AURIZON®

18|19

ANNUAL REPORT

Contents

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.**

Environmental prosecutions

There have been no environmental prosecutions during this financial year.

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[1]	20	20	8	8	–	–	5	5	3	3
A Harding[1]	20	20	–	–	–	–	5	5	–	–
M Bastos	20	20	–	–	–	–	5	5	–	–
R Caplan	20	20	8	8	5	5	–	–	–	–
J Cooper[2]	18	16	–	–	4	4	4	4	3	3
K Field[3]	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
OTHER ASSURANCE SERVICES	
Total remuneration for other assurance services	58
OTHER SERVICES	
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

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

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

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
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 impairment	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 (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)
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

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[6] for FY2020 is expected to be in the range of 29-31% and the underlying cash tax rate[7] 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.

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.

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

($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

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 %
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

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 %
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

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 %
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.

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 operation) – 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

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.

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 reaches 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

Tim Poole
Chairman

Russell Caplan

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

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
NON-EXECUTIVE DIRECTORS	
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
EXECUTIVE KMP	
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
FORMER NON-EXECUTIVE DIRECTORS	
J Cooper[1]	Independent Non-Executive Director
K Field[2]	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

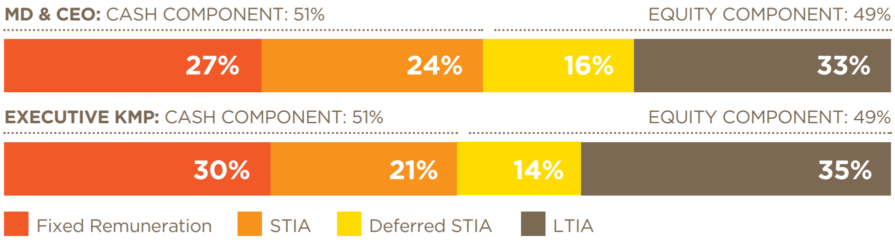
The structure is intended to provide an appropriate mix of fixed and variable remuneration, and provide a combination of incentives intended to drive performance against the Company's short and longer-term business objectives.

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**

FIGURE 1 – TOTAL POTENTIAL REMUNERATION FINANCIAL YEAR 2019[1]



1 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

BOARD

The Board:

- Approves the overall remuneration policy and ensures it is competitive, fair and aligned with the long-term interests of the Company
- Approves Non-Executive Director remuneration, MD & CEO and Executive Committee remuneration
- Assesses the performance of, and determines the STIA outcome for, the MD & CEO giving due weight to objective performance measures while retaining discretion to determine final outcomes
- Considers and determines the STIA outcomes of the Executive Committee based on the recommendations of the MD & CEO

REMUNERATION AND HUMAN RESOURCES COMMITTEE

The Remuneration and Human Resources Committee is delegated responsibility by the Board to review and make recommendations on:

- The remuneration policies and framework for the Company
- Non-Executive Director remuneration
- Remuneration for the MD & CEO and Executive Committee
- Executive incentive arrangements

MANAGEMENT

- Provides information relevant to remuneration decisions and makes recommendations to the Remuneration and Human Resources Committee
- Obtains remuneration information from external advisors to assist the Remuneration and Human Resources Committee (i.e. market data, legal advice, accounting advice, tax advice)

CONSULTATION WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

REMUNERATION CONSULTANTS AND OTHER EXTERNAL ADVISORS

In performing duties and making recommendations to the Board, the Remuneration and Human Resources Committee may from time to time appoint and engage independent advisors directly in relation to remuneration matters. These advisors:

- Review and provide recommendations on the appropriateness of the MD & CEO and Executive remuneration
- Provide independent advice, information and recommendations relevant to remuneration decisions

Any advice or recommendations provided by external advisors are used to assist the Board – they do not substitute for the Board and Remuneration and Human Resources Committee processes

