



19|20
ANNUAL REPORT

Contents

FY2020 in Review	1
Chairman's Report	2
Managing Director & CEO's Report	3
Directors' Report	4
- Operating and Financial Review	11
- Remuneration Report	25
Auditors' Independence Declaration	39
Corporate Governance Statement	40
Financial Report	46
Shareholder Information	110
Glossary	112
Corporate Information	114

Purpose

Growing regional Australia by delivering bulk commodities to the world.

Vision

The first choice for bulk commodity transport solutions.

Values

Safety: We have a relentless focus towards **ZERO**Harm.

People: We seek diverse perspectives.

Integrity: We have the courage to do the right thing.

Customer: We strive to be the first choice for customers.

Excellence: We set and achieve ambitious goals.

FY2020 in Review

Result Highlights (Underlying and statutory continuing operations)

(\$M)	FY2020	FY2019	VARIANCE
Total revenue	3,064.6	2,907.6	5%
EBITDA	1,467.6	1,371.6	7%
EBIT	909.0	829.0	10%
EBIT Statutory	1,014.4	829.0	22%
NPAT	531.4	473.3	12%
NPAT Statutory	605.1	473.3	28%
Free cash flow (FCF)	714.7	734.4	(3%)
Final dividend (cps)	13.7	12.4	10%
Total dividend (cps)	27.4	23.8	15%
Earnings per share (cps)	27.2	23.8	14%
Return on invested capital (ROIC)	10.9%	9.7%	1.2ppt
EBITDA margin (%)	47.9%	47.2%	0.7ppt
Operating ratio (OR) (%)	70.3%	71.5%	1.2ppt
Above Rail Tonnes (m)	262.0	258.9	1%
Above Rail opex/NTK (excluding access) (\$/000 NTK)	20.9	20.3	(3%)
Gearing (net debt/net debt + equity) (%)	45.1%	41.7%	(3.4ppt)

Performance Overview

- › EBIT up 10% to \$909.0m with:
 - Bulk up \$52.6m (141%) with higher revenue through new contracts and benefits from ongoing efficiency improvements
 - Network up \$68.5m (17%) with higher revenue from the implemented UT5 Undertaking and non-recurrence of the FY2018 true-up that impacted FY2019
 - Coal down \$4.5m (1%) with higher depreciation and operating costs associated with installing additional capacity to deliver contracted volume growth
 - Other down \$36.6m impacted by the sale of the Rail Grinding business in October 2019 and the recovery of a \$20.3m doubtful debt in FY2019
- › FCF declined 3% to \$714.7m due to the impact of the Cliffs termination payment in FY2019 and FY2018 true-up adjustment paid in FY2020 more than offsetting an improvement in cash flows from investing activities (sale of Rail Grinding business) and higher Group earnings
- › Final dividend 13.7cps, 70% franked, representing a payout ratio of 100% of underlying NPAT for the continuing operations, an increase of 10%
- › Commitment to returning surplus funds to shareholders with completion of \$400.0m on market buy-back and further \$300.0m targeted for FY2021

Major items

- › Bulk – strong financial performance delivered through new contracts and ongoing operational efficiency improvements. Acquisition of Townsville Bulk Storage and Handling (renamed Aurizon Port Services) in March 2020 expands capability and offering to customers
- › Network – UT5 Undertaking approved during the year providing greater certainty and improved returns
- › Coal – secured contract extensions with major customers during the year and now operates in all coal systems across the east coast of Australia
- › Completed the refinancing of Network's bank debt facilities in June 2020, increasing capacity to \$1.3bn with maturities from June 2023 – June 2025, of which \$525.0m is to cover the upcoming bond maturity

Outlook

- › Underlying EBIT guidance for FY2021 for Group \$830m to \$880m. Key assumptions:
 - Coal – flat volumes 210-220mt based on current view of COVID-19 impact on coal
 - Network –
 - Tariffs based on QCA approved volume forecast of 239mt – 5% higher than FY2020 actual volumes
 - CQCN volumes expected to be lower than 239mt due to COVID-19's impact on coal demand, resulting in a revenue under-recovery
 - Flat volumes implies a revenue under-recovery of approximately \$50m¹ – any shortfall will form part of the revenue cap in FY2023 partly offset by other adjustments including WACC
- Operational efficiency improvements remain a key driver in the business
- Redundancy costs included in guidance (reported in 'Other' segment)
- No material disruptions to commodity supply chains (such as adverse weather and/or COVID-19)

¹ Based on 227mt applied to \$941 MAR (excluding GAPE).

Chairman's Report

A message from the Chairman

Dear fellow shareholders

I am pleased to report that Aurizon has performed well during a challenging year to 30 June 2020. It was a year of two very different operating periods for your Company, with the coronavirus pandemic (COVID-19) dominating the second half of FY2020. As an essential service provider to the Australian economy, Aurizon has continued to operate throughout COVID-19, delivering safely and reliably for our customers. The health and well-being of our employees has remained our highest priority. A range of proactive measures, aligned with expert health and government advice, has been maintained in Aurizon workplaces. Further detail on these measures is provided in Andrew Harding's MD & CEO report on the following page. Andrew chairs the COVID-19 Crisis Management Team for the Company, with the support of our leadership team and Chief Medical Officer.

Aurizon is strongly committed to safety – for our employees, the customers we serve and the communities in which we operate. We were saddened by the death in December 2019 of one of our employees, Hans Ah Chee, in a work motor vehicle accident. Hans was a highly respected train driver working in our Coal business in Central Queensland and is missed by his colleagues. Andrew addresses in his report the broader program of safety work underway in Aurizon.

In terms of earnings, Aurizon delivered Earnings Before Interest and Tax (EBIT) in FY2020 of \$909 million. This was a solid result given the uncertain business environment that unfolded during the second half of FY2020. While there were no significant impacts to demand during this period, changes were required in how we delivered rail haulage and infrastructure services for customers. Additional health and hygiene protocols were also implemented to protect our employees. Collectively, these added complexity and cost to our business. It is a mark of the resilience of our Company and the efforts of our employees that Aurizon was able to deliver on EBIT guidance in FY2020.

Aurizon has decided to pay out 100% of Underlying Net Profit After Tax as dividends, consistent with our practice for the past five years. The Board has declared a final dividend of 13.7 cents per share, 70% franked. This will take total dividends in respect of FY2020 to 27.4 cents per share, 70% franked. During the year, we also completed a \$400 million on-market share buy-back which is value-accretive for shareholders.

Strong progress was made on several key priorities during FY2020:

- › Approval from the Queensland Competition Authority for the 10-year Access Undertaking (UT5) for the Central Queensland Coal Network. This agreement is a major achievement for Aurizon and the coal industry, providing long-term investment certainty for one of Australia's most important export infrastructure assets and a platform for continued performance improvement across the supply chain
- › Implementation of a new legal and capital structure for the Aurizon Group which has organised the above and below-rail businesses under the holding company. We established independent gearing levels for each business, consistent with their different risk profiles, which has made available additional funding capacity of approximately \$1.2 billion. By progressively adding debt over time, we can optimise the balance sheet and unlock additional value for shareholders
- › Successful completion of the refinancing of Aurizon Network's bank facilities, extending the maturity to 2023-2025 and increasing the facility size to \$1.3 billion, an increase of \$420 million. With the completion of this refinancing, the Aurizon Group now has more than \$1.1 billion of available liquidity (30 June 2020). After the October 2020 maturity of the \$525 million Medium Term Note (which will be repaid from the proceeds of this refinancing), the Aurizon Group has no further refinancing requirements until 2023
- › The turnaround of the operational and financial performance of the Bulk business has continued strongly, with new customer contracts and ongoing efficiency improvements. The Company initiated a turnaround plan in 2017 following a strategic review of the loss-making freight business. In the space of three years, Bulk has improved its EBIT by more than \$100 million, from negative \$14 million in FY2017 to \$90 million in FY2020.

In February, we acknowledged the sad passing of our highly-respected former colleague, John Cooper. John served on Aurizon's Board from April 2012 until May 2019 when he retired due to health reasons. John was a force for positive change during his time as a Director and played a key role in the Board's focus on safety, people and culture as part of broader transformation efforts.

In December 2019, Dr Sarah Ryan and Mr Lyell Strambi joined the Aurizon Board as Non-Executive Directors. Sarah and Lyell have brought further operational, major project, technology and transport skills and experience to your Board. Sarah has approximately 30 years of international experience in the oil and gas industry. Lyell is the Chief Executive Officer of Melbourne Airport and has extensive experience over more than 40 years in the aviation and transport infrastructure sectors, both in Australia and overseas. We are delighted that Sarah and Lyell have joined our Board.

As we enter FY2021, we are cognisant of the continuing economic uncertainty in the markets we serve and the inevitable headwinds that will flow through to our business. We have built strong foundations for the Company in recent years by simplifying the business model and focussing on core services for our customers. Aurizon is well-positioned from a funding perspective, with a strong balance sheet.

On behalf of the Board, I thank all employees across the business for their outstanding contribution to our results this year and particularly for their efforts in the challenging environment of COVID-19. I also acknowledge the continued support of you, our shareholders.



Tim Poole

**Chairman
10 August 2020**

Managing Director & CEO's Report

A message from the Managing Director & CEO

Dear fellow shareholders

I begin my report to you on our business results in FY2020 by addressing safety performance in the Company.

Sadly, as the Chairman has also noted in his report, one of our employees was killed in a road accident in December 2019. Hans Ah Chee was a highly respected train driver working in our Coal business and based at Sarina in Central Queensland. Workplace Health & Safety Queensland has advised it has considered all issues relating to the accident and is not investigating the matter any further. Our thoughts remain with Han's family, friends and colleagues.

Notwithstanding this tragic fatality, our total recordable injury frequency rate improved by 10% during FY2020. The other metric we use to measure safety performance is Rail Process Safety (RPS) which measures significant operational safety incidents including derailments, signals passed at danger and collisions. In FY2020, there was a deterioration in RPS by 8%. While it is important to note that over the past decade there has been long-term improvement in Aurizon's safety performance, we remain absolutely focused on driving further significant improvements. Safety remains Aurizon's highest priority and we are determined to focus our resources and investment on 'managing what matters' and, in particular, identifying and learning from events that have the potential for serious injury and fatality.

Last year I reported on the extensive work we have commenced to enhance safety including systems, leadership and culture. In FY2021, we are moving to the next phase of this work, updating our strategy and building on the improvements and successful initiatives that have been delivered over the past year.

I also want to build on the Chairman's comments regarding Aurizon's response to the coronavirus pandemic (COVID-19). Aurizon continues to monitor developments relating to COVID-19, with our workplace responses and decision-making guided by advice from the Australian Government's Department of Health and respective State Governments.

Our first priority remains the health and well-being of our employees. Protocols are in place across workplaces to provide a safe work environment while providing business continuity to our customers:

- › protocols and practices for all operational and office environments, including hygiene stations, workplace separation and social distancing. Ongoing work from home arrangements have been facilitated for employees not in operational roles
- › increased staff awareness and education on personal hygiene and cleaning regimes for depots, offices, locomotives and vehicles
- › ceasing all non-essential travel and training courses
- › a special COVID-19 leave entitlement of 10 days' paid leave to support employees who may be impacted
- › extending a range of resources to support the physical and mental well-being of our employees.

I am immensely proud of our employees' dedication and discipline throughout COVID-19 in looking after the health and wellbeing of themselves and their colleagues, while delivering safely and reliably for our customers.

Now turning to the operational performance of the Company and the business by business breakdown.

The Bulk business has delivered a strong result in FY2020, winning a number of new haulage contracts and delivering ongoing transformation benefits. It achieved EBIT of \$90 million, a major turnaround from the loss-making position it was in three years ago. Contract wins include South32 Cannington (11-year extension to 2032 on the Mt Isa corridor), Incitec Pivot (new contract commencing January 2020 on the Mt Isa corridor), and BGC (new contract commencing June 2020 on the Kalgoorlie Freighter). During the year, Aurizon Bulk completed the acquisition of Townsville Bulk Storage and Handling which operates bulk transport, handling and stevedoring services in North Queensland. The acquisition - now known as Aurizon Port Services - allows us to extend supply chain services beyond our core rail capability on the Mt Isa line corridor, connecting the Port of Townsville to the commodity-rich North West Minerals province.

In FY2020, the COVID-19 pandemic had some impact on coal demand in Asia and on the Indian sub-continent which has contributed to volumes slightly lower than anticipated in our Coal and Network businesses.

The Coal business delivered 214 million tonnes (mt) of coal for customers during FY2020, which is broadly in line with FY2019. It achieved EBIT of \$410.6 million in FY2020, a decrease of 1% against FY2019. Contract wins during FY2020 include: Peabody (extension of all existing volumes and new business on the Central Queensland Coal Network (CQCN) and NSW); Coronado (contract variation with additional volumes and term extension for Curragh mine, CQCN), Bluescope (commenced railings in April 2020 installing Aurizon into the Illawarra region, NSW). With the Bluescope contract, Aurizon Coal now operates in all coal systems across Australia.

The Network business achieved EBIT of \$469 million in FY2020, an increase of 17% compared to FY2019. This reflects the new rates of return contained in the UT5 Access Undertaking for the Central Queensland Coal Network (CQCN). Tonnages carried across the CQCN in FY2020 were 229 mt, compared to 234 mt in FY2019, a decrease of 2%.

During FY2020, we had some changes to our senior leadership team. I would like to acknowledge the contribution of former Group Executive Network, Michael Riches, who left Aurizon in December 2019. Michael was instrumental in reaching agreement with coal customers on the UT5 Access Agreement. Recognising the strong capability of the leadership team, we appointed the Chief Financial Officer and Group Executive Strategy, Pam Bains to the Network role. George Lippiatt, the former Head of Strategy and Corporate Development for the Company, was subsequently appointed to the role of Chief Financial Officer and Group Executive Strategy.

I extend special thanks to our employees across the Company for their efforts in a very challenging year. Our people are central to Aurizon's success and the connection we have with the communities in which we operate. While COVID-19 has tested our operational capabilities, we have found new and more flexible ways of working. We have also benefitted from having a decentralised workforce with more than 80% of employees working and living in regional areas of Australia.



Andrew Harding
Managing Director & CEO
10 August 2020

Directors' Report

Aurizon Holdings Limited For the year ended 30 June 2020

The Directors of Aurizon Holdings Limited present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively the **Consolidated Entity** or the **Group**) for the financial year ended 30 June 2020 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

Board of Directors

The following people are Directors of the Company, or were Directors during the reporting period:

T Poole

(Appointed 1 July 2015)
(Chairman, Independent Non-Executive Director)

A Harding

(Appointed 1 December 2016)
(Managing Director & Chief Executive Officer)

M Bastos

(Appointed 15 November 2017)
(Independent Non-Executive Director)

R Caplan

(Appointed 14 September 2010)
(Independent Non-Executive Director)

M Fraser

(Appointed 15 February 2016)
(Independent Non-Executive Director)

S Lewis

(Appointed 17 February 2015)
(Independent Non-Executive Director)

S Ryan

(Appointed 1 December 2019)
(Independent Non-Executive Director)

L Strambi

(Appointed 1 December 2019)
(Independent Non-Executive Director)

K Vidgen

(Appointed 25 July 2016)
(Independent Non-Executive Director)

Details of the experience, qualifications, special responsibilities and other Directorships of listed companies in respect to each of the Directors as at the date of this Directors' Report are set out in the pages following.

T Poole

Experience: Mr Poole began his career in 1990 at PricewaterhouseCoopers before a long and successful period (1995 to 2007) helping to build Hastings Fund Management, where he became Managing Director in 2005. Hastings was a global investor in unlisted assets, predominantly equity and debt issued by infrastructure companies.

Qualifications: BCom.

Special Responsibilities: Chairman of Nomination & Succession Committee. Member of Audit, Governance & Risk Management Committee. Member of Safety, Health & Environment Committee.

Australian Listed Company Directorships held

in the past three years: Chairman of Lifestyle Communities Limited (19 November 2007 to 14 August 2019) and McMillan Shakespeare Limited (17 December 2013 - ongoing). Non-Executive Director of Reece Limited (28 July 2016 - ongoing).

A Harding

Experience: Mr Harding has extensive operational experience in the resources industry and in managing supply chains for the world's largest integrated portfolio of iron ore assets.

Mr Harding's 24-year executive career has been spent with Rio Tinto and in its subsidiary companies, with his most recent role before joining Aurizon being the global Chief Executive Iron Ore.

Mr Harding was also the Global Practice Leader, Asset Management, Technology and Innovation group of Rio Tinto from 2005 to 2009.

Mr Harding has championed a number of workplace initiatives including improvements in safety, a commitment to diversity, and the strengthening of Indigenous and community relationships.

Mr Harding is a member of the 2012 class of Henry Crown Fellows at the Aspen Institute.

Qualifications: B.Eng. (Mining Engineering), MBA.

Special Responsibilities: Managing Director & CEO of Aurizon, Director of Aurizon subsidiary companies including Aurizon Network Pty Ltd. Member of Safety, Health & Environment Committee.

Australian Listed Company Directorships held in the past three years: None other than Aurizon Holdings Limited.

M Bastos

Experience: Mr Bastos has more than 30 years of experience globally in the mining industry. He has extensive experience in major project development, operations, logistics and senior leadership in most of the major sectors of the mining industry including iron ore, gold, copper, nickel, zinc and coal.

Previously Mr Bastos was the Chief Operating Officer of MMG Limited with responsibility for the business in four continents and a member of many of the company Boards. Before MMG he spent seven years with BHP Billiton where he served as President Nickel Americas, President Nickel West (based in Perth), and Chief Executive Officer and President of BHP Billiton Mitsubishi Alliance (based in Brisbane).

Mr Bastos also had a 19-year career with Vale in a range of senior management and operational positions in Brazil, including General Manager of Carajas in the northern region and also Director of Non Ferrous – Copper business.

Mr Bastos is currently a Non-Executive Director of Iluka Resources Limited, Non-Executive Director of Anglo American PLC, and an External Director (Non-Executive Independent) of Golder Associates.

Qualifications: B.Eng. Mechanical (Hons), MBA (FDC-MG), MAICD.

