



ANNUAL REPORT

18/19

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## Purpose

Growing regional Australia by delivering bulk commodities to the world.

## Vision

The first choice for bulk commodity transport solutions.

## Values

**Safety:** We have a relentless focus towards **ZERO**Harm.

**People:** We seek diverse perspectives.

**Integrity:** We have the courage to do the right thing.

**Customer:** We strive to be the first choice for customers.

**Excellence:** We set and achieve ambitious goals.

# FY2019 in Review

## Result Highlights (Underlying and statutory continuing operations)

(\$M)	FY2019	FY2018	VARIANCE %
Total revenue	2,907.6	3,112.7	(7%)
EBITDA	1,371.6	1,466.1	(6%)
EBIT	829.0	940.6	(12%)
Adjustments – Cliffs contract exit	-	34.5	-
– Impairments	-	(31.7)	-
– Redundancy benefit	-	22.9	-
EBIT – statutory	829.0	966.3	(14%)
NPAT	473.3	542.1	(13%)
NPAT – statutory	473.3	560.1	(15%)
Free cash flow (FCF)	734.8	669.4	10%
Final dividend (cps)	12.4	13.1	(5%)
Total dividend (cps)	23.8	27.1	(12%)
Earnings per share (cps)	23.8	26.9	(12%)
Return on invested capital (ROIC)	9.7%	10.9%	(1.2ppt)
EBITDA margin (%)	47.2%	47.1%	0.1ppt
Operating ratio (OR) (%)	71.5%	69.8%	(1.7ppt)
Above Rail Tonnes (m)	258.9	267.1	(3%)
Above Rail opex/NTK (excluding access) (\$/'000 NTK)	20.3	18.5	(10%)
Gearing (net debt/net debt + equity) (%)	41.7%	42.3%	0.6ppt

### Highlights

- › EBIT down 12% to \$829.0m in line with expectations with:
  - Network down \$80.3m (17%) due to the impact of the UT5 Final Decision, including the true up of FY2018 revenues
  - Coal down \$13.5m (3%) with higher maintenance and costs to install capacity offset in part by higher volumes and revenue quality
  - Bulk down \$12.8m (26%) due to the cessation of the Cliffs contract in June 2018. This was partly offset by growth volumes and benefits from operational efficiencies
  - Other benefited from the reversal of a provision of \$20.3m relating to an agreed settlement with a customer
- › FCF improved 10% to \$734.8m due to the receipt of the early termination fee from Cliffs
- › Final dividend of 12.4cps, 70% franked (representing 100% payout of underlying NPAT for Continuing Operations), a decrease of 5% against prior year, in line with lower earnings
- › On market buy back of up to \$300.0m announced for FY2020, confirming Aurizon's commitment to returning surplus capital to shareholders

### Major items

- › Network – UT5 commercial deal negotiated with customers that provides greater long-term certainty and improved return. Awaiting approval from the QCA, expected later in 2019
- › Outcome of the integration review concluded the benefits of remaining vertically integrated outweigh separation at this time
- › Optimal legal and capital structure determined which results in a more efficient balance sheet and funding structure. Provides additional funding capacity of ~\$1.2bn, with debt to be added progressively over time in order to mitigate risk and provide flexibility and optionality
- › Queensland Intermodal sold to Linfox in January 2019. Sale of Acacia Ridge Intermodal Terminal to Pacific National (PN) subject to Australian Competition and Consumer Commission (ACCC) appeal through Federal Court
- › Progress made on Enterprise Agreements (EA) with five agreements now complete and the Coal Queensland EA approved in an employee ballot awaiting Fair Work Commission approval. Work continues on the Bulk Queensland EA

### Outlook

- › Underlying EBIT guidance for FY2020 \$880m – \$930m
- Key assumptions:
  - Approval of the UT5 commercial deal during 1HFY2020 and an uplift in WACC from 5.9% to 6.3% assumed 2HFY2020
  - Above Rail Coal volumes 220mt – 230mt
  - Operational efficiency improvements remain a key driver. Redundancy costs included in guidance
  - Excludes earnings from the rail grinding business
  - No major weather or industrial relations impacts

# Chairman's Report

## A message from the Chairman

Dear fellow shareholders

I am pleased to report that Aurizon made important progress on several key matters during the year ended 30 June 2019 (FY2019). These include working with our mining customers to commercially agree revised regulatory arrangements, the sale of our Queensland Intermodal business to Linfox, successfully defending action taken by the Australian Competition and Consumer Commission in the Federal Court (concerning the sale of our Acacia Ridge Intermodal Terminal) and extending and executing a number of key Above-Rail customer contracts.

In terms of earnings, Aurizon delivered Earnings Before Interest and Tax (EBIT) in FY2019 of \$829 million. While lower than the prior year result, this is in line with expectations and reflects the impact of the UT5 Final Decision including the one-off regulatory true-up of \$60 million. We did not provide FY2019 EBIT guidance for Network due to regulatory uncertainty. Our Above Rail (non-Network) business of Coal and Bulk delivered a \$450 million contribution to Group EBIT (excluding redundancy), above the top end of guidance range we provided to the market in August 2018.

Volumes in the Coal business were at a record high despite operational challenges of industrial action and supply chain impacts. The Bulk business continued to progress its turnaround program, securing new customers and implementing several operational improvements. Our Network business delivered a record 232.7 million tonnes across the Central Queensland Coal Network (CQCN) in FY2019, a great result for the Network team and re-affirms the quality of this infrastructure asset.

Aurizon has decided to pay out 100% of Underlying Net Profit After Tax as dividends, consistent with our practice for the last four years. The Board has declared a final dividend of 12.4 cents per share, 70% franked. This will take total dividends in respect of FY2019 to 23.8 cents per share, 70% franked. The Company will also be undertaking an on-market share buy-back of up to \$300 million during FY2020.

Last year, I confirmed the Board would take a close and active interest in the long-term program of work to renew the Company's focus on safety. We have been pleased to see the progress to date in simplifying the safety management systems and the changes in the Company's safety culture, however, we are disappointed in the final employee and contractor safety statistics for the year. All injuries are preventable, and during the coming year we will continue our focus on safety and support the leadership team to improve performance.

As noted above, the Company made substantial progress during the year in achieving regulatory reform, with a simpler, longer-term and commercially focused framework for the regulation of the CQCN. In May 2019, we were pleased to announce an agreement with customers representing more than 90% of railed tonnes on the CQCN. This is an important step towards developing an Access Undertaking that better addresses customer needs, improves export supply chain performance and delivers long-term investment certainty for the Queensland coal sector. It also provides greater certainty for our shareholders. The revised Access Undertaking is now being assessed by the Queensland Competition Authority as part of the regulatory process.

As a Board, we are responsible for the overall stewardship, strategic direction, governance and performance of the Company. During the year, we endorsed two strategically important pieces of work that will support Aurizon's ongoing value to shareholders. First, was the decision for the Company to remain vertically integrated. Following a review of the Company's integrated structure that included stakeholder consultation and analysis, the review concluded that the benefits of remaining vertically integrated outweighed separation.

Second, we concluded a review to determine the optimal legal and capital structure of the Group. The Board endorsed the management team to commence implementation of a simplified legal structure that will provide the opportunity to optimise the Company's balance sheet and provide additional funding capacity for the Group. We believe we will have \$1.2 billion of additional debt capacity without impacting on the Company's current BBB+/Baa1 credit ratings.

In September I announced Board Director, Karen Field's retirement from Aurizon's Board, and in May, Director John Cooper retired due to health reasons. Both Karen and John served on Aurizon's Board and committees for seven years and were integral to the Company's transformation. On behalf of the Board and the Company, I thank both Karen and John for their invaluable contribution to Aurizon.

With the removal of much of the regulatory uncertainty that impacted our business for the past couple of years, I am confident that our team can focus on our core business, drive further transformation and provide safe and efficient service to our customers.

On behalf of the Board, I thank all employees across our operations for their outstanding contribution to our results this year and thank our shareholders for their ongoing support of our Company.



**Tim Poole**  
Chairman  
12 August 2019

# Managing Director & CEO's Report

## A message from the Managing Director & CEO

Dear fellow shareholders

In my report to you on our FY2019 performance, I wanted to first address our safety performance. Safety is at the heart of everything we do and forms part of our everyday conversations, however there is always opportunity to do things better and differently.

At Aurizon we are committed to driving a Safety and Performance culture where we live the Company values, and our people are engaged and enabled to do their best work. To help achieve this, we are investing in programs to help drive safety as well as leadership capability and better business processes and systems.

For example, this year we started implementing an extensive program of work to enhance our safety systems and procedures, and improve our safety leadership and culture. We call it Seamless Safety, a move away from bureaucratic safety culture and removing layers of process that can add little value to safety outcomes. As part of this, we are engaging our frontline teams to tap into their operational knowledge and experience to re-shape how they perform work safely.

Despite this work, our safety performance results for the year were mixed. The metric for our Rail Process Safety, which measures operational safety including derailments, signals passed at danger and collisions, has improved. This is significant given these events, while low frequency, can potentially be high consequence (potential multiple fatalities) so our efforts to reduce risk are very important.

Unfortunately, the measure we use to record employee and contractor injuries for every million hours worked – our total recordable injury frequency rate – has deteriorated by 10%. While there are many underlying factors to these statistics, any number of injuries in the workplace is unacceptable. I expect all our employees to go home after each shift in the same condition they came to work in and have reinforced to all employees that safety must be the absolute number one priority for our Company.

Now turning to the operational performance of the Company. The Chairman, Tim Poole covers the financial results in his report. In our Coal business, we have secured key contract extensions over the year, which has the effect of extending the expiry profile of the portfolio, with 72% of our contracts having a duration of seven years or more.

Across the Coal business, our volumes were up by 1% from last year with the business hauling a record of 214.3 million tonnes, which was just below the lower end of FY2019 guidance. New South Wales volumes increased following the start of MACH Energy railings in January, however volumes in Queensland were impacted by weather-related events, supply chain constraints and protected industrial action during Enterprise Agreement negotiations. We were pleased to conclude bargaining with a positive vote for the new agreement, which covers more than 1,200 Queensland Coal employees, in July 2019.

We are committed to achieving fair and reasonable outcomes in enterprise bargaining and are pleased our employees have voted positively for five Enterprise Agreements since September 2018. This provides certainty for our employees, our business and importantly, for our customers.

The Bulk business is in line with expectations on its turnaround plan by securing new haulage contracts during the year and improving operational efficiency. In Queensland, the Bulk business commenced a new three-year freighter service for Glencore and its largest east coast contract, providing linehaul services for Linfox between Brisbane and Cairns. On the back of record iron ore prices, in April we commenced a short-term spot contract for Mount Gibson Iron in Western Australia and have improved the utilisation of the Kalgoorlie Freighter. The Bulk team is focused on delivering on-time performance through disciplined train operations and by optimising employee rosters. While the business had higher operating costs for the year because of its growth in operations, these costs were offset by the efficiency benefits of the turnaround program.

Our Network business delivered an all-time record with 232.7 million tonnes of coal being hauled over the Central Queensland Coal Network during the year, which includes a record month in June of 21 million tonnes. Our Network team remains focused on creating a rail network that is reliable and available for our customers to support Queensland's strong coal industry.

Following ongoing constructive engagement with our Network customers, we submitted a revised Access Undertaking to the regulator, the Queensland Competition Authority (QCA). The commercial outcome with customers is an important step towards the fundamental regulatory reform required to support the long-term commercial success of the Queensland coal supply chain. Aurizon Network and customers are engaging with the QCA for it to fully consider, and if appropriate, approve the revised Access Undertaking in accordance with its standard procedures.

Across the Group, we remain committed to continuously improving the efficiency and safety of our operations to deliver benefits for our customers and shareholders. Technology plays a key role in this and we are investing in the type of initiatives that will improve locomotive reliability, program diagnosis, driving techniques and operational safety.

Over the year, some of our communities where we operate were greatly impacted by weather events. Both the Hunter Valley and parts of Queensland continued to experience extreme drought conditions, and our communities in North and North West Queensland were severely impacted by monsoonal rains and subsequent flooding. To support the long-term recovery and rebuilding of these communities, we made additional funding available through our Community Giving Fund.

As a company with a predominantly regional footprint, we recognise that we have an important and ongoing role to play in supporting our communities – it is these communities where our trains travel, our rail network traverses, and importantly where our people and their families live and work each day.

It is our people that make our Company successful and I would like to thank them all for their contribution to our operations this year. We are really starting to unlock Aurizon's value and potential as we focus on delivering on our strategy every day.



**Andrew Harding**  
Managing Director & CEO  
12 August 2019

# Directors' Report

## Aurizon Holdings Limited

### For the year ended 30 June 2019

The Directors of Aurizon Holdings Limited present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively the **Consolidated Entity** or the **Group**) for the financial year ended 30 June 2019 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

## Board of Directors

The following people are Directors of the Company, or were Directors during the reporting period:

### T Poole

(Appointed 1 July 2015)  
(Chairman, Independent Non-Executive Director)

### A Harding

(Appointed 1 December 2016)  
(Managing Director & Chief Executive Officer)

### M Bastos

(Appointed 15 November 2017)  
(Independent Non-Executive Director)

### R Caplan

(Appointed 14 September 2010)  
(Independent Non-Executive Director)

### J Cooper

(Appointed 19 April 2012 – 29 May 2019)  
(Independent Non-Executive Director)

### K Field

(Appointed 19 April 2012 – 18 October 2018)  
(Independent Non-Executive Director)

### M Fraser

(Appointed 15 February 2016)  
(Independent Non-Executive Director)

### S Lewis

(Appointed 17 February 2015)  
(Independent Non-Executive Director)

### K Vidgen

(Appointed 25 July 2016)  
(Independent Non-Executive Director)

Details of the experience, qualifications, special responsibilities and other Directorships of listed companies in respect to each of the Directors as at the date of this Directors' Report are set out in the pages following.

## T Poole

**Experience:** Mr Poole began his career in 1990 at PricewaterhouseCoopers before a long and successful period (1995 to 2007) helping to build Hastings Fund Management, where he became Managing Director in 2005. Hastings was a global investor in unlisted assets, predominantly equity and debt issued by infrastructure companies

**Qualifications:** BCom.

**Special Responsibilities:** Chairman of Nomination & Succession Committee. Member of Audit, Governance & Risk Management Committee. Member of Safety, Health & Environment Committee.

### Australian Listed Company Directorships held

**in the past three years:** Chairman of Lifestyle Communities Limited (19 November 2007 – ongoing) and McMillan Shakespeare Limited (17 December 2013 – ongoing). Non-Executive Director of Reece Limited (28 July 2016 – ongoing).

## A Harding

**Experience:** Mr Harding has extensive operational experience in the resource industry and in managing supply chains for the world's largest integrated portfolio of iron ore assets.

Mr Harding's 24-year executive career has been spent with Rio Tinto and in its subsidiary companies, with his most recent role before joining Aurizon being the global Chief Executive Iron Ore.

Mr Harding was also the Global Practice Leader, Asset Management, Technology and Innovation group of Rio Tinto from 2005 to 2009.

Mr Harding has championed a number of workplace initiatives including improvements in safety, a commitment to diversity, and the strengthening of indigenous and community relationships.

Mr Harding is a member of the 2012 class of Henry Crown Fellows at the Aspen Institute.

**Qualifications:** B.Eng. (Mining Engineering), MBA.

**Special Responsibilities:** Managing Director & CEO of Aurizon, Director of Aurizon subsidiary companies including Aurizon Network Pty Ltd. Member of Safety, Health & Environment Committee.

**Australian Listed Company Directorships held in the past three years:** None other than Aurizon Holdings Limited.

## M Bastos

**Experience:** Mr Bastos has more than 30 years of experience globally in the mining industry. He has extensive experience in major project development, operations, logistics and senior leadership in most of the major sectors of the mining industry including iron ore, gold, copper, nickel, zinc and coal.

Previously Mr Bastos was the Chief Operating Officer of MMG Limited with responsibility for the business in four continents and a member of many of the company Boards. Before MMG he spent seven years with BHP Billiton where he served as President Nickel Americas, President Nickel West (based in Perth), and Chief Executive Officer and President of BHP Billiton Mitsubishi Alliance (based in Brisbane).

Mr Bastos also had a 19-year career with Vale in a range of senior management and operational positions in Brazil, including General Manager of Carajas in the northern region and also Director of Non Ferrous – Copper business.

Mr Bastos is currently a Non-Executive Director of Iluka Resources Limited, Non-Executive Director of Anglo American PLC, and an External Director (Non-Executive Independent) of Golder Associates.

**Qualifications:** B.Eng. Mechanical (Hons), MBA (FDC-MG), MAICD.

**Special Responsibilities:** Chairman of Safety, Health & Environment Committee. Non-Executive Director of Aurizon Network Pty Ltd.

**Australian Listed Company Directorships held in the past three years:** Iluka Resources Limited – Non-Executive Director (February 2014 – current); Oz Minerals Limited – Non-Executive Director (September 2018 – April 2019)

## R Caplan

**Experience:** Mr Caplan has extensive international experience in the oil and gas industry. In a 42-year career with Shell, he held senior roles in the upstream and downstream operations, and corporate functions in Australia and overseas. From 1997 to 2006, he had senior international postings in the UK, Europe and the USA. From 2006 to July 2010, he was Chairman of the Shell Group of Companies in Australia.

Mr Caplan is Chairman of the Melbourne and Olympic Parks Trust and Chairman and Non-Executive Director of Horizon Roads Pty Ltd. He is a former Non-Executive Director of Woodside Petroleum Limited and former Chairman of Orica Limited and the Australian Institute of Petroleum.

**Qualifications:** LLB, FAICD, FAIM.

**Special Responsibilities:** Chairman of Remuneration & Human Resources Committee. Member of Audit, Governance & Risk Management Committee.

**Australian Listed Company Directorships held in the past three years:** None other than Aurizon Holdings Limited.

# Directors' Report (continued)

## M Fraser

**Experience:** Mr Fraser has more than 35 years of experience in the Australian energy industry. He has held various executive positions at AGL Energy culminating in his role as Managing Director and Chief Executive Officer for a period of seven years until February 2015. Mr Fraser is currently Chairman and Non-Executive Director of the ASX listed APA Group.

Mr Fraser is former Chairman of the Clean Energy Council, Elgas Limited, ActewAGL and the NEMMCo Participants Advisory Committee, as well as a former Director of Queensland Gas Company Limited, the Australian Gas Association and the Energy Retailers Association of Australia.

**Qualifications:** BComm, FCPA, MAICD.

**Special Responsibilities:** Chairman of Aurizon Network Pty Ltd. Member of Remuneration & Human Resources Committee.

**Australian Listed Company Directorships held in the past three years:** APA Group - Chairman and Non-Executive Director (1 September 2015 - ongoing).

## S Lewis

**Experience:** Ms Lewis has extensive financial experience, including as a lead auditor of a number of major Australian listed entities.

Ms Lewis has significant experience working with clients in the manufacturing, consumer business and energy sectors, and in addition to external audits, has provided accounting and transactional advisory services to other major organisations in Australia. Ms Lewis' expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence. Ms Lewis is currently a Non-Executive Director and Chairman of the Audit & Compliance Committee of Orora Limited, Chairman of APRA's Audit Committee and member of APRA's Risk Committee, and a Non-Executive Director and Chairman of the Audit & Risk Committee of Nine Entertainment Co. Holdings Limited. Previously, Ms Lewis was an Assurance & Advisory partner from 2000 to 2014 with Deloitte Australia.

**Qualifications:** BA (Hons) EC, CA, ACA, GAICD.

**Special Responsibilities:** Chairman of Audit, Governance & Risk Management Committee. Member of Remuneration & Human Resources Committee. Member of Nomination & Succession Committee.

**Australian Listed Company Directorships held in the past three years:** Orora Limited - Non-Executive Director (1 March 2014 - ongoing), Nine Entertainment Co. Holdings Limited (20 March 2017 - ongoing).

## K Vidgen

**Experience:** Ms Vidgen began her career as a banking, finance and energy lawyer at Malleson Stephen Jacques and in 1998 started in the Infrastructure advisory team within the Macquarie Group. During her time at Macquarie, Ms Vidgen has traversed a number of sectors with a focus on infrastructure, energy and resources. Ms Vidgen has also held a number of roles including heading up Macquarie Capital's coal advisory team in Australia and being Global Co-Head of Resources Infrastructure. Ms Vidgen remains an Executive Director at Macquarie Capital and is currently the Global Head of Principal in Oil and Gas.

**Qualifications:** LLB (Hons), BA, GAICD.

**Special Responsibilities:** Non-Executive Director of Aurizon Network Pty Ltd. Member of Remuneration & Human Resources Committee. Member of Nomination & Succession Committee.

**Australian Listed Company Directorships held in the past three years:** None other than Aurizon Holdings Limited.



### Company Secretary

Mr Dominic Smith was appointed Company Secretary of the QR Limited Group in May 2010 and to Aurizon Holdings Limited upon its incorporation on 14 September 2010.

Mr Smith has over 20 years' ASX listed company secretariat, governance, corporate legal and senior management experience across a range of industries.

Mr Smith holds a Masters of Laws degree from the University of Sydney and is a Fellow of both the Governance Institute of Australia and the Australian Institute of Company Directors.

**Qualifications:** BA, LLB, LLM, DipLegS, FGIA, FCSA, FCIS, FAICD.

### Principal activities

The principal activities of entities within the Group during the year were:

#### Network

Provision of access to, and operation of, the Central Queensland Coal Network (CQCN). 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, agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia.

### Review of operations

A review of the Group's operations for the financial year and the results of those operations, are contained in the Operating and Financial Review as set out on pages 10 to 24 of this report.

### Dividends

A final dividend of 13.1 cents per fully paid ordinary share (60% franked) was paid on 24 September 2018 and an interim dividend of 11.4 cents per fully paid ordinary share (70% franked) was paid on 25 March 2019.

Further details of dividends provided for or paid are set out in note 15 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 12.4 cents per fully paid ordinary share.

The dividend will be 70% franked and is payable on 23 September 2019.

### State of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

### Events since the end of the financial year

The Directors are not aware of any events or developments which are not set out in this report or note 35 of the Financial Report that have, or would have, a significant effect on the Group's state of affairs, its operations or its expected results in future years.

### Likely developments

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report set out on page 2 of this report.

In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

### Environmental regulation and performance

Aurizon is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, Aurizon seeks to comply with all applicable environmental laws and regulations.

Aurizon acknowledges the strong scientific consensus that climate change is occurring and supports the objectives of the Paris Agreement, to find a pathway to limiting global warming to below two degrees Celsius. Notably, since 2017, the Company has adopted the Financial Stability Board's (FSB) Final Report: Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

In 2016, as part of Aurizon's climate change strategy, the Company established a greenhouse gas (GHG) emissions intensity target which expires in 2020. In FY2019 Aurizon made further progress towards its target however, levels were higher than initial target forecasts due to operational and service mix changes. In addition, Aurizon analyses climate change policy implications for Australia's seaborne coal markets and has established processes for preparing, adapting and responding to severe weather events.

Aurizon continues to focus on efforts to improve an understanding of issues associated with climate change and clean air. In December 2018 the Rail Industry and Standards Board (RISSB) Code of Practice (CoP) on the Management of Locomotive Diesel Emissions came into effect. Aurizon played a leading role in the development of the CoP which was devised as an industry led approach to improving locomotive diesel emissions.

The *National Greenhouse and Energy Reporting Act 2007* (NGER) (Cth) requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the *NGER Act*.

At the close of the second Emissions Reduction Fund Safeguard Mechanism (Safeguard) compliance period (ended on 30 June 2018), three of Aurizon's NGER facilities were captured. Through effective management of the Company's emissions, it achieved full compliance with the Safeguard and as such, was not required to purchase or generate Australian Carbon Credit Units for the reporting period.

Further details of the Company's environmental performance are set out in the Sustainability Report on the Aurizon website [aurizon.com.au/sustainability](http://aurizon.com.au/sustainability).

### Environmental prosecutions

There have been no environmental prosecutions during this financial year.

# Directors' Report (continued)

## Risk management

Aurizon recognises that risk is characterised by both threat and opportunity and manages risk to enhance opportunities and reduce threats to sustain shareholder value. Aurizon fosters a risk-aware culture through the application of high-quality, integrated risk assessments to support informed decision making. The Board is ultimately responsible for risk management, which considers a wide range of risks within strategic planning. Aurizon has a commitment to effective risk management as a key element of business success.

The Audit, Governance & Risk Management Committee monitors management's performance against Aurizon's risk management framework, including whether it is operating within the risk appetite set by the Board (see page 44 of this Annual Report). The Company's Risk and Assurance Function is responsible for providing oversight of the risk management framework and assurance on the management of significant risks to the Managing Director & CEO and the Board.

Aurizon's risk-aware culture has an emphasis on frontline accountability for effective risk management. The consideration of risk features heavily in our thinking, from the framing of strategy through to informing decision making. Aurizon's Enterprise Risk Management Framework and Appetite is based on the international standard for risk management (AS/NZS ISO 31000:2009) and supports the identification, assessment and reporting of risk across the business, and includes both financial and non financial risks.

Processes exist for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud.

Further details of risks and risk management are set out on pages 22 to 23 of the Directors' Report.

**TABLE 1 - DIRECTORS' MEETINGS AS AT 30 JUNE 2019**

DIRECTOR	AURIZON HOLDINGS BOARD		AUDIT, GOVERNANCE & RISK MANAGEMENT COMMITTEE		REMUNERATION & HUMAN RESOURCES COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE		NOMINATION & SUCCESSION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
T Poole <sup>1</sup>	20	20	8	8	-	-	5	5	3	3
A Harding <sup>1</sup>	20	20	-	-	-	-	5	5	-	-
M Bastos	20	20	-	-	-	-	5	5	-	-
R Caplan	20	20	8	8	5	5	-	-	-	-
J Cooper <sup>2</sup>	18	16	-	-	4	4	4	4	3	3
K Field <sup>3</sup>	6	6	2	2	-	-	1	1	-	-
M Fraser	20	20	-	-	5	5	-	-	-	-
S Lewis	20	20	8	8	5	5	-	-	3	3
K Vidgen	20	20	-	-	5	5	-	-	3	3

A Number of meetings held while appointed as a Director or Member of a Committee.

B Number of meetings attended by the Director while appointed as a Director or Member of a Committee.

1 In addition to the meetings above, a Committee of the Board comprising of T Poole and A Harding met respectively on two occasions.

2 J Cooper was an apology for two Aurizon Holdings Board meetings and retired on 29 May 2019.

3 K Field attended all meetings as a Non-Executive Director and retired on 18 October 2018.

## Directors' meetings

The number of Board meetings (including Board Committee meetings) and number of meetings attended by each of the Directors of the Company during the financial year are listed above.

During the year, the Aurizon Network Pty Ltd Board met on 10 occasions.

## Directors' interests

Directors' interests are as at 30 June 2019.

**TABLE 2 - DIRECTORS' INTERESTS AS AT 30 JUNE 2019**

DIRECTOR	NUMBER OF ORDINARY SHARES
T Poole	90,500
A Harding	82,076
M Bastos	11,400
R Caplan	82,132
M Fraser	70,000
S Lewis	33,025
K Vidgen	40,000

Only Mr Harding, Managing Director & CEO receives performance rights, details set out in the Remuneration Report

## Non-audit services

During the year the Company's auditor PricewaterhouseCoopers (PwC), performed other services in addition to its audit responsibilities.

The Directors are satisfied that the provision of non-audit services by PwC during the reporting period did not compromise the auditor independence requirements set out in the Corporations Act.

All non-audit services were subject to the Company's Non-Audit Services Policy and do not undermine the general principles relating to auditor independence set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, or jointly sharing risks and rewards.

No officer of the Company was a former Partner or Director of PwC and a copy of the auditor's independence declaration as required under the *Corporations Act 2001* is set out in, and forms part of, this Directors' Report.

Details of the amounts paid to the auditor of the Company and its related practices for non-audit services provided throughout the year are as set out below:

	2019 \$'000
<b>OTHER ASSURANCE SERVICES</b>	
Total remuneration for other assurance services	58
<b>OTHER SERVICES</b>	
Total remuneration for other services	246

## CEO and CFO declaration

The Managing Director & CEO and Chief Financial Officer (CFO) have provided a written statement to the Board in accordance with Section 295A of the Corporations Act.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Managing Director & CEO and CFO that the declaration was founded on a sound system of risk management and internal control, and that the system was operating effectively in all material respects in relation to the reporting of financial risks.

## Indemnification and insurance of officers

The Company's Constitution provides that the Company may indemnify any person who is, or has been, an officer of the Group, including the Directors and Company Secretary, against liabilities incurred whilst acting as such officers to the maximum extent permitted by law.

The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

## Proceedings against the Company

The Directors are not aware of any current civil litigation proceedings, arbitration proceedings, administration appeals, or criminal or governmental prosecutions of a material nature which are not set out in this report or note 24 of the Financial Report in which Aurizon Holdings is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

## Remuneration Report

The Remuneration Report is set out on pages 25 to 38 and forms part of the Directors' Report for the financial year ended 30 June 2019.

## 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.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Corporations Act, is set out on page 39. The Directors' Report is made in accordance with a resolution of the Directors of the Company.



**Tim Poole**

**Chairman**  
**12 August 2019**

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### CONSOLIDATED RESULTS (Underlying continuing operations unless stated)

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measured. 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 108. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

### 1. Annual comparison

#### FINANCIAL SUMMARY

(\$M)	FY2019	FY2018	VARIANCE %	
<b>Total revenue</b>	<b>2,907.6</b>	<b>3,112.7</b>	<b>(7%)</b>	
<b>Operating costs</b>				
Employee benefits	(778.6)	(774.6)	(1%)	
Energy and fuel	(233.9)	(252.4)	7%	
Track access	(101.0)	(191.4)	47%	
Consumables	(397.8)	(348.4)	(14%)	
Other	(24.7)	(79.8)	69%	
<b>EBITDA</b>	<b>1,371.6</b>	<b>1,466.1</b>	<b>(6%)</b>	
- statutory	1,371.6	1,491.8	(8%)	
Depreciation and amortisation	(542.6)	(525.5)	(3%)	
<b>EBIT</b>	<b>829.0</b>	<b>940.6</b>	<b>(12%)</b>	
- statutory	829.0	966.3	(14%)	
Net finance costs	(147.1)	(165.0)	11%	
<b>Income tax (expense)</b>	<b>(208.6)</b>	<b>(233.5)</b>	<b>11%</b>	
- statutory	(208.6)	(241.2)	14%	
<b>NPAT</b>	<b>473.3</b>	<b>542.1</b>	<b>(13%)</b>	
- statutory	473.3	560.1	(15%)	
Profit/(loss) after tax from discontinued operations	- statutory	3.2	(771)	nm
<b>NPAT (group)</b>	<b>- statutory</b>	<b>476.5</b>	<b>483.0</b>	<b>(1%)</b>
<b>Earnings per share<sup>1</sup></b>	<b>23.8</b>	<b>26.9</b>	<b>(12%)</b>	
- statutory	23.8	27.8	(14%)	
<b>Earnings per share<sup>1</sup> (group)</b>	<b>24.0</b>	<b>25.7</b>	<b>(7%)</b>	
- statutory	23.9	24.0	-	
Return on invested capital (ROIC) <sup>2</sup>	9.7%	10.9%	(1.2ppt)	
Return on invested capital (ROIC) <sup>2</sup> (Continuing & Discontinued)	9.7%	10.4%	(0.7ppt)	
Operating ratio	71.5%	69.8%	(1.7ppt)	
Net cashflow from operating activities	1,316.1	1,307.7	1%	
Final dividend per share (cps)	12.4	13.1	(5%)	
Gearing (net debt/net debt + equity) (%) (group)	41.7%	42.3%	0.6ppt	
Net tangible assets per share (\$) (group)	2.26	2.30	(2%)	
People (FTE)	4,728	4,835	2%	

#### OPERATING METRICS

	FY2019	FY2018	VARIANCE %
Above Rail <sup>3</sup> Revenue/NTK (\$/'000 NTK)	37.7	38.1	(1%)
Labour costs <sup>4</sup> /Revenue	26.0%	24.4%	(1.6ppt)
NTK/FTE (MNTK)	12.5	13.2	(5%)
Above Rail opex/NTK (excluding access) (\$/'000 NTK)	20.3	18.5	(10%)
Above Rail NTK (bn)	59.0	63.8	(8%)
Above Rail Tonnes (m)	258.9	267.1	(3%)

1 Calculated on weighted average number of shares on issue - 1,990.1m FY2019 and 2,013.4m FY2018

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

3 Above rail includes both Coal above rail revenue and Bulk freight transport revenue

4 FY2019 excludes \$21.4m redundancy costs (FY2018 excludes \$16.5m redundancy costs)

## EBIT BY SEGMENT

(\$M)	FY2019	FY2018	VARIANCE %
Coal	415.1	428.6	(3%)
Bulk	37.3	50.1	(26%)
Network	400.3	480.6	(17%)
Other	(23.7)	(18.7)	(27%)
<b>Group (Continuing operations)</b>	<b>829.0</b>	<b>940.6</b>	<b>(12%)</b>

## Group Performance Overview

EBIT decreased \$111.6m or 12% in line with expectations with reduced earnings in Network from the UT5 Final Decision, including the acceleration of the total FY2018 true up into FY2019. Bulk earnings decreased \$12.8m or 26% due to the cessation of the Cliffs iron ore contract in June 2018. In Coal, earnings decreased \$13.5m or 3% with increased maintenance expenditure and depreciation costs offset in part by higher volumes. Other EBIT was impacted by the inclusion of Group wide redundancy costs of \$21.4m which were included in the respective business units in the prior year, largely offset by the reversal of a provision of \$20.3m relating to an agreed settlement with a customer.

Revenue decreased \$205.1m or 7% reflecting the impact of the UT5 Final Decision and the FY2018 true up in Network and the lower revenue in Bulk with the cessation of the Cliffs contract.

Operating costs decreased \$110.6m or 7% with lower access costs in Coal and Bulk, lower energy costs in Network and the reversal of a provision relating to an agreed settlement with a customer, partly offset by higher consumables in Coal. Depreciation increased \$17.1m with increases in Coal from newly commissioned rollingstock and overhaul activity and increased levels of asset renewals and ballast undercutting in Network.

ROIC decreased 1.2ppt to 9.7% due to reduced earnings.

## 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)	FY2019	FY2018
<b>Underlying EBIT (Continuing operations)</b>	<b>829.0</b>	<b>940.6</b>
<b>Significant items (Continuing operations)</b>	<b>-</b>	<b>25.7</b>
Bulk contract exit - termination payment	-	66.3
Bulk contract exit - costs	-	(31.8)
Asset impairments - Bulk	-	(31.7)
Redundancy benefit	-	22.9
<b>Statutory EBIT (Continuing operations)</b>	<b>829.0</b>	<b>966.3</b>
Net finance costs	(147.1)	(165.0)
<b>Statutory PBT (Continuing operations)</b>	<b>681.9</b>	<b>801.3</b>
Income tax expense	(208.6)	(241.2)
<b>Statutory NPAT (Continuing operations)</b>	<b>473.3</b>	<b>560.1</b>
Underlying EBIT (Discontinued operation)	6.7	(24.0)
<b>Significant items (Discontinued operation)</b>	<b>(11.4)</b>	<b>(74.7)</b>
Intermodal	(11.4)	(74.7)
Net finance income (Discontinued operation)	0.1	-
Income tax benefit (Discontinued operation)	7.8	21.6
<b>Statutory NPAT</b>	<b>476.5</b>	<b>483.0</b>

There were no significant items in the continuing operations during FY2019. Significant items for the discontinued operation totalled (\$11.4m) and relate to:

- › (\$25.1m) asset impairments due to the Queensland Intermodal sale, partly offset by:
- › \$13.2m for Interstate Intermodal closure impacts, including a gain on the sale of assets and the release of contract exit cost provisions recognised in the prior year
- › \$0.5m write back of redundancy costs

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### 2. Other financial information

#### BALANCE SHEET SUMMARY

(\$M)	30 JUNE 2019	30 JUNE 2018
Assets classified as held for sale	108.4	108.0
Other current assets	631.2	698.2
<b>Total current assets</b>	<b>739.6</b>	<b>806.2</b>
Property, plant and equipment (PP&E)	8,536.3	8,659.9
Other non-current assets	425.2	315.7
<b>Total non-current assets</b>	<b>8,961.5</b>	<b>8,975.6</b>
<b>Total Assets</b>	<b>9,701.1</b>	<b>9,781.8</b>
Liabilities classified as held for sale	(3.8)	(12.7)
Other current liabilities	(795.7)	(735.6)
Total borrowings	(3,369.8)	(3,501.9)
Other non-current liabilities	(854.4)	(801.5)
<b>Total Liabilities</b>	<b>(5,023.7)</b>	<b>(5,051.7)</b>
<b>Net Assets</b>	<b>4,677.4</b>	<b>4,730.1</b>
<b>Gearing (net debt/net debt + equity) (%)</b>	<b>41.7%</b>	<b>42.3%</b>

#### Balance sheet movements

Total current assets decreased by \$66.6m largely due to:

- › Reduction in cash held of \$9.6m
- › Reduction in trade and other receivables of \$57.5m largely due to the Cliffs termination payment of \$66.3m (excluding GST) included at 30 June 2018, partly offset by the reversal of a provision for impairment of receivable of \$20.3m for a customer

Total non-current assets decreased by \$14.1m due to reduction in PP&E and intangibles of \$119.3m, partly offset by a \$85.9m increase in derivative financial instruments (favourable valuation) and \$8.6m increase in other assets.

