# Aurizon Holdings Limited

Appendix 4E
Results for announcement to the market on 12 August 2019
For the year ended 30 June 2019 (FY2019)
Previous corresponding period (pcp) for the year ended 30 June 2018 (FY2018)

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

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# 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 |

- 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 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

## CONSOLIDATED RESULTS (Underlying continuing operations unless stated)

1. Year on Year Comparison

### Financial Summary

| ($m) | | FY2019 | FY2018 | Variance % |
|---|---|---|---|---|
| **Total revenue** | | **2,907.6** | **3,112.7** | **(7%)** |
| **Operating costs** | | | | |
| Employee benefits | | (778.6) | (774.6) | (1%) |
| Energy and fuel | | (233.9) | (252.4) | 7% |
| Track access | | (101.0) | (191.4) | 47% |
| Consumables | | (397.8) | (348.4) | (14%) |
| Other | | (24.7) | (79.8) | 69% |
| **EBITDA** | | **1,371.6** | **1,466.1** | **(6%)** |
| | - statutory | 1,371.6 | 1,491.8 | (8%) |
| Depreciation and amortisation | | (542.6) | (525.5) | (3%) |
| **EBIT** | | **829.0** | **940.6** | **(12%)** |
| | - statutory | 829.0 | 966.3 | (14%) |
| Net finance costs | | (147.1) | (165.0) | 11% |
| **Income tax (expense)** | | **(208.6)** | **(233.5)** | **11%** |
| | - statutory | (208.6) | (241.2) | 14% |
| **NPAT** | | **473.3** | **542.1** | **(13%)** |
| | - statutory | 473.3 | 560.1 | (15%) |
| Profit/(loss) after tax from discontinued operations | - statutory | 3.2 | (77.1) | nm |
| **NPAT (group)** | **- statutory** | **476.5** | **483.0** | **(1%)** |
| **Earnings per share[1]** | | **23.8** | **26.9** | **(12%)** |
| | - statutory | 23.8 | 27.8 | (14%) |
| **Earnings per share[1] (group)** | | **24.0** | **25.7** | **(7%)** |
| | - statutory | 23.9 | 24.0 | - |
| Return on invested capital (ROIC)[2] | | 9.7% | 10.9% | (1.2ppt) |
| Return on invested capital (ROIC)[2] (Continuing & Discontinued) | | 9.7% | 10.4% | (0.7ppt) |
| Operating ratio | | 71.5% | 69.8% | (1.7ppt) |
| Net cashflow from operating activities | | 1,316.1 | 1,307.7 | 1% |
| Final dividend per share (cps) | | 12.4 | 13.1 | (5%) |
| Gearing (net debt / net debt + equity) (%) (group) | | 41.7% | 42.3% | 0.6ppt |
| Net tangible assets per share ($) (group) | | 2.26 | 2.30 | (2%) |
| People (FTE) | | 4,728 | 4,835 | 2% |

### Operating Metrics

| | FY2019 | FY2018 | Variance % |
|---|---|---|---|
| Above Rail[3] Revenue / NTK ($/'000 NTK) | 37.7 | 38.1 | (1%) |
| Labour costs[4] / Revenue | 26.0% | 24.4% | (1.6ppt) |
| NTK / FTE (MNTK) | 12.5 | 13.2 | (5%) |
| Above Rail opex / NTK (excluding access) ($/'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%) |
| **Group (Continuing operations)** | **829.0** | **940.6** | **(12%)** |

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

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

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 |
| **Total current assets** | **739.6** | **806.2** |
| Property, plant and equipment (PP&E) | 8,536.3 | 8,659.9 |
| Other non-current assets | 425.2 | 315.7 |
| **Total non-current assets** | **8,961.5** | **8,975.6** |
| **Total Assets** | **9,701.1** | **9,781.8** |
| 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) |
| **Total Liabilities** | **(5,023.7)** | **(5,051.7)** |
| **Net Assets** | **4,677.4** | **4,730.1** |
| **Gearing (net debt/net debt + equity) (%)** | **41.7%** | **42.3%** |

