Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

15 February 2021

Half Year Report

Please find attached for immediate release a copy of the Company's Half Year Report for the period ended 31 December 2020.

In accordance with the relief from dual lodgement of financial statements under ASIC Class Order 98/104, the Half Year Report will not be lodged separately with ASIC.

Kind regards

Dominic D Smith
Company Secretary

T +61 7 3019 9000 | F +61 7 3019 0720 | CompanySecretary@aurizon.com.au
Level 8, 900 Ann Street, Fortitude Valley QLD 4006 Australia | GPO Box 456 Brisbane QLD 4001 Australia

Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report
for the six months ended 31 December 2020

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 2020.

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
S Ryan
L Strambi
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 and road transporter, port services provider and material handler 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

Integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Queensland, New South Wales 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 sale of the discontinued operation is expected to complete on 26 March 2021.

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 18 of this Interim Financial Report.

Dividends

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

	2020 **$m**	2019 $m
Final dividend for the year ended 30 June 2020 of 13.7 cents 70% franked (2019: 12.4 cents 70% franked) per share, paid 21 September 2020	**262.3**	246.8

The Directors have declared a 70% franked interim dividend of 14.4 cents per ordinary share for the six months ended 31 December 2020. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 2 March 2021. The payment date is 31 March 2021.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

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
15 February 2021

OPERATING AND FINANCIAL REVIEW

CONSOLIDATED RESULTS

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 49. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

1. Half on Half Comparison

Financial Summary

($m)		1HFY2021	1HFY2020	Variance
Total revenue		**1,498.4**	**1,528.8**	**(2%)**
Operating costs				
Employee benefits		(422.3)	(409.8)	(3%)
Energy and fuel		(91.8)	(121.5)	24%
Track access		(46.0)	(63.6)	28%
Consumables		(194.4)	(189.7)	(2%)
Other		(5.6)	(13.0)	57%
EBITDA		**738.3**	**731.2**	**1%**
	- statutory	738.3	836.6	(12%)
Depreciation and amortisation		(284.1)	(275.6)	(3%)
EBIT		**454.2**	**455.6**	**-**
	- statutory	454.2	561.0	(19%)
Net finance costs		(73.3)	(71.4)	(3%)
Income tax expense		**(113.9)**	**(115.3)**	**1%**
	- statutory	(113.9)	(146.9)	22%
NPAT		**267.0**	**268.9**	**(1%)**
	- statutory	267.0	342.7	(22%)
Profit after tax from discontinued operations	- statutory	5.2	7.1	(27%)
NPAT (group)	**- statutory**	**272.2**	**349.8**	**(22%)**
Earnings per share[1]		**14.1**	**13.6**	**4%**
	- statutory	14.1	17.3	(18%)
Earnings per share[1] (continuing and discontinued operations) operations)		**14.4**	**13.9**	**4%**
	- statutory	14.4	17.7	(19%)
Return on invested capital (ROIC)[2]		10.8%	10.5%	0.3ppt
Operating Ratio		69.7%	70.2%	0.5ppt
Net cashflow from operating activities		700.4	626.5	12%
Interim dividend per share (cps)		14.4	13.7	5%
Gearing (net debt / (net debt + equity)) (group)		47.8%	42.0%	(5.8ppt)
Net tangible assets per share ($) (group)		2.20	2.20	-
People (FTE)		4,840	4,645	(4%)
Labour costs[3] / Revenue		28.0%	26.1%	(1.9ppt)
Above Rail Tonnes (m)[4]		128.1	129.9	(1%)

---

[1] *Calculated on weighted average number of shares on issue – 1,892m 1HFY2021 and 1,977m 1HFY2020*
[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] *1HFY2021 excludes $2.6m redundancy costs (1HFY2020 excludes $11.3m redundancy costs)*
[4] *Includes both Coal and Bulk*

EBIT by Segment

($m)	1HFY2021	1HFY2020	Variance
Coal	170.9	205.8	(17%)
Bulk	60.5	43.7	38%
Network	241.3	232.2	4%
Other	(18.5)	(26.1)	29%
Group (Continuing operations)	**454.2**	**455.6**	**-**

Group Performance Overview

EBIT was flat at $454.2m with higher earnings in Bulk and Network being offset by a reduction in Coal. Bulk continued its EBIT growth from new volumes and revenue, while Network EBIT improved due to the commencement of WIRP fees more than offsetting weaker volumes, including $48.9m relating to retrospective WIRP fees. The decline in Coal EBIT was due to a 4% reduction in volumes and lower revenue quality more than offsetting lower operating costs. Other EBIT loss reduced due to a reduction in redundancy costs compared to the prior year.

Group revenue decreased $30.4m or 2% driven by lower volumes in Coal and Network and the impact of the sale of the Rail Grinding business in October 2019, partly offset by volume growth in Bulk.

Operating costs decreased $37.5m or 5% principally due to lower external construction and electricity costs in Network and lower redundancy costs and the impact from the sale of Rail Grinding business in Other. Depreciation increased $8.5m or 3% driven by higher volumes in Bulk and the acquisition of Aurizon Port Services in Townsville in March 2020.

ROIC improved 0.3ppts to 10.8% due to higher twelve-month rolling EBIT when compared to the previous twelve months, with invested capital increasing marginally.

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)	1HFY2021	1HFY2020
Underlying EBIT (Continuing operations)	**454.2**	**455.6**
Significant items (Continuing operations)	**-**	**105.4**
Sale of Rail Grinding	-	105.4
Statutory EBIT (Continuing operations)	**454.2**	**561.0**
Net finance costs	(73.3)	(71.4)
Statutory PBT (Continuing operations)	**380.9**	**489.6**
Income tax expense	(113.9)	(146.9)
Statutory NPAT (Continuing operations)	**267.0**	**342.7**
EBIT (Discontinued operations)	7.1	7.5
Significant items (Discontinuing operations)	**-**	**2.5**
Intermodal closure benefit	-	2.5
Income tax expense (Discontinued operations)	(1.9)	(2.9)
Statutory NPAT	**272.2**	**349.8**

Balance Sheet Summary

($m)	31 Dec. 2020	30 Jun. 2020
Assets classified as held for sale	67.2	65.1
Other current assets	518.8	650.2
Total current assets	**586.0**	**715.3**
Property, plant and equipment (PP&E)	8,526.0	8,537.1
Other non-current assets	499.1	519.6
Total non-current assets	**9,025.1**	**9,056.7**
Total Assets	**9,611.1**	**9,772.0**
Liabilities classified as held for sale	(0.8)	(0.7)
Other current liabilities	(688.4)	(814.1)
Total borrowings	(3,774.4)	(3,607.2)
Other non-current liabilities	(1,037.8)	(992.3)
Total Liabilities	**(5,501.4)**	**(5,414.3)**
Net Assets	**4,109.7**	**4,357.7**
Gearing (net debt / (net debt + equity)) (%)	**47.8%**	**45.1%**

Balance Sheet Movements

Total current assets decreased by $129.3m largely due to:

- Reduction in cash and cash equivalents of $21.3m
- Reduction in trade and other receivables of $130.0m due to the timing of customer receipts and lower Take-or-Pay accrual

These reductions in current assets were partly offset by:

- Increase in other assets of $15.0m due to timing of prepayments
- Increase in current inventory of $5.1m to support overhaul programs

Total non-current assets decreased by $31.6m largely due to a $60.8m unfavourable valuation of derivative financial instruments partly offset by an increase in investments accounting for using the equity method of $21.8m due to the investment in Ox Mountain Limited.

Other current liabilities, excluding borrowings decreased by $125.7m largely due to:

- Reduction in trade and other payables of $85.2m, including lower capital expenditure accruals
- Reduction in current tax liabilities of $38.8m
- Reduction in derivative financial instruments of $13.2m due to favourable interest rate movements

Total borrowings increased by $167.2m due to the company's strategy to increase leverage in the above rail business in order to create a more efficient balance sheet structure.

Other non-current liabilities increased by $45.5m largely due to a $33.0m increase in net deferred tax liabilities.

Gearing (net debt / (net debt + equity)) was 47.8% as at 31 December 2020, an increase of 2.7 percentage points with higher debt as noted above and lower equity from the ongoing share buy-back.

