Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

9 August 2021

Appendix 4E

Attached for release to the market is a copy of Aurizon Holdings Limited's Appendix 4E for the financial year ended 30 June 2021.

Kind regards

David Wenck
Company Secretary

Authorised for lodgement by the Aurizon Holdings Limited Board of Directors.

Aurizon Holdings Limited

Appendix 4E

Preliminary Financial Report

For the year ended 30 June 2021 (FY2021)

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

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FY2021 IN REVIEW

Result Highlights (Underlying and statutory continuing operations)

($m)	FY2021	FY2020	Variance
Total revenue	3,019.3	3,064.6	(1%)
EBITDA	1,482.2	1,467.6	1%
EBIT	903.1	909.0	(1%)
Adjustments	8.2	105.4	(92%)
EBIT Statutory	911.3	1,014.4	(10%)
NPAT	533.2	531.3	-
NPAT Statutory	606.7	605.1	-
Free cash flow (FCF) (continuing and discontinued operations)	734.4	725.0	1%
Final dividend (cps)	14.4	13.7	5%
Total dividend (cps)	28.8	27.4	5%
Earnings per share (cps)	28.5	27.2	5%
Return on invested capital (ROIC)	10.7%	10.9%	(0.2ppt)
EBITDA margin (%)	49.1%	47.9%	1.2ppt
Operating ratio (OR) (%)	70.1%	70.3%	0.2ppt
Above Rail Tonnes (m)	253.2	262.0	(3%)
Above Rail opex / NTK (excluding access) ($/'000 NTK)	21.2	20.9	(1%)
Gearing (net debt / (net debt + equity)) (%)	45.6%	45.1%	(0.5ppt)

Performance Overview

- EBITDA up 1% to $1,482.2m with:
  - Network up $50.7m (6%) with higher revenue from the commencement of Wiggins Island Rail Project (WIRP) fee billing offsetting volume-driven under-recoveries
  - Bulk up $29.8m (27%) with higher revenue through new contracts
  - Coal down $83.1m (13%) driven by a 6% reduction in volume
  - Other improved by $17.2m (30%) due to asset sales and lower project costs
- FCF increased 1% to $734.4m consistent with EBITDA growth and inclusive of net proceeds from the sale of Acacia Ridge Intermodal Terminal
- Final dividend 14.4cps (70% franked) representing a payout ratio of 100% of underlying NPAT for the continuing operations, an increase of 5% and resulting in a total FY2021 dividend of 28.8cps
- Completion of a $300.0m on market share buy-back

Major items

- Network – EBITDA growth reflects commencement of WIRP fee billing more than offsetting volume-driven under-recoveries. Operating costs also reduced in line with lower volumes and reduced maintenance spend
- Bulk – strong financial performance continues with full-year benefit of recent contract wins and ongoing operational efficiency improvements. Bulk now accounts for 32% of above rail revenue[1] and 26% of above rail EBIT
- Coal – decline in EBITDA driven by 6% lower volumes, lower revenue quality and non-pass through of Take-or-Pay. Operating costs excluding access 4% lower with a reduction in fuel, traincrew and maintenance costs
- Three debt market capital issuances representing $1.075bn with terms from 7.0-years to 10.5-years (and coupons of 2.9% to 3.3%) including an inaugural issuance for Aurizon Operations – 7.0-year A$500.0m Medium Term Note (AMTN) at a coupon of 3.0%

Outlook

Underlying EBITDA guidance for FY2022 for Group of $1,425m to $1,500m and sustaining capital expenditure of $475m to $525m. Key assumptions:

- Coal – ~5% volume growth and lower costs offset by lower contracted rates
- Bulk – revenue growth from full year impact of recent contract wins and port acquisitions
- Network – non-recurrence of retrospective WIRP fees ($49.8m) and Maximum Allowable Revenue (MAR) reduction due to capital recoveries
- No material disruptions to commodity supply chains (such as adverse weather and/or impacts from COVID-19 related restrictions)

[1] *Above Rail Revenue is calculated excluding track access*

CONSOLIDATED RESULTS

Underlying continuing operations unless otherwise stated

Financial Summary

($m)	FY2021	FY2020	Variance
Total revenue	**3,019.3**	**3,064.6**	**(1%)**
Operating costs			
Employee benefits	(836.2)	(791.6)	(6%)
Energy and fuel	(191.4)	(231.3)	17%
Track access	(81.1)	(107.2)	24%
Consumables	(416.2)	(440.7)	6%
Other	(12.2)	(26.2)	53%
EBITDA	**1,482.2**	**1,467.6**	**1%**
Statutory EBITDA	1,490.4	1,573.0	(5%)
Depreciation and amortisation	(579.1)	(558.6)	(4%)
EBIT	**903.1**	**909.0**	**(1%)**
Statutory EBIT	911.3	1,014.4	(10%)
Net finance costs	(145.3)	(148.5)	2%
Income tax expense	**(224.6)**	**(229.1)**	**2%**
Statutory Income tax expense	(159.3)	(260.8)	39%
NPAT	**533.2**	**531.3**	**-**
Statutory NPAT	606.7	605.1	-
Statutory NPAT from discontinued operations	123.6	10.8	1,044%
NPAT (group) Statutory	**730.3**	**615.9**	**19%**
Earnings per share[2]	**28.5**	**27.2**	**5%**
Statutory	32.5	31.0	5%
Earnings per share[2] (continuing and discontinued operations)	**29.1**	**27.7**	**5%**
Statutory	39.1	31.5	24%
Return on invested capital (ROIC)[3]	10.7%	10.9%	(0.2ppt)
Net cash flow from operating activities	1,277.0	1,237.5	3%
Total dividend per share (cps)	28.8	27.4	5%
Gearing (net debt / (net debt + equity)) (%) (group)	45.6%	45.1%	(0.5ppt)
Net tangible assets per share ($) (group)	2.3	2.2	5%
People (FTE)	4,825	4,883	1%
Labour costs[4] / Revenue	27.2%	25.3%	(1.9ppt)
Above Rail Tonnes (m)[5]	253.2	262.0	(3%)

EBITDA by Segment

($m)	FY2021	FY2020	Variance
Coal	533.3	616.4	(13%)
Bulk	139.9	110.1	27%
Network	848.8	798.1	6%
Other	(39.8)	(57.0)	30%
Group (Continuing operations)	**1,482.2**	**1,467.6**	**1%**

[2] Calculated on weighted average number of shares on issue – 1,869m FY2021 and 1,953m FY2020
[3] ROIC is defined as underlying rolling twelve-month EBIT divided by the average invested capital. The average invested capital is calculated as the rolling twelve-month average of net assets (excluding cash, borrowings, tax, derivative financial assets and liabilities)
[4] FY2021 excludes $13.9m redundancy costs (FY2020 excludes $16.0m redundancy costs)
[5] Includes both Coal and Bulk

EBIT by Segment

($m)	FY2021	FY2020	Variance
Coal	324.6	410.6	(21%)
Bulk	112.0	89.9	25%
Network	509.1	468.8	9%
Other	(42.6)	(60.3)	29%
Group (Continuing operations)	**903.1**	**909.0**	**(1%)**

Group Performance Overview

Group EBITDA improved $14.6m or 1% due to higher revenue in Network from the commencement of WIRP fee billing and volume growth in Bulk. The increase in Network and Bulk more than offset the decline in Coal EBITDA which was principally due to a 6% decrease in volumes and a 2% decrease in above rail revenue per NTK. The improvement in Other EBITDA is principally due to asset sales and lower project costs.

