Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report
for the six months ended 31 December 2019

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Interim Financial Report - 31 December 2019

Contents

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Aurizon Holdings Limited
Level 8
900 Ann Street
FORTITUDE VALLEY QLD 4006

Directors' Report

The Directors present their report on the consolidated entity consisting of Aurizon Holdings Limited and its controlled entities ("the Company" or "the Group") for the six months ended 31 December 2019.

Directors

The following persons were Directors of the Company during the six months and up to the date of this report:

T Poole
M Bastos
R Caplan
M Fraser
A Harding
S Lewis
L Strambi (appointed 1 December 2019)
S Ryan (appointed 1 December 2019)
K Vidgen

Principal activities

During the interim financial period the principal activities of the Group consisted of:

- integrated heavy haul freight railway operator
- rail transporter of coal from mine to port for export markets
- rail transporter of bulk, iron ore, general and containerised freight
- large-scale rail services activities

The following summary describes the operations in each of the Group's reportable segments:

Coal
Transport of coal from mines in Queensland and New South Wales to end customers and ports.

Bulk
Transport of bulk mineral commodities, agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia.

Network
Provision of access to, and operation of, the Central Queensland Coal Network. Provision of maintenance and renewal of Network assets.

Discontinued operations
The Acacia Ridge Intermodal Terminal is disclosed as a discontinued operation and provides terminal services for general freight. The prior year also includes Queensland Intermodal that was sold on 31 January 2019.

Review of operations

A review of the Group's operations for the interim financial period and the results of those operations are set out in the Operating and Financial Review as set out on pages 3 to 17 of this Interim Financial Report.

Dividends

Dividends paid to members during the six months were as follows:

	2019 **$m**	2018 $m
Final dividend for the year ended 30 June 2019 of 12.4 cents 70% franked (2018: 13.1 cents 60% franked) per share, paid 23 September 2019	**246.8**	260.7

The Directors have declared a 70% franked interim dividend of 13.7 cents per ordinary share for the six months ended 31 December 2019. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 25 February 2020. The payment date is 23 March 2020.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

This Directors' report is made in accordance with a resolution of Directors.

Tim Poole

Tim Poole
Chairman

Brisbane
10 February 2020

OPERATING AND FINANCIAL REVIEW

CONSOLIDATED RESULTS (Underlying continuing operations unless stated)

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measures. The non-IFRS financial information contained within this Directors' Report and Notes to the Consolidated Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor Group performance are EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin - Underlying, NPAT Underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 50. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

1. Half on Half Comparison

Financial Summary

($m)		1HFY2020	1HFY2019	Variance %
Total revenue		**1,528.8**	**1,455.4**	**5%**
Operating costs				
Employee benefits expense		(409.8)	(385.7)	(6%)
Energy and fuel		(121.5)	(118.2)	(3%)
Track access		(63.6)	(61.4)	(4%)
Consumables		(189.7)	(192.9)	2%
Other		(13.0)	(25.5)	49%
EBITDA		**731.2**	**671.7**	**9%**
	- statutory	836.6	671.7	25%
Depreciation and amortisation		(275.6)	(265.7)	(4%)
EBIT		**455.6**	**406.0**	**12%**
	- statutory	561.0	406.0	38%
Net finance costs		(71.4)	(80.9)	12%
Income tax (expense)		**(115.3)**	**(98.2)**	**(17%)**
	- statutory	(146.9)	(98.2)	(50%)
NPAT		**268.9**	**226.9**	**19%**
	- statutory	342.7	226.9	51%
Profit/(Loss) after tax from discontinued operations	- statutory	7.1	(3.4)	nm
NPAT (group)	**- statutory**	**349.8**	**223.5**	**57%**
Earnings per share[1]		**13.6**	**11.4**	**19%**
	- statutory	17.3	11.4	52%
Earnings per share[1] (group)		**13.9**	**11.6**	**20%**
	- statutory	17.7	11.2	58%
Return on invested capital (ROIC)[2]		10.5%	10.0%	0.5ppt
Return on invested capital (ROIC)[2] (Continuing & Discontinued)		10.6%	10.1%	0.5ppt
Operating ratio		70.2%	72.1%	1.9ppt
Net cashflow from operating activities		626.5	658.0	(5%)
Interim dividend per share (cps)		13.7	11.4	20%
Gearing (net debt / net debt + equity) (%) (group)		42.0%	42.4%	0.4ppt
Net tangible assets per share ($) (group)		2.2	2.3	(4%)
People (FTE)		4,645	4,560	(2%)
Labour costs[3] / Revenue		26.1%	25.5%	(0.6ppt)
Above Rail Tonnes (m)[4]		129.9	130.1	-

[1] Calculated on weighted average number of shares on issue – 1,977m 1HFY2020 and 1,990m 1HFY2019
[2] 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)
[3] 1HFY2020 excludes $11.3m redundancy costs (1HFY2019 excludes $13.9m redundancy costs)
[4] Above Rail includes both Coal and Bulk

EBIT by Segment

($m)	1HFY2020	1HFY2019	Variance %
Coal	205.8	210.3	(2%)
Bulk	43.7	14.2	208%
Network	232.2	202.9	14%
Other	(26.1)	(21.4)	(22%)
Group (Continuing operations)	**455.6**	**406.0**	**12%**

Group Performance Overview

EBIT improved $49.6m or 12% due to improved earnings in Network primarily from the QCA approved UT5 Undertaking and new contract growth in Bulk. Earnings in Coal decreased with higher operating costs due to CPI impacts and costs for installing capacity ahead of expected volume growth. The deterioration in Other EBIT is principally due to the completion of sale of the Rail Grinding business in October 2019.

Group revenue improved $73.4m or 5% with higher revenue from the UT5 Undertaking and new contract growth in Bulk, partly offset by the sale of the Rail Grinding business.

Operating costs increased $13.9m or 2% predominately due to increased labour costs from CPI impacts and additional FTEs within Bulk to support the Linfox contract.

The net impact on EBIT of adopting AASB 16 *Leases* was $0.9m.

ROIC has improved 0.5ppts to 10.5% reflecting the improved earnings during 1HFY2020.

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)	1HFY2020	1HFY2019
Underlying EBIT (Continuing operations)	**455.6**	**406.0**
Significant items (Continuing operations)	**105.4**	**-**
Net gain on sale of Rail Grinding	105.4	-
Statutory EBIT (Continuing operations)	**561.0**	**406.0**
Net finance costs	(71.4)	(80.9)
Statutory PBT (Continuing operations)	**489.6**	**325.1**
Income tax expense	(146.9)	(98.2)
Statutory NPAT (Continuing operations)	**342.7**	**226.9**
Underlying EBIT (Discontinued operations)	7.5	5.5
Significant items (Discontinued operations)	**2.5**	**(10.3)**
Intermodal	2.5	(10.3)
Net finance cost (Discontinued operations)	-	-
Income tax (expense)/benefit (Discontinued operations)	(2.9)	1.4
Statutory NPAT	**349.8**	**223.5**

Significant items in the Continuing Operations during 1HFY2020 were $105.4m and relate to the net gain on sale of the Rail Grinding business.

Significant items for the Discontinued Operations totalled $2.5m, including gain on the sale of surplus assets.

2. Other Financial Information

Balance Sheet Summary

($m)	31 December 2019	30 June 2019
Assets classified as held for sale	74.7	108.4
Other current assets	607.8	631.2
Total current assets	**682.5**	**739.6**
Property, plant & equipment (PP&E)	8,499.3	8,536.3
Other non-current assets	437.6	425.2
Total non-current assets	**8,936.9**	**8,961.5**
Total Assets	**9,619.4**	**9,701.1**
Liabilities classified as held for sale	(0.7)	(3.8)
Other current liabilities	(697.6)	(795.7)
Total borrowings	(3,372.0)	(3,369.8)
Other non-current liabilities	(987.2)	(854.4)
Total Liabilities	**(5,057.5)**	**(5,023.7)**
Net Assets	**4,561.9**	**4,677.4**
Gearing (net debt/net debt plus equity) (%)	**42.0%**	**41.7%**

Balance Sheet Movements

Total current assets decreased by $57.1m largely due to:

- Reduction in trade and other receivables of $111.1m due to timing of receipt of customer balances and lower Take-or-Pay accrual
- Net reduction in assets classified as held for sale of $33.7m predominately due to completion of sale of the rail grinding business

These reductions in current assets were partly offset by:

- Increase in cash and cash equivalents of $40.1m
- Increase in current inventory of $31.5m due to the timing of rail received in Network and procurement of inventory to support overhaul programs
- Increase in other assets of $16.5m, including $4.9m as a result of adoption of AASB 16 and timing of prepaid insurance

Total non-current assets reduced by $24.6m largely due to a $41.7m decrease in derivative financial instruments (unfavourable valuation), $37.0m decrease in property, plant and equipment, partly offset by $55.8m increase in other assets predominately due to the adoption of AASB 16.

Total current liabilities, excluding borrowings, decreased $101.2m largely due to $94.9m reduction in trade and other payables mainly due to settlement of $81.3m over collection of access revenue in FY2019, $38.0m reduction in employee benefits provisions, partly offset by $27.0m increase in other liabilities including $9.8m as a result of adopting AASB16.

Total borrowings increased by $2.2m including, $82.0m proceeds from issuance of Australian Dollar Medium Term Note partly offset by $45.0m net repayment of bank debt facilities and $36.0m revaluation (favourable) of Euro Medium Term Notes. AMTN 1 matures in October 2020 and as a result has been reclassified to current borrowings.

Other non-current liabilities increased by $132.8m largely due to $49.8m increase in net deferred tax liabilities and $78.4m increase in other liabilities predominately due to the adoption of AASB 16.

Gearing (net debt/debt plus equity) was 42.0% as at 31 December 2019.