Cash Flow Summary

($m)	1HFY2021	1HFY2020
Statutory EBITDA (Continuing operations)	738.3	836.6
Working capital and other movements	72.7	(16.5)
Sale of Rail Grinding	-	(105.4)
Non-cash adjustments - asset impairments	-	-
Cash flows from operations	**811.0**	**714.7**
Interest received	3.3	1.6
Income taxes paid	(117.0)	(92.6)
Principal elements of lease receipts	3.1	2.8
Net cash inflow from operating activities from Continuing operations	**700.4**	**626.5**
Net operating cash flows from Discontinued operations	6.0	6.0
Net operating cash flows	**706.4**	**632.5**
Cash flows from investing activities		
Payments for PP&E and intangibles, net of interest paid on qualifying assets	(277.2)	(256.5)
Payment for acquisition of subsidiary and investment in joint venture	(63.3)	-
Proceeds from sale of business	-	164.5
Distributions from joint ventures and proceeds from sale of PP&E	9.8	4.7
Net cash (outflow) from investing activities from Continuing operations	**(330.7)**	**(87.3)**
Net investing cash flows from Discontinued operations	(2.0)	2.3
Net investing cash flows	**(332.7)**	**(85.0)**
Cash flows from financing activities		
Net proceeds from borrowings, net of transaction costs	208.5	36.7
Payment for share buy-back, share based payments and transaction costs	(251.6)	(216.3)
Interest paid	(81.6)	(74.4)
Dividends paid to Company shareholders	(262.3)	(246.8)
Principle elements of lease payments	(8.1)	(7.0)
Net cash (outflow) from financing activities from Continuing operations	**(395.1)**	**(507.8)**
Net financing cash flows from Discontinued operations	-	-
Net financing cash flows	**(395.1)**	**(507.8)**
Net (decrease) / increase in cash from Continuing operations	**(25.4)**	**31.4**
Net increase in cash from Discontinuing operations	**4.0**	**8.3**
Free Cash Flow (FCF)[5] from Continuing operations	**288.1**	**464.8**
Free Cash Flow (FCF)[5] from Discontinued operations	**4.0**	**8.3**

Cash Flow Movements

Net cash inflow from operating activities from continuing operations increased by $73.9m (12%) to $700.4m despite lower statutory EBITDA as the result of the sale of the Rail Grinding business in October 2019, more than offset by an increase in working capital movements of $89.2m primarily due to lower trade and other receivables.

Net cash outflow from investing activities from continuing operations increased by $243.4m (279%) to $330.7m, largely due to $164.5m proceeds from the sale of the Rail Grinding business in 1HFY2020, payments for the acquisition of ConPorts Pty Ltd (renamed Aurizon Port Services NSW Pty Ltd) and the investment in Ox Mountain Limited of $63.3m in H1FY2021 and a $20.7m increase in payments for capital expenditure.

Net cash outflow from financing activities from continuing operations reduced by $112.7m (22%) to $395.1m due to an increase in net proceeds from borrowings of $171.8m, partly offset by higher dividend payments of $15.5m and the on-market share buy-back of $34.2m.

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

Funding

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

During 1HFY2021, Aurizon Network:

› Issued a 10-year, $500.0m AMTN in September 2020, with a coupon of 2.9% per annum. Proceeds were used to repay an AMTN maturing in October 2020.
› Cancelled $50.0m from the existing $850.0m bank debt bilateral facility maturing in June 2023.

During 1HFY2021, Aurizon Operations:

› Added $175.0m bank debt to the existing $450.0m bilateral facility maturing in 2023 and 2025.

In respect of 1HFY2021:

› Weighted average debt maturity tenor was 4.5 years. This was higher than 1HFY2020 (4.0 years) due mostly to replacing the existing AMTN maturing in October 2020 with the new 10-year AMTN noted above
› Group interest cost on drawn debt was 4.3% (1HFY2020 4.5%)
› Available liquidity (undrawn facilities plus cash) at 31 December 2020 was $1,033.2m
› Group gearing (net debt / (net debt + equity)) as at 31 December 2020 was 47.8% (1HFY2020 42.0%)
› Network gearing (net debt / RAB (excluding Access Facilitation Deeds)) as at 31 December 2020 was 61.3% (1HFY2020 58.1%)
› Operations gearing (net debt / (net debt + equity)) as at 31 December 2020 was 14.3% (1HFY2020 5.8%)
› Aurizon Operations' and Aurizon Network's credit ratings have each been maintained at BBB+/Baa1.

Dividend

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

The relevant final dividend dates are:

› 1 March 2021 – ex-dividend date
› 2 March 2021 – record date
› 31 March 2021 – payment date

Share buy-back

On 10 August 2020, Aurizon announced its intention to undertake an on-market share buy-back of up to $300.0m during FY2021. During 1HFY2021, 60,022,650 shares at a total consideration of $247.1m were bought back and subsequently cancelled.

Tax

Income tax expense for continuing operations for 1HFY2021 was $113.9m and income tax expense for the Group for 1HYFY2021 was $115.8m. The Group effective tax rate for 1HFY2021 was 29.8%. The Group cash tax rate for 1HFY2021 was 21.5%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate for FY2021 is expected to be in the range of 29-31% and the underlying cash tax rate is expected to be less than 25% for the short to medium term.

Aurizon publishes additional tax information in accordance with the voluntary Tax Transparency Code in its Sustainability Report. See the Sustainability section of the Aurizon website for further detail.

Discontinued Operations

On 14 August 2017 Aurizon announced the intention to exit the Intermodal business through a combination of closure and sale.

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 amount was received in advance. The transaction was subject to approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment Review Board. The ACCC refused to approve the transaction and commenced proceedings against Pacific National and Aurizon. Both the Federal Court and the Full Federal Court (on appeal) found that the transaction would not contravene section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. The ACCC sought special leave to appeal to the High Court of Australia.

On 8 December 2020, the High Court of Australia refused to grant special leave, therefore confirming that the transaction would not contravene section 50 and can proceed. The Foreign Investment Review Board approved the transaction on 2 February 2021. The sale is expected to complete on 26 March 2021 with remaining proceeds of $170.0m to be received.

BUSINESS UNIT REVIEW

Coal

Aurizon's Coal business provides a critical supply chain link for Australia's coal producers. The coal transport operation connects mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland and the Hunter Valley and Illawarra coal systems in New South Wales with domestic customers and coal export terminals.

Financial Summary

($m)	1HFY2021	1HFY2020	Variance
Revenue			
Above Rail	584.3	628.5	(7%)
Track Access	230.0	258.9	(11%)
Other	1.1	1.2	(8%)
Total revenue	**815.4**	**888.6**	**(8%)**
Operating costs	(541.3)	(581.6)	7%
EBITDA	**274.1**	**307.0**	**(11%)**
Depreciation and amortisation	(103.2)	(101.2)	(2%)
EBIT	**170.9**	**205.8**	**(17%)**

Metrics

	1HFY2021	1HFY2020	Variance
Total tonnes hauled (m)	101.8	106.3	(4%)
CQCN	71.2	74.3	(4%)
NSW & SEQ	30.6	32.0	(4%)
Contract utilisation	82%	86%	(4ppt)
Total NTK (bn)	23.7	24.8	(4%)
CQCN	17.8	18.7	(5%)
NSW & SEQ	5.9	6.1	(3%)
Average haul length (km)	233	233	-
Total revenue / NTK ($/'000 NTK)	34.4	35.8	(4%)
Above Rail Revenue / NTK ($/'000 NTK)	24.7	25.3	(2%)
Operating Ratio (%)	79.0%	76.8%	(2.2ppt)
Opex / NTK ($/'000 NTK)	27.2	27.5	1%
Opex / NTK (excluding access costs) ($/'000 NTK)	17.5	17.2	(2%)
Locomotive productivity ('000 NTK / Active locomotive day)[6]	387.9	397.1	(3%)
Active locomotives (as at 31 December)	331	336	(1%)
Wagon productivity ('000 NTK / Active wagon day)[6]	14.8	15.5	(5%)
Active wagons (as at 31 December)	8,707	8,570	2%
Payload (tonnes)	7,862	7,588	4%
Velocity (km/hr)	23.9	23.8	-
Fuel Consumption (l/d GTK)	2.85	2.84	-

[6] *Operational metrics have been restated in prior periods to reflect new reporting which utilises updated data sources and the changes are not material*

Coal Performance Overview

Coal EBIT decreased $34.9m (17%) to $170.9m primarily due to lower volumes.

Volumes were 101.8mt (down 4.5mt or 4%) with volumes lower in both the Central Queensland Coal Network (CQCN) and NSW & South East Queensland (SEQ).

- In CQCN, volumes decreased by 3.1mt (4%) to 71.2mt due to lower end market demand impacted by COVID-19 and a challenging trading environment with China, customer specific maintenance and production issues. This was partly offset by increased railings for the new Peabody contract and small increases for a number of other mines.
- In NSW & SEQ, volumes decreased by 1.4mt (4%) to 30.6mt due to the ramp down of the New Acland mine as it approaches end of mine life and customer maintenance activities. This was partly offset by railings from the new BlueScope contract in the Illawarra.