The increase in Network and Bulk revenue, combined with the reduction in net central costs (Other), more than offset lower revenue in Coal.

Operating costs decreased $59.9m or 4% with reductions in all Business Units due to transformation benefits and lower fuel and access costs more than offsetting an increase in labour costs.

Depreciation increased $20.5m or 4% primarily due to capital expenditure in Bulk to support growth and increased ballast and rail renewals in Network. With the increase in depreciation, EBIT declined $5.9m or 1%.

ROIC was 0.2ppts lower with the decreased EBIT and slightly higher 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)	FY2021	FY2020
Continuing operations		
Underlying EBITDA	**1,482.2**	**1,467.6**
Depreciation and amortisation	579.1	558.6
Underlying EBIT	**903.1**	**909.0**
Significant items	**8.2**	**105.4**
Net gain on sale of shares in Aquila	8.2	-
Net gain on sale of Rail Grinding business	-	105.4
Statutory EBIT	911.3	1,014.4
Net finance costs	(145.3)	(148.5)
Statutory Profit before tax	766.0	865.9
Income tax expense	(159.3)	(260.8)
Statutory NPAT – Continuing operations	**606.7**	**605.1**
Significant items, net of tax	5.7	73.8
Significant items – Aquila income tax benefit	67.8	-
Underlying NPAT – Continuing operations	**533.2**	**531.3**
Discontinued operations		
Underlying EBIT	**14.9**	**12.7**
Significant items	**161.1**	**2.5**
Net gain on sale of Acacia Ridge Intermodal Terminal	161.1	-
Intermodal closure benefit	-	2.5
Income tax expense	(52.4)	(4.4)
Statutory NPAT – Discontinued operations	**123.6**	**10.8**
Significant items, net of tax	112.8	1.8
Underlying NPAT – Discontinued operations	**10.8**	**9.0**
Statutory NPAT – Continuing and discontinued operations	**730.3**	**615.9**
Underlying NPAT – Continuing and discontinued operations	**544.0**	**540.3**

Balance Sheet Summary

($m)	30 June 2021	30 June 2020
Assets classified as held for sale	5.0	65.1
Other current assets	806.9	650.2
Total current assets	**811.9**	**715.3**
Property, plant and equipment (PP&E)	8,483.2	8,537.1
Other non-current assets	469.5	519.6
Total non-current assets	**8,952.7**	**9,056.7**
Total Assets	**9,764.6**	**9,772.0**
Liabilities classified as held for sale	-	(0.7)
Other current liabilities	(658.2)	(814.1)
Total borrowings	(3,738.0)	(3,607.2)
Other non-current liabilities	(1,093.8)	(992.3)
Total Liabilities	**(5,490.0)**	**(5,414.3)**
Net Assets	**4,274.6**	**4,357.7**
Gearing (net debt / (net debt + equity)) (%)	**45.6%**	**45.1%**

Balance Sheet Movements

Total current assets increased by $96.6m largely due to:

- Increase in cash and cash equivalents of $119.5m
- Increase in trade and other receivables of $23.7m predominantly due to a higher Take-or-Pay accrual

This was partly offset by a net reduction of $60.1m in assets classified as held for sale due to the completion of the Acacia Ridge Intermodal Terminal sale and the partial divestment of the Forrestfield Intermodal Terminal.

Total non-current assets decreased by $104.0m largely due to a $95.8m unfavourable valuation of derivative financial instruments and decrease of $53.9m in the carrying value of property, plant and equipment. This was partly offset by an increase in investments accounted for using the equity method of $23.4m due to the investment in Ox Mountain Limited.

Total current liabilities, excluding borrowings decreased by $155.9m largely due to:

- Decrease in current tax liabilities of $83.4m, primarily due to tax associated with the sale of the Acacia Ridge Intermodal Terminal ($32.5m) and the Rail Grinding business ($38.7m).
- Decrease in trade and other payables of $53.9m due to a reduction in trade creditors
- Decrease in derivative financial instruments of $34.5m due to the settlement of interest rate swaps in June 2021

Total borrowings increased by $130.8m due to the Company's strategy to increase leverage in the above rail business in order to create a more efficient balance sheet structure

Other non-current liabilities increased by $101.5m largely due to a $100.6m increase in net deferred tax liabilities.

Gearing (net debt/ (net debt + equity)) was 45.6% as at 30 June 2021.

Cash Flow Summary

($m)	FY2021	FY2020
Statutory EBITDA (Continuing operations)	**1,490.4**	**1,572.8**
Working capital and other movements	(43.4)	(97.6)
Net gain on sale of shares in Aquila	(8.2)	-
Net gain on sale of Rail Grinding business	-	(105.4)
Non-cash adjustments - asset impairments	3.1	5.7
Net cash inflow from Continuing operations	**1,441.9**	**1,375.5**
Interest received	4.2	2.8
Income taxes paid	(175.6)	(146.5)
Principal elements of lease receipts	6.5	5.7
Net cash inflow from operating activities from Continuing operations	**1,277.0**	**1,237.5**
Net operating cash flows from Discontinued operations	(23.0)	9.9
Net operating cash flows	**1,254.0**	**1,247.4**
Cash flows from investing activities		
Payments for PP&E and intangibles, net of interest paid on qualifying assets	(518.5)	(528.3)
Payments for acquisitions of subsidiary and investment in joint venture	(63.5)	(24.5)
Proceeds from sale of business and shares held in associate	10.0	165.3
Distributions from joint ventures and proceeds from sale of PP&E	38.9	15.8
Net cash outflow from investing activities from Continuing operations	**(533.1)**	**(371.7)**
Net investing cash flows from Discontinued operations	168.8	0.4
Net investing cash flows	**(364.3)**	**(371.3)**
Cash flows from financing activities		
Net proceeds from borrowings, net of transaction costs	236.2	211.2
Payment for share buy-back, share-based payments and transaction costs	(306.0)	(403.6)
Interest paid	(155.3)	(151.1)
Dividends paid to Company shareholders	(528.8)	(513.8)
Principal elements of lease payments	(16.4)	(14.6)
Net cash outflow from financing activities from Continuing operations	**(770.3)**	**(871.9)**
Net financing cash flows from Discontinued operations	-	-
Net financing cash flows	**(770.3)**	**(871.9)**
Net decrease in cash from Continuing operations	**(26.4)**	**(6.1)**
Net increase in cash from Discontinued operations	**145.8**	**10.3**
Free Cash Flow (FCF)[6] from Continuing operations	**588.6**	**714.7**
Free Cash Flow (FCF)[6] from Discontinued operations	**145.8**	**10.3**