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
FIXED REMUNERATION	**Considerations:** › Experience, qualifications › Role and responsibility › Retain key capability › Reference to remuneration paid by similar sized companies in similar industry sectors › Internal and external relativities	› To attract and retain Executives with the right capability to achieve results	Effective 1 July 2018, TFR increases were provided to ensure alignment with external peer group: › **MD & CEO:** from $1.7m to $1.717m (1%) › **Other Executive KMP:** between 1% & 7%
SHORT TERM INCENTIVE AWARD	› Underlying EBIT (Enterprise and, if applicable, Business Unit) (60%) › Safety (10%) › Individual (30%) Measured over a one-year performance period Participants can earn up to a maximum of 150% of "at-target" remuneration **STIA at Risk:** **MD & CEO**: Target 100% of Fixed Remuneration and maximum 150% of Fixed Remuneration **Other Executive KMP**: Target 75% of Fixed Remuneration and maximum 112.5% of Fixed Remuneration	The financial and non-financial performance measures were chosen because: › **Underlying EBIT** delivers direct financial benefits to shareholders › **Safety** captures the need to continuously improve safety and embed safe, efficient and effective processes across all aspects of a heavy industry business › **Individual** aligns employee contribution to the achievement of Aurizon's strategy	› A greater proportion of the Award has been weighted towards Underlying EBIT from 40% to 60% › Introduction of **Business Unit measures** (Underlying EBIT) for Coal, Bulk (FY2019) and Network (FY2020)[1] › Enterprise Transformation Program measure has been removed however the benefits have been embedded within the EBIT targets
LONG TERM INCENTIVE AWARD	› Relative Total Shareholder Return (TSR) (50%) › Return on Invested Capital (ROIC) (50%) Measured over a four-year performance period **LTIA at Risk (Maximum):** **MD & CEO:** 120% of Fixed Remuneration **Other Executive KMP:** 112.5% of Fixed Remuneration	› **Relative TSR** 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) › **ROIC** 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 Note: Minimum shareholding requirements for Executive KMP and the remainder of the Executive Committee encourages retention of shares and alignment with shareholder interests	No change

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

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 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.

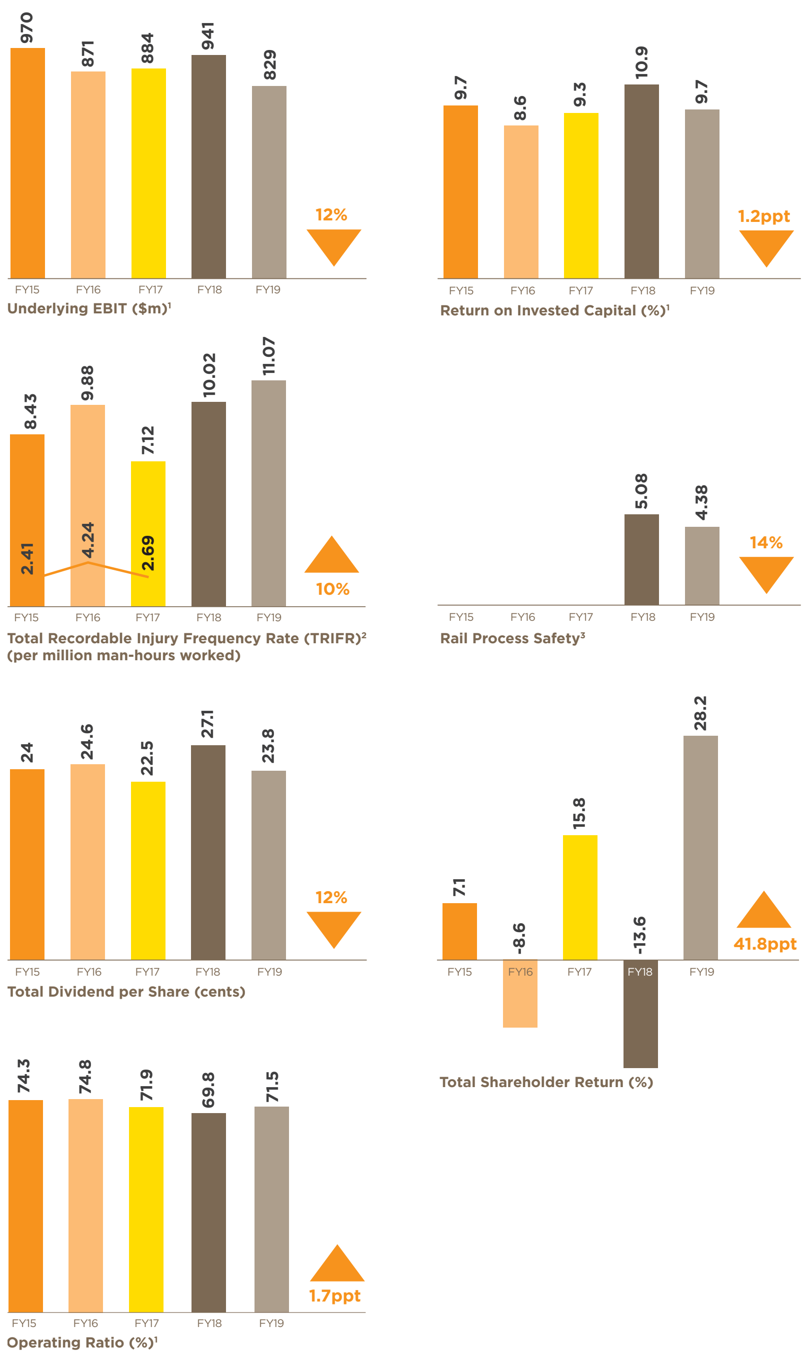
Progress in executing the business strategy and achieving key milestones during FY2019 have provided long-term certainty for the business. Key achievements include:

- 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[1] $'000	STIA CASH[2] $'000	STIA DEFERRED FROM PRIOR YEAR[3] $'000	LTIA VESTING[4] $'000	SHARE PRICE APPRECIATION[5] $'000	ACTUAL FY2019 REMUNERATION OUTCOMES $'000
EXECUTIVE KMP							
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 MD & CEO, CFO & NETWORK[1]	WEIGHTING COAL & BULK	TARGET	FY2019 PERFORMANCE OUTCOME
ENTERPRISE				
Group EBIT[2]: Underlying EBIT delivers financial benefit to shareholder through the achievement of underlying operating earnings	60%	30%	$787m	$829m (Stretch)
Group Safety: 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 (Below Threshold)
› Rail Process Safety (Total Accident Rate and Signals Passed at Danger)	5%	5%	5.34	4.38 (Stretch)
BUSINESS UNIT[1]				
Coal EBIT:	–	30%	Performance targets vary for each Business Unit	$415.1m (Between Target & Stretch)
Bulk EBIT:				$37.3m (Stretch)
INDIVIDUAL: 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: › Deliver Enterprise Strategic Plan › Transformation › Intermodal exit › Regulatory strategy › Advancement of key technology projects	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 (Between Target & Stretch)
TOTAL OUTCOME	100%	100%		(Between Target & Stretch)

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	TARGET STIA $'000	MAXIMUM POTENTIAL STIA ($'000)	AWARDED FY2019 ($'000) CASH COMPONENT	AWARDED FY2019 ($'000) DEFERRED SHARE COMPONENT[1]	AWARDED FY2019 ($'000) TOTAL STIA PAYMENT	% OF TARGET STIA	% OF MAXIMUM STIA[2]
EXECUTIVE KMP							
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

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
2015 AWARD: RETEST 01 JULY 2015 – 30 JUNE 2019						
Relative TSR: against peer group within ASX100 Index	**Initial:** 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	
	Retest: 100% of rights vest at the 75th percentile. 0% vest below the 75th percentile		Below top quartile (FY2019)	0%		100%
OR Improvement	**Initial**: 50% of rights vest with a FY2018 OR of 71.5%, up to 100% at 70%	34%	72.5%[1] (FY2018)	0%	100% of this component was subject to a single retest in FY2019	
	Retest: 100% of rights vest at or below 69%. 0% will vest with an OR above 69%		72.8%[1] (FY2019)	0%		100%
ROIC: average annual ROIC **Initial:** FY2016 – FY2018 **Retest:** FY2016 – FY2019	**Initial**: 50% of rights vest with an average ROIC of 10.5%, up to 100% at 11.5%	33%	8.7%[2] (FY2018)	0%	100% of this component was subject to a single retest in FY2019	
	Retest: 100% of rights vest with an average ROIC of 12.5%. 0% below 12.5%		8.5%[2] (FY2019)	0%		100%
2016 AWARD: 01 JULY 2016 – 30 JUNE 2019						
Relative TSR: 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%
OR Improvement	50% of rights vest with a FY2019 OR of 70%, up to 100% at 68.5%	15%	72.8%[1]	0%		100%
ROIC: 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%[2]	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

TSR	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. 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.
ROIC	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). 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.
OR	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. 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.

	WEIGHTING	MINIMUM VESTING POINT		MAXIMUM VESTING POINT
2017 AWARD (3 YEAR): 01 JULY 2017 – 30 JUNE 2020[1]				
Relative TSR: 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
ROIC: average annual ROIC FY2018 – FY2020[2]	50%	50% of rights vest with an average ROIC of 10.5%		100% of rights will vest with an average ROIC of 11.5%
2017 AWARD (4 YEAR): 01 JULY 2017 – 30 JUNE 2021[1]				
Relative TSR: 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
ROIC: average annual ROIC FY2018 – FY2021[2]	50%	50% of rights vest with an average ROIC of 10.5%		100% of rights will vest with an average ROIC of 11.5%
2018 AWARD: 01 JULY 2018 – 30 JUNE 2022				
Relative TSR: 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
ROIC: average annual ROIC FY2019 – FY2022[2]	50%	50% of rights vest with an average ROIC of 9%		100% of rights will vest with an average ROIC of 10%
2019 AWARD: 01 JULY 2019 – 30 JUNE 2023				
Relative TSR: 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
ROIC: average annual ROIC FY2020 – FY2023[3,4]	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).