Special Responsibilities: Chairman of Safety, Health & Environment Committee. Non-Executive Director of Aurizon Network Pty Ltd.

Australian Listed Company Directorships held in the past three years: Iluka Resources Limited – Non-Executive Director (February 2014 – current); Oz Minerals Limited – Non-Executive Director (September 2018 to April 2019).

R Caplan

Experience: Mr Caplan has extensive international experience in the oil and gas industry. In a 42-year career with Shell, he held senior roles in the upstream and downstream operations, and corporate functions in Australia and overseas. From 1997 to 2006, he had senior international postings in the UK, Europe and the USA. From 2006 to July 2010, he was Chairman of the Shell Group of Companies in Australia.

Mr Caplan is Chairman of the Melbourne and Olympic Parks Trust and Chairman and Non-Executive Director of Horizon Roads Pty Ltd. He is a former Non-Executive Director of Woodside Petroleum Limited and former Chairman of Orica Limited and the Australian Institute of Petroleum.

Qualifications: LLB, FAICD, FAIM.

Special Responsibilities: Member of Remuneration & Human Resources Committee. Member of Audit, Governance & Risk Management Committee.

Australian Listed Company Directorships held in the past three years: None other than Aurizon Holdings Limited.

Directors' Report (continued)

M Fraser

Experience: Mr Fraser has more than 35 years of experience in the Australian energy industry. He has held various executive positions at AGL Energy culminating in his role as Managing Director & Chief Executive Officer for a period of seven years until February 2015. Mr Fraser is currently Chairman and Non-Executive Director of the ASX listed APA Group.

Mr Fraser is former Chairman of the Clean Energy Council, Elgas Limited, ActewAGL and the NEMMCo Participants Advisory Committee, as well as a former Director of Queensland Gas Company Limited, the Australian Gas Association, and the Energy Retailers Association of Australia.

Qualifications: BComm, FCPA, MAICD.

Special Responsibilities: Chairman of Aurizon Network Pty Ltd. Member of Remuneration & Human Resources Committee.

Australian Listed Company Directorships held in the past three years: APA Group - Chairman and Non-Executive Director (1 September 2015 - ongoing).

S Lewis

Experience: Ms Lewis has extensive financial experience, including as a lead auditor of a number of major Australian listed entities.

Ms Lewis has significant experience working with clients in the manufacturing, consumer business and energy sectors, and in addition to external audits, has provided accounting and transactional advisory services to other major organisations in Australia. Ms Lewis' expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence. Ms Lewis is currently a Non-Executive Director and Chairman of the Audit & Compliance Committee of Orora Limited, Chairman of APRA's Audit and Risk Committee, and a Non-Executive Director and Chairman of the Audit & Risk Committee of Nine Entertainment Co. Holdings Limited. Previously, Ms Lewis was an Assurance & Advisory partner from 2000 to 2014 with Deloitte Australia.

Qualifications: BA (Hons) EC, CA, ACA, GAICD.

Special Responsibilities: Chair of Audit, Governance & Risk Management Committee. Member of Remuneration & Human Resources Committee. Member of Nomination & Succession Committee.

Australian Listed Company Directorships held in the past three years: Orora Limited - Non-Executive Director (1 March 2014 - ongoing), Nine Entertainment Co. Holdings Limited (20 March 2017 - ongoing).

S Ryan

Experience: Dr Sarah Ryan has approximately 30 years of international experience in the oil and gas industry. Initially Sarah spent 20 years in various technical, operational and senior management positions, including 15 years with Schlumberger Limited both in Australia and overseas. Dr Ryan then spent 10 years as an equity analyst covering natural resources with institutional investment firm Earnest Partners, based in the US. Dr Ryan is currently a Non-Executive Director of ASX listed Woodside Petroleum Limited and Viva Energy Group Limited and a Non-Executive Director of Future Battery Industry Cooperative Research Centre. Dr Ryan is also a Non-Executive Director of Norwegian listed Akastor ASA. Dr Ryan is a Fellow of the Australian Academy of Technology and Engineering.

Qualifications: PhD (Petroleum and Geophysics), BSc (Geophysics) (Hons 1), BSc (Geology), FTSE.

Special Responsibilities: Member of Audit, Governance & Risk Management Committee. Member of Safety, Health & Environment Committee.

Australian Listed Company Directorships held in the past three years: Woodside Petroleum Limited - Non-Executive Director (24 October 2012 - current), Viva Energy Group - Non-Executive Director (18 June 2018 - current) and Central Petroleum Limited - Non-Executive Director (23 October 2017 to 13 November 2018).

L Strambi

Experience: Mr Strambi was appointed CEO and Managing Director of Australia Pacific Airports Corporation (APAC) in September 2015. He is responsible for the operation and development of both the Melbourne and Launceston airports.

Mr Strambi has a wealth of experience in the aviation sector both in Australia and abroad, spanning 40 years. As APAC's leader, Mr Strambi is responsible for overseeing a direct workforce of 300 staff and assets valued in excess of \$10 billion.

Prior to commencing at APAC, Mr Strambi was the Chief Executive Officer of Qantas Airways Domestic, a role he held for three years following four years as the airline's Group Executive Operations. Between 2001 and 2008 Mr Strambi was based in London, working in senior roles at Virgin Atlantic that included Executive Director - Airline Services and followed by six years as Chief Operating Officer.

Mr Strambi is a Graduate and Fellow of the Australian Institute of Company Directors and a Member of the Australian Institute of Management. He holds a Bachelor of Business in Accounting and Finance.

As a Director, Mr Strambi has held positions with Star Track Express, Traveland and Southern Cross Distribution Systems and was President of the Royal Flying Doctors SE. Currently Mr Strambi is an APAC Board Member.

Qualifications: BBus (Accy), FAICD.

Special Responsibilities: Non-Executive Director of Aurizon Network Pty Ltd. Member of Safety, Health & Environment Committee.

Australian Listed Company Directorships held in the past three years: None other than Aurizon Holdings Limited.

K Vidgen

Experience: Ms Vidgen began her career as a banking, finance and energy lawyer at Malleson Stephen Jacques and in 1998 started in the Infrastructure advisory team within the Macquarie Group. During her time at Macquarie, Ms Vidgen has traversed a number of sectors with a focus on infrastructure, energy and resources. Ms Vidgen has also held a number of roles including heading up Macquarie Capital's coal advisory team in Australia and being Global Co-Head of Resources Infrastructure. Ms Vidgen remains an Executive Director at Macquarie Capital and is currently the Global Head of Principal in Oil and Gas.

Qualifications: LLB (Hons), BA, GAICD.

Special Responsibilities: Chair of Remuneration & Human Resources Committee. Member of Nomination & Succession Committee. Non-Executive Director of Aurizon Network Pty Ltd.

Australian Listed Company Directorships held in the past three years: None other than Aurizon Holdings Limited.

Company Secretary

Mr Dominic Smith was appointed Company Secretary of the QR Limited Group in May 2010 and to Aurizon Holdings Limited upon its incorporation on 14 September 2010.

Mr Smith has over 20 years' ASX listed company secretariat, governance, corporate legal and senior management experience across a range of industries.

Mr Smith holds a Masters of Laws degree from the University of Sydney and is a Fellow of both the Governance Institute of Australia and the Australian Institute of Company Directors.

Qualifications: BA, LLB, LLM, DipLegS, FGIA, FCSA, FCIS, FAICD.

Principal activities

The principal activities of entities within the Group during the year were:

Network

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

Coal

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

Bulk

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

Review of operations

A review of the Group's operations for the financial year and the results of those operations, are contained in the Operating and Financial Review as set out on pages 11 to 24 of this report.

Directors' Report (continued)

Dividends

A final dividend of 12.4 cents per fully paid ordinary share (70% franked) was paid on 23 September 2019 and an interim dividend of 13.7 cents per fully paid ordinary share (70% franked) was paid on 23 March 2020.

Further details of dividends provided for, or paid, are set out in note 16 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 13.7 cents per fully paid ordinary share.

The dividend will be 70% franked and is payable on 21 September 2020.

State of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Events since the end of the financial year

The Directors are not aware of any events or developments which are not set out in this report or note 37 of the Financial Report that have, or would have, a significant effect on the Group's state of affairs, its operations or its expected results in future years.

Likely developments

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report set out on page 2 of this report and the Managing Director & CEO's Report set out on page 3 of this report.

In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation and performance

Aurizon is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, Aurizon seeks to comply with all applicable environmental laws and regulations.

Aurizon acknowledges the strong scientific consensus of climate change and supports the objectives of the Paris Agreement, to find a pathway to limiting global warming to below 2°C. Aurizon also acknowledges the objectives of the Paris Agreement to pursue efforts to limit the temperature increase even further to 1.5°C. To this end, Aurizon continues to incorporate the recommendations of the Financial Stability Board's (FSB) Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), when considering climate-related risks. While Aurizon's annual Sustainability Report will remain the primary channel for engaging on all ESG matters, in FY2021 Aurizon will publish its inaugural *Climate Strategy and Action Plan* which will consolidate the Company's position on climate change and set-out Aurizon's long-term climate strategy, actions and targets.

For more information, see our Sustainability Report, available on our website, aurizon.com.au.

In 2016, Aurizon established a greenhouse gas (GHG) emissions intensity target which expires in 2020. Over the past year, Aurizon continued to monitor its progress towards its target and despite significant reductions made to date, Aurizon's emissions intensity was higher than initial target forecasts due to operational and service mix changes in previous years, and Aurizon will not achieve its target of 15% emissions intensity reduction on 2015 levels in 2020. Aurizon remains committed to further reducing the greenhouse gas emissions intensity of its operations through targeted initiatives and programs and will be announcing revised short term and long-term operational decarbonisation targets in FY2021.

In July 2019, the NSW government introduced legislation requiring Rolling Stock Operators (RSOs) to apply for a mandatory Environment Protection Licence (EPL) by January 2020. The EPLs, set to be finalised in August 2020, are significant in that they establish acceptable thresholds for locomotive diesel emissions and rail noise. Aurizon was first aware of the potential for this requirement in 2014 and, since this time, has led extensive consultation with the NSW Environment Protection Authority (EPA). The EPA recognised past efforts of RSOs, led by Aurizon, in developing the 2018 Rail Industry and Standards Board (RISSB) Code of Practice (CoP) on the Management of Locomotive Diesel Emissions and ultimately adopted the requirements set out in the CoP. Aurizon's reputation enabled effective input to the EPA's approach to EPL implementation.

In September 2019, the Federal Department of Environment and Energy advised off-road diesel transport, including rail freight, was exempt from the introduction of national standards for the regulation of off-road engines. This decision gave due recognition to actions the rail freight industry, led by Aurizon, has taken to manage emissions by introducing the CoP.

The *National Greenhouse and Energy Reporting Act 2007* (NGER) (Cth) requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the *NGER Act*.

At the close of the third Emissions Reduction Fund Safeguard Mechanism (Safeguard) compliance period (ended on 30 June 2019), three of Aurizon's NGER facilities were captured. Through effective management of the Company's emissions, it achieved full compliance with the Safeguard and as such, was not required to purchase or generate Australian Carbon Credit Units for the reporting period. Following amendments to the Safeguard Rule in 2019, Aurizon is well positioned for a timely transition of its reported and calculated baselines over the coming reporting periods.

Further details of the Company's climate and environmental performance will be published in Aurizon's forthcoming Sustainability Report which will be published in October 2020.

Environmental prosecutions

There have been no environmental prosecutions during this financial year.

Risk management

Aurizon recognises that risk is characterised by both threat and opportunity, and manages risk to enhance opportunities and reduce threats to sustain shareholder value. Aurizon fosters a risk-aware culture through the application of high-quality, integrated risk assessments to support informed decision making. The Board is ultimately responsible for risk management, which considers a wide range of risks within strategic planning. Aurizon has a commitment to effective risk management as a key element of business success.

The Audit, Governance & Risk Management Committee monitors management's performance against Aurizon's risk management framework, including whether it is operating within the risk appetite set by the Board (see page 44 of this Annual Report). The Company's Risk and Assurance Function is responsible for providing oversight of the risk management framework and assurance on the management of significant risks to the Managing Director & CEO and the Board.

Aurizon's risk-aware culture has an emphasis on frontline accountability for effective risk management. The consideration of risk features heavily in our thinking, from the framing of strategy through to informing decision making. Aurizon's Enterprise Risk Management Framework and Appetite and supporting Risk Assessment Procedure are aligned to the international standard for risk management (AS/NZS ISO 31000:2018) and supports the identification, assessment and reporting of risk across the business, and includes both financial and non financial risks.

Processes exist for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud. Further details of risks and risk management are set out on pages 22 to 23 of the Directors' Report.

TABLE 1 – DIRECTORS' MEETINGS AS AT 30 JUNE 2020

DIRECTOR	AURIZON HOLDINGS BOARD		AUDIT, GOVERNANCE & RISK MANAGEMENT COMMITTEE		REMUNERATION & HUMAN RESOURCES COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE		NOMINATION & SUCCESSION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
T Poole ¹	13	13	8	8	-	-	5	5	1	1
A Harding ¹	13	13	-	-	-	-	5	5	-	-
M Bastos	13	13	-	-	-	-	5	5	-	-
R Caplan	13	13	8	8	5	5	-	-	-	-
M Fraser	13	13	-	-	5	5	-	-	-	-
S Lewis	13	13	8	8	5	5	-	-	1	1
S Ryan	8	8	4	4	-	-	3	3	-	-
L Strambi	8	8	-	-	-	-	3	3	-	-
K Vidgen	13	13	-	-	5	5	-	-	1	1

A Number of meetings held while appointed as a Director or Member of a Committee.

B Number of meetings attended by the Director while appointed as a Director or Member of a Committee.

¹ In addition to the meetings above, a Committee of the Board comprising of T Poole and A Harding met respectively on two occasions.

Directors' meetings

The number of Board meetings (including Board Committee meetings) and number of meetings attended by each of the Directors of the Company during the financial year are listed above.

During the year, the Aurizon Network Pty Ltd Board met on six occasions.

Directors' interests

Directors' interests are as at 30 June 2020.

TABLE 2 – DIRECTORS' INTERESTS AS AT 30 JUNE 2019

DIRECTOR	NUMBER OF ORDINARY SHARES
T Poole	110,500
A Harding	316,997
M Bastos	25,947
R Caplan	82,132
M Fraser	70,000
S Lewis	43,025
S Ryan	13,000
L Strambi	5,355
K Vidgen	40,000

Only Mr Harding, Managing Director & CEO receives performance rights, details of which are set out in the Remuneration Report.

Directors' Report (continued)

Non-audit services

During the year, the Company's auditor PricewaterhouseCoopers (PwC), performed other services in addition to its audit responsibilities.

The Directors are satisfied that the provision of non-audit services by PwC during the reporting period did not compromise the auditor independence requirements set out in the *Corporations Act 2001*.

All non-audit services were subject to the Company's Non-Audit Services Policy and do not undermine the general principles relating to auditor independence set out in APES 110 *Code of Ethics for Professional Accountants* as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, or jointly sharing risks and rewards.

No officer of the Company was a former Partner or Director of PwC and a copy of the auditor's independence declaration as required under the *Corporations Act 2001* is set out in, and forms part of, this Directors' Report.

Details of the amounts paid to the auditor of the Company and its related practices for non-audit services provided throughout the year are as set out below:

	2020 \$'000
OTHER ASSURANCE SERVICES	
Total remuneration for other assurance services	34
OTHER SERVICES	
Total remuneration for other services	70

CEO and CFO declaration

The Managing Director & CEO and Chief Financial Officer (CFO) have provided a written statement to the Board in accordance with Section 295A of the *Corporations Act 2001*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Managing Director & CEO and CFO that the declaration was founded on a sound system of risk management and internal control, and that the system was operating effectively in all material respects in relation to the reporting of financial risks.

Indemnification and insurance of officers

The Company's Constitution provides that the Company may indemnify any person who is, or has been, an officer of the Group, including the Directors and Company Secretary, against liabilities incurred while acting as such officers to the maximum extent permitted by law.

The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Proceedings against the Company

The Directors are not aware of any current civil litigation proceedings, arbitration proceedings, administration appeals, or criminal or governmental prosecutions of a material nature which are not set out in this report or note 33 of the Financial Report in which Aurizon Holdings is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

Remuneration Report

The Remuneration Report is set out on pages 25 to 38 and forms part of the Directors' Report for the financial year ended 30 June 2020.

Rounding of amounts

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 39. The Directors' Report is made in accordance with a resolution of the Directors of the Company.