Cash Flow Movements

Net cash inflow from operating activities from continuing operations increased by $39.5m (3%) to $1,277.0m due to an improvement in working capital movements of $54.2m (mainly due to trade and other receivables) and improved EBITDA (excluding the sale of Aquila and the Rail Grinding business) partly offset by additional income taxes paid in FY2021 relating to the sale of the Rail Grinding business.

Net cash outflow from investing activities from continuing operations increased by $161.4m (43%) to $533.1m, driven by the acquisition of ConPorts Pty Ltd (renamed Aurizon Port Services NSW Pty Ltd) and the investment in Ox Mountain Limited, partly offset by the sale of PP&E of $23.1m. In addition, FY2020 included $164.5m of proceeds from the sale of the Rail Grinding business.

Net cash outflow from financing activities from continuing operations reduced by $101.6m (12%) to $770.3m due to an increase in net proceeds from borrowings of $25.0m and lower share buy-back expenditure of $97.6m, partly offset by higher dividend payments of $15.0m.

[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 FY2021 Aurizon Network:

- Issued a 10.0-year, $500.0 million AMTN in September 2020, at a coupon of 2.9%. The proceeds were used to repay a $525.0 million AMTN maturing in October 2020
- Cancelled $100.0 million from the existing $850.0 million bank debt bilateral facilities expiring in June 2023.
- Issued a 10.5-year, $75.0m A$ Private Placement at a coupon of 3.3%

During FY2021, Aurizon Operations:

- Added $175.0 million of bank debt to the existing $450.0m bilateral facilities expiring in 2023 and 2025.
- Issued a 7.0-year $500.0m AMTN in March 2021 at a coupon of 3.0%. This represented the debut capital markets issuance for Aurizon Finance (the financing entity for Aurizon Operations)

In respect of FY2021:

- Weighted average debt maturity tenor was 4.4 years as at 30 June 2021. This was higher than FY2020 (3.8 years) due to replacing the existing AMTN expiring in October 2020 with the new 10.0-year AMTN, the issuance of a 10.5-year Private Placement in Network and the issuance of a 7.0-year AMTN in Operations, partly offset by the debt portfolio's duration reducing by 12 months
- Group interest cost on drawn debt was 4.1% (FY2020 4.5%)
- Available liquidity (undrawn facilities plus cash) as at 30 June 2021 was $1,618.2m
- Group gearing (net debt / (net debt + equity)) as at 30 June 2021 was 45.6% (FY2020 45.1%)
- Aurizon Network's gearing (net debt / Regulatory Asset Base (excluding Access Facilitation Deeds)) as at 30 June 2021 was 60.8% (FY2020 59.7%)
- Aurizon Operations' gearing (net debt / (net debt + equity)) as at 30 June 2021 was 10.5% (FY2020 10.2%)
- Aurizon Operations' and Aurizon Network's credit ratings have each been maintained at BBB+/Baa1.

Dividend

The Board has declared a final dividend for FY2021 of 14.4cps (70% franked) based on a payout ratio of 100% in respect of underlying NPAT from continuing operations.

The relevant final dividend dates are:

- 23 August 2021 – ex-dividend date
- 24 August 2021 – record date
- 22 September 2021 – payment date

Share buy-back

On 10 August 2020, Aurizon announced its intention to undertake an on-market share buy-back of up to $300.0m during FY2021. During the year 73,938,850 shares at a total consideration of $300.0m were bought back and subsequently cancelled.

Tax

Underlying income tax expense from continuing operations was $224.6m and the statutory income tax expense was $159.3m due to a net income tax benefit of $65.3m recognised as a significant item as a result of the sale of the shares held in Aquila Resources Limited (Aquila). The net income tax benefit includes $67.8m relating to an unrecognised deferred tax asset associated with the impairment of the carrying amount of the shares held in Aquila in FY2016 partly offset by the tax effect of the net gain of sale of $2.5m. Statutory income tax expense for the Group (continuing and discontinued operations) was $211.7m. The Group underlying effective tax rate [7] was 29.6% which is less than 30% due to the recognition of other previously unrecognised deferred tax assets and a prior year research and development tax incentive.

The Group underlying cash tax rate [8] was 19.3%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2022 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. See the Sustainability section of the Aurizon website for further detail.

Discontinued Operations

On 26 March 2021, the Group completed the sale of the Acacia Ridge Intermodal Terminal to Pacific National.

[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*

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 (QLD) and the Hunter Valley and Illawarra coal systems in New South Wales (NSW), with domestic customers and coal export terminals.

Financial Summary

($m)	FY2021	FY2020	Variance
Revenue			
Above Rail	1,163.6	1,260.3	(8%)
Track Access	445.1	512.8	(13%)
Other	3.4	2.2	55%
Total revenue	**1,612.1**	**1,775.3**	**(9%)**
Track Access costs	(451.0)	(507.6)	11%
Operating costs	(627.8)	(651.3)	4%
EBITDA	**533.3**	**616.4**	**(13%)**
Depreciation and amortisation	(208.7)	(205.8)	(1%)
EBIT	**324.6**	**410.6**	**(21%)**

Metrics

	FY2021	FY2020	Variance
Total tonnes hauled (m)	202.1	213.9	(6%)
CQCN	143.7	150.1	(4%)
NSW & SEQ	58.4	63.8	(8%)
Contract utilisation	83%	86%	(3ppt)
Total NTK (bn)	47.1	50.0	(6%)
CQCN	35.8	37.8	(5%)
NSW & SEQ	11.3	12.2	(7%)
Average haul length (km)	233	234	-
Total revenue / NTK ($/'000 NTK)	34.2	35.5	(4%)
Above Rail Revenue / NTK ($/'000 NTK)	24.7	25.2	(2%)
Operating Ratio (%)	79.9%	76.9%	(3.0ppt)
Opex / NTK ($/'000 NTK)	27.3	27.3	-
Opex / NTK (excluding access costs) ($/'000 NTK)	17.8	17.1	(4%)
Locomotive productivity ('000 NTK / Active locomotive day)	390.5	405.5	(4%)
Active locomotives (as at 30 June)	329	332	(1%)
Wagon productivity ('000 NTK / Active wagon day)	14.9	15.7	(5%)
Active wagons (as at 30 June)	8,723	8,721	-
Payload (tonnes)	7,887	7,676	3%
Velocity (km/hr)	23.9	23.5	2%
Fuel Consumption (l/d GTK)	2.86	2.86	-

Coal Performance Overview

Coal EBITDA decreased $83.1m (13%) to $533.3m primarily due to a reduction in above rail and access revenue from lower volumes and a reduction in revenue quality. This was partly offset by lower expenses primarily associated with lower access and fuel costs.

