Aurizon Holdings Limited

Appendix 4D

Results for announcement to the market on 11 February 2019

For the six-month period ended 31 December 2018 (1HFY2019)

Previous corresponding period (pcp) for the six-month period ended 31 December 2017 (1HFY2018)

Table of Contents

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

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1HFY2019 IN REVIEW

Result Highlights (Underlying and statutory continuing operations)

($m)	1HFY2019	1HFY2018	Variance %
Total revenue	1,455.4	1,565.3	(7%)
EBITDA	671.7	744.3	(10%)
EBIT	406.0	485.3	(16%)
NPAT	226.9	281.5	(19%)
Free cash flow (FCF)	370.7	345.0	7%
Interim dividend (cps)	11.4	14.0	(19%)
Earnings per share (cps)	11.4	13.9	(18%)
Return on invested capital (ROIC)	10.0%	9.6%	0.4ppt
EBITDA margin (%)	46.2%	47.5%	(1.3ppt)
Operating ratio (OR) (%)	72.1%	69.0%	(3.1ppt)
Above Rail Tonnes (m)	130.1	136.3	(5%)
Above Rail opex / NTK (excluding access) ($/’000 NTK)	19.8	18.0	(10%)
Gearing (net debt / net debt + equity) (%)	42.4%	41.2%	(1.2ppt)

› EBIT down 16% to $406.0m
  › Network down $45.6m (18%) principally due to the impact of UT5 Final Decision
  › Coal down $12.2m (5%) with higher maintenance and costs to install capacity as well as the impact of lower volumes from protected industrial action and weather events
  › Bulk down $5.9m (29%) due to the cessation of the Cliffs contract in June 2018 partly offset by growth volumes and operational efficiencies
› FCF improved $25.7m (7%) due to the receipt of the early termination payment from Cliffs
› Interim dividend of 11.4cps, 70% franked (100% payout of underlying NPAT for the continuing operations), a decrease of 19% against prior period

Major items

› Queensland Intermodal transferred to Linfox on 31 January 2019. Sale of Acacia Ridge terminal subject to proceedings in the Federal Court
› UT5 Final Decision issued by the QCA on 6 December 2018. Submission of a conforming undertaking due by 18 February 2019. Engagement continues with all stakeholders
› Progress on Enterprise Agreements (EA) with two agreements completed and two EAs approved in employee ballots. Bargaining continues for the remaining three Queensland EAs
› Investment in rollingstock in Coal for CQCN to support volume growth
› Bulk turnaround progressing well, with focus now turning to growth opportunities

Outlook

› Underlying EBIT guidance for FY2019 for Non-Network confirmed at $390 – $430m. Key assumptions:
  › Coal – unchanged flat outlook with increased maintenance and operating costs offsetting volume growth. Volume guidance remains 215 – 225mt
  › Bulk –2HFY2019 EBIT impacted by the cessation of Mt Gibson and flood impacts in North Queensland
  › Operational efficiency improvements remain a key driver for the business
  › No major weather impacts
  › Excludes redundancy costs

CONSOLIDATED RESULTS (Underlying continuing operations unless stated)

1. Half on Half Comparison

Financial Summary

($m)		1HFY2019	1HFY2018	Variance %	2HFY2018
Total revenue		**1,455.4**	**1,565.3**	**(7%)**	**1,547.4**
Operating costs					
Employee benefits		(385.7)	(387.3)	-	(387.3)
Energy and fuel		(118.2)	(126.6)	7%	(125.8)
Track access		(61.4)	(106.9)	43%	(84.5)
Consumables		(192.9)	(167.9)	(15%)	(180.5)
Other		(25.5)	(32.3)	21%	(47.5)
EBITDA		**671.7**	**744.3**	**(10%)**	**721.8**
	- statutory	671.7	744.3	(10%)	747.5
Depreciation and amortisation		(265.7)	(259.0)	(3%)	(266.5)
EBIT		**406.0**	**485.3**	**(16%)**	**455.3**
	- statutory	406.0	485.3	(16%)	481.0
Net finance costs		(80.9)	(80.8)	-	(84.2)
Income tax (expense)		**(98.2)**	**(123.0)**	**20%**	**(110.5)**
	- statutory	(98.2)	(123.0)	20%	(118.2)
NPAT		**226.9**	**281.5**	**(19%)**	**260.6**
	- statutory	226.9	281.5	(19%)	278.6
Loss after tax from discontinued operations	- statutory	(3.4)	(71.1)	95%	(6.0)
NPAT (group)	**- statutory**	**223.5**	**210.4**	**6%**	**272.6**
Earnings per share[1]		**11.4**	**13.9**	**(18%)**	**13.1**
	- statutory	11.4	13.9	(18%)	14.0
Earnings per share[1] (group)		**11.6**	**13.0**	**(11%)**	**12.7**
	- statutory	11.2	10.4	8%	13.7
Return on invested capital (ROIC)[2]		10.0%	9.6%	0.4ppt	10.9%
Return on invested capital (ROIC)[2] (Continuing & Discontinued)		10.1%	8.8%	1.3ppt	10.4%
Operating ratio		72.1%	69.0%	(3.1ppt)	70.6%
Net cashflow from operating activities		659.6	700.9	(6%)	606.8
Interim dividend per share (cps)		11.4	14.0	(19%)	13.1
Gearing (net debt / net debt + equity) (%) (group)		42.4%	41.2%	(1.2ppt)	42.3%
Net tangible assets per share ($) (group)		2.3	2.3	-	2.3
People (FTE)		4,560	4,897	7%	4,835

Operating Metrics

	1HFY2019	1HFY2018	Variance %	2HFY2018
Above Rail[3] Revenue / NTK ($/'000 NTK)	38.4	37.6	2%	38.6
Labour costs[4] / Revenue	25.5%	23.8%	(1.7ppt)	24.9%
NTK / FTE (MNTK)	13.2	13.4	(1%)	12.8
Above Rail opex / NTK (excluding access) ($/'000 NTK)	19.8	18.0	(10%)	19.1
Above Rail NTK (bn)	29.9	32.8	(9%)	31.0
Above Rail Tonnes (m)	130.1	136.3	(5%)	130.8

[1] Calculated on weighted average number of shares on issue – 1,990m 1HFY2019 and 2,031.8m 1HFY2018
[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] 1HFY2019 excludes $13.9m redundancy costs (1HFY2018 excludes $14.5m redundancy costs)