Total current liabilities, excluding borrowings, increased by \$60.1m due to a \$130.9m increase in trade and other payables, partly offset by a \$50.5m reduction in provisions and other liabilities as a result of settlement of Interstate Intermodal closure provisions, a refund of \$10.0m deposit received in relation to sale of Queensland Intermodal to a consortium of PN and Linfox and a \$20.3m reduction in current tax liabilities. The increase in trade and other payables includes Network's prior year UT5 true ups.

Total borrowings decreased by \$132.1m due to \$253.4m net repayment of bank debt facilities partly offset by a revaluation of medium-term notes (unfavourable valuation).

Other non-current liabilities increased by \$52.9m due to a \$57.9m increase in deferred tax liabilities and a \$27.8m increase in derivative financial instruments (unfavourable valuation), partly offset by a \$32.8m reduction in provisions and other liabilities.

Gearing (net debt/net debt + equity) was 41.7% as at 30 June 2019.

## CASH FLOW SUMMARY

(\$M)	FY2019	FY2018
<b>Statutory EBITDA (Continuing operations)</b>	<b>1,371.6</b>	<b>1,491.8</b>
Working capital and other movements	62.0	(146.9)
Non-cash adjustments – asset impairment	24.9	70.0
<b>Cash flows from Continuing operations</b>	<b>1,458.5</b>	<b>1,414.9</b>
Interest received	2.9	2.9
Income taxes paid	(145.3)	(110.1)
<b>Net cash inflow from operating activities from Continuing operations</b>	<b>1,316.1</b>	<b>1,307.7</b>
Net operating cashflows from Discontinued operations	(25.4)	(25.1)
<b>Net operating cash flows</b>	<b>1,290.7</b>	<b>1,282.6</b>
<b>Cash flows from investing activities</b>		
Proceeds from associate and sale of property, plant and equipment (PP&E)	13.7	19.0
Payments for PP&E and intangibles	(444.5)	(501.5)
<b>Net cash (outflow) from investing activities from Continuing operations</b>	<b>(430.8)</b>	<b>(482.5)</b>
Net investing cashflows from Discontinued operations	11.1	54.6
<b>Net investing cashflows</b>	<b>(419.7)</b>	<b>(427.9)</b>
<b>Cash flows from financing activities</b>		
Net (repayment)/proceeds from borrowings	(253.4)	12.2
Payment for share buy-back and share based payments	(0.6)	(302.9)
Interest paid	(150.5)	(155.8)
Proceeds from settlement of derivatives	11.5	-
Dividends paid to Company shareholders	(487.6)	(462.1)
<b>Net cash (outflow) from financing activities from Continuing operations</b>	<b>(880.6)</b>	<b>(908.6)</b>
Net financing cashflows from Discontinued operations	-	-
<b>Net financing cashflows</b>	<b>(880.6)</b>	<b>(908.6)</b>
<b>Net increase/(decrease) in cash from Continuing operations</b>	<b>4.7</b>	<b>(83.4)</b>
<b>Net (decrease)/increase in cash from Discontinued operations</b>	<b>(14.3)</b>	<b>29.5</b>
<b>Free Cash Flow (FCF)<sup>5</sup> from Continuing operations</b>	<b>734.8</b>	<b>669.4</b>
<b>Free Cash Flow (FCF)<sup>5</sup> from Discontinued operations</b>	<b>(14.3)</b>	<b>29.5</b>

### Cash flow movements

Net cash inflow from operating activities from continuing operations increased by \$8.4m (1%) to \$1,316.1m due to an improvement in working capital with the receipt of the Cliffs termination payment (\$66.3m excluding GST) in the period and the increase in accruals relating to the Network prior year UT5 true up, partially offset by lower provisions with the finalisation of Interstate Intermodal and the reversal of the provision for impairment of receivable from a customer.

Net cash outflow from investing activities from continuing operations decreased by \$51.7m (11%) to \$430.8m due to a reduction in capital expenditure.

Net cash outflow from financing activities from continuing operations decreased by \$28.0m (3%) due to a share buy-back of \$300.0m in FY2018, partly offset by net repayment of borrowings and increased dividends in FY2019.

5 FCF – Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid



# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Funding

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor. During FY2019, Aurizon Finance cancelled existing bank debt syndicated facilities expiring in July 2019 and July 2020 and replaced them with bilateral bank debt facilities totalling \$450.0m with maturity extended to November 2023.

In respect of FY2019:

- › Weighted average debt maturity tenor was 4.3 years. This was lower than FY2018 (4.7 years) due to the debt portfolio's duration reducing by 12 months, partly offset by the extension of the bank debt facilities noted above
- › Group interest cost on drawn debt was 4.5% (FY2018 4.5%)
- › Available liquidity (undrawn facilities plus cash) at 30 June 2019 was \$989.3m
- › Group gearing (net debt/(net debt + equity)) as at 30 June 2019 was 41.7% (FY2018 42.3%)
- › Network gearing (net debt/RAB (excl AFDs)) as at 30 June 2019 was 58.7% (FY2018 62.4%)
- › Credit rating remains unchanged for Network and Aurizon Holdings at BBB+/Baa1

### Dividend

The Board has declared a final dividend for FY2019 of 12.4cps (70% franked) based on a payout ratio of 100% in respect of underlying NPAT for continuing operations.

The relevant final dividend dates are:

- › 26 August 2019 - ex-dividend date
- › 27 August 2019 - record date
- › 23 September 2019 - payment date

### Tax

Underlying and statutory income tax expense for continuing operations for FY2019 was \$208.6m. Statutory income tax expense for the Group for FY2019 was \$200.8m. The Group underlying and statutory effective tax rate for FY2019 was 30.6% which is greater than 30% due to the derecognition of the deferred tax asset in respect of net capital losses. The Group underlying cash tax rate for FY2019 was 19.3%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate<sup>6</sup> for FY2020 is expected to be in the range of 29-31% and the underlying cash tax rate<sup>7</sup> 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](http://www.aurizon.com.au/sustainability/overview) for a copy of Aurizon's sustainability report (including tax transparency disclosures).

### Discontinued Operation

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

The Intermodal business includes the Acacia Ridge Intermodal Terminal, Queensland Intermodal and Interstate Intermodal. The Intermodal business is disclosed as a discontinued operation.

#### Acacia Ridge Intermodal Terminal

Aurizon signed a binding agreement with PN on 29 July 2017 to sell its Acacia Ridge Intermodal Terminal for \$205.0m, of which \$35.0m was received in advance (non-refundable). This transaction is subject to approval by the ACCC and Foreign Investment Review Board.

The ACCC opposed the sale on 19 July 2018 and commenced proceedings against Aurizon and PN in the Federal Court. On 15 May 2019, the Federal Court rejected the allegations by the ACCC that the proposed sale contravened section 45 and section 50 of the Competition and Consumer Act (2010). On 27 June 2019 the ACCC sought to appeal the Federal Court's decision in relation to the contravention of section 50 of the Act (but not the Federal Court's decision in relation to section 45). On 18 July 2019, Aurizon and PN filed notices of cross-appeal. The appeal and cross-appeal will be heard by the Full Federal Court in due course.

Aurizon remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 30 June 2019.

#### Queensland Intermodal

The Queensland Intermodal business was sold to Linfox on 31 January 2019.

#### Interstate Intermodal

The Interstate Intermodal business ceased operations on 23 December 2017.

## BUSINESS UNIT REVIEW

### COAL

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

<sup>6</sup> Underlying effective tax rate = income tax expense excluding the impact of significant items/underlying consolidated profit before tax

<sup>7</sup> Underlying cash tax rate = cash tax payable excluding the impact of significant items/underlying consolidated profit before tax



(\$M)	FY2019	FY2018	VARIANCE %
<b>Revenue</b>			
Above Rail	1,236.2	1,207.8	2%
Track Access	487.7	598.1	(18%)
Other	0.9	7.3	(88%)
<b>Total revenue</b>	<b>1,724.8</b>	<b>1,813.2</b>	<b>(5%)</b>
Operating costs	(1,115.0)	(1,202.0)	7%
<b>EBITDA</b>	<b>609.8</b>	<b>611.2</b>	<b>-</b>
Depreciation and amortisation	(194.7)	(182.6)	(7%)
<b>EBIT</b>	<b>415.1</b>	<b>428.6</b>	<b>(3%)</b>

## METRICS

	FY2019	FY2018	VARIANCE %
Total tonnes hauled (m)	214.3	212.4	1%
CQCN	152.3	152.5	-
NSW & SEQ	62.0	59.9	4%
Contract utilisation	90%	93%	(3.0ppt)
Total NTK (bn)	50.5	50.4	-
CQCN	38.3	38.3	-
NSW & SEQ	12.2	12.1	1%
Average haul length (km)	236	237	-
Total revenue/NTK (\$/'000 NTK)	34.2	36.0	(5%)
Above Rail Revenue/NTK (\$/'000 NTK)	24.5	24.0	2%
Operating Ratio (%)	75.9%	76.4%	0.5ppt
Opex/NTK (\$/'000 NTK)	25.9	27.5	6%
Opex/NTK (excluding access costs) (\$/'000 NTK)	16.6	15.4	(8%)
Locomotive productivity ('000 NTK/Active locomotive day)	419.9	462.8	(9%)
Active locomotives (as at 30 June)	336	308	9%
Wagon productivity ('000 NTK/Active wagon day)	16.1	16.4	(2%)
Active wagons (as at 30 June)	8,724	8,568	2%
Payload (tonnes)	7,496	7,447	1%
Velocity (km/hr)	22.8	23.2	(2%)
Fuel Consumption (l/d GTK)	2.93	2.91	(1%)

## Coal Performance Overview

Coal EBIT decreased \$13.5m (3%) to \$415.1m resulting from an increase in operating costs due to an uplift in maintenance expenditure and costs for installing capacity for future volume growth, partly offset by higher net revenue including the 1% volume increase and contract escalation.

Volumes increased by 1.9mt (1%) to 214.3mt. Across the CQCN, volumes decreased by 0.2mt (0%) to 152.3mt despite strong demand and ramp up of railings for QCoal's Byerwen mine. The stronger demand was offset by increased supply chain constraints and one-off impacts compared to FY2018, including the impact of protected industrial action, weather and third-party derailments.

In NSW and South-East Queensland (SEQ), volumes increased by 2.1mt (4%) to 62.0mt with higher volumes from AGL Macquarie and BHP and the commencement of railings for MACH Energy. This was partly offset by other customer specific production issues, the impact of a third-party derailment at Newdell in September plus protected industrial action.

Coal revenue reduced \$88.4m (5%) to \$1,724.8m driven by a reduction in pass-through access and other revenue.

- › Above rail revenue increased \$28.4m (2%) compared to FY2018 due to the 1.9mt (1%) increase in volumes, higher fuel charges and contract price escalation. Above rail revenue per NTK increased 2% on lower contract utilisation
- › Coal track access revenue reduced \$110.4m (18%). This was largely driven by a tariff rate reduction to align to the QCA approved reference tariffs and customers on the West Moreton and Moura corridors converting to End User Access Agreements (where access charges are paid direct to Queensland Rail or Network). Decreased track access costs are noted below. This reduction was partly offset by the recovery of FY2018 Access Take-or-Pay from customers
- › Other revenue reduced by \$6.4m which predominately relates to internal services completed for Network which are now completed by Bulk

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Coal Performance Overview (continued)

Total operating costs (including depreciation) reduced \$74.9m (5%) to \$1,309.7m. Lower track access costs were partly offset by an increase in other operating costs with the major drivers noted below:

- › Track access costs reduced by \$137.2m (23%), largely due to the impacts discussed above, including West Moreton and Moura corridor customers moving to End User Access Agreements, the network tariff rate reduction and a reduction in Take-or-Pay from FY2018 to FY2019
- › Increased operating costs of \$50.2m including increased maintenance (\$22.6m), fuel price increases (\$14.2m), wages and consumables escalation (\$7.1m) and higher labour costs to meet additional volumes (\$5.6m)
- › Depreciation increased \$12.1m relating to the additional capacity installed to meet growth volumes in NSW (including transfer of locomotives from the Interstate Intermodal business), overhauls completed on existing rollingstock as well as some additional depreciation resulting from the implementation of technology projects to replace legacy systems and improve delivery performance

An explanation of the key operating metrics is shown below:

- › During the period, several operating metrics displayed a deterioration compared to the prior year due to the impact of the installation of additional consists to meet current and future demand and one-off supply chain impacts including: protected industrial action, derailments and weather impacts. This includes:
  - Average velocity - reducing from 23.2km/hr to 22.8km/hr
  - Average NTK per locomotive and wagon - falling 9% and 2% respectively
- › Average payloads increased from 7,447t to 7,496t with a change in service mix and improved fleet configurations in NSW, SEQ and Moura

### Market update

Australia exported 183mt of metallurgical coal in FY2019, +2% against the prior year. India remains Australia's largest metallurgical coal export market with record export volume of 47mt (26% share), followed by China at 41mt (22% share) and Japan at 35mt (19% share). In the six months to June, crude steel production in China increased by +10% and in India, an increase of +5% against the same period of the prior year. The average hard coking coal prices in FY2019 was US\$206/t (+1% compared to the prior year). In the 12 months to June, metallurgical coal exports from the United States (second largest metallurgical coal export nation behind Australia) decreased -1% against the same period of the prior year.

Australia exported 210mt of thermal coal in FY2019, +4% against the prior year. Japan remained as Australia's largest thermal coal export market with export volume of 79mt (38% share), followed by China at 47mt (22% share) and South Korea at 3mt (15% share). During the June quarter, declining gas prices in Europe led a switch from coal to gas for power generation, resulting in Atlantic coal producers redirecting exports into the Asian market. The average Newcastle benchmark thermal coal price in FY2019 was US\$100/t (+1% compared to the prior year). In the 12 months to May 2019, total coal exports (almost entirely thermal coal) from Indonesia (largest thermal coal export nation) increased by +11% against the same period of the prior year.

### Contract update

- › Jellinbah - contract extension for Jellinbah East and Lake Vermont mines
- › Glencore - a number of contract extensions and additional volumes, most notably in the Newlands corridor
- › Baralaba Coal Company commenced railings in 1HFY2019 from the Baralaba North Mine to RG Tanna Coal Terminal
- › MACH Energy commenced railings in January 2019 from the Mt Pleasant mine

### BULK

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

(\$M)	FY2019	FY2018	VARIANCE %
<b>Revenue</b>			
Freight Transport	474.6	592.1	(20%)
Other	27.1	26.0	4%
<b>Total revenue</b>	<b>501.7</b>	<b>618.1</b>	<b>(19%)</b>
Operating costs	(447.2)	(542.9)	18%
<b>EBITDA</b>	<b>54.5</b>	<b>75.2</b>	<b>(28%)</b>
Depreciation and amortisation	(17.2)	(25.1)	31%
<b>EBIT</b>	<b>37.3</b>	<b>50.1</b>	<b>(26%)</b>

## METRICS

	FY2019	FY2018	VARIANCE %
Total tonnes hauled (m)	44.6	54.7	(18%)
Total NTK (bn)	8.5	13.4	(37%)
Average haul length (km)	191	245	(22%)
Total revenue/NTK (\$/'000 NTK)	59.0	46.1	28%
Operating Ratio (%)	92.6%	91.9%	(0.7ppt)
Opex/NTK (\$/'000 NTK)	54.6	42.4	(29%)
Opex/NTK (excluding access) (\$/'000 NTK)	42.4	30.3	(40%)
Order Fulfilment (%)	96.0%	98.0%	(2.0ppt)
Fuel Consumption (l/d GTK)	3.29	3.01	(9%)

### Bulk Performance Overview

EBIT decreased \$12.8m (26%) to \$37.3m due to the impact of the Cliffs iron ore contract ceasing in June 2018, partly offset by cost reductions and new volume growth. The result demonstrates the good progress made on the Bulk turnaround program.

Total revenue decreased \$116.4m (19%) to \$501.7m with an 18% reduction in volumes (37% in NTK terms) due to:

- › The cessation of Cliffs in FY2018 totalling \$146.3m, partly offset by
- › Other total revenue increasing by \$29.9m due to volume growth, higher revenue yield and fuel price increase (resulting in higher revenue due to cost pass through)

In Bulk East, volumes increased with MMG now fully operational, the commencement of a freighter service for Glencore and the transfer of internal services for Network from Coal. This was partly offset by lower QLD/NSW grain volumes due to dry conditions, the loss of the Wilmar Sugar contract in FY2018, protected industrial action and flooding impacts in Queensland in 2HFY2019.

In Western Australia (WA), volumes increased on the Kalgoorlie freighter service (daily service between Kwinana and Kalgoorlie) and higher export bauxite volumes. WA revenue yield also benefited from reduced rate relief due to higher commodity prices.

Bulk revenue per NTK increased 28% predominately due to the impact of the Cliffs contract ceasing in June 2018 (this was a longer haul than average and therefore had a disproportionate impact on NTKs), higher fuel prices and the commencement of the Linfox hook and pull agreement in February 2019. As this contract is a hook and pull operation, the contract is based on the number of services and has no associated volumes and NTKs.

Total costs (including depreciation) decreased \$103.6m (18%) largely due to the impact of the Cliffs contract ceasing and ongoing benefits from the Bulk turnaround program. Excluding the impact of Cliffs, total costs increased by \$5.2m due to higher terminal and delivery costs to support volume growth, including the new Glencore and Linfox contracts, and an increase in the average fuel price compared to the prior year.

Operating metric performance was principally driven by the cessation of Cliffs as it contributed a significant level of Bulk's EBIT, tonnes and NTKs.

### Market update

Aurizon's Bulk business includes haulage of a range of bulk commodities such as iron ore, base metals, minerals, grain and livestock across Western Australia, Queensland and New South Wales. In addition to commodities required in the construction industry, exposure to growth markets of fertilisers and batteries will unlock future opportunities. In terms of batteries, the global uptake of electric vehicles is expected to drive demand for commodities such as nickel, copper and lithium. This is supported by increased exploration expenditure in Australia, with copper exploration increasing by 42% (compared to the prior year) in the March 2019 quarter to \$65m and nickel and cobalt exploration expenditure rising 6% to \$49m, across the same period.

### Contract update

- › Executed a variation to the mixed freighter and concentrate contract with Glencore expiring August 2021
- › Executed a 10-year agreement (5+5) with Linfox for hook and pull services in Queensland commencing February 2019
- › Cessation of Mt Gibson Mining contract in January 2019, in line with end of mine life. Short term spot agreement commenced in May 2019 to haul low grade ore
- › Aurizon was unsuccessful in recontracting the existing Queensland Graincorp contract from December 2019

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### NETWORK

Network refers to the business of Aurizon Network Pty Ltd (Network) which operates the 2,670km 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 five export terminals located at 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)	FY2019	FY2018	VARIANCE %
<b>Revenue</b>			
Track Access	1,070.3	1,167.1	(8%)
Services and other	47.4	51.6	(8%)
<b>Total revenue</b>	<b>1,117.7</b>	<b>1,218.7</b>	<b>(8%)</b>
Operating costs	(396.5)	(430.1)	8%
<b>EBITDA</b>	<b>721.2</b>	<b>788.6</b>	<b>(9%)</b>
Depreciation and amortisation	(320.9)	(308.0)	(4%)
<b>EBIT</b>	<b>400.3</b>	<b>480.6</b>	<b>(17%)</b>

### METRICS

	FY2019	FY2018	VARIANCE %
Tonnes (m)	232.7	229.6	1%
NTK (bn)	57.9	56.9	2%
Operating Ratio (%)	64.2%	60.6%	(3.6ppt)
Maintenance/NTK (\$/'000 NTK)	2.3	2.2	(5%)
Opex/NTK (\$/'000 NTK)	12.4	13.0	5%
Cycle Velocity (km/hr)	23.1	23.5	(2%)
System Availability (%)	83.8%	82.0%	1.8ppt
Average haul length (km)	248.8	247.7	-

### Network Performance Overview

EBIT declined \$80.3m (17%) to \$400.3m in FY2019, with cost reductions of \$20.7m offset by decreased revenue of \$101.0m, mainly due to the QCA's Final Decision on Network's UT5 proposal which was issued on 6 December 2018 (UT5 Final Decision).

Regulatory access revenue in FY2019 was based on the Reference Tariffs DAAU (FY2019 DAAU) approved by the QCA on 24 June 2019. Track access revenue decreased by \$96.8m (8%), impacted by the UT5 Final Decision allowable revenue for FY2019 being lower than the FY2018 transitional tariff allowable revenue (ex GAPE) of \$58.8m. There was a further impact of \$60.1m (ex GAPE) for the FY2018 true up to the UT5 Final Decision. FY2018 access revenue also included \$18.4m of flood cost recoveries within the allowable revenue. This was partly offset by a positive revenue adjustment of \$66.0m, comprising a recovery of \$44.6m (for FY2017 revenue cap payments in FY2019) compared to a return to customers in FY2018 of \$21.4m.

Access revenue billed was \$11.8m above the FY2019 DAAU allowable revenue primarily due to the higher volumes in Blackwater and billing of Take or Pay in Moura resulting in an over-recovery (FY2018 was an over-recovery of \$7.7m). This will be repaid to customers through revenue cap in FY2021. In addition, track access revenue was impacted by lower GAPE revenue of \$7.7m and lower Electricity Charge (EC) revenue of \$19.8m. The reduction in EC revenue was caused by lower wholesale energy prices and there is also a corresponding decrease in EC operating expense.

Services and other revenue decreased \$4.2m (8%) mainly due to the recognition of the Caledon WIRP Deed bank guarantee in the prior year, partially offset by \$2.4m insurance recovery revenue and \$0.9m additional external construction works revenue in FY2019.

Operating costs decreased by \$33.6m (8%). This was primarily due to a \$34.1m (24%) reduction in energy and fuel costs from lower wholesale electricity prices and discounts negotiated on transmission costs (offset in Access revenue and EC revenue above). Employee benefits expense increased by \$3.1m (2%) largely due to annual salary escalation. Consumables and other expenses decreased \$2.6m (2%) while depreciation increased \$12.9m (4%) due to increased levels of asset renewals and ballast undercutting and higher corporate depreciation allocations.

The Regulated Asset Base (RAB) roll-forward value based on the UT5 Final Decision is estimated to be \$5.7bn (including all deferred capital but excluding AFDs of \$0.4bn) at 1 July 2019.

## Regulation Update

- › The QCA approved the UT5 Final Decision on 21 February 2019, replacing the 2016 Access Undertaking (UT4)
- › The UT5 Final Decision provides a Maximum Allowable Revenue (MAR) of \$4,123m over the four-year regulatory period (FY2018-2021) with a Vanilla Nominal Post Tax Weighted Average Cost of Capital (WACC) of 5.7% retaining the WACC parameters from the Final Decision in December 2018
- › UT4 transitional tariffs were in place from 1 July 2017 until 20 February 2019
- › On 24 June 2019, the QCA approved the FY2019 DAAU, which:
  - Addressed the revenue differences between UT4 Transitional Tariffs and approved UT5 final approved Tariffs for FY2018 of \$81.3m (\$60.1m ex GAPE)
  - Reset the CQCN coal volume forecasts for FY2019 from 245.2 million tonnes to 233.8 million tonnes
  - Updated the EC and QCA Levy to be reflective of the approved rates by the QCA in its October 2018 UT4 Extension DAAU
  - Reconciled other omissions from within the QCA UT5 Final Decision (e.g. connection charges, Cyclone Debbie review events and modelling inconsistencies)
- › On 3 May 2019, Network submitted its UT5 Draft Amending Access Undertaking (UT5 DAAU), following a period of negotiation with its customers. The UT5 DAAU is a package agreement which was submitted with support from more than 90% of Network's customers by contract tonnage. Key points of the UT5 DAAU include:
  - Extending the term of UT5 to 10 years (1 July 2017 to 30 June 2027)
  - A WACC of 5.9% from 3 May 2019, increasing to 6.3% (subject to a reset of market parameters on 1 July 2023) on completion of specific milestones
  - Greater involvement of customers through processes to annually pre-agree future maintenance and capital expenditure
  - The appointment of an independent expert to complete initial and ongoing capacity assessments and undertake reporting requirements
  - Operating cost efficiencies to be retained by Network for the term of the UT5 DAAU
  - Funding commitments from Network on growth-based capital expenditure, including a potential \$300.0m in capital to rectify any capacity deficit identified in the independent expert's initial capacity assessment report and an annual \$30.0m for expansions that benefit more than one mining customer. These amounts will be included in the RAB for pricing purposes
  - A rebate mechanism payable to customers where Network performs below target levels which are to be determined following the independent expert's initial capacity assessment
- › Submissions on the UT5 DAAU closed on 3 July 2019. Network will continue to work with the QCA to progress the approval of the UT5 DAAU
- › On 18 July 2019, the QCA approved Network's Electric Traction DAAU which seeks to lessen potential stranding risk of the electrical infrastructure by putting in place utilisation thresholds for the Blackwater and Goonyella systems

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Operational Update

#### Performance

During FY2019 Network operational performance remained strong. Highlights include:

- The supply chain delivered a record year with volumes in the CQCN of 232.7mt. In the last six months record monthly volumes were achieved in all four systems while in June overall tonnes were 21.5mt, the first-time monthly volumes have exceeded 21mt
- Total System Availability improved from 82.0% to 83.8% with fewer paths impacted by network, port and mine train load-out maintenance. Network has focused on the execution of some key initiatives throughout the year, including the introduction of Precision Maintenance Blocks, A-type possessions and a schedule adherence trial in the Moura system, as described below:
  - A 'Precision Maintenance Block' is a set of repeating maintenance possessions that are dedicated to maintenance in a 'normal' week, with the aim of improving the productivity of the maintenance teams and the overall flow of trains to improve the utilisation of the network. A-type possessions relate to single line closures of a single section in duplicated track territory; changes to how Network schedule around these closures has also allowed for increased utilisation of the network. These two initiatives have enabled the scheduling of an additional six services per week in the Blackwater system since November 2018 and one additional service in the Goonyella system since January 2019
  - During June, Network commenced a schedule adherence trial in the Moura system. The objective of the trial was to test how the system performed when the schedules were strictly adhered to and if this would result in improved On Time Performance, Performance to Plan (reduced cancellations) and the overall reduction in Turn Around Time (TAT). Over the five-week trial period:
    - On Time Arrival at mine improved from 23% (12-week baseline pre-trial) to 67%
    - Performance to Plan increased from 77% to 82%
    - TAT reduced by an average of 2.35 hours per service
    - Overall delays were an average of 45 minutes less per service
    - These results are encouraging and the trial has been continued. Network will focus on implementing the lessons learned from this trial in the other systems throughout FY2020
- Cancellations due to Network rail infrastructure decreased from 2.2% to 1.8%
- Cycle velocity reduced marginally from 23.5km/h to 23.1km/h

#### Operational efficiency improvements delivered:

- A variety of initiatives in relation to electric traction were delivered, which will continue to deliver cost benefits to the supply chain through FY2020 and beyond, including constructive engagement with suppliers to seek to improve the long-term efficiency of the electrified system
- The RM902, Network's new ballast cleaning machine, is presently in its commissioning phase and scheduled to be fully operational in 2HFY2020. This machine should increase production from the existing undercutter with savings in ballast costs due to its increased screening capability
- During the second half of FY2019 Network continued development and user acceptance testing (UAT) for release 2 of the Advanced Planning System (APS) software which modernises the train ordering process and includes the APS scheduling module. Release 2 went live into production on 27 July 2019

#### Wiggins Island Rail Project (WIRP)

- During FY2019 legal proceedings continued in relation to the notices received by Network from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the WIRP fee, which is non-regulated. The trial in the Supreme Court of Queensland was heard between 10 September 2018 and 21 September 2018 and on 27 June 2019 the Supreme Court ruled in Network's favour. On 25 July 2019 all customers lodged notices of appeal challenging the decision of the Supreme Court. Network is considering the appeal and will respond in accordance with the Court of Appeal mandated timeframes
- The customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. Those disputes relate to various matters on the completion of the WIRP construction works. The Expert's Determination was issued on 4 June and found that the WIRP Fee should be partially reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and will not impact recovery of the regulated access charge component of WIRP capital expenditure. Network is determining options for appeal of this outcome
- Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised to date

#### 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)	FY2019	FY2018	VARIANCE %
<b>Total revenue</b>	<b>82.2</b>	<b>90.8</b>	<b>(9%)</b>
Operating costs	(96.1)	(99.7)	4%
<b>EBITDA</b>	<b>(13.9)</b>	<b>(8.9)</b>	<b>(56%)</b>
Depreciation and amortisation	(9.8)	(9.8)	-
<b>EBIT</b>	<b>(23.7)</b>	<b>(18.7)</b>	<b>(27%)</b>

#### Other Performance Overview

EBIT decreased by \$5.0m mainly due to the inclusion of \$21.4m of Group wide redundancy costs, largely offset by the reversal of a provision of \$20.3m relating to an agreed settlement with a customer. Redundancy costs were included in the business unit results in prior year.

#### INTERMODAL - DISCONTINUED OPERATION

(\$M)	FY2019	FY2018	VARIANCE %
<b>Total revenue</b>	<b>111.0</b>	<b>225.4</b>	<b>(51%)</b>
Operating costs	(104.1)	(247.1)	58%
<b>EBITDA - Underlying</b>	<b>6.9</b>	<b>(21.7)</b>	<b>nm</b>
Depreciation and amortisation	(0.2)	(2.3)	91%
<b>EBIT - Underlying</b>	<b>6.7</b>	<b>(24.0)</b>	<b>nm</b>
Significant Items	(11.4)	(74.7)	85%
Net finance income	0.1	-	-
Income tax benefit	7.8	21.6	(64%)
<b>NPAT (Discontinued operation) - Statutory</b>	<b>3.2</b>	<b>(77.1)</b>	<b>nm</b>

### Intermodal Performance Overview

The EBIT position for Intermodal improved \$30.7m mainly due to:

- › \$28.6m reduction in operating losses with the closure of Interstate Intermodal in December 2017
- › \$2.1m reduction in depreciation

Significant items for the discontinued operation totalled (\$11.4m) and relate to:

- › (\$25.1m) asset impairments due to the Queensland Intermodal sale, partly offset by:
- › \$13.2m for Interstate Intermodal closure impacts, including a gain on sale of assets and the release of contract exit cost provisions recognised in the prior year
- › \$0.5m write back of redundancy costs

### OPERATIONAL EFFICIENCY IMPROVEMENT UPDATE

As part of Aurizon's Strategy In Action, particularly the Optimise and Excel levers, Aurizon continues to focus on operational efficiency to continuously improve its operational performance, asset efficiency and cost competitiveness. Through the Optimise and Excel levers, Aurizon is making targeted investments in technology on the journey to continuous improvement. Outlined below are the major initiatives being pursued in the business:

#### Precision Railroad Operations

Project Precision is focussed on driving precise planning and disciplined delivery of operations with the objective to improve on time departure and arrival of above rail services across CQCN. This initiative drives value through improving asset and crew utilisation and unlocking capacity of the network. The focus of the project in the first three quarters of FY2019 was on improving scheduling capability, releasing additional capacity by improving the alignment of maintenance activities and non-coal traffic operating on the CQCN and reducing unnecessary dwell and yard time. These improvements have resulted in approximately 20 additional services per week scheduled since early January 2019.

In the fourth quarter of FY2019 the project focus shifted to the disciplined execution of the train schedule in the day of operations. A schedule adherence trial was conducted in the Moura system and has seen an improvement in on time performance of services, a reduction in turnaround time and average cancellations and improved driver safety statistics. Following the success of the Moura trial, plans have been put in place to extend this trial into other CQCN corridors through FY2020.

#### Restructure of Support Areas

Aurizon has delivered significant benefits from the implementation of the restructure of the Technical Services and Planning (TSP) business unit during FY2019. The restructure enables TSP to deliver a more sustainable, focussed, flexible and lower cost service to the Coal, Bulk and Network business units. The reduced headcount of -175 will contribute to the delivery of the savings target of approximately \$20m during FY2020.

### Train Guard

Train Guard is a technology platform utilising ETCS (European Train Control System) technology to support driver decision making particularly in relation to speed control and signal enforcement in Central Queensland. This technology will support safer and more efficient train operations with reduced signals passed at danger and improved control and train handling. This technology is also a pathway to expanding our driver only operations in Central Queensland and will initially be installed on three locomotives. Installation of equipment on locomotives and wayside has commenced in preparation for a trial in 2020.

### Asset Maintenance

As part of an enterprise review of rollingstock maintenance Aurizon has developed a comprehensive plan that underpins a fundamental repositioning in the way it approaches rollingstock maintenance, on the journey through condition-based maintenance to predictive maintenance.

While Aurizon has had huge success in applying technology to condition-based maintenance, especially in the CQCN, the plan that has been developed covers all aspects of rollingstock across both Coal and Bulk. This is a multi-year program that has three major phases:

- › Solidify the foundation
- › Improve the maintenance maturity
- › Increase the competitiveness of the business

The targeted investments in technologies that have already been made will greatly enable the success on this journey.

### TrainHealth

TrainHealth provides Aurizon with capability to monitor performance of locomotives and train handling/utilisation in real time. This initiative will enable access to real time asset data that will inform the health of the locomotive, enhance asset reliability and maintenance decisions for the fleet, provide greater visibility on driver variability and support business decisions for on-time running. TrainHealth will initially be installed across the Siemens electric locomotive fleet in the CQCN with installation to commence during August 2019.



# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### ADDITIONAL INFORMATION

#### Risk

Aurizon promotes a risk-aware culture with an emphasis on frontline accountability for effective risk management. The consideration of risk features heavily in Aurizon's thinking, from the framing of strategy through to informing decision making. In late 2018, Aurizon reviewed and refreshed its Enterprise Risk Management Framework and Risk Appetite. The update aims to deliver a simpler and more practical format to support the identification, assessment and reporting of risk across the business, and includes both financial and non-financial risks.

Risks to the delivery of strategy have been categorised into the three strategic levers of Optimise (accelerate the competitiveness of Aurizon), Excel (achieve regulatory reform, secure contract wins and gain competitive advantage through asset efficiency) and Extend (position Aurizon for growth, value creation and the next phase of enterprise evolution).

#### Optimise Strategic Lever

##### Delivery of Optimise Initiatives

Aurizon maintains a pipeline of efficiency initiatives that are expected to deliver a cost effective and customer aligned model. Failure to be the lowest cost or highest service provider may occur due to a lack of definition in the target state or unsuccessful implementation of the associated action plans. Impacts on non-delivery include not achieving budget and failure to maximise volumes within customer contracts.

##### Operational Agility

A lack of operational agility would result in Aurizon's inability to flex operations and support an alignment between costs and revenue. If operational agility is not achieved it may result in missed revenue during market upturns due to a lag in accessing the required resources, or static costs during downturns eroding financial performance.