Cash Flow Summary

($m)	1HFY2020	1HFY2019
Statutory EBITDA (Continuing operations)	**836.6**	**671.7**
Working capital and other movements	(121.9)	117.2
Non-cash adjustments - asset impairments	-	8.5
Cash flows from Continuing operations	**714.7**	**797.4**
Interest received	1.6	1.2
Income taxes paid	(92.6)	(140.6)
Principal elements of lease receipts	2.8	-
Net cash inflow from operating activities from Continuing operations	**626.5**	**658.0**
Net operating cashflows from Discontinued operations	6.0	(19.3)
Net operating cash flows	**632.5**	**638.7**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment (PP&E) and associate	4.7	7.6
Payments for PP&E and intangibles	(256.5)	(220.4)
Proceeds from sale of business	164.5	-
Net cash (outflow) from investing activities from Continuing operations	**(87.3)**	**(212.8)**
Net investing cashflows from Discontinued operations	2.3	(1.3)
Net investing cashflows	**(85.0)**	**(214.1)**
Cash flows from financing activities		
Net proceeds / (repayments) from borrowings	36.7	(107.4)
Payment for share buy-back and share based payments	(216.3)	(0.6)
Interest paid	(74.4)	(76.1)
Proceeds from settlement of derivatives	-	-
Dividends paid to Company shareholders	(246.8)	(260.7)
Finance Lease payments	(7.0)	-
Net cash (outflow) from financing activities from Continuing operations	**(507.8)**	**(444.8)**
Net financing cashflows from Discontinued operations	-	-
Net financing cashflows	**(507.8)**	**(444.8)**
Net increase / (decrease) in cash from Continuing operations	**31.4**	**0.4**
Net increase / (decrease) in cash from Discontinued operations	**8.3**	**(20.6)**
Free Cash Flow (FCF)[5] from Continuing operations	***464.8***	***369.1***
Free Cash Flow (FCF)[5] from Discontinued operations	***8.3***	***(20.6)***

Cash Flow Movements

Net cash inflow from operating activities from continuing operations decreased by $31.5m (5%) to $626.5m. This was largely due to a $82.7m reduction in cash flows from continuing operations due to receipt of the Cliffs termination payment in 1HFY2019 and the FY2018 UT5 true up adjustment in 1HFY2020. This was partly offset by $48.0m reduction in income taxes paid. 1HFY2019 included a significant final tax payment for FY2018 due to the Acacia Ridge Intermodal Terminal transaction, which was refunded in 2HFY2019 as the transaction remains subject to the ACCC appeal through the Federal Court of Australia.

Net cash outflow from investing activities from continuing operations decreased by $125.5m (59%) to $87.3m, largely due to proceeds from sale of the rail grinding business which completed on 31 October 2019, partly offset by $36.1m increase in cash payments for capital expenditure.

Net cash outflow from financing activities from continuing operations increased by $63.0m (14%) to $507.8m predominately due to $213.1m cash paid for on market buy-back of ordinary shares, partly offset by $144.1m net increase in proceeds from borrowings.

Funding

The improved legal and capital structure was implemented in 1HFY2020 which results in a more efficient balance sheet and funding structure. Aurizon Operations' and Aurizon Network's credit rating has been confirmed at BBB+/Baa1. The Aurizon Holdings' credit rating was withdrawn during the period.

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor.

[5] FCF - Defined as net cash flow from operating activities less net cash outflow from investing activities less interest paid

During 1HFY2020 Aurizon Network:

- Issued a 10.5 year, $82.0m A$ Private Placement.
- Cancelled $110.0m from the existing $490.0m bank debt syndicated facility expiring July 2021

In respect of 1HFY2020:

- Weighted average debt maturity tenor decreased from 4.8 years (1HFY2019) to 4.0 years over the 12-month period
- Group interest cost on drawn debt was 4.5% (1HFY2019 4.5%)
- Available liquidity (undrawn facilities plus cash) at 31 December 2019 was $959m
- Group gearing (net debt / (net debt + equity)) as at 31 December 2019 was 42.0% (1HFY2019 42.4%)
- Network gearing (net debt / RAB (incl AFDs)) as at 31 December 2019 was 54.4% (1HFY2019 56.4%)

Dividend

The Board has declared an interim dividend for 1HFY2020 of 13.7cps (70% franked) based on a payout ratio of 100% in respect of underlying NPAT for continuing operations.

The relevant interim dividend dates are:

- 24 February 2020 – ex-dividend date
- 25 February 2020 – record date
- 23 March 2020 – payment date

Share buy-back

On 12 August 2019, Aurizon announced its intention to undertake an on-market share buy-back of up to $300.0m during FY2020. This has been increased on 10 February 2020 by $100.0m to $400.0m, confirming Aurizon's commitment to returning surplus capital to shareholders.

As at 31 December 2019, 37,162,710 shares at a total consideration of $215.1m had been bought back and subsequently cancelled.

Tax

Underlying income tax expense for continuing operations for 1HFY2020 was $115.3m. Underlying income tax expense for the Group for 1HYFY2020 was $117.3m. The Group underlying and statutory effective tax rate[6] for 1HFY2020 was 30.0%. The Group underlying cash tax rate[7] for 1HFY2020 was 15.5%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

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

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

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

Acacia Ridge Intermodal Terminal

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

The ACCC opposed the sale on 19 July 2018 and commenced proceedings against Aurizon and Pacific National in the Federal Court. On 15 May 2019, the Federal Court rejected the allegations by the ACCC that the proposed sale contravened sections 45 and 50 of the *Competition and Consumer Act (2010)*. On 27 June 2019 the ACCC sought to appeal the Federal Court's decision in relation to the contravention of section 50 of the Act (but not the Federal Court's decision in relation to section 45). On 18 July 2019, Aurizon and Pacific National filed notices of cross appeal. The appeal and cross appeal will be heard by the Full Federal Court in February 2020.

Queensland Intermodal

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

Interstate Intermodal

The Interstate Intermodal business ceased operations on 23 December 2017.

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

BUSINESS UNIT REVIEW

Coal

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

($m)	1HFY2020	1HFY2019	Variance %
Revenue			
Above Rail	628.5	616.7	2%
Track Access	258.9	270.5	(4%)
Other	1.2	0.3	300%
Total revenue	**888.6**	**887.5**	**-**
Operating costs	(581.6)	(582.4)	-
EBITDA	**307.0**	**305.1**	**1%**
Depreciation and amortisation	(101.2)	(94.8)	(7%)
EBIT	**205.8**	**210.3**	**(2%)**

Metrics

	1HFY2020	1HFY2019	Variance %
Total tonnes hauled (m)	106.3	106.5	-
CQCN	74.3	76.4	(3%)
NSW & SEQ	32.0	30.1	6%
Contract utilisation	86%	89%	(3ppt)
Total NTK (bn)	24.8	25.1	(1%)
CQCN	18.7	19.2	(3%)
NSW & SEQ	6.1	5.9	3%
Average haul length (km)	233	236	(1%)
Total revenue / NTK ($/'000 NTK)	35.8	35.4	1%
Above Rail Revenue / NTK ($/'000 NTK)	25.3	24.6	3%
Operating Ratio (%)	76.8%	76.3%	(0.5ppt)
Opex / NTK ($/'000 NTK)	27.5	27.0	(2%)
Opex / NTK (excluding access costs) ($/'000 NTK)	17.2	16.3	(6%)
Locomotive productivity ('000 NTK / Active locomotive day)[8]	401.7	421.8	(5%)
Active locomotives (as at 31 December)[8]	336	328	2%
Wagon productivity ('000 NTK / Active wagon day)[8]	15.6	15.9	(2%)
Active wagons (as at 31 December)[8]	8,570	8,664	(1%)
Payload (tonnes)[8]	7,588	7,460	2%
Velocity (km/hr)[8]	23.8	22.8	4%
Fuel Consumption (l/d GTK)[8]	2.84	2.84	-

Coal Financial Performance Overview

EBIT decreased $4.5m (2%) to $205.8m, with coal volumes flat against the prior period at 106.3mt, which was lower than expected. Coal made investments in train crew and maintenance to support expected volume growth during 1HFY2020. With volumes, and therefore revenue not increasing as expected, earnings have reduced but this impact was partly mitigated through commercial terms in haulage contracts.

- Across the Central Queensland Coal Network (CQCN), volumes fell by 2.1mt (3%) to 74.3mt largely due to customer specific maintenance and production issues including BMA and Peabody which more than offset recovery from the one-off supply chain impacts experienced in 1HFY2019
- In NSW and South-East Queensland (SEQ), volumes increased by 1.9mt (6%) to 32.0mt with higher volumes from MACH Energy partly offset by production issues experienced by other key customers including BHP and Whitehaven. The prior year result was also impacted by a derailment at Newdell in September 2018 and protected industrial action during August 2018 (NSW) and December 2018 (SEQ)

[8]Operational metrics have been restated in prior periods to reflect new reporting which utilises updated data sources

Coal revenue increased by $1.1m to $888.6m, with higher above rail revenue yield mostly offset by lower track access revenues following a reduction in CQCN access tariffs.

Total operating costs (including depreciation) increased $5.6m (1%) to $682.8m with lower track access costs being offset by an increase in other operating costs and depreciation. The major drivers of these movements are noted below:

- Track access costs reduced by $11.1m (4%) due to the abovementioned reduction in the CQCN access tariffs
- Other operating costs increased $10.3m due to wages and consumables escalation, including the commencement of new Enterprise Agreements, and increased traincrew and maintenance costs to meet expected volume growth. These costs were partly offset by lower fuel expenses
- Depreciation increased $6.4m relating to the additional installed fleet, overhauls of existing rollingstock and technology modernisation investments

Operationally, key productivity metrics showed some deterioration given lower than expected volumes. However, average payloads and velocity have increased as a result of successful efficiency initiatives including increasing consist lengths in the Hunter Valley and South East Queensland and implementing improved driver methodologies.