Volumes decreased 11.8mt or 6% to 202.1mt with reductions in the Central Queensland Coal Network (CQCN), NSW and South-East Queensland (SEQ).

- Across the CQCN, volumes decreased by 6.4mt (4%) to 143.7mt due to lower end-market demand impacted by COVID-19 and the challenging trade environment with China, end-of-contract impacts and customer specific maintenance and production issues. This was partly offset by increased railings for the new Peabody contract and small increases for a number of other mines
- In NSW and SEQ, volumes decreased by 5.4mt (8%) to 58.4mt due to the ramp-down of the New Acland mine as it approaches end of mine life, customer maintenance and production issues and weather impacts. This was partly offset by railings from the new BlueScope contract in the Illawarra

Coal revenue decreased by $163.2m (9%) to $1,612.1m due to the 11.8mt reduction in volumes, lower revenue quality and lower fuel revenue resulting from a decrease in price. In addition, track access revenue decreased with the lower volumes, access rights being transferred to end users and tariff reductions partly offset by higher Take-or-Pay revenue. Above rail revenue per NTK decreased by 2% due to reduced average rates per tonne including a reduced proportion of revenue from capacity charges.

Total operating costs decreased $80.1m (7%) to $1,078.8m with lower track access, fuel, traincrew and maintenance costs. The major drivers of these movements are:

- Track access costs decreased by $56.6m (11%) due to the decrease in volumes, access rights being transferred to end users and tariff reductions partly offset by higher Take-or-Pay expense
- Other operating costs decreased $23.5m (4%) due to lower fuel (largely price related), traincrew and maintenance costs. Traincrew costs reduced from lower overtime, FTE's and increased annual leave partly offset by CPI impacts. Maintenance slightly reduced due to volume reductions and lower corrective maintenance partly offset by CPI labour impacts.

Depreciation increased $2.9m (1%) relating to the additional installed fleet and overhauls of existing rollingstock. Accordingly, EBIT decreased 21% compared to a 13% decrease in EBITDA.

Operationally, key productivity metrics deteriorated with lower volumes and NTKs. However, average payloads and velocity have increased as a result of successful efficiency initiatives, including increasing train set lengths in the Hunter Valley and SEQ, implementing improved driver methodologies and a reduction in empty wagons on the CQCN.

Market update

Australia exported 363mt of coal in FY2021, down 7% against the prior year. Although import restrictions remain for Australian export volume into China, alternative markets continue to be found for Australian coal. For the June quarter, despite zero export volume to China, total Australian export volume was just 1% lower than the prior year.

Australia exported 171mt of metallurgical coal in FY2021, down 4% against the prior year. India remained Australia's largest metallurgical coal export market with record high export volume of 56mt (33% share), followed by Japan at 36mt (21% share) and South Korea at 20mt (12% share). In the six months to June, crude steel production in China increased by 11%, India increased by 31% and Japan increased by 14% against the same period of the prior year as economies recover from the impact of COVID-19 related restrictions. The average hard coking coal (Premium Low Vol) price in FY2021 fell by 15% (compared to the prior year) to US$122/t. At 30 June 2021, the hard coking coal (Premium Low Vol) price was US$194/t.

Australia exported 192mt of thermal coal in FY2021, down 10% against the prior year. Japan remained Australia's largest thermal coal export market with export volume of 73mt (38% share), followed by South Korea at 34mt (18% share) and Taiwan at 23mt (12% share). The average Newcastle benchmark thermal coal price in FY2021 increased by 20% (compared to the prior year) to US$78/t. At 30 June 2021, the thermal coal price was US$135/t.

Contract update

- Glencore – existing agreement as primary hauler for Queensland mines extended for Newlands, Goonyella (excluding Hail Creek) and Blackwater mines
- Anglo – Goonyella – new agreement across various mines; Blackwater – new agreement for German Creek mine; Moura – extension of Dawson mine
- Stanwell – unsuccessful in retaining 3.2mtpa domestic contract (ended December 2020)
- New Hope – New Acland contract ends December 2021 (end of mine life)

Bulk

Aurizon's Bulk business provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout QLD, NSW and Western Australia (WA).

Financial Summary

($m)	FY2021	FY2020	Variance
Revenue			
Freight Transport	612.2	583.4	5%
Other	22.6	25.4	(11%)
Total revenue	**634.8**	**608.8**	**4%**
Operating costs	(494.9)	(498.7)	1%
EBITDA	**139.9**	**110.1**	**27%**
Depreciation and amortisation	(27.9)	(20.2)	(38%)
EBIT	**112.0**	**89.9**	**25%**
Total tonnes hauled (m)	51.1	48.1	6%
Operating Ratio (%)	82.4%	85.2%	2.8ppt

Bulk Performance Overview

Bulk EBITDA increased $29.8m (27%) to $139.9m due to the full-year impact of volume growth commencing during FY2020 and ongoing operational efficiencies. Revenue increased $26.0m (4%) to $634.8m with:

- The commencement of the Rio Tinto contract for the operation and maintenance of Rio Tinto's ballast cleaning machine on its WA Pilbara network in February 2020
- The commencement of the Mineral Resources contract for the lease of rollingstock, provision of mainline crew and Esperance yard operations during 2HFY2020

- A full year of contribution from the acquisition of Townsville Bulk Storage & Handling (Aurizon Port Services Pty Ltd) following the acquisition in 2HFY2020
- The acquisition of ConPorts Pty Ltd (renamed Aurizon Port Services NSW Pty Ltd) on 31 December 2020
- Marginal revenue yield improvement despite lower CPI

Partly offsetting this was lower access costs due to a customer transitioning to an end-user arrangement on the Mt Isa corridor during 2HFY2020 and lower average fuel prices compared to the prior year.

In Bulk East, volumes increased by 0.1mt driven by stronger grain volumes in NSW and QLD, partly offset by lower livestock volumes. In Bulk West, iron ore volume was up 3.0mt driven by the ramp up of Mineral Resources volumes partly offset by lower Mt Gibson volumes due to end of mine life. Non-iron ore Bulk West volumes decreased by 0.1mt largely due to lower volumes on the Kalgoorlie freighter service.