#### Business Interruption

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

- › Road Vehicle Incident – death or injuries to our people from operating road vehicles
- › Process Safety Incident – major process safety event leading to death or injuries to our people, significant distraction or loss of license to operate
- › Illegal protest activity – safety risks to employees and individuals due to anti-coal protesters illegally entering the rail corridor and danger zone to conduct blockades
- › Cyber security incidents in relation to Aurizon's corporate and operational systems
- › Adverse weather events could impact Aurizon's operations, assets or customers

#### Enterprise Agreement Renegotiations

EA renegotiations to support sustainable business transformation are ongoing. Approximately 75% of Aurizon's workforce are covered by collectively bargained EAs. One of these EAs was successfully renegotiated in FY2018 and a further four in FY2019. The Queensland Coal EA has received approval through an employee ballot in July 2019 and is with Fair Work Commission for approval. These renegotiated EAs provide balanced productivity improvements with fair wage outcomes. Work continues in Queensland in relation to the Bulk EA. Through ongoing bargaining, Aurizon is seeking to balance productivity improvements with wage outcomes. There are risks that prolonged industrial action impacts Aurizon's critical operations or final agreements do not support business objectives.

#### Acacia Ridge Intermodal Terminal sale transaction

There is a risk that the Acacia Ridge Intermodal Terminal sale transaction as described on page 14 of this report will be prevented from completing and Aurizon incurs orders for costs.

#### Excel Strategic Lever

##### Competition in Current Markets

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 competitiveness. Most of Aurizon's significant customer contracts are secured on long-dated terms, however failure to win or retain customer contracts at acceptable rates will 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 and includes existing customers in-sourcing Aurizon's services. Competitors may also deploy technology or innovation more rapidly than Aurizon.

##### Delivery of Regulatory Reform

Network may fail to achieve regulatory reform over the medium term, impacting future company performance. The near-term risk relates to the potential for the QCA not to approve the UT5 DAAU as detailed on page 19 of this report, in which case the UT5 Final Decision will remain in place, resulting in a lower allowable revenue than under the UT5 DAAU.

##### 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.

Aurizon is also exposed to the risk of material regulatory breaches resulting in the loss of operating licences and financial penalties. In the event of a loss of licence, critical business operations may not be supplied to customers, impacting profitability and reputation.



### **Adverse Basin or Corridor Economics and General Economic Conditions**

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.

Aurizon develops its own position regarding future coal demand through our Strategy in Uncertainty framework which includes scenario analysis. This process considers both short-term impacts as well as risks that emerge over the medium to long term, where the timing and magnitude is less certain. Our management team and Board are directly engaged in helping to identify the scenarios for consideration in addition to development of plans and initiatives to position the organisation to mitigate risks and take advantage of opportunities. Given our customer's exposure (almost entirely) to export markets, in developing our own scenario analysis we assess global seaborne demand for metallurgical coal and thermal coal, driven primarily by steel production and energy generation respectively. Based on this addressable market, Australian supply is assessed considering the risks and opportunities for both current and future coal production. In addition to developing our own long-term outlook for seaborne coal demand, we also consider scenarios developed by external organisations such as the International Energy Agency (IEA) through the annual release of the World Energy Outlook (WEO).

### **Extend Strategic Lever**

#### **WIRP Non-Regulated Revenue Dispute**

Given that the decision of the Supreme Court of Queensland has been appealed by customers, there is potential the entire amount of the WIRP non-regulated fee as described on page 20 of this report is determined by the Court of Appeal to not be payable by the WIRP customers.

#### **Climate Change Risk**

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

#### **Transition Risks**

- › Demand for thermal coal is subject to energy policy and fuel-mix decisions driven by energy costs, energy security, and regulation of GHG emissions (including carbon pricing). Demand for metallurgical coal is subject to factors such as economic development, steel intensive growth, alternative methods of steel production and import reliance
- › Demand for metallurgical coal is subject to factors such as economic development, steel intensive growth, alternate methods of steel production, import reliance and regulation of GHG emissions (including carbon pricing)
- › Investor concern over climate-related risks may result in an inability for Aurizon, our customers and end-users of coal to gain licences, funding and insurance for coal mining, transport and coal-fired generation and/or steel production capacity
- › Carbon liability under the Safeguard Mechanism Rule and potential penalties for inappropriate carbon reporting under the National Greenhouse and Energy Reporting (NGER) Act

### **Physical Risks**

- › 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)

Climate change risks and opportunities are disclosed annually in Aurizon's sustainability report.

# Directors' Report (continued)

## OPERATING AND FINANCIAL REVIEW

### Sustainability

Aurizon's Sustainability Report details how Aurizon takes account of social, environmental and economic considerations related to its operations. In October 2018, Aurizon released its fifth Sustainability Report. In August 2019, Aurizon maintained a 'Leading' rating for the fifth consecutive year by the Australian Council of Superannuation Investors (ACSI) for Corporate Sustainability Reporting in Australia. Having received this rating for four or more consecutive years, Aurizon has again been considered a 'Leader' by ACSI, along with 45 other ASX200 companies.

This year will be the third reporting period in which Aurizon incorporates recommendations from the Financial Stability Board's (FSB) Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), 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.

Aurizon's 2019 Sustainability Report will be published in October 2019.

### Safety

At Aurizon safety is a core value and we are committed to achieving ZEROHarm. We have two primary safety metrics that are used to measure safety outcomes across the enterprise being Total Recordable Injury Frequency Rate (TRIFR) and Rail Process Safety.

Rail Process Safety, which measures operational safety including derailments, signals passed at danger and rollingstock collisions improved 14% against the prior year decreasing to 4.38. This is significant given these events, while low frequency, can potentially be high consequence so efforts to reduce risk are very important.

FY2019 TRIFR, which includes contractors, was 11.07 injuries per million hours worked, which was a 10% increase against the prior year. The data shows the actual number of total recordable injuries remained largely unchanged from the prior year and the increase can be attributed to the fact that the total number of recordable hours worked were lower. Nevertheless, the figure is disappointing and reinforces the importance of the continued rollout of the Seamless Safety program and other initiatives.

Aurizon also continues to focus on contractor safety through the Contractor Safety Community of Competence. During FY2019 this group of subject matter experts assisted in the goal of reducing injuries to contractors and improving TRIFR data quality.

### Environment

Aurizon's vision is to deliver environmental value through effective management of material environmental risks and improved enterprise environmental performance.

Aurizon continues to focus on efforts to improve visibility and transparency related to key and emerging environmental issues such as climate change and clean air.

Aurizon's leadership on diesel emissions was made evident through our contribution to the Code of Practice for Management of Locomotive Exhaust Emissions (CoP) published by the Rail Industry Safety and Standards Board in 2018. The CoP outlines emissions standards for new and existing fleet that must be met within 10 years of the effective date (1 December 2018).

In FY2019, Aurizon had two notifiable environmental incidents. Remediation actions have been implemented as required and no ongoing environmental impacts are anticipated.

### People

At Aurizon our values (Safety, People, Integrity, Customer and Excellence) guide our people's work in delivering bulk commodities to the world. During the year we have continued to focus on developing the capability of our people through:

- › Leadership programs designed to promote accountability and engage and enable employees
- › Further improve our people, processes and systems through cascading performance succession systems through the organisation
- › Review and implement a new HR system framework for HR policies to create easier access to key policies, tools and documents providing clearer accountability and greater flexibility

# Directors' Report (continued)

## REMUNERATION REPORT

Dear Fellow Shareholders

On behalf of the Board, we present Aurizon's Financial Year (FY) 2019 Remuneration Report. The Board believes the Company has performed well in difficult circumstances and wishes to recognise the Leadership Team's progress in executing our business strategy and achieving key milestones during the year, which have provided long-term certainty for the business.

The Leadership Team has continued to focus the Company's efforts during the year on the business strategy and improving our core business of delivering bulk commodity transport solutions for customers. We are using three strategic levers to deliver this continuous improvement and create long-term value for customers and shareholders – Optimise (our existing core business); Excel (to create competitive advantage), and Extend (to support long-term sustainable growth).

Our Coal business performed well, despite operational challenges of industrial action, weather-related and supply chain constraints. The Bulk business continued to progress with its turnaround program, securing new customers and improving business operations. The Network business reported record tonnages across the Central Queensland Coal Network (CQCN), with 232.7 million tonnes of coal delivered in FY2019.

A significant achievement in FY2019 was the agreement with coal customers for an alternate access undertaking for the CQCN. This establishes the foundation for much-needed regulatory reform for one of Australia's leading infrastructure assets and also the basis for a renewed relationship with our customers, based on productivity and a mutual interest in supply chain performance. We also completed the second stage exit from the loss-making Intermodal business by selling the Queensland Intermodal business to Linfox.

Over the past 12 months our safety performance has been mixed with improvement on Rail Process Safety which includes derailments, Signals Passed at Danger and rollingstock collisions and a disappointing deterioration in our Total Recordable Injury Frequency Rate which captures the number of injuries to employees and contractors per million hours worked.

The Short Term Incentive (STI) Award for FY2019 continued to be based on annual performance measures of Underlying EBIT, Safety and Individual Key Deliverables. Business Unit earnings metrics were introduced for Bulk and Coal in FY2019. Due to the uncertainty from Aurizon Network's Draft Access Undertaking, the Board determined that these arrangements would be introduced for Network from FY2020.

Strong performance across earnings and individual measures is reflected directly in the STI payments for our Key Management Personnel. Stretch performance was achieved for Group Underlying EBIT, Bulk EBIT and Rail Process Safety. There was no reward allocated for our Injury metric. The Board has determined that an overall outcome at or close to Stretch will be awarded to participants.

During FY2019, the 2016 Long Term Incentive (LTI) Award and unvested 2015 LTI Award were subject to testing however Aurizon's performance resulted in no components of these Awards vesting. This outcome is consistent with shareholder experience over the last three years. Aurizon's share price has seen a significant improvement over the past 12-months, which is expected to be reflected in vesting of future LTI Awards.

The fixed remuneration of the Executive Key Management Personnel (KMP) was reviewed and increases were awarded to the MD & CEO (1%), CFO & Group Executive Strategy (7%) and other Executive KMP (1%-3%).

The Board considers that these remuneration outcomes reach an appropriate balance both reflecting shareholder outcomes and recognising the value-adding contribution of the Leadership Team.

During FY2018 and FY2019, the Board conducted a comprehensive review of Aurizon's remuneration framework and performance metrics. The Board has determined that the current framework delivers against Aurizon's remuneration principles and, with minor adjustment, remains effective in driving performance. In FY2020, the STI metrics will include Network Earnings and Individual Key Deliverables related to improvement in safety performance and culture. The Return on Invested Capital hurdle for the 2019 LTI allocation has been set taking into account the current business outlook and the expected Network regulatory outcomes. The Board will continue to review and assess alternative remuneration structures implemented in the market.

As communicated last year, a market review of the Non-Executive Director remuneration framework resulted in changes to the reward structure – the first since 2012. The Chairman's fee was increased marginally and the remaining Non-Executive Directors transitioned from an 'all-in-one' to a 'base plus committee' fee structure, which was introduced over a two-year period.

We are grateful for your ongoing support.

Yours faithfully,



**Tim Poole**  
Chairman



**Russell Caplan**  
Chairman, Remuneration and Human Resources Committee

# Directors' Report (continued)

## REMUNERATION REPORT

### 1. Remuneration Report Introduction

Aurizon's remuneration practices are aligned with the Company's strategy of providing rewards that drive and reflect the creation of shareholder value whilst attracting and retaining Directors and Executives with the right capability to achieve results.

The Remuneration Report for the year ended 30 June 2019 is set out in Table 1. The information in this Report has been audited.

**TABLE 1 - TABLE OF CONTENTS**

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### 2. Directors and Executives

The Key Management Personnel (KMP) of the Group (being those whose remuneration must be disclosed in this Report) include the Non-Executive Directors and those Executives who have the authority and responsibility for planning, directing and controlling the activities of Aurizon.

The Non-Executive Directors and Executives that formed part of the KMP for the Financial Year (FY) ended 30 June 2019 are identified in Table 2.

Table 3 identifies other persons who were KMP at some time during FY2019.

**TABLE 2 - KEY MANAGEMENT PERSONNEL**

NAME	POSITION
<b>NON-EXECUTIVE DIRECTORS</b>	
T Poole	Chairman, Independent Non-Executive Director
M Bastos	Independent Non-Executive Director
R Caplan	Independent Non-Executive Director
M Fraser	Independent Non-Executive Director
S Lewis	Independent Non-Executive Director
K Vidgen	Independent Non-Executive Director
<b>EXECUTIVE KMP</b>	
A Harding	Managing Director & Chief Executive Officer
P Bains	Chief Financial Officer & Group Executive Strategy
C McDonald	Group Executive Bulk
E McKeiver	Group Executive Coal
M Riches	Group Executive Network

**TABLE 3 - FORMER KEY MANAGEMENT PERSONNEL**

NAME	POSITION
<b>FORMER NON-EXECUTIVE DIRECTORS</b>	
J Cooper <sup>1</sup>	Independent Non-Executive Director
K Field <sup>2</sup>	Independent Non-Executive Director

1 J Cooper ceased in the role and with the Company on 29 May 2019

2 K Field ceased in the role and with the Company on 18 October 2018

### 3. Remuneration Framework Components

#### Total Potential Remuneration

Aurizon's Remuneration Framework for each Executive comprises three components:

- › **Fixed remuneration** (not 'at risk') that comprises salary and other benefits, including superannuation
- › **STIA** ('at risk' component, awarded on the achievement of performance conditions over a 12-month period) that comprises both a cash component and a component deferred for 12 months into equity
- › **LTIA** ('at risk' component, awarded on the achievement of performance conditions over a four-year period) that comprises only an equity component

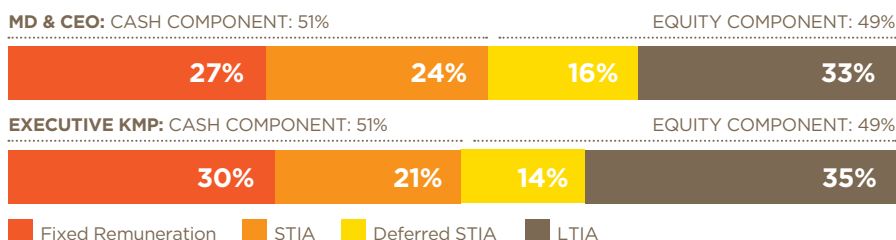
The structure is intended to provide an appropriate mix of fixed and variable remuneration, and provide a combination of incentives intended to drive performance against the Company's short and longer-term business objectives.

The mix of potential remuneration components for FY2019 for the MD & CEO and Executive KMP is set out in Figure 1: Total Potential Remuneration Financial Year 2019. This diagram demonstrates the revised remuneration mix for appointments, implemented since FY2017, where a greater portion of the total potential remuneration is weighted towards the LTIA.

#### Executive Remuneration Governance

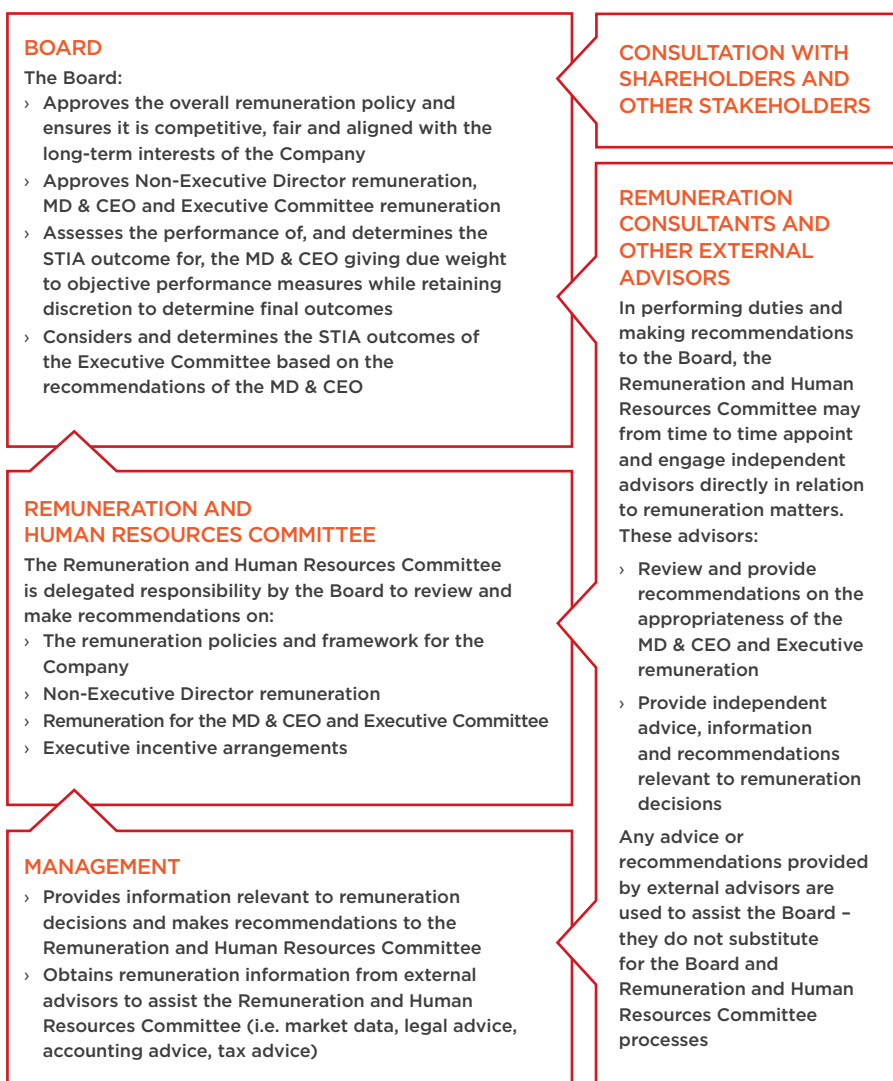
Figure 2 represents Aurizon's remuneration governance framework. Details on the composition of the Remuneration and Human Resources Committee (Committee) are set out on page 8 of this report. The Committee's Charter is available in the Governance section of the Company's website at [www.aurizon.com.au](http://www.aurizon.com.au)

**FIGURE 1 - TOTAL POTENTIAL REMUNERATION FINANCIAL YEAR 2019<sup>1</sup>**



<sup>1</sup> Assumes achievement of the stretch performance hurdle outcomes for STIA, full vesting of the Deferred STIA and LTIA at a value equal to the maximum opportunity of the original award i.e. assuming no share price appreciation

**FIGURE 2 - REMUNERATION GOVERNANCE FRAMEWORK**



# Directors' Report (continued)

## REMUNERATION REPORT

### Remuneration Framework and objectives Financial Year 2019

During FY2018 and FY2019, the Board conducted a comprehensive review of Aurizon's remuneration framework and performance metrics. The Board has determined that the current framework, as summarised in Figure 3, delivers against our remuneration principles and, with minor adjustment, remains effective in driving performance. The Board will continue to actively review and assess alternative structures implemented in the market.

**FIGURE 3 - REMUNERATION FRAMEWORK AND OBJECTIVES FOR FINANCIAL YEAR 2019**

	PERFORMANCE MEASURE	STRATEGIC OBJECTIVES AND LINK TO PERFORMANCE	FY2019 FRAMEWORK CHANGES
<b>FIXED REMUNERATION</b>	<p><b>Considerations:</b></p> <ul style="list-style-type: none"> <li>› Experience, qualifications</li> <li>› Role and responsibility</li> <li>› Retain key capability</li> <li>› Reference to remuneration paid by similar sized companies in similar industry sectors</li> <li>› Internal and external relativities</li> </ul>	<ul style="list-style-type: none"> <li>› To attract and retain Executives with the right capability to achieve results</li> </ul>	<p>Effective 1 July 2018, TFR increases were provided to ensure alignment with external peer group:</p> <ul style="list-style-type: none"> <li>› <b>MD &amp; CEO:</b> from \$1.7m to \$1.717m (1%)</li> <li>› <b>Other Executive KMP:</b> between 1% &amp; 7%</li> </ul>
<b>SHORT TERM INCENTIVE AWARD</b>	<ul style="list-style-type: none"> <li>› Underlying EBIT (Enterprise and, if applicable, Business Unit) (60%)</li> <li>› Safety (10%)</li> <li>› Individual (30%)</li> </ul> <p>Measured over a one-year performance period</p> <p>Participants can earn up to a maximum of 150% of "at-target" remuneration</p> <p><b>STIA at Risk:</b></p> <p><b>MD &amp; CEO:</b> Target 100% of Fixed Remuneration and maximum 150% of Fixed Remuneration</p> <p><b>Other Executive KMP:</b> Target 75% of Fixed Remuneration and maximum 112.5% of Fixed Remuneration</p>	<p>The financial and non-financial performance measures were chosen because:</p> <ul style="list-style-type: none"> <li>› <b>Underlying EBIT</b> delivers direct financial benefits to shareholders</li> <li>› <b>Safety</b> captures the need to continuously improve safety and embed safe, efficient and effective processes across all aspects of a heavy industry business</li> <li>› <b>Individual</b> aligns employee contribution to the achievement of Aurizon's strategy</li> </ul>	<ul style="list-style-type: none"> <li>› A greater proportion of the Award has been weighted towards Underlying EBIT from 40% to 60%</li> <li>› Introduction of <b>Business Unit measures</b> (Underlying EBIT) for Coal, Bulk (FY2019) and Network (FY2020)<sup>1</sup></li> <li>› Enterprise Transformation Program measure has been removed however the benefits have been embedded within the EBIT targets</li> </ul>
<b>LONG TERM INCENTIVE AWARD</b>	<ul style="list-style-type: none"> <li>› Relative Total Shareholder Return (TSR) (50%)</li> <li>› Return on Invested Capital (ROIC) (50%)</li> </ul> <p>Measured over a four-year performance period</p> <p><b>LTIA at Risk (Maximum):</b></p> <p><b>MD &amp; CEO:</b> 120% of Fixed Remuneration</p> <p><b>Other Executive KMP:</b> 112.5% of Fixed Remuneration</p>	<ul style="list-style-type: none"> <li>› <b>Relative TSR</b> is a measure of the return generated for Aurizon's shareholders over the performance period relative to a specific peer group of companies (from the ASX100 index)</li> <li>› <b>ROIC</b> reflects the fact that Aurizon operates a capital-intensive business and our focus should be on maximising the level of return generated on the capital we invest</li> </ul> <p><b>Note:</b> Minimum shareholding requirements for Executive KMP and the remainder of the Executive Committee encourages retention of shares and alignment with shareholder interests</p>	<p>No change</p>

#### Total Remuneration

Overall, Executive remuneration is designed to support the delivery of superior shareholder returns by placing a significant proportion of an Executive's total potential remuneration at risk and awarding a significant portion of at risk pay in equity

<sup>1</sup> Network did not have an EBIT target for remuneration purposes for FY2019 due to the unknown UT5 outcome which was awaiting Final Decision at the time targets were set. Group Executive Network will receive the Enterprise outcome for FY2019

#### 4. Company Performance for Financial Year 2019

Aurizon reported Group Underlying Earnings Before Interest and Tax (EBIT) of \$829 million for year ended 30 June 2019. The Non-Network businesses (Coal, Bulk and Other) delivered a \$450.1 million contribution to Group EBIT (excluding redundancy), above the non-Network EBIT guidance range of \$390m – \$430m. Aurizon Network delivered a \$400 million contribution to Group EBIT which includes Aurizon’s decision to recognise a one-off regulatory true-up of \$60 million to account for the UT5 Final Decision. The true-up is the largest contributor to the 12% reduction in Group EBIT from FY2018.

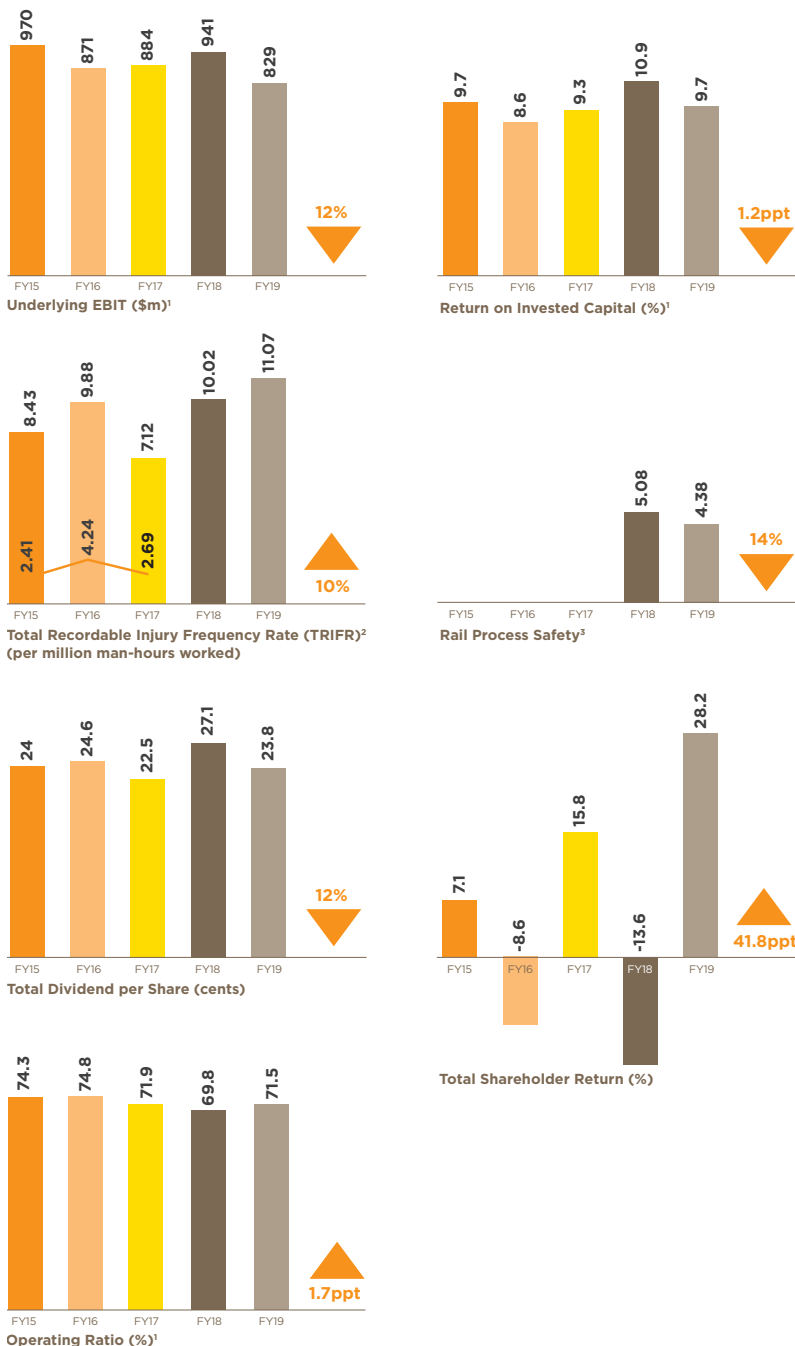
Progress in executing the business strategy and achieving key milestones during FY2019 have provided long-term certainty for the business. Key achievements include:

- Record tonnages across the Central Queensland Coal Network (CQCN) of 232.7 million tonnes
- New customers and improved business operations in Coal and Bulk
- An agreement with Coal customers for an alternate access undertaking for the CQCN delivering a range of benefits for Aurizon and its customers
- Successful second stage exit from the Intermodal business through the sale of the Queensland Intermodal business to Linfox
- An improvement in Rail Process Safety performance which includes derailments, Signals Passed at Danger and rollingstock collisions
- Completed bargaining for five Enterprise Agreements
- Continued delivery on programs focused on safety and performance culture, efficiencies and cost savings.

Figure 4 shows historical Company performance across a range of key metrics.

Strong performance across earnings and individual metrics is reflected directly in STIA payments. Detail related to performance against the FY2019 STIA performance measures is provided in Table 5 (page 31). Table 7 (page 32) provides additional information related to the LTIA performance outcomes.

FIGURE 4 – HISTORICAL COMPANY PERFORMANCE



1 Continuing operations

2 From FY2018, TRIFR definition has been redefined and contractor statistics have been included. Historical performance has been restated to include the extended definition for FY2015 – FY2017. Performance unaudited prior to FY2018. The line diagram depicts the historical performance under the previous definition

3 Rail Process Safety (Total Accident Rate and Signals Passed at Danger) was introduced from FY2018

# Directors' Report (continued)

## REMUNERATION REPORT

### 5. Take Home Pay

Table 4 identifies the actual remuneration received during FY2019 for Executive KMP.

The table has not been prepared in accordance with accounting standards but has been provided to ensure shareholders are able to clearly understand the remuneration outcomes for Executive KMP. Remuneration outcomes, which are prepared in accordance with the accounting standards, are provided in Section 10 (page 36).

Following a market review, effective 1 July 2018, Fixed Remuneration increases were provided to the MD & CEO (1%), CFO & Group Executive Strategy (7%) and other Executive KMP (1%-3%). The remuneration outcomes identified in Table 4 are directly linked to the Company performance described in Section 6 (page 31) and Section 7 (page 32).

The actual STIA is dependent on Aurizon, Business Unit and individual performance as described in Section 6.

Varying performance across our key measures is also reflected directly in the payments for our Executive KMP, which range from 93% to 100% of their potential maximum.

The actual vesting of the LTIA is dependent on Aurizon's performance and the outcomes are further described in Section 7.

During FY2019, the 2016 Award and 2015 Award (Retest) were subject to testing. However, Aurizon's performance resulted in no components of these Awards vesting.

**TABLE 4 - REMUNERATION EARNED IN FINANCIAL YEAR 2019**

NAME	FIXED REMUNERATION \$'000	NON-MONETARY BENEFITS <sup>1</sup> \$'000	STIA CASH <sup>2</sup> \$'000	STIA DEFERRED FROM PRIOR YEAR <sup>3</sup> \$'000	LTIA VESTING <sup>4</sup> \$'000	SHARE PRICE APPRECIATION <sup>5</sup> \$'000	ACTUAL FY2019 REMUNERATION OUTCOMES \$'000
<b>EXECUTIVE KMP</b>							
A Harding	1,717	-	1,545	838	-	237	4,337
P Bains	750	3	506	260	-	73	1,592
C McDonald	606	52	409	229	-	65	1,361
E McKeiver	660	57	416	234	-	66	1,433
M Riches	695	-	469	226	-	64	1,454

1 The amount relates to Reportable Fringe Benefits for the respective FBT year ending 31 March and includes travel benefits and relocation assistance

2 The amount relates to the cash component (60%) of the FY2019 STIA which will be paid in September 2019

3 The amount relates to the deferred component (40%) of the FY2018 STIA which was awarded in performance rights and will vest in September 2019 (calculation assumes a share price of \$4.21)

4 The amount is the number of rights which would have vested in August 2019. As the performance hurdles were not met no rights vested

5 The amount is the number of rights which vest in September 2019 multiplied by the increase in the Aurizon share price over the period ended 30 June 2019 (calculation assumes share price appreciation of \$1.19)



## 6. Short Term Incentive Award

### What is the STIA and who participates?

The STIA is 'at risk' remuneration subject to the achievement of pre-defined Company and individual performance hurdles which are set annually by the Board at the beginning of the performance period. For each component of the STIA, three performance levels are set:

- › *Threshold*, below which no STIA is paid for that component
- › *Target*, which typically aligns to relevant corporate plans and budgets, a business improvement targeted outcome or reflects an improvement on historical achievement
- › *Stretch*, outcomes which are materially better than Target

The STIA applies in a similar manner to all non-enterprise agreement employees. For the MD & CEO, Executive KMP and the remaining Executive Committee (direct reports to the MD & CEO) a portion (40%) will be deferred into equity for a period of 12 months, subject to the Board's ability to claw-back.

### What are the Company performance measures?

The performance measures which apply to all participants are Underlying EBIT, Safety and Individual.

From FY2019, the portion of the STIA weighted towards underlying EBIT has increased (from 40% to 60%). Additionally, Business Unit measures have been included for Bulk and Coal (FY2019) and Network (FY2020). Each measure has a defined level of performance.

Network did not have an EBIT target, for remuneration purposes, for FY2019 due to the unknown UT5 outcome which was awaiting Final Decision at the time targets were set.

The measures capture the need to continuously improve safety across the business, strengthen and grow our current business whilst continuing to transform the Enterprise. This is achieved through a focus on people and asset efficiencies whilst at the same time, delivering benefits to shareholders. Individual performance hurdles relate to each specific role and measure an individual's contribution.

### What is the amount that participants can earn through an STIA?

The employment agreements specify a target STIA, expressed as a percentage of Fixed Remuneration (100% for the MD & CEO and 75% for the remaining Executive KMP). Each participant can earn between 0% up to a maximum of 150% of this target percentage, depending on performance and subject to Board discretion. Depending on performance assessed at year end, participants may earn for each enterprise measure: 0% for performance below *Threshold*, 50% at *Threshold* (for measures other than Underlying EBIT, for which Threshold earnings are 30%) with a linear scale up to 100% at Target performance; and a further linear scale to 200% at *Stretch* performance.

### What are the outcomes for FY2019?

Table 5 identifies the performance measures, relevant weightings and outcomes for FY2019. The FY2019 actual outcomes for Executive KMP are identified within Table 6.

TABLE 5 – SHORT TERM INCENTIVE AWARD FINANCIAL YEAR 2019 OBJECTIVES

PERFORMANCE MEASURE	WEIGHTING		TARGET	FY2019 PERFORMANCE OUTCOME
	MD & CEO, CFO & NETWORK <sup>1</sup>	COAL & BULK		
<b>ENTERPRISE</b>				
<b>Group EBIT<sup>2</sup>:</b> Underlying EBIT delivers financial benefit to shareholder through the achievement of underlying operating earnings	60%	30%	\$787m	\$829m ●
<b>Group Safety:</b> The measures capture the need to continuously improve safety across all of the Company measured through equally weighted parameters which include:				
› Total reportable injury Frequency Rate (TRIFR)	5%	5%	7.96	11.07 ●
› Rail Process Safety (Total Accident Rate and Signals Passed at Danger)	5%	5%	5.34	4.38 ●
<b>BUSINESS UNIT<sup>1</sup></b>				
Coal EBIT:	-	30%	Performance targets vary for each Business Unit	\$415.1m ●
Bulk EBIT:				\$37.3m ●
<b>INDIVIDUAL:</b> Performance hurdles for the Executive KMP are established on an annual basis by the MD & CEO and are based on the individual contribution to the achievement of the Aurizon strategy of continuing to optimise, excel and extend the business. In the case of the MD & CEO the individual hurdles are established by the Board. FY2019 included:	30%	30%	Individual performance targets vary for each specific role	Personal outcomes for MD & CEO and Executive KMP varied between above Target and Stretch depending on performance against KPIs ●
› Deliver Enterprise Strategic Plan				
› Transformation				
› Intermodal exit				
› Regulatory strategy				
› Advancement of key technology projects				
<b>TOTAL OUTCOME</b>	100%	100%		●

1 Network did not have an EBIT target for remuneration purposes for FY2019 due to the unknown UT5 outcome which was awaiting Final Decision at the time targets were set. Group Executive Network will receive the Enterprise outcome

2 Company performance hurdles relate to continuing operations

● Stretch ● Between Target & Stretch ● Target ● Between Threshold & Target ● Threshold ● Below Threshold

TABLE 6 – SHORT TERM INCENTIVE AWARDED IN FINANCIAL YEAR 2019

NAME	AWARDED FY2019 (\$'000)					% OF TARGET STIA	% OF MAXIMUM STIA <sup>2</sup>
	TARGET STIA \$'000	MAXIMUM POTENTIAL STIA (\$'000)	CASH COMPONENT	DEFERRED SHARE COMPONENT <sup>1</sup>	TOTAL STIA PAYMENT		
<b>EXECUTIVE KMP</b>							
A Harding	1,717	2,576	1,545	1,031	2,576	150	100
P Bains	563	844	506	338	844	150	100
C McDonald	455	682	409	273	682	150	100
E McKeiver	495	743	416	277	693	140	93
M Riches	521	782	469	313	782	150	100

1 A portion (40%) awarded in the form of rights to shares, which vest on the first anniversary of payment of the cash component subject to Board's ability to 'claw-back'

2 Executives have forfeited between 0% and 7% of their maximum potential outcomes

# Directors' Report (continued)

## REMUNERATION REPORT

### 7. Long Term Incentive Award

#### What is the LTIA and who participates?

The LTIA is the component of Total Potential Remuneration linked to providing long-term incentives for selected Executives whom the Board has identified as being able to contribute directly to the generation of long-term shareholder returns. This includes the MD & CEO, Executive KMP, the remaining Executive Committee (direct reports to the MD & CEO) and a number of other management employees.