Market update

Australia exported 90mt of metallurgical coal in 1HFY2020, flat against the prior year. China was Australia's largest metallurgical coal export market with export volume of 23mt (26% share), followed closely by India at 22mt (24% share) and Japan at 17mt (19% share). Despite reported extended customs clearance times, export volume to China increased +1% against 1HFY2019. In the 2019 calendar year, both China and India achieved record crude steel production of 996mt (+8% compared to the prior year) and 111mt (+2% compared to the prior year) respectively. The average hard coking coal price in 1HFY2020 fell -26% (compared to the prior year) to US$152/t as a result of slower crude steel production growth in India and reduced steel margins in China. In the 2019 calendar year, metallurgical coal exports from the United States (second largest metallurgical coal export nation behind Australia) decreased -11% against the same period of the prior year.

Australia exported 110mt of thermal coal in 1HFY2020, +2% against the prior year. Japan remained as Australia's largest thermal coal export market with export volume of 38mt (35% share), followed by China at 26mt (23% share) and South Korea at 19mt (18% share). Contributing to export growth was Vietnam, with export volume of 6mt (5% share) in 1HFY2020, an increase of +143% compared to the same period of the prior year. Lower gas prices in Europe continued in the half, driving some power generation substitution from coal to gas resulting in Atlantic coal producers redirecting exports into Asian markets. The average Newcastle benchmark thermal coal price in 1HFY2020 was US$68/t (-39% compared to the prior year). In the 12 months to November, total coal exports (almost entirely thermal coal) from Indonesia (largest thermal coal export nation) increased by +7% against the same period of the prior year.

Contract update

- Coronado – contract extension with additional volumes
- Peabody – extension of all existing volumes and the addition of new business in CQCN and NSW
- Bounty – the Directors of various Bounty companies (including Aurizon's customer Bounty Cook Pty Limited), placed the companies into Voluntary Administration on 17 December 2019. The Cook Colliery Mine was placed into Care and Maintenance as of 8 January 2020

Bulk

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

($m)	1HFY2020	1HFY2019	Variance %
Revenue			
Freight Transport	284.4	244.3	16%
Other	12.9	15.2	(15%)
Total revenue	**297.3**	**259.5**	**15%**
Operating costs	(244.7)	(236.8)	(3%)
EBITDA	**52.6**	**22.7**	**132%**
Depreciation and amortisation	(8.9)	(8.5)	(5%)
EBIT	**43.7**	**14.2**	**208%**
Total tonnes hauled (m)	23.6	23.6	-
Operating Ratio (%)	85.3%	94.5%	9.2ppt

Bulk Financial Performance Overview

EBIT increased $29.5m (208%) to $43.7m predominately due to new volume growth, increased revenue quality and ongoing operational efficiencies. The result demonstrates the strong progress made on the Bulk turnaround program. The Bulk business excluding Iron Ore is now EBIT positive. The result was also supported by the decision to not expense sustaining capital spend in Bulk East from July 2019 based on a sustainable earnings outlook for this business.

Revenue increased $37.8m (15%) to $297.3m on flat volumes due to:

- The commencement of the Linfox agreement in February 2019 (no volumes are recorded against this contract as it is a hook and pull agreement and invoiced on a per service basis)
- The commencement of the Glencore Freighter service on the Mt Isa corridor in October 2018
- Higher revenue yield through some minor contract variations, CPI mechanisms and the expiry of a short-term rate relief arrangement for an Iron Ore customer in late FY2019

In Bulk East, volumes increased with the commencement of the Glencore Freighter service in October 2018, however this was offset by some customer plant maintenance closures. Overall train services increased 63% driven by the Linfox contract commencing February 2019.

In Western Australia (WA), Iron Ore volumes were down 0.4mt driven by lower railings from Mt Gibson. Bulk has been railing spot volumes from Mt Gibson since May 2019, post the cessation of the haulage contract in January 2019, with this volume expected until June 2020. Bulk West volumes increased by 0.4mt largely due to higher bauxite volumes.

Total costs (including depreciation) increased $8.3m (3%) largely due to the commencement of the Linfox agreement. This was partly offset by ongoing cost benefits from the Bulk turnaround program, lower average fuel prices compared to the prior year and not expensing Bulk East sustaining capital spend from July 2019.

Market update

Aurizon's Bulk business includes haulage of a range of bulk commodities such as iron ore, base metals, minerals, grain and livestock across Western Australia and Queensland. In addition to commodities required to build infrastructure, exposure to growth markets of fertilisers and batteries will unlock future opportunities. In terms of batteries, the global uptake of electric vehicles is expected to drive demand for commodities such as nickel, copper and lithium. This is supported by increased exploration expenditure in Australia, with copper exploration increasing by 60% (compared to the prior year) in the September 2019 quarter to A$117m and nickel (including cobalt) exploration expenditure rising 37% to A$64m, across the same period.

Contract update

- Mineral Resource Limited – executed a 3-year contract for the lease of rollingstock, provision of mainline crew and Esperance yard operations
- Rio Tinto Limited (Rio) - executed a 4-year contract for the operation and maintenance of Rio's ballast cleaning machine on its Pilbara WA network
- CHS Broadbent – export grain haulage agreement expanded to support domestic grain movements from South Australia and Victoria load points to Moree New South Wales (2,000km)
- Incitec Pivot Ltd – new contract commenced January 2020 for the haulage of acid and fertiliser on the Mt Isa corridor
- Graincorp - As previously advised this contract expired in November 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)	1HFY2020	1HFY2019	Variance %
Revenue			
Track Access	564.7	534.1	6%
Services and other	31.2	23.3	34%
Total revenue	**595.9**	**557.4**	**7%**
Operating costs	(201.2)	(196.8)	(2%)
EBITDA	**394.7**	**360.6**	**9%**
Depreciation and amortisation	(162.5)	(157.7)	(3%)
EBIT	**232.2**	**202.9**	**14%**

Metrics

	1HFY2020	1HFY2019	Variance %
Tonnes (m)	116.6	116.5	-
NTK (bn)	29.0	28.8	1%
Operating Ratio (%)	61.0%	63.6%	2.6ppt
Maintenance / NTK ($/'000 NTK)	2.2	2.2	-
Opex / NTK ($/'000 NTK)	12.5	12.3	(2%)
Cycle Velocity (km/hr)	23.9	22.9	4%
System Availability (%)	82.2%	81.1%	1.1ppt
Average haul length (km)	248.3	247.5	-

Network Financial Performance Overview

EBIT improved $29.3m (14%) to $232.2m in 1HFY2020, with increased revenue of $38.5m (7%) principally due to the QCA's approval of Network's Revised UT5 Draft Amending Access Undertaking (DAAU) on 19 December 2019 (UT5 Undertaking), partially offset by increased depreciation $4.8m (3%) and operating costs of $4.4m (2%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs that reflect the Consolidated DAAU, which incorporates the 2019 Volume Reset DAAU and the UT5 Undertaking. Total Access Revenue increased $30.6m (6%), benefiting from increased regulatory access revenue of $31.5m. The FY2018 true-up included in FY2019 was not repeated in FY2020, totalling $30.4m. This was partially offset by a volume under-recovery in 1HFY2020 of $11.0m and unfavourable Revenue Cap movements of $28.8m being a repayment of $0.4m and $6.1m for FY2018 and FY2019 respectively in 1HFY2020 compared to a recovery of $22.3m in 1HFY2019.

Rebates were favourable $11.1m in 1HFY2020 primarily due to a true-up adjustment following the finalisation of the UT5 Undertaking, where rebates had been previously been paid on a transitional tariff basis. Electric Charge (EC) revenue was $2.8m lower than prior period, offset by lower consumption expense.

Services and other revenue increased $7.9m (34%) mainly due to external construction works revenue ($4.5m) and insurance recovery revenue ($1.3m).

Operating costs increased by $4.4m (2%) largely due to increased labour costs with CPI impacts and higher energy and fuel costs, excluding EC expense. This was partly offset by a decrease in consumables and other expenses mainly due to a reduction in professional services spend (primarily relating to UT5 and the WIRP dispute).

Depreciation increased $4.8m (3%) due to increased levels of asset renewals, ballast undercutting and higher corporate depreciation allocations.

The Regulated Asset Base (RAB) roll-forward value at 1 July 2019, confirmed in the QCA final decision (19 December 2019) on Network's 2017-18 RAB Roll-forward is $5.6bn (including all deferred capital but excluding AFDs of $0.4bn).

Regulation Update

- On 3 May 2019, Network submitted its UT5 Undertaking, seeking to amend the version of UT5 which was approved by the Queensland Competition Authority on 21 February 2019 (UT5)
- The QCA subsequently approved the UT5 Undertaking on 19 December 2019
- The UT5 Undertaking was submitted with support from more than 90% of Network's customers by contract tonnage. Key points of the UT5 Undertaking include:
  - Extending the term of UT5 to 10 years (1 July 2017 to 30 June 2027)
  - A weighted average cost of capital (WACC) of 5.9% from 3 May 2019, increasing to 6.3% on completion of specific milestones (subject to a reset of market parameters on 1 July 2023)
  - Greater involvement of customers through processes to annually pre-agree future maintenance and capital expenditure
  - The appointment of an independent expert to complete initial and ongoing capacity assessments and undertake reporting requirements
  - Funding commitments from Network for growth-based capital expenditure, including a potential $300m in capital to rectify any capacity deficit identified in the independent expert's initial capacity assessment report and an annual $30m for expansions that benefit more than one mining customer. These amounts will be included in the RAB for pricing purposes
  - A rebate mechanism payable to customers where Network performs below target levels
- All other elements of the MAR including Depreciation, Operational Costs, Maintenance Costs and Taxation will remain consistent with the existing allowances approved by the QCA in February 2019
- On 25 October 2019, Network submitted the UT5 Volume Reset DAAU. As only an approved undertaking can be amended, it used the 19 February 2019 approved UT5 as the base to amend. The Volume Reset DAAU sought to amend the following:
  - Reset FY2020 forecast volumes from 248.2 million tonnes to 240.0 million within the CQCN. The reduction in tonnes was only applied to Blackwater and Goonyella systems
  - Reduce the FY2020 variable maintenance allowance to reflect the lower volumes
  - Reduce the forecast electrical infrastructure charges (AT5) to reflect lower Transmission Network Service Providers charges and
  - Bring-forward the FY2019 Revenue cap adjustment from FY2021 to payment in FY2020
- On 20 December 2019, the QCA released a Preliminary Position Paper outlining that it 'proposes to accept' the UT5 Volume Reset DAAU
- On 20 December 2019, Network submitted the UT5 Consolidated DAAU seeking to combine both the outcome from the UT5 Undertaking and the UT5 Volume Reset DAAU. This is a necessary step to create one complete Access Undertaking and allow Network to commence billing the appropriate tariffs
- The QCA published the Consolidated DAAU on 23 January 2020, requesting submissions from interested stakeholders by 10 February 2020