Operating costs decreased $3.8m (1%) despite increased costs associated with the new volumes from Rio Tinto and Mineral Resources and the Aurizon Port Services acquisitions. This was due to ongoing cost benefits from the Bulk transformation program, lower average fuel prices compared to the prior year and lower access costs due to a customer transitioning to an end-user agreement on the Mt Isa corridor during 2HFY2020.

Depreciation increased $7.7m or 38% with increased capital expenditure supporting the growth in revenue and EBITDA. Therefore EBIT increased 25% compared to a 27% increase in EBITDA.

Market update

Aurizon's Bulk business includes haulage of a range of bulk commodities such as iron ore, bauxite, alumina, base metals, grain and livestock across WA, NSW and QLD. In addition to commodities required to build infrastructure, opportunities are coming from new markets such as renewables and batteries, and growing food consumption. In terms of batteries, the global uptake of electric vehicles is expected to drive demand for commodities such as nickel, cobalt, copper and lithium. This is supported by increased exploration expenditure in Australia – in the March 2021 quarter, nickel (including cobalt) exploration expenditure rose by 24% (compared to the same period of the prior year) and copper exploration expenditure increased by 8% across the same period. Australian metal ore mining capital expenditure increased in the March quarter by 22% against the prior year to A$4.5bn, the 14th consecutive quarter of year-on-year growth for the sector.

Contract update

- CBH – Ten-year grain haulage contract commencing August 2021
- South32 Worsley – three-year contract extension for alumina and associated inputs
- Mineral Resources – expansion of services (beyond Esperance) with additional iron ore services into Kwinana
- BHP Nickel West – railings ceased in March 2021

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 (the Goonyella to Abbot Point Expansion (GAPE)).

Financial Summary

($m)	FY2021	FY2020	Variance
Revenue			
Track Access	1,178.9	1,131.7	4%
Services and other	46.0	56.8	(19%)
Total revenue	**1,224.9**	**1,188.5**	**3%**
Operating costs	(376.1)	(390.4)	4%
EBITDA	**848.8**	**798.1**	**6%**
Depreciation and amortisation	(339.7)	(329.3)	(3%)
EBIT	**509.1**	**468.8**	**9%**

Metrics

	FY2021	FY2020	Variance
Tonnes (m)	208.3	226.9	(8%)
NTK (bn)	52.4	56.2	(7%)
Operating Ratio (%)	58.4%	60.6%	2.2ppt
Maintenance / NTK ($/’000 NTK)	2.4	2.3	(4%)
Opex / NTK ($/’000 NTK)	13.7	12.8	(7%)
Cycle Velocity (km/hr)	23.0	23.3	(1%)
System Availability (%)	84.1%	83.3%	0.8ppt
Average haul length (km)	252	248	2%

Network Performance Overview

Network EBITDA improved $50.7m (6%) to $848.8m in FY2021, with increased revenue of $36.4m (3%) and reduced operating costs of $14.3m (4%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the Queensland Competition Authority (QCA) on 17 December 2020. Actual net tonnes were 208.3mt compared to the regulatory system forecast of 239.7mt. Total Access Revenue increased by $47.2m (4%):

- Allowable Revenue was lower by $3.9m in FY2021
- Reduced volumes compared to the regulatory forecast resulted in an under-recovery after Take-or-Pay of $34.6m in FY2021 (Access Revenue in FY2021 included the recognition of $88.2m Take-or-Pay revenue in relation to the Blackwater, Goonyella, Moura and Newlands systems). This compares to an under-recovery of $22.6m in FY2020.
- Customer-funded infrastructure rebates were also higher by $6.2m in FY2021 compared to FY2020 as a result of the true-up adjustment in FY2020, partly offset by the impact of lower volumes in FY2021.
- FY2021 Access Revenue benefited from favourable Revenue Cap movements of $13.0m. FY2020 included a repayment of $0.8m in relation to FY2018 and $12.2m in relation to FY2019.
- Other Access Revenue was lower by $4.0m. This included lower pass-through Energy Costs (EC) revenue due to the lower volumes, offset in lower expenses.
- The above movements were more than offset by the recognition of WIRP fees of $60.3m FY2021, including recovery of historical fees following the successful Supreme Court decision in September 2020. No WIRP fees were recognised in FY2020.

Services and other revenue was $10.8m (19%) lower in FY2021. This was primarily due to lower external construction revenue in FY2021 and insurance recoveries that were received in FY2020.

Operating costs decreased by $14.3m (4%) primarily due to lower external construction costs associated with the lower revenue, reduced electric traction charges (offset in Access Revenue and EC revenue) and lower maintenance costs partially offset by expenditure incurred on the Precision railroading initiative.

Depreciation increased $10.4m (3%) primarily due to historic rail renewal and ballast undercutting investment.

Network’s 2019-2020 Regulatory Asset Base (RAB) roll-forward is estimated to be $5.3bn [9] (excluding Access Facilitation Deeds of $0.4bn).

Regulation Update

Aurizon continues to progress the implementation of the 2017 Access Undertaking (UT5) which was approved by the QCA on 19 December 2019. The status of key aspects of UT5 are:

- The Independent Expert (IE), Coal Network Capacity Co, continues the development of the Initial Capacity Assessment Report (ICAR) with the assistance of external consultants. The current expectation is that the ICAR will be completed at the end of Q1FY2022. Following delivery of the ICAR, should a capacity deficit be identified Aurizon Network has 20 business days to provide its initial views on potential transitional arrangements that could be implemented to address the deficit.
- While the IE continues to progress the ICAR, Network's Weighted Average Cost of Capital (WACC) remains at 5.9%. The increase to 6.3% will apply upon the completion of specific milestones by both the IE and Network (Report Date).
- Current QCA-approved reference tariffs continue to assume the 6.3% WACC from 1 March 2020. Future tariffs will be adjusted to reflect the actual Report Date.
- The Performance Rebate mechanism was not applicable for FY2021. The rebate will come into effect once the Report Date is reached. Transitional arrangements may be in effect depending on the outcomes of the ICAR and any resulting remedial requirements.

On 14 February 2021, the Rail Industry Group (RIG) notified Network that End Users had elected to approve the Maintenance and Renewal Strategy and Budgets for each coal system except for:

- the Maintenance Strategy and Budget for Newlands, which was subsequently approved by the QCA on 26 May 2021; and
- the Renewals Strategy and Budget for both Newlands and GAPE. As required under UT5, the draft renewals budgets for Newlands and GAPE were incorporated into the FY2022 Annual Review of Reference Tariffs which were approved by the QCA on 22 June 2021. Renewals expenditure in Newlands and GAPE in FY2022 will be reviewed by the QCA for prudency and efficiency as part of the Annual Capital Claim process.