Coal revenue decreased by $73.2m (8%) to $815.4m due to the 4.5mt reduction in volumes and lower fuel revenue resulting from a decrease in price. In addition, track access revenue decreased with the lower volumes and some access rights being transferred to end users. Above rail revenue per NTK decreased by 2% due to reduced average rate per tonne, impacted by lower fuel revenue (fuel price impact) and lower revenue quality.

Total operating costs (including depreciation) decreased $38.3m (6%) to $644.5m with lower track access costs and fuel costs partly offset by an increase in maintenance and depreciation. The major drivers of these movements are noted below:

- Track access costs decreased by $27.9m (11%) due to a reduction in volumes and some access rights being transferred to end users
- Other operating costs decreased $12.4m due lower fuel expenses which was partly offset by higher maintenance costs, including increased CQCN fleet in addition to CPI labour impacts. Traincrew costs remained broadly flat with lower overtime costs and increased annual leave in response to lower demand and lower FTE offset by CPI impacts
- Depreciation increased $2.0m relating to the additional installed fleet and overhauls of existing rollingstock

Operationally, key productivity metrics showed some deterioration in line with lower volumes and NTKs. However, average payloads have increased as a result of successful efficiency initiatives, including increasing consist lengths in the Hunter Valley and SEQ and implementing improved driver methodologies.

Market update

Australia exported 183mt of coal in 1HFY2021, down 10% against the prior year. Heavily impacted in the first half of the 2020 calendar year due to COVID-related disruptions, steel production recovered during the remainder of 2020 with production returning to pre-COVID levels as economic activity resumed in major export nations. Although a curtailment of aggregate coal import volume for China was projected in the second half of the calendar year, the prioritisation of non-Australian coal has provided a more challenging trade environment during the half.

Australia exported 86mt of metallurgical coal in 1HFY2021, down 6% against the prior year. India was Australia's largest metallurgical coal export market with export volume of 27mt (32% share), followed by Japan at 16mt (19% share) and China at 12mt (14% share). In the 2020 calendar year, China achieved record crude steel production of 1.05bt (+6% compared to the prior year), whilst steel production in India and Japan declined -11% and -16% respectively. The average hard coking coal price in 1HFY2021 fell by 26% (compared to the prior year) to US$112/t. In the 2020 calendar year, metallurgical coal exports from the United States (second largest metallurgical coal export nation behind Australia) decreased 20% against the prior year.

Australia exported 97mt of thermal coal in 1HFY2021, down 12% against the prior year. Japan remained Australia's largest thermal coal export market with export volume of 37mt (38% share), followed by South Korea at 16mt (17% share) and Taiwan at 10mt (11% share). The average Newcastle benchmark thermal coal price in 1HFY2021 fell by 13% (compared to the prior year) to US$59/t. In the eleven months to November, total coal exports (almost entirely thermal and lignite coal) from Indonesia (largest thermal coal export nation) decreased by 13% against the same period of the prior year.

Contract update

- Stanwell – unsuccessful in retaining 3.2mtpa domestic contract (ended December 2020)
- New Hope – 5.2mtpa contract for New Acland ends December 2021

Bulk

Aurizon's Bulk business provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Queensland, New South Wales and Western Australia.

Financial Summary

($m)	1HFY2021	1HFY2020	Variance
Revenue			
Freight Transport	310.0	284.4	9%
Other	11.5	12.9	(11%)
Total revenue	**321.5**	**297.3**	**8%**
Operating costs	(247.9)	(244.7)	(1%)
EBITDA	**73.6**	**52.6**	**40%**
Depreciation and amortisation	(13.1)	(8.9)	(47%)
EBIT	**60.5**	**43.7**	**38%**
Total tonnes hauled (m)	26.3	23.6	11%
Operating Ratio (%)	81.2%	85.3%	4.1ppt

Bulk Performance Overview

Bulk EBIT increased $16.8m (38%) to $60.5m due to new volume growth commencing in 2HFY2020 and ongoing operational efficiencies. Revenue increased $24.2m (8%) to $321.5m with:

- The commencement of the Rio Tinto contract for the operation and maintenance of Rio Tinto's ballast cleaning machine on its Western Australian Pilbara network in February 2020
- The commencement of the Mineral Resources contract for the lease of rollingstock, provision of mainline crew and Esperance yard operations during 2HFY2020
- The acquisition of Townsville Bulk Storage and Handling Pty Ltd (renamed Aurizon Port Services Pty Ltd) in March 2020
- Marginal revenue yield improvement despite lower CPI results
- Offsetting this was the transition of an access agreement to an end user arrangement (customer directly charged by the rail infrastructure provider) on the Mt Isa corridor during 2HFY2020 and lower average fuel prices compared to the prior period

In Bulk East, volumes increased by 0.1mt driven by stronger volumes on the Mt Isa corridor, offset by lower livestock volumes. In Bulk West, iron ore volumes were up 2.4mt driven by the commencement of Mineral Resources volumes into Esperance in 2HFY2020. Bulk West volumes increased by 0.2mt largely due to higher volumes for various South West customers.

Total costs (including depreciation) increased $7.4m (3%) largely due to operating costs associated with the new volumes from Rio Tinto and Mineral Resources and the Aurizon Port Services acquisition in March 2020. This was partly offset by ongoing cost benefits from the Bulk turnaround program, lower average fuel prices compared to the prior year and lower access costs due to a customer transitioning to an end user agreement on the Mt Isa corridor during 2HFY2020.

Market update

Aurizon's Bulk business includes haulage of a range of bulk commodities such as iron ore, bauxite, alumina, base metals, grain and livestock across Western Australia, New South Wales 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, cobalt, copper and lithium. In the September 2020 quarter, Australian metal ore mining capital expenditure increased by 24% on the prior year to A$4.5bn, the twelfth consecutive quarter of year-on-year growth for the sector. Iron ore exploration increased by 8% (compared to the prior year) in the September 2020 quarter to A$111m, copper exploration decreased by 35% to A$76m and nickel (including cobalt) exploration expenditure decreased by 24% to A$49m across the same period.

Contract update

- Acquired 100% of the issued shares in ConPorts Pty Ltd (renamed Aurizon Port Services NSW Pty Ltd), a shiploading services provider in Newcastle. The acquisition includes long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines
- CBH – short-term contract for the haulage of grain into the Port of Geraldton
- Minerals Resources – expansion of services (beyond Esperance) with additional iron ore services into Kwinana
- BHP Nickel West – unsuccessful in recontracting the "Reform" contract. Railings to cease in March 2021

Network

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

Financial Summary

($m)	1HFY2021	1HFY2020	Variance
Revenue			
Track Access	568.6	564.7	1%
Services and other	24.4	31.2	(22%)
Total revenue	**593.0**	**595.9**	**-**
Operating costs	(185.3)	(201.2)	8%
EBITDA	**407.7**	**394.7**	**3%**
Depreciation and amortisation	(166.4)	(162.5)	(2%)
EBIT	**241.3**	**232.2**	**4%**

Metrics

	1HFY2021	1HFY2020	Variance
Tonnes (m)	103.7	116.6	(11%)
NTK (bn)	26.0	29.0	(10%)
Operating Ratio (%)	59.3	61.0	1.7ppt
Maintenance / NTK ($/'000 NTK)	2.3	2.2	(5%)
Opex / NTK ($/'000 NTK)	13.5	12.5	(8%)
Cycle Velocity (km/hr)	22.9	23.9	(4%)
System Availability (%)	82.9	82.2	0.7ppt
Average haul length (km)	250.7	248.3	1%

Network Performance Overview

Network EBIT increased $9.1m (4%) to $241.3m, with lower revenue of $2.9m (0.5%) and higher depreciation of $3.9m (2%) offset by reduced operating costs of $15.9m (8%).

Total Access Revenue increased $3.9m (1%) despite an 11% decrease in volumes:

- Allowable Revenue decreased by $1.9m and the reduced volumes compared to the regulatory forecast resulted in an under-recovery of $65.7m in 1HFY2021. This compares to an under-recovery of $11.0m in 1HFY2020, an increase of $54.7m.
- Customer funded infrastructure rebates increased by $3.7m due to a true-up adjustment in 1HFY2020, partially offset by the impact of lower volumes in the prior year.
- However, these unfavourable movements were more than offset by:
- The recognition of Wiggins Island Rail Project (WIRP) Fees of $54.7m, including $48.9m of historical fees following the successful Queensland Court of Appeal decision in September 2020. No WIRP Fees were recognised in 1HFY2020;
- Favourable Revenue Cap movements of $6.5m relating to FY2018 and FY2019;
- GAPE Revenue increased $1.6m due to the inclusion of a Transfer Fee; and
- Other Access Revenue increased $1.4m, primarily due to the commencement of billing of the Independent Expert Pass Through Costs. This is offset in expenses.