Operational Update

During 1HFY2020 Network operational performance remained strong. Highlights include:

- The supply chain delivered a record equalling first half period with volumes in the CQCN of 116.6mt. New monthly CQCN records were achieved in July and December of 19.7mt and 20.8mt respectively
- Total System Availability improved from 81.1% to 82.2%
- Cancellations due to the Network rail infrastructure remained at 1.8%
- Cycle velocity improved 4% from 22.9km/h to 23.9km/h
- Following successful implementation of schedule adherence in the Moura system towards the end of FY2019, the focus during 1HFY2020 has been on the trial and implementation of schedule adherence in the Blackwater system. The results to date, compared to the equivalent period in FY2019, have delivered:
  - An average reduction in turnaround time of 1.2 hours per service
  - An increase in average weekly tonnage throughput of 30,000 tonnes
  - On-time arrival to mine improved from 47% to 68%
  - On-time arrival to port improved from 16% to 55%
- In 3QFY2020 Network is working with operators to improve the current scheduling process. By realigning maintenance constraints to unlock capacity and optimising the weekly Intermediate Train Plan to avoid pathing contests between operators, system throughput is expected to increase.

Operational efficiency improvements delivered:

- The RM902, Network's new ballast cleaning machine is presently in its commissioning phase and is scheduled to be fully operational in 2HFY2020
- Progress continues on the Advanced Planning and Scheduling System (APS), which modernises the train ordering process and includes the APS scheduling module and design. Go live of Release 2 occurred on 27 July 2019 and the design of Release 3 and 4 were largely completed in 1HFY2020

Wiggins Island Rail Project (WIRP)

- During 1HFY2020 legal proceedings continued in relation to the notices received by Network in September 2015 from 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. On 27 June 2019, the Supreme Court of Queensland ruled in Network's favour. Customers are appealing the decision which is due to be heard in the Queensland Court of Appeal in March 2020
- The customers also initiated other disputes under their respective WIRP Deeds, which were the subject of an expert determination in February 2019. Those disputes relate to various matters on the completion of the WIRP construction works. The Expert's Determination was issued on 4 June 2019 and found that the WIRP Fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and will not impact recovery of the regulated access charge component of WIRP capital expenditure. Network is determining options for appeal of this outcome
- Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in 1HFY2020

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)	1HFY2020	1HFY2019	Variance %
Total revenue	**28.0**	**40.9**	**(32%)**
Operating costs	(51.1)	(57.6)	11%
EBITDA	**(23.1)**	**(16.7)**	**(38%)**
Depreciation and amortisation	(3.0)	(4.7)	36%
EBIT	**(26.1)**	**(21.4)**	**(22%)**

Other Financial Performance Overview

EBIT decreased by $4.7m (22%) mainly due to reduced earnings from the sale of the Rail Grinding business which completed in October 2019.

Intermodal – Discontinued Operation

($m)	1HFY2020	1HFY2019	Variance %
Total revenue	**12.8**	**87.5**	**(85%)**
Operating Costs	(5.2)	(81.9)	94%
EBITDA	**7.6**	**5.6**	**36%**
Depreciation and amortisation	(0.1)	(0.1)	-
EBIT	**7.5**	**5.5**	**36%**
Significant Items	2.5	(10.3)	nm
Net Finance Cost	-	-	-
Income tax (expense)/benefit	(2.9)	1.4	nm
NPAT (Discontinued operations)	**7.1**	**(3.4)**	**nm**
Total TEUs ('000s)	-	79.1	nm

Intermodal Financial Performance Overview

The EBIT position for Intermodal of $7.5m for 1HFY2020 relates to the operations of the Acacia Ridge Intermodal Terminal only post the completion of the sale of the Queensland Intermodal business in January 2019.

Significant items for the discontinued operation totalled $2.5m, including a gain on sale of surplus assets.

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

The objective of Precision Railroading (Precision) is to deliver better value for customers. Partnerships across the supply chain are critical to facilitate a step-change in system throughput using a disciplined and evidence-based approach to scheduling, execution and continuous improvement.

The focus of Precision in 1HFY2020 has been on improving the operational discipline in the Blackwater system through the implementation of the Schedule Adherence operating mode. There has been an improvement in key metrics since Schedule Adherence commenced in Blackwater compared to the prior period. Key improvements are:

- 4% reduction in turnaround time
- 2% improvement in tonnes moved
- 45% improvement in the number of services reaching the mine on time

Schedule Adherence is the foundation from which further operational improvements can be made. The focus of the Precision in 2HFY2020 in Blackwater and Moura will include a modernisation of scheduling practices, a greater focus on train driver engagement and performance, and elimination of the root causes of deviations to schedule. The project will also work with customers to build on the momentum achieved to date by rolling out applicable learnings and improvements in the Goonyella and Newlands systems.

Train Guard

Train Guard is a platform utilising ETCS (European Train Control System) technology to support driver decision making particularly in relation to speed control and signal enforcement in Central Queensland. This technology will support safer and more efficient train operations with reduced rail process safety issues and improved control and train handling. This technology is also a pathway to expanding our driver only operations in Central Queensland. Trials are currently underway with an operational demonstration to take place in 4QFY2020. Initial installation of 3 locomotives is complete and further equipment installation is currently underway.

TrainHealth

TrainHealth provides Aurizon with capability to comprehensively monitor performance of locomotives and train use in real time. This initiative will enable access to comprehensive asset data that will inform the health of the locomotive, enhance asset reliability and maintenance decisions for the fleet, provide greater visibility on driver behaviour and support business decisions for on-time running. TrainHealth is initially being installed across the Siemens electric locomotive fleet in the CQCN. Installation commenced in August 2019 and will continue through 2HFY2020.

Asset Maintenance

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

Whilst Aurizon has had huge success in applying technology to condition-based maintenance, especially in the CQCN, the current plan covers all aspects of rollingstock across both Coal and Bulk. The plan includes each of the asset management initiatives and will be executed over a multi-year period in three major phases:

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

The plan leverages the previous investments in technologies and will greatly enable success on this journey.

ADDITIONAL INFORMATION

Senior Management Changes

In December 2019, Michael Riches, Group Executive Network resigned. Jason Livingston, Head of Network Asset Management, is currently acting in the Group Executive Network role. Pam Bains, CFO and Group Executive Strategy has been appointed to the position effective from 9 March 2020.

George Lippiatt, Head of Strategy and Corporate Development, will act in the role of CFO and Group Executive Strategy from 9 March 2020.

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.

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

Optimise Strategic Lever

› Delivery of Optimise Initiatives

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

› Operational Agility

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

› Business Interruption

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

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

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

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

› Adverse Basin or Corridor Economics and General Economic Conditions

Aurizon's earnings are concentrated in commodity markets across a relatively small number of customers and may be impacted by deterioration in counterparty credit quality, mine sale to a lower tier party, mine profitability, contract renewals, supply chain disruptions and / or macro-industry issues.

Aurizon develops its own position about the future of coal through our Strategy in Uncertainty framework, which includes scenario analysis, taking climate-related transition risks into consideration. This process considers short-term impacts as well as risks that emerge over the medium to long term, where the timing and magnitude is less certain. Our management team and Board are directly engaged in identifying the scenarios for consideration, as well as developing plans and initiatives to position the organisation to mitigate risks and take advantage of opportunities. This strategic process is repeated every six months to ensure that Aurizon's strategic priorities are continually updated to proactively respond to emerging market dynamics and opportunities.

In 2019, multiple scenarios were developed and considered by Aurizon's Board, including projections that limited Australian thermal coal export growth as a result of an earlier shut down of global coal-fired power generation fleet, lower economic growth (and import reliance), and limited investment in new Australian coal production as a result of regulatory challenges. Under all these scenarios, Australia's coal exports, and therefore Aurizon's coal-related customers and business, are expected to be resilient over the next decade. Longer-term modelling beyond this period unsurprisingly leads to a much more diverse range of scenario outcomes. These scenarios are used to inform portfolio considerations and strategic decisions for Aurizon.

Extend Strategic Lever

› WIRP Non-Regulated Revenue Dispute

Given the decision of the Supreme Court has been appealed by the customers, there is potential the entire amount of the WIRP non-regulated fee as described on page 13 of this report is determined by the Court of Appeal to not be payable by the WIRP customers.

› Climate Change Risk

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

Transition Risks

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

Physical Risks

- Current and future disruption arising from increased severity and/or frequency of extreme weather events (higher temperatures, strong winds, flooding and associated erosion, bushfires and others)

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

Sustainability

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

The 2019 Sustainability Report was the third reporting period in which Aurizon has incorporated recommendations from the Financial Stability Board's (FSB) Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), released in June 2017. Aurizon acknowledges that climate change is affecting a wide range of industries around the world, resulting in financial implications. Transition risks, related to energy policy, regulation, technology and market shifts (that are necessary to achieve the transition to a low-carbon economy) will affect the demand for the commodities that Aurizon hauls. Physical risks related to extreme weather events will also continue to affect Aurizon through supply chain disruptions. Our primary channel for engaging with stakeholders on all ESG matters, including our climate-related disclosures, is through the publication of our Sustainability Report, which is updated and issued annually.