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[1]	NOTICE PERIOD[2] BY EXECUTIVE	NOTICE PERIOD[2] BY COMPANY[3]
EXECUTIVE KMP				
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[1]
NON-EXECUTIVE DIRECTORS					
T Poole	90,500	–	–	90,500	100%
M Bastos	11,400	–	–	11,400	27%
R Caplan[2]	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%
EXECUTIVE KMP					
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

		EMPLOYMENT AGREEMENT SUMMARY	
DIRECTORS	TERM	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

		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

		SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	
NAME	YEAR	SALARY AND FEES[1] $'000	NON-MONETARY BENEFITS[2] $'000	SUPERANNUATION $'000	TOTAL REMUNERATION $'000
NON-EXECUTIVE DIRECTORS					
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
FORMER NON-EXECUTIVE DIRECTORS					
J Cooper	**2019**	**183**	**-**	**17**	**200**
	2018	181	-	17	198
K Field	**2019**	**61**	**-**	**6**	**67**
	2018	181	-	17	198
Total	**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

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

1 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

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

3 Details of the vesting outcomes are described in Table 7

4 Retention Award as described in Section 7 in the FY2018 Remuneration Report

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

6 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 $'000	BALANCE AT END OF YEAR NO.	WEIGHTED FAIR VALUE PER RIGHT AT GRANT DATE $	GRANT DATE	DATE ON WHICH GRANT VESTS[2]	EXPIRY DATE
	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

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	EQUITY-SETTLED SHARE-BASED PAYMENTS				
NAME	YEAR	CASH SALARY AND FEES[1] $'000	CASH BONUS $'000	ANNUAL LEAVE[2] $'000	NON-MONETARY BENEFITS[3] $'000	SUPER-ANNUATION[4] $'000	LONG-SERVICE LEAVE $'000	RIGHTS[5] $'000	CONTRACTUAL TERMINATION BENEFITS $'000	TOTAL $'000	PROPORTION OF COMPENSATION PERFORMANCE RELATED[6]%	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR %
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[7]	612	339	11	12	19	4	148	–	1,145	43	13
Total Executive KMP compensation (group)	**2019**	**4,266**	**3,345**	**77**	**112**	**160**	**47**	**1,932**	**–**	**9,939**	**53**	**19**
	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

Tim Allman
Partner
PricewaterhouseCoopers

Brisbane
12 August 2019

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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**. 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	
1.1 Role of Board and management	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 & CEO and the Company Secretary. A copy of the Charter is available in the Governance section of the Company's website, **aurizon.com.au**.	✓
1.2 Information regarding election and re-election of Director candidates	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. 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.	✓
1.3 Written contracts of appointment	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. A copy of the key governance policies can be found on the Company's website **aurizon.com.au**. 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.	✓
1.4 Company Secretary	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. 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.	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
1.5 Diversity & inclusion	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, **aurizon.com.au**. The measurable objectives and outcomes for diversity, agreed by the Aurizon Holdings Board for FY2019, are set out below:	✓

ENTERPRISE MEASURES	FY19 TARGET	FY19 ACTUAL
Gender representation on the Board	Minimum 30% (each gender)	29% women/71% men
Representation of women in the workforce	22.0%	21.0%
Representation of Aboriginal and Torres Strait Islander men and women in Aurizon	5.5%	5.6%

	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 **aurizon.com.au**.	
1.6 Board reviews	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. During FY19 the Board conducted an internal review of its Board and Committee and their effectiveness.	✓
1.7 Management reviews	Each year the Board sets financial, operational, management and individual targets for the Managing Director & CEO. The Managing Director & CEO (in consultation with the Board) in turn, sets targets for direct reports. Performance against these targets is assessed periodically throughout the year, and a formal performance evaluation for senior management is completed for the year-end.	✓

Principle 2: Structure the Board to add value

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
2.1 Nominations committee	The Nomination & Succession Committee comprises three members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Nomination & Succession Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report. The number of meetings held and attended by each member of the Nomination & Succession Committee during the financial year are set out on page 8 of the Directors' Report within the Annual Report. The Charter governing the conduct of the Nomination & Succession Committee is reviewed annually and is available in the Governance section of the Company's website, **aurizon.com.au**.	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
2.2 Board skills	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.	✓