Other Revenue decreased $6.8m primarily due to lower external construction works and insurance recoveries.

Operating costs decreased by $15.9m (8%) from lower external construction costs associated with the lower revenue and reduced electric traction charges. In addition employee costs decreased driven by cost saving initiatives and a doubtful debt provision recognised in the prior corresponding period.

Depreciation increased $3.9m (2%) due to increased levels of asset renewals and ballast undercutting.

Network's 2019-2020 Regulated Asset Base (RAB) roll-forward is estimated to be $5.5bn (including all deferred capital but excluding Access Facilitation Deeds of $0.4bn).

Regulation Update

Aurizon continues to progress the implementation of UT5 which was approved by the Queensland Competition Authority (QCA) on 19 December 2019. The status of key aspects of UT5 is as follows:

- The Independent Expert (IE), Coal Network Capacity Co Pty Ltd, has commenced development of the Initial Capacity Assessment Report (ICAR) with the assistance of external consultants. Aurizon Network is engaging with the IE to ensure the ICAR is delivered in a timely manner, and this is currently expected to be delivered in the September 2021 quarter.
- Whilst the IE continues to progress the ICAR, Network's weighted average cost of capital (WACC) remains at 5.9%.The further increase to 6.3% will be upon the completion of specific milestones by both the IE and Network (Report Date).
- Current QCA approved reference tariffs continue to assume the 6.3% WACC from 1 March 2020. Future tariffs will be adjusted to reflect the actual Report Date.
- The Performance Rebate mechanism is not applicable until the Report Date is reached. Transitional arrangements may be in effect depending on the outcomes of the ICAR and any resulting remedial requirements.

Network continues to engage with the Rail Industry Group (RIG) in relation to Maintenance and Renewals Strategies and Budgets ahead of the submission of the FY2022 Annual Review of Reference Tariffs on 28 February 2021.

The QCA approved Network's FY2020 Revenue Adjustment Amount submission on 17 December 2020 confirming a future net recovery from Access Holders of $3.0m.

Operational Update

Network maintained strong operational performance during 1HFY2021 despite challenges presented by the COVID-19 pandemic.

- The supply chain was impacted by reduced global demand which resulted in volumes in the CQCN declining by 11% to 103.7mt. Notwithstanding the reduced demand, all time haulage records were achieved in the GAPE system.
- Total System Availability was 82.9%. As FY2021 utilises a new capacity model, it is noted that the System Availability measure is not directly comparable to prior years.
- Cancellations due to the Network rail infrastructure decreased from 1.7% to 1.0% including the benefit from improved train scheduling practices aimed at minimising traffic congestion.
- Cycle velocity declined marginally from 23.9km/h to 22.9km/h.

The RM902, Network's new ballast cleaning machine, remains in the commissioning phase following the identification of some design modification requirements and delays caused by COVID-19 related travel restrictions. It is expected that the machine will be fully operational in Q1FY2022.

Wiggins Island Rail Project (WIRP)

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

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

Other

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

($m)	1HFY2021	1HFY2020	Variance
Total revenue	**13.9**	**28.0**	**(50%)**
Operating costs	(31.0)	(51.1)	39%
EBITDA	**(17.1)**	**(23.1)**	**26%**
Depreciation and amortisation	(1.4)	(3.0)	53%
EBIT	**(18.5)**	**(26.1)**	**29%**

Other Performance Overview

EBIT loss reduced by $7.6m mainly due to lower redundancy costs ($8.7m) partially offset by reduced earnings following the sale of the Rail Grinding business which completed in October 2019.

Intermodal – Discontinued Operations

($m)	1HFY2021	1HFY2020	Variance
Total revenue	**14.4**	**12.8**	**13%**
Operating costs	(7.3)	(5.2)	(40%)
EBITDA – Underlying	**7.1**	**7.6**	**(7%)**
Depreciation and amortisation	-	(0.1)	100%
EBIT – Underlying	**7.1**	**7.5**	**(5%)**
Significant Items	-	2.5	(100%)
Income tax expense	(1.9)	(2.9)	34%
NPAT (Discontinued operations) – Statutory	**5.2**	**7.1**	**(27%)**

Intermodal Performance Overview

The EBIT position for Intermodal reduced 5% to $7.1m.

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

Aurizon continues the transformation process to a Precision Scheduled Railway in order to deliver better service to its customers and greater capital productivity to shareholders.

Modern Scheduling uses advanced commercial mathematical software to determine the optimal distribution of trains, and when combined with improved processes designed to work more collaboratively with all operators, enables the delivery of an Integrated Plan that determines the maximum number of train services across each system. In periods of high demand, this approach can result in additional services compared to conventional techniques. In periods of low demand, Modern Scheduling optimises the number of consists deployed in the system to maximise capital productivity while meeting customer demand. Already operating in Newlands, the Modern Scheduling initiative has resulted in an additional 2.35% of planned services compared with the application of conventional scheduling techniques. Implementation of Modern Scheduling across all corridors on the CQCN is expected to be completed in FY2021.

Improved adherence to schedule has been delivered in 1HFY2021 through the implementation of the Disciplined Train Operations initiative in Goonyella and Newlands with the following improvements compared with the FY2019 baseline[7].

In Goonyella:

- on time (or early) departure from origin improved from 90% to 98%
- on time (or early) arrival at mine improved from 55% to 88%; and
- on time (or early) arrival port improved from 54% to 75%

In Newlands:

- on time (or early) departure from origin improved from 94% to 98%
- on time (or early) arrival at mine improved from 63% to 82%; and
- on time (or early) arrival port improved from 55% to 68%

Disciplined Train Operations is now fully implemented across CQCN.

In addition to Modern Scheduling and Disciplined Train Operations, a number of initiatives are taking place as part of Precision including the reduction of congestion at the Callemondah yard. Most significantly, Aurizon Operations is moving to a block maintenance regime for wagon maintenance and optimised provisioning that will significantly reduce the number of shunting movements required within the yard. With approximately 70% of the fleet converted to "maintenance blocks" to date, this initiative is on track for delivery by the end of February 2021.

Precision is working closely with the Aurizon Coal planning teams and Aurizon Network scheduling teams to identify opportunities to reduce fleet size for the short, medium and long term. By reducing the number of deployed capacity, the capital productivity of the remaining operational consists improves.

[7] *Baseline is the prior financial year (FY2020), excluding closures*

TrainGuard

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

Asset Maintenance

A project plan and multi-year project has been established and a dedicated project team stood up to work in close collaboration with the business stakeholders.

The program of work is broken down into five distinct but complementary work streams:

- Governance and Management
- Maintenance Program
- Supply Chain and Vendor Management
- Planning Processes
- Shop floor and work procedures

All workstreams are being advanced in parallel with initial work standardisation, depot efficiency and supply chain processes indicating positive early results to solidify our maintenance capability. Preparation work to transform the maintenance program and move towards condition based and predictive maintenance is underway with a rollout from FY2021. The outcome of the program will ensure the optimal amount of the right maintenance, completed on time. Benefits include: reduction in the maintenance cost base, enhanced turnaround time in depots and increased fleet reliability, availability and optimising the investment in the rollingstock assets. The program is complimentary to Project Precision and will leverage from other technology investments to maximise benefits and performance.

TrainHealth

TrainHealth provides Aurizon with capability to monitor performance of locomotives and train handling/utilisation in real time. This initiative enables access to real time asset data that is being used to inform the health of the locomotive, enhance asset reliability and maintenance decisions for the fleet, in addition to providing greater visibility on driver variability and support business decisions for on-time running. With installation completed for 97% of the CQCN Siemens electric locomotive fleet, installation across the CQCN Diesel fleet is expected to take place in calendar year 2021.

ADDITIONAL INFORMATION

Senior Management Changes

Tina Thomas, Group Executive Corporate, retired from her role in October 2020, with the role not being replaced.

Risk

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

Risk reporting provided both to our Board and supporting Committees, facilitates the early identification and proactive management of emerging risks where the impacts and opportunities are continually evolving. Risk management procedures and templates deployed throughout the business, further integrate the assessment of safety and non-safety risks as well as supporting a consistent approach to the management of risks in a manner which is not only comprehensive but also simple and user friendly.

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

Optimise Strategic Lever

Delivery of Optimise Initiatives

Aurizon maintains a pipeline of business optimisation and 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 non-achievement of budget, failure to maximise volumes within customer contracts and sub-optimal return on capital employed.