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

› Safety

In December 2019 tragically, there was a fatality of one of our Traincrew involved in a motor vehicle accident west of Mackay. This incident is under investigation by Queensland Police. Workplace Health and Safety Queensland advised it has considered all issues relating to the accident and is not investigating the matter any further. Aurizon continues to put considerable focus and resource into the management of road safety.

Aurizon continues to progress two key programs of work in FY2020 to help improve safety, namely Seamless Safety and HOWED.

- Seamless Safety is a strategic safety initiative that is changing Aurizon's safety culture from centrally controlled compliance to frontline empowerment. With a particular focus on Leadership Capability & Safety Risk Management, comprehensive programs are being run across the business to build leadership capability to make risk-based judgements to inform safety decision making
- The HOWED project is an enterprise-wide governance initiative that is simplifying Aurizon's document set, including the Safety Management System, and making content more readily available and easier for frontline user consumption

In addition to the initiatives above, Aurizon continues to heavily invest in technology as a means of risk mitigation. This includes technology in locomotive cabs, trackside monitoring equipment, train control systems and the use of mobile applications as a way of gathering more meaningful insight into where Aurizon should focus its resources.

In 1HFY2020, we have seen a 14% improvement in Total Recordable Injury Frequency Rate (TRIFR), and a minor deterioration (7%) in Rail Process Safety (RPS). For TRIFR, while the rate of occurrence has not shown significant improvement in recent trending, it is pleasing to note that incident severity is reducing. TRIFR for 1HFY2020 is predominantly muscle strains and sprains, which whilst important to address, are less concerning than our main focus of Serious Injury and Fatality prevention.

The significant contributor to RPS is low speed Yard Derailments where rollingstock has traversed derailing devices. Whilst these incidents are undesirable, and Aurizon is working to eliminate them, the actual safety consequence is normally small.

› Environment

As a rail operator, Aurizon acknowledges there are several ways it is responsible for helping local communities maintain a sustainable environment. Aurizon aims to effectively manage material environmental risks and continually improves enterprise environmental performance. Focus continues on efforts to measure and report on key risks linked to emerging environmental issues such as, clean air and climate change. For example, following on from Aurizon's key role in the development of the Code of Practice for Management of Locomotive Exhaust Emissions (effective from December 2018), focus now turns to implementing the standard across the locomotive fleet. This forms part of the broader drive to reduce diesel emissions, including associated carbon footprint.

In 1HFY2020 Aurizon had one notifiable environmental incident. Remediation actions have been implemented. No ongoing environmental impacts are anticipated.

› People

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

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

For more detailed information on Aurizon's people, please refer to the Sustainability Report www.aurizon.com.au/sustainability/overview

On Enterprise Agreements (EA), Aurizon has now received approval from the Fair Work Commission for all seven EAs, with the Coal EA QLD receiving approval in 1HFY2020 and the Bulk EA QLD receiving approval in January 2020.

Auditor's Independence Declaration

As lead auditor for the review of Aurizon Holdings Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Brisbane
10 February 2020

	Notes	**31 December 2019 $m**	31 December 2018 $m
Revenue from continuing operations	1	**1,528.8**	1,451.4
Other income	1	**105.4**	4.0
Employee benefits expense		**(409.8)**	(385.7)
Energy and fuel		**(121.5)**	(118.2)
Track access		**(63.6)**	(61.4)
Consumables		**(189.7)**	(192.9)
Depreciation and amortisation		**(275.6)**	(265.7)
Impairment losses	2	**-**	(8.5)
Other expenses		**(12.9)**	(17.0)
Share of loss of associates and joint venture partnerships accounted for using the equity method		**(0.1)**	-
Operating profit		**561.0**	406.0
Finance income		**1.3**	1.3
Finance expenses		**(72.7)**	(82.2)
Net finance costs		**(71.4)**	(80.9)
Profit before income tax		**489.6**	325.1
Income tax expense	3	**(146.9)**	(98.2)
Profit after tax for the six months from continuing operations		**342.7**	226.9
Profit/(loss) after tax from discontinued operations	5	**7.1**	(3.4)
Profit after tax from continuing and discontinued operations		**349.8**	223.5
Profit is attributable to:			
Owners of Aurizon Holdings Limited		**349.8**	223.5
		Cents	Cents
Basic earnings per share for profit attributable to the ordinary equity holders of the Company:	4(a)		
- continuing and discontinued operations		**17.7**	11.2
- continuing operations		**17.3**	11.4
Diluted earnings per share for profit attributable to the ordinary equity holders of the Company:	4(b)		
- continuing and discontinued operations		**17.7**	11.2
- continuing operations		**17.3**	11.4

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

Aurizon Holdings Limited
Consolidated statement of comprehensive income
For the six months ended 31 December 2019

	31 December 2019 $m	31 December 2018 $m
Profit after tax from continuing and discontinued operations	**349.8**	223.5
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(8.8)**	(5.8)
Income tax relating to these items	**2.6**	1.7
Other comprehensive income for the six months, net of tax	**(6.2)**	(4.1)
Total comprehensive income for the six months	**343.6**	219.4
Total comprehensive income for the six months is attributable to:		
Owners of Aurizon Holdings Limited	**343.6**	219.4

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

Aurizon Holdings Limited
Consolidated balance sheet
As at 31 December 2019

	Notes	31 December 2019 $m	30 June 2019 $m
ASSETS			
Current assets			
Cash and cash equivalents		**65.3**	25.2
Trade and other receivables		**370.7**	481.8
Inventories		**148.7**	117.2
Derivative financial instruments	9	**0.4**	0.8
Other assets		**22.7**	6.2
Assets classified as held for sale		**74.7**	108.4
Total current assets		**682.5**	739.6
Non-current assets			
Inventories		**36.5**	40.2
Derivative financial instruments	9	**155.0**	196.7
Property, plant and equipment		**8,499.3**	8,536.3
Intangible assets		**179.0**	176.9
Other assets		**64.4**	8.6
Investments accounted for using the equity method		**2.7**	2.8
Total non-current assets		**8,936.9**	8,961.5
Total assets		**9,619.4**	9,701.1
LIABILITIES			
Current liabilities			
Trade and other payables		**311.8**	406.7
Borrowings	8	**693.1**	149.0
Derivative financial instruments	9	**0.8**	-
Current tax liabilities		**47.9**	40.9
Provisions		**235.0**	273.0
Other liabilities		**102.1**	75.1
Liabilities directly associated with assets classified as held for sale		**0.7**	3.8
Total current liabilities		**1,391.4**	948.5
Non-current liabilities			
Borrowings	8	**2,678.9**	3,220.8
Derivative financial instruments	9	**46.4**	49.1
Deferred tax liabilities		**587.2**	537.4
Provisions		**70.2**	62.9
Other liabilities		**283.4**	205.0
Total non-current liabilities		**3,666.1**	4,075.2
Total liabilities		**5,057.5**	5,023.7
Net assets		**4,561.9**	4,677.4
EQUITY			
Contributed equity	7	**691.5**	906.6
Reserves		**3,413.5**	3,418.5
Retained earnings		**456.9**	352.3
Total equity		**4,561.9**	4,677.4

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

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
		Attributable to owners of Aurizon Holdings Limited			
Balance at 30 June 2019		**906.6**	**3,418.5**	**352.3**	**4,677.4**
Adjustment on adoption of AASB 16	11	**-**	**-**	**1.6**	**1.6**
Balance at 1 July 2019		**906.6**	**3,418.5**	**353.9**	**4,679.0**
Profit for the six months		**-**	**-**	**349.8**	**349.8**
Other comprehensive expense		**-**	**(6.2)**	**-**	**(6.2)**
Total comprehensive income for the six months		**-**	**(6.2)**	**349.8**	**343.6**
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	7	**(215.1)**	**(0.2)**	**-**	**(215.3)**
Dividends provided for or paid	6	**-**	**-**	**(246.8)**	**(246.8)**
Share-based payments		**-**	**1.4**	**-**	**1.4**
		(215.1)	**1.2**	**(246.8)**	**(460.7)**
Balance at 31 December 2019		**691.5**	**3,413.5**	**456.9**	**4,561.9**
Balance at 1 July 2018		906.6	3,460.1	363.4	4,730.1
Profit for the six months		-	-	223.5	223.5
Other comprehensive expense		-	(4.1)	-	(4.1)
Total comprehensive income for the six months		-	(4.1)	223.5	219.4
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	6	-	-	(260.7)	(260.7)
Share-based payments		-	(0.9)	-	(0.9)
		-	(0.9)	(260.7)	(261.6)
Balance at 31 December 2018		906.6	3,455.1	326.2	4,687.9

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

Aurizon Holdings Limited
Consolidated statement of cash flows
For the six months ended 31 December 2019

	31 December 2019 $m	31 December 2018 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,814.9**	1,835.8
Payments to suppliers and employees (inclusive of GST)	**(1,100.2)**	(1,038.4)
Interest received	**1.6**	1.2
Principal elements of lease receipts	**2.8**	-
Income taxes paid	**(92.6)**	(140.6)
Net cash inflow from operating activities from continuing operations	**626.5**	658.0
Net cash inflow/(outflow) from operating activities from discontinued operations	**6.0**	(19.3)
Net cash inflow from operating activities	**632.5**	638.7
Cash flows from investing activities		
Payments for property, plant and equipment	**(238.6)**	(202.0)
Proceeds from sale of business	**164.5**	-
Proceeds from sale of property, plant and equipment	**4.7**	7.6
Payments for intangibles	**(15.9)**	(16.6)
Interest paid on qualifying assets	**(2.0)**	(1.8)
Net cash (outflow) from investing activities from continuing operations	**(87.3)**	(212.8)
Net cash inflow/(outflow) from investing activities from discontinued operations	**2.3**	(1.3)
Net cash (outflow) from investing activities	**(85.0)**	(214.1)
Cash flows from financing activities		
Proceeds from borrowings	**172.0**	65.0
Repayment of borrowings	**(135.0)**	(170.0)
Payments of transaction costs related to borrowings	**(0.3)**	(2.4)
Payments for buy-back of ordinary shares	**(212.9)**	-
Payments of transaction costs for buy-back of ordinary shares	**(0.2)**	-
Principal elements of lease payments	**(7.0)**	-
Dividends paid to Company's shareholders	**(246.8)**	(260.7)
Payments for shares acquired for share based payments	**(3.2)**	(0.6)
Interest paid	**(74.4)**	(76.1)
Net cash (outflow) from financing activities from continuing operations	**(507.8)**	(444.8)
Net cash inflow/(outflow) from financing activities from discontinued operations	**-**	-
Net cash (outflow) from financing activities	**(507.8)**	(444.8)
Net increase in cash and cash equivalents from continuing operations	**31.4**	0.4
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**8.3**	(20.6)
Cash and cash equivalents at the beginning of the financial year	**25.2**	34.8
Effects of exchange rate changes on cash and cash equivalents	**0.4**	1.6
Cash and cash equivalents at end of interim financial period	**65.3**	16.2

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

About this report

Corporate information

The financial statements of Aurizon Holdings Limited ("the Company") for the six months ended 31 December 2019 are for the consolidated entity consisting of the Company and its subsidiaries (together referred to as "the Group" or "Aurizon").