Network's FY2020 Capital Expenditure Claim for $238m was approved by the QCA on 19 February 2021 and this amount was subsequently approved for entry into the RAB on 8 April 2021.

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[9] *Includes deferred capital*

The QCA approved Network's FY2022 Annual Review of Reference Tariffs including FY2022 coal volumes for the CQCN at 226.9mt.

Operational Update

Network maintained strong operational performance during FY2021 despite challenges presented by wet weather and COVID-19 related restrictions and disruptions.

- As a result of lower end-market demand impacted by COVID-19 and the challenging trade environment with China, in addition to mine-specific maintenance and production issues, CQCN volumes declined by 8% to 208.3mt. Notwithstanding the reduced demand, all-time haulage records were achieved in the GAPE system.
- Total System Availability was 84.1%. As FY2021 utilises a new capacity model, it is noted that the System Availability measure is not directly comparable to prior years.
- Cancellations due to the Network rail infrastructure decreased from 2.5% to 1.6%.
- Cycle velocity declined marginally from 23.3km/h to 23.0km/h.

The RM902, Network's new ballast cleaning machine, is completing in-service commissioning. It is expected that the machine will be fully operational in Q1FY2022.

Wiggins Island Rail Project (WIRP)

On 1 September 2020, the Queensland Court of Appeal affirmed the Supreme Court decision in Network's favour and the WIRP customers did not seek leave to appeal that decision. As a result, Network is able to charge customers non-regulatory WIRP fees with effect from March 2016 and commenced billing in November 2020.

The WIRP customers previously initiated other disputes under their respective WIRP Deeds which were the subject of an Expert Determination in February 2019. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be partially reduced. Network lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert's Determination and the WIRP customers filed their defence on 1 March 2021.

Other

Other includes the provision of maintenance services to internal and external customers and central costs not allocated such as the Board, Managing Director & CEO, Investor Relations, Strategy and Company Secretariat.

($m)	FY2021	FY2020	Variance
Total revenue	**32.4**	**40.7**	**(20%)**
Operating costs	(72.2)	(97.7)	26%
EBITDA	**(39.8)**	**(57.0)**	**30%**
Depreciation and amortisation	(2.8)	(3.3)	15%
EBIT	**(42.6)**	**(60.3)**	**29%**

Other Performance Overview

EBITDA improved by $17.2m (30%) mainly due to asset sales and lower project 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 a multi-year supply chain efficiency program led by Network. The objective is to deliver more volume with existing capital for all users, through faster turnaround time and Disciplined Train Operations (DTO) - a process designed to remove the variability and improve schedule adherence and on-time running performance of all trains on the network.

Built upon modern scheduling techniques, integrated planning determines the optimal distribution of trains on the Network. In periods of high demand, this approach can result in additional services compared to conventional techniques. In periods of low demand, modern scheduling optimises the number of train sets deployed in the system to maximise capital productivity while meeting customer demand.

Supported by all rail operators in CQCN, a trial took place in FY2021 where Network undertook planning on behalf of all operators. This enabled Network to optimise planned throughput in line with the weekly train ordering process. Taking into account the respective operators' access entitlements, an additional benefit of the integrated planning was the removal of contested access requests whereby two or more operators seek the same path on the Network.

In FY2021, DTO was implemented in all systems on the CQCN, with the following results[10] for Aurizon Above Rail:

In Newlands:

- on time (or early) departure from origin improved from 90% to 97%
- on time (or early) arrival at mine improved from 48% to 56%; and
- on time (or early) arrival port improved from 26% to 48%

[10] *FY2021: 29 June 2020 to 27 June 2021. Prior period: Blackwater (11 March 2019 to 8 September 2019), Moura (7 January 2019 to 19 May 2019), Newlands and Goonyella (1 July 2019 to 28 June 2020).*

In Goonyella:

- on time (or early) departure from origin improved from 80% to 95%
- on time (or early) arrival at mine improved from 41% to 57%; and
- on time (or early) arrival port improved from 19% to 34%

In Blackwater:

- on time (or early) departure from origin improved from 87% to 99%
- on time (or early) arrival at mine improved from 53% to 64%; and
- on time (or early) arrival port improved from 22% to 46%

In Moura:

- on time (or early) departure from origin improved from 74% to 97%
- on time (or early) arrival at mine improved from 22% to 61%; and
- on time (or early) arrival port improved from 11% to 51%

Automated Track Inspection System (ATIS)

The ATIS initiative seeks to measure track and overhead line alignment via locomotive-mounted equipment using lasers to achieve precise measurements at line speed. Network currently uses a track-recording car to obtain these measurements, with the service provided by a third party and consuming paths that would otherwise be used by train services.

It is intended that ATIS will enable an increase in the timeliness of data allowing a move to a condition-based track resurfacing scope, tracking of defects and the ability to trend degradation to predict future fail points or intervention triggers. Other benefits of the system may include reduced cost and improved access by removing the requirement to utilise the track-recording car.

During FY2021, the project team trialled the use of a Track Geometry Measurement System (TGMS) that was installed on a diesel locomotive based in Callemondah. The trial successfully proved that track geometry information could be captured via an autonomous device mounted to a locomotive at a quality level comparable to the track-recording car. This unit continues to provide track geometry measurements across the Blackwater and Moura systems.

Network is currently trialling an overhead Wire Geometry Measurement System (WGMS) and Pantograph Collision Detection System (PCDS). The trial seeks to confirm that overhead wire alignment information can also be captured via automated means.

Assuming the WGMS and PCDS trials are successful, Network will look to roll out the technology into other systems subject to customer approval.

TrainGuard

TrainGuard is a platform utilising ETCS (European Train Control System) technology to support driver decision-making, particularly in relation to speed control and signal enforcement. TrainGuard will support safer and more efficient train operations with reduced rail process safety issues and improved train handling. TrainGuard is also a pathway to expanding our driver-only operations in Central Queensland. Operational demonstration of TrainGuard was completed as planned in FY2020. Following this, the business decision to proceed with deployment of TrainGuard across Blackwater and Goonyella has been communicated to stakeholders. Preparations continue for TrainGuard's deployment on the Blackwater mainline (Callemondah to Bluff) which is now scheduled for 2HFY2022.

Asset Maintenance

Above Rail Asset Management (ARAM) is a multi-year transformation project and has progressed with the dedicated project team working in close collaboration with the various business stakeholders.

The program of work has matured Aurizon supply chain and vendor management processes, standardised planning processes across the business, improved depot work execution efficiency and is now transitioning Aurizon's major rollingstock fleets from simple time based to more mature condition-based maintenance strategies.

FY2021 has seen the first of four major rollingstock fleets transition towards condition-based maintenance with the others planned from FY2022. In addition, traditional maintenance tasks are being removed by leveraging advances in condition monitoring technology such as Aurizon-owned Wayside Equipment and on-board locomotive monitoring equipment resulting from TrainHealth.