#### How is the LTIA determined?

The number of performance rights issued under the LTIA to each Executive is calculated by dividing their respective LTIA potential remuneration (expressed as a percentage of Fixed Remuneration) by the five-day Volume Weighted Average Price (VWAP) of Aurizon shares at the time of their award.

Each performance right is a right to receive one share in Aurizon upon vesting.

The number of performance rights that vest is determined by performance outcomes compared against predetermined company hurdles as described in Table 7 and Table 8.

#### What happens when performance rights vest?

Performance rights awarded under the LTIA vest subject to the satisfaction of company hurdles. Rights vest and the resulting shares are transferred to the Executive at no cost to the Executive. Value of the award will be subject to movements in the Aurizon share price over the performance period. Company performance against LTIA subject to testing in FY2019 is identified in Table 7.

#### What is the amount that Executives can earn through an LTIA?

The maximum potential remuneration (expressed as a percentage of Fixed Remuneration) available through the LTIA is 120% in the case of the MD & CEO and 112.5% for the remaining Executive KMP.

#### What is the performance period?

From the 2017 Award, company hurdles are measured over an extended performance period, which increased from a three to a four-year performance period.

In the event that a hurdle is not achieved in relation to the 2015 Award, the performance period may be extended for a further year at the discretion of the Board. In the event of a performance period extension, in order for any additional performance rights to vest on the later date, Aurizon has to achieve stronger performance than that required for the original performance period in the final year.

Retesting was removed from the 2016 Award and has not formed part of any subsequent awards.

TABLE 7 – COMPANY PERFORMANCE AGAINST LONG TERM INCENTIVE AWARDS SUBJECT TO TESTING IN FINANCIAL YEAR 2019

COMPANY HURDLE AND PERFORMANCE MEASUREMENT PERIOD		WEIGHTING	RESULT	% VESTED	% FOR RETESTING	% LAPSED
<b>2015 AWARD: RETEST 01 JULY 2015 – 30 JUNE 2019</b>						
<b>Relative TSR:</b> against peer group within ASX100 Index	<b>Initial:</b> 30% of rights vest at the 50th percentile, 75% at the 62.5th percentile up to 100% at the 75th percentile	33%	Below median (FY2018) ●	0%	100% of this component was subject to a single retest in FY2019	
	<b>Retest:</b> 100% of rights vest at the 75th percentile. 0% vest below the 75th percentile		Below top quartile (FY2019) ●	0%		
<b>OR Improvement</b>	<b>Initial:</b> 50% of rights vest with a FY2018 OR of 71.5%, up to 100% at 70%	34%	72.5% <sup>1</sup> (FY2018) ●	0%	100% of this component was subject to a single retest in FY2019	
	<b>Retest:</b> 100% of rights vest at or below 69%. 0% will vest with an OR above 69%		72.8% <sup>1</sup> (FY2019) ●	0%		
<b>ROIC:</b> average annual ROIC <b>Initial:</b> FY2016 – FY2018 <b>Retest:</b> FY2016 – FY2019	<b>Initial:</b> 50% of rights vest with an average ROIC of 10.5%, up to 100% at 11.5%	33%	8.7% <sup>2</sup> (FY2018) ●	0%	100% of this component was subject to a single retest in FY2019	
	<b>Retest:</b> 100% of rights vest with an average ROIC of 12.5%. 0% below 12.5%		8.5% <sup>2</sup> (FY2019) ●	0%		
<b>2016 AWARD: 01 JULY 2016 – 30 JUNE 2019</b>						
<b>Relative TSR:</b> against peer group within ASX100 Index	30% of rights vest at the 50th percentile, 75% at the 62.5th percentile up to 100% at the 75th percentile	35%	Below median ●	0%	Retesting does not form part of the 2016 Award	100%
<b>OR Improvement</b>	50% of rights vest with a FY2019 OR of 70%, up to 100% at 68.5%	15%	72.8% <sup>1</sup> ●	0%		100%
<b>ROIC:</b> average annual ROIC FY2017 – FY2019	50% of rights will vest with an average ROIC of 10.5%, up to 100% at 11.5%	50%	8.5% <sup>2</sup> ●	0%		100%

1 OR for remuneration purposes has been adjusted to include Intermodal (until the divestment is completed or the business is closed). The adjustment will be limited to underlying items and excluded any one-off items. This ensures that the definition used is consistent with when the performance hurdles were set. OR for continuing operations was 69.8% (FY2018) and 71.5% (FY2019)

2 ROIC for remuneration purposes has been adjusted to reflect asset impairments which have occurred during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements. Reported ROIC is 9.4% for the 2015 Award (FY2016 – FY2018), 9.6% for the 2015 Award (Retest FY2016 – FY2019) and 10% for the 2016 Award (FY2017 – FY2019)

● Maximum ● Between Minimum and Maximum ● Minimum ● Below Minimum

**TABLE 8 - LONG TERM INCENTIVE AWARD PERFORMANCE OVERVIEW AND HURDLES**

<b>TSR</b>	<p>The vesting of rights for relative TSR growth is conditional on Aurizon's TSR performance relative to a peer group of companies in the ASX100 index (approximately 70) that are broadly comparable to Aurizon (i.e. with which Aurizon competes for capital and/or capability). Property trusts (from 2016 Award) and telecommunications companies (from 2017 Award) are no longer excluded from the comparator group. Financial, healthcare, biotechnology, casinos and gaming companies are excluded from the comparator group.</p> <p>TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. The TSR of Aurizon over the performance period will be compared to the TSR of all of the companies in the peer group which are still listed at the end of the performance period. The relevant share prices will be determined by reference to a VWAP over a period to smooth any short-term 'peaks' or 'troughs'. Relative TSR performance is verified by an independent expert at the end of each Financial Year.</p>
<b>ROIC</b>	<p>ROIC, for the purposes of the LTIA, will be calculated on the same basis as the published ROIC except to the extent of the differences explained in this section. Essentially, ROIC is Underlying EBIT divided by Invested Capital. For the purposes of LTIA, invested capital will exclude major (infrastructure investments with an approved budgeted capital expenditure over \$250m) assets under construction (AUC) until these investments are planned to generate income, subject to Board discretion (for example, in the case of a delay judged to be outside the control of management and not able to be foreseen or mitigated).</p> <p>ROIC for remuneration purposes will be adjusted (add-back depreciation charge and invested capital) to reflect asset impairments which occur during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements.</p>
<b>OR</b>	<p>OR improvement essentially measures the operating costs as a percentage of revenue. Aurizon is committed to reducing OR through further implementation or transformation initiatives, growth initiatives and continued tight operational and financial discipline. The Board determined that OR will no longer form part of the LTIA from the 2017 Award. It was always intended that the use of OR had a finite life-span. Whilst OR will continue to be managed and improved it will no longer be used for remuneration purposes with the balance of future awards weighted towards TSR and ROIC which are better aligned to a long asset life infrastructure company.</p> <p>In August 2017, Aurizon announced its intention to exit the Intermodal business. Accordingly, the entire Intermodal business has been treated as a discontinued item for reporting purposes. Shareholders have been unable to realise the benefit of fully exiting the Intermodal business in both FY2018 and FY2019. As a result, the Board determined that OR for remuneration purposes will be adjusted to include Intermodal (until the divestment is completed or the business is closed). The adjustment was limited to underlying items and will exclude any one-off items. This ensures that the definition used is consistent with when the performance hurdles were set.</p>

	WEIGHTING	MINIMUM VESTING POINT		MAXIMUM VESTING POINT
<b>2017 AWARD (3 YEAR): 01 JULY 2017 - 30 JUNE 2020<sup>1</sup></b>				
<b>Relative TSR:</b> against peer group within ASX100 Index	50%	30% of rights will vest at the 50th percentile	75% of rights will vest at the 62.5th percentile	100% of rights will vest at the 75th percentile
<b>ROIC:</b> average annual ROIC FY2018 - FY2020 <sup>2</sup>	50%	50% of rights vest with an average ROIC of 10.5%		100% of rights will vest with an average ROIC of 11.5%
<b>2017 AWARD (4 YEAR): 01 JULY 2017 - 30 JUNE 2021<sup>1</sup></b>				
<b>Relative TSR:</b> against peer group within ASX100 Index	50%	30% of rights will vest at the 50th percentile	75% of rights will vest at the 62.5th percentile	100% of rights will vest at the 75th percentile
<b>ROIC:</b> average annual ROIC FY2018 - FY2021 <sup>2</sup>	50%	50% of rights vest with an average ROIC of 10.5%		100% of rights will vest with an average ROIC of 11.5%
<b>2018 AWARD: 01 JULY 2018 - 30 JUNE 2022</b>				
<b>Relative TSR:</b> against peer group within ASX100 Index	50%	30% of rights will vest at the 50th percentile	75% of rights will vest at the 62.5th percentile	100% of rights will vest at the 75th percentile
<b>ROIC:</b> average annual ROIC FY2019 - FY2022 <sup>2</sup>	50%	50% of rights vest with an average ROIC of 9%		100% of rights will vest with an average ROIC of 10%
<b>2019 AWARD: 01 JULY 2019 - 30 JUNE 2023</b>				
<b>Relative TSR:</b> against peer group within ASX100 Index	50%	30% of rights vest at the 50th percentile	75% of rights will vest at the 62.5th percentile	100% of rights will vest at the 75th percentile
<b>ROIC:</b> average annual ROIC FY2020 - FY2023 <sup>3,4</sup>	50%	50% of rights vest with an average ROIC of 9.5%		100% of rights will vest with an average ROIC of 10.5%
All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points				

1 From the 2017 Award, company hurdles are measured over an extended performance period, which increased from a three-year performance period to a four-year performance period. In order to facilitate this transition two awards were issued at 75% of the maximum vesting opportunity in FY2018

2 Following the expected Network regulatory outcomes, the Board has determined that no adjustment will be made to the hurdles for the 2017 and 2018 Awards

3 With the introduction of the new lease accounting standard effective from 1 July 2019, which has the effect of bringing leases to the balance sheet, we have completed a review of our current ROIC calculation and simplified the definition of invested capital which will be applied for the 2019 Award. This definition change has no material impact on ROIC

4 ROIC hurdles for the 2019 Award have been set taking into account the current business outlook and the expected Network regulatory outcomes

### How does Aurizon utilise Retention awards?

In some circumstances, as approved by the Board, Management may recommend using retention awards where the services of an individual are considered critical to Aurizon over the short-to-medium term and the existing remuneration arrangements are thought to be insufficient to retain those services. Retention awards may be time-based or project-based and are governed by stringent performance conditions and may be cash-based or equity-based. During FY2019, no retention awards were issued to Executive KMP but a number were issued to other employees. Further information is available in note 29 of the Financial Report (page 92).

# Directors' Report (continued)

## REMUNERATION REPORT

### 8. Executive Employment Agreements

#### Executive Employment Agreements

Remuneration and other terms of employment for the MD & CEO and Executive KMP are formalised in an Employment Agreement as summarised in Table 9.

#### Minimum shareholding policy for Executives

To align KMP and the Executive Committee (direct reports to the MD & CEO) with shareholders, the Company requires:

- › Non-Executive Directors to accumulate and maintain one year's Total Directors' fees (consisting of Directors' fee plus applicable Committee fee/s) of shares in the Company
- › the MD & CEO to accumulate and maintain one year's Fixed Remuneration of shares in the Company
- › the remaining Executive KMP and Executive Committee to accumulate and maintain 50% of one year's Fixed Remuneration of shares in the Company

This is to be achieved within six years of the date of their appointment. This will be calculated with reference to the Total Directors' fees and Executives' Fixed Remuneration during the period divided by the number of years.

Details of KMP shareholdings as at 30 June 2019 are set out in Table 10.

#### Hedging and margin lending policies

Aurizon has in place a policy that prohibits Executives from hedging economic exposure to unvested rights that have been issued pursuant to a Company employee share plan. The policy also prohibits margin loan arrangements for the purpose of purchasing Aurizon shares. Adherence to this policy is monitored regularly and involves each Executive signing an annual declaration of compliance with the policy.

TABLE 9 - EMPLOYMENT AGREEMENTS

NAME	DURATION OF EMPLOYMENT AGREEMENT	FIXED REMUNERATION AT END OF FINANCIAL YEAR 2019 <sup>1</sup>	NOTICE PERIOD <sup>2</sup>	
			BY EXECUTIVE	BY COMPANY <sup>3</sup>
<b>EXECUTIVE KMP</b>				
A Harding	Ongoing	\$1,717,000	6 months	12 months
P Bains	Ongoing	\$750,000	3 months	6 months
C McDonald	Ongoing	\$606,000	3 months	6 months
E McKeiver	Ongoing	\$660,000	3 months	6 months
M Riches	Ongoing	\$695,000	3 months	6 months

1 Fixed remuneration includes a superannuation component

2 Post employment restraints in any competitor business in Australia is aligned to the notice period

3 Any termination payment will be subject to compliance with the Corporations Act and will not exceed 12 months

TABLE 10 - KMP SHAREHOLDINGS AS AT 30 JUNE 2019

NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON VESTING	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	% OF FIXED REMUNERATION <sup>1</sup>
<b>NON-EXECUTIVE DIRECTORS</b>					
T Poole	90,500	-	-	90,500	100%
M Bastos	11,400	-	-	11,400	27%
R Caplan <sup>2</sup>	82,132	-	-	82,132	197%
M Fraser	40,000	-	30,000	70,000	166%
S Lewis	33,025	-	-	33,025	78%
K Vidgen	40,000	-	-	40,000	104%
<b>EXECUTIVE KMP</b>					
A Harding	10,000	42,076	30,000	82,076	26%
P Bains	23,348	45,279	-	68,627	49%
C McDonald	105,694	12,774	(7,500)	110,968	99%
E McKeiver	56,929	-	-	56,929	47%
M Riches	-	-	-	-	0%

1 Assumes Total Directors' Fees and Fixed Remuneration as at 30 June 2019 and the calculation assumes a share price of \$5.40

2 KMP required to meet the minimum shareholding requirement due to length of service in a KMP role being longer than six years

## 9. Non-Executive Director Remuneration

Fees for Non-Executive Directors are set at a level to attract and retain Directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for Aurizon.

Remuneration for Non-Executive Directors is reviewed by the Committee and set by the Board, taking into account external benchmarking. Fees and payments to Non-Executive Directors are reviewed annually by the Board and reflect the demands which are made on, and the responsibilities of, the Directors.

The Chairman's fees are determined independently to the fees of Non-Executive Directors, based on comparative roles in the external market. The Chairman does not participate in any discussions relating to the determination of his own remuneration.

### Fee Structure

As previously communicated, in FY2018, a market review of Non-Executive Director fees was undertaken which resulted in changes to the reward structure – the first since 2012.

The Chairman's fee continues to be inclusive of fees for Committee memberships, however, at a higher rate. For the other Non-Executive Directors there has been a change to the structure to a 'base plus Committee' fee from an 'all-in-one' fee. This change resulted in a decrease to the base Directors' fee as described in Table 11.

In addition, to the base Directors' fee, other Non-Executive Directors received the applicable fee component for Committee chairperson and/or membership responsibilities. The Committee fees were introduced over a two-year period and the changes are provided in Table 12. The actual remuneration outcomes for the Non-Executive Directors of the Company is summarised in Table 13. Details of the Non-Executive Director membership is disclosed on page 8.

The base Directors' fee and Committees fees include both cash and any contributions to a fund for the purposes of superannuation benefits. There are no other retirement benefits in place for Non-Executive Directors. Non-Executive Directors do not receive a performance pay.

### What are the aggregate fees approved by shareholders?

\$2.5 million. The cap does not include remuneration for performing additional or special duties for Aurizon at the request of the Board or reasonable travelling, accommodation and other expenses of Director in attending meetings and carrying out their duties.

TABLE 11 – DIRECTORS' FEES

DIRECTORS	TERM	EMPLOYMENT AGREEMENT SUMMARY	
		FROM 1 JANUARY 2018	PRIOR FEE
Chairman	Directors' fees (inclusive of all responsibilities and superannuation)	\$490,000	\$475,000
Other Non-Executive Directors	Directors' fees (inclusive of all responsibilities and superannuation)	\$170,000	\$190,000

TABLE 12 – COMMITTEE FEES

	TERM	NETWORK BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND HUMAN RESOURCES COMMITTEE	SAFETY, HEALTH AND ENVIRONMENT COMMITTEE
Chairperson	1 January 2019	\$40,000	\$40,000	\$35,000	\$35,000
	1 January 2018	\$30,000	\$30,000	\$17,500	\$17,500
Member	1 January 2019	\$20,000	\$20,000	\$17,500	\$17,500
	1 January 2018	\$20,000	\$20,000	\$8,750	\$8,750

TABLE 13 – NON-EXECUTIVE DIRECTORS' REMUNERATION

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	TOTAL REMUNERATION \$'000
		SALARY AND FEES <sup>1</sup> \$'000	NON-MONETARY BENEFITS <sup>2</sup> \$'000	SUPERANNUATION \$'000	
<b>NON-EXECUTIVE DIRECTORS</b>					
T Poole	2019	469	3	21	493
	2018	461	-	20	481
M Bastos	2019	194	-	18	212
	2018	109	-	10	119
R Caplan	2019	197	-	19	216
	2018	181	-	17	198
M Fraser	2019	199	-	19	218
	2018	181	-	17	198
S Lewis	2019	199	3	19	221
	2018	181	-	17	198
K Vidgen	2019	185	-	18	203
	2018	177	-	17	194
<b>FORMER NON-EXECUTIVE DIRECTORS</b>					
J Cooper	2019	183	-	17	200
	2018	181	-	17	198
K Field	2019	61	-	6	67
	2018	181	-	17	198
<b>Total</b>	2019	1,687	6	137	1,830
	2018	1,652	-	132	1,784

1 Salary and fees include any salary sacrificed benefits

2 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective FBT year ending 31 March

# Directors' Report (continued)

## REMUNERATION REPORT

### 10. Executive Remuneration Financial Year 2019

The table below details the number and value of movements in equity awards during FY2019.

**TABLE 14 - RIGHTS GRANTED AS COMPENSATION**

NAME	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR <sup>1</sup>	VALUE OF RIGHTS GRANTED IN YEAR	VESTED IN YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	FORFEITED IN YEAR
		NO.	NO.	\$'000	%	NO.	NO.	%
<b>EXECUTIVE KMP</b>								
A Harding	2016 <sup>2</sup>	463,636						
	2017 STIAD <sup>5</sup>	42,076			100%	(42,076)		
	2017 (3 year)	295,938						
	2017 (4 year)	295,938						
	2018 STIAD <sup>6</sup>	-	199,050	838				
	2018	-	459,911	1,185				
P Bains	2014	49,382					(49,382)	100%
	2015 <sup>3</sup>	46,066						
	2016 - Ret <sup>4</sup>	25,000			100%	(25,000)		
	2016 <sup>3</sup>	60,776						
	2017 STIAD <sup>5</sup>	20,279			100%	(20,279)		
	2017 (3 year)	114,241						
	2017 (4 year)	114,241						
	2018 STIAD <sup>6</sup>	-	61,663	260				
	2018	-	188,337	481				
C McDonald	2014	55,555					(55,555)	100%
	2015 <sup>3</sup>	51,824						
	2016 <sup>3</sup>	60,776						
	2017 STIAD <sup>5</sup>	12,774			100%	(12,774)		
	2017 (3 year)	97,921						
	2017 (4 year)	97,921						
	2018 STIAD <sup>6</sup>	-	54,442	229				
	2018	-	152,176	389				
E McKeiver	2014	59,260					(59,260)	100%
	2015 <sup>3</sup>	55,279						
	2016 <sup>3</sup>	64,656						
	2017 (3 year)	104,449						
	2017 (4 year)	104,449						
	2018 STIAD <sup>6</sup>	-	55,677	234				
	2018	-	165,737	423				
M Riches	2017 (3 year)	110,161						
	2017 (4 year)	110,161						
	2018 STIAD <sup>6</sup>	-	53,682	226				
	2018	-	174,526	446				

<sup>1</sup> The number of performance rights awarded, as described in Section 7, is a function of the market price (5-day VWAP) at the time of the award, that is, 'face value'. For remuneration purposes, Aurizon does not use fair value to determine LTI Awards

<sup>2</sup> Date on which the grant vests will be adjusted for awards eligible for retest. Retesting has been removed from the 2016 Award onwards

<sup>3</sup> Details of the vesting outcomes are described in Table 7

<sup>4</sup> Retention Award as described in Section 7 in the FY2018 Remuneration Report

<sup>5</sup> Deferred STIA component as described in Section 3 and Section 5 of this report and Table 6 in the FY2017 Remuneration Report

<sup>6</sup> Deferred STIA component as described in Section 3 and Section 5 of this report and Table 5 in the FY2018 Remuneration Report

VALUE OF RIGHTS FORFEITED IN YEAR	BALANCE AT END OF YEAR	WEIGHTED FAIR VALUE PER RIGHT AT GRANT DATE	GRANT DATE	DATE ON WHICH GRANT VESTS <sup>2</sup>	EXPIRY DATE
\$'000	NO.	\$			
	463,636	3.49	18-Oct-17	7-Sept-19	31-Dec-19
	-	5.01	18-Sept-17	18-Sept-18	31-Dec-18
	295,938	3.09	18-Oct-17	18-Oct-20	31-Dec-20
	295,938	2.99	18-Oct-17	18-Oct-21	31-Dec-21
	199,050	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	459,911	2.58	18-Oct-18	18-Oct-22	31-Dec-22
176	-	3.57	18-Aug-14	18-Aug-18	31-Dec-18
	46,066	4.00	17-Aug-15	17-Aug-18	31-Dec-19
	-	4.74	1-Jul-16	30-Jun-18	7-Jan-19
	60,776	3.45	7-Oct-16	7-Oct-19	31-Dec-19
	-	5.01	18-Sept-17	18-Sept-18	31-Dec-18
	114,241	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	114,241	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	61,663	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	188,337	2.56	5-Oct-18	5-Oct-22	31-Dec-22
198	-	3.57	18-Aug-14	18-Aug-18	31-Dec-18
	51,824	4.00	17-Aug-15	17-Aug-18	31-Dec-19
	60,776	3.45	7-Oct-16	7-Oct-19	31-Dec-19
	-	5.01	18-Sept-17	18-Sept-18	31-Dec-18
	97,921	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	97,921	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	54,442	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	152,176	2.56	5-Oct-18	5-Oct-22	31-Dec-22
211	-	3.57	18-Aug-14	18-Aug-18	31-Dec-18
	55,279	4.00	17-Aug-15	17-Aug-18	31-Dec-19
	64,656	3.45	7-Oct-16	7-Oct-19	31-Dec-19
	104,449	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	104,449	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	55,677	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	165,737	2.56	5-Oct-18	5-Oct-22	31-Dec-22
	110,161	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	110,161	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	53,682	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	174,526	2.56	5-Oct-18	5-Oct-22	31-Dec-22



# Directors' Report (continued)

## REMUNERATION REPORT

Details of the remuneration paid to Executives are set out below and has been prepared in accordance with the accounting standards.

**TABLE 15 - EXECUTIVE REMUNERATION**

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	EQUITY-SETTLED SHARE-BASED PAYMENTS	CONTRACTUAL TERMINATION BENEFITS \$'000	TOTAL \$'000	PROPORTION OF COMPENSATION PERFORMANCE RELATED <sup>6</sup> %	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR %
		CASH SALARY AND FEES <sup>1</sup> \$'000	CASH BONUS \$'000	ANNUAL LEAVE <sup>2</sup> \$'000	NON-MONETARY BENEFITS <sup>3</sup> \$'000	SUPER-ANNUATION <sup>4</sup> \$'000	LONG-SERVICE LEAVE \$'000	RIGHTS <sup>5</sup> \$'000				
EXECUTIVE KMP		A	B	C	D	E	F	G	H	I	J	K
A Harding	2019	1,696	1,545	34	-	21	36	814	-	4,146	57	20
	2018	1,680	1,257	(4)	109	20	10	1,012	-	4,084	56	25
P Bains	2019	674	506	15	3	76	34	297	-	1,605	50	19
	2018	621	389	24	2	79	15	399	-	1,529	52	26
C McDonald	2019	585	409	23	52	21	(51)	178	-	1,217	48	15
	2018	580	344	18	58	20	14	307	-	1,341	49	23
E McKeiver	2019	639	416	(18)	57	21	23	153	-	1,291	44	12
	2018	620	352	24	69	20	53	293	-	1,431	45	20
M Riches	2019	672	469	23	0	21	5	490	-	1,680	57	29
	2018 <sup>7</sup>	612	339	11	12	19	4	148	-	1,145	43	13
<b>Total</b>	<b>2019</b>	<b>4,266</b>	<b>3,345</b>	<b>77</b>	<b>112</b>	<b>160</b>	<b>47</b>	<b>1,932</b>	<b>-</b>	<b>9,939</b>	<b>53</b>	<b>19</b>
<b>Executive KMP compensation (group)</b>	2018	4,113	2,681	73	250	158	96	2,159	-	9,530	51	23

1 Cash salary and fees include any salary sacrifice benefits

2 Annual leave represents annual leave accrued or taken during the financial year. Negative amounts represent the taking of annual leave

3 Non-monetary benefits represents the value of Reportable Fringe Benefits for the respective FBT year ending 31 March and includes travel benefits and relocation assistance

4 Superannuation amounts represent employers' contribution to superannuation

5 The accounting expense recognised in relation to rights granted in the year is the fair value independently calculated at grant date using an expected outcome model. This was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period. Refer to note 29 for further details regarding the fair value of Rights. These values may not represent the future value that the Executive will receive, as the vesting of the Rights is subject to the achievement of performance conditions. This includes the cost of deferred short-term incentives and long-term incentives

6 The short-term incentives (cash bonus), deferred short-term incentives and long-term incentives (equity settled share-based payments) represent the at-risk performance related remuneration

7 M Riches was appointed to Group Executive Network on 24 July 2017



## *Auditors' Independence Declaration*

As lead auditors for the audit of Aurizon Holdings Limited for the year ended 30 June 2019, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Nadia Carlin  
Partner  
PricewaterhouseCoopers

Brisbane  
12 August 2019

Tim Allman  
Partner  
PricewaterhouseCoopers

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# Corporate Governance Statement

Aurizon Holdings Limited and the entities it controls (Aurizon Holdings or Company) believe corporate governance is a critical pillar on which business objectives and, in turn, shareholder value must be built.

The Board has adopted a suite of charters and key corporate governance documents which articulate the policies and procedures followed by Aurizon Holdings.

These documents are available in the Governance section of the Company's website, [aurizon.com.au](http://aurizon.com.au). These documents are reviewed regularly to address any changes in governance practices and the law.

This Statement explains how Aurizon Holdings complies with the ASX *Corporate Governance Council's 'Corporate Governance Principles and Recommendations - 3rd Edition'* (ASX Principles and Recommendations), and all the practices outlined in this Statement unless otherwise stated, have been in place for the full reporting period. The ASX released its 4th edition of the Corporate Governance Principles and Recommendations (Principles) in February 2019. The Company will be required to report against those Principles in the year commencing 1 July 2020.

The Company reviewed the Company's corporate governance practices against those new Principles and as at the date of this Statement is confident that its practices meets all the new Principles and accordingly the Company will be an earlier adopter of the new Principles.

This Statement was adopted by the Board on 9 August 2019.

## Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>1.1 Role of Board and management</b>	<p>The Board has established a clear distinction between the functions and responsibilities reserved for the Board and those delegated to management, which are set out in the Aurizon Holdings Limited Board Charter (Charter). The Charter also provides an overview of the roles of the Chairman, individual Directors, the Managing Director &amp; CEO and the Company Secretary.</p> <p>A copy of the Charter is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>1.2 Information regarding election and re-election of Director candidates</b>	<p>Aurizon carefully considers the character, experience, education, skill set as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate prior to their appointment.</p> <p>Aurizon has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in the Notice of Meeting provided to shareholders.</p>	✓
<b>1.3 Written contracts of appointment</b>	<p>In addition to being set out in the Charter, the roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment. The letters of appointment specify the term of appointment, time commitment envisaged, expectations in relation to committee work or any other special duties attaching to the position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies, such as the Securities Dealing Policy.</p> <p>A copy of the key governance policies can be found on the Company's website <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>Each Senior Executive enters into a service contract which sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements, termination rights and entitlements. Contract details of senior executives who are Key Management Personnel can be found on page 34 of the Annual Report.</p>	✓
<b>1.4 Company Secretary</b>	<p>The Company Secretary is directly accountable to the Board, through the Chairman, for facilitating and advising on the Company's corporate governance processes and on all matters to do with the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary. The Board Charter also sets out the responsibilities of the Company Secretary.</p> <p>In accordance with the Company's Constitution, the appointment or removal of the Company Secretary is a matter for the Board as a whole. Details of the Company Secretary's experience and qualifications are set out on page 7 of the Annual Report.</p>	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS													
<b>1.5 Diversity &amp; inclusion</b>	<p>Aurizon Holdings has had a Diversity Policy since 2011 which is reviewed annually and which sets out its objectives and reporting practices with respect to inclusion and diversity and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>The measurable objectives and outcomes for diversity, agreed by the Aurizon Holdings Board for FY2019, are set out below:</p> <table border="1"> <thead> <tr> <th>ENTERPRISE MEASURES</th> <th>FY19 TARGET</th> <th>FY19 ACTUAL</th> </tr> </thead> <tbody> <tr> <td><b>Gender representation on the Board</b></td> <td>Minimum 30% (each gender)</td> <td>29% women/71% men</td> </tr> <tr> <td><b>Representation of women in the workforce</b></td> <td>22.0%</td> <td>21.0%</td> </tr> <tr> <td><b>Representation of Aboriginal and Torres Strait Islander men and women in Aurizon</b></td> <td>5.5%</td> <td>5.6%</td> </tr> </tbody> </table> <p>During the year Mr Cooper and Mrs Field retired as Directors of the Company. The Board is undertaking a Non-Executive Director search and in assessing potential candidates, the Company's gender target will be taken into account. Further details on the Company's inclusion and diversity performance and activities can be found on the Company website <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	ENTERPRISE MEASURES	FY19 TARGET	FY19 ACTUAL	<b>Gender representation on the Board</b>	Minimum 30% (each gender)	29% women/71% men	<b>Representation of women in the workforce</b>	22.0%	21.0%	<b>Representation of Aboriginal and Torres Strait Islander men and women in Aurizon</b>	5.5%	5.6%	✓
ENTERPRISE MEASURES	FY19 TARGET	FY19 ACTUAL												
<b>Gender representation on the Board</b>	Minimum 30% (each gender)	29% women/71% men												
<b>Representation of women in the workforce</b>	22.0%	21.0%												
<b>Representation of Aboriginal and Torres Strait Islander men and women in Aurizon</b>	5.5%	5.6%												
<b>1.6 Board reviews</b>	<p>A performance review is undertaken annually in relation to the Board and the Board Committees. Periodically the Board engages a professional independent consultant experienced in Board reviews to conduct a review of the Board and its Committees, and the effectiveness of the Board as a whole.</p> <p>During FY19 the Board conducted an internal review of its Board and Committee and their effectiveness.</p>	✓												
<b>1.7 Management reviews</b>	<p>Each year the Board sets financial, operational, management and individual targets for the Managing Director &amp; CEO. The Managing Director &amp; CEO (in consultation with the Board) in turn, sets targets for direct reports.</p> <p>Performance against these targets is assessed periodically throughout the year, and a formal performance evaluation for senior management is completed for the year-end.</p>	✓												

## Principle 2: Structure the Board to add value

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>2.1 Nominations committee</b>	<p>The Nomination &amp; Succession Committee comprises three members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Nomination &amp; Succession Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Nomination &amp; Succession Committee during the financial year are set out on page 8 of the Directors' Report within the Annual Report.</p> <p>The Charter governing the conduct of the Nomination &amp; Succession Committee is reviewed annually and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>	✓
<b>2.2 Board skills</b>	<p>The skills listed below have been identified as the optimum skills Aurizon Holdings seeks to achieve across its Board membership. The Aurizon Holdings Board possesses a good blend of these skills. During FY2019 two Directors retired (Ms Karen Field and Mr John Cooper) and as part of its annual internal Board review, the Board reviewed its current skills and requirements.</p>	✓

# Corporate Governance Statement (continued)

## Principle 2: Structure the Board to add value (continued)

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS		
	<b>General</b> <ul style="list-style-type: none"> <li>› Board experience</li> <li>› Senior management experience</li> <li>› ASX listed company governance</li> <li>› Risk management</li> </ul> <b>Industry</b> <ul style="list-style-type: none"> <li>› Transport and logistics</li> <li>› Mining and resources</li> <li>› Government relations</li> <li>› Safety, health and environment</li> </ul>	<b>Technical</b> <ul style="list-style-type: none"> <li>› Finance and accounting</li> <li>› Regulatory</li> <li>› Corporate strategy</li> <li>› Capital allocation including acquisitions and divestments</li> <li>› Information and operational technology</li> <li>› Capital markets</li> <li>› Engineering and construction</li> <li>› Human resources</li> </ul>	✓
	Further details regarding the skills and experience of each Director are included on pages 4 to 6 of the Report.		
<b>2.3 Disclose independence and length of service</b>	Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.		✓
<b>2.4 Majority of Directors independent</b>	<p>In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director &amp; CEO is not considered independent, by virtue of the role being an Executive of the Company.</p> <p>Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.</p>		✓
<b>2.5 Chair independent</b>	<p>The Chairman, Tim Poole, is an Independent Non-Executive Director. The role of CEO is performed by another Director.</p> <p>Further details regarding the Directors are set out on pages 4 to 6 of the Annual Report.</p>		✓
<b>2.6 Induction and professional development</b>	<p>An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.</p> <p>In addition to peer review, interaction and networking with other Directors and industry leaders, Aurizon Holdings' Directors participate, from time-to-time, in Aurizon Holdings' leadership forums and actively engage with Aurizon Holdings' employees by visiting operational sites to gain an understanding of the Company's operating environment.</p> <p>During the year Directors receive accounting policy updates, especially around the time the Board considers the half-year and full-year financial statements.</p> <p>The Board also includes briefings from time-to-time on legal, accounting, regulation, developments in communication and human resource management and technology.</p> <p>Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices and sites in different locations. During the financial year, Directors made visits to operational sites in Queensland.</p>		✓

## Principle 3: Act ethically and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS		
<b>3.1 Code of Conduct</b>	<p>The Board has established a Code of Conduct for its Directors, senior executives and employees, a copy of which is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>. The Company's Code of Conduct, amongst other things, articulates and discloses the Company's core values. Those core values are Safety, People, Integrity, Customer and Excellence. A description of those values is set out in the Company's Code of Conduct.</p> <p>The Company also has a Whistleblower Policy, a copy of which is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a> and the Board, through the Audit, Governance and Risk Management Committee reviews reports on concerns raised under the Whistleblower Policy.</p>		✓

## Principle 4: Safeguard integrity in corporate reporting

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>4.1 Audit Committee</b>	<p>The Audit, Governance &amp; Risk Management Committee comprises three members, all of whom are Independent Non-Executive Directors. Details of the membership of the Audit, Governance &amp; Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.</p> <p>In addition to the Audit, Governance &amp; Risk Management Committee members, the Managing Director &amp; CEO, CFO, Head of Risk &amp; Assurance, external auditors and Company Secretary attend the Audit, Governance &amp; Risk Management Committee meetings.</p> <p>The number of meetings held and attended by each member of the Audit, Governance &amp; Risk Management Committee during the financial year are set out on page 8 of the Annual Report.</p> <p>The Audit, Governance &amp; Risk Management Committee Charter is reviewed annually and is available on the Aurizon Holdings website, <a href="http://aurizon.com.au">aurizon.com.au</a>. Amongst other things, the Audit, Governance &amp; Risk Management Committee reviews the processes that validate the Director's Report and the Annual Report. The Board, as a whole, has oversight of other corporate reporting, such as investor presentations.</p>	✓
<b>4.2 CEO and CFO certification of financial statements</b>	<p>The Board has obtained a written assurance from the Managing Director &amp; CEO and CFO that the declaration provided under Section 295A of the Corporations Act (and for the purposes of Recommendation 4.2) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting and material business risks.</p>	✓
<b>4.3 External auditor at AGM</b>	<p>Aurizon Holdings' external audit function is performed by. PricewaterhouseCoopers. (PwC). Representatives of PwC will attend the Annual General Meeting (AGM) and be available to answer shareholder questions regarding the audit.</p>	✓