Basis of preparation

This consolidated Interim Financial Report for the six month reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

This consolidated interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this financial report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The annual report for the year ended 30 June 2019 is accessible at www.aurizon.com.au.

The consolidated Interim Financial Report is presented in Australian dollars with all values rounded to the nearest hundred thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Key events and transactions for the reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

(a) Closure and sale of Intermodal

On 14 August 2017, the Group announced its intention to exit the Intermodal business through a combination of closure and sale. The three-stage exit comprises the Acacia Ridge Intermodal Terminal, Queensland Intermodal and Interstate Intermodal. The Intermodal business is disclosed as a discontinued operation.

Acacia Ridge Intermodal Terminal

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

The ACCC opposed the sale on 19 July 2018 and commenced proceedings against Aurizon and Pacific National in the Federal Court. On 15 May 2019, the Federal Court rejected the allegations by the ACCC that the proposed sale contravened section 45 and section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. On 27 June 2019 the ACCC appealed the Federal Court's decision in relation to the contravention of section 50 of the Act (but not the Federal Court's decision in relation to section 45). On 18 July 2019, Aurizon and Pacific National filed notices of cross-appeal. The appeal and cross-appeal will be heard by the Full Federal Court in February 2020.

The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 31 December 2019.

Queensland Intermodal

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

Interstate Intermodal

The Interstate Intermodal business ceased operating on 23 December 2017.

(b) Access Revenue

2017 Access Undertaking

During the prior period, agreements were signed with customers who represent more than 90% of railed tonnes in the Central Queensland Coal Network (CQCN) to propose amendments to the 2017 Access Undertaking. As a result, on 3 May 2019, a Draft Amending Access Undertaking (DAAU) was submitted to the Queensland Competition Authority (QCA) incorporating the proposed amendments. The proposed amendments include:

Key events and transactions for the reporting period (continued)

(b) Access Revenue (continued)

2017 Access Undertaking (continued)

- Extending the term of the Access Undertaking to 10 years (1 July 2017 to 30 June 2027);
- A Weighted Average Cost of Capital (WACC) of 5.9% increasing to 6.3% (subject to reset on 1 July 2023) on completion of specified milestones; and
- Development of mechanisms to provide supply chain value through improved supply chain stability and improved maintenance and asset renewal programs.

On 25 November 2019, the QCA released its Final Decision which provides that it will approve the DAAU, subject to minor amendments proposed by the QCA being included. Aurizon Network submitted a Compliant Access Undertaking in line with the Final Decision which was approved by the QCA on 19 December 2019. The WACC of 5.9% will apply from 3 May 2019 with the true-up of access revenue recognised in FY20.

A Volume Reset DAAU was submitted to the QCA on 25 October 2019. The QCA accepted, in principle, the key aspects of the Volume Reset DAAU, however as this approval overlapped with the Compliant Access Undertaking, the QCA were not able to approve the Volume Reset DAAU. Therefore, Aurizon Network submitted a consolidated Compliant Access Undertaking and Volume Reset DAAU on 20 December 2019 for approval by the QCA.

Access revenue for the period has been recognised based on the consolidated Compliant Access Undertaking and Volume Reset DAAU.

Wiggins Island Rail Project (WIRP) Access Revenue

During the period, legal proceedings continued in relation to the notices received by the Group from the WIRP customers purporting to exercise a right under the WIRP Deeds to reduce their financial exposure in respect of payment of the WIRP fee, which is non-regulated. On 27 June 2019, the Supreme Court of Queensland ruled in the Group's favour, however on 25 July 2019, customers lodged an appeal challenging the decision of the Supreme Court. The appeal will be heard in the Queensland Court of Appeal in March 2020.

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

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

(c) Sale of rail grinding business

On 12 June 2019 the Group signed a business sale agreement with Loram Pty Ltd to sell the rail grinding business. Completion of the sale occurred on 31 October 2019. The net gain on sale of $105.4 million has been classified as a significant item.

(d) Debt financing

In July 2019 Aurizon Network Pty Ltd (a wholly owned subsidiary of the Group) reduced the capacity of the syndicated bank debt facility expiring July 2021 from $490.0 million to $380.0 million. In September 2019 Aurizon Network Pty Ltd issued a long term $82.0 million fixed rate Medium Term Note expiring 22 March 2030.

(e) Change in accounting policies

The Group adopted AASB 16 *Leases* retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period as permitted under the specific transitional provisions in the standard. The impact of the new leasing standard and change in accounting policies are disclosed in note 11.

Comparative Period

Key events and transactions affecting the performance of the Group in the comparative period are disclosed within the Annual Report for the year ended 30 June 2019.

Results for the six months

IN THIS SECTION

Results for the six months provides segment information and a breakdown of individual line items in the consolidated income statement that the directors consider most relevant.

1 Segment information

(a) Operating segments

Aurizon determines and presents operating segments on a business unit structure basis as this is how the results are reported internally and how the business is managed. The Managing Director & CEO and the Executive Committee assess the performance of the Group based on the underlying EBIT.

Unless otherwise noted, the segment reporting information excludes discontinued operations being Intermodal. Refer to note 5 for further details.

The following summary describes the operations in each of the Group's reportable segments:

Network

Provision of access to, and operation of, the CQCN. Provision of maintenance and renewal of Network assets.

Coal

Transport of coal from mines in Queensland and New South Wales to end customers and ports.

Bulk

Transport of bulk mineral commodities, agricultural products, mining and industrial inputs, and general freight throughout Queensland and Western Australia.

Other

Includes provision of maintenance services to internal and external customers and central costs not allocated such as Board, Managing Director & CEO, company secretary, strategy and investor relations.

1 Segment information (continued)

(b) Segment results

31 December 2019	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	**305.2**	**258.9**	**-**	**-**	**564.1**
Freight transport	**-**	**628.5**	**277.1**	**-**	**905.6**
Other services	**9.9**	**-**	**12.3**	**14.5**	**36.7**
Other revenue	**15.4**	**1.2**	**0.2**	**5.6**	**22.4**
Total revenue from external customers	**330.5**	**888.6**	**289.6**	**20.1**	**1,528.8**
Internal revenue					
Services revenue					
Track access	**259.5**	**-**	**-**	**-**	**259.5**
Freight transport	**-**	**-**	**7.3**	**-**	**7.3**
Other services	**5.9**	**-**	**0.4**	**7.9**	**14.2**
Total internal revenue	**265.4**	**-**	**7.7**	**7.9**	**281.0**
Total revenue[1]	**595.9**	**888.6**	**297.3**	**28.0**	**1,809.8**
Other income	**-**	**-**	**-**	**-**	**-**
Total revenue and other income	**595.9**	**888.6**	**297.3**	**28.0**	**1,809.8**
Internal elimination					**(281.0)**
Consolidated revenue and other income					**1,528.8**
Continuing EBITDA (Underlying)[2,3]	**394.7**	**307.0**	**52.6**	**(23.1)**	**731.2**
Depreciation and amortisation	**(162.5)**	**(101.2)**	**(8.9)**	**(3.0)**	**(275.6)**
Continuing EBIT (Underlying)[2]	**232.2**	**205.8**	**43.7**	**(26.1)**	**455.6**
Significant adjustments (note c)					**105.4**
EBIT[2]					**561.0**
Net finance costs					**(71.4)**
Profit before income tax from continuing operations					**489.6**

[1] The Group derives revenue from the provision of services over time.

[2] Refer to page 50 for Non-IFRS financial information

[3] Refer to note 11 for details regarding the impact of changes in the Group's accounting policies following the adoption of the new leasing standard from 1 July 2019 on the segment information. The new leasing standard has been adopted retrospectively but comparatives for the 2019 reporting period have not been restated as permitted under specific transitional provisions in the standard.

1 Segment information (continued)

(b) Segment results (continued)

31 December 2018	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	262.6	270.5	-	-	533.1
Freight transport	-	616.7	239.4	-	856.1
Other services	5.5	-	12.2	20.5	38.2
Other revenue	15.0	0.3	0.3	8.4	24.0
Total revenue from external customers	283.1	887.5	251.9	28.9	1,451.4
Internal revenue					
Services revenue					
Track access	271.5	-	-	-	271.5
Freight transport	-	-	4.9	-	4.9
Other services	2.8	-	0.4	10.3	13.5
Total internal revenue	274.3	-	5.3	10.3	289.9
Total revenue[1]	557.4	887.5	257.2	39.2	1,741.3
Other income	-	-	2.3	1.7	4.0
Total revenue and other income	557.4	887.5	259.5	40.9	1,745.3
Internal elimination					(289.9)
Consolidated revenue and other income					1,455.4
Continuing EBITDA (Underlying)[2]	360.6	305.1	22.7	(16.7)	671.7
Depreciation and amortisation	(157.7)	(94.8)	(8.5)	(4.7)	(265.7)
Continuing EBIT (Underlying)[2]	202.9	210.3	14.2	(21.4)	406.0
EBIT[2]					406.0
Net finance costs					(80.9)
Profit before income tax from continuing operations					325.1

[1] The Group derives revenue from the provision of services over time.