EBIT by Segment

($m)	1HFY2019	1HFY2018	Variance %	2HFY2018
Coal	210.3	222.5	(5%)	206.1
Bulk	14.2	20.1	(29%)	30.0
Network	202.9	248.5	(18%)	232.1
Other	(21.4)	(5.8)	(269%)	(12.9)
Group (Continuing operations)	**406.0**	**485.3**	**(16%)**	**455.3**

Group Performance Overview

EBIT decreased $79.3m or 16% due to reduced earnings in Network resulting from Aurizon's decision to account for the UT5 Final Decision, including the acceleration of the total FY2018 true up, in FY2019 and the June 2018 cessation of the Cliffs contract in Bulk. Earnings in Coal decreased with higher operating costs including maintenance expenditure and costs for installing capacity for future volume growth. The deterioration in Other EBIT was principally due to the inclusion of group wide redundancy costs of $13.9m.

Group revenue decreased $109.9m or 7% impacted by the UT5 Final Decision in Network and the cessation of Cliffs in Bulk.

Operating costs decreased $37.3m or 5% largely due to lower track access costs offset in part by increased consumable costs across Coal and Network. Depreciation has increased $6.7m or 3% in part because of additional rollingstock in Coal.

ROIC has improved 0.4ppt to 10.0% reflecting the impact of impairments taken in FY2018 reducing average invested capital.

Reconciliation to Statutory Earnings

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

($m)	1HFY2019	1HFY2018	2HFY2018
Underlying EBIT (Continuing operations)	**406.0**	**485.3**	**455.3**
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 costs	-	-	22.9
Statutory EBIT (Continuing operations)	**406.0**	**485.3**	**481.0**
Net finance costs	(80.9)	(80.8)	(84.2)
Statutory PBT (Continuing operations)	**325.1**	**404.5**	**396.8**
Taxation expense	(98.2)	(123.0)	(118.2)
Statutory NPAT (Continuing operations)	**226.9**	**281.5**	**278.6**
Underlying EBIT (Discontinued operations)	5.5	(24.2)	0.2
Significant items (Discontinued operations)	**(10.3)**	**(77.0)**	**2.3**
Intermodal	(10.3)	(77.0)	2.3
Net finance cost (Discontinued operation)	-	-	-
Income tax benefit/(expense) (Discontinued operation)	1.4	30.1	(8.5)
Statutory NPAT	**223.5**	**210.4**	**272.6**

Significant items for the discontinued operations totalled $10.3m and relate to:

- ($23.5m) asset impairments due to the Queensland Intermodal sale, partly offset by
- $12.7m for Intermodal Interstate closure impacts, including gain on the sale of assets and release of contract exit costs provisions recognised in the prior period
- $0.5m write back of redundancy costs

2. Other Financial Information

Balance Sheet Summary

($m)	31 December 2018	30 June 2018	31 December 2017
Assets classified as held for sale	60.6	108.0	121.0
Other current assets	586.0	698.2	719.8
Total current assets	**646.6**	**806.2**	**840.8**
Property, plant & equipment (PP&E)	8,621.2	8,659.9	8,731.8
Other non-current assets	363.0	315.7	302.6
Total non-current assets	**8,984.2**	**8,975.6**	**9,034.4**
Total Assets	**9,630.8**	**9,781.8**	**9,875.2**
Liabilities classified as held for sale	(4.9)	(12.7)	(12.6)
Other current liabilities	(639.9)	(735.6)	(705.0)
Total borrowings	(3,461.9)	(3,501.9)	(3,551.7)
Other non-current liabilities	(836.2)	(801.5)	(778.2)
Total Liabilities	**(4,942.9)**	**(5,051.7)**	**(5,047.5)**
Net Assets	**4,687.9**	**4,730.1**	**4,827.7**
Gearing (net debt/net debt plus equity) (%)	**42.4%**	**42.3%**	**41.2%**

Balance Sheet Movements

Total current assets decreased by $159.6m largely due to:

- Reduction in cash held of $18.6m
- Reduction in assets held for sale of $47.4m due to asset write downs associated with the sale of Queensland Intermodal and reclassification of assets to PP&E
- Reduction in trade and other receivables due to the Cliffs termination payment of $66.3m (excluding GST) included at 30 June 2018

These reductions in current assets were partly offset by:

- Increase in current tax receivable from a current tax payable position at 30 June 2018

Total non-current assets increased by $8.6m largely due a $38.1m increase in derivative financial instruments (favourable valuation), partly offset by a reduction in PP&E.

Total current liabilities, excluding borrowings, decreased by $103.5m largely due to settlement of Intermodal Interstate closure provisions, reduction in employee benefits provisions and the refund of the $10.0m deposit received in relation to the sale of Queensland Intermodal to Pacific National.

Total borrowings decreased by $40.0m primarily due to $105.0m net repayment of bank debt facilities partly offset by revaluation of medium term notes.

Other non-current liabilities increased by $34.7m primarily due to an increase in net deferred tax liability, partly offset by lower derivative financial instruments (favourable valuation).

Gearing (net debt/net debt plus equity) was 42.4% as at 31 December 2018.

Cash Flow Summary

($m)	1HFY2019	1HFY2018	2HFY2018
Statutory EBITDA (Continuing operations)	**671.7**	**744.3**	**747.5**
Working capital and other movements	118.8	(0.3)	(146.6)
Non-cash adjustments - asset impairments[5]	8.5	4.6	65.4
Cash flows from Continuing operations	**799.0**	**748.6**	**666.3**
Interest received	1.2	0.8	2.1
Income taxes paid	(140.6)	(48.5)	(61.6)
Net cash inflow from operating activities from Continuing operations	**659.6**	**700.9**	**606.8**
Net operating cashflows from Discontinued operations	(19.3)	(19.1)	(6.0)
Net operating cash flows	**640.3**	**681.8**	**600.8**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment (PP&E) and associate	7.6	8.3	10.7
Payments for PP&E and intangibles	(220.4)	(286.3)	(215.2)
Net cash (outflow) from investing activities from Continuing operations	**(212.8)**	**(278.0)**	**(204.5)**
Net investing cashflows from Discontinued operations	(1.3)	42.7	11.9
Net investing cashflows	**(214.1)**	**(235.3)**	**(192.6)**
Cash flows from financing activities			
Net proceeds / (repayments) from borrowings	(107.4)	116.9	(104.7)
Payment for share buy-back and share based payments	(0.6)	(225.8)	(77.1)
Interest paid	(76.1)	(77.9)	(77.9)
Dividends paid to Company shareholders	(260.7)	(182.6)	(279.5)
Net cash (outflow) from financing activities from Continuing operations	**(444.8)**	**(369.4)**	**(539.2)**
Net financing cashflows from Discontinued operations	-	-	-
Net financing cashflows	**(444.8)**	**(369.4)**	**(539.2)**
Net increase / (decrease) in cash from Continuing operations	**2.0**	**53.5**	**(136.9)**
Net increase / (decrease) in cash from Discontinued operations	**(20.6)**	**23.6**	**5.9**
Free Cash Flow (FCF)[6] from Continuing operations	***370.7***	***345.0***	***324.4***
Free Cash Flow (FCF)[6] from Discontinued operations	***(20.6)***	***23.6***	***5.9***