## Principle 5: Make timely and balanced disclosure

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>5.1 Disclosure and Communications Policy</b>	<p>Aurizon Holdings has adopted a Disclosure and Communications Policy which sets out the processes and practices to ensure compliance with the continuous disclosure requirements under the ASX Listing Rules and the Corporations Act.</p> <p>Aurizon Holdings has also established guidelines to assist officers and employees of the Company with complying with the Company's Disclosure and Communications Policy. A copy of the policy and guidelines are available on the Aurizon Holdings' website, <a href="http://aurizon.com.au">aurizon.com.au</a>. The Board, as a whole, receives a copy of all announcements under Listing Rule 3.1 immediately prior to those announcements being made to the ASX.</p>	✓

## Principle 6: Respect the rights of security holders

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>6.1 Information on website</b>	<p>Aurizon Holdings keeps investors informed of its corporate governance, financial performance and prospects via announcements to the ASX and our website. Investors can access copies of all announcements to the ASX, notices of meetings, annual reports, investor presentations, webcasts and/or transcripts of those presentations and a key event calendar via the 'Investors' tab. Investors can access general information regarding the Company and the structure of its business under the 'Company', 'What we deliver' and 'Sustainability' tabs.</p>	✓
<b>6.2 Investor relations programs</b>	<p>Aurizon Holdings conducts regular market briefings including interim and full year results announcements, investor days, site visits, and attends regional and industry specific conferences in order to facilitate effective two-way communication with investors and other financial markets participants. Access to Executive and Operational Management is provided to investors and analysts at these events, with separate one-on-one or group meetings offered whenever possible.</p> <p>The presentation material provided at these events is sent to the ASX prior to commencement and subsequently posted on Aurizon Holdings' Investor Centre website, including the webcast and transcript if applicable.</p>	✓
<b>6.3 Facilitate participation at meetings of security holders</b>	<p>Aurizon Holdings uses technology to facilitate the participation of security holders in meetings including webcasting of the AGM.</p> <p>Shareholders are encouraged to participate and are given an opportunity to ask questions of the Company and its auditor at the AGM. All resolutions put to shareholders are determined by Poll.</p>	✓
<b>6.4 Facilitate electronic communications</b>	<p>Aurizon provides its investors the option to receive communications from, and send communications to, the Company and the share registry electronically.</p>	✓

# Corporate Governance Statement (continued)

## Principle 7: Recognise and manage risk

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
<b>7.1 Risk committee</b>	<p>Aurizon Holdings' Audit, Governance &amp; Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Aurizon Risk Management Policy (Risk Policy). A copy of the Risk Policy is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.</p>	✓
<b>7.2 Annual risk review</b>	<p>The Board has mandated the Company's internal audit group to provide independent assurance on the effectiveness of the Company's risk management practices and report periodically its findings to the Audit, Governance &amp; Risk Management Committee. The purpose of the assurance is to confirm the Company's governance processes and practices continue to be sound and that the Company manages risk within the Board-approved risk appetite.</p> <p>Internal audit has considered the operation of the Company's risk management framework through the delivery of its audit program and have concluded that it is adequate and effective.</p>	✓
<b>7.3 Internal audit</b>	<p>The Company has an internal audit function that operates under a Board-approved Internal Audit Charter. The internal audit function is independent of management and the external auditor and is overseen by the Audit, Governance &amp; Risk Management Committee. In accordance with the Committee Charter, the appointment or removal of the Head of Risk &amp; Assurance is a matter for this Committee.</p> <p>The Head of Risk &amp; Assurance provides ongoing internal audit reports to the Audit, Governance &amp; Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures.</p>	✓
<b>7.4 Sustainability risks</b>	<p>Aurizon Holdings identifies and manages material exposures to environmental, social and governance (ESG) risks through our annual Sustainability Report. During FY2019, the Company published its fifth Sustainability Report for the period ended 30 June 2018. A copy of this report is available in the Sustainability section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p> <p>Aurizon's FY2019 Sustainability Report will be published in October 2019. This will be the third reporting period in which we incorporate recommendations from the Financial Stability Board's (FSB) Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), released in June 2017.</p> <p>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. These climate change risks and opportunities are disclosed annually in Aurizon's sustainability report.</p>	✓



## Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS
<b>8.1 Remuneration Committee</b>	<p>Aurizon Holdings' remuneration function is performed by the Remuneration &amp; Human Resources Committee, comprising four members, all of whom are Independent Non-Executive Directors. Details of the membership of the Remuneration Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Remuneration &amp; Human Resources Committee during the financial year are set out on page 8 of the Annual Report.</p> <p>The Charter governing the conduct of the Remuneration &amp; Human Resources Committee is reviewed annually and is available in the Governance section of the Company's website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>
<b>8.2 Disclosure of Executive and Non-Executive Director remuneration policy</b>	<p>The Company seeks to attract and retain high performing Directors and Executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required.</p> <p>It reviews requirements for additional capabilities at least annually.</p> <p>Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and a performance-based component.</p> <p>Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. The Chairman's fee is inclusive of fees for Committee membership and the other Non-Executive Directors are paid a fixed base fee plus Committee fees, as applicable. Further detail is set out in the Remuneration Report on page 35.</p> <p>The Company has in place a Share Holding and Retention Policy which applies to Non-Executive Directors, the Managing Director &amp; CEO and the direct reports of the Managing Director &amp; CEO.</p> <p>Further details regarding remuneration and share retention policies and the remuneration of Executive and Non-Executive Directors, are set out on pages 25 to 38 of the Annual Report. The Company also has in place a Related Party Transaction Policy. The policy and disclosures under that policy is reviewed annually by the Board. During the year there were no agreements entered into for the provision of consulting or similar services by a Director or Senior Executive or by a related party or a Director or Senior Executive.</p>
<b>8.3 Policy on hedging equity incentive schemes</b>	<p>Aurizon Holdings' Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or, once exercised, while the securities are subject to a transfer restriction.</p> <p>For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Executive' is broadly defined to include the Managing Director &amp; CEO and his direct reports and any other person entitled to participate in an Aurizon Holdings performance rights plan.</p> <p>Further details regarding the Company's hedging policy are set out in the Company's Securities Dealing Policy which is available on the Governance section of the website, <a href="http://aurizon.com.au">aurizon.com.au</a>.</p>

# Financial Report

## for the year ended 30 June 2019

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Results for the year	Operating assets and liabilities	Capital and financial risk management	Group structure	Other notes	Unrecognised items and events after reporting date
1. Segment information	7. Trade and other receivables	14. Capital risk management	20. Associates and joint arrangements	26. Notes to the consolidated statement of cash flows	33. Contingencies
2. Revenue and other income	8. Inventories	15. Dividends	21. Material subsidiaries	27. Related party transactions	34. Commitments
3. Expenses	9. Property, plant and equipment	16. Equity and reserves	22. Parent disclosures	28. Key Management Personnel compensation	35. Events occurring after the reporting period
4. Impairment of non-financial assets	10. Intangible assets	17. Borrowings	23. Deed of cross guarantee	29. Share-based payments	
5. Income tax	11. Trade and other payables	18. Financial risk management	24. Discontinued operation	30. Remuneration of auditors	
6. Earnings per share	12. Provisions	19. Derivative financial instruments	25. Assets classified as held for sale	31. Summary of other significant accounting policies	
	13. Other liabilities			32. Changes in accounting policies	

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# Consolidated income statement

## for the year ended 30 June 2019

	Notes	2019 \$m	2018 \$m
Revenue from continuing operations	2	<b>2,905.2</b>	3,112.7
Other income	2	<b>2.4</b>	66.3
<b>Total revenue and other income</b>		<b>2,907.6</b>	<b>3,179.0</b>
Employee benefits expense	3	<b>(778.6)</b>	(755.2)
Energy and fuel		<b>(233.9)</b>	(252.4)
Track access		<b>(101.0)</b>	(191.4)
Consumables		<b>(397.8)</b>	(348.4)
Depreciation and amortisation	3	<b>(542.6)</b>	(525.5)
Impairment losses	4	<b>(24.9)</b>	(70.0)
Other expenses		<b>0.1</b>	(70.6)
Share of net profit of associates and joint venture partnerships accounted for using the equity method		<b>0.1</b>	0.8
<b>Operating profit</b>		<b>829.0</b>	966.3
Finance income		<b>2.9</b>	3.3
Finance expenses	3	<b>(150.0)</b>	(168.3)
<b>Net finance costs</b>		<b>(147.1)</b>	(165.0)
<b>Profit before income tax</b>		<b>681.9</b>	801.3
Income tax expense	5	<b>(208.6)</b>	(241.2)
<b>Profit from continuing operations after tax</b>		<b>473.3</b>	560.1
Profit/(loss) from discontinued operations after tax	24	<b>3.2</b>	(77.1)
<b>Profit for the year attributable to owners of Aurizon Holdings Limited</b>		<b>476.5</b>	<b>483.0</b>
		Cents	Cents
<b>Basic earnings per share for profit attributable to the ordinary equity holders of the Company:</b>	6		
- continuing and discontinued operations		<b>23.9</b>	24.0
- continuing operations		<b>23.8</b>	27.8
<b>Diluted earnings per share for profit attributable to the ordinary equity holders of the Company:</b>	6		
- continuing and discontinued operations		<b>23.9</b>	24.0
- continuing operations		<b>23.8</b>	27.8

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

# Consolidated statement of comprehensive income

## for the year ended 30 June 2019

	Notes	2019 \$m	2018 \$m
<b>Profit for the year</b>		<b>476.5</b>	483.0
<b>Other comprehensive income:</b>			
Items that may be reclassified to profit or loss			
- changes in the fair value of cash flow hedges	16(b)	<b>(50.6)</b>	(13.0)
- income tax relating to these items	5(d)	<b>15.2</b>	3.9
<b>Other comprehensive expense for the year, net of tax</b>		<b>(35.4)</b>	(9.1)
<b>Total comprehensive income for the year attributable to owners of Aurizon Holdings Limited</b>		<b>441.1</b>	<b>473.9</b>

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

# Consolidated balance sheet

## as at 30 June 2019

	Notes	2019 \$m	2018 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		25.2	34.8
Trade and other receivables	7	481.8	539.3
Inventories	8	117.2	118.1
Derivative financial instruments	19	0.8	1.3
Other assets		6.2	4.7
Assets classified as held for sale	25	108.4	108.0
<b>Total current assets</b>		<b>739.6</b>	806.2
<b>Non-current assets</b>			
Inventories	8	40.2	29.1
Derivative financial instruments	19	196.7	110.8
Property, plant and equipment	9	8,536.3	8,659.9
Intangible assets	10	176.9	172.6
Other assets		8.6	-
Investments accounted for using the equity method	20	2.8	3.2
<b>Total non-current assets</b>		<b>8,961.5</b>	8,975.6
<b>Total assets</b>		<b>9,701.1</b>	9,781.8
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	406.7	275.8
Borrowings	17	149.0	100.0
Current tax liabilities		40.9	61.2
Provisions	12	273.0	312.2
Other liabilities	13	75.1	86.4
Liabilities directly associated with assets classified as held for sale		3.8	12.7
<b>Total current liabilities</b>		<b>948.5</b>	848.3
<b>Non-current liabilities</b>			
Borrowings	17	3,220.8	3,401.9
Derivative financial instruments	19	49.1	21.3
Deferred tax liabilities	5(f)	537.4	479.5
Provisions	12	62.9	82.2
Other liabilities	13	205.0	218.5
<b>Total non-current liabilities</b>		<b>4,075.2</b>	4,203.4
<b>Total liabilities</b>		<b>5,023.7</b>	5,051.7
<b>Net assets</b>		<b>4,677.4</b>	<b>4,730.1</b>
<b>EQUITY</b>			
Contributed equity	16(a)	906.6	906.6
Reserves	16(b)	3,418.5	3,460.1
Retained earnings		352.3	363.4
<b>Total equity</b>		<b>4,677.4</b>	<b>4,730.1</b>

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

# Consolidated statement of changes in equity

## for the year ended 30 June 2019

	Notes	Attributable to owners of Aurizon Holdings Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
<b>Balance at 1 July 2018</b>		<b>906.6</b>	<b>3,460.1</b>	<b>363.4</b>	<b>4,730.1</b>
Profit for the year		-	-	<b>476.5</b>	<b>476.5</b>
Other comprehensive expense	16(b)	-	<b>(35.4)</b>	-	<b>(35.4)</b>
<b>Total comprehensive income for the year</b>		-	<b>(35.4)</b>	<b>476.5</b>	<b>441.1</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends provided for or paid	15(a)	-	-	<b>(487.6)</b>	<b>(487.6)</b>
Share-based payments	16(b)	-	<b>(6.2)</b>	-	<b>(6.2)</b>
		-	<b>(6.2)</b>	<b>(487.6)</b>	<b>(493.8)</b>
<b>Balance at 30 June 2019</b>		<b>906.6</b>	<b>3,418.5</b>	<b>352.3</b>	<b>4,677.4</b>
Balance at 1 July 2017		1,206.6	3,473.0	342.5	5,022.1
Profit for the year		-	-	483.0	483.0
Other comprehensive expense	16(b)	-	(9.1)	-	(9.1)
Total comprehensive income for the year		-	(9.1)	483.0	473.9
<b>Transactions with owners in their capacity as owners:</b>					
Buy-back of preference shares, net of tax	16(a)	(300.0)	(0.3)	-	(300.3)
Dividends provided for or paid	15(a)	-	-	(462.1)	(462.1)
Share-based payments	16(b)	-	(3.5)	-	(3.5)
		(300.0)	(3.8)	(462.1)	(765.9)
Balance at 30 June 2018		906.6	3,460.1	363.4	4,730.1

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

# Consolidated statement of cash flows

## for the year ended 30 June 2019

	Notes	2019 \$m	2018 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		<b>3,325.5</b>	3,474.9
Payments to suppliers and employees (inclusive of GST)		<b>(1,867.0)</b>	(2,060.0)
Interest received		<b>2.9</b>	2.9
Income taxes paid		<b>(145.3)</b>	(110.1)
<b>Net cash inflow from operating activities from continuing operations</b>	26	<b>1,316.1</b>	1,307.7
<b>Net cash (outflow) from operating activities from discontinued operations</b>	24(b)	<b>(25.4)</b>	(25.1)
<b>Net cash inflow from operating activities</b>		<b>1,290.7</b>	<b>1,282.6</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<b>(407.8)</b>	(467.7)
Proceeds from sale of property, plant and equipment		<b>13.0</b>	19.0
Interest paid on qualifying assets	3	<b>(3.9)</b>	(2.8)
Payments for intangibles		<b>(32.8)</b>	(31.0)
Distributions received from associates		<b>0.7</b>	-
<b>Net cash (outflow) from investing activities from continuing operations</b>		<b>(430.8)</b>	(482.5)
<b>Net cash inflow from investing activities from discontinued operations</b>	24(b)	<b>11.1</b>	54.6
<b>Net cash (outflow) from investing activities</b>		<b>(419.7)</b>	<b>(427.9)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>139.0</b>	291.0
Repayment of borrowings		<b>(390.0)</b>	(275.0)
Payments of transaction costs related to borrowings		<b>(2.4)</b>	(3.8)
Payments for shares bought back	16(a)	-	(300.0)
Payments of transaction costs related to shares bought back		-	(0.4)
Dividends paid to Company's shareholders	15(a)	<b>(487.6)</b>	(462.1)
Proceeds from settlement of derivatives		<b>11.5</b>	-
Payments for shares acquired for share based payments	16(b)	<b>(0.6)</b>	(2.5)
Interest paid		<b>(150.5)</b>	(155.8)
<b>Net cash (outflow) from financing activities from continuing operations</b>		<b>(880.6)</b>	(908.6)
<b>Net cash inflow/(outflow) from financing activities from discontinued operations</b>	24(b)	-	-
<b>Net cash (outflow) from financing activities</b>		<b>(880.6)</b>	<b>(908.6)</b>
<b>Net increase/(decrease) in cash and cash equivalents from continuing operations</b>		<b>4.7</b>	(83.4)
<b>Net (decrease)/increase in cash and cash equivalents from discontinued operations</b>	24(b)	<b>(14.3)</b>	29.5
Cash and cash equivalents at the beginning of the financial year		<b>34.8</b>	88.7
<b>Cash and cash equivalents at end of the financial year</b>		<b>25.2</b>	<b>34.8</b>

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

# Notes to the consolidated financial statements

## 30 June 2019

### About this report

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purposes of preparing the financial statements. The financial statements are for the consolidated entity consisting of Aurizon Holdings Limited (the Company) and its subsidiaries and together are referred to as the Group or Aurizon.

The financial statements were approved for issue by the Directors on 12 August 2019. The Directors have the power to amend and reissue the financial statements.

The financial statements are general purpose financial statements which:

- › Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- › Have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value
- › Are presented in Australian dollars, with all amounts in the financial report being rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars, unless otherwise indicated
- › Where necessary, comparative information has been restated to conform with changes in presentation in the current year
- › Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2018
- › Equity account for associates and joint arrangements listed at note 20

### The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- › The amount in question is significant because of its size or nature
- › It is important for understanding the results of the Group
- › It helps to explain the impact of significant changes in the Group's business – for example, acquisitions, disposals and impairment write downs
- › It relates to an aspect of the Group's operations that is important to its future performance

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

#### KEEPING IT SIMPLE

The "Keeping it simple" explanations are designed to provide a high level overview of the accounting treatment of the more complex sections of the financial statements. Disclosures in the notes to the financial statements provide information required by the Accounting Standards or ASX Listing Rules. The notes provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

### SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Details of the following judgements and estimates which are material to the financial statements can be found in the following notes:

	Note
Revenue	2
Impairment	4
Income tax	5
Depreciation	9
Discontinued operation	24

### Key events and transactions for the 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. The three-stage exit comprises the Acacia Ridge Intermodal Terminal, Queensland Intermodal and Interstate Intermodal. The Intermodal business is disclosed as a discontinued operation.

#### Acacia Ridge Intermodal Terminal

The Group signed a binding agreement with Pacific National on 28 July 2017 to sell its Acacia Ridge Intermodal Terminal for \$205.0 million, of which a \$35.0 million non-refundable deposit was received in advance. The transaction is subject to approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment & Review Board (FIRB).

The ACCC opposed the sale on 19 July 2018 and commenced proceedings against Aurizon and Pacific National in the Federal Court. On 15 May 2019, the Federal Court rejected the allegations by the ACCC that the proposed sale contravened section 45 and section 50 of the *Commonwealth's Competition and Consumer Act (2010)*. On 27 June 2019 the ACCC sought to appeal the Federal Court's decision in relation to the contravention of section 50 of the Act (but not the Federal Court's decision in relation to section 45). On 18 July 2019, Aurizon and Pacific National filed notices of cross-appeal. The appeal and cross-appeal will be heard by the Full Federal Court in due course.

The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 30 June 2019.

#### Queensland Intermodal

The agreement entered between the Group and a consortium of Linfox and Pacific National dated 14 August 2017 was terminated by Aurizon on 13 August 2018 and \$10.0 million received in advance was refunded.

The Group signed a binding agreement with Linfox to sell the Queensland Intermodal business on 12 October 2018 for a sale price of \$7.3 million. Under the agreement Aurizon retains the Intermodal locomotive fleet and train crew and will provide Linfox rail linehaul services. Completion of the sale occurred on 31 January 2019.

#### Interstate Intermodal

The Interstate Intermodal business ceased operating on 23 December 2017.



# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### Key events and transactions for reporting period (continued)

#### (b) Access revenue

##### 2017 Access Undertaking

The Queensland Competition Authority (QCA) issued a Final Decision in relation to Aurizon Network Pty Ltd's (a wholly-owned subsidiary of the Group) 2017 Access Undertaking (UT5) on 6 December 2018. A Complying Undertaking aligning to the Final Decision was approved by the QCA on 21 February 2019.

In May 2019, the Group submitted a Reference Tariff Variation Draft Amending Access Undertaking (Reference Tariff Variation DAAU) to the QCA proposing amendments to the 2017 Access Undertaking. The Reference Tariff Variation DAAU was approved by the QCA on 24 June 2019. The Reference Tariff Variation DAAU included revised tariffs for FY19 incorporating a volume reset of the system forecast and true-up of the FY18 overcollection (net of FY16/17 flood review events) of transitional tariffs in comparison to the 2017 Access Undertaking in the comparative period, based on FY19 volumes railed.

Access revenue for the period has been recognised based on the 2017 Access Undertaking, amended for the Reference Tariff Variation DAAU. An amount of \$81.3 million (including GAPE) has been included in trade and other payables at 30 June 2019 which represents the overcollection of transitional tariffs in comparison to the 2017 Access Undertaking, amended for the Reference Tariff Variation DAAU, which will be repaid based on FY19 volumes railed.

##### UT5 Customer Proposal

During the period agreements were also signed with customers who represent more than 90% of railed tonnes in the QCN to propose amendments to the 2017 Access Undertaking. As a result, on 3 May 2019, a DAAU was submitted to the QCA incorporating the proposed amendments. The DAAU remains subject to approval by the QCA. If approved the DAAU has no material impact on access revenue recognised during the period. The proposed amendments to the 2017 Access Undertaking include:

- › Extending the term of the Access Undertaking to ten years (1 July 2017 to 30 June 2027);
- › A Weighted Average Cost of Capital (WACC) of 5.9% increasing to 6.3% (subject to reset on 1 July 2023) on completion of specified milestones, as compared to a WACC of 5.7% in UT5; and
- › Development of mechanisms to provide supply chain value through improved supply chain stability and improved maintenance and asset renewal programs.

##### Wiggins Island Rail Project (WIRP)

During the period, legal proceedings continued in relation to the notices received by Aurizon Network Pty Ltd from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the WIRP fee, which is non-regulated. The trial in the Supreme Court of Queensland was heard between 10 September 2018 and 21 September 2018 and on 27 June 2019 the Supreme Court ruled in the Group's favour. On 25 July 2019 customers lodged an appeal challenging the decision of the Supreme Court.

The customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. Those disputes relate to various matters relating to the completion of the WIRP construction works. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and will not impact recovery of the regulated access charge component of WIRP capital expenditure. The Group is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the period.

##### (c) Debt refinancing

In November 2018, Aurizon Finance Pty Ltd (a wholly-owned subsidiary of the Group) cancelled existing bank debt syndicated facilities and replaced them with bilateral bank debt facilities totalling \$450.0 million expiring in November 2023.

##### (d) Sale of rail grinding business

On 12 June 2019 the Group signed a business sale agreement with Loram Pty Ltd to sell the rail grinding business for a sale price of \$166.2 million. As a result, the Group has classified assets and liabilities included within the business sale agreement as held for sale as at 30 June 2019. The sale is expected to complete in the first half of FY20

# Results for the year

## IN THIS SECTION

**Results for the year provides segment information and a breakdown of individual line items in the consolidated income statement that the directors consider most relevant, including a summary of the accounting policies, judgements and estimates relevant to understanding these line items.**

1	Segment information	Page 54
2	Revenue and other income	Page 57
3	Expenses	Page 59
4	Impairment of non-financial assets	Page 60
5	Income tax	Page 61
6	Earnings per share	Page 63

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 1 Segment information

#### **KEEPING IT SIMPLE**

Segment reporting requires presentation of financial information based on the information that is internally provided to the Managing Director & CEO and the Executive Committee (chief operating decision makers).

Aurizon determines and presents operating segments on a business unit structure basis as this is how the results are reported internally and how the business is managed. 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 24 for further details.

#### **(a) Description of segments**

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 (CQCN). 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, 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, Managing Director & CEO, company secretary, strategy and investor relations.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 1 Segment information (continued)

#### (b) Segment information

	Network \$m	Coal \$m	Bulk \$m	Other \$m	Total continuing operations \$m
<b>30 June 2019</b>					
<b>External revenue</b>					
<b>Revenue from external customers</b>					
Services revenue					
Track access	590.0	487.7	-	-	1,077.7
Freight transport	-	1,236.2	465.2	-	1,701.4
Other services	9.7	-	23.3	41.3	74.3
Other revenue	31.9	0.9	0.5	18.5	51.8
<b>Total revenue from external customers</b>	<b>631.6</b>	<b>1,724.8</b>	<b>489.0</b>	<b>59.8</b>	<b>2,905.2</b>
<b>Internal revenue</b>					
Services revenue					
Track access	480.3	-	-	-	480.3
Freight transport	-	-	9.4	-	9.4
Other services	5.8	-	0.9	22.4	29.1
<b>Total internal revenue</b>	<b>486.1</b>	<b>-</b>	<b>10.3</b>	<b>22.4</b>	<b>518.8</b>
<b>Total revenue</b>	<b>1,117.7</b>	<b>1,724.8</b>	<b>499.3</b>	<b>82.2</b>	<b>3,424.0</b>
Other income	-	-	2.4	-	2.4
<b>Total revenue and other income</b>	<b>1,117.7</b>	<b>1,724.8</b>	<b>501.7</b>	<b>82.2</b>	<b>3,426.4</b>
Internal elimination					(518.8)
<b>Consolidated revenue and other income</b>					<b>2,907.6</b>
Continuing EBITDA (Underlying)*	721.2	609.8	54.5	(13.9)	1,371.6
Depreciation and amortisation	(320.9)	(194.7)	(17.2)	(9.8)	(542.6)
<b>Continuing EBIT (Underlying)*</b>	<b>400.3</b>	<b>415.1</b>	<b>37.3</b>	<b>(23.7)</b>	<b>829.0</b>
EBIT*					829.0
Net finance costs					(147.1)
Profit before income tax from continuing operations					681.9

\* Refer to page 108 for Non-IFRS information

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 1 Segment information (continued)

#### (b) Segment information (continued)

	Network \$m	Coal \$m	Bulk \$m	Other \$m	Total continuing operations \$m
<b>30 June 2018</b>					
External revenue					
Revenue from external customers					
Services revenue					
Track access	581.5	598.1	-	-	1,179.6
Freight transport	-	1,207.8	590.5	-	1,798.3
Other services	7.3	0.2	24.9	36.9	69.3
Other revenue	37.7	0.6	0.4	26.8	65.5
<b>Total revenue from external customers</b>	<b>626.5</b>	<b>1,806.7</b>	<b>615.8</b>	<b>63.7</b>	<b>3,112.7</b>
Internal revenue					
Services revenue					
Track access	585.6	-	-	-	585.6
Freight transport	-	-	1.6	-	1.6
Other services	6.6	6.5	0.7	27.1	40.9
<b>Total internal revenue</b>	<b>592.2</b>	<b>6.5</b>	<b>2.3</b>	<b>27.1</b>	<b>628.1</b>
<b>Total revenue</b>	<b>1,218.7</b>	<b>1,813.2</b>	<b>618.1</b>	<b>90.8</b>	<b>3,740.8</b>
Other income	-	-	-	-	-
<b>Total revenue and other income</b>	<b>1,218.7</b>	<b>1,813.2</b>	<b>618.1</b>	<b>90.8</b>	<b>3,740.8</b>
Internal elimination					(628.1)
<b>Consolidated revenue and other income</b>					<b>3,112.7</b>
Continuing EBITDA (Underlying)*	788.6	611.2	75.2	(8.9)	1,466.1
Depreciation and amortisation	(308.0)	(182.6)	(25.1)	(9.8)	(525.5)
<b>Continuing EBIT (Underlying)*</b>	<b>480.6</b>	<b>428.6</b>	<b>50.1</b>	<b>(18.7)</b>	<b>940.6</b>
Significant adjustments (note 1(c))					25.7
EBIT*					966.3
Net finance costs					(165.0)
<b>Loss before income tax from continuing operations</b>					<b>801.3</b>

\* Refer to page 108 for Non-IFRS information

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 1 Segment information (continued)

#### (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.

	2019 \$m	2018 \$m
Bulk contract exit termination payment received	-	66.3
Bulk contract exit asset impairment	-	(27.9)
Bulk contract exit - redundancy and closure costs	-	(3.9)
Bulk impairment - Western Australia	-	(31.7)
Transformation - redundancy benefit	-	22.9
<b>Total significant adjustments (continuing operations)</b>	<b>-</b>	<b>25.7</b>

#### Current period

No significant adjustments from continuing operations have been recognised during the period.

#### Prior period

Significant adjustments from continuing operations recognised in the prior period includes \$66.3 million other income and \$3.9 million redundancy and closure costs relating to the early termination of the Cliffs iron ore contract and a redundancy benefit of \$22.9 million relating to the release of a provision for train crew recorded as a significant item in the year ended 30 June 2017. Other significant items relating to impairment are disclosed in note 4.

For disclosure on the significant items relating to discontinued operations refer to note 24.

#### (d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. Two customers each contribute more than 10% of the Group's total revenue as detailed below:

	2019 \$m	2018 \$m	2019 credit rating	2018 credit rating
Customer 1	<b>488.7</b>	487.3	<b>A</b>	A
Customer 2	<b>405.9</b>	424.7	<b>BBB+</b>	BBB+
<b>Total</b>	<b>894.6</b>	912.0		

### 2 Revenue and other income

#### KEEPING IT SIMPLE

The Group adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. Aurizon recognises revenue from the provision of access to the CQC and the provision of freight haulage services across Australia.

The Group derives the following types of revenue:

	2019 \$m	2018 \$m
Services revenue		
Track access	<b>1,077.7</b>	1,179.6
Freight transport	<b>1,701.4</b>	1,798.3
Other services	<b>74.3</b>	69.3
Other revenue	<b>51.8</b>	65.5
<b>Total revenue from continuing operations</b>	<b>2,905.2</b>	3,112.7
Other income	<b>2.4</b>	66.3
<b>Total revenue and other income from continuing operations</b>	<b>2,907.6</b>	3,179.0

#### (a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the provision of services over time. Revenue is disaggregated by the Group's segments, refer to note 1(b).

#### (b) Contract assets and liabilities

##### (i) Contract assets

The Group has not recognised any material contract assets at balance date (1 July 2018: \$nil).

##### (ii) Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	2019 \$m	1 July 2018 \$m
<b>Current</b>		
Advances for freight transport	<b>1.8</b>	1.2
Advances for other services	<b>26.4</b>	26.0
	<b>28.2</b>	27.2
<b>Non-current</b>		
Advances for freight transport	<b>3.9</b>	2.7
Advances for other services	<b>161.1</b>	183.1
	<b>165.0</b>	185.8

Contract liabilities primarily represent amounts received from customers as advances for future track access under agreements for mine specific infrastructure. These amounts are deferred and earned over the term of the agreements using the output method as performance obligations are satisfied. \$28.2 million of contract liabilities will be recognised in less than one year from balance date, \$124.7 million within two to five years and \$40.4 million in five years or over.

The reduction in contract liabilities primarily represents revenue recognised for prepayments for future access charges during the period.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 2 Revenue and other income (continued)

#### (b) Contract assets and liabilities

##### (iii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2019 \$m
<b>Revenue recognised that was included in the contract liability balance at the beginning of the year</b>	
Advances for freight transport	1.2
Advances for other services	26.0
	<b>27.2</b>

##### (iv) Unsatisfied performance obligations

The Group has a number of long-term contracts to provide services to customers in future periods. The majority of revenues are recognised on an as invoiced basis, hence, the right to consideration from a customer corresponds directly with the entity's performance completed to date.

Long-term track access and freight transport contracts are considered by management to be a series of annual performance obligations that are satisfied within each financial year. Any amounts received as prepayments to provide access to the CQCN are recognised over the term of the access agreement as performance obligations are satisfied. The Group applies the practical expedient in paragraph 121 of AASB 15 *Revenue from Contracts with Customers* and does not disclose information on the transaction price allocated to performance obligations that are unsatisfied.

All other track access and freight transport contracts for periods of one year or less are billed monthly based on the services provided. As permitted under AASB 15 *Revenue from Contracts with Customers*, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

### SIGNIFICANT JUDGEMENTS

#### Take-or-Pay revenue

The calculation of access Take-or-Pay revenue included in track access is based on an assessment of access charges from contracted railings that have not been operated by or for the relevant operator, subject to an adjustment for Aurizon Network (below rail) cause and force majeure events. The estimate of Take-or-Pay revenue is based on management's judgement of below rail cause versus above rail operator/mine cancellations and is recognised in the year in which the contractual railings have not been achieved. Take-or-Pay revenue of \$4.2 million has been recognised at 30 June 2019 (2018: \$27.1 million).

#### Wiggins Island Rail Project (WIRP) Access Revenue

During the period, legal proceedings continued in relation to the notices received by the Group from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the WIRP fee, which is non-regulated. On 27 June 2019, the Supreme Court of Queensland ruled in the Group's favour, however, on 25 July 2019, customers lodged an appeal challenging the decision of the Supreme Court. Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the period.

#### Freight Transport Contract Modifications

Modifications to existing agreements where there is also a new agreement put in place are assessed based on the facts and substance of the individual contractual arrangements and will be accounted for as either combined or separate contracts in accordance with AASB 15 *Revenue from Contracts with Customers*. There is significant judgement exercised in determining if a modification to an existing agreement should be treated as a combined or separate contract. Judgement, including expected volumes to be railed in individual contract years and whether the contract price represents the market price in the respective contract period, is applied in determining contract assets or liabilities recorded. These judgements impact the timing of revenue recognition over the life of the individual contract.

#### (c) Recognition and measurement

The Group recognises revenue as the relevant performance obligations are satisfied. Revenue includes the provision of track access and freight transport services as described below.

##### (i) Track access

Track access revenue is generated from the provision of access to, and operation of, the CQCN. Access revenue is recognised over time as the relevant performance obligations are satisfied, being the provision of access to the rail network.

A contract liability is recorded for revenue received in advance of satisfying a performance obligation and is subsequently recognised in profit and loss as the performance obligation is satisfied during the term of the contract.

##### Approved Access Undertaking

Track access revenue is recognised as track access is provided and is measured on a number of operating parameters including volumes hauled applied to regulator approved tariffs. The tariffs charged are determined with reference to the total allowable revenue, applied to the regulatory approved annual volume forecast for each system. At each balance date, track access revenue and receivables include an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. The Group has an unconditional right to receive this consideration once the performance obligation is satisfied and therefore a trade receivable is recognised for these amounts.



# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 2 Revenue and other income (continued)

#### (c) Recognition and measurement (continued)

##### (i) Track access (continued)

###### Approved Access Undertaking (continued)

Where annual volumes railed are less than the regulatory forecast, Take-or-Pay may trigger. Take-or-Pay is recognised as a receivable in the year that the contractual railings were not achieved as the related performance obligations have been satisfied.

The majority of access revenue is subject to a revenue cap mechanism that serves to ensure the rail network recovers its system allowable revenue over the regulatory period. A revenue adjustment event results in the under or over recovery of regulatory access revenue (net of Take-or-Pay revenue) for a financial year being recognised in the accounting revenues in the second financial year following the event as per the Access Undertaking. If a Draft Amending Access Undertaking (DAAU) proposes a different treatment that is more probable to apply to a revenue adjustment event, the treatment per the DAAU is applied. Access revenue for the period has been recognised based on the 2017 Access Undertaking, amended for the Reference Tariff Variation DAAU. Refer to key events and transactions during the reporting period for further information.

###### Transitional Tariff Period

During the transitional period, revenue is determined based on the most relevant and reliable information available.

##### (ii) Freight transport

Freight transport revenue is recognised as the relevant performance obligations are satisfied over time, being the provision of freight transport services.

Freight transport revenue is billed monthly in arrears and recognised at rates specified in each contractual agreement and adjusted for the amortisation of customer contract assets or liabilities. At each balance date, freight transport revenue includes an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. These amounts are recognised as trade receivables.

A contract modification is a separate contract if the scope of services is increased by distinct additional services and the total price increases by the market rate for those services over the remaining contract period. Where the distinct services do not indicate market prices, weighted-average contract rates are applied which may result in the recognition of a contract asset or liability that amortise over the term of the individual contract.

Modifications to existing agreements where there is also a new agreement put in place are assessed based on the facts and substance of the individual contractual arrangements and will be accounted for as either combined or separate contracts.