Tim Poole

**Chairman
10 August 2020**

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

CONSOLIDATED RESULTS (Underlying continuing operations unless stated)

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS 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 (Statutory and Underlying), NPAT Underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures are discussed in more detail on page 108. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

1. Annual Comparison

FINANCIAL SUMMARY

(\$M)	FY2020	FY2019	VARIANCE
Total revenue	3,064.6	2,907.6	5%
Operating costs			
Employee benefits	(791.6)	(778.6)	(2%)
Energy and fuel	(231.3)	(233.9)	1%
Track access	(107.2)	(101.0)	(6%)
Consumables	(440.7)	(397.8)	(11%)
Other	(26.2)	(24.7)	(6%)
EBITDA	1,467.6	1,371.6	7%
Statutory EBITDA	1,573.0	1,371.6	15%
Depreciation and amortisation	(558.6)	(542.6)	(3%)
EBIT	909.0	829.0	10%
Statutory EBIT	1,014.4	829.0	22%
Net finance costs	(148.5)	(147.1)	(1%)
Income tax expense	(229.1)	(208.6)	(10%)
Statutory Income tax expense	(260.8)	(208.6)	(25%)
NPAT	531.4	473.3	12%
Statutory NPAT	605.1	473.3	28%
Profit after tax from discontinued operations Statutory	10.8	3.2	238%
NPAT (group) Statutory	615.9	476.5	29%
Earnings per share¹	27.2	23.8	14%
Statutory	31.0	23.8	30%
Earnings per share¹ (continuing and discontinued operations)	27.7	24.0	15%
Statutory	31.5	23.9	32%
Return on invested capital (ROIC) ²	10.9%	9.7%	1.2ppt
Operating Ratio	70.3%	71.5%	1.2ppt
Net cashflow from operating activities	1,237.5	1,316.1	(6%)
Final dividend per share (cps)	13.7	12.4	10%
Gearing (net debt/net debt + equity) (%) (group)	45.1%	41.7%	(3.4ppt)
Net tangible assets per share (\$) (group)	2.2	2.3	(4%)
People (FTE)	4,883	4,728	(3%)
Labour costs ³ /Revenue	26.4%	26.0%	(0.4ppt)
Above Rail Tonnes (m) ⁴	262.0	258.9	1%

EBIT BY SEGMENT

	FY2020	FY2019	VARIANCE
Coal	410.6	415.1	(1%)
Bulk	89.9	37.3	141%
Network	468.8	400.3	17%
Other	(60.3)	(23.7)	(154%)
Group (Continuing operations)	909.0	829.0	10%

1 Calculated on weighted average number of shares on issue - 1,953m FY2020 and 1,990m FY2019

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 FY2020 excludes \$16.0m redundancy costs (FY2019 excludes \$21.4m redundancy costs)

4 Includes both Coal and Bulk

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Group Performance Overview

EBIT improved \$80.0m or 10% due to higher earnings in Network from the UT5 Undertaking and volume growth (principally new contracts) in Bulk. Earnings in Coal were marginally lower with higher costs incurred to support an increase in contracted volumes. The decline in Other EBIT is principally due to the completion of the sale of the Rail Grinding business in October 2019 and a \$20.3m doubtful debt recovery in FY2019.

Group revenue improved \$157.0m or 5% with higher revenue in all business units with new contract growth for Bulk, greater revenue yield in Coal and higher revenue from the UT5 Undertaking in Network, partly offset by the impact from the sale of the Rail Grinding business.

Operating costs increased \$61.0m or 4% principally due to additional costs in the Bulk business associated with the increased volumes and revenues.

The net impact on EBIT of adopting AASB 16 Leases was \$1.4m.

ROIC has improved 1.2ppts to 10.9% reflecting the increased EBIT during FY2020.

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)	FY2020	FY2019
Underlying EBIT (Continuing operations)	909.0	829.0
Significant items (Continuing operations)	105.4	-
Sale of Rail Grinding	105.4	-
Statutory EBIT (Continuing operations)	1,014.4	829.0
Net finance costs	(148.5)	(147.1)
Statutory PBT (Continuing operations)	865.9	681.9
Income tax expense	(260.8)	(208.6)
Statutory NPAT (Continuing operations)	605.1	473.3
EBIT (Discontinued operations)	12.7	6.7
Significant items (Discontinuing operations)	2.5	(11.4)
Asset impairments	-	(25.1)
Intermodal closure benefit	2.5	13.2
Redundancy benefit	-	0.5
Net finance benefit (Discontinued operations)	-	0.1
Income tax (expense)/benefit (Discontinued operations)	(4.4)	7.8
Statutory NPAT	615.9	476.5

Significant items in the continuing operations during FY2020 were \$105.4m and relate to the net gain on sale of the Rail Grinding business.

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

2. Other financial information

BALANCE SHEET SUMMARY

(\$M)	30 JUNE 2020	30 JUNE 2019
Assets classified as held for sale	651	108.4
Other current assets	650.2	631.2
Total current assets	715.3	739.6
Property, plant and equipment (PP&E)	8,537.1	8,536.3
Other non-current assets	519.6	425.2
Total non-current assets	9,056.7	8,961.5
Total Assets	9,772.0	9,701.1
Liabilities classified as held for sale	(0.7)	(3.8)
Other current liabilities	(814.1)	(795.7)
Total borrowings	(3,607.2)	(3,369.8)
Other non-current liabilities	(992.3)	(854.4)
Total Liabilities	5,414.3	5,023.7
Net Assets	4,357.7	4,677.4
Gearing (net debt/net debt + equity) (%)	45.1%	41.7%

Balance Sheet Movements

Total current assets decreased by \$24.3m largely due to:

- › Net reduction of \$43.3m in assets classified as held for sale predominately due to the completion of the Rail Grinding business sale
- › Reduction in trade and other receivables of \$21.7m due to the timing of receipt of customer receipts and lower Take-or-Pay accrual

These reductions in current assets were partly offset by:

- › Increase in current inventory of \$28.6m to support overhaul and maintenance programs and additional requirements due to COVID-19
- › Increase in other assets of \$8.6m predominately due to the adoption of AASB 16
- › Increase in cash and cash equivalents of \$4.1m

Total non-current assets increased by \$95.2m largely due to a \$24.1m favourable valuation of derivative financial instruments, an increase in other assets of \$61.9m as a result of the adoption of AASB 16 and an increase in contract asset balances.

Total current liabilities, excluding borrowings increased by \$18.4m largely due to:

- › Increase in current tax liabilities of \$42.5m
- › Unfavourable valuation of derivative financial instruments (and a portion reclassified from non-current) of \$35.1m due to the reduction in interest rates
- › Increase in other liabilities of \$26.2m due to an increase in contract liability balances and adoption of AASB 16

These increases in current liabilities were partly offset by a reduction of \$83.6m in trade and other payables mainly due to the settlement of an \$81.3m over-collection of access revenue in FY2019.

Total borrowings increased by \$237.4m, including \$82.0m proceeds from issuance of an Australian Dollar Medium Term Note, net proceeds from bank debt facilities of \$134.0m and \$18.7m unfavourable revaluation of Euro Medium Term Notes. The first Australian Dollar Medium Term Note matures in October 2020 and as a result has been reclassified to current borrowings.

Other non-current liabilities increased by \$137.9m largely due to a \$71.0m increase in net deferred tax liabilities and \$67.9m increase in other liabilities predominately due to the adoption of AASB 16.

Gearing (net debt/debt plus equity) was 45.1% as at 30 June 2020.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

CASH FLOW SUMMARY

(\$M)	FY2020	FY2019
Statutory EBITDA (Continuing operations)	1,573.0	1,371.6
Working capital and other movements	(203.2)	61.6
Non-cash adjustments - asset impairments	5.7	24.9
Cash inflows from Continuing operations	1,375.5	1,458.1
Interest received	2.8	2.9
Income taxes paid	(146.5)	(145.3)
Principal elements of lease receipts	5.7	-
Net cash inflow from operating activities from Continuing operations	1,237.5	1,315.7
Net operating cashflows from Discontinued operations	9.9	(25.4)
Net operating cash flows	1,247.4	1,290.3
Cash flows from investing activities		
Proceeds from sale of business	165.3	-
Payments for acquisitions of subsidiary, net of cash acquired	(24.5)	-
Proceeds from associate and sale of property, plant and equipment (PP&E)	15.8	13.7
Payments for PP&E and intangibles	(528.3)	(444.5)
Net cash (outflow) from investing activities from Continuing operations	(371.7)	(430.8)
Net investing cashflows from Discontinued operations	0.4	11.1
Net investing cash flows	(371.3)	(419.7)
Net cash flow from financing activities		
Net proceeds/(repayments) from borrowings	211.2	(253.4)
Payment for share buy-back and share based payments	(403.6)	(0.6)
Interest paid	(151.1)	(150.5)
Proceeds from settlement of derivatives	-	11.5
Dividends paid to Company shareholders	(513.8)	(487.6)
Finance lease payments	(14.6)	-
Net cash (outflow) from financing activities from Continuing operations	(871.9)	(880.6)
Net financing cashflows from Discontinued operations	-	-
Net financing cash flows	(871.9)	(880.6)
Net (decrease)/increase in cash from Continuing operations	(6.1)	4.3
Net increase/(decrease) in cash from Discontinued operations	10.3	(14.3)
Free Cash Flow (FCF)⁵ from Continuing operations	714.7	734.4
Free Cash Flow (FCF)⁵ from Discontinued operations	10.3	(14.3)

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

Cash flow movements

Net cash inflow from operating activities from continuing operations decreased by \$78.2m (6%) to \$1,237.5m. This was largely due to the receipt of the Cliffs termination payment in FY2019 and the FY2018 UT5 true-up adjustment that was paid to customers in FY2020. These working capital items offset the improved earnings of the Group.

Net cash outflow from investing activities from continuing operations decreased by \$59.1m (14%) to \$371.7m, largely due to \$164.5m proceeds from the sale of the Rail Grinding business which completed on 31 October 2019. This was partly offset by a \$24.5m payment for the acquisition of Townsville Bulk Storage and Handling (renamed Aurizon Port Services) in March 2020 and a \$83.8m increase in payments for capital expenditure.

Net cash outflow from financing activities from continuing operations reduced by \$8.7m (1%) to \$871.9m with the higher dividend payments and the on-market share buy-back largely offset by an increase of net proceeds from borrowing of \$464.6m.

Funding

The Group's improved legal and capital structure was implemented in FY2020 which results in a more efficient balance sheet and funding structure. Aurizon Operations' and Aurizon Network's credit ratings have each been maintained at BBB+/Baa1. The Aurizon Holdings' credit rating was withdrawn during the period.

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

During FY2020 Aurizon Network:

- › Issued a 10.5 year, \$82.0m A\$ Private Placement
- › Cancelled existing Network bank debt syndicated facilities maturing in July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling \$1.3bn with maturity extended to June 2023, 2024 and 2025

In respect of FY2020:

- › Weighted average debt maturity tenor was 3.8 years. This was lower than FY2019 (4.3 years) due to the debt portfolio's duration reducing by 12 months, partly offset by the extinguishment and replacement of Network bank debt facilities noted above.
- › Group interest cost on drawn debt was 4.5% (FY2019 4.5%)
- › Available liquidity (undrawn facilities plus cash) as at 30 June 2020 was \$1,165m, with \$525m to be used for the upcoming bond maturing
- › Group gearing (net debt/(net debt + equity)) as at 30 June 2020 was 45.1% (FY2019 41.7%)
- › Network gearing (net debt/Regulated Asset Base (excluding Access Facilitation Deeds)) as at 30 June 2020 was 56.0% (FY2019 58.7%)
- › Operations gearing (net debt/(net debt + equity)) as at 30 June 2020 was 10.2% (FY2019 0.7%)

Dividend

The Board has declared a final dividend for FY2020 of 13.7cps (70% franked) based on a payout ratio of 100% in respect of underlying NPAT for continuing operations.

The relevant final dividend dates are:

- › 24 August 2020 – ex-dividend date
- › 25 August 2020 – record date
- › 21 September 2020 – payment date

Share buy-back

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

During the year, 75,485,000 shares at a total consideration of \$400.0m were bought back and subsequently cancelled.

Tax

For FY2020 continuing operations, the underlying income tax expense was \$229.1m and the statutory income tax expense was \$260.8m. Statutory income tax expense for the Group (both continuing and discontinued) for FY2020 was \$265.2m. The Group underlying and statutory effective tax rate⁶ for FY2020 was 30.1% which is greater than 30% due to the derecognition of the deferred tax asset in respect of net capital losses. The Group underlying cash tax rate⁷ for FY2020 was 21.3%, 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. Please refer to www.aurizon.com.au/sustainability for a copy of Aurizon's sustainability report (including tax transparency disclosures).

Discontinued Operations

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

Aurizon signed a binding agreement with Pacific National on 29 July 2017 to sell its Acacia Ridge Intermodal Terminal for \$205.0m, of which a \$35.0m non-refundable amount was received in advance. This transaction is subject to approval by the ACCC and Foreign Investment Review Board.

On 6 May 2020, the Full Federal Court unanimously dismissed an appeal by the ACCC that the sale of the Acacia Ridge Intermodal Terminal to Pacific National contravened section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. On 26 June 2020, the ACCC sought special leave to the High Court to appeal the decision of the Full Federal Court.

It is anticipated that the special leave application decision will be received before the end of calendar year 2020. The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 30 June 2020.

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

6 Underlying effective tax rate = income tax expense excluding the impact of significant items/underlying consolidated profit before tax

7 Underlying cash tax rate = cash tax payable excluding the impact of significant items/underlying consolidated profit before tax

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

BUSINESS UNIT REVIEW

COAL

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

FINANCIAL SUMMARY

(\$M)	FY2020	FY2019	VARIANCE
Revenue			
Above Rail	1,260.3	1,236.2	2%
Track Access	512.8	487.7	5%
Other	2.2	0.9	144%
Total revenue	1,775.3	1,724.8	3%
Operating costs	(1,158.9)	(1,115.0)	(4%)
EBITDA	616.4	609.8	1%
Depreciation and amortisation	(205.8)	(194.7)	(6%)
EBIT	410.6	415.1	(1%)

METRICS

	FY2020	FY2019	VARIANCE
Total tonnes hauled (m)	213.9	214.3	(0%)
CQCN	150.1	152.3	(1%)
NSW & SEQ	63.8	62.0	3%
Contract utilisation	86%	90%	(4.0ppt)
Total NTK (bn)	50.0	50.5	(1%)
CQCN	37.8	38.3	(1%)
NSW & SEQ	12.2	12.2	-
Average haul length (km)	234	236	(1%)
Total revenue/NTK (\$/'000 NTK)	35.5	34.2	4%
Above Rail Revenue/NTK (\$/'000 NTK)	25.2	24.5	3%
Operating Ratio (%)	76.9%	75.9%	(1.0ppt)
Opex/NTK (\$/'000 NTK)	27.3	25.9	(5%)
Opex/NTK (excluding access costs) (\$/'000 NTK)	17.1	16.6	(3%)
Locomotive productivity ('000 NTK/Active locomotive day) ⁸	405.5	416.0	(3%)
Active locomotives (as at 30 June) ⁸	332	337	(1%)
Wagon productivity ('000 NTK/Active wagon day) ⁸	15.7	16.0	(2%)
Active wagons (as at 30 June) ⁸	8,721	8,732	(0%)
Payload (tonnes) ⁸	7,676	7,501	2%
Velocity (km/hr) ⁸	23.5	22.9	3%
Fuel Consumption (l/d GTK) ⁸	2.86	2.82	(1%)

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

Coal Performance Overview

Coal EBIT decreased \$4.5m (1%) to \$410.6m with higher depreciation and operating costs associated with installing additional capacity, technology improvements and CPI impacts, partly offset by revenue quality improvements.

Volumes were 213.9mt (-0.4mt; 0%) which was broadly in line with the prior year.

- Across the CQCN, volumes decreased by 2.2mt (1%) to 150.1mt largely due to customer specific maintenance and production issues which more than offset recovery from the one-off supply chain impacts experienced in FY2019
- In NSW and South-East Queensland (SEQ), volumes increased by 1.8mt (3%) to 63.8mt with higher volumes from MACH Energy partly offset by production issues experienced by other key customers

Coal revenue increased by \$50.5m (3%) to \$1,775.3m, with higher above rail revenue yield (including CPI impacts) and track access revenue following an increase in CQCN access tariffs from the finalisation of UT5, partly offset by prior year Take-or-Pay recovery.

Total operating costs (including depreciation) increased \$55.0m (4%) to \$1,364.7m with higher track access costs and an increase in other operating costs and depreciation. The major drivers of these movements are noted below:

- › Track access costs increased by \$35.0m (7%) due to the increase in the CQCN access tariffs
- › Other operating costs increased \$8.9m due to increased traincrew and maintenance costs to meet expected volume growth and wages and consumables escalation, including the commencement of new Enterprise Agreements. These costs were partly offset by lower fuel expenses and ongoing efficiency benefits
- › Depreciation increased \$11.1m relating to the additional installed fleet, overhauls of existing rollingstock and technology modernisation investments

Operationally, key productivity metrics showed some deterioration given lower than expected NTKs. However, average payloads and velocity 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 176mt of metallurgical coal in FY2020, down 4% against the prior year. China was Australia's largest metallurgical coal export market with export volume of 50mt (28% share), followed by India at 40mt (22% share) and Japan at 32mt (18% share). Although not impacting crude steel production in China, increasing by 2% in the six months to June, steel capacity in both India and Japan was curtailed as a result of COVID-19 with production reducing by -24% and -17% respectively over the same period. The average hard coking coal price in FY2020 fell by 30% (compared to the prior year) to US\$145/t. In the 12 months to June, metallurgical coal exports from the United States (the second largest metallurgical coal export nation behind Australia) decreased by 20%.

Australia exported a record 213mt of thermal coal in FY2020, up 1% against the prior year. Japan remained Australia's largest thermal coal export market with export volume of 74mt (35% share), followed by China at 52mt (24% share) and South Korea at 32mt (15% share). This was a record result for China and also Vietnam, with the export volume for the latter at 13mt (+78%). The average Newcastle benchmark thermal coal price in FY2020 fell by 35% (compared to the prior year) to US\$65/t. In the 12 months to May, total coal exports (almost entirely thermal coal) from Indonesia (the largest thermal coal export nation) decreased by 2% against the same period of the prior year.

Contract update

- › Bluescope – commenced railings in April 2020 installing Aurizon into the Illawarra region
- › Peabody – commenced railings in July across CQCN and NSW under new contracts

BULK

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

FINANCIAL SUMMARY

(\$M)	FY2020	FY2019	VARIANCE
Revenue			
Freight Transport	583.4	474.6	23%
Other	25.4	27.1	(6%)
Total revenue	608.8	501.7	21%
Operating costs	(498.7)	(447.2)	(12%)
EBITDA	110.1	54.5	102%
Depreciation and amortisation	(20.2)	(17.2)	(17%)
EBIT	89.9	37.3	141%
Total tonnes hauled (m)	48.1	44.6	8%
Operating Ratio (%)	85.2%	92.6%	7.4ppt

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Bulk Performance Overview

EBIT increased \$52.6m (141%) to \$89.9m due to new volume growth, increased revenue quality and ongoing operational efficiencies. The result demonstrates the strong progress made on the Bulk turnaround program. All divisions within the Bulk business are now profitable. The result was also supported by the decision to not expense sustaining capital spend in Bulk East from July 2019 based on a more sustainable earnings outlook.