Cash Flow Movements

Net cash inflow from operating activities from continuing operations decreased by $41.3m (6%) to $659.6m largely due to a significant final tax payment in relation to FY2018 which includes tax paid in respect of the Acacia Ridge Terminal transaction. This will be refundable if the transaction does not proceed. This is partly offset by a net increase in cash flows from continuing operations due to receipt of the Cliffs termination payment ($66.3m excluding GST) in the period.

Net cash outflow from investing activities from continuing operations decreased by $65.2m (23%) to $212.8m, largely due to a reduction in capital expenditure.

Net cash outflow from financing activities from continuing operations increased by $75.4m (20%) due to an increase in repayments of borrowings of $224.3m and an increase in dividends of $78.1m, partly offset by the share buy-back of $223.3m in 1HFY2018.

[5] Total asset impairments of $8.5m included in underlying EBIT in 1HFY2019
[6] FCF - Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid

Funding

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor. During 1HFY2019, 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 1HFY2019:

- Weighted average debt maturity tenor was 4.8 years. This was lower than 1HFY2018 (5.1 years) due to most of the debt portfolio's duration reducing by 12 months which offset the extension of the bank debt facilities noted above
- Group interest cost on drawn debt was 4.5% (1HFY2018 4.5%)
- Available liquidity (undrawn facilities plus cash) at 31 December 2018 was $0.8bn
- Group gearing (net debt / (net debt + equity)) as at 31 December 2018 was 42.4% (1HFY2018 41.2%)
- Network gearing (net debt / RAB (excl AFDs)) as at 31 December 2018 was 60.4% (1HFY2018 61.1%)
- Credit rating remains unchanged for Network and Aurizon Holdings at BBB+/Baa1. Moody's lowered its FFO/Debt threshold for Network to 13% in August 2018, which is now consistent with S&P

Dividend

The Board has declared an interim dividend for 1HFY2019 of 11.4cps (70% franked) based on a payout ratio of 100% in respect of underlying NPAT for continuing operations.

The relevant interim dividend dates are:

- 25 February 2019 – ex-dividend date
- 26 February 2019 – record date
- 25 March 2019 – payment date

Tax

Underlying and statutory income tax expense for continuing operations for 1HFY2019 was $98.2m. Statutory income tax expense for the Group for 1HYFY2019 was $96.8m. The Group underlying and statutory effective tax rate[7] for 1HFY2019 was 30.2% which is greater than 30% due to permanent differences in the fixed asset adjustments and a decrease in expenditure eligible for the research and development tax incentive. The Group underlying cash tax rate[8] for 1HFY2019 was 12.8%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2019 is expected to be in the range of 29-31% and the underlying cash tax rate is expected to be less than 25% for the short to medium term.

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

Discontinued Operations

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 Terminal, Queensland Intermodal and Interstate Intermodal. The Intermodal business is disclosed as a discontinued operation.

Acacia Ridge Terminal

Aurizon signed a binding agreement with Pacific National (PN) on 28 July 2017 to sell its Acacia Ridge terminal for $205.0m, of which $35.0m was received in advance (non-refundable). This transaction is subject to approval by the Australian Competition and Consumer Commission (ACCC) and Foreign Investment Review Board (FIRB).

The ACCC decision was announced on 19 July 2018 and the sale was opposed with proceedings commenced against PN and Aurizon in the Federal Court of Australia. Aurizon refutes the ACCC's allegations and will defend the proceedings and seek clearance of the Acacia Ridge Terminal transaction.

Queensland Intermodal

The agreement entered between Aurizon and a consortium of Linfox and PN on 14 August 2017 to sell the Queensland Intermodal business was terminated by Aurizon on 13 August 2018 and $10.0m received in advance was refunded.

On 12 October 2018 Aurizon signed a binding agreement with Linfox to sell the Queensland Intermodal business for $7.3m. The transaction was subject to the Federal Court lifting the interlocutory injunction that compelled Aurizon to continue to operate the Queensland Intermodal business until the final order of the Court. The Federal Court made amended orders by consent, the effect of which is that the interlocutory injunction ceases on the same day as the completion of the sale of Queensland Intermodal to Linfox, which occurred on 31 January 2019.

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

Interstate Intermodal

The Interstate Intermodal business ceased operations on 23 December 2017.

BUSINESS UNIT REVIEW

Coal

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

($m)	1HFY2019	1HFY2018	Variance %	2HFY2018
Revenue				
Above Rail	616.7	603.4	2%	604.4
Track Access	270.5	319.3	(15%)	278.8
Other	0.3	4.6	(93%)	2.7
Total revenue	**887.5**	**927.3**	**(4%)**	**885.9**
Operating costs	(582.4)	(614.3)	5%	(587.7)
EBITDA	**305.1**	**313.0**	**(3%)**	**298.2**
Depreciation and amortisation	(94.8)	(90.5)	(5%)	(92.1)
EBIT	**210.3**	**222.5**	**(5%)**	**206.1**