A contract liability is recorded for revenue received in advance of satisfying a performance obligation and is recognised over the term of the contract.

##### (iii) Capitalisation of customer contract costs

Where incremental costs are incurred to secure new or extensions to existing customer contracts these costs are capitalised as a contract asset and amortised against revenue as the performance obligations are satisfied over time in the new contract.

Where an arrangement contains a significant financing component the transaction price is adjusted to reflect the effects of the financing component and a contract asset is recognised and amortised against revenue as the performance obligations are satisfied over time.

### 3 Expenses

Profit before income tax from continuing operations includes the following specific expenses:

	2019 \$m	2018 \$m
<b>Employee benefits expense</b>		
Defined benefit superannuation expense	11.4	12.6
Defined contribution superannuation expense	54.3	55.3
Redundancies	21.4	(3.9)
Salaries, wages and allowances including on-costs	691.5	691.2
	<b>778.6</b>	<b>755.2</b>
<b>Depreciation and amortisation</b>		
Depreciation	516.9	505.0
Amortisation of intangibles	25.7	20.5
	<b>542.6</b>	<b>525.5</b>
<b>Impairment losses*</b>		
Property, plant and equipment	24.7	68.9
Intangibles	0.2	-
Inventory	-	1.1
	<b>24.9</b>	<b>70.0</b>
<b>Finance expenses</b>		
Interest and finance charges paid/payable	155.1	160.3
Provisions: unwinding of discount	0.1	0.4
Amortisation of capitalised borrowing transaction costs and AMTN 2 bond	2.6	2.9
Counterparty credit risk adjustments	(3.9)	7.5
	<b>153.9</b>	<b>171.1</b>
Amount capitalised to qualifying assets	(3.9)	(2.8)
	<b>150.0</b>	<b>168.3</b>

\* Refer to note 4 for impairment information.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 4 Impairment of non-financial assets

	2019 \$m	2018 \$m
<b>Continuing operations</b>		
Bulk impairment	11.4	42.1
Asset impairment as a result of transfer to held for sale	13.5	-
Impairment of assets on exit of contracts	-	27.9
	<b>24.9</b>	<b>70.0</b>
<b>Discontinued operations</b>		
Intermodal impairment	25.1	4.6
<b>Total impairment of non-financial assets</b>	<b>50.0</b>	<b>74.6</b>

#### (a) Impairment of non-financial assets

##### Current period

##### (i) Bulk impairment (\$11.4 million)

An impairment charge was recognised in respect of the Bulk East CGU using fair value less costs of disposal (FVLCD) methodology at 30 June 2017 and 30 June 2018. The Bulk East CGU continued to be valued under FVLCD methodology during the period, and as a result, an impairment charge of \$11.4 million in respect of additional sustaining capital expenditure has been recognised. The residual carrying value of property, plant and equipment as at 30 June 2019 is \$45.8 million. This impairment has not been classified as a significant item.

##### (ii) Asset impairment as a result of transfer to held for sale (\$13.5 million)

As a result of the transfer of assets to held for sale, an asset impairment of \$13.5 million has been allocated to buildings (\$9.8 million), infrastructure (\$1.9 million) and plant and equipment (\$1.8 million). This impairment has not been classified as a significant item.

##### (iii) Discontinued operation - Intermodal impairment (\$25.1 million)

As a result of the sale of the Queensland Intermodal business an asset impairment of \$25.1 million has been allocated to assets classified as held for sale (\$22.8 million) and assets under construction (\$2.3 million).

##### Prior period

##### (i) Bulk impairment (\$42.1 million)

###### Western Australia (\$31.7 million)

As a result of the cessation of the Cliffs iron ore contract earlier than expected, a review of the operating cash flows of the Western Australia CGU was completed at 30 June 2018. A pre-tax impairment charge of \$31.7 million was recorded. The residual carrying value of the Western Australia CGU was \$170.7 million.

###### Bulk East (\$10.4 million)

At 30 June 2017, an impairment charge of \$163.5 million was recorded in respect of the Bulk East CGU using a FVLCD methodology. An impairment charge of \$10.4 million was recorded in respect of additional sustaining capital incurred during the prior period. This impairment was not classified as a significant item.

##### (ii) Impairment of assets in exit of contracts (\$27.9 million)

As a result of Cliffs closing mining operations in Western Australia and the termination of the rail haulage agreement with the Group in June 2018, an impairment charge of \$27.9 million was recorded.

##### (iii) Discontinued operation - Intermodal impairment (\$4.6 million)

Due to the closure of Interstate Intermodal, an asset impairment of \$4.6 million was recognised at 30 June 2018.

### SIGNIFICANT JUDGEMENTS

The Group considers annually whether there have been any indicators of impairment and then tests whether non-current assets have suffered any impairment, in accordance with the accounting policy stated in note 9.

#### Cash generating units

The recoverable amounts of the CGUs for 30 June 2019 have been determined based on value in use calculations, except for Bulk East for which the recoverable amount is determined using FVLCD. The value in use is calculated based on a four-year Board approved corporate plan, a terminal growth rate of 2.0% per annum (2018: 2.2%) and a pre-tax discount rate ranging from 8.4% - 10.9% (2018: 8.8% - 11.7%). The value in use calculations indicate headroom to the carrying value of the CGUs.

The Western Australia CGU was impaired in the prior period as a result of cessation of services to a key iron ore customer. The Western Australia CGU has a small number of customers and the value in use calculation is sensitive to changes in customer contractual arrangements. Should any major contracts not be renewed or the remaining iron ore customer either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements, it may result in a change to the impairment recorded for the CGU.

There is a risk that the judgements applied in relation to the terminal growth rate will be impacted by climate-related emerging risks which have been considered for impairment testing through sensitivity on terminal growth rates. There is also a risk that the assumptions made and growth rates applied don't reflect the actual impact of climate-related emerging risks in the future.

#### Individual non-current assets

Each period the Group is required to assess the recoverability of non-current assets. Each period the Enterprise Fleet 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 changes to volumes, productivity, climate-related emerging risks or a change in management's view as to the level of contingent fleet required, could result in impairment or reversal of previous impairment in the future. The application of this judgement will continue to be assessed at each reporting date.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 5 Income tax

#### KEEPING IT SIMPLE

This note provides an analysis of the Group's income tax expense/benefit (including a reconciliation of income tax expense to accounting profit), deferred tax balances and income tax recognised directly in equity.

Differences between tax law and accounting standards result in non-temporary (permanent) and temporary (timing) differences between tax and accounting income. Current income tax expense is equal to net profit before tax multiplied by the applicable tax rate, adjusted for non-temporary differences. Temporary differences do not adjust income tax expense as they reverse over time. Until they reverse, a deferred tax asset or liability must be recognised on the balance sheet. This note also includes details of income tax recognised directly in equity.

The Group recognises a significant net deferred tax liability and a current cash tax position significantly lower than the applicable tax rate. This is primarily due to accelerated fixed asset tax depreciation and is common for entities operating in a capital intensive environment.

The tax treatment of impairments is dependent on the nature of the asset being impaired. As the current year impairment predominantly relates to tax depreciable assets (which continue to be used by the business), the impairment does not result in a tax deduction in the current year and will only be recognised for tax purposes when Aurizon disposes of the assets. Accordingly, the impairment will merely change the temporary difference (and associated deferred tax asset or liability) recognised in respect of the impaired asset.

#### (a) Income tax expense

	2019 \$m	2018 \$m
Current tax	127.6	151.3
Deferred tax	73.4	68.7
Current tax relating to prior periods	(1.5)	16.6
Deferred tax relating to prior periods	1.3	(17.0)
	<b>200.8</b>	219.6

Income tax expense/(benefit) is attributable to:

Profit from continuing operations	208.6	241.2
Loss from discontinued operation (note 24(b))	(7.8)	(21.6)
	<b>200.8</b>	219.6

Deferred income tax expense included in income tax expense comprises:

Increase in deferred tax assets (note 5(e))	(12.9)	(8.5)
Increase in deferred tax liabilities (note 5(f))	87.6	60.2
	<b>74.7</b>	51.7

#### (b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 \$m	2018 \$m
Profit before income tax expense from continuing operations	681.9	801.3
Loss before income tax expense from discontinued operation	(4.6)	(98.7)
	<b>677.3</b>	702.6
Tax at the Australian tax rate of 30% (2018: 30%)	203.2	210.8
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	0.1	0.2
Research and development	-	(0.7)
Non-assessable income	-	(0.3)
Capital losses not recognised	3.6	8.0
Other	(5.9)	2.0
Adjustments for current tax of prior periods	(0.2)	(0.4)
	<b>200.8</b>	219.6

#### (c) Amounts recognised directly in equity

	2019 \$m	2018 \$m
Aggregate deferred tax arising in the reporting period and directly credited to equity	(1.6)	4.9

#### (d) Tax expense/(benefit) relating to items of other comprehensive income

	2019 \$m	2018 \$m
Cash flow hedges	(15.2)	(3.9)

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 5 Income tax (continued)

#### (e) Deferred tax assets

	2019 \$m	2018 \$m
<b>Total deferred tax assets</b>	<b>228.8</b>	199.1
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(228.8)</b>	(199.1)
<b>Net deferred tax assets</b>	<b>-</b>	-

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax assets:

Movements	Provisions/ accruals \$m	Customer contracts \$m	Unearned revenue \$m	Financial instruments \$m	Other \$m	Total \$m
<b>At 1 July 2018</b>	<b>121.3</b>	<b>14.7</b>	<b>11.9</b>	<b>41.9</b>	<b>9.3</b>	<b>199.1</b>
(Charged)/credited						
- to profit or loss	<b>(12.6)</b>	<b>(7.4)</b>	<b>0.3</b>	<b>28.0</b>	<b>4.6</b>	<b>12.9</b>
- to other comprehensive income	-	-	-	<b>15.2</b>	-	<b>15.2</b>
- directly to equity	-	-	-	-	<b>1.6</b>	<b>1.6</b>
<b>At 30 June 2019</b>	<b>108.7</b>	<b>7.3</b>	<b>12.2</b>	<b>85.1</b>	<b>15.5</b>	<b>228.8</b>
At 1 July 2017	130.8	22.5	-	24.2	14.1	191.6
(Charged)/credited						
- to profit or loss	(9.5)	(7.8)	11.9	13.8	0.1	8.5
- to other comprehensive income	-	-	-	3.9	-	3.9
- directly to equity	-	-	-	-	(4.9)	(4.9)
At 30 June 2018	121.3	14.7	11.9	41.9	9.3	199.1

#### (f) Deferred tax liabilities

	2019 \$m	2018 \$m
<b>Total deferred tax liabilities</b>	<b>766.2</b>	678.6
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(228.8)</b>	(199.1)
<b>Net deferred tax liabilities</b>	<b>537.4</b>	479.5

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax liabilities:

Movements	Non- current assets \$m	Consumables and spares \$m	Accrued income \$m	Financial instruments \$m	Other \$m	Total \$m
<b>At 1 July 2018</b>	<b>642.3</b>	<b>1.2</b>	<b>1.7</b>	<b>33.6</b>	<b>(0.2)</b>	<b>678.6</b>
Charged/(credited)						
- profit or loss	<b>69.5</b>	<b>(8.2)</b>	<b>0.7</b>	<b>25.7</b>	<b>(0.1)</b>	<b>87.6</b>
<b>At 30 June 2019</b>	<b>711.8</b>	<b>(7.0)</b>	<b>2.4</b>	<b>59.3</b>	<b>(0.3)</b>	<b>766.2</b>
At 1 July 2017	588.3	5.2	2.6	22.1	0.2	618.4
(Charged)/credited						
- profit or loss	54.0	(4.0)	(0.9)	11.5	(0.4)	60.2
At 30 June 2018	642.3	1.2	1.7	33.6	(0.2)	678.6

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 5 Income tax (continued)

#### (f) Deferred tax liabilities (continued)

##### SIGNIFICANT JUDGEMENTS

The deferred tax asset of \$67.8 million, attributable to the impairment of the investment in an associate in FY16 has not been recognised as it is not considered probable that it will be recovered in the foreseeable future. The recoverability of the deferred tax asset is dependent on the sale of shares in the associate.

#### Recognition and measurement

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

To the extent that an item is recognised in other comprehensive income or directly in equity, the deferred tax is also recognised in other comprehensive income or directly in equity.

### 6 Earnings per share

#### KEEPING IT SIMPLE

Earnings per share (EPS) is the amount of post-tax profit attributable to each share.

#### (a) Basic earnings per share

Basic EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding.

	2019 Cents	2018 Cents
<b>Basic earnings per share attributable to the ordinary equity holders of the Company:</b>		
- continuing and discontinued operations	<b>23.9</b>	24.0
- continuing operations	<b>23.8</b>	27.8

#### (b) Diluted earnings per share

Diluted EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	2019 Cents	2018 Cents
<b>Diluted earnings per share attributable to the ordinary equity holders of the Company:</b>		
- continuing and discontinued operations	<b>23.9</b>	24.0
- continuing operations	<b>23.8</b>	27.8

#### (c) Weighted average number of shares used as denominator

	2019 Number '000	2018 Number '000
<b>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</b>	<b>1,990,128</b>	2,013,362
Adjustments for calculation of diluted EPS:		
Rights	<b>1,567</b>	1,865
<b>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted EPS</b>	<b>1,991,695</b>	2,015,227

# Operating assets and liabilities

## IN THIS SECTION

**Operating assets and liabilities provides information about the working capital of the Group and major balance sheet items, including the accounting policies, judgements and estimates relevant to understanding these items.**

7	Trade and other receivables	Page 65
8	Inventories	Page 65
9	Property, plant and equipment	Page 66
10	Intangible assets	Page 68
11	Trade and other payables	Page 69
12	Provisions	Page 69
13	Other liabilities	Page 70

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 7 Trade and other receivables

	2019 \$m	2018 \$m
<b>Current</b>		
Trade receivables	<b>366.1</b>	443.5
Provision for impairment of receivables	<b>(5.8)</b>	(27.7)
Net trade receivables	<b>360.3</b>	415.8
Other receivables*	<b>121.5</b>	123.5
	<b>481.8</b>	539.3

\* Other receivables include revenue for services performed but not yet invoiced under contracts including external construction contracts, Take-or-Pay and annual GAPE fees.

The creation or release of the provision for impairment of receivables has been included in profit or loss. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash. During the period, \$21.9 million of the provision for impairment of receivables was released to profit or loss (2018: \$0.5 million created) including \$20.3 million for a customer as a result of an agreed settlement in the Supreme Court of Queensland on 31 July 2019.

#### Recognition and measurement

Trade receivables generally have credit terms ranging from seven to 31 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9 *Financial Instruments*, which requires the use of the lifetime expected loss provision for all trade receivables.

The Group's debtors exhibit similar credit risk characteristics and exposure. Estimating the Group's credit risk to debtors has focused largely on experienced payment history. The trade receivable balances disclosed are unsecured and represent the Group's maximum exposure to credit risk. At the time of issuing the financial statements, the outstanding receivables have been paid in accordance with their credit terms without default.

### 8 Inventories

	2019 \$m	2018 \$m
<b>Current</b>		
Raw materials and stores – at cost	<b>130.9</b>	133.1
Work in progress – at cost	-	0.2
Provision for inventory obsolescence	<b>(13.7)</b>	(15.2)
	<b>117.2</b>	118.1
<b>Non-current</b>		
Raw materials and stores – at cost	<b>53.0</b>	44.8
Provision for inventory obsolescence	<b>(12.8)</b>	(15.7)
	<b>40.2</b>	29.1

#### Recognition and measurement

Inventories include infrastructure and rollingstock items held in centralised stores, workshops and depots. Inventories are measured at the lower of cost and net realisable value. Cost is determined predominantly on an average cost basis.

Items expected to be consumed after more than one year are classified as non-current.

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure and rollingstock maintenance items. The amount of the provision is based on a proportion of the value of damaged stock, slow moving stock and stock that has become obsolete during the reporting period.



# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 9 Property, plant and equipment

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure \$m	Total \$m
<b>2019</b>							
Opening net book amount	275.3	126.5	231.3	327.6	2,231.7	5,467.5	8,659.9
Additions	467.6	-	-	-	-	-	467.6
Transfers between asset classes	(424.7)	0.6	64.0	41.3	128.6	192.3	2.1
Disposals	-	(1.9)	(5.7)	(3.1)	(1.1)	(5.1)	(16.9)
Impairment*	(11.3)	-	(9.8)	(1.7)	(1.9)	(2.3)	(27.0)
Assets classified as held for sale	(25.2)	13.7	5.9	(27.7)	(0.1)	1.1	(32.3)
Depreciation**	-	-	(19.6)	(50.7)	(155.2)	(291.6)	(517.1)
<b>Closing net book amount</b>	<b>281.7</b>	<b>138.9</b>	<b>266.1</b>	<b>285.7</b>	<b>2,202.0</b>	<b>5,361.9</b>	<b>8,536.3</b>
<b>At 30 June 2019</b>							
Cost	281.7	138.9	520.2	655.3	5,165.2	7,644.2	14,405.5
Accumulated depreciation and impairment	-	-	(254.1)	(369.6)	(2,963.2)	(2,282.3)	(5,869.2)
<b>Net book amount</b>	<b>281.7</b>	<b>138.9</b>	<b>266.1</b>	<b>285.7</b>	<b>2,202.0</b>	<b>5,361.9</b>	<b>8,536.3</b>
Owned	281.7	113.4	264.0	285.7	2,202.0	973.4	4,120.2
Leased	-	25.5	2.1	-	-	4,388.5	4,416.1
	<b>281.7</b>	<b>138.9</b>	<b>266.1</b>	<b>285.7</b>	<b>2,202.0</b>	<b>5,361.9</b>	<b>8,536.3</b>
<b>2018</b>							
Opening net book amount	184.8	159.7	273.5	377.0	2,329.2	5,510.8	8,835.0
Additions	502.4	-	-	-	-	-	502.4
Transfers between asset classes	(406.4)	(0.1)	(2.3)	20.6	131.5	263.6	6.9
Disposals	-	(2.3)	(7.7)	(10.9)	(4.9)	(7.1)	(32.9)
Impairment*	(5.2)	-	(3.5)	(3.9)	(53.1)	(5.6)	(71.3)
Assets classified as held for sale	(0.3)	(30.8)	(6.8)	(10.3)	(13.2)	(11.8)	(73.2)
Depreciation**	-	-	(21.9)	(44.9)	(157.8)	(282.4)	(507.0)
Closing net book amount	275.3	126.5	231.3	327.6	2,231.7	5,467.5	8,659.9
<b>At 30 June 2018</b>							
Cost or fair value	275.3	126.5	499.4	756.8	5,081.0	7,468.6	14,207.6
Accumulated depreciation and impairment	-	-	(268.1)	(429.2)	(2,849.3)	(2,001.1)	(5,547.7)
<b>Net book amount</b>	<b>275.3</b>	<b>126.5</b>	<b>231.3</b>	<b>327.6</b>	<b>2,231.7</b>	<b>5,467.5</b>	<b>8,659.9</b>
Owned	275.3	102.7	223.2	327.6	2,231.7	975.8	4,136.3
Leased	-	23.8	8.1	-	-	4,491.7	4,523.6
	<b>275.3</b>	<b>126.5</b>	<b>231.3</b>	<b>327.6</b>	<b>2,231.7</b>	<b>5,467.5</b>	<b>8,659.9</b>

\* Impairment of \$27.0 million (2018: \$71.3 million) includes impairment from continuing operations of \$24.7 million (2018: \$68.9 million) (note 3) and discontinued operations of \$2.3 million (2018: \$2.4 million) (note 24).

\*\* Depreciation of \$517.1 million (2018: \$507.0 million) includes depreciation from continuing operations of \$516.9 million (2018: \$505.0 million) (note 3) and discontinued operations of \$0.2 million (2018: \$2.0 million) (note 24).

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 9 Property, plant and equipment (continued)

#### SIGNIFICANT JUDGEMENTS

##### Depreciation

The Group estimates the useful lives and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. The Group reviews useful life assumptions on an annual basis having given consideration to variables including historical and forecast usage rates, technological advancements, climate-related emerging risks and changes in legal and economic conditions. Any change in useful lives and residual values of property, plant and equipment is accounted for prospectively.

#### Recognition and measurement

##### (i) Initial recognition and measurement

###### Land, buildings, plant and equipment, rollingstock and assets under construction

Buildings, plant and equipment, and rollingstock are carried at cost less accumulated depreciation. Non-corridor land owned by the Group and assets under construction are carried at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Costs attributable to assets under construction are only capitalised when it is probable that future economic benefits associated with the asset will flow to the Group and the costs can be measured reliably. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment, and capitalised interest.

Corridor land owned by the State is leased to Aurizon Network Pty Ltd at a rental of \$1 per year if demanded. The leases expire on 30 June 2109.

###### Leased coal infrastructure

Coal infrastructure assets are owned by (a) the State, with respect to the CQCN and (b) Queensland Rail, with respect to the North Coast Line (each referred to as the Infrastructure Lessor). Under each infrastructure lease the infrastructure is leased to Aurizon Network Pty Ltd, a wholly-owned subsidiary. The term of each lease is 99 years (at a rate of \$1 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years. The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99-year term. This has been accounted for as a finance lease.

##### (ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

##### (iii) Depreciation and amortisation

Assets are depreciated or amortised from the date of acquisition, or, in respect of internally constructed or manufactured assets, from the time an asset is completed and held ready for use.

Buildings, infrastructure, rollingstock, plant and equipment are depreciated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives.

Motor vehicles are depreciated using the diminishing value method (percentages range from 13.6% to 35.0%). Land and assets under construction are not depreciated.

The Group builds mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. Infrastructure controlled by the Group under these deeds is depreciated over the term of the deed, except where economic benefits are expected to flow to the Group after the end of the term of the deed.

The depreciation and amortisation rates used during the year were based on the following range of useful lives:

- Owned and leased infrastructure	7-100 years
- Buildings	10-40 years
- Rollingstock	8-35 years
- Plant and equipment	3-20 years
- Leased property	3-40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

##### (iv) Derecognition

An item of property, plant and equipment is derecognised when it is disposed of or no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

##### (v) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cashflows which are largely independent of the cashflows from other assets or groups of assets (CGUs).

The recoverable amount is the greater of an asset's FVLCD and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. Impairment losses, if any, recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

Non-financial assets that have previously been impaired are reviewed for possible reversal of impairment at each reporting period.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 10 Intangible assets

	Software \$m	Key customer contracts \$m	Software under development \$m	Total \$m
<b>2019</b>				
Opening net book amount	126.6	-	46.0	172.6
Additions	-	-	32.3	32.3
Transfers	57.5	-	(59.6)	(2.1)
Amortisation expense*	(25.7)	-	-	(25.7)
Impairment charge**	(0.2)	-	-	(0.2)
<b>Closing net book amount</b>	<b>158.2</b>	<b>-</b>	<b>18.7</b>	<b>176.9</b>
<b>At 30 June 2019</b>				
Cost	344.1	3.0	18.7	365.8
Accumulated amortisation and impairment	(185.9)	(3.0)	-	(188.9)
<b>Net book amount</b>	<b>158.2</b>	<b>-</b>	<b>18.7</b>	<b>176.9</b>
<b>2018</b>				
Opening net book amount	123.0	-	47.0	170.0
Additions	-	0.5	32.0	32.5
Transfers	26.1	-	(33.0)	(6.9)
Amortisation expense*	(20.3)	(0.5)	-	(20.8)
Impairment charge**	(2.2)	-	-	(2.2)
Closing net book amount	126.6	-	46.0	172.6
Cost	291.1	3.0	46.0	340.1
Accumulated amortisation and impairment	(164.5)	(3.0)	-	(167.5)
Net book amount	126.6	-	46.0	172.6

\* Amortisation of \$25.7 million (2018: \$20.8 million) includes amortisation from continuing operations of \$25.7 million (2018: \$20.5 million) (note 3) and discontinued operations of \$nil (2018: \$0.3 million) (note 24).

\*\* Impairment of \$0.2 million (2018: \$2.2 million) includes impairment from continuing operations of \$0.2 million (2018: \$nil) (note 3) and discontinued operations of \$nil (2018: \$2.2 million) (note 24).

#### Recognition and measurement

##### (i) Software and software under development

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, employee costs and an appropriate portion of relevant overheads.

Software under development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful life which varies from three to 11 years.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 11 Trade and other payables

	2019 \$m	2018 \$m
<b>Current liabilities</b>		
Trade payables	<b>297.5</b>	247.7
Other payables	<b>109.2</b>	28.1
	<b>406.7</b>	275.8

Other payables includes a payable of \$81.3 million (including GAPE) in respect of the overcollection of access revenue which will be repaid based on FY19 volumes railed. Refer to key events and transactions during the reporting period for further information.

#### Recognition and measurement

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days or within the terms agreed with the supplier.

### 12 Provisions

	2019 \$m	2018 \$m
<b>Current</b>		
Employee benefits (a)	<b>234.7</b>	244.1
Provision for insurance claims	<b>1.4</b>	3.9
Litigation and workers compensation provision	<b>33.6</b>	24.9
Other provisions*	<b>3.3</b>	39.3
	<b>273.0</b>	312.2
<b>Non-current</b>		
Employee benefits (a)	<b>12.6</b>	15.7
Litigation and workers compensation provision	<b>10.9</b>	11.2
Decommissioning/make good	<b>3.0</b>	3.0
Land rehabilitation	<b>34.2</b>	37.4
Other provisions*	<b>2.2</b>	14.9
	<b>62.9</b>	82.2
<b>Total provisions</b>	<b>335.9</b>	394.4

#### (a) Employee benefits

	2019 \$m	2018 \$m
Annual leave	<b>55.4</b>	55.1
Long service leave	<b>110.5</b>	113.6
Other**	<b>81.4</b>	91.1
	<b>247.3</b>	259.8

\* Other provisions in 2018 included provisions for Intermodal closure costs.

\*\* Included in other employee benefits are short-term incentive plans, retirement allowances, and termination benefits. As well as payroll tax on leave and short-term incentive plans.

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, short-term incentive plans and redundancy provision. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of \$90.6 million (2018: \$91.9 million) that is not expected to be taken or paid within the next 12 months.

#### Details of employee benefits

##### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave and leave loading that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The short-term employee benefit obligations are recognised in the provision for employee benefits.

##### (ii) Other long-term employee benefit obligations

The liabilities for retirement allowance and long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

##### (iii) Short-term incentive plans

The Group recognises a liability for short-term incentive plans based on a formula that takes into consideration the Group and individual key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

##### (iv) Termination benefits

Termination benefits are payable when the Group decides to terminate the employment, or when an employee accepts redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 12 Provisions (continued)

#### (v) Superannuation

The Group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to the Public Sector Superannuation (QSuper) scheme.

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a whole of Government basis and reported in the whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund at least every three years. The latest valuation was completed as at 30 June 2018 and the State Actuary found the fund was in surplus from a whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the QSuper Defined Benefit Fund. The State of Queensland has provided Aurizon with an indemnity if the Treasurer requires Aurizon to pay any amounts required to meet any potential deficit/surplus. The indemnity is subject to Aurizon not taking any unilateral action, other than with the approval of the State that causes a significant increase in unfunded liabilities.

The Group also makes superannuation guarantee payments into the QSuper Accumulation Fund (Non-Contributory) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office and to other complying Superannuation Funds designated by employees nominating Choice of Fund.

#### Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The pre-tax discount rates for employee benefits are based on Australian corporate bond rates and range between 1.5% and 2.7% (2018: 2.5% and 3.9%).

To measure the estimated costs to remediate contaminated land an inflation rate of 1.9% (2018: 2.6%) has been applied, based on remediation dates ranging between five to 40 years. A weighted average discount rate of 2.0% (2018: 3.3%) has been used in determining present value, based on the interest rate which reflects the maturity profile of the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

The provision for insurance claims is raised for insurance claims external to the Group and represents the aggregate deductible component in relation to loss or damage to property, plant and equipment and rollingstock.

A provision is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. Estimates are made based on the average number of claims and average claim payments over a specified period of time. Claims Incurred But Not Reported are also included in the estimate.

A provision for onerous contracts is recognised by the Group when the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits to be received. It is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting period.

### 13 Other liabilities

	2019 \$m	2018 \$m
<b>Current</b>		
Contract liabilities	<b>28.2</b>	-
Income received in advance	<b>36.7</b>	81.0
Other current liabilities	<b>10.2</b>	5.4
	<b>75.1</b>	86.4
<b>Non-current</b>		
Contract liabilities	<b>165.0</b>	-
Income received in advance	-	183.1
Other non-current liabilities	<b>40.0</b>	35.4
	<b>205.0</b>	218.5

Income received in advance primarily represents deposits received.

Contract liabilities primarily represent amounts received from customers as advances for future track access under agreements for mine specific infrastructure. These amounts are deferred and earned over the term of the agreements as performance obligations are satisfied.

On adoption of AASB 15 *Revenue from Contracts with Customers* on 1 July 2018, \$27.2 million (current) and \$185.8 million (non-current) was reclassified to contract liabilities. Refer to note 2 and note 32 for further information.

# Capital and financial risk management

## IN THIS SECTION

**Capital and financial risk management provides information about the capital management practices of the Group and shareholder returns for the year and discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks.**

14	Capital risk management	Page 72
15	Dividends	Page 72
16	Equity and reserves	Page 72
17	Borrowings	Page 74
18	Financial risk management	Page 74
19	Derivative financial instruments	Page 80

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 14 Capital risk management

#### KEEPING IT SIMPLE

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and the Company monitor its capital structure by reference to its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is total equity plus net debt. There were no changes in the Group's approach to capital and financial risk management during the year. Refer to note 18 for further details.

	Notes	2019 \$m	2018 \$m
Total borrowings	17	<b>3,369.8</b>	3,501.9
Less: cash and cash equivalents		<b>(25.2)</b>	(34.8)
Net debt		<b>3,344.6</b>	3,467.1
Total equity		<b>4,677.4</b>	4,730.1
<b>Total capital</b>		<b>8,022.0</b>	8,197.2
<b>Gearing ratio</b>		<b>41.7%</b>	42.3%

The gearing ratio excludes the impact of financial derivative asset and liabilities (refer note 19). Aurizon Network Pty Ltd gearing ratio is 69.9% (2018: 69.7%).

### 15 Dividends

#### (a) Ordinary shares

	2019 \$m	2018 \$m
Interim dividend for the year ended 30 June 2019 of 11.4 cents 70% franked (2018: 14.0 cents 50% franked) per share, paid 25 March 2019	<b>226.9</b>	279.5
Final dividend for the year ended 30 June 2018 of 13.1 cents 60% franked (2017: 8.9 cents 50% franked) per share, paid 24 September 2018	<b>260.7</b>	182.6
	<b>487.6</b>	462.1

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

	2019 \$m	2018 \$m
Since 30 June 2019, the Directors have recommended the payment of a final dividend of 12.4 cents per fully paid ordinary share 70% franked (2018: 13.1 cents 60% franked). The aggregate amount of the proposed dividend expected to be paid on 23 September 2019 out of retained earnings, but not recognised as a liability at year end is:	<b>246.8</b>	260.7

#### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2019 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ending 30 June 2020.

	2019 \$m	2018 \$m
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2018: 30%)	<b>64.9</b>	71.5

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

### 16 Equity and reserves

#### KEEPING IT SIMPLE

Issued capital represents the amount of consideration received for securities issued by Aurizon.

When the Company purchases its own shares, as a result of the share-based payment plans and share buy-back, the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

#### (a) Contributed equity

##### (i) Issued capital

	2019 Shares '000	2018 Shares '000	2019 \$m	2018 \$m
Ordinary shares - fully paid	<b>1,990,128</b>	1,990,128	<b>906.6</b>	906.6

##### (ii) Movements in ordinary share capital

Details	Number of shares '000	\$m
At 1 July 2017	2,051,745	1,206.6
On-market share buy-back	(61,617)	(300.0)
At 30 June 2018	1,990,128	906.6
<b>At 30 June 2019</b>	<b>1,990,128</b>	<b>906.6</b>

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.



# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 16 Equity and reserves (continued)

#### (b) Reserves

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
<b>Balance at 1 July 2018</b>		<b>(1.8)</b>	<b>(11.2)</b>	<b>5.6</b>	<b>3,467.5</b>	<b>3,460.1</b>
Fair value losses taken to equity		-	(52.2)	-	-	(52.2)
Fair value losses transferred to property, plant and equipment		-	1.6	-	-	1.6
Deferred tax		-	15.2	-	-	15.2
Other comprehensive income		-	(35.4)	-	-	(35.4)
Transactions with owners in their capacity as owners						
Share-based payments expense	29(b)	-	-	(7.2)	-	(7.2)
Employee share trust to employees		-	-	(0.6)	-	(0.6)
Deferred tax		-	-	1.6	-	1.6
<b>Balance at 30 June 2019</b>		<b>(1.8)</b>	<b>(46.6)</b>	<b>(0.6)</b>	<b>3,467.5</b>	<b>3,418.5</b>

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2017		(1.8)	(2.1)	9.1	3,467.8	3,473.0
Fair value losses taken to equity		-	(13.1)	-	-	(13.1)
Fair value losses transferred to property, plant and equipment		-	0.1	-	-	0.1
Deferred tax		-	3.9	-	-	3.9
Other comprehensive income		-	(9.1)	-	-	(9.1)
Transactions with owners in their capacity as owners						
Buy-back of ordinary shares		-	-	-	(0.3)	(0.3)
Share-based payments expense	29(b)	-	-	3.9	-	3.9
Employee share trust to employees		-	-	(2.5)	-	(2.5)
Deferred tax		-	-	(4.9)	-	(4.9)
Balance at 30 June 2018		(1.8)	(11.2)	5.6	3,467.5	3,460.1

#### Nature and purpose of reserves

##### Cash flow hedges

The hedging reserve is used to record the effective portion of gains or losses on hedging instruments that are designated cash flow hedges and are recognised in other comprehensive income. Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

##### Share-based payments

Share-based payments represent the fair value of share-based remuneration provided to employees.

##### Capital reserves

Capital reserves represents capital contributions from Queensland State Government pre-IPO less cumulative share buy-backs charged to this account.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 17 Borrowings

#### KEEPING IT SIMPLE

The Group borrows money through bank debt facilities and through the issuance of debt securities in capital markets.

The carrying amount of the Group's borrowings is as follows:

	2019 \$m	2018 \$m
<b>Current - Unsecured</b>		
Bank debt facilities	149.0	100.0
	149.0	100.0
<b>Non-current - Unsecured</b>		
Medium-term notes	2,670.0	2,552.1
Bank debt facilities	560.0	860.0
Capitalised borrowing costs	(9.2)	(10.2)
	3,220.8	3,401.9
<b>Total borrowings</b>	<b>3,369.8</b>	<b>3,501.9</b>

The Group's bank debt facilities contain financial covenants. Both the bank debt 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.

The Group manages its exposure to interest rate risk as set out in note 18(a). Risk is managed in accordance with Board approved Treasury Policies.

In November 2018 Aurizon Finance Pty Ltd (a wholly-owned subsidiary of the Group) cancelled existing bank debt syndicated facilities and replaced them with bilateral bank debt facilities totalling \$450.0 million expiring in November 2023.

Details of the Group's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 18(c).

#### Recognition and measurement

##### (i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity.

Establishment costs have been capitalised and are amortised over the life of the related borrowing less one year, with the expectation that borrowings will be refinanced within the year prior to maturity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year and the Group does not expect to repay within 12 months.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

##### (ii) Borrowing costs

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings, excluding working capital facilities, during the year of 4.6% (2018: 4.5%).

### 18 Financial risk management

#### KEEPING IT SIMPLE

Exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk arises in the normal course of the Group's business. A central treasury department oversees financial risk under Board approved Treasury Policies that cover specific areas related to these exposures, as well as the use of derivative and non-derivative financial instruments.

Compliance with the Board approved Treasury Policies is monitored on an ongoing basis, including regular reporting to the Board. Trading for speculation is prohibited.

##### (a) Market risk

Market risk is the risk that adverse movements in foreign exchange and/or interest rates will affect the Group's financial performance or the value of its holdings of financial instruments. The Group monitors and measures market risk relative to risk limits established in the Board approved Treasury Policies. The objective of risk management is to manage the market risks inherent in the business to protect profitability and return on assets.