Revenue increased \$107.1m (21%) to \$608.8m due to:

- › The full year impact of the Linfox agreement (no volumes are recorded against this contract as it is a hook and pull agreement and invoiced on a per service basis)
- › The full year impact of the Glencore Freighter service on the Mt Isa corridor in October 2018 along with increased concentrate volumes
- › The commencement of the Rio Tinto contract for the operation and maintenance of Rio's ballast cleaning machine on its Western Australian (WA) Pilbara network in February 2020
- › The commencement of the Mineral Resource contract for the lease of rollingstock, provision of mainline crew and Esperance yard operations during 2H FY2020
- › The acquisition of Townsville Bulk Storage and Handling (renamed Aurizon Port Services) from Flinders Ports in March 2020
- › Higher revenue yield through some minor contract variations, CPI mechanisms and the expiry of a short-term rate relief arrangement for an Iron Ore customer in late FY2019

In Bulk East, volumes increased by 0.9mt with the commencement of the Glencore Freighter service in October 2018 and the significant flooding event in 2H FY2019 in North Queensland. Overall train services increased 42% driven by the Linfox contract which commenced in February 2019.

In WA, iron ore volumes were up 2.0mt driven by the commencement of Mineral Resources volumes into Esperance in 2H FY2020. Bulk West volumes increased by 0.5mt largely due to higher volumes for the South West customers.

Total costs (including depreciation) increased \$54.5m (12%) largely due to operating costs associated with the new volumes, Aurizon Port Services and the full year run rate for the Linfox contract. This was partly offset by ongoing cost benefits from the Bulk turnaround program, lower average fuel prices compared to the prior year and not expensing Bulk East sustaining capital spend from July 2019.

Market update

Aurizon's Bulk business includes haulage of a range of bulk commodities such as iron ore, bauxite, alumina, base metals, grain and livestock across WA 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. This is supported by increased exploration expenditure in Australia – for the nine months ended 31 March 2020, copper exploration expenditure increased by 54% (compared to the same period of the prior year) and nickel (including cobalt) exploration expenditure rose by 11%, across the same period.

Contract update

- › South32 Cannington – executed an 11 year contract extension out to 2032 for services on the Mt Isa corridor
- › Aurizon Port Services – acquired Townsville Bulk Storage and Handling to extend supply chain services for Bulk customers in North Queensland
- › Incitec Pivot Ltd – new contract commenced in January 2020 for the haulage of acid and fertiliser on the Mt Isa corridor
- › BGC – new contract commenced in June 2020 hauling cement products on the Kalgoorlie Freighter

NETWORK

Network refers to the business of Aurizon Network Pty Ltd (Network) which operates the 2,670km CQC. 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 CQC includes four major coal systems (Moura, Blackwater, Goonyella and Newlands) and a connecting link (the Goonyella to Abbot Point Expansion (GAPE)).

FINANCIAL SUMMARY

(\$M)	FY2020	FY2019	VARIANCE
Revenue			
Track Access	1,131.7	1,070.3	6%
Services and other	56.8	47.4	20%
Total revenue	1,188.5	1,117.7	6%
Operating costs	(390.4)	(396.5)	2%
EBITDA	798.1	721.2	11%
Depreciation and amortisation	(329.3)	(320.9)	(3%)
EBIT	468.8	400.3	17%

METRICS

	FY2020	FY2019	VARIANCE
Tonnes (m)	226.9	232.7	(2%)
NTK (bn)	56.2	57.9	(3%)
Operating Ratio (%)	60.6%	64.2%	3.6ppt
Maintenance/NTK (\$/'000 NTK)	2.3	2.3	-
Opex/NTK (\$/'000 NTK)	12.8	12.4	(3%)
Cycle Velocity (km/hr)	23.3	23.1	1%
System Availability (%)	83.3%	83.8%	(0.5ppt)
Average haul length (km)	248	249	(0%)

Network Performance Overview

EBIT improved \$68.5m (17%) to \$468.8m in FY2020, with increased revenue of \$70.8m (6%) and reduced operating costs of \$6.1m (2%) partially offset by higher depreciation of \$8.4m (3%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the QCA on 21 February 2020. Actual net tonnes were 226.9mt compared to the regulatory system forecast of 240.0mt.

Total Access Revenue increased \$61.4m (6%), benefitting from:

- Increased regulatory allowable revenue of \$76.6m including the impact of the UT5 Undertaking;
- The non-recurrence of the FY2018 true-up that impacted FY2019 revenue, totalling \$60.1m; and
- Lower customer funded infrastructure rebates, which were \$17.8m favourable compared to FY2019 due to a combination of lower volumes and a true-up adjustment following the finalisation of the UT5 Undertaking as rebates had previously been paid on a transitional tariff basis.

This was partially offset by:

- A volume related under-recovery of allowable revenue in FY2020 of \$22.6m compared to an over-recovery of \$11.8m in FY2019;
- Unfavourable Revenue Cap movements of \$57.5m, being a repayment in FY2020 of both \$0.8m in relation to FY2018 and \$12.2m in relation to FY2019 compared to a recovery of \$44.5m in FY2019; and
- GAPE revenue was \$2.7m lower.

Access Revenue included the recognition of \$25.6m Take-or-Pay in relation to the Goonyella and Moura systems.

Services and other revenue increased \$9.4m (20%) mainly due to additional external construction works revenue (\$9.1m) partially offset in expenses.

Operating costs decreased by \$6.1m (2%) from a reduction in consumables due to lower professional services spend (primarily relating to UT5 and the WIRP dispute), overhead savings and lower employee costs from cost saving initiatives which more than offset CPI impacts.

Depreciation increased \$8.4m (3%) due to increased levels of asset renewals and ballast undercutting.

Network's 2018-2019 Regulated Asset Base roll-forward is estimated to be \$5.5bn (including all deferred capital but excluding Access Facilitation Deeds of \$0.4bn).

Although the volume related under-recovery was \$22.6m for the year, the revenue cap adjustment is expected to be minimal given offsets from lower maintenance costs and adjustments for rebates and WACC.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Regulation Update

- › On 19 December 2019, the Queensland Competition Authority (QCA) approved the 2017 Access Undertaking (UT5) with support from customers representing more than 90% of railed tonnes in the CQCN
- › Aurizon continues to progress the implementation of UT5. The status of key aspects of UT5 is as follows:
 - The term of UT5 is extended to 10 years (1 July 2017 to 30 June 2027)
 - The appointment of an Independent Expert (IE) to complete initial and ongoing capacity assessments and to undertake reporting requirements
 - The IE was incorporated on 20 April 2020, as the Coal Network Capacity Co Pty Ltd
 - The IE is in the process of setting up for operation with the Chair and the Chief Executive Officer appointed
 - Network and its customers are continuing to progress the development of the Initial Capacity Assessment Report while the IE is being established with the assistance of external consultants
 - Network's weighted average cost of capital (WACC) increased from 5.7% to 5.9% on 3 May 2019, with a further increase to 6.3% upon the completion of specific milestones by both the IE and Network (Report Date). QCA approved reference tariffs assume the commencement of the WACC uplift to 6.3% from 1 March 2020. Future tariffs may be adjusted to reflect the actual Report Date
 - The Performance Rebate mechanism is not applicable for FY2020. The rebate will come into effect once Network provides its response to the Initial Capacity Assessment Report. Transitional arrangements may be in effect depending on the outcomes of the Initial Capacity Assessment Report and any resulting remedial requirements

- › Network obtained Rail Industry Group (RIG) approval of both the FY2021 Maintenance Strategy and Budget and the FY2021 Renewals Strategy and Budget on 14 February 2020
- › On 21 February 2020, the QCA approved the consolidated Draft Amending Access Undertaking (DAAU) which brought together the outcomes from the customer-supported UT5 and the Volume Reset DAAU into one operational Access Undertaking. Key points from this approval included:
 - Reset FY2020 forecast volumes for the CQCN from 248.2 to 240.0mt
 - Reduce the FY2020 variable maintenance allowance to reflect the lower volumes
 - Reduce the forecast electrical infrastructure charges (AT5) to reflect lower charges from Transmission Network Service Providers
 - Bring-forward the FY2019 Revenue cap adjustment from FY2021 to a payment in FY2020
- › The QCA approved Network's FY2021 reference tariff submission on 28 May 2020 and brought together the following elements, which are ultimately reflected in the Access tariffs effective from 1 July 2020:
 - Revised FY2021 coal volume forecasts for the CQCN from 249.2 to 239.2mt
 - Updated maintenance indicator for each coal system to reflect the RIG-approved Maintenance Strategy and Budget
 - Updated capital indicator for each coal system to reflect the RIG-approved Renewals Strategy and Budget
 - A true-up of the revenues associated with the approved FY2018 capital expenditure against the Capital Indicator

Operational Update

Network maintained strong operational performance during FY2020 despite challenges presented by bushfires, wet weather and the COVID-19 pandemic.

- › The supply chain delivered the third highest volumes on record in the CQCN of 226.9mt with new monthly CQCN records achieved in July and December. Volumes during FY2020 were impacted by isolated customer demand and production issues along with additional reactive maintenance requirements particularly during the second half of FY2020
- › Total System Availability declined marginally from 83.8% to 83.3%
- › Cancellations due to the Network rail infrastructure increased from 1.8% to 2.5% partly reflecting additional reactive maintenance requirements, primarily in Blackwater and Goonyella
- › Cycle velocity improved from 23.1km/h to 23.3km/h

The RM902, Network's new ballast cleaning machine remains in the commissioning phase following the identification of some design modification requirements. It is now expected that the machine will be fully operational in the second half of FY2021.

Wiggins Island Rail Project (WIRP)

- › During FY2020 legal proceedings continued in relation to the notices received by Network in September 2015 from WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in Network's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10-12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered during 1HFY2021
- › 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 reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and will not impact recovery of the regulated access charge component of WIRP capital expenditure. Network is determining options for appeal of this outcome
- › Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in FY2020

OTHER

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

(\$M)	FY2020	FY2019	VARIANCE
Total revenue	40.7	82.2	(50%)
Operating costs	(97.7)	(96.1)	(2%)
EBITDA	(57.0)	(13.9)	(310%)
Depreciation and amortisation	(3.3)	(9.8)	66%
EBIT	(60.3)	(23.7)	(154%)

Other Performance Overview

EBIT decreased by \$36.6m (154%) mainly due to reduced earnings from the sale of the Rail Grinding business which completed in October 2019 and the recovery of a \$20.3m doubtful debt in FY2019.

INTERMODAL - DISCONTINUED OPERATION

(\$M)	FY2020	FY2019	VARIANCE
Total revenue	25.0	111.0	(77%)
Operating costs	(12.1)	(104.1)	88%
EBITDA - Underlying	12.9	6.9	87%
Depreciation and amortisation	(0.2)	(0.2)	-
EBIT - Underlying	12.7	6.7	90%
Significant Items	2.5	(11.4)	122%
Net finance benefit	-	0.1	(100%)
Income tax (expense)/ benefit	(4.4)	7.8	(156%)
NPAT (Discontinued operations) - Statutory	10.8	3.2	238%

Intermodal Performance Overview

The EBIT position for Intermodal improved \$6.0m to \$12.7m with the sale of Queensland Intermodal in the prior period.

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

Precision Scheduled Railroading (Precision) ultimately delivers better value for Aurizon's customers and shareholders.

Partnerships across the supply chain are critical to facilitating a step-change in system throughput using a disciplined and evidence-based approach to scheduling, execution and continuous improvement. The focus of Precision in FY2020 has been twofold:

- › Improve system performance in Blackwater through the implementation of the Schedule Adherence operating mode. Schedule Adherence brings further discipline to train operations and creates a stable baseline from which to drive operational improvements. By Q4 FY2020, the Schedule Adherence process had been implemented with a high degree of consistency within the business and resulted in the following improvements compared with the FY2019 baseline⁹:
 - On-time arrival to mine improved from 47% to 86%
 - On-time arrival to port improved from 16% to 60%
 - A 20% reduction in service cancellations to Network and Operator causes
- › Establish the Precision master plan, comprised of five key workstreams which are driving operational improvements:
 - Fleet Performance
 - Network Performance
 - Day of Operations Optimisation
 - Modern Planning & Scheduling
 - Resource Performance

These workstreams have identified numerous process and operational changes in both the Coal and Network business units. The primary objective of these workstreams is to reduce train turnaround time which in turn creates options for Aurizon to deliver additional throughput and/or reduce the rollingstock capital requirements of Aurizon Operations. The Precision project team is working closely with relevant stakeholders to implement these changes throughout FY2021.

9 Baseline is the 12 week period (to 1 December 2018) immediately preceding Schedule Adherence

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

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 Q4 FY2020. Following this, the business decision to proceed with deployment of TrainGuard across Blackwater and Goonyella has been communicated to stakeholders. TrainGuard's next phase is deployment on the Blackwater mainline (Callemondah to Bluff) by the end of calendar year 2021.

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 in our key fleets during 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 complementary 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, provide greater visibility on driver variability and support business decisions for on-time running. TrainHealth is initially being installed across the Siemens electric locomotive fleet in the CQCN, with installation expected to be completed by December 2020. Approximately half of the Siemens fleet has been fitted to date.

ADDITIONAL INFORMATION

Senior Management Changes

Pam Bains, CFO & Group Executive Strategy was appointed to the role of Group Executive Network in March 2020 following the resignation of Michael Riches in December 2019. George Lippiatt, Head of Strategy and Corporate Development was appointed to the role of CFO & Group Executive Strategy in June 2020.

Risk

Aurizon promotes a risk-aware culture with an emphasis on frontline accountability for effective risk management. The consideration of risk features heavily in Aurizon's thinking, from the framing of strategy through to informing decision-making. In 2020, Aurizon updated the Board approved Enterprise Risk Management Framework and Appetite to encompass culture and conduct-related risks, among others. This latest update ensures that Aurizon continues to consider and develop strategies to manage the full scope of risks.

Enhancements have also been made to the risk reporting provided both to our Board and supporting Committees, to better facilitate the early identification and proactive management of emerging risks where the impacts and opportunities are continually evolving.

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

Optimise Strategic Lever

Delivery of Optimise Initiatives

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

Operational Agility

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

Business Interruption

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

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

COVID-19

The global Coronavirus pandemic exposes Aurizon to two primary risks:

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

Acacia Ridge Intermodal Terminal sale transaction

There is a risk that the Acacia Ridge Intermodal Terminal sale transaction as described on page 15 of this report will be prevented from completing and Aurizon incurs orders for costs.

Excel Strategic Lever

Competition in Current Markets

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

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.

Implementation of the UT5 obligation to publish an Initial Capacity Assessment Report could be delayed, resulting 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 as well as risks that emerge over the medium to long term, where the timing and magnitude are less certain. In developing our own scenario analysis we assess global seaborne demand for metallurgical 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 and geopolitical risk may impact demand for Aurizon services.

Extend Strategic Lever

WIRP Non-Regulated Revenue Dispute

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

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.

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

Transition Risks

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

Physical Risks

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

Climate change risks and opportunities are disclosed annually in Aurizon's Sustainability Report. This year will be the fourth reporting period in which Aurizon incorporates recommendations from the Financial Stability Board's Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures (TCFD). In addition, in 2020 Aurizon will publish a Climate Strategy and Action Plan, 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.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

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 our 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 our 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 August 2019, Aurizon maintained a 'Leading' rating for the fifth consecutive year by the Australian Council of Superannuation Investors (ACSI) for Corporate Sustainability Reporting in Australia. Having received this rating for four or more consecutive years, Aurizon has again been considered a 'Leader' by ACSI, along with 45 other ASX200 companies.

In addition to our annual Sustainability Report (to be published in October), in 2020 we will publish a Climate Strategy and Action Plan that will communicate our plans to decarbonise our operations and provide direction for the Company's long-term climate change strategy.

Safety

At Aurizon safety is a core value and we are committed to protecting ourselves, each other and our communities. Throughout FY2020, we 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 deteriorated 8% against the prior year to 4.74. Aurizon continues to progress a number of initiatives, including Train Guard, to strengthen Rail Process Safety.

FY2020 TRIFR was 9.92 injuries per million hours worked, which was a 10% improvement against the prior year.

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).

Environment

Aurizon's vision is to deliver environmental value through effective management of material environmental risks and improved enterprise environmental performance.

Aurizon continues to focus on efforts to improve visibility and transparency related to key and emerging environmental issues such as climate change, rail noise and clean air.

In July 2019, the NSW government introduced legislation requiring Rolling Stock Operators (RSOs) to apply for mandatory Environment Protection Licences (EPL) by January 2020. The EPLs, set to be finalised in August 2020, are significant as they establish acceptable thresholds for locomotive diesel emissions and rail noise. Aurizon was first aware of the potential for this requirement in 2014 and, since this time, has led extensive consultation with the NSW Environment Protection Authority (EPA). The EPA recognised the past efforts of RSOs, led by Aurizon, in developing the 2018 Rail Industry and Standards Board (RISSB) Code of Practice (CoP) on the Management of Locomotive Diesel Emissions. This acknowledgement ultimately led to the EPA setting the CoP requirements as conditions of the EPLs. Aurizon's deep experience in rollingstock engineering enabled effective input to the EPA's approach to EPL implementation.

In September 2019, the Federal Department of Environment and Energy advised off-road diesel transport, including rail freight, was exempt from the introduction of national standards for the regulation of off-road engines. This decision gave due recognition to actions the rail freight industry, led by Aurizon, has taken to manage emissions by introducing CoP.

In FY2020, Aurizon had six notifiable environmental incidents. Remediation actions have been implemented as required and no ongoing environmental impacts are anticipated.

People

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

- › Leadership programs designed to embed a safe and high performing culture and engage and enable employees
- › Further improve our people, processes and systems through cascading performance succession systems through the organisation and further embedding a quality performance management cycle
- › Continuing to promote diversity and inclusion through actively reducing the gender pay gap, meeting workforce representation targets and implementing an online Culture Awareness learning experience

Directors' Report (continued)

REMUNERATION REPORT

Dear fellow shareholders

On behalf of the Board, we are pleased to present Aurizon's Financial Year (FY) 2020 Remuneration Report. The Board believes that the Company has performed well during a challenging year and wishes to recognise the Leadership Team's performance in executing our business strategy, for improving the core business of delivering bulk commodity transport solutions for our customers, and for achieving key milestones during the year.