Metrics

	1HFY2019	1HFY2018	Variance %	2HFY2018
Total tonnes hauled (m)	106.5	107.8	(1%)	104.6
CQCN	76.4	77.8	(2%)	74.7
NSW & SEQ	30.1	30.0	-	29.9
Contract utilisation	89%	95%	(6.0ppt)	91%
Total NTK (bn)	25.1	25.8	(3%)	24.6
CQCN	19.2	19.7	(3%)	18.6
NSW & SEQ	5.9	6.1	(3%)	6.0
Average haul length (km)	236	239	(1%)	235
Total revenue / NTK ($/'000 NTK)	35.4	35.9	(2%)	36.0
Above Rail Revenue / NTK ($/'000 NTK)	24.6	23.4	5%	24.6
Operating Ratio (%)	76.3%	76.0%	(0.3ppt)	76.7%
Opex / NTK ($/'000 NTK)	27.0	27.3	1%	27.6
Opex / NTK (excluding access costs) ($/'000 NTK)	16.3	14.8	(10%)	16.0
Locomotive productivity ('000 NTK / Active locomotive day)	420.8	482.9	(13%)	446.5
Active locomotives (as at 31 December)	329	300	10%	308
Wagon productivity ('000 NTK / Active wagon day)	15.9	16.7	(5%)	16.0
Active wagons (as at 31 December)	8,618	8,472	2%	8,568
Payload (tonnes)	7,419	7,460	(1%)	7,452
Velocity (km/hr)	22.6	23.3	(3%)	23.2
Fuel Consumption (l/d GTK)	2.93	2.91	(1%)	2.91

Coal Performance Overview

Underlying EBIT decreased $12.2m (5%) to $210.3m resulting from an increase in operating costs due to an uplift in maintenance expenditure and costs for installing capacity for future volume growth as well as the impact of lower volumes. This was in line with expectations and consistent with guidance provided to the market in August 2018.

Volumes decreased by 1.3mt (1%) to 106.5mt. Across the CQCN, volumes decreased by 1.4mt (2%) to 76.4mt despite strong demand and the commencement of railings for QCoal's Byerwen mine due to increased supply chain constraints compared to 1HFY2018, weather impacts in late 1HFY2019 and the impact of protected industrial action in December.

In NSW and South-East Queensland (SEQ), volumes increased by 0.1mt (0%) to 30.1mt with higher volumes from AGL Macquarie and BHP Billiton. This was mostly offset by other customer specific production issues, the impact of a derailment at Newdell in September and protected industrial action during August (NSW) and December (SEQ).

Coal revenue reduced $39.8m (4%) to $887.5m driven by a reduction in pass-through access and other revenue.

- Above rail revenue increased $13.3m (2%) compared to 1HFY2018 despite the 1.3mt (1%) reduction in volumes with higher fuel charges and contract price escalation. Above rail revenue per NTK increased 5%
- Coal track access revenue reduced $48.8m (15%). This was largely driven by 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). As access charges are passed through to customers, there is an equivalent decrease in track access costs as noted below. This reduction was partly offset by a recovery of FY2018 Access Take or Pay expense from customers
- Other revenue reduced by $4.3m which predominately relates to internal services completed for Network which are now completed by Bulk

Total operating costs (including depreciation) reduced $27.6m (4%) to $677.2m. Lower track access costs were offset by an increase in other operating costs with the major drivers noted below:

- Track access costs reduced by $54.7m (17%), largely due to the impacts discussed above, including West Moreton and Moura corridor customers moving to End User Access Agreements
- Increased operating costs of $22.8m including higher fuel expense relating to an increase in the fuel price by $12.1m, increased maintenance by $12.7m as noted above, higher labour costs to meet additional volumes of $5.1m, wages and consumables escalation of $2.2m, partly offset by a reduction in redundancies and other one-off costs ($5.5m)
- Depreciation increased by $4.3m relating to the additional capacity installed to meet growth volumes in NSW and overhauls completed on CQCN rollingstock

An explanation of the key operating metrics is shown below:

- During the period, several operating metrics displayed a deterioration compared to the prior period due to the impact of increased supply chain constraints, protected industrial action and the installation of additional consists to meet current and future demand
- Average payloads decreased from 7,460t to 7,419t due to the requirement from Network for the removal of a longer train in the Newlands corridor and increased volumes in the lower payload Moura corridor
- Average velocity reduced from 23.3km/hr to 22.6km/hr due to increased supply chain constraints and a slight change in portfolio mix
- Average NTK per locomotive and wagon fell 13% and 5% respectively, principally due to additional consists installed in both NSW and CQCN to meet growth volumes and supply chain constrains in CQCN

Market update

Australia exported 90.2mt of metallurgical coal in 1HFY2019, down 1.2% against the prior period. India remained Australia's largest metallurgical coal export market with export volume of 22.7mt (25% share), followed by China at 21.2mt (24% share) and Japan at 17.1mt (19% share). In the 2018 calendar year, both China and India achieved crude steel production records of 928mt (+6.6%) and 106mt (+4.9%) respectively. Sustained elevated metallurgical coal prices continues to incentivise additional supply from competing supply nations. In the 12 months to October 2018 metallurgical coal exports from the United States lifted 15% against the same period on the prior year. The average hard coking coal price in 1HFY2019 was US$206/t (+4% compared to the prior period).

Australia exported 108.1mt of thermal coal in 1HFY2019, up 4.9% against the prior period. Japan remained as Australia's largest thermal coal export market with export volume of 42.7mt (39% share), followed by China at 22.6mt (21%) and South Korea at 17.8mt (16% share). Sustained elevated thermal coal prices continue to incentivise additional supply from competing nations. In the 12 months to November, Indonesian coal exports (almost entirely thermal coal) increased by 10% against the prior year. The average Newcastle benchmark thermal coal price in 1HFY2019 was US$111/t (+17% compared to the prior period).

Contract update

- 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)	1HFY2019	1HFY2018	Variance %	2HFY2018
Revenue				
Freight Transport	244.3	295.4	(17%)	296.7
Other	15.2	12.2	25%	13.8
Total revenue	**259.5**	**307.6**	**(16%)**	**310.5**
Operating costs	(236.8)	(274.5)	14%	(268.4)
EBITDA	**22.7**	**33.1**	**(31%)**	**42.1**
Depreciation and amortisation	(8.5)	(13.0)	35%	(12.1)
EBIT	**14.2**	**20.1**	**(29%)**	**30.0**

Metrics

	1HFY2019	1HFY2018	Variance %	2HFY2018
Total tonnes hauled (m)	23.6	28.5	(17%)	26.2
Total NTK (bn)	4.8	7.0	(31%)	6.4
Average haul length (km)	203	246	(17%)	244
Total revenue / NTK ($/'000 NTK)	54.1	43.9	23%	48.5
Operating Ratio (%)	94.5%	93.5%	(1.0ppt)	90.3%
Opex / NTK ($/'000 NTK)	51.1	41.1	(24%)	43.8
Opex / NTK (excluding access) ($/'000 NTK)	38.1	29.6	(29%)	31.1
Order Fulfilment (%)	98.0%	98.4%	(0.4ppt)	97.0%
Fuel Consumption (l/d GTK)	3.25	3.04	(7%)	2.98

Bulk Financial Performance Overview

EBIT decreased $5.9m (29%) to $14.2m 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.

