future financial performance.

› 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.

Sustainability

Aurizon is committed to building a long-term sustainable business that delivers lasting value for its shareholders, customers, employees and communities. In November 2015, Aurizon released its second Sustainability Report, "Delivering for the Long Haul". Please refer to www.aurizon.com.au/sustainability for a detailed analysis of material sustainability priorities. Aurizon's 2016 Sustainability Report is intended to be released in October 2016. Central to the reporting process is the process the Global Reporting Initiatives (GRI) describes as 'identifying material aspects', being those issues that reflect the organisation's significant economic, environmental and social impacts or issues that substantively influence assessments and decisions of stakeholders.

For consistency with prior reporting, a brief summary of Aurizon's performance in connection with Safety, Environmental Management and Organisational Capability is outlined below.

› Safety

Aurizon's commitment to safety ensured another period of sustained focus on improving Aurizon's performance. At 30 June 2016, Aurizon's Lost Time Injury Frequency Rate (LTIFR) was ZERO. The Total Recordable Injury Frequency Rate (TRIFR) was 4.24, a 76% deterioration on FY2015.

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.

FY2016 key enterprise milestones include:

- Achieving a Lost Time Injury free financial year now continuous since November 2014
- Winning the Regional Asia Pacific Award for Excellence in Safety in the DuPont Global Safety & Sustainability Awards. The DuPont awards are arguably the most prestigious and recognised safety awards in the world. This award recognises companies with the most significant, innovative safety projects that deliver sustained and substantial safety improvements. It is an acknowledgement that our safety performance and culture are considered to be amongst the world's best
- Record low Running Line Derailment rate of 0.32

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› Environmental Management

Aurizon has continued to focus on delivering environmental value through superior environmental performance. This has included setting a five year greenhouse gas (GHG) emissions intensity target for the organisation's locomotive fleet. The target covers approximately 90% of Aurizon's Scope 1 and Scope 2 emissions with the organisation aiming to achieve a 15% GHG reduction in our locomotive fleet by 2020 from a 2015 baseline. Aurizon has also undertaken a detailed sensitivity analysis to understand exposure to the Emissions Reduction Fund Safeguard Mechanism, which has been introduced by the Federal Government and commences on 1 July 2016, to ensure Aurizon is able to demonstrate compliance.

Aurizon's Environment Community of Competence continues to govern the management of key environmental issues including coal dust, diesel emissions and the Safeguard Mechanism.

› Organisational Capability

To support our transformation opportunities Aurizon is growing the capability of its people through leadership, people-centred change and diversity and inclusion.

Aurizon continues to recognise the importance of building a diverse workforce, knowing it will deliver organisational performance outcomes as well as meet important social responsibilities. Aurizon has met a number of targets which support the achievement of our ambitious target of 30% women by the end of the decade.

Overall in FY2016 we improved the percentage of women in the workforce from 15.2% to 17.4% at 30 June 2016 (the largest single year increase since we started our diversity journey), while the percentage of Indigenous employees increased from 3.1% to 4.1%. FY2016 gender and cultural diversity achievements include:

- 3 out of 8 (38%) female Non-Executive Directors as of 25 July 2016 (against a target of at least one)
- 17.4% women in Aurizon (target 17%)
- 31.6% women in the Management Leadership Team (target 31%)
- 63% women in trainee, apprentice and graduate intakes (target 60%)
- Recruitment of 51 indigenous employees (target 33)

Entities over which control was gained or lost during the period

Not applicable

Details of associate and joint venture entities

Entity	Country of incorporation	Ownership Interest	
		30 June 2016 %	30 June 2015 %
Investment in associates			
Moorebank Industrial Property Trust	Australia	33	33
Aquila Resources Limited	Australia	15	15
Moorebank Industrial Terminals Operations Hold Trust	Australia	33	-
Moorebank Industrial Terminals Assets Hold Trust	Australia	33	-
Moorebank Industrial Warehouse Hold Trust	Australia	33	-
Moorebank Industrial Hold Trust	Australia	33	-
Joint Ventures			
CHCQ	Hong Kong	15	15
Chun Wo/CRGL	Hong Kong	17	17
KMQR Sdn Bhd	Malaysia	30	30
ARG Risk Management Limited	Bermuda	50	50
Integrated Logistics Company Pty Ltd	Australia	14	14
QLM Pty Ltd	Australia	-	50
ACN 169 052 288	Australia	15	15

The underlying earnings contribution from any one of these associate or joint venture entities is not material to the Group's underlying earnings for FY2016 or the previous corresponding period.

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APPENDIX

Commercial & Marketing Summary

($m)	FY2016	FY2015	Variance %
Total revenue	**2,931**	**3,151**	**(7%)**
Coal	1,881	1,894	(1%)
Above Rail	1,147	1,187	(3%)
Track Access [1]	734	707	4%
Freight	739	919	(20%)
Iron Ore	311	338	(8%)
Other	0	0	0%
Operating Costs	(49)	(67)	27%
Employee benefits expense	(29)	(47)	38%
Energy and fuel	-	(1)	100%
Consumables	(6)	(29)	79%
Other expenses	(14)	10	-
EBITDA	2,882	3,084	(7%)
Depreciation and amortisation expense	(4)	(5)	20%
Underlying EBIT	2,878	3,079	(7%)

Notes

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

Operations Summary

($m)	FY2016	FY2015	Variance %
Total revenue	215	332	(35%)
Total operating costs	(2,364)	(2,564)	8%
Employee benefits expense	(710)	(787)	10%
Energy and fuel	(120)	(183)	34%
Track access	(1,016)	(973)	(4%)
Consumables	(495)	(604)	18%
Other expenses	(23)	(17)	(35%)
EBITDA	(2,149)	(2,232)	4%
Depreciation and amortisation expense	(294)	(295)	0%
Underlying EBIT	(2,443)	(2,527)	3%
Underlying EBIT (excluding access)	(1,427)	(1,554)	8%