Being an essential service provider to the Australian economy, Aurizon has continued to operate throughout the challenging COVID-19 pandemic, with the health and wellbeing of our employees paramount. A range of proactive workplace protocols and measures, aligned with expert health and government advice, has been maintained throughout our operations. The Board would like to thank all employees across the business for their ongoing dedication and discipline throughout this challenging period.

We were saddened by the death in December 2019 of one of our employees, Hans Ah Chee, in a work motor vehicle accident. Hans was a highly respected train driver working in our Coal business in Central Queensland. Workplace Health and Safety Queensland has advised it has considered all issues relating to the accident and is not investigating the matter any further.

The Short Term Incentive (STI) Award for FY2020 continued to be based on annual performance measures of Underlying Earnings Before Interest and Tax (EBIT), Safety and Individual Key Deliverables. Business Unit earnings measures were introduced for Bulk and Coal in FY2019 and Network in FY2020.

Target performance was achieved for Group Underlying EBIT of \$909 million in FY2020. Outcomes varied across the Business Units, with Bulk achieving Stretch performance, Network achieving an outcome between Threshold and Target, while Coal performance was below Threshold.

During the year there was a mixed result across the Safety measures with a 10% improvement in the Total Recordable Injury Frequency Rate (TRIFR) and an 8% deterioration in Rail Process Safety (Total Accident Rate, Signals Passed at Danger and Collisions). Despite the improvement in TRIFR, the safety targets were not achieved and no reward was allocated for the Enterprise Safety performance.

The mixed performance across the Enterprise and Business Unit earnings measures and individual measures is reflected directly in the STI payments for our Executive Key Management Personnel (KMP). The Board has determined that above Target outcomes will be awarded to Bulk participants, with the remaining participants receiving overall outcomes below Target. The Board have determined that no adjustment will be made to STI outcomes as a result of the fatality.

The Long Term Incentive (LTI) Award performance measures are Return on Invested Capital (ROIC) and relative Total Shareholder Return (TSR). During FY2020, the 2017 (3 year) LTI Award was subject to testing. No portion of the ROIC component vested and these rights will lapse. A positive TSR of 6% was achieved over the period. Relative TSR ranked above the median and therefore 16.5% of the total award will vest in August 2020.

The fixed remuneration of the Executive KMP was reviewed and benchmarked against an external peer group. As a result of this review, increases were awarded between 3.5-5% and 10% (Group Executive Bulk) effective 1 July 2019. The MD & CEO did not receive any fixed remuneration increase.

Due to the uncertainty in the economic outlook, the Board has determined that no fixed remuneration increases will be awarded to the Executive KMP in FY2021.

The Board also determined that, from FY2021, an adjustment would be made to the remuneration for the MD & CEO. This adjustment will see the maximum opportunity of the LTI increase from 120% to 150% of fixed remuneration, and further aligns remuneration and shareholder outcomes.

In FY2020, the Board continued to review and refine Aurizon's remuneration framework. Some changes were made to the governing rules to strengthen Board discretion, extend the definition of a claw-back event and formalise Good Leaver guidelines. The Board will continue to review the framework to ensure it delivers against Aurizon's remuneration principles and remains effective in driving performance.

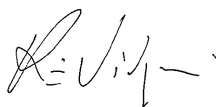
The Board considers that these overall remuneration outcomes reach an appropriate balance between shareholder outcomes, uncertainty in the economic outlook, and recognising the significant value-adding contribution of the MD & CEO and Leadership Team.

We are grateful for your ongoing support.

Yours faithfully,



Tim Poole
Chairman



Kate Vidgen
Chair, Remuneration and
Human Resources Committee

Directors' Report (continued)

REMUNERATION REPORT

1. Remuneration Report Introduction

Aurizon's remuneration practices are aligned with the Company's strategy of providing rewards that drive and reflect the creation of shareholder value, while attracting and retaining Directors and Executives with the right capability to achieve results.

The Remuneration Report for the year ended 30 June 2020 is set out as per Table 1. The information in this Report has been audited.

TABLE 1 - TABLE OF CONTENTS

SECTION	CONTENTS	PAGE
1	Remuneration Report Introduction	26
2	Directors and Executives	26
3	Remuneration Framework Components	27
4	Company Performance for Financial Year 2020	29
5	Take Home Pay	29
6	Short Term Incentive Award	30
7	Long Term Incentive Award	32
8	Executive Employment Agreements	34
9	Non-Executive Director Remuneration	35
10	Executive Remuneration for Financial Year 2020	36

2. Directors and Executives

The Key Management Personnel (KMP) of the Group (being those whose remuneration must be disclosed in this Report) include the Non-Executive Directors and those Executives who have the authority and responsibility for planning, directing and controlling the activities of Aurizon.

The Non-Executive Directors and Executives that formed part of the KMP for the Financial Year (FY) ended 30 June 2020 are identified in Table 2.

Table 3 identifies other persons who were KMP at some time during FY2020.

TABLE 2 - KEY MANAGEMENT PERSONNEL

NAME	POSITION
NON-EXECUTIVE DIRECTORS	
T Poole	Chairman, Independent Non-Executive Director
M Bastos	Independent Non-Executive Director
R Caplan	Independent Non-Executive Director
M Fraser	Independent Non-Executive Director
S Lewis	Independent Non-Executive Director
S Ryan ¹	Independent Non-Executive Director
L Strambi ²	Independent Non-Executive Director
K Vidgen	Independent Non-Executive Director
EXECUTIVE KMP	
A Harding	Managing Director & Chief Executive Officer
P Bains ³	Group Executive Network
G Lippiatt ⁴	Chief Financial Officer & Group Executive Strategy
C McDonald	Group Executive Bulk
E McKeiver	Group Executive Coal

1 S Ryan was appointed a Director on 1 December 2019

2 L Strambi was appointed a Director on 1 December 2019

3 P Bains was appointed Group Executive Network on 9 March 2020 and prior to this held the role of Chief Financial Officer & Group Executive Strategy

4 G Lippiatt was appointed Chief Financial Officer & Group Executive Strategy on 9 March 2020 in an acting capacity, and permanently on 30 June 2020

TABLE 3 - FORMER KEY MANAGEMENT PERSONNEL

NAME	POSITION
EXECUTIVE KMP	
M Riches ¹	Group Executive Network

1 M Riches ceased in role on 17 December 2019 and with the Company on 30 June 2020

3. Remuneration Framework Components

Total Potential Remuneration

Aurizon's Remuneration Framework for each Executive comprises three components:

- › **Fixed remuneration** (not 'at risk') that comprises salary and other benefits, including superannuation
- › **STIA** ('at risk' component, awarded on the achievement of performance conditions over a 12-month period) that comprises both a cash component and a component deferred for 12 months into equity
- › **LTIA** ('at risk' component, awarded on the achievement of performance conditions over a four-year period) that comprises only an equity component

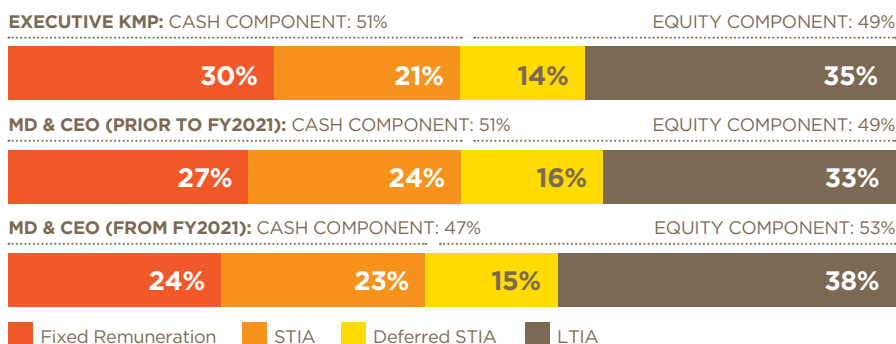
The structure is intended to provide an appropriate mix of fixed and variable remuneration, and provide a combination of incentives intended to drive performance against the Company's short and longer-term business objectives.

The mix of potential remuneration components for FY2020 for the MD & CEO and Executive KMP is set out in Figure 1: Total Potential Remuneration. During the year, the Board reviewed the remuneration for the MD & CEO and has determined that, from FY2021, the maximum opportunity of the LTI will be increased from 120% to 150% of fixed remuneration. This change ensures alignment with the external market and increases the proportion of the remuneration mix aligned with the interests of shareholders. The remuneration for other Executive KMP remains unchanged.

Executive Remuneration Governance

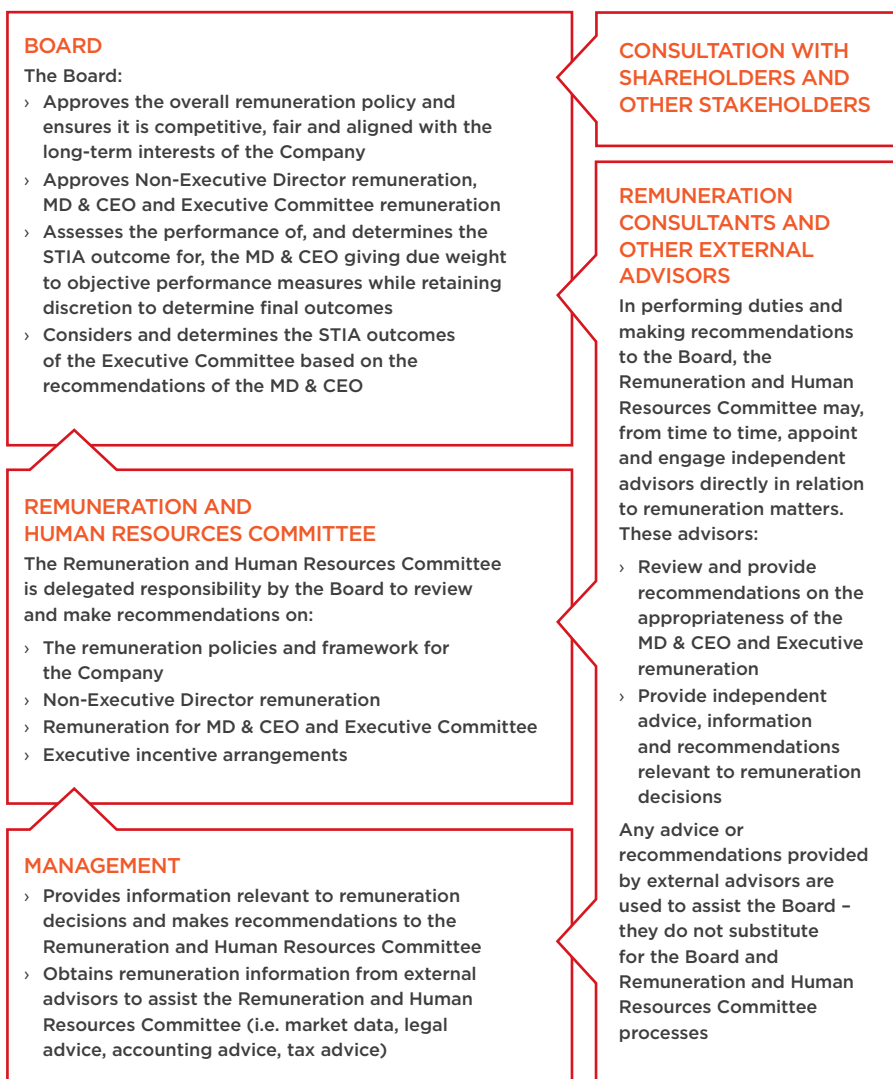
Figure 2 represents Aurizon's remuneration governance framework. Details on the composition of the Remuneration and Human Resources Committee (Committee) are set out on page 9 of this report. The Committee's Charter is available in the Governance section of the Company's website at www.aurizon.com.au

FIGURE 1 - TOTAL POTENTIAL REMUNERATION¹



¹ Assumes achievement of the stretch performance hurdle outcomes for STIA, full vesting of the Deferred STIA and LTIA at a value equal to the maximum opportunity of the original award i.e. assuming no share price appreciation

FIGURE 2 - REMUNERATION GOVERNANCE FRAMEWORK



Directors' Report (continued)

REMUNERATION REPORT

Remuneration Framework and objectives Financial Year 2020

During FY2019 and FY2020, the Board continued to review and refine Aurizon's remuneration framework. The Board has determined that the current framework, as summarised in Figure 3, continues to deliver against our remuneration principles and, with minor adjustments, remains effective in driving performance. The Board will continue to review the framework and assess alternative structures implemented in the market.

FIGURE 3 - REMUNERATION FRAMEWORK AND OBJECTIVES FOR FINANCIAL YEAR 2020

	PERFORMANCE MEASURE	STRATEGIC OBJECTIVES AND LINK TO PERFORMANCE	FY2020 FRAMEWORK CHANGES
FIXED REMUNERATION	<p>Considerations:</p> <ul style="list-style-type: none"> › Experience and qualifications › Role and responsibility › Retain key capability › Reference to remuneration paid by similar-sized companies in similar industry sectors › Internal and external relativities 	<ul style="list-style-type: none"> › To attract and retain Executives with the right capability to achieve results 	<ul style="list-style-type: none"> › Effective 1 July 2019, fixed remuneration increases were provided to Executive KMP to ensure alignment with external peer group: <ul style="list-style-type: none"> • GE Coal (3.5%) • CFO & GE Strategy (5%) • GE Bulk (10%) › The MD & CEO did not receive an increase
SHORT TERM INCENTIVE AWARD	<ul style="list-style-type: none"> › Underlying EBIT (Enterprise and, if applicable, Business Unit) (60%) › Safety (10%) › Individual (30%) <p>Measured over a one-year performance period</p> <p>Participants can earn up to a maximum of 150% of "at-target" remuneration</p> <p>STIA at Risk:</p> <p>MD & CEO: Target 100% of Fixed Remuneration and maximum 150% of Fixed Remuneration</p> <p>Other Executive KMP: Target 75% of Fixed Remuneration and maximum 112.5% of Fixed Remuneration</p>	<p>The financial and non-financial performance measures were chosen because:</p> <ul style="list-style-type: none"> › Underlying EBIT delivers direct financial benefits to shareholders › Safety drives a continuous safety improvement culture and embeds safe, efficient and effective processes across all aspects of a heavy industry business › Individual aligns employee contribution to the achievement of the Company strategy. At the start of the performance year the Board determines the MD & CEO individual strategic measures. Relevant measures are cascaded to the Executive Committee and throughout the Company 	<ul style="list-style-type: none"> › Introduction of Business Unit measure (Underlying EBIT) for Coal, Bulk (FY2019) and Network (FY2020) › A review is underway to assess alternative reward structures and performance metrics to support an improvement in Safety performance
LONG TERM INCENTIVE AWARD	<ul style="list-style-type: none"> › Relative Total Shareholder Return (TSR) (50%) › Return on Invested Capital (ROIC) (50%) <p>Measured over a four-year performance period</p> <p>LTIA at Risk (Maximum):</p> <p>MD & CEO: 120% of Fixed Remuneration</p> <p>Other Executive KMP: 112.5% of Fixed Remuneration</p>	<ul style="list-style-type: none"> › Relative TSR is a measure of the return generated for Aurizon's shareholders over the performance period relative to a specific peer group of companies (from the ASX100 Index) › ROIC reflects the fact that Aurizon operates a capital-intensive business and our focus should be on maximising the level of return generated on the capital we invest <p>Note: Minimum shareholding requirements for Executive KMP and the remainder of the Executive Committee encourages retention of shares and alignment with shareholder interests</p>	<ul style="list-style-type: none"> › Governing rules updated to strengthen Board discretion, extend definition of claw-back event (DSTIA) and formalised Good Leaver guideline › For the MD & CEO, from FY2021, the maximum opportunity of the LTI will be increased from 120% to 150% of Fixed Remuneration

Total Remuneration

Overall, Executive remuneration is designed to support the delivery of superior shareholder returns by placing a significant proportion of an Executive's total potential remuneration at risk and awarding a significant portion of at risk pay in equity

4. Company Performance for Financial Year 2020

Aurizon reported Group Underlying Earnings Before Interest and Tax (EBIT) of \$909 million for continuing operations for year ended 30 June 2020, in line with EBIT guidance range (\$880m – \$930m).

Being an essential service provider to the Australian economy, Aurizon has continued to operate throughout the challenging coronavirus pandemic (COVID-19) period, with the health and wellbeing of our employees paramount. Progress has continued in executing the business strategy and achieving key milestones during FY2020.

Table 4 shows historical Company performance across a range of key measures. Performance across earnings and individual measures is reflected directly in STIA payments. LTIA outcomes are aligned with the shareholder experience over the last three years. Detail related to performance against the FY2020 STIA performance measures is provided in Table 6 (page 31). Table 8 (page 32) provides additional information related to the LTIA performance outcomes.

TABLE 4 – HISTORICAL COMPANY PERFORMANCE AGAINST KEY MEASURES

KEY PERFORMANCE MEASURES	DESCRIPTION	FY2020	FY2019	FY2018	FY2017	FY2016
Group Underlying EBIT ¹	\$m	909	829	941	884	871
Bulk Underlying EBIT ²	\$m	90	37	50		
Coal Underlying EBIT ²	\$m	411	415	429		
Network Underlying EBIT ²	\$m	469	400	481		
Return on Invested Capital	%	10.9	9.7	10.9	9.3	8.6
Total Recordable Injury Frequency Rate (TRIFR) ³	per million work hours	9.92	11.07	10.02	7.12	9.88
Rail Process Safety (RPS) ⁴	per million train kilometres	4.74	4.38	5.08		
Total Shareholder Return (TSR)	%	-9.6	28.2	-13.6	15.8	-8.6
3-year TSR	%	6.0	25.5	-5.5	26.3	18.9

1 Continuing operations

2 Business Unit model was introduced from FY2018

3 From FY2018, TRIFR definition has been redefined and contractor statistics have been included. Performance unaudited prior to FY2018.

4 Rail Process Safety (Total Accident Rate and Signals Passed at Danger) was introduced from FY2018

5. Take Home Pay

Table 5 identifies the actual remuneration earned during FY2020 for Executive KMP.