[2] Refer to page 50 for Non-IFRS financial information

1 Segment information (continued)

(c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	31 December 2019 $m	31 December 2018 $m
Net gain on sale of rail grinding business	**105.4**	-
Total significant adjustments (continuing operations)	**105.4**	-

For disclosure on the significant adjustments relating to discontinued operations refer to Note 5(c).

2 Impairment of non-financial assets

(a) Impairment

Continuing operations	**31 December 2019 $m**	31 December 2018 $m
Bulk impairment	-	8.5
	-	8.5
Discontinued operations		
Intermodal impairment	-	23.5
Total impairment of non-financial assets	-	32.0

Current Period

There is no impairment of non-financial assets for the period ended 31 December 2019.

Prior Period

Information regarding impairment arising in the comparative period is disclosed within the Interim Financial Report for the period ended 31 December 2018.

3 Income tax expense

The Group's statutory effective tax rate for the half year ended 31 December 2019 is 30.0% (2018: 30.2%).

4 Earnings per share

(a) Basic earnings per share

	31 December 2019 Cents	31 December 2018 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	**17.7**	11.2
- continuing operations	**17.3**	11.4

(b) Diluted earnings per share

Diluted earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	**17.7**	11.2
- continuing operations	**17.3**	11.4

(c) Weighted average number of shares used as denominator

	31 December 2019 Number '000	31 December 2018 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,977,149**	1,990,128
Rights	**2,099**	111
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,979,248**	1,990,239

5 Discontinued operations

(a) Description

On 14 August 2017 the Group announced its intention to exit the Intermodal business through a combination of closure and sale. The three-stage exit comprises Acacia Ridge Intermodal Terminal, Queensland Intermodal and Interstate Intermodal.

Acacia Ridge Intermodal Terminal

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

The ACCC opposed the sale on 19 July 2018 and commenced proceedings against Aurizon and Pacific National in the Federal Court. On 15 May 2019, the Federal Court rejected the allegations by the ACCC that the proposed sale contravened section 45 and section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. On 27 June 2019 the ACCC appealed the Federal Court's decision in relation to the contravention of section 50 of the Act (but not the Federal Court's decision in relation to section 45). On 18 July 2019, Aurizon and Pacific National filed notices of cross-appeal. The appeal and cross-appeal will be heard by the Full Federal Court in February 2020.

The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 31 December 2019.

Queensland Intermodal

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

Interstate Intermodal

The Interstate Intermodal business ceased operations on 23 December 2017.

(b) Financial performance and cash flow information

Financial information relating to the discontinued operation is set out below. The prior period includes the Queensland Intermodal business that was sold on 31 January 2019.

	31 December 2019 $m	31 December 2018 $m
Revenue	**12.8**	87.5
Other income	**2.5**	10.4
Employee benefits expense	**(1.7)**	(25.8)
Energy and fuel	**(0.1)**	(5.6)
Track access	**-**	(7.8)
Consumables	**(3.9)**	(42.6)
Depreciation and amortisation	**(0.1)**	(0.1)
Impairment losses	**-**	(23.5)
Other expenses	**0.5**	2.7
Profit/(loss) before income tax	**10.0**	(4.8)
Income tax (expense)/benefit	**(2.9)**	1.4
Profit/(loss) after income tax of discontinued operation	**7.1**	(3.4)
Profit/(loss) from discontinued operations	**7.1**	(3.4)
Net cash inflow/(outflow) from operating activities	**6.0**	(19.3)
Net cash inflow/(outflow) from investing activities	**2.3**	(1.3)
Net cash inflow/(outflow) from financing activities	**-**	-
Net increase/(decrease) in cash generated by the discontinued operations	**8.3**	(20.6)

5 Discontinued operations (continued)

(c) Significant adjustments

Significant items are those items where their nature and amount is considered material to the financial statements. Items related to discontinued operations included within the Group's profit are detailed below:

	31 December 2019 $m	31 December 2018 $m
Intermodal closure benefit	**2.5**	12.7
Intermodal impairment expense	**-**	(23.5)
Redundancy benefit	**-**	0.5
Total significant adjustments (discontinued operations)	**2.5**	(10.3)

Current Period

Intermodal closure benefit includes gain on sale of assets in the period.

Prior Period

Intermodal closure benefit includes gain on sale of assets in the period and release of contract exit cost provisions recognised in the prior period of $12.7 million. Significant items also include asset write downs of $23.5 million and a redundancy benefit of $0.5 million as a result of the sale of the Queensland Intermodal business.

(d) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities of the disposal group are classified as held for sale.

	31 December 2019 $m	30 June 2019 $m
Assets classified as held for sale		
Property, plant and equipment	**36.9**	36.7
Trade and other receivables	**4.7**	6.2
Total assets of disposal group held for sale[1]	**41.6**	42.9
Liabilities directly associated with assets classified as held for sale		
Employee benefit obligations	**(0.7)**	(0.7)
Net assets of disposal group classified as held for sale	**40.9**	42.2

[1] Total assets classified as held for sale of $74.7 million (2019: $108.4 million) includes $33.1 million (2019: $65.5 million) of other assets that are not part of the disposal group.

Capital management

IN THIS SECTION

Capital management provides information about the capital management practices of the Group and shareholder returns for the six months and the Group's fair value disclosure for financial instruments.

6 Dividends

(a) Ordinary shares

	31 December 2019 $m	31 December 2018 $m
Final dividend for the year ended 30 June 2019 of 12.4 cents 70% franked (2018: 13.1 cents 60% franked) per share, paid 23 September 2019	**246.8**	260.7

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

	31 December 2019 $m	31 December 2018 $m
Since 31 December 2019, the Directors have declared the payment of a 70% franked interim dividend of 13.7 cents per fully paid ordinary share (31 December 2018: 11.4 cents 70% franked). The aggregate amount of the proposed dividend is expected to be paid on 23 March 2020 out of retained earnings, but not recognised as a liability at 31 December 2019.	**267.6**	226.9

7 Contributed equity

	31 December 2019 Shares '000	30 June 2019 Shares '000	**31 December 2019 $m**	30 June 2019 $m
Issued capital				
Fully paid	**1,952,965**	1,990,128	**691.5**	906.6

Date	**Details**	**Number of shares '000**	**$m**
1 July 2018	Opening balance	1,990,128	906.6
31 December 2018	Closing balance	1,990,128	906.6
1 July 2019	Opening balance	1,990,128	906.6
	On-market share buy-back	(37,163)	(215.1)
31 December 2019	Closing balance	1,952,965	691.5

8 Borrowings

	31 December 2019 $m	30 June 2019 $m
Current - Unsecured		
Bank debt facilities	**169.0**	149.0
Medium-term notes	**524.1**	-
	693.1	149.0
Non-current - Unsecured		
Medium-term notes	**2,191.8**	2,670.0
Bank debt facilities	**495.0**	560.0
Capitalised borrowing costs	**(7.9)**	(9.2)
	2,678.9	3,220.8
Total borrowings	**3,372.0**	3,369.8

The Group's bank debt facilities contain financial covenants. Both the bank debt facilities and medium-term notes contain general undertakings including negative pledge clauses which restrict the amount of security that the Group can provide over assets in certain circumstances. The Group has complied with all required covenants and undertakings throughout the reporting period.

In July 2019 Aurizon Network Pty Ltd (a wholly owned subsidiary of the Group) reduced the capacity of the syndicated bank debt facility expiring July 2021 from $490.0 million to $380.0 million.

On 25 September 2019 Aurizon Network Pty Ltd issued a long term $82.0 million fixed rate Medium Term Note expiring 22 March 2030.

9 Fair value disclosure for financial instruments

(a) Fair values of financial instruments

The carrying amounts and fair values of all of the Group's financial instruments which are not carried at an amount which approximates their fair value at 31 December 2019 and 30 June 2019 are shown in the following table.

The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. For the period ended 31 December 2019, the borrowing rates were determined to be ranging from 1.7% to 3.2% depending on the type of borrowing (30 June 2019: 1.8% to 4.2%).

	Carrying amount		**Fair value**	
	31 December 2019 $m	30 June 2019 $m	**31 December 2019 $m**	30 June 2019 $m
Borrowings	**3,372.0**	3,369.8	**3,527.5**	3,510.9

(b) Fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

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

- Forward foreign exchange contracts
- Interest rate swaps
- CCIRS

The fair value of forward foreign exchange contracts has been determined as the unrealised gain/(loss) at balance date by reference to market rates. The fair value of interest rate swaps has been determined as the net present value of contracted cash flows.

These values have been adjusted to reflect the credit risk of the Group and relevant counterparties, depending on whether the instrument is a financial asset or a financial liability. The existing exposure method, which discounts estimated future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements has been adopted for both forward foreign exchange contracts and interest rate swaps.

The fair value of CCIRS has been determined as the net present value of contract cash flows. The future probable exposure method is applied to the estimated future cash flows to reflect the credit risk of the Group and relevant counterparties.