##### (i) Foreign exchange risk

###### Exposure to foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in or related to a currency that is not the Group's functional currency. The Group's foreign exchange exposure relates largely to the Euro (€) denominated medium-term note borrowings issued in September 2014 (EMTN 1) and June 2016 (EMTN 2). The Group also has exposure to movements in foreign currency exchange rates through anticipated purchases of parts and equipment.

###### Risk management

###### Cross currency interest rate swap agreements

To mitigate the risk of adverse movements in foreign exchange and interest rates in relation to borrowings denominated in foreign currency, the Group enters into cross currency interest rate swap (CCIRS) agreements through which it replaces the related foreign currency principal and interest liability payments with Australian Dollar principal and interest payments. These cross currency interest rate swap agreements are designated into cash flow and fair value hedge relationships.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 18 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Foreign exchange risk (continued)

###### Foreign exchange contracts

The Group uses forward contracts to manage its foreign exchange risk arising from anticipated purchases of parts and equipment. These contracts are hedging highly probable forecast foreign currency exposures and are denominated in the same currency as the highly probable future purchases. The forward contracts are designated as cash flow hedges and are timed to mature when foreign currency payments are scheduled to be made. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

At the reporting date, the Group's exposure to foreign exchange risk after taking into consideration hedges of foreign currency borrowings and forecast foreign currency transactions is not considered material.

##### (ii) Interest rate risk

###### Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings which expose the Group to interest rate risk.

At reporting date, the Group has exposure to the following variable rate borrowings and interest rate swaps:

	30 June 2019		30 June 2018	
	Weighted average interest rate %	Balance \$m	Weighted average interest rate %	Balance \$m
Variable rate exposure	4.5	2,197.8	4.4	2,448.8
Interest rate swaps (including debt credit margins)	4.3	(2,175.0)	4.2	(1,975.0)
<b>Net exposure to interest rate risk</b>		<b>22.8</b>		<b>473.8</b>

#### Risk management

The Group manages cash flow interest rate risk by using interest rate swaps. CCIRS have been put in place to remove any exposure to Euro interest rates and associated foreign exchange from the EMTN issuances which in effect convert the debt to variable AUD.

Interest rate swaps currently in place cover approximately 99% (2018: 81%) of the variable rate exposure. The weighted average maturity of outstanding swaps is approximately 2.7 years (2018: 3.0 years).

The International Swaps and Derivatives Association (ISDA) agreements held with counterparties allow for the netting of payments and receipts with respect to settlements for interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was \$2.2 million (2018: \$4.9 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which have been recognised in interest expense.

##### (iii) Sensitivity on interest rate risk

The following table summarises the gain/(loss) impact of interest rate changes, relating to existing borrowings and financial instruments, on net profit and equity before tax. The effect on equity is based on the financial instruments notional principal. For the purpose of this disclosure, sensitivity analysis is isolated to a 100 basis points increase/decrease in interest rates, assuming hedge designations and effectiveness and all other variables remain constant.

	Effect on profit (before tax)		Effect on equity (before tax)	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>100 bps movement in interest rates</b>				
100 bps decrease in interest rates	0.2	4.7	(34.2)	(46.7)
100 bps increase in interest rates	(0.2)	(4.7)	33.6	45.2

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 18 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement

The impact of hedging instruments designated in hedging relationships on the consolidated balance sheet of the Group is as follows:

	Notional amount		Carrying amount assets/ (liability) refer to note 19		Change in fair value used for measuring ineffectiveness for the year	
	2019	2018	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Cash flow hedges</b>						
<b>Foreign exchange risk</b>						
Forward contracts	<b>US\$11.0m</b>	US\$26.0m	<b>0.5</b>	1.2	<b>(0.7)</b>	1.4
Forward contracts	<b>€13.0m</b>	€14.0m	<b>0.3</b>	0.5	<b>(0.2)</b>	0.7
<b>Interest rate risk</b>						
Interest rate swaps*	<b>A\$2,175.0m</b>	A\$1,975.0m	<b>(49.1)</b>	4.3	<b>(53.4)</b>	(71)
<b>Foreign exchange and interest rate risks</b>						
CCIRS - EMTN 1	<b>€500.0m</b>	€500.0m	<b>0.9</b>	1.2	<b>(0.3)</b>	2.4
CCIRS - EMTN 2	<b>€500.0m</b>	€500.0m	<b>(4.3)</b>	(3.8)	<b>(0.5)</b>	9.2
<b>Fair value hedges</b>						
<b>Foreign exchange and interest rate risks</b>						
CCIRS - EMTN 1	<b>€500.0m</b>	€500.0m	<b>150.7</b>	101.0	<b>44.3</b>	49.4
CCIRS - EMTN 2	<b>€500.0m</b>	€500.0m	<b>49.4</b>	(16.9)	<b>62.8</b>	54.2
<b>Interest rate risk</b>						
Interest rate swaps	-	A\$425.0m	-	3.3	<b>(3.3)</b>	3.4

\* Excludes \$1,250.0 million of forward dated interest rate swaps entered into commencing on expiry of current interest rate swaps.

The impact of hedged items designated in hedging relationships on the consolidated balance sheet is as follows:

	Cash flow hedge reserve*		Change in fair value used for measuring ineffectiveness for the year	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Cash flow hedges (before tax)</b>				
<b>Foreign exchange risk</b>				
Firm commitments			<b>(0.8)</b>	(1.7)
<b>Interest rate risk</b>				
Forecast floating interest payments			<b>49.1</b>	(4.3)
<b>Foreign exchange and interest rate risks</b>				
EMTN 1			<b>4.7</b>	6.5
EMTN 2			<b>13.8</b>	15.6

\* Cash flow hedge reserve includes the cumulative impact of cross currency basis relating to EMTN 1 and EMTN 2 of \$19.1 million for the year ended 30 June 2019 (2018: \$23.5 million).

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 18 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement (continued)

	Carrying amount*		Accumulated fair value adjustment		Change in fair value used for measuring ineffectiveness for the year	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Fair value hedges (before tax)</b>						
<b>Interest rate risk</b>						
AMTN 2**	-	(429.0)	-	(4.0)	-	(4.0)
<b>Foreign exchange and interest rate risks</b>						
EMTN 1	<b>(870.9)</b>	(826.6)	<b>(160.3)</b>	(116.0)	<b>(44.3)</b>	(49.4)
EMTN 2	<b>(847.4)</b>	(784.6)	<b>(69.2)</b>	(6.4)	<b>(62.8)</b>	(54.2)
	<b>(1,718.3)</b>	(1,611.2)	<b>(229.5)</b>	(122.4)	<b>(107.1)</b>	(103.6)
<b>Total borrowings (subject to fair value hedges)</b>	<b>(1,718.3)</b>	(2,040.2)	<b>(229.5)</b>	(126.4)	<b>(107.1)</b>	(107.6)

\* Carrying amount excludes the effect of discounts.

\*\* The AMTN 2 fair value hedge was terminated on 11 February 2019. The accumulated fair value adjustment included in the carrying amount of the AMTN 2 bond as at 30 June 2019 is \$11.9 million (2018: \$4.0 million). The accumulated fair value adjustment will be recognised over the remaining term of the AMTN 2 bond.

The above hedging relationships affected other comprehensive income as follows:

	Hedging gain/(loss) recognised in comprehensive income	
	2019 \$m	2018 \$m
<b>Cash flow hedges (before tax)</b>		
<b>Foreign exchange risk</b>		
Forward contracts	<b>(0.8)</b>	2.0
<b>Interest rate risk</b>		
Interest rate swaps	<b>(53.4)</b>	(7.1)
<b>Foreign exchange and interest rate risk</b>		
CCIRS	<b>3.6</b>	(7.9)
	<b>(50.6)</b>	(13.0)

There was no material ineffectiveness related to cash flow hedges and fair value hedges recognised in the consolidated income statement during the year.

#### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with financial institutions and receivables from customers.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees received from certain parties.

Historically, there has been no significant change in customers' credit risk and the lifetime expected loss assessment of the Group remains unchanged. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

- › External credit rating (as far as available)
- › Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- › Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- › The financial position of customers, past experience and other factors (macroeconomic information)

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables, the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note 18(d) for further details.

The Group has policies in place to ensure that sales of services are only made to customers with an appropriate credit profile or where appropriate security is held. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit quality of the customer is assessed, taking into account its financial position, past experience and other factors.

Credit risk on cash transactions and derivative contracts is managed through the Board approved Treasury Policies which restricts the Group's exposure to financial institutions by credit rating band. The Treasury Policies limit the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are regularly monitored.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 18 Financial risk management (continued)

#### (c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, sufficient liquidity is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

#### Financing arrangements

The Group has access to the following arrangements at the end of the reporting year:

	Security	Maturity	Utilised*		Facility limit	
			2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Aurizon Finance</b>						
Working capital facility	Unsecured	Dec-20	<b>84.3</b>	70.2	<b>150.0</b>	150.0
Syndicated facility**	Unsecured	Jul-19	-	100.0	-	300.0
Syndicated facility**	Unsecured	Jul-20	-	-	-	300.0
Bilateral facility	Unsecured	Nov-23	<b>90.0</b>	-	<b>450.0</b>	-
			<b>174.3</b>	170.2	<b>600.0</b>	750.0
<b>Aurizon Network</b>						
Working capital facility	Unsecured	Dec-20	<b>82.6</b>	52.1	<b>100.0</b>	100.0
Syndicated facility	Unsecured	Jul-21	<b>470.0</b>	490.0	<b>490.0</b>	490.0
Syndicated facility	Unsecured	Oct-22	-	270.0	<b>500.0</b>	500.0
AMTN 1	Unsecured	Oct-20	<b>525.0</b>	525.0	<b>525.0</b>	525.0
AMTN 2***	Unsecured	Jun-24	<b>425.0</b>	425.0	<b>425.0</b>	425.0
EMTN 1****	Unsecured	Sept-24	<b>710.6</b>	710.6	<b>710.6</b>	710.6
EMTN 2****	Unsecured	Jun-26	<b>778.2</b>	778.2	<b>778.2</b>	778.2
			<b>2,991.4</b>	3,250.9	<b>3,528.8</b>	3,528.8
<b>Total Group financing arrangements</b>			<b>3,165.7</b>	3,421.1	<b>4,128.8</b>	4,278.8

\* Amount utilised includes bank guarantees of \$17.9 million (2018: \$22.3 million) but excludes capitalised borrowing costs of \$9.2 million (2018: \$10.2 million) and discounts on medium-term notes of \$10.3 million (2018: \$13.1 million).

\*\* In November 2018 Aurizon Finance Pty Ltd (a wholly-owned subsidiary of the Group) cancelled existing bank debt syndicated facilities and replaced them with bilateral bank debt facilities totalling \$450.0 million expiring in November 2023.

\*\*\* The AMTN 2 fair value hedge was terminated on 11 February 2019. Amount utilised excludes an accumulated fair value adjustment of \$11.9 million (2018: \$4.0 million) which will be recognised over the remaining term of the AMTN 2 bond.

\*\*\*\*Amount utilised also excludes accumulated fair value adjustments of \$160.3 million (2018: \$116.0 million) for EMTN 1 and \$69.2 million (2018: \$6.4 million) for EMTN 2.

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling \$250.0 million (2018: \$250.0 million) which may be utilised in the form of short-term working capital funding and the issuance of bank guarantees. At the end of the reporting period, the Group utilised \$17.9 million (2018: \$22.3 million) for financial bank guarantees.

The Group has complied with externally imposed debt covenants during the 2019 and 2018 reporting periods.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 18 Financial risk management (continued)

#### (c) Liquidity risk (continued)

The following table summarises the contractual timing of undiscounted cash flows, including estimated interest payments, of financial liabilities and derivative instruments, expressed in AUD. The contractual amount assumes current interest rates and foreign exchange rates estimated using forward curves applicable at the end of the reporting period.

	Less than 1 year \$m	Between 1 and 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets)/ liabilities* \$m
<b>2019</b>					
<b>Non-derivatives</b>					
Trade payables	406.7	-	-	406.7	406.7
Borrowings*	123.0	2,004.9	1,582.6	3,710.5	3,173.1
Financial guarantees	17.9	-	-	17.9	-
	<b>547.6</b>	<b>2,004.9</b>	<b>1,582.6</b>	<b>4,135.1</b>	<b>3,579.8</b>
<b>Derivatives</b>					
Interest rate swaps	20.1	30.4	-	50.5	49.1
Foreign exchange contracts	-	-	-	-	(0.8)
- (inflow)	(0.5)	-	-	(0.5)	-
- outflow	0.2	-	-	0.2	-
	<b>19.8</b>	<b>30.4</b>	<b>-</b>	<b>50.2</b>	<b>48.3</b>
<b>2018</b>					
<b>Non-derivatives</b>					
Trade payables	275.8	-	-	275.8	275.8
Borrowings*	251.0	1,883.7	2,135.3	4,270.0	3,420.4
Financial guarantees	22.3	-	-	22.3	-
	<b>549.1</b>	<b>1,883.7</b>	<b>2,135.3</b>	<b>4,568.1</b>	<b>3,696.2</b>
<b>Derivatives</b>					
Interest rate swaps	1.3	(9.2)	(0.6)	(8.5)	7.6
Foreign exchange contracts	-	-	-	-	(1.7)
- (inflow)	(1.1)	-	-	(1.1)	-
- outflow	-	0.2	-	0.2	-
	<b>0.2</b>	<b>(9.0)</b>	<b>(0.6)</b>	<b>(9.4)</b>	<b>5.9</b>

\* Borrowings include the effect of CCIRS derivatives which have a carrying amount of \$196.7 million (non-current asset) (2018: \$102.2 million non-current asset and \$20.7 million non-current liability).

#### (d) Fair value measurements

The fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. 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 fair value an instrument are observable, the instrument is included in Level 2.

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

- › Forward foreign exchange contracts
- › Interest rate swaps
- › CCIRS

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 cashflows.

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 CCIRS 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.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 18 Financial risk management (continued)

#### (d) Fair value measurements (continued)

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ended 30 June 2019, the borrowing rates were determined to be between 1.8% to 4.2%, depending on the type of borrowing (2018: 2.7% to 4.5%).

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

	Notes	Carrying amount		Fair value	
		2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Financial assets carried at fair value</b>					
Foreign exchange contracts	19	0.8	1.7	0.8	1.7
Interest rate swaps	19	-	8.2	-	8.2
CCIRS - EMTN 1	19	151.6	102.2	151.6	102.2
CCIRS - EMTN 2	19	45.1	-	45.1	-
		197.5	112.1	197.5	112.1
<b>Financial assets carried at amortised cost</b>					
Cash and cash equivalents		25.2	34.8	25.2	34.8
Trade and other receivables	7	481.8	539.3	481.8	539.3
		507.0	574.1	507.0	574.1
<b>Financial liabilities carried at fair value</b>					
Interest rate swaps	19	(49.1)	(0.6)	(49.1)	(0.6)
CCIRS - EMTN 2	19	-	(20.7)	-	(20.7)
		(49.1)	(21.3)	(49.1)	(21.3)
<b>Financial liabilities carried at amortised cost</b>					
Trade and other payables	11	(406.7)	(275.8)	(406.7)	(275.8)
Borrowings	17	(3,369.8)	(3,501.9)	(3,510.9)	(3,641.2)
		(3,776.5)	(3,777.7)	(3,917.6)	(3,917.0)
<b>Off-balance sheet</b>					
<b>Unrecognised financial assets</b>					
Third party guarantees		-	-	19.1	20.8
Bank guarantees		-	-	290.7	220.9
Insurance company guarantees		-	-	1.5	4.8
<b>Unrecognised financial liabilities</b>					
Bank guarantees		-	-	(17.9)	(22.3)
		-	-	293.4	224.2

On 25 January 2017, as a residual obligation under the project documents with Moorebank Intermodal Company (MIC) Aurizon provided a Parent Company Guarantee (PCG) in favour of MIC in relation to 50% of the cost to complete construction of the Terminal Works and 25% of the contract sum for design and construction of the Rail Access. The estimated maximum exposure under the guarantee is \$70.8 million (2018: \$85.6 million), however Aurizon has obtained a 100% cross indemnity guarantee from Qube Holdings Ltd in respect of any call under the Aurizon PCG.

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been 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)

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

	Notes	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>2019</b>					
Derivative financial assets	19	-	197.5	-	197.5
Derivative financial liabilities	19	-	(49.1)	-	(49.1)
<b>Net financial instruments measured at fair value</b>					
		-	148.4	-	148.4
<b>2018</b>					
Derivative financial assets	19	-	112.1	-	112.1
Derivative financial liabilities	19	-	(21.3)	-	(21.3)
<b>Net financial instruments measured at fair value</b>					
		-	90.8	-	90.8

### 19 Derivative financial instruments

#### KEEPING IT SIMPLE

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. The Group holds derivative financial instruments to economically hedge its foreign currency and interest rate exposures in accordance with the Board approved Treasury Policies (refer to note 18).



# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 19 Derivative financial instruments (continued)

	2019 \$m	2018 \$m
<b>Current assets</b>		
Foreign exchange contracts	<b>0.8</b>	1.3
<b>Non-current assets</b>		
Interest rate swaps	-	8.2
Foreign exchange contracts	-	0.4
CCIRS - EMTN 1	<b>151.6</b>	102.2
CCIRS - EMTN 2	<b>45.1</b>	-
	<b>196.7</b>	110.8
<b>Total derivative financial instrument assets</b>	<b>197.5</b>	112.1
<b>Non-current liabilities</b>		
Interest rate swaps	<b>(49.1)</b>	(0.6)
CCIRS - EMTN 2	-	(20.7)
<b>Total derivative financial instrument liabilities</b>	<b>(49.1)</b>	(21.3)

#### (a) Offsetting financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2019 and 30 June 2018. The column 'net amount' shows the impact on the Group's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts \$m	Gross amounts set-off in the balance sheet \$m	Net amounts presented in the balance sheet \$m	Amounts subject to master netting arrangements \$m	Net amount* \$m
<b>2019</b>					
<b>Financial assets</b>					
Derivative financial instruments	<b>197.5</b>	-	<b>197.5</b>	-	<b>197.5</b>
<b>Financial liabilities</b>					
Derivative financial instruments	<b>(49.1)</b>	-	<b>(49.1)</b>	-	<b>(49.1)</b>
<b>2018</b>					
<b>Financial assets</b>					
Derivative financial instruments	112.1	-	112.1	(4.5)	107.6
<b>Financial liabilities</b>					
Derivative financial instruments	(21.3)	-	(21.3)	4.5	(16.8)

\* No financial instrument collateral.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 19 Derivative financial instruments (continued)

#### (a) Offsetting financial assets and financial liabilities (continued)

##### Master netting arrangement

Derivative transactions are administered under ISDA Master Agreements. Under the terms of these agreements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off between different transaction types, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

##### Recognition and measurement

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities, and highly probable forecast transactions (cash flow hedges). The Group has established a 100% hedge relationship against the identified exposure, therefore the hedge ratio is 1:1.

At inception, the Group documents the relationship between hedging instruments and hedged items, the risk management objective and the strategy for undertaking various hedge transactions. At inception and on an ongoing basis, the Group documents its assessment of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting future cashflows of hedged items. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The fair values of derivative financial instruments used for hedging purposes are disclosed in this section. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

##### (i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, and accumulated in reserves in equity limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. Ineffectiveness may arise where the timing of the transaction changes from what was originally estimated or differences arise between credit risk inherent within the hedged item and the hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing.

##### (ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity using a recalculated effective interest rate.

# Group structure

## IN THIS SECTION

**Group structure provides information about particular subsidiaries and associates and how changes have affected the financial position and performance of the Group.**

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# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 20 Associates and joint arrangements

#### KEEPING IT SIMPLE

Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates and joint arrangements are accounted for using the equity method of accounting after initially being recognised at cost.

	2019 \$m	2018 \$m
<b>Non-current assets</b>		
Interest in joint ventures (b)	<b>2.8</b>	3.2

#### (a) Investments in associates

The Group has an interest in the following associates:

Name	Country of operation	Ownership interest		Principal activity
		2019 %	2018 %	
Aquila Resources Limited*	Australia	<b>15</b>	15	Exploration and mining

\* Aquila Resources Limited is accounted for as an associated company because the Group has significant influence primarily through representation on its Board of Directors.

#### (b) Investments in joint ventures

The Group has an interest in the following joint ventures, which are equity accounted, contributed \$0.1 million to the Group results, have net assets of \$2.8 million and are not considered material to the Group.

Name	Country of operation	Ownership interest		Principal activity
		2019 %	2018 %	
Chun Wo/CRGL	China-Hong Kong	<b>17</b>	17	Construction
ARG Risk Management Limited	Bermuda	<b>50</b>	50	Insurance
Integrated Logistics Company Pty Ltd	Australia	<b>14</b>	14	Consulting
ACN 169 052 288	Australia	<b>15</b>	15	Dormant

#### Recognition and measurement

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in note 9(v). The recoverable amount of the investment in Aquila is dependent on judgements made in relation to the long-term foreign exchange rates, metallurgical coal prices, iron ore prices and the timing of development of Aquila's mining projects and is \$nil.

### 21 Material subsidiaries

The Group's material subsidiaries that were controlled during the year and prior years are set out below:

Name of entity	Country of incorporation	Equity holding %
Aurizon Operations Limited	Australia	100
Interail Australia Pty Ltd	Australia	100
Australia Eastern Railroad Pty Ltd	Australia	100
Australia Western Railroad Pty Ltd	Australia	100
Aurizon Network Pty Ltd	Australia	100
Aurizon Property Pty Ltd	Australia	100
Aurizon Terminal Pty Ltd	Australia	100
Aurizon Finance Pty Ltd	Australia	100
Iron Horse Insurance Company Pte Ltd	Singapore	100

#### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at reporting date and the results of all subsidiaries for the year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date that the operation was discontinued.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 21 Material subsidiaries (continued)

#### Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are classified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### 22 Parent disclosures

The parent and ultimate parent entity within the Group is Aurizon Holdings Limited.

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2019 \$m	2018 \$m
Current assets	40.9	61.1
Non-current assets	6,086.1	6,093.9
<b>Total assets</b>	<b>6,127.0</b>	6,155.0
Current liabilities	(42.4)	(61.1)
Non-current liabilities	(1,724.8)	(1,726.6)
<b>Total liabilities</b>	<b>(1,767.2)</b>	(1,787.7)
<b>Net assets</b>	<b>4,359.8</b>	4,367.3
<b>Shareholders' equity</b>		
Contributed equity	906.6	906.6
Retained earnings	2.0	1.7
Reserves	3,451.2	3,459.0
<b>Total equity</b>	<b>4,359.8</b>	4,367.3
Profit for the year	487.9	462.9
<b>Total comprehensive income</b>	<b>487.9</b>	462.9

The parent entity has several employees. All costs associated with these employees are borne by a subsidiary of the parent entity and are not included in the above disclosures.

#### (b) Guarantees entered into by the parent entity

There are cross guarantees given by Aurizon Holdings Limited and its subsidiaries as listed in note 23.

#### (c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2019 (2018: \$nil). For information about guarantees given by the parent entity, please see above.

#### (d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2019, the parent entity did not have any contractual commitments for the acquisition of property, plant and equipment (2018: \$nil).

#### Recognition and measurement

The financial information for the parent entity, Aurizon Holdings Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### (i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Aurizon Holdings Limited. Dividends received from associates are recognised in the parent entity's income statement, rather than being deducted from the carrying amount of these investments.

#### (ii) Tax consolidation legislation

Aurizon and its wholly-owned Australian entities elected to form a tax consolidation group with effect from 22 November 2010 and are therefore taxed as a single entity. The head entity of the tax consolidated group is Aurizon Holdings Limited.

The head entity, Aurizon Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Aurizon also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into tax sharing and tax funding agreements. The tax funding agreement sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset or deferred tax asset arising from unused tax losses and tax credits assumed by the head entity from a subsidiary member.

These tax funding arrangements result in the head entity recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed.

The tax sharing agreement limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

#### (iii) Employee benefits (share-based payments)

The grant by the Company of rights over its equity instruments to the employees of subsidiaries are treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in the corresponding subsidiaries.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 23 Deed of cross guarantee

Aurizon Holdings Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Property Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Operations Limited, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Aurizon Resource Logistics Pty Limited, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd and Australian Railroad Group Employment Pty Ltd are parties to a Deed of Cross Guarantee, under which each company guarantees the debts of the others. By entering into the cross guarantee, the wholly-owned entities have been relieved from the requirement to prepare separate financial and directors' reports under ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

#### (a) Consolidated statement of profit or loss, statement of comprehensive income and summary of movements in consolidated retained earnings

The Aurizon Deed Parties represent the 'closed group' for the purposes of the Class Order, and as there are no other parties to the cross guarantee that are controlled by Aurizon Holdings Limited, they also represent the 'extended closed group'.

	2019 \$m	2018 \$m
<b>Income statement</b>		
Revenue from operations	2,456.5	2,781.9
Other income	221.7	663.8
Employee benefits expense	(658.2)	(694.2)
Consumables	(1,128.8)	(1,366.3)
Depreciation and amortisation expense	(224.0)	(234.7)
Impairment losses	(50.0)	(74.6)
Other expenses	7.4	(112.5)
Share of net profits of associates and joint venture partnership accounted for using the equity method	0.1	0.8
Finance income	3.1	2.8
Finance expenses	(8.5)	(14.3)
<b>Profit before income tax</b>	<b>619.3</b>	<b>952.7</b>
Income tax expense	(120.2)	(117.0)
<b>Profit for the year</b>	<b>499.1</b>	<b>835.7</b>

	2019 \$m	2018 \$m
<b>Statement of comprehensive income</b>		
<b>Profit for the year</b>	<b>499.1</b>	<b>835.7</b>
<b>Other comprehensive income</b>		
Items that may be reclassified to profit or loss		
- change in the foreign currency translation reserve	(0.2)	(0.1)
- changes in the fair value of cash flow hedges	5.0	0.2
- income tax relating to components of other comprehensive income	(1.5)	(0.1)
<b>Other comprehensive income for the year, net of tax</b>	<b>3.3</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>502.4</b>	<b>835.7</b>
<b>Summary of movements in consolidated retained earnings</b>		
<b>Retained earnings/(losses) at the beginning of the financial year</b>	<b>93.8</b>	<b>(279.8)</b>
Profit for the year	499.1	835.7
Dividends provided for or paid	(487.6)	(462.1)
<b>Retained earnings at the end of the financial year</b>	<b>105.3</b>	<b>93.8</b>

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 23 Deed of cross guarantee (continued)

#### (b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented below.

	2019 \$m	2018 \$m
<b>Current assets</b>		
Cash and cash equivalents	20.8	11.3
Trade and other receivables	517.9	441.3
Inventories	89.4	88.2
Derivative financial instruments	0.8	0.7
Other assets	4.8	3.4
Assets classified as held for sale	108.4	108.0
<b>Total current assets</b>	<b>742.1</b>	<b>652.9</b>
<b>Non-current assets</b>		
Inventories	28.6	22.5
Derivative financial instruments	-	2.0
Property, plant and equipment	3,221.3	3,285.7
Intangible assets	79.8	77.6
Deferred tax assets	93.5	148.4
Other assets	8.6	-
Investments accounted for using the equity method	2.8	3.2
Other financial assets*	1,222.4	1,222.9
<b>Total non-current assets</b>	<b>4,657.0</b>	<b>4,762.3</b>
<b>Total assets</b>	<b>5,399.1</b>	<b>5,415.2</b>
<b>Current liabilities</b>		
Trade and other payables	378.4	305.7
Borrowings	67.0	49.0
Current tax liabilities	40.9	61.3
Provisions	191.2	244.3
Other liabilities	48.7	56.4
Liabilities directly associated with assets classified as held for sale	3.8	12.7
<b>Total current liabilities</b>	<b>730.0</b>	<b>729.4</b>
<b>Non-current liabilities</b>		
Borrowings	87.9	99.4
Derivative financial instruments	3.1	-
Provisions	59.5	63.3
Other liabilities	44.0	50.4
<b>Total non-current liabilities</b>	<b>194.5</b>	<b>213.1</b>
<b>Total liabilities</b>	<b>924.5</b>	<b>942.5</b>
<b>Net assets</b>	<b>4,474.6</b>	<b>4,472.7</b>
<b>Equity</b>		
Contributed equity	906.6	906.6
Reserves	3,462.7	3,472.3
Retained earnings	105.3	93.8
<b>Total equity</b>	<b>4,474.6</b>	<b>4,472.7</b>

\* Other financial assets represent investments in entities outside of the deed group.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 24 Discontinued operation

#### (a) Description

On 14 August 2017, the Group announced its intention to exit the Intermodal business through a combination of closure and sale. The three-stage exit comprises the Acacia Ridge Intermodal Terminal, Queensland Intermodal and Interstate Intermodal. The Intermodal business is disclosed as a discontinued operation.

#### Acacia Ridge Intermodal Terminal

The Group signed a binding agreement with Pacific National on 28 July 2017 to sell its Acacia Ridge Intermodal Terminal for \$205.0 million, of which a \$35.0 million non-refundable deposit was received in advance. The transaction is subject to approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment & Review Board (FIRB).

The ACCC opposed the sale on 19 July 2018 and commenced proceedings against Aurizon and Pacific National in the Federal Court. On 15 May 2019, the Federal Court rejected the allegations by the ACCC that the proposed sale contravened section 45 and section 50 of the *Commonwealth's Competition and Consumer Act (2010)*. On 27 June 2019 the ACCC sought to appeal the Federal Court's decision in relation to the contravention of section 50 of the Act (but not the Federal Court's decision in relation to section 45). On 18 July 2019, Aurizon and Pacific National filed notices of cross-appeal. The appeal and cross-appeal will be heard by the Full Federal Court in due course.

The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 30 June 2019.

#### Queensland Intermodal

The agreement entered between the Group and a consortium of Linfox and Pacific National dated 14 August 2017 was terminated by Aurizon on 13 August 2018 and \$10.0 million received in advance was refunded.

The Group signed a binding agreement with Linfox to sell the Queensland Intermodal business on 12 October 2018 for a sale price of \$7.3 million. Under the agreement Aurizon retains the Intermodal locomotive fleet and train crew and will provide Linfox rail linehaul services. Completion of the sale occurred on 31 January 2019.

#### Interstate Intermodal

The Interstate Intermodal business ceased operating on 23 December 2017.

#### SIGNIFICANT JUDGEMENTS

Aurizon remains committed to exiting the Intermodal business and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as a discontinued operation and held for sale at 30 June 2019.

#### (b) Financial performance and cash flow information

Financial information relating to the discontinued operation is set out below which includes the Acacia Ridge Intermodal Terminal for the full period, Queensland Intermodal for the period to 31 January 2019 and finalisation of the closure of Interstate Intermodal.

	2019 \$m	2018 \$m
Revenue and other income	<b>123.1</b>	225.4
Employee benefits expense	<b>(31.2)</b>	(79.6)
Energy and fuel	<b>(6.1)</b>	(19.1)
Track access	<b>(8.7)</b>	(35.1)
Consumables	<b>(58.4)</b>	(134.5)
Depreciation and amortisation *	<b>(0.2)</b>	(2.3)
Impairment losses **	<b>(25.1)</b>	(4.6)
Other expenses	<b>1.9</b>	(48.9)
Net finance costs	<b>0.1</b>	-
<b>Loss before income tax</b>	<b>(4.6)</b>	(98.7)
Income tax benefit	<b>7.8</b>	21.6
<b>Profit/(loss) from discontinued operations after tax</b>	<b>3.2</b>	(77.1)
Net cash (outflow) from operating activities	<b>(25.4)</b>	(25.1)
Net cash inflow from investing activities	<b>11.1</b>	54.6
Net cash inflow/(outflow) from financing activities	-	-
<b>Net (decrease)/increase in cash generated by the discontinued operations</b>	<b>(14.3)</b>	29.5

\* Includes \$0.2 million depreciation (2018: \$2.0 million) and \$nil amortisation expense (2018: \$0.3 million).

\*\* Includes \$22.8 million of assets classified as held for sale (2018: \$nil), \$2.3 million property, plant and equipment (2018: \$2.4 million) and \$nil intangible assets (2018: \$2.2 million).



# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 24 Discontinued operation (continued)

#### (c) Significant items

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:

	2019 \$m	2018 \$m
<b>Significant items</b>		
Intermodal closure benefits/(costs)	13.2	(61.0)
Intermodal impairment expense	(25.1)	(4.6)
Redundancy benefit/(expense)	0.5	(9.1)
	<b>(11.4)</b>	<b>(74.7)</b>

#### Current period

Intermodal closure benefits include gain on sale of assets in the period and release of contract exit cost provisions recognised in the prior period of \$13.2 million. Significant items also include asset write downs of \$25.1 million and a redundancy benefit of \$0.5 million as a result of the sale of the Queensland Intermodal business.

#### Prior period

Intermodal closure costs include contract, lease and supplier exit costs of \$61.0 million, redundancy expense of \$9.1 million and asset write downs of \$4.6 million.

#### (d) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities are classified as held for sale and included in assets classified as held for sale (note 25).

	2019 \$m	2018 \$m
<b>Assets classified as held for sale</b>		
Property, plant and equipment	36.7	78.6
Trade and other receivables	6.2	26.3
Inventories	-	1.2
<b>Total assets of disposal group held for sale</b>	<b>42.9</b>	<b>106.1</b>
<b>Liabilities directly associated with assets classified as held for sale</b>		
Employee benefit obligations	(0.7)	(12.7)
<b>Net assets classified as held for sale</b>	<b>42.2</b>	<b>93.4</b>

### 25 Assets classified as held for sale

	2019 \$m	2018 \$m
Property, plant and equipment*	90.0	80.5
Trade and other receivables	15.3	26.3
Inventories	3.1	1.2
<b>Total assets held for sale</b>	<b>108.4</b>	<b>108.0</b>

\* Movement in property, plant and equipment held for sale includes \$32.3 million net transfers from property, plant and equipment, partly offset by \$22.8 million of impairment as a result of a reduction to fair value.

Assets classified as held for sale at 30 June 2019 include the rail grinding assets subject to the business sale agreement signed between the Group and Loram Pty Ltd on 12 June 2019. Refer to key events and transactions for the reporting period for further information.

#### Recognition and measurement

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and FVLCD, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment property that are carried at fair value and contractual rights under insurance contracts which are specifically exempt from this requirement.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

# Other notes

## IN THIS SECTION

**Other notes provide information on other items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements however are not considered critical in understanding the financial performance or position of the Group.**

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# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 26 Notes to the consolidated statement of cash flows

#### (a) Reconciliation of net cash inflow from operating activities to profit from continuing operations

	2019 \$m	2018 \$m
Profit for the year from continuing operations	<b>473.3</b>	560.1
Depreciation and amortisation	<b>542.6</b>	525.5
Impairment of non-financial assets	<b>24.9</b>	70.0
Finance expenses	<b>150.0</b>	168.3
Non-cash employee incentive (benefits)/expense	<b>(7.2)</b>	3.9
Net loss on sale of assets	<b>2.8</b>	4.7
Share of profits of associates and joint ventures	<b>(0.1)</b>	(0.8)
Net exchange differences	<b>1.3</b>	0.3
Change in operating assets and liabilities:		
Decrease/(Increase) in trade and other receivables	<b>49.5</b>	(90.4)
(Increase) in inventories	<b>(13.1)</b>	(2.8)
(Increase)/Decrease in other operating assets	<b>(10.2)</b>	1.9
Increase/(Decrease) in trade and other payables	<b>87.2</b>	(17.9)
(Decrease) in other liabilities	<b>(17.8)</b>	(32.8)
(Decrease)/Increase in current tax liabilities	<b>(31.2)</b>	40.3
Increase in deferred tax liabilities	<b>94.7</b>	90.7
(Decrease) in provisions	<b>(30.6)</b>	(13.3)
<b>Net cash inflow from operating activities from continuing operations</b>	<b>1,316.1</b>	1,307.7

#### (b) Reconciliation of liabilities arising from financing activities to financing cash flows

	Current borrowings \$m	Non-current borrowings \$m	Liabilities held to hedge borrowings* \$m	Assets held to hedge borrowings* \$m	Total \$m
<b>Balance as at 1 July 2018</b>	<b>(100.0)</b>	<b>(3,401.9)</b>	<b>(21.3)</b>	<b>110.4</b>	<b>(3,412.8)</b>
Financing cash flows**	<b>(49.0)</b>	<b>302.4</b>	-	<b>(11.5)</b>	<b>241.9</b>
Effect of changes in exchange rates	-	<b>(46.4)</b>	<b>10.6</b>	<b>35.8</b>	-
Other changes in fair values	-	<b>(72.3)</b>	<b>(38.4)</b>	<b>62.1</b>	<b>(48.6)</b>
Other non-cash movements	-	<b>(2.6)</b>	-	-	<b>(2.6)</b>
<b>Balance as at 30 June 2019</b>	<b>(149.0)</b>	<b>(3,220.8)</b>	<b>(49.1)</b>	<b>196.8</b>	<b>(3,222.1)</b>
Balance as at 1 July 2017	(79.0)	(3,297.2)	(70.7)	73.6	(3,373.3)
Financing cash flows**	(21.0)	8.8	-	-	(12.2)
Effect of changes in exchange rates	-	(90.6)	45.3	45.3	-
Other changes in fair values	-	(20.0)	4.1	(8.5)	(24.4)
Other non-cash movements	-	(2.9)	-	-	(2.9)
Balance as at 30 June 2018	(100.0)	(3,401.9)	(21.3)	110.4	(3,412.8)

\* Assets and liabilities held to hedge borrowings exclude foreign exchange contracts included in note 19.