The table has not been prepared in accordance with accounting standards but has been provided to ensure shareholders are able to clearly understand the remuneration outcomes for Executive KMP. Remuneration outcomes, which are prepared in accordance with the accounting standards, are provided in Section 10 (page 36).

Following a market review, effective 1 July 2019, fixed remuneration increases were provided to Executive KMP (between 3.5% to 10%) to ensure alignment with external peer group. The MD & CEO did not receive an increase.

The remuneration outcomes identified in Table 5 are directly linked to the Company performance described in Section 6 (page 30) and Section 7 (page 32).

The actual STIA is dependent on Aurizon, Business Unit and individual performance as described in Section 6.

Varying performance across our key measures is also reflected directly in the payments for our Executive KMP, which range from 43% to 88% of their potential maximum.

The actual vesting of the LTIA is dependent on Aurizon's performance and the outcomes are further described in Section 7.

During FY2020, the 2017 Award (3 year) was subject to testing. Relative TSR ranked above the median and therefore 16.5% of the award will vest in August 2020. No portion of the ROI component vested and these rights will lapse.

Movement in the Aurizon share price over the various performance periods is reflected in the remuneration outcomes for Executive KMP, aligning the Executive KMP outcomes with the shareholder experience.

TABLE 5 – REMUNERATION EARNED IN FINANCIAL YEAR 2020

NAME	FIXED REMUNERATION \$'000	NON-MONETARY BENEFITS ¹ \$'000	STIA CASH ² \$'000	STIA DEFERRED FROM PRIOR YEAR ³ \$'000	LTIA VESTING ⁴ \$'000	SHARE PRICE DEPRECIATION ⁵ \$'000	ACTUAL FY2020 REMUNERATION OUTCOMES \$'000
EXECUTIVE KMP							
A Harding	1,717	-	981	1,031	252	(202)	3,779
P Bains	788	5	328	338	97	(67)	1,489
G Lippiatt ⁶	129	-	61	-	32	(2)	220
C McDonald	667	29	394	273	83	(54)	1,392
E McKeiver	683	3	200	277	89	(55)	1,197

1 The amount relates to reportable Fringe Benefits for the respective FBT year ending 31 March and includes travel benefits and relocation assistance

2 The amount relates to the cash component (60%) of the FY2020 STIA which will be paid in September 2020

3 The amount relates to the deferred component (40%) of the FY2019 STIA which was awarded in performance rights and will become unrestricted in September 2020 (calculation assumes a share price of \$6.03)

4 The amount is the value of rights which will vest in August 2020 (ie a portion of the 2017 Award (3-year)) (calculation assumes share price of \$5.17)

5 The amount is the number of rights which vest multiplied by the decrease in the Aurizon share price over the period ended 30 June 2020 (calculation assumes share price depreciation of \$1.11 DSTIA and \$0.25 LTIA)

6 The amount relates to the salary and STIA attributable to the Chief Financial Officer & Group Executive Strategy role

Directors' Report (continued)

REMUNERATION REPORT

6. Short Term Incentive Award

What is the STIA and who participates?

The STIA is 'at risk' remuneration subject to the achievement of pre-defined Company, Business Unit and individual performance measures which are set annually by the Board at the beginning of the performance period.

For each component of the STIA, three performance levels are set:

- > *Threshold*, below which no STIA is paid for that component
- > *Target*, which typically aligns to relevant corporate plans and budgets, a business improvement targeted outcome or reflects an improvement on historical achievement
- > *Stretch*, outcomes which are materially better than Target

The STIA applies in a similar manner to all non-enterprise agreement employees. For the MD & CEO, Executive KMP and the remaining Executive Committee (direct reports to the MD & CEO) a portion (40%) will be deferred into equity for a period of 12 months, which is subject to claw-back for financial misstatements and misconduct.

What are the Company performance measures?

The performance measures which apply to all participants are Underlying EBIT, Safety and Individual.

From FY2019, Business Unit measures were included in the scorecard for Bulk and Coal. Following the Final Decision on the UT5 outcome, from FY2020, Network also has a Business Unit measure.

Each measure has a defined level of performance. The measures drive a continuous safety improvement culture, strengthen and grow our current business while continuing to transform the Enterprise.

This is achieved through a focus on people and asset efficiencies while at the same time, delivering benefits to shareholders'.

Individual performance measures relate to each specific role and measure an individual's contribution against a range of operational and strategic performance measures (including additional safety measures). At the start of the performance year the Board determines the MD & CEO individual strategic measures. Relevant measures are cascaded to the Executive Committee and throughout the Company as reflected in Figure 4.

What is the amount that participants can earn through an STIA?

The employment agreements specify a target STIA, expressed as a percentage of Fixed Remuneration (100% for the MD & CEO and 75% for the remaining Executive KMP). Each participant can earn between 0% up to a maximum of 150% of this target percentage, depending on performance and subject to Board discretion. Depending on performance assessed at year end, participants may earn for each enterprise measure: 0% for performance below *Threshold*, 50% at *Threshold* (for measures other than Underlying EBIT, for which *Threshold* earnings are 30%) with a linear scale up to 100% at *Target* performance; and a further linear scale to 200% at *Stretch* performance.

STIA outcomes are determined by calculating the performance outcome against the relevant weighted performance measure. Figure 5 provides an example of an at *Target* performance outcome.

What are the outcomes for FY2020?

Table 6 identifies the performance measures, relevant weightings and outcomes for FY2020. The FY2020 actual outcomes for Executive KMP are identified within Table 7.

Target performance was achieved for Group Underlying EBIT. Outcomes varied across the Business Units, with Bulk achieving Stretch performance, Network achieving an outcome between Threshold and Target while Coal performance was below Threshold.

During the year there was a mixed result across the Safety measures with a 10% improvement in the Total Recordable Injury Frequency Rate (TRIFR) and an 8% deterioration in Rail Process Safety.

Despite the improvement in TRIFR, Executive KMP will not be rewarded for any portion of the Safety measures.

In December 2019 there was also a tragic death of one of our employees, in a work motor vehicle accident. Workplace Health and Safety Queensland has advised it has considered all issues relating to the accident and is not investigating the matter any further. The Board determined that no adjustment would be made to the outcome as a result of the fatality.

FIGURE 4 - STRATEGIC MEASURES CASCADING PROCESS



FIGURE 5 - STIA PERFORMANCE OUTCOME CALCULATION

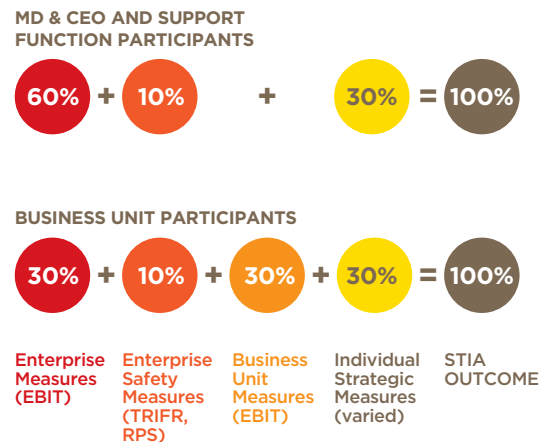


TABLE 6 - SHORT TERM INCENTIVE AWARD FINANCIAL YEAR 2020 OBJECTIVES¹

PERFORMANCE MEASURE	WEIGHTING		TARGET	FY2020 PERFORMANCE OUTCOME
	MD & CEO & CFO	COAL, BULK & NETWORK		
ENTERPRISE				
Group EBIT: Underlying EBIT delivers financial benefit to shareholder through the achievement of underlying operating earnings	60%	30%	\$906m	\$906m ●
Group Safety: The measures drive a commitment to delivering a continuous safety improvement culture across all of the Company measured through equally weighted parameters which include:				
› Total Reportable Injury Frequency Rate (TRIFR)	5%	5%	7.96	9.92 ●
› Rail Process Safety (Total Accident Rate and Signals Passed at Danger) (RPS)	5%	5%	3.79	4.74 ●
BUSINESS UNIT¹				
Coal EBIT:			\$431m	\$411m ●
Bulk EBIT:	-	30%	\$59m	\$90m ●
Network EBIT:			\$473m	\$469m ●
INDIVIDUAL: At the start of the performance year the Board determines the MD & CEO individual strategic measures. These individual measures are based on the Aurizon strategy of continuing to optimise, excel and extend the business. Relevant measures are subsequently cascaded to the Executive Committee and throughout the organisation. During FY2020 some of the key strategic measures for the MD & CEO and across the organisation were:	30%	30%	Individual performance targets vary for each specific role	Personal outcomes for MD & CEO and Executive KMP varied between above Target and Stretch depending on performance against individual KPIs ●
› Deliver key operational efficiency improvement programs (including Project Precision and Network Optimisation Program)			› Safety and performance culture	
			› Climate change response	
› Advancement of key technology programs			› Position business for growth	
TOTAL OUTCOME	100%	100%	MD & CEO, CFO, Coal & Network	Bulk ● ●

1 Company performance hurdles relate to continuing operations and excludes the Rail Grinding business which was sold in October 2019

● Stretch ● Between Target & Stretch ● Target ● Between Threshold & Target ● Threshold ● Below Threshold

TABLE 7 - SHORT TERM INCENTIVE AWARDED IN FINANCIAL YEAR 2020

NAME	TARGET STIA \$'000	MAXIMUM POTENTIAL STIA \$'000	AWARDED FY2020 \$'000			% OF TARGET STIA	% OF MAXIMUM STIA ²
			CASH COMPONENT	DEFERRED SHARE COMPONENT ¹	TOTAL STIA PAYMENT		
EXECUTIVE KMP							
A Harding	1,717	2,576	981	654	1,635	95	63
P Bains	591	887	328	218	546	92	62
G Lippiatt ^{3,4}	64	97	61	-	61	95	63
C McDonald	500	750	394	263	657	131	88
E McKeiver	512	768	200	134	334	65	43

1 A portion (40%) awarded in the form of rights to shares, which vest on the first anniversary of payment of the cash component subject to Board's ability to 'claw-back'

2 Executives have forfeited between 12% and 57% of their maximum potential outcomes

3 G Lippiatt was not remunerated as an Executive KMP for FY2020 therefore his STIA will be awarded entirely as cash

4 The amount relates to the STIA made while acting as Chief Financial Officer & Group Executive Strategy from March 2020

Directors' Report (continued)

REMUNERATION REPORT

7. Long Term Incentive Award

What is the LTIA and who participates?

The LTIA is the component of Total Potential Remuneration linked to providing long-term incentives for selected Executives whom the Board has identified as being able to contribute directly to the generation of long-term shareholder returns. This includes the MD & CEO, Executive KMP, the remaining Executive Committee (direct reports to the MD & CEO) and a number of other management employees.

What is the amount that Executives can earn through an LTIA?

The maximum potential remuneration (expressed as a percentage of Fixed Remuneration) available through the LTIA is 120% in the case of the MD & CEO (increasing to 150% from FY2021) and 112.5% for the remaining Executive KMP.

What is the performance period?

From the 2017 Award, Company hurdles are measured over an extended performance period, which increased from a three to a four-year performance period. Retesting does not form part of any awards.

What are the performance hurdles?

The LTIA has two performance hurdles – Relative Total Shareholder Return and Average Return on Invested Capital.

How is the LTIA determined?

The number of performance rights issued under the LTIA to each Executive is calculated by dividing their respective LTIA potential remuneration (expressed as a percentage of Fixed Remuneration) by the five-day Volume Weighted Average Price (VWAP) of Aurizon shares at the time of their award.

Each performance right is a right to receive one share in Aurizon upon vesting. The number of performance rights that vest is determined by performance outcomes compared against predetermined company hurdles as described in Table 8 and Table 9.

What happens when performance rights vest?

Performance rights awarded under the LTIA vest subject to the satisfaction of company hurdles. Rights vest and the resulting shares are transferred to the Executive at no cost to the Executive. Value of the award will be subject to movements in the Aurizon share price over the performance period, aligning Executive outcomes and shareholder experience.

Company performance and vesting outcomes for the 2017 LTIA (3 year) is identified in Table 8. Partial vesting of the LTIA has occurred which is aligned with the shareholder experience over the performance period.

TABLE 8 – COMPANY PERFORMANCE AGAINST LONG TERM INCENTIVE AWARDS SUBJECT TO TESTING IN FINANCIAL YEAR 2020

COMPANY HURDLE AND PERFORMANCE MEASUREMENT PERIOD		WEIGHTING	RESULT	% VESTED	% LAPSED
2017 AWARD (3 YEAR): 01 JULY 2017 – 30 JUNE 2020¹					
Relative TSR: against peer group within ASX100 Index	30% of rights vest at the 50th percentile, 75% at the 62.5th percentile up to 100% at the 75th percentile	50%	Above Median ●	32.9%	67.1%
ROIC: average annual ROIC FY2018 – FY2020 ²	50% of rights vest with an average ROIC of 10.5%, up to 100% at 11.5%	50%	9.5% ●	0%	100%
TOTAL WEIGHTED OUTCOME		100%		16.5%	83.5%

¹ From the 2017 Award, company hurdles are measured over an extended performance period, which increased from a three-year performance period to a four-year performance period. In order to facilitate this transition two awards were issued at 75% of the maximum vesting opportunity in FY2018

² Following the expected Network regulatory outcomes, the Board has determined that no adjustment will be made to the hurdles for 2017 and 2018 Awards

● Maximum ● Between Minimum and Maximum ● Minimum ● Below Minimum

TABLE 9 - LONG TERM INCENTIVE AWARD PERFORMANCE OVERVIEW AND HURDLES FOR FUTURE AWARDS

DEFINITION	VESTING THRESHOLDS		
RELATIVE TOTAL SHAREHOLDER RETURN (WEIGHTING 50%)	Vesting Thresholds are consistent across all outstanding Awards		
Measures the growth in share price plus cash distributions notionally reinvested in shares and is:	MINIMUM VESTING		MAXIMUM VESTING
<ul style="list-style-type: none"> › Conditional on Aurizon’s TSR performance relative to a peer group of companies in the ASX 100 index (approximately 70) that are broadly comparable to Aurizon (ie with which Aurizon competes for capital and/or capability) › Financial, healthcare, biotechnology, casinos and gaming companies are excluded from the peer group › Determined by reference to a VWAP over a period to smooth any short-term ‘peaks’ or ‘troughs’ › Verified by an independent expert 	30% of rights vest at the 50th percentile	75% of rights vest at the 62.5th percentile	100% of rights vest at the 75th percentile
	<i>All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points</i>		
RETURN ON INVESTED CAPITAL (WEIGHTING 50%)	Vesting Thresholds vary across outstanding Awards		
For the purposes of LTIA, ROIC is underlying EBIT divided by Invested Capital and will be calculated on the same basis as published ROIC, with the following exceptions:	MINIMUM VESTING		MAXIMUM VESTING
<ul style="list-style-type: none"> › Adjusted, for Invested Capital, to exclude major (infrastructure investments with an approved budget capital expenditure over \$250m) assets under construction until these investments are planned to generate income, subject to Board discretion (for example, in the case of a delay judged to be outside the control of management and not able to be foreseen or mitigated) › Adjusted (add-back depreciation charge and invested capital) to reflect asset impairments which occur during the performance period, excluding asset impairments driven by continued efficiency and productivity improvements 	50% of Rights vest with an average ROIC of:		100% of Rights vest with an average ROIC of:
	2017 Award (4 year) ¹	10.5%	11.5%
	2018 Award ¹	9%	10%
	2019 Award ^{2,3}	9.5%	10.5%
	2020 Award ^{2,3}	9.5%	10.5%
	<i>All rights will vest pro-rata on a straight-line basis between the minimum and maximum vesting points</i>		

1 Following the expected Network regulatory outcomes, the Board has determined that no adjustment will be made to the hurdles for 2017 Award and 2018 Awards
 2 With the introduction of the new lease accounting standard effective from 1 July 2019 which has the effect of bringing leases on balance sheet, we have completed a review of our current ROIC calculation and simplified the definition of invested capital which will be applied from the 2019 Award. This definition change has no material impact on the ROIC
 3 ROIC hurdles have been set taking into account the current business outlook and the expected Network regulatory outcomes

How does Aurizon utilise Retention awards?

In some circumstances, as approved by the Board, Management may recommend using retention awards where the services of an individual are considered critical to Aurizon over the short-to-medium term and the existing remuneration arrangements are thought to be insufficient to retain those services. Retention awards may be time-based or project-based and are governed by stringent performance conditions and may be cash-based or equity-based. In FY2018, an award was issued to an Executive who has subsequently been appointed to the Executive Committee (CFO & GE Strategy). During FY2020, no retention awards were issued to Executive KMP but a number were issued to other employees. Further information is available in note 31 of the Financial Report (page 94).

Directors' Report (continued)

REMUNERATION REPORT

8. Executive Employment Agreements

Executive Employment Agreements

Remuneration and other terms of employment for the MD & CEO and Executive KMP are formalised in an Employment Agreement as summarised in Table 10.

Minimum Shareholding policy for Executives

To align KMP and the Executive Committee (direct reports to the MD & CEO) with shareholders, the Company requires:

- › Non-Executive Directors to accumulate and maintain one year's Total Directors' fees (consisting of Directors' fee plus applicable Committee fee/s) of shares in the Company
- › the MD & CEO to accumulate and maintain one year's Fixed Remuneration of shares in the Company
- › the remaining Executive KMP and Executive Committee to accumulate and maintain 50% of one year's Fixed Remuneration of shares in the Company

This is to be achieved within six years of the date of their appointment. This will be calculated with reference to the Total Directors' fees and Executives' Fixed Remuneration during the period divided by the number of years.

Details of KMP shareholdings as at 30 June 2020 are set out in Table 11.

Hedging and margin lending policies

Aurizon has in place a policy that prohibits Executives from hedging economic exposure to unvested rights that have been issued pursuant to a Company employee share plan. The policy also prohibits margin loan arrangements for the purpose of purchasing Aurizon shares. Adherence to this policy is monitored regularly and involves each Executive signing an annual declaration of compliance with the policy.