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 – leading to death or injury to our people from operating road vehicles;
- Major Process Safety Incident - leading to death or injury to our people, significant operational disruption or loss of license to operate;
- Illegal protest activity – safety risks to employees and other individuals, including protesters themselves, in circumstances where protesters illegally enter the rail corridor and danger zone to conduct blockades;
- Cyber security incidents – arising from external penetration of Aurizon's corporate and operational systems;
- Technology incidents – arising from failure of technical infrastructure impacting technology-dependent systems and operations; and
- Adverse weather events resulting in impact to Aurizon's operations, assets or customers.

Pandemic – COVID-19

The global Coronavirus pandemic exposes Aurizon to two primary risks:

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

Excel Strategic Lever

Competition in Current Markets

Aurizon may face competition from parties willing to compete at reduced margins and/or accept lower returns and greater risk positions than Aurizon. This may potentially negatively impact Aurizon's competitiveness. Most of Aurizon's significant customer contracts are secured on long-dated terms, however failure to win or retain customer contracts at acceptable rates will be a risk to future financial performance. Increased competition may be experienced as a result of new entrants into Aurizon's core markets in both above and below rail and includes existing customers in-sourcing Aurizon's services. Competitors may also deploy technology or innovation more rapidly than Aurizon.

General Regulatory Risk

Aurizon's operations and financial performance are subject to legislative and regulatory oversight. Unfavourable changes may be experienced with respect to access regimes, safety accreditation, taxation, carbon reduction, environmental and industrial (including occupational health and safety) regulation, government policy, and approval processes. Implementation of these changes may have a material adverse impact on project investment, Aurizon's profitability and business in general, as well as Aurizon's customers.

Delays in the implementation of the UT5 obligation to publish an Initial Capacity Assessment Report will result in an adverse financial outcome.

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

Counterparty Risk

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

General Economic Conditions

Aurizon develops its own position regarding future coal demand through our Strategy in Uncertainty framework which includes scenario analysis. This process considers both short-term impacts and risks that emerge over the medium to long term, where timing and magnitude are less certain. In developing our own scenario analysis, Aurizon assesses global seaborne demand for metallurgical coal and thermal coal, driven primarily by steel production and energy generation respectively. Based on this addressable market, Australian supply is assessed considering the risks and opportunities for both current and future coal production. Given our customers' exposure (almost entirely) to export markets, trade, net zero emission strategies and geopolitical risk may impact demand for Aurizon services.

Geopolitical Risk

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

Extend Strategic Lever

Climate Change Risk

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.

Transition Risks

- Demand for thermal coal is subject to energy policy and fuel-mix decisions driven by energy costs, energy security, and regulation of greenhouse gas (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's business, its 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 2007*.

Physical Risks

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

Since 2017, Aurizon has incorporated recommendations from the Financial Stability Board's *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (TCFD), in the Company's annual Sustainability Report. In October 2020, Aurizon published its first Climate Strategy and Action Plan (CSAP), outlining the Company's position on climate change, underpinned by long-term strategies and associated actions to mitigate climate risk and take advantage of climate-related opportunities, including a target of net-zero operational emissions by 2050. The CSAP is built on three key pillars: *Manage Risk and Build Resilience*, *Deliver Decarbonisation* and *Create Carbon Abatement Opportunities*. Under the *Manage Risk and Build Resilience* pillar, Aurizon commits to continually assess and enhance climate change considerations in the way the Company manages its business and key assets. Aurizon will achieve this by continuing to assess and enhance its processes for managing climate-related risk and leveraging opportunities, including:

- Continuing to use scenario analysis to consider transition risks over short, medium and long-term time horizons.
- Continuing to enhance capability to assess physical risk to key assets and operations.
- Embedding consideration of climate-related risk into risk frameworks and investment standards.

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

Modern Slavery Risk

Aurizon commits to supporting and respecting the protection of internationally proclaimed human rights, as set out in the Universal Declaration of Human Rights and the Ten Principles of the United Nations Global Compact. This closely aligns with the Aurizon Board's commitment to maintaining a high standard of corporate governance to promote responsible management and conduct within the Company. It is also supported by Aurizon's Values and Code of Conduct, and the Company's firm commitments to safety, lawful and ethical conduct, respect for others, and to responsibly consider the community and environment in decision-making and its operations.

Aurizon understands that modern slavery and human trafficking can occur in many forms. The Company is committed to operating responsibly and ensuring that robust standards and processes are in place to minimise and address modern slavery risks. Aurizon is also committed to providing transparency on its modern slavery risks and how they are being addressed.

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

- Describe the risk of modern slavery in Aurizon's operations and supply chains.
- Explain actions taken to address those risks in FY2020.
- Introduce the Company's continuous improvement framework, against which the effectiveness of its actions will be assessed, and future commitments outlined.

See the Sustainability section of the Aurizon website for further detail.

Sustainability

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

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

In September 2020, Aurizon maintained a 'Leading' rating for the sixth consecutive year by the Australian Council of Superannuation Investors (ACSI) for Corporate Sustainability Reporting in Australia. Having received this rating for five or more consecutive years, Aurizon has again been considered a 'Leader' by ACSI.

Safety

At Aurizon we are committed to protecting ourselves, each other and our communities. We are determined to focus on managing what matters, with a specific focus on identifying and learning from events that have the potential for Serious Injury and Fatality (SIF). During the 1HFY2021, we have continued to embed an operational Critical Control Management (CCM) framework. CCM forms part of our enterprise approach to risk management. Combined with other safety, leadership and technical processes, it ensures we apply an effective and integrated approach.

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

Rail Process Safety, which measures operational safety including derailments, signals passed at danger and rollingstock collisions improved 4% against the prior year to 4.55. In the first half, RPS events have been predominantly in Yard environments and at interface points. Aurizon continues to progress a number of initiatives, including TrainGuard, TrainHealth and the rollout of next generation virtual reality technology, along with working with our customers on interface improvements, to strengthen RPS.

Half-year TRIFR was 12.38 injuries per million hours worked, which was a 25% deterioration against the prior period. This deterioration has been the result of an increase in low-severity strain and sprain injuries. These injuries are commonly caused by a high number of lower body strains and sprains while walking on uneven surfaces in the rail corridor, and an increase in upper body manual handling strains caused by lifting equipment, setting points, applying handbrakes and accessing/egressing locomotives. Aurizon is committed to a reduction in these types of injuries through undertaking a program using technology to review high risk body stressing tasks, to develop approaches to reduce risk exposure. Lost time injuries continue to show improvements, with a 30% decrease in the frequency of these type of injuries (LTIFR) against the prior period.

Environment

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

In 1HFY2021 Aurizon implemented additional management measures in NSW aligned to the introduction of Environmental Protection Licences (EPLs) for rollingstock operators. These measures include annual compliance reporting, routine noise testing of locomotives following major engine overhauls, monthly reporting of community complaints, and completion of pollution studies. Aurizon maintains regular dialogue with the NSW Environment Protection Authority (EPA) in relation to EPL implementation and is a member of the NSW industry Rail Noise Reference Group, established to coordinate rail noise-related matters.

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

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

In 1HFY2021, Aurizon had one notifiable environmental incident, a fertiliser service derailment on 30 December 2020. Remediation actions have been implemented as required and no ongoing environmental impacts are anticipated.

People

At Aurizon we strive for a culture where people live our values (Safety, People, Integrity, Customer and Excellence) and are engaged and enabled to do their best work. During the year we have continued to focus on our people through:

› Our Safety and Performance Culture program which integrates culture-focused initiatives to prioritise and achieve sustainable cultural change

› Progressing with our core leadership programs

› Implementing a new enterprise-wide governance and compliance framework. This framework has delivered clear, simplified and streamlined business guidelines, now available to employees via an online portal

Auditor's Independence Declaration

As lead auditor for the review of Aurizon Holdings Limited for the half-year ended 31 December 2020, 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
15 February 2021

Aurizon Holdings Limited
Consolidated income statement
For the six months ended 31 December 2020