Corporate Governance Statement
(continued)

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

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
	General › Board experience › Senior management experience › ASX listed company governance › Risk management **Industry** › Transport and logistics › Mining and resources › Government relations › Safety, health and environment **Technical** › Finance and accounting › Regulatory › Corporate strategy › Capital allocation including acquisitions and divestments › Information and operational technology › Capital markets › Engineering and construction › Human resources Further details regarding the skills and experience of each Director are included on pages 4 to 6 of the Report.	✓
2.3 Disclose independence and length of service	Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.	✓
2.4 Majority of Directors independent	In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director & CEO is not considered independent, by virtue of the role being an Executive of the Company. Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.	✓
2.5 Chair independent	The Chairman, Tim Poole, is an Independent Non-Executive Director. The role of CEO is performed by another Director. Further details regarding the Directors are set out on pages 4 to 6 of the Annual Report.	✓
2.6 Induction and professional development	An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board. 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. During the year Directors receive accounting policy updates, especially around the time the Board considers the half-year and full-year financial statements. The Board also includes briefings from time-to-time on legal, accounting, regulation, developments in communication and human resource management and technology. 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.	✓

Principle 3: Act ethically and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
3.1 Code of Conduct	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, **aurizon.com.au**. 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. The Company also has a Whistleblower Policy, a copy of which is available in the Governance section of the Company's website, **aurizon.com.au** and the Board, through the Audit, Governance and Risk Management Committee reviews reports on concerns raised under the Whistleblower Policy.	✓

Principle 4: Safeguard integrity in corporate reporting

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
4.1 Audit Committee	The Audit, Governance & Risk Management Committee comprises three members, all of whom are Independent Non-Executive Directors. Details of the membership of the Audit, Governance & Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 6 of the Annual Report. In addition to the Audit, Governance & Risk Management Committee members, the Managing Director & CEO, CFO, Head of Risk & Assurance, external auditors and Company Secretary attend the Audit, Governance & Risk Management Committee meetings. The number of meetings held and attended by each member of the Audit, Governance & Risk Management Committee during the financial year are set out on page 8 of the Annual Report. The Audit, Governance & Risk Management Committee Charter is reviewed annually and is available on the Aurizon Holdings website, **aurizon.com.au**. Amongst other things, the Audit, Governance & 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.	✓
4.2 CEO and CFO certification of financial statements	The Board has obtained a written assurance from the Managing Director & 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.	✓
4.3 External auditor at AGM	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.	✓

Principle 5: Make timely and balanced disclosure

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
5.1 Disclosure and Communications Policy	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. 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, **aurizon.com.au**. 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.	✓

Principle 6: Respect the rights of security holders

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
6.1 Information on website	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.	✓
6.2 Investor relations programs	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. 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.	✓
6.3 Facilitate participation at meetings of security holders	Aurizon Holdings uses technology to facilitate the participation of security holders in meetings including webcasting of the AGM. 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.	✓
6.4 Facilitate electronic communications	Aurizon provides its investors the option to receive communications from, and send communications to, the Company and the share registry electronically.	✓

Corporate Governance Statement
(continued)

Principle 7: Recognise and manage risk

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
7.1 Risk committee	Aurizon Holdings' Audit, Governance & 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, **aurizon.com.au**. 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.	✓
7.2 Annual risk review	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 & 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. 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.	✓
7.3 Internal audit	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 & Risk Management Committee. In accordance with the Committee Charter, the appointment or removal of the Head of Risk & Assurance is a matter for this Committee. The Head of Risk & Assurance provides ongoing internal audit reports to the Audit, Governance & Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures.	✓
7.4 Sustainability risks	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, **aurizon.com.au**. 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. 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.	✓

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
8.1 Remuneration Committee	Aurizon Holdings' remuneration function is performed by the Remuneration & 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. The number of meetings held and attended by each member of the Remuneration & Human Resources Committee during the financial year are set out on page 8 of the Annual Report. The Charter governing the conduct of the Remuneration & Human Resources Committee is reviewed annually and is available in the Governance section of the Company's website, **aurizon.com.au**.	✓
8.2 Disclosure of Executive and Non-Executive Director remuneration policy	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. It reviews requirements for additional capabilities at least annually. Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and a performance-based component. 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. The Company has in place a Share Holding and Retention Policy which applies to Non-Executive Directors, the Managing Director & CEO and the direct reports of the Managing Director & CEO. 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.	✓
8.3 Policy on hedging equity incentive schemes	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. 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 & CEO and his direct reports and any other person entitled to participate in an Aurizon Holdings performance rights plan. 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, **aurizon.com.au**.	✓