## 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 |
|---|---|---|
| **Statutory EBITDA (Continuing operations)** | **1,371.6** | **1,491.8** |
| Working capital and other movements | 62.0 | (146.9) |
| Non-cash adjustments - asset impairments | 24.9 | 70.0 |
| **Cash flows from Continuing operations** | **1,458.5** | **1,414.9** |
| Interest received | 2.9 | 2.9 |
| Income taxes paid | (145.3) | (110.1) |
| **Net cash inflow from operating activities from Continuing operations** | **1,316.1** | **1,307.7** |
| Net operating cashflows from Discontinued operations | (25.4) | (25.1) |
| **Net operating cash flows** | **1,290.7** | **1,282.6** |
| **Cash flows from investing activities** | | |
| 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) |
| **Net cash (outflow) from investing activities from Continuing operations** | **(430.8)** | **(482.5)** |
| Net investing cashflows from Discontinued operations | 11.1 | 54.6 |
| **Net investing cashflows** | **(419.7)** | **(427.9)** |
| **Cash flows from financing activities** | | |
| Net (repayments)/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) |
| **Net cash (outflow) from financing activities from Continuing operations** | **(880.6)** | **(908.6)** |
| Net financing cashflows from Discontinued operations | - | - |
| **Net financing cashflows** | **(880.6)** | **(908.6)** |
| **Net increase / (decrease) in cash from Continuing operations** | **4.7** | **(83.4)** |
| **Net (decrease) / increase in cash from Discontinued operations** | **(14.3)** | **29.5** |
| ***Free Cash Flow (FCF)[5] from Continuing operations*** | ***734.8*** | ***669.4*** |
| ***Free Cash Flow (FCF)[5] from Discontinued operations*** | ***(14.3)*** | ***29.5*** |

## 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

## 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[6] 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[7] for FY2019 was 19.3%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2020 is expected to be in the range of 29-31% and the underlying cash tax rate is expected to be less than 25% for the short to medium term.

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

## 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.

[6] Underlying effective tax rate = income tax expense excluding the impact of significant items / underlying consolidated profit before tax
[7] Underlying cash tax rate = cash tax payable excluding the impact of significant items / underlying consolidated profit before tax

# BUSINESS UNIT REVIEW

## Coal

Aurizon's Coal business provides a critical 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.

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

### 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

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 the 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:
    o Average velocity - reducing from 23.2km/hr to 22.8km/hr
    o 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 % |
|---|---|---|---|
| **Revenue** | | | |
| Freight Transport | 474.6 | 592.1 | (20%) |
| Other | 27.1 | 26.0 | 4% |
| **Total revenue** | **501.7** | **618.1** | **(19%)** |
| Operating costs | (447.2) | (542.9) | 18% |
| **EBITDA** | **54.5** | **75.2** | **(28%)** |
| Depreciation and amortisation | (17.2) | (25.1) | 31% |
| **EBIT** | **37.3** | **50.1** | **(26%)** |

### 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

## 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 % |
|---|---|---|---|
| **Revenue** | | | |
| Track Access | 1,070.3 | 1,167.1 | (8%) |
| Services and other | 47.4 | 51.6 | (8%) |
| **Total revenue** | **1,117.7** | **1,218.7** | **(8%)** |
| Operating costs | (396.5) | (430.1) | 8% |
| **EBITDA** | **721.2** | **788.6** | **(9%)** |
| Depreciation and amortisation | (320.9) | (308.0) | (4%) |
| **EBIT** | **400.3** | **480.6** | **(17%)** |

### 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

## 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 % |
|---|---|---|---|
| **Total revenue** | **82.2** | **90.8** | **(9%)** |
| Operating costs | (96.1) | (99.7) | 4% |
| **EBITDA** | **(13.9)** | **(8.9)** | **(56%)** |
| Depreciation and amortisation | (9.8) | (9.8) | - |
| **EBIT** | **(23.7)** | **(18.7)** | **(27%)** |

### 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.

## 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 Railroading 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.

# 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 of 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 7 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 12 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 the decision of the Supreme Court has been appealed by the customers, there is potential the entire amount of the WIRP non-regulated fee as described on page 13 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.

## 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

## Entities over which control was gained or lost during the period

None

## Details of associate and joint venture entities

| Entity | Country of incorporation | Ownership Interest 30 June 2019 % | 30 June 2018 % |
|---|---|---|---|
| **Investment in associates** | | | |
| Aquila Resources Limited | Australia | 15 | 15 |
| **Joint Ventures** | | | |
| Chun Wo/CRGL | Hong Kong | 17 | 17 |
| ARG Risk Management Limited | Bermuda | 50 | 50 |
| Integrated Logistics Company Pty Ltd | Australia | 14 | 14 |
| ACN 169 052 288 | Australia | 15 | 15 |

The profit contribution from any one of these associate or joint venture entities is not material to the Group's profit.

## APPENDIX

### Intermodal – Discontinued Operation

| ($m) | FY2019 | FY2018 | Variance % |
|---|---|---|---|
| **Total revenue** | **111.0** | **225.4** | **(51%)** |
| Operating costs | (104.1) | (247.1) | 58% |
| **EBITDA – Underlying** | **6.9** | **(21.7)** | **nm** |
| Depreciation and amortisation | (0.2) | (2.3) | 91% |
| **EBIT – Underlying** | **6.7** | **(24.0)** | **nm** |
| Significant Items | (11.4) | (74.7) | 85% |
| Net finance income | 0.1 | - | - |
| Income tax benefit | 7.8 | 21.6 | (64%) |
| **NPAT (Discontinued operations) – Statutory** | **3.2** | **(77.1)** | **nm** |

### 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