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

During the interim financial period to 31 December 2019, there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

9 Fair value disclosure for financial instruments (continued)

(c) Fair value hierarchy (continued)

Recognised fair value measurements

At 31 December 2019	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Derivative financial instrument assets				
Current assets				
Foreign exchange contracts	**-**	**0.4**	**-**	**0.4**
Non-current assets				
Interest rate swaps	**-**	**1.0**	**-**	**1.0**
CCIRS - EMTN 1	**-**	**130.0**	**-**	**130.0**
CCIRS - EMTN 2	**-**	**24.0**	**-**	**24.0**
	-	**155.0**	**-**	**155.0**
Total derivative financial instrument assets	**-**	**155.4**	**-**	**155.4**
Derivative financial instrument liabilities				
Current liabilities				
Foreign exchange contracts	**-**	**(0.8)**	**-**	**(0.8)**
Non-current liabilities				
Interest rate swaps	**-**	**(46.4)**	**-**	**(46.4)**
Total derivative financial instrument liabilities	**-**	**(47.2)**	**-**	**(47.2)**
Net financial instruments measured at fair value	**-**	**108.2**	**-**	**108.2**

At 30 June 2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial instrument assets				
Current assets				
Foreign exchange contracts	-	0.8	-	0.8
Non-current assets				
CCIRS - EMTN 1	-	151.6	-	151.6
CCIRS - EMTN 2	-	45.1	-	45.1
	-	196.7	-	196.7
Total derivative financial instrument assets	-	197.5	-	197.5
Derivative financial instrument liabilities				
Non-current liabilities				
Interest rate swaps	-	(49.1)	-	(49.1)
Net financial instruments measured at fair value	-	148.4	-	148.4

Other notes

IN THI SSECTION

Other notes provide information on other items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements however are not considered critical in understanding the financial performance of the Group.

10 Summary of significant accounting policies

The accounting policies adopted in the preparation of this consolidated Interim Financial Report are consistent with those of the previous financial year except for the adoption of new and amended standards as set out below. These policies have been consistently applied to both periods presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

(a) New and amended standards adopted by the Group

A number of new or amended standards become applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 *Leases*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 11. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

11 Changes in accounting policies

This note explains the impact of adoption of AASB 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019.

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

(a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.6%.

	2019 $m
Operating lease commitments disclosed as at 30 June 2019	**174.6**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**(26.4)**
(Less): short-term leases recognised on a straight-line basis as expense	**(0.5)**
(Less): adjustments as a result of different treatment of termination options	**(4.8)**
Lease liability recognised as at 1 July 2019	**142.9**
Of which are:	
Current other liabilities	**14.1**
Non-current other liabilities	**128.8**
	142.9

The associated right-of-use assets, which relate primarily to property, were measured at the amount equal to the lease liability and initial direct costs incurred when entering into the lease less incentives received for fitout contributions. The right-of-use assets were adjusted for the lease receivable on sub-lease arrangements where the sub-lease was for the duration of the head lease.

The change in accounting policy affected the following items in the consolidated balance sheet on 1 July 2019:

11 Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of AASB 16 (continued)

	1 July 2019 $m
ASSETS	
Current assets	
Other assets	**4.9**
Non-current assets	
Property, plant and equipment	**53.3**
Other assets	**41.1**
LIABILITIES	
Current liabilities	
Provisions	**0.1**
Other liabilities	**(9.8)**
Non-current liabilities	
Provisions	**2.3**
Other liabilities	**(90.3)**
Net assets	**1.6**
EQUITY	
Retained earnings	**1.6**

(i) Impact on segment disclosures and earnings per share

As a result of adopting the new leasing standard from 1 July 2019, segment continuing EBITDA has improved due to the change in policy. The impact for the six months ended 31 December 2019 is included in the table below.

	Continuing EBITDA $m
Network	**1.1**
Coal	**2.5**
Bulk	**0.7**
Other	**-**
	4.3

There has been no material impact on earnings per share for the six months ended 31 December 2019 as a result of the adoption of AASB 16.

(ii) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases, and
- reliance on previous assessments on whether leases are onerous.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(b) The Group's leasing activities and how these are accounted for

The Group primarily leases property, plant and equipment. These leases, with terms mostly ranging from one to 10 years, generally provide the Group with a right of renewal at which times the lease terms are renegotiated.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Rental revenue from operating leases where the Group is the lessor were recognised as income on a straight-line basis over the lease term.

11 Changes in accounting policies (continued)

(b) The Group's leasing activities and how these are accounted for (continued)

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Where the Group is a sub-lessor and the sub-lease is for the duration of the head lease, the right-of-use asset recognsied from the head leases are derecognised and a lease receivable equal to the present value of future lease payments receivable is recognsied.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received, and
- any initial direct costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

12 Critical accounting estimates and judgements

A number of critical accounting estimates and judgements were disclosed in the 30 June 2019 financial report. Included within those judgements and estimates are the following which have particular relevance to the Interim Financial Report.

(a) Revenue

Wiggins Island Rail Project (WIRP) Access Revenue

During the period, legal proceedings continued in relation to the notices received by the Group from the WIRP customers purporting to exercise a right under the WIRP Deeds to reduce their financial exposure in respect of payment of the WIRP fee, which is non-regulated. On 27 June 2019, the Supreme Court of Queensland ruled in the Group's favour, however on 25 July 2019, customers lodged an appeal challenging the decision of the Supreme Court. The appeal will be heard in the Queensland Court of Appeal in March 2020.

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

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

Freight Transport Contract Modifications

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

(b) Discontinued operations

The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 31 December 2019.

Unrecognised items and events after reporting date

IN THIS SECTION

Unrecognised items provide information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance. This section also includes events occurring after the reporting date

13 Contingencies

(a) Contingent liabilities

Issues relating to common law claims and product warranties are dealt with as they arise. There have been no material changes to contingent liabilities since 30 June 2019, other than as set out below.

Transfer duty exemption

The transfer of ownership of Aurizon Network Pty Ltd from Aurizon Operations Ltd (a wholly owned subsidiary of the Group) to Aurizon Holdings Ltd in August 2019 qualified for an exemption from transfer duty under the Queensland *Duties Act 2001*. Should duty become payable in respect of the restructure (for example, due to a change in ownership of Aurizon Network Pty Ltd within 3 years of the transfer of the shares in August 2019), Aurizon estimates the duty liability may be approximately $295 million.

(b) Contingent assets

There have been no material changes to contingent assets since 30 June 2019.

14 Events occurring after the reporting period

No matter or circumstance, other than the matters disclosed in key events and transactions for the period, has occurred subsequent to the interim financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

In accordance with a resolution of the Directors of the Company, I state that:

In the opinion of the Directors of the Company:

(a) the interim financial statements and notes set out on pages 19 to 46 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the six months ended on that date, and

(b) there are reasonable grounds to believe that the Aurizon Holdings Limited will be able to pay its debts as and when they become due and payable.

Tim Poole
Chairman

Brisbane
10 February 2020

Independent auditor's review report to the members of Aurizon Holdings Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Aurizon Holdings Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Aurizon Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Aurizon Holdings Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Nadia Carlin
Partner

Tim Allman
Partner

Brisbane
10 February 2020

Non-IFRS Financial Information in 2019-20 Interim Financial Report

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin – Underlying, NPAT Underlying, Return On Invested Capital (ROIC), Net debt and Net gearing ratio. These measurements are not defined under IFRS and are, therefore, termed 'Non-IFRS' measures.

EBIT – Statutory is defined as Group profit before net finance costs and tax, while EBITDA - Statutory is Group profit before net finance costs, tax, depreciation and amortisation. EBIT - Underlying can differ from EBIT – Statutory due to exclusion of significant items that permits a more appropriate and meaningful analysis of the underlying performance on a comparative basis. EBITDA margin is calculated by dividing underlying EBITDA by the total revenue. These measures are considered to be useful measures of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and/or amortisation.

NPAT Underlying represents the underlying EBIT less finance costs less tax expense excluding tax impact of significant adjustments.

ROIC is defined as underlying rolling twelve-month EBIT divided by average invested capital. With the introduction of the new lease accounting standard effective from 1 July 2019, which has the effect of bringing leases onto the balance sheet, the definition of average invested capital has been simplified. Average invested capital is calculated as the rolling twelve-month average of net assets (excluding cash, borrowings, tax, derivative financial assets and liabilities). This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net gearing ratio is defined as Net debt divided by Shareholders Equity plus Net debt. Net debt and Net gearing ratio are measures of the Group's indebtedness and provides an indicator of the balance sheet strength.

These above-mentioned measures are commonly used by management, investors and financial analysts to evaluate companies' performance.

A reconciliation of the non-IFRS measures and specific items to the nearest measure prepared in accordance with IFRS is included in the table. The non-IFRS financial information contained within this Directors' report and Notes to the Financial Statements has not been audited in accordance with Australian Auditing Standards.

	Half-year ended 31 December 2019		Half-year ended 31 December 2018	
	Continuing operations $m	**Discontinued operations $m**	Continuing operations $m	Discontinued operations $m
Profit/(loss) before income tax	**489.6**	**10.0**	325.1	(4.8)
Finance costs (net)	**71.4**	-	80.9	-
EBIT – Statutory	**561.0**	**10.0**	406.0	(4.8)
Add back significant adjustments:				
- Net gain on sale of rail grinding business	**(105.4)**	**-**	-	-
- Intermodal closure benefit	**-**	**(2.5)**	-	(12.7)
- Intermodal impairment	**-**	**-**	-	23.5
- Redundancy benefit	**-**	**-**	-	(0.5)
EBIT – Underlying	**455.6**	**7.5**	406.0	5.5
Depreciation and amortisation	**275.7**	**0.1**	265.7	0.1
EBITDA – Underlying	**731.3**	**7.6**	671.7	5.6
Average invested capital (continuing operations)	**8,361**		8,575	
ROIC (continuing operations)[1]	**10.5%**		10.0%	

	Half-year ended 31 December 2019 $m	Year ended 30 June 2019 $m
Total borrowings	**3,372.0**	3,369.8
Less: cash and cash equivalents	**(65.3)**	(25.2)
Net debt	**3,306.7**	3,344.6
Total equity	**4,562.1**	4,677.4
Total capital	**7,868.8**	8,022.0
Net Gearing Ratio	**42.0%**	41.7%

[1] ROIC is calculated on a rolling twelve-month underlying EBIT of $878.6 million (H1FY20 $455.6 million; H2FY19 $423.0 million).