Revenue decreased $48.1m (16%) to $259.5m with a 17% reduction in volumes (31% in NTK terms):

- Cliffs revenue decreased by $64.7m due to the early cessation of the contract
- Other Bulk revenue increased by $16.6m due to volume growth in WA across the portfolio. 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, along with higher fuel prices (resulting in higher revenue due to cost pass-through). This was partially offset by lower QLD/NSW grain volumes due to dry conditions and the loss of the Wilmar Sugar contract in FY2018.

Bulk revenue per NTK increased 23% predominately due to the impact of the Cliffs contract ceasing in June 2018 (this was a longer haul than average), higher fuel prices and ongoing benefits from contract reform.

Total costs (including depreciation) decreased $42.2m (15%) 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 $9.9m due to higher terminal and delivery costs to support volume growth, an increase in the average fuel price and impairment expenses (included in operating costs). Impairment expenses increased by $4.0m due to higher capital spend including the finalisation of a locomotive overhaul program in Bulk East. This was partly offset by ongoing benefits from the Bulk turnaround program including lower crewing and overhead costs and redundancy costs now being reported in the Other Segment from 1HFY2019.

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 diverse range of bulk commodities such as iron ore, base metals, minerals, livestock in Queensland, and grain in Queensland, New South Wales and Western Australia. Future haulage opportunities include commodities relating to construction, agriculture and batteries. In terms of the latter, the global uptake of electric vehicles (EV) is expected to support demand for commodities such as cobalt, nickel, copper and lithium, with increased exploration expenditure in Australia. Nickel and cobalt exploration increased by 18% during the 2QFY2019 to $47m and copper exploration expenditure rose 67% to $74m during the same period.

Contract update

- Executed a mixed freighter and concentrate contract with Glencore for 1+1+1 starting in October 2018
- 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

- Aurizon was unsuccessful in recontracting the existing Queensland Graincorp contract from December 2019

Network

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

Financial Summary

($m)	1HFY2019	1HFY2018	Variance %	2HFY2018
Revenue				
Track Access	534.1	577.0	(7%)	590.1
Services and other	23.3	30.5	(24%)	21.1
Total revenue	**557.4**	**607.5**	**(8%)**	**611.2**
Operating costs	(196.8)	(208.0)	5%	(222.1)
EBITDA	**360.6**	**399.5**	**(10%)**	**389.1**
Depreciation and amortisation	(157.7)	(151.0)	(4%)	(157.0)
EBIT	**202.9**	**248.5**	**(18%)**	**232.1**

Metrics

	1HFY2019	1HFY2018	Variance %	2HFY2018
Tonnes (m)	116.5	116.6	-	113.0
NTK (bn)	28.8	29.0	(1%)	27.9
Operating Ratio (%)	63.6%	59.1%	(4.5ppt)	62.0%
Maintenance / NTK ($/'000 NTK)	2.2	2.0	(10%)	2.4
Opex / NTK ($/'000 NTK)	12.3	12.4	1%	13.6
Cycle Velocity (km/hr)	22.9	23.6	(3%)	23.3
System Availability (%)	81.1%	80.6%	0.5ppt	83.5%
Average haul length (km)	247.5	248.3	-	247.0

Network Financial Performance Overview

EBIT declined $45.6m to $202.9m in 1HFY2019, with reductions in operating costs of $11.2m offset by decreased revenue of $50.1m, mainly due to the QCA's Final Decision on Network's UT5 proposal which was issued on 6 December 2018 (Final Decision).

Regulatory access revenue in 1HFY2019 is based on the Final Decision. A FY2018 true up estimate of $30.4m excluding GAPE has been booked, representing 50% of the FY2018 Final Decision allowable revenue compared to the FY2018 transitional tariff revenue.

Track access revenue decreased by $42.9m (7%), impacted by the lower Final Decision allowable revenue for 1HFY2019 than 1HFY2018 transitional tariff allowable revenue excluding GAPE ($23.5m) and the true up to the Final Decision outlined above. In addition, track access revenue was impacted by lower GAPE revenue of $5.9m (including a Final Decision true up estimate) and lower Electricity Charge (EC) revenue of $13.7m. The reduction in EC revenue was caused by lower wholesale energy prices and there is also a corresponding decrease in EC operating expense. This was partly offset by a positive revenue adjustment of $33.0m, being a recovery of $22.3m for FY2017 revenue cap payments in 1HFY2019 compared to a return to customers in 1HFY2018 of $10.7m.

Services and other revenue decreased $7.2m (24%) mainly due to the recognition of the $10.0m Caledon WIRP Deed bank guarantee held as security in 1HFY2018.

Operating costs decreased $11.2m (5%) with a $23.8m reduction in energy and fuel costs from wholesale energy price reductions (see above) and a continued focus on infrastructure efficiency, partly offset by an increase in consumables of $8.0m and increased employee costs of $4.3m. Consumables increased mainly due to higher maintenance costs ($3.7m) and professional services costs (including costs associated with the WIRP dispute ($2.3m)). Maintenance costs are higher due to increased maintenance for track stability works, increased track inspections and a focus on reducing speed restrictions and track defects. In addition, resurfacing costs are higher due to increased scope. Labour costs increased primarily due to salary escalation, while depreciation increased by $6.7m (4%).

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 2018.