TABLE 10 - EMPLOYMENT AGREEMENTS

NAME	DURATION OF EMPLOYMENT AGREEMENT	FIXED REMUNERATION AT END OF FINANCIAL YEAR 2020 ¹	NOTICE PERIOD ²	
			BY EXECUTIVE	BY COMPANY ³
EXECUTIVE KMP				
A Harding	Ongoing	1,717,000	6 months	12 months
P Bains	Ongoing	788,000	3 months	6 months
G Lippiatt	Ongoing	700,000	3 months	6 months
C McDonald	Ongoing	667,000	3 months	6 months
E McKeiver	Ongoing	683,000	3 months	6 months

1 Fixed remuneration includes a superannuation component

2 Post employment restraints in any competitor business in Australia is aligned to the notice period

3 Any termination payment will be subject to compliance with the Corporations Act and will not exceed 12 months

TABLE 11 - KMP SHAREHOLDINGS AS AT 30 JUNE 2020

NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON VESTING	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	% OF FIXED REMUNERATION ¹
NON-EXECUTIVE DIRECTORS					
T Poole	90,500	-	20,000	110,500	111%
M Bastos	11,400	-	14,547	25,947	57%
R Caplan ²	82,132	-	-	82,132	195%
M Fraser	70,000	-	-	70,000	151%
S Lewis	33,025	-	10,000	43,025	93%
S Ryan	-	-	13,000	13,000	31%
L Strambi	-	-	5,355	5,355	13%
K Vidgen	40,000	-	-	40,000	87%
EXECUTIVE KMP					
A Harding	82,947 ³	199,050	35,000	316,997	91%
P Bains	68,627	61,663	(78,921)	51,369	32%
G Lippiatt	9,435	-	2,500	11,935	8%
C McDonald	110,968	54,442	(71,000)	94,410	70%
E McKeiver	56,929	55,677	(55,677)	56,929	41%

1 Assumes Total Directors' Fees and Fixed Remuneration as at 30 June 2020 and the calculation assumes a share price of \$4.92

2 KMP required to meet the minimum shareholding requirement due to length of service in a KMP role being longer than six years

3 Restated from FY2019

9. Non-Executive Director Remuneration

Fees for Non-Executive Directors are set at a level to attract and retain Directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for Aurizon.

Remuneration for Non-Executive Directors is reviewed by the Committee and set by the Board, taking into account external benchmarking. Fees and payments to Non-Executive Directors are reviewed annually by the Board and reflect the demands which are made on, and the responsibilities of, the Directors.

The Chairman's fees are determined independently to the fees of Non-Executive Directors, based on comparative roles in the external market. The Chairman does not participate in any discussions relating to the determination of his own remuneration.

Fee Structure

The current annual base fees for the Non-Executive Directors are set out in Table 12.

The Chairman's fee is inclusive of fees for Committee memberships.

In addition, to base Directors' fee, Non-Executive Directors are also eligible to receive Committee chairperson and/or member fees. These Committee fees are set out in Table 13.

The base Directors' fee and Committees' fees include both cash and any statutory superannuation contributions. There are no other retirement benefits in place for Non-Executive Directors. Non-Executive Directors do not receive performance pay.

The actual remuneration outcomes for the Non-Executive Directors of the Company is summarised in Table 14. Details of the Non-Executive Director membership is disclosed on page 9.

What are the aggregate fees approved by shareholders?

\$2.5 million. The cap does not include remuneration for performing additional or special duties for Aurizon at the request of the Board or reasonable travelling, accommodation and other expenses of Directors in attending meetings and carrying out their duties.

TABLE 12 – DIRECTORS' FEES

DIRECTORS	TERM	
Chairman	Directors' fees (inclusive of all responsibilities and superannuation contributions)	\$490,000
Other Non-Executive Directors	Directors' fees (inclusive of all superannuation contributions)	\$170,000

TABLE 13 – COMMITTEE FEES

	NETWORK BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND HUMAN RESOURCES COMMITTEE	SAFETY, HEALTH AND ENVIRONMENT COMMITTEE
Chairperson	\$40,000	\$40,000	\$35,000	\$35,000
Member	\$20,000	\$20,000	\$17,500	\$17,500

TABLE 14 – NON-EXECUTIVE DIRECTORS' REMUNERATION

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	TOTAL REMUNERATION \$'000
		SALARY AND FEES ¹ \$'000	NON-MONETARY BENEFITS ² \$'000	SUPERANNUATION \$'000	
NON-EXECUTIVE DIRECTORS³					
T Poole	2020	479	3	11	493
	2019	469	3	21	493
M Bastos	2020	205	-	20	225
	2019	194	-	18	212
R Caplan	2020	200	-	9	209
	2019	197	-	19	216
M Fraser	2020	208	-	20	228
	2019	199	-	19	218
S Lewis	2020	208	3	20	231
	2019	199	3	19	221
S Ryan	2020	115	-	1	116
L Strambi	2020	102	-	10	112
K Vidgen	2020	203	-	19	222
	2019	185	-	18	203
FORMER NON-EXECUTIVE DIRECTORS					
J Cooper	2019	183	-	17	200
K Field	2019	61	-	6	67
Total	2020	1,720	6	110	1,836
	2019	1,687	6	137	1,830

1 Salary and fees include any salary sacrificed benefits

2 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective FBT year ending 31 March 2020

3 Details associated with Non-Executive Director fee changes are described in Section 9 of the FY2018 and FY2019 Remuneration Reports

Directors' Report (continued)

REMUNERATION REPORT

10. Executive Remuneration for Financial Year 2020

The table below details the number and value of movements in equity awards during FY2020.

TABLE 15 - RIGHTS GRANTED AS COMPENSATION

NAME	INCENTIVE PLAN	BALANCE AT BEGINNING OF YEAR	RIGHTS AWARDED DURING THE YEAR ¹	VALUE OF RIGHTS GRANTED IN YEAR	VESTED IN YEAR	EXERCISED DURING THE YEAR	FORFEITED IN YEAR	FORFEITED IN YEAR
		NO.	NO.	\$'000	%	NO.	NO.	%
EXECUTIVE KMP								
A Harding	2016 ³	463,636					(463,636)	100%
	2017 (3 year) ⁴	295,938						
	2017 (4 year)	295,938						
	2018 STIAD ⁵	199,050			100%	(199,050)		
	2018	459,911						
	2019 STIAD ⁶	-	170,846	1,030				
P Bains	2019	-	347,454	1,371				
	2015 ³	46,066					(46,066)	100%
	2016 ³	60,776					(60,776)	100%
	2017 (3 year) ⁴	114,241						
	2017 (4 year)	114,241						
	2018 STIAD ⁵	61,663			100%	(61,663)		
G Lippiatt	2018	188,337						
	2019 STIAD ⁶	-	55,970	338				
	2019	-	149,494	590				
	2015 ³	40,307					(40,307)	100%
	2016 ³	47,845					(47,845)	100%
	2017 (3 year)	37,573						
C McDonald	2017 (4 year)	37,573						
	2018 - Ret ⁷	44,843						
	2018	62,500						
	2019	-	48,799	193				
	2015 ³	51,824					(51,824)	100%
	2016 ³	60,776					(60,776)	100%
E McKeiver	2017 (3 year) ⁴	97,921						
	2017 (4 year)	97,921						
	2018 STIAD ⁵	54,442			100%	(54,442)		
	2018	152,176						
	2019 STIAD ⁶	-	45,224	273				
	2019	-	126,539	499				
M Riches	2015 ³	55,279					(55,279)	100%
	2016 ³	64,656					(64,656)	100%
	2017 (3 year) ⁴	104,449						
	2017 (4 year)	104,449						
	2018 STIAD ⁵	55,677			100%	(55,677)		
	2018	165,737						
FORMER EXECUTIVE KMP	2019 STIAD ⁶	-	45,970	277				
	2019	-	129,574	511				
	2017 (3 year) ⁴	110,161					(110,161)	100%
	2017 (4 year)	110,161					(110,161)	100%
	2018 STIAD ⁵	53,682			100%	(53,682)		
	2018	174,526					(174,526)	100%
M Riches	2019 STIAD ⁶	-	51,866	313			(51,866)	100%
	2019	-	136,404	538			(136,404)	100%

¹ The number of performance rights awarded, as described in Section 7, is a function of the market price (5-day VWAP) at the time of the award, that is, 'face value'. For remuneration purposes, Aurizon does not use fair value to determine LTI Awards

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

³ Details of the vesting outcomes are described in Table 7 in the FY2019 Remuneration Report

VALUE OF RIGHTS FORFEITED IN YEAR	BALANCE AT END OF YEAR	WEIGHTED FAIR VALUE PER RIGHT AT GRANT DATE	GRANT DATE	DATE ON WHICH GRANT VESTS ²	EXPIRY DATE
\$'000	NO.	\$			
1,616	-	3.49	18-Oct-17	7-Sept-19	31-Dec-19
	295,938	3.09	18-Oct-17	18-Oct-20	31-Dec-20
	295,938	2.99	18-Oct-17	18-Oct-21	31-Dec-21
	-	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	459,911	2.58	18-Oct-18	18-Oct-22	31-Dec-22
	170,846	6.03	30-Sept-19	30-Sept-20	31-Dec-20
	347,454	3.95	17-Oct-19	17-Oct-23	31-Dec-23
184	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19
210	-	3.45	7-Oct-16	7-Oct-19	31-Dec-19
	114,241	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	114,241	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	-	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	188,337	2.56	5-Oct-18	5-Oct-22	31-Dec-22
	55,970	6.03	30-Sept-19	30-Sept-20	31-Dec-20
	149,494	3.95	17-Oct-19	17-Oct-23	31-Dec-23
161	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19
165	-	3.45	7-Oct-16	7-Oct-19	31-Dec-19
	37,573	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	37,573	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	44,843	4.46	10-Aug-18	13-Aug-20	31-Dec-20
	62,500	2.56	5-Oct-18	5-Oct-22	31-Dec-22
	48,799	3.95	17-Oct-19	17-Oct-23	31-Dec-23
207	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19
210	-	3.45	7-Oct-17	7-Oct-20	31-Dec-20
	97,921	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	97,921	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	-	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	152,176	2.56	5-Oct-18	5-Oct-22	31-Dec-22
	45,224	6.03	30-Sept-19	30-Sept-20	31-Dec-20
	126,539	3.95	17-Oct-19	17-Oct-23	31-Dec-23
221	-	4.00	17-Aug-15	17-Aug-18	31-Dec-19
223	-	3.45	7-Oct-16	7-Oct-19	31-Dec-19
	104,449	3.18	6-Oct-17	6-Oct-20	31-Dec-20
	104,449	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	-	4.21	17-Sept-18	17-Sept-19	31-Dec-19
	165,737	2.56	5-Oct-18	5-Oct-22	31-Dec-22
	45,970	6.03	30-Sept-19	30-Sept-20	31-Dec-20
	129,574	3.95	17-Oct-19	17-Oct-23	31-Dec-23
350	-	3.18	6-Oct-17	6-Oct-20	31-Dec-20
339	-	3.07	6-Oct-17	6-Oct-21	31-Dec-21
	-	4.21	17-Sept-18	17-Sept-19	31-Dec-19
446	-	2.56	5-Oct-18	5-Oct-22	31-Dec-22
313	-	6.03	30-Sept-19	30-Sept-20	31-Dec-20
538	-	3.95	17-Oct-19	17-Oct-23	31-Dec-23

4 Details of the vesting outcomes are described in Table 8

5 Deferred STIA component as described in Section 3 and Section 5 of this report and Table 5 in the FY2018 Remuneration Report

6 Deferred STIA component as described in Section 3 and Section 5 of this report and Table 6 in the FY2019 Remuneration Report

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

Directors' Report (continued)

REMUNERATION REPORT

Details of the remuneration paid to Executives are set out below and has been prepared in accordance with the accounting standards.

TABLE 16 - EXECUTIVE REMUNERATION

NAME	YEAR	SHORT-TERM EMPLOYEE BENEFITS					POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	EQUITY-SETTLED SHARE-BASED PAYMENTS	TOTAL \$'000	PROPORTION OF COMPENSATION PERFORMANCE RELATED ⁵ %	REMUNERATION CONSISTING OF RIGHTS FOR THE YEAR %
		CASH SALARY AND FEES ¹ \$'000	CASH BONUS \$'000	ANNUAL LEAVE ² \$'000	NON-MONETARY BENEFITS ³ \$'000	OTHER \$'000	SUPER-ANNUATION ⁴ \$'000	LONG-SERVICE LEAVE \$'000	RIGHTS ⁵ \$'000			
		A	B	C	D	E	F	G	H	I	J	K
EXECUTIVE KMP												
A Harding	2020	1,696	981	51	-	-	21	32	1,560	4,341	59	36
	2019	1,696	1,545	34	-	-	21	36	814	4,146	57	20
P Bains ⁷	2020	764	328	22	5	-	24	46	543	1,732	50	31
	2019	674	506	15	3	-	76	34	297	1,605	50	19
G Lippiatt ⁸	2020	122	61	(6)	-	-	7	28	32	244	38	13
C McDonald	2020	646	394	34	29	-	21	24	461	1,609	53	29
	2019	585	409	23	52	-	21	(51)	178	1,217	48	15
E McKeiver	2020	662	200	(2)	3	-	21	(23)	477	1,338	51	36
	2019	639	416	(18)	57	-	21	23	153	1,291	44	12
FORMER EXECUTIVE KMP												
M Riches ⁹	2020	323	-	14	1	386	10	12	(411)	335	-	-
	2019	672	469	23	-	-	21	5	490	1,680	57	29
Total Executive KMP compensation (group)	2020	4,213	1,964	113	38	386	104	119	2,662	9,599	48	28
	2019	4,266	3,345	77	112	-	160	47	1,932	9,939	53	19

1 Cash salary and fees include any salary sacrifice benefits

2 Annual leave represents annual leave accrued or utilised during the financial year and excludes periods of unpaid annual leave. Negative amounts represent the utilisation of annual leave

3 Non-monetary benefits includes travel benefits and relocation assistance

4 Superannuation amounts represent employers' contribution to superannuation

5 The accounting expense recognised in relation to rights granted in the year is the fair value independently calculated at grant date using an expected outcome model. This was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period. Refer to note 31 for further details regarding the fair value of Rights. These values may not represent the future value that the Executive will receive, as the vesting of the Rights is subject to the achievement of performance conditions. This includes the cost of deferred short-term, long-term and retention

6 The short-term incentives (cash bonus), deferred short-term incentives and long-term incentives (equity settled share-based payments) represent the at-risk performance related remuneration

7 P Bains was appointed Group Executive Network on 9 March 2020 prior to this held the role of Chief Financial Officer & Group Executive Strategy

8 G Lippiatt was appointed Chief Financial Officer & Group Executive Strategy on 9 March 2020 in an acting capacity, and permanently on 30 June 2020. The cash salary and fees (column A) and cash bonus (column B) reflect the salary and STIA attributable to the Chief Financial Officer & Group Executive Strategy role

9 M Riches ceased in the role on 17 December 2019. Other (column E) represents contractual benefits received until 30 June 2020. He did not receive any remuneration associated with the FY2020 STIA. The Rights value reflects the forfeiture of awards upon termination



Auditors Independence Declaration

As lead auditor for the audit of Aurizon Holdings Limited for the year ended 30 June 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Brisbane
10 August 2020

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

Liability limited by a scheme approved under Professional Standards Legislation.

Corporate Governance Statement

Aurizon Holdings Limited and the entities it controls (Aurizon Holdings or Company) believe corporate governance is a critical pillar on which business objectives and, in turn, shareholder value must be built.

The Board has adopted a suite of charters and key corporate governance documents which articulate the policies and procedures followed by Aurizon Holdings.

These documents are available in the Governance section of the Company's website aurizon.com.au. These documents are reviewed regularly to address any changes in governance practices and the law.

This Statement explains how Aurizon Holdings complies and is an early adopter of the ASX *Corporate Governance Council's Corporate Governance Principles and Recommendations - 4th Edition* (ASX Principles and Recommendations), and all the practices outlined in this Statement unless otherwise stated, have been in place for the full reporting period.