	Notes	**31 December 2020 $m**	31 December 2019 $m
Revenue from continuing operations	1	**1,494.1**	1,528.8
Other income	1	**4.3**	105.4
Employee benefits expense		**(422.3)**	(409.8)
Energy and fuel		**(91.8)**	(121.5)
Track access		**(46.0)**	(63.6)
Consumables		**(194.4)**	(189.7)
Depreciation and amortisation		**(284.1)**	(275.6)
Other expenses		**(5.9)**	(12.9)
Share of profit/(loss) of associates and joint venture partnerships accounted for using the equity method		**0.3**	(0.1)
Operating profit		**454.2**	561.0
Finance income		**3.2**	1.3
Finance expenses		**(76.5)**	(72.7)
Net finance costs		**(73.3)**	(71.4)
Profit before income tax		**380.9**	489.6
Income tax expense		**(113.9)**	(146.9)
Profit after tax for the six months from continuing operations		**267.0**	342.7
Profit after tax from discontinued operations	5	**5.2**	7.1
Profit after tax from continuing and discontinued operations		**272.2**	349.8
Profit is attributable to:			
Owners of Aurizon Holdings Limited		**272.2**	349.8
		Cents	Cents
Basic earnings per share for profit attributable to the ordinary equity holders of the Company:	3(a)		
- continuing and discontinued operations		**14.4**	17.7
- continuing operations		**14.1**	17.3
Diluted earnings per share for profit attributable to the ordinary equity holders of the Company:	3(b)		
- continuing and discontinued operations		**14.4**	17.7
- continuing operations		**14.1**	17.3

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

	31 December 2020 $m	31 December 2019 $m
Profit after tax from continuing and discontinued operations	**272.2**	349.8
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(12.8)**	(8.8)
Income tax relating to changes in fair value of cash flow hedges	**3.8**	2.6
Exchange differences on translation of foreign operations	**(0.6)**	-
Other comprehensive income for the six months, net of tax	**(9.6)**	(6.2)
Total comprehensive income for the six months	**262.6**	343.6
Total comprehensive income for the six months is attributable to:		
Owners of Aurizon Holdings Limited	**262.6**	343.6

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 2020

	Notes	**31 December 2020 $m**	30 June 2020 $m
ASSETS			
Current assets			
Cash and cash equivalents		**8.0**	29.3
Trade and other receivables		**330.1**	460.1
Inventories		**150.9**	145.8
Derivative financial instruments	9	**-**	0.2
Other assets		**29.8**	14.8
Assets classified as held for sale		**67.2**	65.1
Total current assets		**586.0**	715.3
Non-current assets			
Inventories		**40.4**	38.1
Derivative financial instruments	9	**160.0**	220.8
Property, plant and equipment		**8,526.0**	8,537.1
Intangible assets		**204.0**	187.5
Other assets		**70.2**	70.5
Investments accounted for using the equity method		**24.5**	2.7
Total non-current assets		**9,025.1**	9,056.7
Total assets		**9,611.1**	9,772.0
LIABILITIES			
Current liabilities			
Trade and other payables		**237.8**	323.0
Borrowings	8	**101.0**	657.6
Derivative financial instruments	9	**21.9**	35.1
Current tax liabilities		**44.6**	83.4
Provisions		**262.8**	271.3
Other liabilities		**121.3**	101.3
Liabilities directly associated with assets classified as held for sale		**0.8**	0.7
Total current liabilities		**790.2**	1,472.4
Non-current liabilities			
Borrowings	8	**3,673.4**	2,949.6
Derivative financial instruments	9	**52.9**	45.7
Deferred tax liabilities		**638.3**	605.3
Provisions		**71.1**	64.0
Other liabilities		**275.5**	277.3
Total non-current liabilities		**4,711.2**	3,941.9
Total liabilities		**5,501.4**	5,414.3
Net assets		**4,109.7**	4,357.7
EQUITY			
Contributed equity	7	**259.5**	506.6
Reserves		**3,384.3**	3,395.1
Retained earnings		**465.9**	456.0
Total equity		**4,109.7**	4,357.7

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

	Notes	Attributable to owners of Aurizon Holdings Limited Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 30 June 2020		**506.6**	**3,395.1**	**456.0**	**4,357.7**
Profit for the six months		**-**	**-**	**272.2**	**272.2**
Other comprehensive income		**-**	**(9.6)**	**-**	**(9.6)**
Total comprehensive income for the six months		**-**	**(9.6)**	**272.2**	**262.6**
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	7	**(247.1)**	**(0.3)**	**-**	**(247.4)**
Dividends provided for or paid	6	**-**	**-**	**(262.3)**	**(262.3)**
Share-based payments		**-**	**(0.9)**	**-**	**(0.9)**
		(247.1)	**(1.2)**	**(262.3)**	**(510.6)**
Balance at 31 December 2020		**259.5**	**3,384.3**	**465.9**	**4,109.7**
Balance at 1 July 2019		906.6	3,418.5	352.3	4,677.4
Adjustment on adoption of AASB 16		-	-	1.6	1.6
Total equity at the beginning of the six months		906.6	3,418.5	353.9	4,679.0
Profit for the six months		-	-	349.8	349.8
Other comprehensive income		-	(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

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

	31 December 2020 $m	31 December 2019 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,812.3**	1,814.9
Payments to suppliers and employees (inclusive of GST)	**(1,001.3)**	(1,100.2)
Interest received	**3.3**	1.6
Income taxes paid	**(117.0)**	(92.6)
Principal elements of lease receipts	**3.1**	2.8
Net cash inflow from operating activities from continuing operations	**700.4**	626.5
Net cash inflow from operating activities from discontinued operations	**6.0**	6.0
Net cash inflow from operating activities	**706.4**	632.5
Cash flows from investing activities		
Payment for acquisition of subsidiary (net of cash acquired) and investment in joint venture	**(63.3)**	-
Payments for property, plant and equipment	**(261.4)**	(238.6)
Proceeds from sale of business	**-**	164.5
Proceeds from sale of property, plant and equipment	**9.4**	4.7
Payments for intangibles	**(13.9)**	(15.9)
Interest paid on qualifying assets	**(1.9)**	(2.0)
Distributions from joint ventures	**0.4**	-
Net cash (outflow) from investing activities from continuing operations	**(330.7)**	(87.3)
Net cash (outflow)/inflow from investing activities from discontinued operations	**(2.0)**	2.3
Net cash (outflow) from investing activities	**(332.7)**	(85.0)
Cash flows from financing activities		
Proceeds from borrowings	**779.3**	172.0
Repayment of borrowings	**(568.0)**	(135.0)
Payments of transaction costs related to borrowings	**(2.8)**	(0.3)
Payments for buy-back of ordinary shares	**(247.1)**	(212.9)
Payments of transaction costs for buy-back of ordinary shares	**(0.3)**	(0.2)
Principal elements of lease payments	**(8.1)**	(7.0)
Dividends paid to Company's shareholders	**(262.3)**	(246.8)
Payments for shares acquired for share based payments	**(4.2)**	(3.2)
Interest paid	**(81.6)**	(74.4)
Net cash (outflow) from financing activities from continuing operations	**(395.1)**	(507.8)
Net cash inflow/(outflow) from financing activities from discontinued operations	**-**	-
Net cash (outflow) from financing activities	**(395.1)**	(507.8)
Net (decrease)/increase in cash and cash equivalents from continuing operations	**(25.4)**	31.4
Net increase in cash and cash equivalents from discontinued operations	**4.0**	8.3
Cash and cash equivalents at the beginning of the financial year	**29.3**	25.2
Effects of exchange rate changes on cash and cash equivalents	**0.1**	0.4
Cash and cash equivalents at end of interim financial period	**8.0**	65.3

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 2020 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 2020 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 2020 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 2020 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) Access Revenue

2017 Access Undertaking

The Weighted Average Cost of Capital (WACC) applied under the 2017 Access Undertaking is 5.90%, increasing to 6.30% upon completion of an independent capacity assessment of the Central Queensland Coal network (CQCN). In the event that a capacity deficit is identified, the WACC increase to 6.30% will commence when Aurizon Network Pty Ltd (a wholly-owned subsidiary of the Group) notifies relevant parties of proposed options to address the deficit. The independent capacity assessment is expected to be completed in the September quarter of financial year 2022.

The 2017 Access Undertaking assumed the independent capacity assessment would be completed by 1 March 2020 and therefore, a WACC of 6.30% would apply for financial year 2021. The delay in the independent capacity assessment and the higher WACC of 6.30% applying has resulted in an over-collection of access charges in the period and will form part of the revenue cap adjustment calculation for this financial year which is payable/collectible in financial year 2023 and subject to QCA approval.

Access revenue for the period has been recognised based on the 2017 Access Undertaking.

Wiggins Island Rail Project (WIRP) Access Revenue

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

The WIRP customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. The Expert’s Determination was issued on 4 June 2019 and found that the WIRP fee should be partially reduced. The Group has lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert’s Determination.

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to WIRP project costs. WIRP fees of $54.7 million, including $48.9 million of historical fees, have been recognised in the period.

(b) 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, as such, the Intermodal business is disclosed as a discontinued operation from that date.