Regulation Update

- Transitional tariffs are in place for the whole of FY2019 should a replacement undertaking not be approved by the QCA by 30 June 2019. The Transitional Tariffs use the UT4 reference tariffs as a basis and include one-off adjustments (e.g. flood recovery and revenue cap) where appropriate
- The QCA's Final Decision was published on 6 December 2018
- The Final Decision outlined a Maximum Allowable Revenue (MAR) of $4.123bn over the four-year regulatory period for UT5 (FY2018-2021) compared to the proposed MAR of $3.893bn in the QCA's Draft Decision published in December 2017
- The Final Decision provides for a Vanilla Nominal Post Tax WACC of 5.70%, using the averaging period of 20 days up to 30 June 2017. The Final Decision retains the Draft Decision WACC parameters with a small uplift in Debt Risk Premium and includes an overall discretionary uplift of 0.25%
- Primary drivers behind the movement in the MAR between the QCA's Draft Decision and the Final Decision are:
  - an increase in the Return on Capital to reflect the increase in WACC, the introduction of capitalisation of ballast undercutting activities and cessation of deferrals
  - an increase in the depreciation allowance, driven by the cessation of all Wiggins Island Rail Project revenue deferrals and the change in treatment of ballast undercutting from operational expenditure to capital expenditure
  - a general acceptance of Network's maintenance proposal, with the $78m reduction reflecting the change in treatment of ballast undercutting from operational expenditure to capital expenditure
  - an uplift in the operational expenditure allowance of $52m
  - an increase in Gamma of 0.024, reflecting an update made available from additional data
- The QCA has retained its Draft Decision inflation rate at 2.37%, which utilises the geometric average of the RBA forecast methodology
- Network resubmitted the Electric Traction Draft Amending Access Undertaking (Electric Traction DAAU) to the QCA with further customer support following engagement with the QCA and stakeholders. The Electric Traction DAAU seeks to rebalance the pricing framework to ensure each access holder contributes equitably to its portion of the cost of providing electric traction, whether by using the infrastructure, or maintaining the option of traction choice

Operational Update

Performance

During 1HFY2019 network operational performance remained strong. Highlights include:

- Tonnes delivered over the CQCN remained high with only a marginal decline from prior period of 0.1mt to 116.5mt. A new October monthly record of 19.8mt was achieved in the half. Moura and GAPE railed higher volumes of 1.2mt each from mine expansions and commencement of new mines. However, Blackwater (1.0mt), Newlands (0.3mt) and Goonyella (1.3mt) each railed lower volumes with Goonyella impacted by the underground fire at the North Goonyella mine
- Cancellations due to the Network rail infrastructure increased marginally from 1.5% to 1.8%
- System Availability improved from 80.6% to 81.1% with fewer paths taken to complete maintenance. Aurizon's Precision Railroading project is a program of work underway to increase the availability of train paths for customers. Network has focused on the execution of some key initiatives through 1HFY2019 including the introduction of Precision Maintenance Blocks and scheduling reviews. 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 scheduling review of the North Coast line in November 2018 increased capacity by releasing paths to the Blackwater system. These initiatives have driven improvements in both System Availability and improved useability by operators of available train paths
- Cycle velocity declined from 23.6km/h to 22.9km/h

Operational efficiency improvements delivered:

- A variety of initiatives in relation to electric traction, which will deliver cost benefits through FY2019 and beyond, including constructive engagement with Powerlink to seek to improve the long term efficiency of the electrified system
- In December 2018, Network began the commissioning of its RM902 ballast cleaning machine. This high production machine will enhance network utilisation by allowing required ballast undercutting to be completed with reduced track possessions, thus improving system availability
- In December 2018, the second phase of the new Advanced Planning and Execution system (APEX) for train control scheduling and operation was implemented. This provides improved and longer scheduling horizons for train planning

Wiggins Island Rail Project (WIRP)

- The QCA, in its UT4 Final Decision in 2016, applied a revenue deferral for WIRP customers who were not expected to rail during the UT4 period, resulting in approximately $260m of WIRP capital expenditure being excluded for pricing purposes from the UT4 MAR, on an NPV neutral basis
- The UT5 Final Decision ceases the WIRP deferrals. This allows for the recovery of the WIRP costs to be included for the purposes of setting Reference Tariffs
- Legal proceedings continue 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. Network maintains its position that the notices issued by the WIRP customers are invalid and the full WIRP fee is payable. Network issued proceedings in the Supreme Court of Queensland on 17 March 2016 to assert its rights in respect of the

payment of the full WIRP fee. The trial in the Supreme Court of Queensland was heard between 10 September 2018 and 21 September 2018 and a decision is still pending

- The customers have initiated other disputes under their respective WIRP Deeds which will be the subject of an expert determination in February 2019. Those disputes relate to various matters relating to the completion of the WIRP construction works and have the potential to impact recovery of the WIRP fee payable. 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
- Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in 1HFY2019

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)	1HFY2019	1HFY2018	Variance %	2HFY2018
Total revenue	**40.9**	**40.8**	-	**50.0**
Operating costs	(57.6)	(42.1)	(37%)	(57.6)
EBITDA	**(16.7)**	**(1.3)**	**nm**	**(7.6)**
Depreciation and amortisation	(4.7)	(4.5)	(4%)	(5.3)
EBIT	**(21.4)**	**(5.8)**	**(269%)**	**(12.9)**

Other Financial Performance Overview

EBIT decreased $15.6m mainly due to the inclusion of $13.9m of group wide redundancy costs. These costs were previously included in business unit results in prior periods.

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

Focussed on driving precision planning and disciplined delivery 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. During 1HFY2019 further progress was made implementing several initiatives across the project, including those focussed on yard dwell and the implementation of schedule optimisation technology. There has been improvement in pathing availability and this has allowed an increase in scheduled services in the Blackwater and Moura systems, especially through December. While there were improvements in turnaround time early in 1HFY2019, this was impacted by the protected industrial action and weather events in December. Aurizon continues to improve schedules and is focussed on reducing planned and unplanned delays across CQCN.

Restructure of Support Areas

Aurizon is on track to achieve significant benefits from the implementation of the restructure of the Technical Services and Planning business unit (TSP) in 1HFY2019. The reduced headcount is a key driver to deliver around $20m in cost reductions by FY2021. This restructure is a key catalyst for TSP to provide a focussed, flexible and lower cost service to the Coal, Bulk and Network business units.

European Train Control System (ETCS)

ETCS is a technology platform which supports 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 during 2019. High level system design is complete and factory testing has commenced.