TrainHealth

TrainHealth provides Aurizon with capability to monitor performance of locomotives and train handling/utilisation in real-time. This initiative enables access to real time asset data that is being used to inform the health of the locomotive, enhance asset reliability and maintenance decisions for the fleet, in addition to providing greater visibility on driver variability and support business decisions for on-time running. With installation completed for 99% of the CQCN Siemens electric locomotive fleet, installation across the CQCN diesel fleet is scheduled to commence in August 2021.

ADDITIONAL INFORMATION

Senior Management Changes

Gareth Long was appointed to the role of Group Executive Corporate in May 2021. Gareth's appointment follows the decision to amalgamate the majority of activities in Technical Services and Planning and Corporate under the leadership of one role. Accordingly, Mike Carter (previously Group Executive Technical Services and Planning) will leave the Company during FY2022.

Risk

Aurizon promotes a risk-aware culture with an emphasis on frontline accountability for effective risk management. Aurizon's thinking is heavily informed by risk, from the framing of strategy through to informing decision-making. The Board approved Enterprise Risk Management Framework and Appetite, encompasses consideration not only of risks related to operational, legal, financial, safety, health and environment but also strategy execution, climate change, reputational and culture and conduct-related risks, ensuring that Aurizon continues to consider and develop strategies to manage the full scope of risks faced by our business.

Risk reporting provided both to our Board and supporting Committees, facilitates the early identification and proactive management of emerging risks where the impacts and opportunities are continually evolving. Risk management procedures and templates deployed throughout the business, further integrate the assessment of safety and non-safety risks, as well as supporting a consistent approach to the management of risks in a manner which is comprehensive and user-friendly.

Risks to the delivery of strategy have been categorised into the three strategic levers of Optimise, Excel and Extend.

Optimise Strategic Lever

Delivery of Optimise Initiatives

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

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 impacts 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 licence 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 from external penetration of Aurizon's corporate and operational systems
- Technology incidents – failure of technical infrastructure impacting technology-dependent systems and operations
- Adverse weather events could impact Aurizon's operations, assets or customers

Pandemic – COVID-19

The global Coronavirus pandemic exposes Aurizon to two primary risks:

- Reduced demand – due to export markets requiring less of the commodities we haul, which could reduce Aurizon's profitability.
- Service delivery – employee health issues limiting our ability to provide services to customers. This risk extends to other supply chain participants such as mines and ports, and their ability to provide continuity of service.

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.

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. Implementation of these changes may have a material adverse impact on project investment, Aurizon's profitability and business in general, as well as Aurizon's customers.

Continued delays in the implementation of the UT5 obligation to publish an ICAR may also result in adverse financial outcomes.

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.

Counterparty Risk

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.

General Economic Conditions

Aurizon develops its own position regarding future coal demand through our *Strategy in Uncertainty* framework which includes a broad range of scenario analysis and portfolio stress-testing. This process considers both short-term impacts as well as risks that emerge over the medium to long term, where the timing and magnitude are less certain. In developing our own scenario analysis, we assess global seaborne demand for metallurgical 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. Given our customers' exposure (almost entirely) to export markets, trade, net-zero emission strategies and geopolitical risk may impact demand for Aurizon services.

Geopolitical Risk

Recent geopolitical developments, particularly in relation to Australia's trade relationship with China, have the potential to impact Australian coal and other bulk commodity exports to China. Prolonged uncertainty as to when Australian coal exports to China will resume could result in adverse financial impacts if export volumes cannot be reallocated to alternative markets.

Extend Strategic Lever

Growth Strategy Execution Risk

Aurizon faces risks associated with the successful execution and delivery of the Enterprise Strategy and the ability to realise the future non-coal growth aspirations of the business. The recent investor day held in June 2021, signalled Aurizon's intent to double the size of the Bulk business by 2030, which will largely depend upon Aurizon's ability to identify and capitalise on suitable growth opportunities, both organic and inorganic, in an increasingly competitive environment.

Climate Change Risk

Aurizon acknowledges that climate change is affecting a wide range of industries around the world, resulting in financial implications. Through our Climate Strategy and Action Plan (CSAP) we are focussing on specific targets, initiatives and investments to reduce our carbon footprint. 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. Along with the transition and physical risks of climate change, Aurizon faces the risk of not delivering on our commitments under the CSAP.

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

Transition Risks

- demand for seaborne 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 mechanisms) in coal import nations
- demand for seaborne metallurgical coal is subject to factors such as economic development, steel-intensive growth, method of steel production (including emerging lower-carbon processes), import reliance, and regulation of GHG emissions (including carbon pricing mechanisms) in coal import nations
- Australia's supply of both metallurgical and thermal coal to seaborne export markets is subject to factors such as global competitiveness, operating coal mine production, and domestic climate policies
- investor concern over climate-related risks may result in an inability for our business and customers to gain licences, funding or insurance for coal mining and transport and/or an increased risk of litigation/social action against our business and customers
- carbon liability under the Safeguard Mechanism Rule and potential penalties for inappropriate carbon reporting under the National *Greenhouse and Energy Reporting (NGER) Act 2007* (Cth).

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).

Since 2017, Aurizon has incorporated recommendations from the Financial Stability Board's *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (TCFD), in the Company's annual Sustainability Report. In October 2020, Aurizon published its first CSAP, outlining the Company's position on climate change, underpinned by long-term strategies and associated actions to mitigate climate risk and take advantage of climate-related opportunities, including a target of net-zero operational emissions by 2050.

Progress towards Aurizon's CSAP initiatives will be made available through the annual Sustainability Report.

Modern Slavery Risk

Aurizon understands that modern slavery and human trafficking can occur in many forms and recognises that we may be exposed to modern-day slavery risks in our supply chain that we may not be able to fully mitigate. The Company is committed to operating responsibly and ensuring that robust standards and processes are in place to minimise and address modern slavery risks. Aurizon is also committed to providing transparency on its modern slavery risks and how they are being addressed.

In October 2020, Aurizon published its first Modern Slavery Statement, which addresses the Company's obligations contained in the *Modern Slavery Act 2018* (Cth). The purpose of the statement is to:

- Describe the risk of modern slavery in Aurizon's operations and supply chains.

- Explain actions taken to address those risks.
- Introduce the Company's continuous improvement framework, against which the effectiveness of its actions will be assessed, and future commitments outlined.

Sustainability

Aurizon keeps stakeholders informed of its corporate governance and financial performance via announcements to the Australian Securities Exchange (ASX) and the Company's website. Investors can access copies of announcements to the ASX, notices of meetings, annual reports, policies, investor presentations, webcasts, and transcripts of those presentations on this site.