Key events and transactions for the reporting period (continued)

(b) Closure and sale of Intermodal (continued)

The Group signed a binding agreement with Pacific National on 28 July 2017 to sell the Acacia Ridge Intermodal Terminal for $205.0 million, of which a $35.0 million non-refundable deposit was received in advance. The transaction was subject to approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment Review Board (FIRB). The ACCC refused to approve the transaction and commenced proceedings against Pacific National and Aurizon. Both the Federal Court and the Full Federal Court (on appeal) found that the transaction would not contravene section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. The ACCC sought special leave to appeal to the High Court of Australia.

On 8 December 2020, the High Court of Australia refused to grant special leave, therefore confirming that the transaction would not contravene section 50 and can proceed. The FIRB approved the transaction on 2 February 2021 and the sale expected to complete on 26 March 2021 with final proceeds to be received of $170.0 million.

On this basis the Group has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 31 December 2020.

(c) Acquisition of subsidiaries and interest in joint ventures

During the period, the Group:

- Acquired a 41.67% investment in Ox Mountain Limited (UK registered), a maintenance software developer and provider, for consideration of $22.4 million on 28 August 2020. The investment is accounted for using the equity method; and
- Acquired 100% of the issued shares in ConPorts Pty Ltd, a shiploading services provider in Newcastle, for consideration of $42.5 million on 31 December 2020. Following the acquisition, the company has been renamed Aurizon Port Services NSW Pty Ltd. The acquisition includes long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines.

Refer to note 4 for further information.

(d) On-market share buy-back scheme

The Group is undertaking an on-market share buy-back program. During the period, the Group acquired 60.0 million shares for total consideration of $247.1 million.

(e) Debt financing

During the period, the Group:

- Issued a $500.0 million 10 year fixed term rate Medium Term Note maturing 2 September 2030;
- Repaid a $525.0 million fixed term Medium Term Note maturing 28 October 2020;
- Reduced the $850.0 million Aurizon Network Bilateral Facility maturing 5 June 2023 by $50.0 million to $800.0 million in October 2020;
- Added $175.0 million to the existing $450.0 million Aurizon Finance Bilateral Facility in November 2020, increasing the facility limit to $625.0 million. The existing $450.0 million facility matures 26 November 2023. The additional facilities mature 5 June 2023 ($50.0 million), 3 November 2023 ($50.0 million) and 3 November 2025 ($75.0 million); and
- Refinanced the Aurizon Finance Working Capital Facility and the Aurizon Network Working Capital Facility, with a maturity date of 30 June 2021.

(f) Impact of COVID-19 on the carrying value of assets and liabilities

COVID-19 has had no material impact on the carrying value of assets and liabilities as at 31 December 2020.

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 2020.

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. Information relating to discontinued operations is included in note 5.

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

Integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Queensland, New South Wales 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 2020	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	**336.5**	**230.0**	**-**	**-**	**566.5**
Freight transport	**-**	**584.3**	**301.5**	**-**	**885.8**
Other services	**4.4**	**-**	**10.6**	**2.5**	**17.5**
Other revenue	**17.2**	**1.1**	**0.6**	**5.4**	**24.3**
Total revenue from external customers	**358.1**	**815.4**	**312.7**	**7.9**	**1,494.1**
Internal revenue					
Services revenue					
Track access	**232.1**	**-**	**-**	**-**	**232.1**
Freight transport	**-**	**-**	**8.5**	**-**	**8.5**
Other services	**2.8**	**-**	**0.3**	**1.7**	**4.8**
Total internal revenue	**234.9**	**-**	**8.8**	**1.7**	**245.4**
Total external and internal revenue[1]	**593.0**	**815.4**	**321.5**	**9.6**	**1,739.5**
Other income	**-**	**-**	**-**	**4.3**	**4.3**
Total revenue and other income	**593.0**	**815.4**	**321.5**	**13.9**	**1,743.8**
Internal elimination					**(245.4)**
Consolidated revenue and other income					**1,498.4**
Continuing EBITDA (Underlying)[2]	**407.7**	**274.1**	**73.6**	**(17.1)**	**738.3**
Depreciation and amortisation	**(166.4)**	**(103.2)**	**(13.1)**	**(1.4)**	**(284.1)**
Continuing EBIT (Underlying)[2]	**241.3**	**170.9**	**60.5**	**(18.5)**	**454.2**
EBIT[2]					**454.2**
Net finance costs					**(73.3)**
Profit before income tax from continuing operations					**380.9**

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

[2] Refer to page 49 for Non-IFRS financial information

1 Segment information (continued)

(b) Segment results (continued)

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 external and internal 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]	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 1(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 49 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 2020 $m	31 December 2019 $m
Net gain on sale of rail grinding business (before income tax)	**-**	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 Income tax expense

The Group's statutory effective tax rate for the half year ended 31 December 2020 is 29.8% (31 December 2019: 30.0%).

3 Earnings per share

(a) Basic earnings per share

	31 December 2020 Cents	31 December 2019 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	**14.4**	17.7
- continuing operations	**14.1**	17.3

(b) Diluted earnings per share

Diluted earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	**14.4**	17.7
- continuing operations	**14.1**	17.3

(c) Weighted average number of shares used as denominator

	31 December 2020 Number '000	31 December 2019 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,891,502**	1,977,149
Rights	**2,710**	2,099
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,894,212**	1,979,248

4 Acquisition of subsidiaries and interest in joint ventures

(a) Ox Mountain Limited

The Group acquired a 41.67% investment in Ox Mountain Limited (UK registered), a maintenance software developer and distributor, for consideration of $22.4 million on 28 August 2020. The investment is accounted for using the equity method.

The Group's share of net profit from the joint venture was $0.1 million. The joint venture has net assets of $21.9 million.

(b) ConPorts Pty Ltd

The Group acquired 100% of the issued shares in ConPorts Pty Ltd, a shiploading services provider in Newcastle, for consideration of $42.5 million on 31 December 2020. Following the acquisition, the company has been renamed Aurizon Port Services NSW Pty Ltd. The acquisition includes long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines.

Details of the provisional purchase consideration, the net assets acquired and goodwill are as follows:

	$m
Cash paid	**41.5**
Contingent consideration	**1.0**
Total purchase consideration	**42.5**

	Fair value $m
Total assets	**34.3**
Total liabilities	**(11.4)**
Net identifiable assets acquired	**22.9**
Add: Goodwill	**19.6**
Net assets acquired	**42.5**

The goodwill is attributable to future customer growth and has been allocated to a separate Bulk New South Wales CGU. None of the goodwill is expected to be deductible for tax purposes.

Acquisition costs were expensed to profit or loss. Net cash outflow from investing activities for acquisition of the subsidiary was $40.9 million, representing cash paid of $41.5 million net of cash acquired of $0.6 million.

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, as such, the Intermodal business is disclosed as a discontinued operation from that date.

The Group signed a binding agreement with Pacific National on 28 July 2017 to sell the Acacia Ridge Intermodal Terminal for $205.0 million, of which a $35.0 million non-refundable deposit was received in advance. The transaction was subject to approval by the Australian Competition & Consumer Commission (ACCC) and Foreign Investment Review Board (FIRB). The ACCC refused to approve the transaction and commenced proceedings against Pacific National and Aurizon. Both the Federal Court and the Full Federal Court (on appeal) found that the transaction would not contravene section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. The ACCC sought special leave to appeal to the High Court of Australia.

On 8 December 2020, the High Court of Australia refused to grant special leave, therefore confirming that the transaction would not contravene section 50 and can proceed. The FIRB approved the transaction on 2 February 2021 and the sale is expected to complete on 26 March 2021 with final proceeds to be received of $170.0 million.

On this basis the Group has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 31 December 2020.

(b) Financial performance and cash flow information

Financial information relating to the discontinued operation is set out below.