Asset Maintenance

Aurizon continues to advance its condition monitoring program. These advances allow Aurizon to automate routine maintenance inspections and predict when components will fail, thereby reducing cost and increasing reliability to keep assets in productive use for longer. Developments in these key initiatives are outlined below:

- Work continues on the installation of the wayside condition monitoring (WCM) super site in the Hunter Valley. Construction and installation will commence on receipt of final approvals. The deployment will support the extension of maintenance inspection intervals for wagons in the Hunter Valley and is the foundation step in moving the NSW predictive maintenance capability in line with CQCN
- Treadview technology – this provides a full 3D model of a wheel profile and has been installed across the WCM supersites in Blackwater and Goonyella, awaiting final commissioning which is expected to take place in 2HFY2019. This technology will fundamentally change the way Aurizon manages wheel health by examining the entire surface of the wheel rather than just its profile and is an enabler for the extension of rollingstock reliability examinations from 42 to 84 days
- The Locomotive and Operational Data Acquisition and Management project (LODAM) will deliver a step change in both the quality and quantity of operational and sensor data, allowing Aurizon to better optimise and standardise how the fleet is operated and managed. LODAM will provide real time visibility on train handling and equipment performance, improved fleet performance, reliability and energy consumption and in cab monitoring. LODAM sensor data will allow locomotive failures to be predicted earlier and further improve our maintenance strategies. Installation will commence on the Siemens electric locomotive fleet in 2HFY2019 and testing of the solution will also take place on the General Electric and EMD fleets

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

- Queensland Intermodal and Acacia Ridge Terminal Sale Transactions

The ACCC has opposed the sale of Aurizon's Queensland Intermodal business (QIB) to a consortium of Linfox and PN, and the sale of its Acacia Ridge Terminal to PN and commenced proceedings against PN and Aurizon in the Federal Court of Australia. The ACCC has sought declarations, pecuniary penalties, orders restraining those sale transactions from proceeding and costs. The ACCC sought and was granted an injunction to prevent Aurizon from closing QIB while proceedings are on foot.

Aurizon terminated the sale agreement for QIB and entered into a new sale agreement to sell this business to Linfox directly, and agreements with Aurizon to provide hook and pull and associated services to Linfox (New QIB Sale). The ACCC did not oppose the New QIB Sale, and the Federal Court amended the terms of the injunction so that the injunction ceases when the QIB Sale completes. This transaction completed on 31 January 2019.

The sale agreement for the sale of the Acacia Ridge Terminal to PN remains on foot.

While Aurizon refutes the ACCC's allegations and will defend the proceedings, and seek clearance of the Acacia Ridge Terminal transaction, there is a risk that the Acacia Ridge Terminal transaction will be prevented from completing and/or Aurizon incurs orders for pecuniary penalties and costs.

- Delivery of Optimise Initiatives

Aurizon maintains a pipeline of efficiency initiatives that are expected to deliver a cost effective and customer aligned model. Continued focus is required on these initiatives to ensure benefits are delivered as planned and flow through to improved financial performance.

- 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.

- Enterprise Agreement Renegotiations

Enterprise Agreement renegotiations to support sustainable business transformation are ongoing. There are risks that prolonged industrial action impacts Aurizon's critical operations or final agreements do not support business objectives.

› Business Interruption

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

- Road Vehicle Fatality - death or injuries to our people from operating road vehicles
- Process Safety Fatality - major process safety event leading to fatality, significant distraction or loss of license to operate
- Adverse weather events and climate change which could impact on Aurizon's operations, assets, customers and employees
- Safety risks to employees / individuals, and impact on rail operations due to environmental activism
- Cyber security incidents in relation to Aurizon's corporate and operational systems

Excel Strategic Lever

› Regulatory Risk of the Access Undertaking (UT5)

On 6 December 2018, the QCA issued its Final Decision on Network's UT5 proposal. The Final Decision outlined a MAR of $4.123bn over the four-year regulatory period for UT5 (FY2018-2021) compared to the proposed MAR of $3.893bn in the QCA's Draft Decision published in December 2017. The Final Decision provides for Vanilla Nominal Post Tax WACC of 5.70%.

The Final Decision provides a reduction in revenue compared to Network's submission to the QCA in March 2018 (in response to the Draft Decision). Network continues to review the Final Decision to determine the appropriate next steps as part of the regulatory process. Network continues to proactively engage with stakeholders on UT5 and the delivery of service to Customers required to contribute to the competitiveness of the coal supply chain globally.

› 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.

Regulatory approval is a prerequisite to support the Extend strategy, including growth opportunities with adjacent assets. In the event regulatory approval is not forthcoming, Aurizon's ability to deliver the strategy and associated value will be limited.

› 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.

› Adverse Basin, 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's customers in core and adjacent markets are reliant on demand from large export markets such as China, India, Japan and South Korea. Increased volatility in coal and bulk commodity markets due to factors such as material change in government policies or economic slowdown or the increasing use of renewable energy may cause fluctuations in demand, which in turn impact commodity prices, product volume and investment in growth projects. Although Aurizon develops its own long-term outlook for seaborne coal demand, it also considers the best known and most widely used Sustainable Development Scenario produced by the International Energy Agency (IEA) through the annual release of the World Energy Outlook (WEO). Whilst long term demand is expected to increase, there may be variances in volumes, contract profitability and growth that impact on Aurizon's financial results.

Extend Strategic Lever

› Competition in New Markets

Extending expertise into adjacent activities including strategic partnerships with road operators, new target basins, and optimisation of the supply chain may not deliver the expected benefits. Competition from incumbents in these markets have the potential to reduce the expected returns as they respond to a new entrant. In addition, market dynamics may change and reduce the attractiveness of these activities prior or during the extension period.

› WIRP Non-Regulated Revenue Dispute

The legal proceedings continue 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 non-regulated WIRP fee. Network maintains its position that the notices issued by the WIRP customers are invalid and the full WIRP fee is payable. Network issued proceedings in the Supreme Court of Queensland on 17 March 2016 and were heard between 10 September 2018 and 21 September 2018 with the Court's decision still pending.

In addition, the customers have initiated other disputes, related to the WIRP fee, which will be the subject of an expert determination in February 2019.

The risk is that the entire amount of the WIRP fee is determined by the expert to not be payable by the WIRP customers.