In addition to the above disclosures, Aurizon takes a direct approach to reporting Environmental, Social and Governance (ESG) disclosures to stakeholders with the publication of its annual Sustainability Report. This Report is prepared with reference to the Global Reporting Initiative's (GRI) standards to provide investors with comparable information relating to ESG performance. Aurizon strives to ensure that its Sustainability Report reflects significant ESG priorities that may influence strategic decision-making. As such, the Company continuously assesses the material issues that affect its business, stakeholders, and operating environment.

In May 2021, Aurizon maintained a 'Leading' rating for the seventh consecutive year by the Australian Council of Superannuation Investors (ACSI) for Corporate Sustainability Reporting in Australia. Having received this rating for five or more consecutive years, Aurizon has again been considered a 'Leader' by ACSI.

Safety

At Aurizon, we are committed to protecting ourselves, each other, and our communities. We are determined to focus on managing what matters, with a specific focus on identifying and learning from events that have the potential for Serious Injury and Fatality (SIF).

During FY2021, we have continued to embed an operational Critical Control Management (CCM) framework. CCM forms part of our enterprise approach to risk management. Combined with other safety, leadership and technical processes, it ensures we apply an effective and integrated approach.

In FY2021, we have retained two primary safety metrics to measure safety outcomes across the enterprise including Total Recordable Injury Frequency Rate (TRIFR) and Rail Process Safety (RPS).

RPS, which measures operational safety including derailments, signals passed at danger and rollingstock collisions deteriorated 8% against the prior year to 5.13. Aurizon continues to progress several initiatives, including TrainGuard, to strengthen RPS, along with improving yard safety interfaces to reduce the number of yard incidents, a major contributor to RPS in FY2021.

TRIFR was 10.21 injuries per million hours worked, which was a 3% deterioration against the prior period. This deterioration has been the result of an increase in low-severity strain and sprain injuries. These injuries are commonly caused by a high number of lower body strains and sprains while walking on uneven surfaces in the rail corridor, and an increase in upper body manual handling strains caused by lifting equipment, setting points, applying handbrakes and accessing/egressing locomotives. Aurizon is committed to a reduction in these types of injuries. We will be delivering a program using technology to review high-risk body stressing tasks, developing approaches to reduce risk exposure, and in FY2022 reviewing our injury management program holistically to improve our proactive and reactive injury management strategies. Lost time injuries continue to show improvements, with an 8% decrease in the frequency of these type of injuries (LTIFR) against the prior period.

In FY2022, we have a strong focus on initiatives to accelerate safety performance improvement through targeting the main contributors to TRIFR and RPS, and a specific focus on identifying and learning from events that have the potential for SIF.

Environment

Aurizon's vision is to deliver environmental value through effective management of material environmental risks and improved enterprise environmental performance. This vision is driven by proactive and evidence-based management measures covering key environmental issues such as, climate change, rail noise, and clean air.

In FY2021, Aurizon implemented additional management measures in NSW aligned to the introduction of statutory Environmental Protection Licences (EPLs) for rollingstock operators. These measures include annual compliance reporting, routine noise testing of locomotives following major engine overhauls, monthly reporting of community complaints, and completion of pollution studies. Aurizon maintains regular dialogue with the NSW Environment Protection Authority (EPA) in relation to EPL implementation and is a member of the NSW industry Rail Noise Reference Group, established to coordinate rail noise-related matters.

In relation to coal dust management, Aurizon continues to work collaboratively with supply chain partners to minimise coal dust emissions associated with Aurizon's coal haulage operations. For further detail in relation to coal dust management and monitoring processes, refer to Aurizon's annual Sustainability Report.

As Bulk expands its service offering beyond core rail capacity into stevedoring at key locations along the East Coast, Aurizon's environmental risk profile has changed. Accordingly, Aurizon's management measures have been adapted to cater for additional activities (such as loading of bulk mineral concentrates) and compliance requirements following extensive due diligence.

In FY2021:

- Aurizon Port Services Pty Ltd incurred a monetary fine of $10,008, issued under the *Environmental Protection Act 1994* (Qld) related to the discharge of prescribed contaminants to receiving waters at the Port of Cairns following a ship unloading event; the matter was investigated internally, and appropriate actions implemented; and
- Aurizon had three notifiable environmental incidents. Remediation actions have been implemented as required and no ongoing environmental impacts are anticipated.

People

At Aurizon, our people are our greatest asset. We have more than 4,800 employees, with more than 80% living and working in regional Australia, including over a quarter of our senior management. Our Aurizon values (Safety, People, Integrity, Customer and Excellence) guide our people's work, in delivering bulk commodities to the world, and are underpinned by a workplace culture of connection.

Through our commitment to safe and efficient delivery for our customers, we are building our workforce for the future. Strong leadership, culture and values-aligned people practices lay the foundation to achieve this. During the year we progressed key initiatives, including:

- The continued roll-out of our three core Leadership programs designed to embed a safe and high performing culture where our people live our values and are engaged and enabled to do their best work.
- Further improvements to our people, processes and systems with a focus on embedding a quality performance management cycle through the organisation
- Continuing to strive towards creating an inclusive work environment by embedding flexible work practices, creating awareness and driving action for inclusion through employee representative groups (across gender, Aboriginal and Torres Strait Islander and LGBTIQ inclusion), meeting workforce representation targets, actively reducing the gender pay gap and our continued commitment to employment of Veterans.

Entities over which control was gained or lost during the period

Aurizon Operations Limited acquired 100% of the issued shares in ConPorts Pty Ltd, a shiploading services provider in Newcastle, for consideration of $42.7m on 31 December 2020. The company was renamed Aurizon Port Services NSW Pty Ltd.

Details of associate and joint venture entities

		Ownership Interest	
Entity	**Country of incorporation**	**30 June 2021**	**30 June 2020**
Investment in associates			
Aquila Resources Limited	Australia	-	15
Joint Ventures			
Coal Network Capacity Co Pty Ltd	Australia	8	8
Ox Mountain Limited	United Kingdom	42	-
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)	FY2021	FY2020	Variance
Total revenue	**21.6**	**25.0**	**(14%)**
Operating costs	(6.7)	(12.1)	45%
EBITDA – Underlying	**14.9**	**12.9**	**16%**
Depreciation and amortisation	-	(0.2)	100%
EBIT – Underlying	**14.9**	**12.7**	**17%**
Significant items	161.1	2.5	nm
Income tax expense	(52.4)	(4.4)	nm
NPAT (Discontinued operations) – Statutory	**123.6**	**10.8**	**nm**

Intermodal Performance Overview

The EBITDA position for Intermodal improved $2.0m to $14.9m ahead of the completion of the sale of the Acacia Ridge Intermodal Terminal in March 2021.