	31 December 2020 $m	31 December 2019 $m
Revenue	**14.4**	12.8
Other income	**-**	2.5
Employee benefits expense	**(2.1)**	(1.7)
Energy and fuel	**(0.1)**	(0.1)
Consumables	**(4.8)**	(3.9)
Depreciation	**-**	(0.1)
Other expenses	**(0.3)**	0.5
Profit before income tax	**7.1**	10.0
Income tax expense	**(1.9)**	(2.9)
Profit from discontinued operations	**5.2**	7.1
Net cash inflow from operating activities	**6.0**	6.0
Net cash (outflow)/inflow from investing activities	**(2.0)**	2.3
Net cash inflow/(outflow) from financing activities	**-**	-
Net increase in cash generated by the discontinued operations	**4.0**	8.3

(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 2020 $m	31 December 2019 $m
Intermodal closure benefit	**-**	2.5

5 Discontinued operations (continued)

(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 2020 $m	30 June 2020 $m
Assets classified as held for sale		
Property, plant and equipment	**40.9**	38.8
Trade and other receivables	**4.0**	3.9
Total assets of disposal group held for sale[1]	**44.9**	42.7
Liabilities directly associated with assets classified as held for sale		
Employee benefit obligations	**(0.8)**	(0.7)
Net assets of disposal group classified as held for sale	**44.1**	42.0

[1] Total assets classified as held for sale of $67.2 million (2020: $65.1 million) includes $22.3 million (2020: $22.4 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 2020 $m	31 December 2019 $m
Final dividend for the year ended 30 June 2020 of 13.7 cents 70% franked (2019: 12.4 cents 70% franked) per share, paid 21 September 2020	**262.3**	246.8

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

	31 December 2020 $m	31 December 2019 $m
Since 31 December 2020, the Directors have declared the payment of a 70% franked interim dividend of 14.4 cents per fully paid ordinary share (31 December 2019: 13.7 cents 70% franked). The aggregate amount of the proposed dividend is expected to be paid on 31 March 2021 out of retained earnings, but not recognised as a liability at 31 December 2020.	**267.0**	267.6

7 Contributed equity

	31 December 2020 Shares '000	30 June 2020 Shares '000	**31 December 2020 $m**	30 June 2020 $m
Issued capital				
Fully paid	**1,854,620**	1,914,643	**259.5**	506.6

Date	**Details**	**Number of shares '000**	**$m**
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
1 July 2020	Opening balance	1,914,643	506.6
	On-market share buy-back	(60,023)	(247.1)
31 December 2020	Closing balance	1,854,620	259.5

8 Borrowings

	31 December 2020 $m	30 June 2020 $m
Current - Unsecured		
Bank debt facilities	**101.0**	133.0
Medium-term notes	**-**	524.6
	101.0	657.6
Non-current - Unsecured		
Medium-term notes	**2,704.4**	2,249.8
Bank debt facilities	**980.0**	710.0
Capitalised borrowing costs	**(11.0)**	(10.2)
	3,673.4	2,949.6
Total borrowings	**3,774.4**	3,607.2

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.

During the period, the Group:

- Issued a $500.0 million 10 year fixed term rate Medium Term Note (AMTN) maturing 2 September 2030;
- Repaid a $525.0 million fixed term Medium Term Note maturing 28 October 2020;
- Reduced the $850.0 million Aurizon Network Bilateral Facility maturing 5 June 2023 by $50.0 million to $800.0 million in October 2020;
- Added $175.0 million to the existing $450.0 million Aurizon Finance Bilateral Facility in November 2020, increasing the facility limit to $625.0 million. The existing $450.0 million facility matures 26 November 2023. The additional facilities mature 5 June 2023 ($50.0 million), 3 November 2023 ($50.0 million) and 3 November 2025 ($75.0 million); and
- Refinanced the Aurizon Finance Working Capital Facility and the Aurizon Network Working Capital Facility, with a maturity date of 30 June 2021.

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 2020 and 30 June 2020 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 2020, the borrowing rates were determined to be ranging from 0.9% to 2.4% depending on the type of borrowing (30 June 2020: 0.9% to 3.0%).

	Carrying amount		**Fair value**	
	31 December 2020 $m	30 June 2020 $m	**31 December 2020 $m**	30 June 2020 $m
Borrowings	**3,774.4**	3,607.2	**3,956.4**	3,688.6

(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
- Cross currency interest rate swap (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 2020, 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 2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial instrument assets				
Non-current assets				
Interest rate swaps - AMTN 3	-	2.5	-	2.5
CCIRS - EMTN 1	-	125.9	-	125.9
CCIRS - EMTN 2	-	31.6	-	31.6
Total derivative financial instrument assets	-	160.0	-	160.0
Derivative financial instrument liabilities				
Current liabilities				
Foreign exchange contracts	-	(2.3)	-	(2.3)
Interest rate swaps	-	(19.6)	-	(19.6)
	-	(21.9)	-	(21.9)
Non-current liabilities				
Foreign exchange contracts	-	(0.2)	-	(0.2)
Interest rate swaps	-	(48.2)	-	(48.2)
Interest rate swaps - AMTN 4	-	(4.5)	-	(4.5)
	-	(52.9)	-	(52.9)
Total derivative financial instrument liabilities	-	(74.8)	-	(74.8)
Net financial instruments measured at fair value	-	85.2	-	85.2

9 Fair value disclosure for financial instruments (continued)

(c) Fair value hierarchy (continued)

At 30 June 2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial instrument assets				
Current assets				
Foreign exchange contracts	-	0.2	-	0.2
Non-current assets				
Interest rate swaps - AMTN 3	-	3.2	-	3.2
CCIRS - EMTN 1	-	155.3	-	155.3
CCIRS - EMTN 2	-	62.3	-	62.3
	-	220.8	-	220.8
Total derivative financial instrument assets	-	221.0	-	221.0
Derivative financial instrument liabilities				
Current liabilities				
Foreign exchange contracts	-	(1.5)	-	(1.5)
Interest rate swaps	-	(33.6)	-	(33.6)
	-	(35.1)	-	(35.1)
Non-current liabilities				
Foreign exchange contracts	-	(0.2)	-	(0.2)
Interest rate swaps	-	(45.5)	-	(45.5)
	-	(45.7)	-	(45.7)
Total derivative financial instrument liabilities	-	(80.8)	-	(80.8)
Net financial instruments measured at fair value	-	140.2	-	140.2

Other notes

IN THIS SECTION

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 became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

11 Critical accounting estimates and judgements

A number of critical accounting estimates and judgements were disclosed in the 30 June 2020 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

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

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

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to WIRP project costs. WIRP fees of $54.7 million, including $48.9 million of historical fees, have been recognised in the period. Depending on the outcome of the Expert's Determination and/or the cost variation factor related to WIRP project costs, an adjustment may be required to the WIRP fees recognised.

(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 2020. The sale of the discontinued operation is expected to complete on 26 March 2021.

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.

12 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 2020.

(b) Contingent assets

There have been no material changes to contingent assets since 30 June 2020.

13 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 20 to 45 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 2020 and of its performance for the six months ended on that date, and

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

Tim Poole
Chairman

Brisbane
15 February 2021

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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Aurizon Holdings Limited (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2020, 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, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors 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.

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2020 and of 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*.

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.

PricewaterhouseCoopers

Nadia Carlin
Partner

Tim Allman
Partner

Brisbane
15 February 2021

Non-IFRS Financial Information in 2020-21 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. 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 debt excludes lease liabilities (included in other liabilities). 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. An alternative Net debt and Net gearing ratio are also disclosed to include derivative financial instruments used to hedge market risk on borrowings.

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 2020		Half-year ended 31 December 2019	
	Continuing operations $m	**Discontinued operations $m**	Continuing operations $m	Discontinued operations $m
NPAT – Underlying	**267.0**	**5.2**	268.9	5.3
Significant adjustments, net of tax	**-**	**-**	73.8	1.8
NPAT – Statutory	**267.0**	**5.2**	342.7	7.1
Income tax expense	**113.9**	**1.9**	146.9	2.9
Profit before income tax	**380.9**	**7.1**	489.6	10.0
Net finance costs	**73.3**	-	71.4	-
EBIT – Statutory	**454.2**	**7.1**	561.0	10.0
Add back significant adjustments:				
- Net gain on sale of rail grinding business	**-**	**-**	(105.4)	-
- Intermodal closure benefit	**-**	**-**	-	(2.5)
EBIT – Underlying	**454.2**	**7.1**	455.6	7.5
Depreciation and amortisation	**284.1**	**-**	275.6	0.1
EBITDA – Underlying	**738.3**	**7.1**	731.2	7.6
Average invested capital (continuing operations)	**8,383**		8,361	
ROIC (continuing operations)[1]	**10.8%**		10.5%	

Net Gearing Ratio	**Half-year ended 31 December 2020 $m**	Year ended 30 June 2020 $m
Total borrowings	**3,774.4**	3,607.2
Less: cash and cash equivalents	**(8.0)**	(29.3)
Net debt	**3,766.4**	3,577.9
Total equity	**4,109.7**	4,357.7
Total capital	**7,876.1**	7,935.6
Net Gearing Ratio	**47.8%**	45.1%
Alternative Net Gearing Ratio		
Net debt	**3,766.4**	3,577.9
Accumulated fair value adjustments	**(216.4)**	(261.1)
Alternative Net debt	**3,550.0**	3,316.8
Total equity	**4,109.7**	4,357.7
Total capital	**7,659.7**	7,674.5
Alternative Net Gearing Ratio	**46.3%**	43.2%

[1] ROIC is calculated on a rolling twelve-month underlying EBIT of $907.6 million (H1FY21 $454.2 million; H2FY20 $453.4 million).