› Inability to Delivery Adjacencies

The strategy of leveraging expertise to adjacent assets and activities may be not be delivered as planned due to:

- The infrequency of investment opportunities – only a limited number of assets are adjacent to the existing Aurizon markets, and they may not be made available for sale
- Aurizon's potential inability to construct a deal – many factors such as access to capital markets, agreement with consortium or joint venture partners, or other legal and regulatory restrictions may prohibit the execution of an acceptable transaction
- Competitor valuations – available adjacencies are infrastructure assets which are currently in demand from other companies and institutional funds. These funds or other competitors may pay a higher price than Aurizon, resulting in limited opportunities for growth

› Climate Change Risk

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

- Demand for thermal coal is subject to energy policy and regulation of Green House Gas (GHG) emissions (including carbon pricing)
- Investor concern over climate related risks may impact the ability to access capital for Aurizon and its customers for funding coal mining, transport and coal-fired power projects, and may lead to asset stranding
- Carbon liability under the Safeguard Mechanism Rule and potential penalties for inappropriate carbon reporting under the National Greenhouse and Energy Reporting (NGER) Act
- 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 our submission to the CDP and in Aurizon's sustainability report.

Sustainability

Aurizon is committed to creating a strong business and a sustainable future that creates value for our employees, customers, communities, and shareholders. For employees, value means coming to work and being recognised and respected for different skills, experiences and perspectives. For our customers, value can be translated into competitive pricing for haulage contracts, however, equally important is knowing that the services we deliver are completed safely and efficiently. As a large Australian company with a predominantly regional footprint, we understand the need to create value in the communities where we operate. Given the quality and cost competitiveness of Australian coal, the opportunity remains to continue supplying the growing coal needs of Asia and in turn create value for our business, our customers and the regional communities where we operate. Finally, value for shareholders is about receiving a good return on their investment, by managing capital effectively and, returning surplus capital to investors.

Aurizon's Sustainability Report details how our company takes into account social, environmental and economic considerations related to its operations, incorporating recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In October 2018, Aurizon released its fifth Sustainability Report. This report contributed to Aurizon maintaining a Leading rating by the Australian Council of Superannuation Investors (ACSI) in June 2018. This was the fourth consecutive year of recognition and resulted in Aurizon being one of 35 ASX200 companies being considered a Leader by ACSI.

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 will affect the demand for the commodities that Aurizon hauls. Physical risks related to extreme weather events will also continue to affect Aurizon through supply chain disruptions.

A summary of Aurizon's performance regarding safety, environment and people is outlined below.

› Safety

Aurizon has seen a 9% improvement in the Total Recordable Injury Frequency Rate (TRIFR) during 1HFY2019 with a TRIFR of 8.92, compared to 9.75 in 2HFY2018. This improvement has been driven by a continued focus on developing leadership behaviours and capabilities of frontline leaders and strengthening engagement with our contractors, which has seen contractor injuries reduce by 88%. Performance in relation to Rail Process Safety (RPS) over the six-month period has been relatively steady at 5.06 (0.3% improvement against FY2018 result) however is 7% below the prior period. Whilst there has been a deterioration in overall RPS, good progress has been made in most sub-components of this measure, particularly Running Line SPADs. Aurizon has introduced several initiatives focused on improving management of yards, and these will continue in 2HFY2019 and beyond.

During the last six months, Aurizon commenced rolling out its multi-year program of work, Seamless Safety. The program aims to simplify the management system, role design and training to promote a culture that engages and enables employees to improve safety outcomes. Seamless Safety undertook a comprehensive review of operations across Australia at the start of the financial year, with the intention of understanding how work is undertaken versus how it is designed and conducted. This review will help reshape Aurizon's program and approach to safety.

› Environment

Aurizon places an emphasis on delivering value through effective management of material environmental risks and driving improved enterprise environmental performance.

Aurizon continues to focus on efforts to improve visibility and transparency related to issues associated with climate change and Clean Air. In December 2018 the Rail Industry Safety 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.

Over the remainder of FY2019, we will continue to monitor performance against our FY2020 greenhouse gas emissions intensity target and advocate the important role the rail sector can play in moderating and reducing Australia's transport section emissions.

In August 2018, 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 first six months 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 improving our people, processes and systems through cascading performance succession systems through the organisation
- Commencing the review and implementation of a new HR system framework for HR policies to create easier access to key policies, tools and documents providing clearer accountability and greater flexibility

We also reached agreement during 1HFY2019 with our employees on three EAs (Staff EA QLD, Train Crew EA NSW and Train Crew EA WA), with the Staff EA QLD approved by the Fair Work Commission in January 2019. We are expecting the remaining two EAs to be approved by the Fair Work Commission during 2HFY2019. We are currently negotiating with our employees for business unit aligned EAs for the remainder of our Queensland based workforce.

Entities over which control was gained or lost during the period

None

Details of associate and joint venture entities

		Ownership Interest	
Entity	Country of incorporation	31 December 2018 %	31 December 2017 %
Investment in associates			
Aquila Resources Limited	Australia	15	15
Joint Ventures			
Chun Wo/CRGL	Hong Kong	17	17
ARG Risk Management Limited	Bermuda	50	50
Integrated Logistics Company Pty Ltd	Australia	14	14
ACN 169 052 288	Australia	15	15

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

APPENDIX

Intermodal – Discontinued Operations

($m)	1HFY2019	1HFY2018	Variance %	2HFY2018
Total revenue	**87.5**	**140.0**	**(38%)**	**85.4**
Operating Costs	(81.9)	(161.7)	49%	(85.4)
EBITDA	**5.6**	**(21.7)**	**nm**	**-**
Depreciation and amortisation	(0.1)	(2.5)	96%	0.2
EBIT	**5.5**	**(24.2)**	**nm**	**0.2**
Significant Items	(10.3)	(77.0)	87%	2.3
Net Finance Cost	-	-	-	-
Income Tax Benefit	1.4	30.1	(95%)	(8.5)
NPAT (Discontinued operations)	**(3.4)**	**(71.1)**	**95%**	**(6.0)**
Total TEUs (‘000s)	79.1	187.3	(58%)	78.7

Performance Overview

The EBIT loss improved by $29.7m mainly due to:

› $27.3m reduction in operating losses with the closure of Intermodal Interstate in December 2017
› $2.4m reduction in depreciation

Significant items for the Discontinued Operation were recognised in 1HFY2019 and relate to:

› ($23.5m) asset impairments as part of the Queensland Intermodal sale, partly offset by
› $12.7m for Intermodal Interstate closure benefits, including gain on the sale of assets and release of contract exit costs provisions recognised in the prior period
› $0.5m write back of redundancy costs