\*\* Financing cash flows consists of the net amount of proceeds from borrowings, repayment of borrowings, payments of transaction costs related to borrowings and proceeds from settlement of derivatives in the consolidated statement of cash flows.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 27 Related party transactions

#### (a) Transactions with Directors and Key Management Personnel

There were no Key Management Personnel (KMP) related party transactions during the year (2018: nil).

#### (b) Transactions with other related parties

There were no transactions with other related parties during the year (2018: nil).

#### (c) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them and intra group transactions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parent and its subsidiaries. All loans are non interest bearing. Outstanding balances are unsecured.

### 28 Key Management Personnel compensation

	2019 \$'000	2018 \$'000
Short-term employee benefits	<b>9,493</b>	8,769
Post-employment benefits	<b>297</b>	290
Long-term benefits	<b>47</b>	96
Share-based payments	<b>1,932</b>	2,159
	<b>11,769</b>	11,314

Short-term employee benefits include cash salary, at risk performance incentives and fees, non-monetary benefits and other short-term benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, motor vehicle lease payments and annual leave accrued or utilised during the financial year. Other short-term benefits include sign-on bonus and relocation assistance.

### 29 Share-based payments

#### KEEPING IT SIMPLE

The share-based payments schemes described in this section were established by the Board of Directors to provide long-term incentives to the Group's senior executives based on shareholder returns taking into account the Group's financial and operational performance. Eligible executives may be granted rights on terms and conditions determined by the Board from time to time. The fair value of rights granted under the schemes is recognised as an employee benefits expense with a corresponding increase in equity.

#### (a) Performance rights plan

Performance rights are granted by the Company for nil consideration. Participation in the plan is at the Board's discretion so that no individual has a contractual right to be awarded rights under the plan or to receive any guaranteed benefits. Each right is a right to receive one fully-paid ordinary share in Aurizon Holdings Limited at no cost if the vesting conditions are satisfied. Rights granted under the plan carry no dividend or voting rights.

The Board will determine the exercise price payable on exercise of a vested right and the exercise period of a right. The Board may, in its discretion, determine that early vesting of a right will occur if there is a takeover bid, scheme of arrangement or some other change of control transaction of the Group. The Board may also accelerate the vesting of some or all of the rights held by an executive in specified circumstances. These include but are not limited to death, total and permanent disablement, or cessation of employment.

The share-based payment schemes are described as follows:

#### Short-term Incentive Award (STIA)

A portion of any STIA for the Managing Director & CEO as well as the executive management team will be awarded in rights to ordinary shares and 40% is deferred for a period of one year. The rights will vest after one year and become exercisable provided that the executive remains employed by the Group at the vesting date, unless otherwise determined by the Board.

#### Long-term Incentive Award (LTIA)

Performance rights are granted to senior executives as part of the Group's LTIA. The first grant of LTIA rights was in November 2010. The rights are subject to employment service conditions and satisfying market based performance hurdles of Total Shareholder Return (TSR), non-market based Operating Ratio (OR) and Return on Invested Capital (ROIC). In 2017, the OR hurdle was removed as a Company hurdle.

#### Retentions

At the Board's discretion, eligible executives may be granted retention rights that may vest at the end of the specified retention period or project provided that the executive remains employed by the Group at the vesting date.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 29 Share-based payments (continued)

#### (a) Performance rights plan (continued)

##### Retentions (continued)

Set out below are summaries of rights granted under the plans:

	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year Number '000
<b>2019</b>					
STIAD	105	546	(105)	-	546
LTIA	11,655	2,950	-	(3,926)	10,679
Retentions	25	263	(25)	-	263
<b>Total</b>	<b>11,785</b>	<b>3,759</b>	<b>(130)</b>	<b>(3,926)</b>	<b>11,488</b>
<b>2018</b>					
STIAD	-	105	-	-	105
LTIA	10,462	3,982	(486)	(2,303)	11,655
Retentions	25	-	-	-	25
<b>Total</b>	<b>10,487</b>	<b>4,087</b>	<b>(486)</b>	<b>(2,303)</b>	<b>11,785</b>

At 30 June 2019, there were no vested but unexercised rights (2018: nil).

The weighted average exercise price of rights granted during the year was \$nil (2018: \$nil), as the rights have no exercise price. The weighted average share price at the date of exercise for rights exercised during the period was \$4.32 (2018: \$5.22). The weighted average remaining contractual life of share rights outstanding at 30 June 2019 was 1.2 years (2018: 1.4 years).

##### Fair value of rights granted

In determining the fair value, market techniques for valuation were applied in accordance with AASB 2 *Share-based payments*. The fair value of the portion of Short-term Incentive Award deferred (STIAD) and the portion of LTIA rights, that are subject to non-market based performance conditions, were \$4.21 and \$3.40 (2018: STIAD \$5.01 and LTIA \$4.27) respectively, determined by the share price at grant date less an adjustment for estimated dividends payable during the vesting period. The fair value of the LTIA rights subject to the TSR market based performance condition has been calculated using the Monte-Carlo simulation techniques based on the inputs disclosed in the table below:

Scheme	2019		2018			
	LTIA EXECS	LTIA CEO	LTIA EXECS	LTIA CEO	LTIA EXECS	LTIA CEO
Grant date	5 Oct 2018	18 Oct 2018	6 Oct 2017	18 Oct 2017	6 Oct 2017	18 Oct 2017
Vesting date	5 Oct 2022	18 Oct 2022	6 Oct 2020	18 Oct 2020	6 Oct 2021	18 Oct 2021
Expiry date	31 Dec 2022	31 Dec 2022	31 Dec 2020	31 Dec 2020	31 Dec 2021	31 Dec 2021
Share price at grant date	\$4.14	\$4.10	\$5.02	\$5.12	\$5.02	\$5.12
Expected life	4 years	4 years	3 years	3 years	4 years	4 years
Company share price volatility	18.70%	18.90%	19.50%	19.40%	19.50%	19.40%
Risk free rate	2.20%	2.30%	2.00%	2.00%	2.20%	2.20%
Dividend yield	5.20%	5.20%	5.25%	5.25%	5.50%	5.50%
Fair value	\$1.70	\$1.77	\$1.91	\$1.82	\$1.97	\$1.88

The Company share price volatility is based on the Company's average historical share price volatility to the grant date.

#### (b) Expenses arising from share-based payment transactions

Total benefit recognised arising from share-based payment transactions during the period was \$7.199 million (2018: total expense \$3.886 million). The benefit recognised is a result of non-market performance conditions on prior period schemes not vesting during the period.

##### Recognition and measurement

The fair value of rights granted under the Performance Rights Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Share-based compensation is settled by making on-market purchases of the Company's ordinary shares.

### 30 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

#### PwC Australia

##### Audit and other assurance services

	2019 \$'000	2018 \$'000
Audit and other assurance services		
Audit and review of financial statements	1,175	1,295
Other assurance services		
Other assurance services	58	122
<b>Total remuneration for audit and other assurance services</b>	<b>1,233</b>	<b>1,417</b>
Other services		
Advisory services	246	282
<b>Total remuneration of PwC Australia</b>	<b>1,479</b>	<b>1,699</b>

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 31 Summary of other significant accounting policies

Other significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

#### (a) Basis of preparation

##### (i) New and amended standards adopted by the Group

AASB 15 *Revenue from Contracts with Customers* became applicable for the current reporting period and the Group updated its accounting policy and made reclassifications to comparatives as a result of adopting the standard. The impact of the adoption of AASB 15 *Revenue from Contracts with Customers* is disclosed in note 32.

##### (ii) New standards and interpretations not yet adopted

Certain new accounting standards and amendments to standards have been published that are mandatory for reporting periods commencing 1 July 2019 and have not been early adopted by the Group. The nature of the change and the potential impact is discussed further below.

##### AASB 16 *Leases* (mandatory for financial year beginning 1 July 2019)

###### *Nature of change:*

AASB 16 *Leases* addresses the recognition, measurement, presentation and disclosure of leases. The Group will adopt the standard on 1 July 2019.

###### *Aurizon as lessee:*

The adoption of AASB 16 *Leases* will result in almost all previously recognised operating leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a finance liability to pay rentals are recognised. The lease liability is measured at the present value of the lease payments that are not paid at the balance date and is unwound over time using either the interest rate implicit in the lease repayments or the Group's incremental borrowing rate. The right-of-use asset comprises the initial lease liability amount, and initial direct costs incurred when entering into the lease less lease incentives received for fitout contributions. The right-of-use asset is depreciated over the term of the lease. The new standard effectively replaces the Group's operating lease expense with an interest and depreciation expense, except where the leases are considered to be short-term leases or leases of low value assets. Payments associated with short-term leases (i.e. leases with a lease term of 12 months or less) and leases of low value assets will continue to be recognised on a straight-line basis as an expense in profit and loss.

###### *Aurizon as lessor:*

Where the Group acts as lessor, it is not required to make any adjustments on transition to AASB 16 *Leases* and as a result, lease income will continue to be accounted for on a straight-line basis over the lease term in profit and loss for operating leases.

On transition to AASB 16 *Leases*, where the Group is a sub-lessor and the sub-lease is for the duration of the head lease, the right-of-use asset recognised from the head leases are derecognised and a lease receivable equal to the present value of future lease payments receivable is recognised.

###### *Impact:*

The Group has elected to apply the "Modified Retrospective Approach" when transitioning to the new standard. Under this approach, the Group will not be required to restate the comparative information. The right-of-use asset will be brought onto the balance sheet at the same value as the lease liability on transition date, adjusted for the lease receivable on sub-lease arrangements and any prepaid or accrued lease payments.

The Group estimates adoption will have the following impact on the consolidated balance sheet:

#### Impact on Balance Sheet line items

	AASB 16 \$m
<b>ASSETS</b>	
<b>Current assets</b>	
Other assets	<b>5.0</b>
<b>Non-current assets</b>	
Property, plant and equipment	<b>51.2</b>
Other assets	<b>41.5</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Provisions	<b>0.1</b>
Other liabilities	<b>(9.2)</b>
<b>Non-current liabilities</b>	
Provisions	<b>2.1</b>
Other liabilities	<b>(89.2)</b>
<b>Net assets</b>	<b>1.5</b>
<b>EQUITY</b>	
Retained earnings	<b>(1.5)</b>

The adoption of AASB 16 *Leases* will result in the reclassification of existing balance sheet items as well as the recognition of new asset and liability balances to reflect the change in accounting policy for the Group from 1 July 2019. These include:

- › An increase in total assets of \$97.7 million, including the recognition of a right-of-use asset in property, plant and equipment and lease receivables;
- › An increase in total liabilities of \$96.2 million, including the recognition of lease liabilities; and
- › An increase in equity of \$1.5 million, representing the impact on retained earnings on adoption of applying the modified retrospective transition approach.

The Group estimates adoption of AASB 16 *Leases* will result in an increase to operating profit (EBIT) of \$0.5 million and a decrease in profit before tax of \$2.8 million in the year ending 30 June 2020.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting years and on foreseeable future transactions.

#### (b) Cash and cash equivalents

Cash and cash equivalents includes cash on hand; deposits held 'at call' with financial institutions; and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 31 Summary of other significant accounting policies (continued)

#### (c) Foreign currency and commodity transactions

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

##### (ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and market interest rates, it enters into financial arrangements to reduce these exposures. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

#### (d) Leases

##### Operating leases on property, plant and equipment

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Rental revenue from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. Where a sale and lease back transaction has occurred, the lease is classified as either a finance lease or operating lease based on whether risks and rewards of ownership are transferred or not.

#### (e) Financial instruments

##### (i) Non-derivative financial assets

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

##### (ii) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using effective interest method and net of any impairment loss, if

- › The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows; and
- › The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. For trade receivables, the Group applies the simplified approach permitted by AASB 9 *Financial Instruments*, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

##### (iii) Non-derivative liabilities

The Group initially recognises loans and debt securities issued on the date when they originate. Other financial liabilities are initially recognised on the trade date. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 31 Summary of other significant accounting policies (continued)

#### (f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

The Company and its subsidiaries are grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

### 32 Changes in accounting policies

#### (a) AASB 15 *Revenue from Contracts with Customers* - Impact of adoption

The Group has adopted AASB 15 *Revenue from Contracts with Customers* on 1 July 2018 which has not resulted in any adjustments to amounts previously recognised in the financial statements. Refer to note 2 and note 13 for current period accounting policies and disclosures.

In accordance with the transition provisions in AASB 15 *Revenue from Contracts with Customers*, the Group has adopted the new rules retrospectively with the cumulative effect recognised on the date of initial application.



# Unrecognised items and events after reporting date

## 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. This section also includes events occurring after the reporting date.**

33 Contingencies	Page 98
34 Commitments	Page 98
35 Events occurring after the reporting period	Page 98

# Notes to the consolidated financial statements

## 30 June 2019 (continued)

### 33 Contingencies

#### KEEPING IT SIMPLE

Contingencies relate to the outcome of future events and may result in an asset or liability, but due to current uncertainty, do not qualify for recognition.

#### (a) Contingent liabilities

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosure in the financial statements, other than as set out below.

#### Guarantees and letters of credit

For information about guarantees, including the Moorebank parent company guarantee, and letters of credit given by the Group, refer to note 18(d).

#### (b) Contingent assets

#### Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 18(d).

#### Wiggins Island Rail Project (WIRP)

During the period, legal proceedings continued in relation to the notices received by Aurizon Network Pty Ltd from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the WIRP fee, which is non-regulated. The Supreme Court of Queensland ruled in the Group's favour on 27 June 2019, however customers lodged an appeal challenging the decision of the Supreme Court on 25 July 2019.

The customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. Those disputes relate to various matters relating to the completion of the WIRP construction works. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and will not impact recovery of the regulated access charge component of WIRP capital expenditure. The Group is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue or trade receivables in respect of the WIRP fee have been recognised in the period. Refer to key events and transactions for the reporting period for further information.

### 34 Commitments

#### (a) Capital commitments

	2019 \$m	2018 \$m
Property, plant and equipment		
Within one year	<b>81.1</b>	91.4

#### (b) Lease commitments

	2019 \$m	2018 \$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	<b>19.4</b>	25.4
Later than one year but not later than five years	<b>75.3</b>	101.3
Later than five years	<b>79.9</b>	142.0
	<b>174.6</b>	268.7

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to 10 years, generally provide the Group with a right of renewal at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

### 35 Events occurring after the reporting period

On 31 July 2019, the Group agreed to a settlement with a customer for outstanding rail haulage fees that were subject to liquidation proceedings before the Supreme Court of Queensland. The settlement agreed represents an adjusting event occurring after the reporting period. As a result, a provision for impairment of receivable of \$20.3 million recognised by the Group in FY16 has been released.

# Directors' Declaration

## 30 June 2019

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 financial statements and notes set out on pages 46 to 98 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*,
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year 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, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23.

Page 51 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director & Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.



**T Poole**  
Chairman

Brisbane  
12 August 2019



## *Independent auditor's report*

To the members of Aurizon Holdings Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Aurizon Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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### Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$34 million, which represents approximately 5% of the Group's profit before tax.</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.</li> <li>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>The Group is a large rail-based freight operator and transports coal, iron ore and other bulk commodities across Australia.</li> <li>The Group also owns and operates the Central Queensland Coal Network (CQCN) which is a multi-user track network that comprises of four major coal systems and one connecting system serving Queensland's Bowen Basin coal region.</li> <li>The Group has a centralised accounting function in Brisbane at its corporate head office where our audit procedures were predominantly performed. We also visited the Hexham, Callemondah, Emerald, Merinda and Yeerongpilly depots to perform audit procedures on inventory.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit Governance and Risk Management Committee (AGRMC): <ul style="list-style-type: none"> <li>Recognition of Access Revenue</li> <li>Implementation of a new revenue accounting policy due to the adoption of AASB 15</li> <li>Recoverability of assets (including Bulk East and Western Australia (WA) Cash Generating Units (CGUs) and Rollingstock)</li> </ul> </li> <li>These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
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<p><b>Recognition of Access Revenue</b></p> <p>During the year ended 30 June 2019 (FY2019), the Group recorded track access revenue of \$1,077.7m.</p> <p>Track access revenue generated from the CQCN track systems is recognised as haulage services are provided to customers and is based on a number of operating parameters, including the volume hauled and regulator (Queensland Competition Authority (QCA)) approved pricing tariffs.</p> <p>The tariffs are determined by the total allowable revenue, applied to the regulatory approved annual volume forecast for each system.</p> <p>In May 2019, the Group submitted a Reference Tariff Variation Draft Amending Access Undertaking (DAAU). The DAAU included revised tariffs for FY2019 incorporating a volume reset of the system forecast and true-up of the FY2018 over collection (net of FY16/17 flood review events) relative to the revised tariffs which was to be paid to customers based on FY2019 volumes railed.</p> <p>On 24 June 2019, the QCA approved the DAAU and to repay the over collection of previous revenue recognised under approved tariffs for FY2018 and FY2019.</p> <p>The Group has disclosed that revenue for FY2019 has been recognised based on actual volumes railed in FY2019 and the 2017 Access Undertaking amended for the Reference Tariff Variation DAAU.</p> <p>We consider revenue recognition in relation to UT5 to be a key audit matter given it was a significant event in the financial year and had a significant impact on net profit for FY2019.</p>	<p>The following procedures amongst others were performed in relation to access revenue recognition:</p> <ul style="list-style-type: none"> <li>• Agreed on a sample basis that revenue had been recognised based on billings made to customers on actual volumes hauled and approved reference tariffs applicable during the current financial year.</li> <li>• Agreed the amended reference tariff applicable for FY2019 which includes the impact of over collection in FY2018 to the QCA approved Reference Tariff Variation DAAU.</li> <li>• Obtained computation of the adjustment charge payable to customers (as a result of over collection in FY2018 and FY2019 i.e. the difference between FY2019 actual billings and the FY2019 DAAU Reference Tariffs applied to actual volumes) and tested the mathematical accuracy.</li> <li>• Agreed that the adjustment charge payable had been adjusted as a reduction in billed revenue and recorded as other payables as at 30 June 2019.</li> </ul>
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*Refer to Key events and transactions for the reporting period and Note 2 Revenue and other income included in the Consolidated Annual Financial Report for further details.*



#### Key audit matter

##### **Implementation of a new revenue accounting policy due to the adoption of AASB 15**

The Group adopted a new revenue accounting policy during the year due to the mandatory introduction of AASB 15 Revenue for Contracts with Customers.

The new policy for the recognition and measurement of revenue from contracts with customers is disclosed within Note 2(c) and addresses revenue from track access, freight transport and the capitalisation of customer contract costs.

The adoption of the new revenue accounting policy was a key audit matter due to the:

- significance of revenue to understanding the financial results for users of the financial report;
- complexity involved in applying the new AASB 15 requirements given the regulated environment impacting track access revenue and the complexity of the terms and conditions in freight transport contracts with customers
- significant judgements required by the Group in applying the new AASB 15 requirements, such as determining if a modification to an existing agreement should be treated as a combined or separate contract.

*Refer to Note 2 Revenue and other income included in the Consolidated Annual Financial Report for further details.*

#### How our audit addressed the key audit matter

The following procedures amongst others were performed in relation to the implementation of the new revenue accounting policy:

- Developed an understanding of relevant key revenue internal controls (including both new and updated controls).
- Assessed the adequacy of the methodology and monetary threshold used by the Group for determining the extent of contract reviews required to identify AASB 15 impacts.
- Assisted by PwC financial reporting specialists assessed whether the Group's new accounting policies were in accordance with the requirements of AASB 15 through consideration of accounting papers on key areas of judgement prepared by the Group as well as written advice sought from the Group's experts.
- For a sample of customer contracts:
  - developed an understanding of the key terms of the arrangement including parties, contract duration, background of agreement, performance obligations and payments to be made;
  - assessed the Group's determination of performance obligations with respect to the contractual terms and commercial substance of the arrangement;
  - assessed the allocation of stand-alone selling prices to the performance obligations identified;
  - considered whether the transaction price was properly allocated based on the stand-alone selling price by assessing the fixed and variable elements included in the contracts as well as assessing whether or not a significant financing component existed.
- For a sample of contract modifications and extensions, assessed based on the contractual terms and standalone selling prices whether the contracts should be combined and accounted for as a single contract or accounted for as separate contracts in accordance with the Group's accounting policy.
- Assessed the competency, independence and scope of experts used by the Group to implement the new accounting policy.
- Evaluated the adequacy of the disclosures made in note 2 in light of the requirements of Australian Accounting Standards.



**Key audit matter**

**How our audit addressed the key audit matter**

**Recoverability of assets (including Bulk East and Western Australia (WA) Cash Generating Units (CGUs) and Rollingstock)**

*Bulk East and WA CGUs*

The Bulk East and WA CGUs have been impaired in prior years due to the loss of key customers, challenging and competitive Bulk markets and operational performance issues.

*Bulk East CGU*

The Bulk East CGU recoverable amount continues to be determined based on a Fair Value less Cost of Disposal (FVLCD) methodology. In FY19, an impairment expense of \$11.4m reflecting sustaining capital expenditure has been recognised.

*WA CGU*

The recoverable amount of the WA CGU continues to be determined using the Value in Use (VIU) methodology utilising a discounted cash flow model (the model).

No impairment or impairment reversal has been identified by the Group at 30 June 2019.

In determining the recoverable amount the Group has made the following key judgements:

- Key customers operate to the end of expected mine lives and current contractual arrangements are complied with;
- Current contractual arrangements with key customers are renewed; and
- A terminal value growth rate of 2.0% and the pre-tax discount rate in the range of 8.4% to 10.9% is appropriate.

To evaluate the Group's assessment of the recoverable amount of the Bulk East & WA CGUs, we performed a number of procedures including the following:

- Assessed whether the division of the Group's property, plant and equipment assets into CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the Group's operations and internal Group reporting.
- Evaluated if VIU or FVLCD was the highest basis upon which to determine the recoverable amount of the CGU in accordance with the Australian Accounting Standards.

*Bulk East CGU*

- Evaluated the FVLCD of the Bulk East CGU, by assessing the key assumptions used in the valuations in determining the FVLCD assigned to the individual property and rollingstock assets.

*WA CGU*

- Assessed whether the carrying value of the CGU included all assets, liabilities and cashflows directly attributable to the CGU and a reasonable allocation of corporate overheads.
- Evaluated the Group's historical ability to forecast future cashflows by comparing budgets with reported prior years actual results.
- Tested that forecast cashflows used in the model were consistent with the most up-to-date corporate plan formally approved by the Board.
- Evaluated the appropriateness of the key judgement made by the Group in relation to key customers' current contractual arrangements.
- Assessed, with assistance from PwC valuation experts:
  - the forecast long term growth rate of 2.0% by comparing it to economic forecasts;
  - that the pre-tax nominal discount rate applied in the model appropriately reflects the risks of the CGU; and
  - the mathematical accuracy of the model.
- Evaluated the Group's sensitivity analysis to assess when further impairment would occur and whether this was reasonably possible.





*Key audit matter*

*How our audit addressed the key audit matter*

***Recoverability of assets (including Bulk East and Western Australia (WA) Cash Generating Units (CGUs) and Rollingstock) - Continued***

***Rollingstock***

The Group continually reviews its Enterprise Fleet Plan (EFP) which compares the rollingstock assets (consisting of locomotives and wagons) and their haulage capacity against forecast volume demand over a 10-year period.

Developing the EFP and assessing the recoverability of rollingstock involves significant judgement by the Group in:

- Estimating future haulage demand for the next 10 years while incorporating the impact of any new contracts and the cessation of any existing contracts;
- Determining on-going productivity and the resulting impact on the rollingstock fleet requirements; and
- Considering the required level of contingent fleet to maintain operational performance.

Given the judgements incorporated by the Group, the assessments of the recoverability of the Bulk East & WA CGUs and rollingstock are considered to be a key audit matter.

*Refer to note 4 Impairment of non-financial assets in the Consolidated Annual Financial Report for further details.*

***Rollingstock***

To evaluate the Group's assessment of the recoverable amount of rollingstock, we performed a number of procedures including the following:

- Evaluated the key assumptions included in the Group's EFP.
- Compared the forecast volume growth used in the EFP to external industry reports.
- Compared the forecast haulage demand and rollingstock requirements included in the EFP to the Board-approved corporate plan.
- Evaluated the level of contingent fleet and previously impaired rollingstock retained in service included in the EFP.



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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 25 to 38 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

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### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Nadia Carlin'.

Nadia Carlin  
Partner

Brisbane  
12 August 2019

A handwritten signature in blue ink, appearing to read 'Tim Allman'.

Tim Allman  
Partner

# Non-IFRS Financial Information in 2018-19 Annual 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.

# Non-IFRS Financial Information in 2018-19 Annual Report (continued)

	2019		2018	
	Continuing operations \$m	Discontinued operation \$m	Continuing operations \$m	Discontinued operation \$m
<b>Profit/(loss) before income tax</b>	<b>681.9</b>	<b>(4.6)</b>	801.3	(98.7)
Finance costs (net)	<b>147.1</b>	<b>(0.1)</b>	165.0	-
<b>EBIT - Statutory</b>	<b>829.0</b>	<b>(4.7)</b>	966.3	(98.7)
Add back significant adjustments:				
- Bulk contract exit asset impairment	-	-	27.9	-
- Bulk contract exit termination payment received	-	-	(66.3)	-
- Bulk contract exit costs - redundancy and closure costs	-	-	-	-
- Bulk impairment - Western Australia	-	-	3.9	-
- Transformation - redundancy benefit	-	-	31.7	-
- Intermodal closure (benefit)/costs	-	<b>(13.7)</b>	(22.9)	70.1
- Intermodal impairment	-	<b>25.1</b>	-	4.6
<b>EBIT - Underlying</b>	<b>829.0</b>	<b>6.7</b>	940.6	(24.0)
Depreciation and amortisation	<b>542.6</b>	<b>0.2</b>	525.5	2.3
<b>EBITDA - Underlying</b>	<b>1,371.6</b>	<b>6.9</b>	1,466.1	(21.7)
<b>Operating Ratio (continuing operations)</b>	<b>71.5%</b>		69.8%	
<b>Average invested capital (continuing operations)</b>	<b>8,561</b>		8,615	
<b>ROIC (continuing operations)</b>	<b>9.7%</b>		10.9%	
			2019 \$m	2018 \$m
Total borrowings			<b>3,369.8</b>	3,501.9
Less: cash and cash equivalents			<b>(25.2)</b>	(34.8)
<b>Net debt</b>			<b>3,344.6</b>	3,467.1
Total equity			<b>4,677.4</b>	4,730.1
<b>Total capital</b>			<b>8,022.0</b>	8,197.2
<b>Net Gearing Ratio</b>			<b>41.7%</b>	42.3%

# Shareholder Information

## RANGE OF FULLY PAID ORDINARY SHARES AS AT 5 AUGUST 2019

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 - 1,000	17,753	11,283,446	0.57
1,001 - 5,000	21,222	45,736,511	2.30
5,001 - 10,000	2,381	17,306,104	0.87
10,001 - 100,000	1,638	32,471,402	1.63
100,001 Over	85	1,883,330,869	94.63
<b>Total</b>	<b>43,079</b>	<b>1,990,128,332</b>	<b>100</b>

## UNMARKETABLE PARCELS AS AT 5 AUGUST 2019

MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum \$500.00 parcel at \$5.76 per unit	87	606

The number of shareholders holding less than the marketable parcel of shares is 606 (shares: 16,126).

## SUBSTANTIAL HOLDERS OF 5% OR MORE OF FULLY PAID ORDINARY SHARES AS AT 5 AUGUST 2019\*

NAME	NOTICE DATE	SHARES
The Vanguard Group Inc	20/12/2017	108,337,155
BlackRock Group	28/01/2019	122,907,978

\* As disclosed in substantial shareholder notices received by the Company.

## INVESTOR CALENDAR

2020 DATES	DETAILS
10 February 2020	Half Year results and interim dividend announcement
23 March 2020	Interim dividend payment date
10 August 2020	Full Year results and final dividend announcement
21 September 2020	Final dividend payment date
14 October 2020	Annual General Meeting

The payment of a dividend is subject to the Corporations Act and Board discretion. The timing of any event listed above may change. Please refer to the Company website, [aurizon.com.au](http://aurizon.com.au), for an up-to-date list of upcoming events.

## ASX code: AZJ

### Contact details

Aurizon  
GPO Box 456  
Brisbane QLD 4001

For general enquiries, please call 13 23 32 within Australia. If you are calling from outside Australia, please dial +61 7 3019 9000.

[aurizon.com.au](http://aurizon.com.au)

## Investor Relations

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit [investorcentre.com](http://investorcentre.com).

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 1127 or email: [investor.relations@aurizon.com.au](mailto:investor.relations@aurizon.com.au).

TOP 20 HOLDERS OF FULLY PAID ORDINARY SHARES AS AT 5 AUGUST 2019

NAME	UNITS	% OF UNITS
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	744,057,577	37.39
J P MORGAN NOMINEES AUSTRALIA LIMITED	428,113,382	21.51
CITICORP NOMINEES PTY LIMITED	235,048,820	11.81
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	141,644,630	7.12
NATIONAL NOMINEES LIMITED	132,080,371	6.64
QUEENSLAND TREASURY HOLDINGS PTY LTD	54,926,186	2.76
BNP PARIBAS NOMS PTY LTD <DRP>	46,963,733	2.36
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	15,178,910	0.76
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	14,560,932	0.73
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	12,086,805	0.61
AMP LIFE LIMITED	5,308,717	0.27
AVANTEOS INVESTMENTS LIMITED <ENCIRCLE IMA A/C>	3,600,862	0.18
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	3,459,000	0.17
BAINPRO NOMINEES PTY LIMITED	3,323,027	0.17
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,136,037	0.16
AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	3,000,000	0.15
BNP PARIBAS NOMS (NZ) LTD <DRP>	2,607,600	0.13
NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	2,393,231	0.12
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,030,248	0.10
POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	1,667,013	0.08
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)</b>	<b>1,855,187,081</b>	<b>93.22</b>
<b>Total Remaining Holders Balance</b>	<b>134,941,251</b>	<b>6.78</b>

# Glossary

Some terms and abbreviations used in this document, together with industry specific terms, have defined meanings.

These terms and abbreviations are set out in this glossary and are used throughout this document.

A reference to dollars, \$ or cents in this document is a reference to Australian currency unless otherwise stated. Any reference to a statute, ordinance, code or other law includes regulations and any other instruments under it and consolidations, amendments, re-enactments or replacements of any of them. Any reference to Annual Report is a reference to this document.

## **ABN**

Australian Business Number

## **Above Rail**

Includes the business unit segments of Coal, Bulk and Other of Aurizon Holdings Limited

## **ACN**

Australian Company Number

## **ASIC**

Australian Securities and Investments Commission

## **ASX**

Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691)

## **ASX Listing Rules**

The official listing rules of ASX

## **Aurizon**

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

## **Below Rail**

The business unit segment of Network – Aurizon Network Pty Ltd (ACN 132 181 116) a wholly owned subsidiary of Aurizon Holdings Limited

## **Board**

The Board of Directors of Aurizon Holdings Limited

## **Bulk**

The Above Rail freight haulage operating division of Aurizon Holdings Limited

## **CAGR**

Compound Annual Growth Rate, expressed as a percentage per year

## **CAPEX**

Capital Expenditure

## **CGT**

Capital Gains Tax

## **Coal**

The Above Rail coal haulage operating division of Aurizon Holdings Limited

## **Company or Aurizon Holdings**

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

## **Company Secretary**

The Company Secretary of Aurizon Holdings Limited

## **Constitution**

The constitution of Aurizon Holdings Limited

## **Corporations Act**

*Corporations Act 2001 (Cth)*

## **CPS**

Cents Per Share

## **CQCN**

Central Queensland Coal Network

## **EBIT**

Earnings Before Interest and Tax

## **EBITDA**

Earnings Before Interest, Tax, Depreciation and Amortisation

## **EBIT Margin**

Underlying Earnings Before Interest and Tax divided by total revenue and other income

## **EEO**

Energy Efficiency Opportunity

## **EEO Act**

*Energy Efficiency Opportunity Act 2006 (Cth)*

## **EPS**

Earnings Per Share

## **FY**

Financial Year ended 30 June, as the context requires

## **GAP**

Goonyella to Abbot Point



**GAPE**

Goonyella to Abbot Point Expansion

**GAAP**

Generally Accepted Accounting Principles

**IBNR**

Incurred But Not Reported

**IFRS**

International Financial Reporting Standards

**km**

Kilometre

**LTIA**

Long Term Incentive Awards

**M**

Million

**MAR**

Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN across the term of an access undertaking

**mt**

Millions of tonnes

**mtpa**

Millions of tonnes per annum

**Network**

Aurizon Network Pty Ltd (ACN 132 181 116) a wholly-owned subsidiary of Aurizon Holdings

**NGER**

National Greenhouse Energy Reporting

**NGER Act**

*National Greenhouse Energy Reporting Act 2007 (Cth)*

**ntk**

Net tonne kilometre, unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons

**OP - Operating Ratio**

1 - EBIT margin, expressed as a percentage

**OPEX**

Operating Expense including depreciation and amortisation

**OTHER**

A business unit segment of Aurizon Holdings Limited

**PPT**

Percentage Point

**QCA**

Queensland Competition Authority

**RAB**

Regulated Asset Base, the value of the asset base on which pricing is determined by the price regulator

**Rail Process Safety**

The cumulative number of SPAD, derailment and rollingstock to rollingstock collision incidents, per million train kilometres, over a given recording period.

Note: Infrastructure Caused SPADs have been removed from the SPAD element of Aurizon's Rail Process Safety metric.

**ROIC**

Return on Invested Capital

**Share**

A fully paid ordinary share in Aurizon Holdings

**STIA**

Short Term Incentive Award

**tonne**

One metric tonne, being 1,000 kilograms

**tonne kilometres**

The product of tonnes and distance

**TRIFR**

The cumulative number of Lost Time Injuries, Medical Treatment Injuries and Restricted Work Injuries sustained by employees and contractors, per million hours worked, over a given recording period.

**TSC**

Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services

**WACC**

Weighted Average Cost of Capital, expressed as a percentage

**WICET**

Wiggins Island Coal Export Terminal

**WIRP**

Wiggins Island Rail Project

# Corporate Information

**Aurizon Holdings Limited**  
**ABN 14 146 335 622**

**Directors**

Tim Poole  
Andrew Harding  
Marcelo Bastos  
Russell Caplan  
Michael Fraser  
Samantha Lewis  
Kate Vidgen

**Company Secretary**

Dominic D Smith

**Registered Office**

Level 8, 900 Ann Street  
Fortitude Valley QLD 4006

**Auditors**

PricewaterhouseCoopers

**Share Registry**

Computershare Investor Services Pty Limited  
Level 1, 200 Mary Street  
Brisbane QLD 4001  
Tel: 1800 776 476  
(or +61 3 9938 4376)

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**Aurizon Holdings Limited**  
**ABN 14 146 335 622**