This Statement was adopted by the Board on 7 August 2020.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
1.1 Role of Board and management which is set out in a Board Charter	<p>The Board has established a clear distinction between the functions and responsibilities reserved for the Board and those delegated to management, which are set out in the Aurizon Holdings Board Charter (Charter).</p> <p>The Charter also provides an overview of the roles of the Chairman, individual Directors, the Managing Director & CEO and the Company Secretary.</p> <p>A copy of the Charter is available in the Governance section of the Company's website aurizon.com.au.</p>	✓
1.2 Information regarding election and re-election of Director candidates and appropriate checks are undertaken on Director and senior executive appointments	<p>Aurizon carefully considers the character, experience, education, skill set as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate prior to their appointment.</p> <p>Aurizon has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in the Notice of Meeting provided to shareholders. Aurizon also conducts checks on character, experience, education, criminal records and bankruptcy before appointing a new Director or a senior executive (the MD&CEO and his or her direct reports). During the year two Directors were appointed to the Board and satisfactory checks were undertaken before those appointments were made.</p>	✓
1.3 Written agreements setting out terms of appointment	<p>In addition to being set out in the Charter, the roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment. The letters of appointment specify the term of appointment, time commitment envisaged, expectations in relation to committee work or any other special duties attached to the position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies, such as the Securities Dealing Policy.</p> <p>A copy of the key governance policies can be found on the Company's website aurizon.com.au.</p> <p>Each senior executive enters into a service contract which sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements, termination rights and entitlements. Contract details of senior executives who are Key Management Personnel can be found on page 34 of the Annual Report.</p>	✓
1.4 Company Secretary	<p>The Company Secretary is directly accountable to the Board, through the Chairman, for facilitating and advising on the Company's corporate governance processes and on all matters to do with the proper functioning of the Board. Each Director is entitled to access the advice and services of the Company Secretary. The Board Charter also sets out the responsibilities of the Company Secretary.</p> <p>In accordance with the Company's Constitution and Board Charter, the appointment or removal of the Company Secretary is a matter for the Board as a whole. Details of the Company Secretary's experience and qualifications are set out on page 7 of the Annual Report.</p>	✓

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS																
1.5 Diversity & inclusion	<p>Aurizon Holdings has had a Diversity and Inclusion Policy since 2011 which is reviewed periodically, and which sets out its objectives including its stated values and reporting practices with respect to inclusion and diversity and is available in the Governance section of the Company's website aurizon.com.au.</p> <p>The measurable objectives and outcomes for diversity, agreed by the Aurizon Holdings Board for FY2020, are set out below:</p> <table border="1"> <thead> <tr> <th>ENTERPRISE MEASURES</th> <th>FY20 TARGET</th> <th>FY20 ACTUAL</th> </tr> </thead> <tbody> <tr> <td>Gender representation on the Board</td> <td>Minimum 30% (each gender)</td> <td>33.3% women/66.7% men</td> </tr> <tr> <td>Representation of women in senior executive roles (direct reports to the MD & CEO)</td> <td>30%</td> <td>33.3%</td> </tr> <tr> <td>Representation of women in the workforce</td> <td>22%</td> <td>22%</td> </tr> <tr> <td>Representation of Aboriginal and Torres Strait Islander men and women in Aurizon</td> <td>5.5%</td> <td>6.1%</td> </tr> </tbody> </table> <p>Further details on the Company's inclusion and diversity performance and activities can be found on the Company website aurizon.com.au.</p>	ENTERPRISE MEASURES	FY20 TARGET	FY20 ACTUAL	Gender representation on the Board	Minimum 30% (each gender)	33.3% women/66.7% men	Representation of women in senior executive roles (direct reports to the MD & CEO)	30%	33.3%	Representation of women in the workforce	22%	22%	Representation of Aboriginal and Torres Strait Islander men and women in Aurizon	5.5%	6.1%	✓
ENTERPRISE MEASURES	FY20 TARGET	FY20 ACTUAL															
Gender representation on the Board	Minimum 30% (each gender)	33.3% women/66.7% men															
Representation of women in senior executive roles (direct reports to the MD & CEO)	30%	33.3%															
Representation of women in the workforce	22%	22%															
Representation of Aboriginal and Torres Strait Islander men and women in Aurizon	5.5%	6.1%															
1.6 Board reviews	<p>A performance review is undertaken annually in relation to the Board and the Board Committees. Periodically the Board engages a professional independent consultant experienced in Board reviews to conduct a review of the Board and its Committees, and the effectiveness of the Board as a whole.</p> <p>In relation to FY20 the Board conducted an internal review of its Board (and its individual Directors) and Committees and their effectiveness.</p>	✓															
1.7 Management reviews	<p>Each year the Board sets financial, operational, management and individual targets for the Managing Director & CEO. The Managing Director & CEO (in consultation with the Board) in turn, sets targets for direct reports.</p> <p>Performance against these targets is assessed periodically throughout the year, and a formal performance evaluation for senior executives is completed for the year-end. The Company's Remuneration & Human Resources Committee reviews the remuneration and performance management frameworks during the year. In addition, the MD & CEO and each of his direct reports present to the Board on the status, progress made and their performance against their set key deliverables.</p>	✓															
Principle 2: Structure the Board to be effective and add value																	
RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS																
2.1 Nominations Committee	<p>The Nomination & Succession Committee comprises three members (including the Chairman), all of whom are Independent Non-Executive Directors. Details of the membership of the Nomination & Succession Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 7 of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Nomination & Succession Committee during the financial year are set out on page 9 of the Directors' Report within the Annual Report.</p> <p>The Charter governing the conduct of the Nomination & Succession Committee is reviewed annually and is available in the Governance section of the Company's website aurizon.com.au. Aurizon also has in place a policy on election and appointment of Non-Executive Directors, which is reviewed annually.</p>	✓															
2.2 Board skills	<p>The skills listed below have been identified as the optimum skills Aurizon Holdings seeks to achieve across its Board membership. The Aurizon Holdings Board possesses a good blend of these skills. During FY2020 two Directors were appointed (Dr Sarah Ryan and Mr. Lyell Strambi). In appointing these two Directors the Board enhanced its operational, transformation, major project, technology, regulatory and transport skills and experience.</p>	✓															

Corporate Governance Statement (continued)

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

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS		
	General <ul style="list-style-type: none"> › Board experience › Senior management experience › ASX listed company governance › Risk management Industry <ul style="list-style-type: none"> › Transport and logistics › Mining and resources › Government relations › Safety, health and environment 	Technical <ul style="list-style-type: none"> › Finance and accounting › Regulatory › Corporate strategy › Capital allocation including acquisitions and divestments › Information and operational technology › Capital markets › Engineering and construction › Human resources 	✓
	Further details regarding the skills and experience of each Director are included on pages 4 to 7 of the Report.		
2.3 Disclose independence and length of service	Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.		✓
2.4 Majority of Directors independent	<p>In accordance with the Board Charter, the majority of Directors are independent. Only the Managing Director & CEO is not considered independent, by virtue of the role being an Executive of the Company.</p> <p>Details regarding which Directors are considered independent and the length of their service are set out on page 4 of the Annual Report.</p>		✓
2.5 Chair independent	<p>The Chairman, Tim Poole, is an Independent Non-Executive Director. The role of CEO is performed by another Director.</p> <p>Further details regarding the Directors are set out on pages 4 to 7 of the Annual Report.</p>		✓
2.6 Induction and professional development	<p>An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.</p> <p>In addition to peer review, interaction and networking with other Directors and industry leaders, Aurizon Holdings' Directors participate, from time-to-time, in Aurizon Holdings' leadership forums and actively engage with Aurizon Holdings' employees by visiting operational sites to gain an understanding of the Company's operating environment.</p> <p>During the year, Directors receive accounting policy updates, especially around the time the Board considers the half-year and full-year financial statements.</p> <p>The Board also receives briefings from time-to-time on legal, accounting, regulation, developments in communication and human resource management and technology.</p> <p>Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices and sites in different locations. During the financial year, Directors made visits to operational sites in Queensland and Western Australia.</p>		✓

Principle 3: Instil a culture of acting lawfully, ethically and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS		
3.1 The values of the Company are articulated and disclosed	The Company has a clear set of core values. These core values are Safety, People, Integrity, Customer and Excellence. A description of these values is set out in the Company's Code of Conduct and the Company's Annual Report. The Company's values, their articulation and acknowledgment are embedded in all meetings of the Board, Board Committee and the MD & CEO's Executive meetings and form part of the performance and remuneration framework of the Company.		✓
3.2 Code of Conduct	The Board has a Code of Conduct for its Directors, senior executives and employees, a copy of which is available in the Governance section of the Company's website aurizon.com.au . The Company's Code of Conduct forms part of the induction of Directors as well as new employees. The code is reviewed periodically by the Board. The Board is informed of any material breaches of the code either through the whistleblower reports or the governance reports that are presented from time to time to the Company's Audit, Governance and Risk Management Committee.		✓
3.3 Whistleblower Policy	The Company has a Whistleblower Policy, a copy of which is available in the Governance section of the Company's website aurizon.com.au and the Board, through the Audit, Governance & Risk Management Committee, reviews reports on concerns raised or material breaches under the Whistleblower Policy.		✓
3.4 Anti-Bribery and Corruption Policy	The Company has an Anti-Bribery and Corruption Policy a copy of which is available in the Governance section of the Company's website aurizon.com.au and the Board, through the Audit, Governance and Risk Management Committee, receives an update annually on any material breaches of this policy through the Governance report to the Committee.		✓

Principle 4: Safeguard the integrity of corporate reports

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
4.1 Audit Committee	<p>The Audit, Governance & Risk Management Committee comprises four members, all of whom are Independent Non-Executive Directors. Details of the membership of the Audit, Governance & Risk Management Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 7 of the Annual Report. In addition to the Audit, Governance & Risk Management Committee members, the Managing Director & CEO, CFO, Head of Risk & Assurance, external auditors and Company Secretary attend the Audit, Governance & Risk Management Committee meetings.</p> <p>The number of meetings held and attended by each member of the Audit, Governance & Risk Management Committee during the financial year are set out on page 9 of the Annual Report.</p> <p>The Audit, Governance & Risk Management Committee Charter is reviewed annually and is available on the Aurizon Holdings website aurizon.com.au. Among other things, the Audit, Governance & Risk Management Committee reviews the processes that validate the Directors' Report and the Annual Report. The Board, as a whole, has oversight of other corporate reporting, such as investor presentations prepared for full year and half year results briefings.</p>	✓
4.2 CEO and CFO certification of financial statements	<p>The Board has obtained a written assurance from the Managing Director & CEO and CFO that the declaration provided under Section 295A of the <i>Corporations Act 2001</i> (and for the purposes of Recommendation 4.2) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting and material business risks.</p>	✓
4.3 Disclose processes to verify the integrity of periodic corporate reports released to the market	<p>The periodic corporate reports, being the half year and full year financial statements including the Company's Annual Report, is underpinned by a certification process whereby each Group Executive and finance partner for each business unit responds to set questionnaires and signs a certification. This process provides verification and sign off for the MD and CFO then to provide a signed representation letter to the external auditors and also a signed declaration to the Board that supports that the accounts provide a true and fair view and that there is integrity in the statements that the financial statements comply with the <i>Corporations Act 2001</i> and relevant Accounting standards. The certification process is reviewed annually with the view that it remains current having regard to any changes in the <i>Corporations Act 2001</i>, accountings standards or governance. The Company also provides quarterly above rail volume reports to the market. These reports are verified by each of the respective business unit Group Executives. For other types of periodic corporate reports, including the Company's quarterly above rail volume reports, the Company conducts an internal review and verification process to ensure that such reports, are materially accurate, balanced and provide investors with appropriate information. Where applicable, the relevant reports will be approved in accordance with the Company's Disclosure and Communication Policy.</p>	✓

Principle 5: Make timely and balanced disclosure

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
5.1 Disclosure and Communications Policy	<p>Aurizon Holdings has adopted a Disclosure and Communications Policy which sets out the processes and practices to ensure compliance with the continuous disclosure requirements under the ASX Listing Rules and the <i>Corporations Act 2001</i>.</p> <p>Aurizon Holdings has established guidelines to assist officers and employees of the Company comply with the Company's Disclosure and Communications Policy. A copy of the policy and guidelines are available on the Aurizon Holdings' website aurizon.com.au.</p>	✓
5.2 Material Market Announcements	<p>The Board receives a copy of all announcements under Listing Rule 3.1 immediately prior to those announcements being made to the ASX (noting that the Board may not approve or authorise all announcements made to the ASX).</p>	✓
5.3 New and substantive investor or analyst presentation materials to be released to the ASX ahead of the presentation	<p>Aurizon releases new and substantive presentations to the ASX prior to them being presented. This will typically occur at the half year and full year results briefings, and prior to the Annual General Meeting.</p> <p>Where practicable, Shareholders are provided with the opportunity to participate in such presentations, for example, by providing dial-in details.</p>	✓

Principle 6: Respect the rights of security holders

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
6.1 Information on website	<p>Aurizon Holdings keeps investors informed of its corporate governance, financial performance and prospects via announcements to the ASX and Aurizon's website. Investors can access copies of all announcements to the ASX, notices of meetings, annual reports, investor presentations, webcasts and/or transcripts of those presentations and a key event calendar via the 'Investors' tab. Investors can access general information regarding the Company and the structure of its business under the 'Company', 'What we deliver' and 'Sustainability' tabs.</p>	✓
6.2 Investor relations programs	<p>Aurizon Holdings conducts regular market briefings including half year and full year results announcements, investor days, site visits, and attends regional and industry specific conferences in order to facilitate effective two-way communication with investors and other financial markets participants. Access to senior executive and operational management is provided to investors and analysts at these events, with separate one-on-one or group meetings offered, whenever possible.</p> <p>The presentation material provided at these events is sent to the ASX prior to commencement and subsequently posted on Aurizon Holdings' Investor Centre website, including the webcast and transcript, if applicable.</p>	✓

Corporate Governance Statement (continued)

Principle 6: Respect the rights of security holders (continued)

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
6.3 Facilitate participation at meetings of security holders	Aurizon Holdings uses technology to facilitate the participation of security holders in meetings including webcasting of the AGM. Shareholders are encouraged to participate and are given an opportunity to ask questions of the Company and its auditor at the AGM.	✓
6.4 Resolutions decided by Poll	All resolutions put to shareholders at the Company's AGM are determined by Poll.	✓
6.5 Option to receive communications electronically	Aurizon provides shareholders the option to receive communications from, and send communications to, the Company and the share registry electronically.	✓

Principle 7: Recognise and manage risk

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS	
7.1 Risk Committee	Aurizon Holdings' Audit, Governance & Risk Management Committee oversees the process for identifying and managing material risks in the Company in accordance with the Aurizon Risk Management Framework (Risk Policy). Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1 and on page 9 of the Annual Report.	✓
7.2 Annual risk review	The Board reviews Aurizon's Enterprise Risk Management Framework and Appetite at least annually to approve updates, where required. The Audit, Governance & Risk Management Committee monitors management's performance against Aurizon's risk management framework, including whether it is operating within the risk appetite set by the Board. The Executive Committee regularly reviews and updates the enterprise risk profile to satisfy itself that Aurizon is operating with due regard to the risk appetite set by the Board. The Company's Risk and Assurance Function is responsible for providing oversight of the risk management framework and assurance on the management of significant risks to the Managing Director & CEO and the Board.	✓
7.3 Internal audit	The Company has an internal audit function that operates under a Board-approved Internal Audit Charter. The internal audit function is independent of management and the external auditor and is overseen by the Audit, Governance & Risk Management Committee. In accordance with the Committee Charter, the appointment or removal of the Head of Risk & Assurance is a matter for this Committee. The Head of Risk & Assurance provides ongoing internal audit reports to the Audit, Governance & Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Company's control processes and risk management procedures.	✓
7.4 Sustainability risks	Aurizon Holdings discloses material exposures to environmental, social and governance (ESG) risks and associated risk management strategies through our annual Sustainability Report. During FY2020, the Company published its sixth Sustainability Report (for the period ended 30 June 2019). A copy of this report is available in the Sustainability section of the Company's website aurizon.com.au . Aurizon's FY2020 Sustainability Report will be published in October 2020. This will be the fourth reporting period in which Aurizon incorporates recommendations from the Financial Stability Board's (FSB) Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), released in June 2017. Aurizon acknowledges and supports the objectives of the Paris Agreement to find a pathway to limiting global warming to below 2°C. Aurizon also acknowledges the objectives of the Paris Agreement to pursue efforts to limit the temperature increase even further to 1.5°C. Climate change is affecting a wide range of industries globally, resulting in financial implications. Transition risks, related to energy policy, regulation, technology and market shifts (that are necessary to achieve the transition to a low-carbon economy) will affect the demand for the commodities that Aurizon hauls. Physical risks related to extreme weather events will also continue to affect Aurizon through supply chain disruptions. Aurizon's primary channel for engaging with stakeholders on all ESG matters, including our climate-related disclosures, is through the publication of our Sustainability Report, which is updated and issued annually. During FY2021, Aurizon will be publishing its inaugural <i>Climate Strategy and Action Plan</i> which will consolidate Aurizon's position on climate change underpinned by long-term strategies, actions and targets to mitigate climate risk and leverage emerging opportunities. 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 10 principles of the United Nations Global Compact. Aurizon understands its responsibility to respect human rights and commit to providing transparency on any risks that exist in Aurizon's supply chain and how they are being addressed. In accordance with legislation, Aurizon will publish its first Modern Slavery Statement during 2020, which will describe the modern slavery risks associated with its business activities and actions taken to address those risks.	✓

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION	AURIZON HOLDINGS' COMPLIANCE WITH RECOMMENDATIONS
8.1 Remuneration Committee	<p>Aurizon Holdings' remuneration function is performed by the Remuneration & Human Resources Committee, comprising four members, all of whom are Independent Non-Executive Directors. Details of the membership of the Remuneration & Human Resources Committee, including the names and qualifications of the Committee members, are set out on pages 4 to 7 of the Annual Report.</p> <p>The number of meetings held and attended by each member of the Remuneration & Human Resources Committee during the financial year are set out on page 9 of the Annual Report.</p> <p>The Charter governing the conduct of the Remuneration & Human Resources Committee is reviewed annually and is available in the Governance section of the Company's website aurizon.com.au.</p>
8.2 Disclosure of Executive and Non-Executive Director remuneration policy	<p>The Company seeks to attract and retain high performing Directors and senior executives with appropriate skills, qualifications and experience to add value to the Company and fulfil the roles and responsibilities required.</p> <p>It reviews requirements for additional capabilities at least annually.</p> <p>Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and a performance-based component.</p> <p>Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. The Chairman's fee is inclusive of fees for Committee membership and the other Non-Executive Directors are paid a fixed base fee plus Committee fees, as applicable. Further detail is set out in the Remuneration Report on page 35.</p> <p>The Company has in place a Share Holding and Retention Policy which applies to Non-Executive Directors, the Managing Director & CEO and the direct reports of the Managing Director & CEO.</p> <p>Further details regarding remuneration and share retention policies, and the remuneration of senior executives and Non-Executive Directors, are set out on pages 25 to 38 of the Annual Report. The Company also has in place a Related Party Transaction Policy. The policy and disclosures under that policy are reviewed annually by the Board. During the year, there were no agreements entered for the provision of consulting or similar services by a Director or senior executive, or by a related party of a Director or senior executive.</p>
8.3 Policy on hedging equity incentive schemes	<p>Aurizon Holdings' Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or, once exercised, while the securities are subject to a transfer restriction.</p> <p>For the purposes of this policy, hedging includes the entry into any transaction, arrangement or financial product which operates to limit the economic risk of a security holding in the Company and includes financial instruments such as equity swaps and contracts for differences. The term 'Executive' is broadly defined to include the Managing Director & CEO and his direct reports and any other person entitled to participate in an Aurizon Holdings performance rights plan. Further details regarding the Company's hedging policy are set out in the Company's Securities Dealing Policy which is available on the Governance section of the website aurizon.com.au.</p>

Financial Report

for the year ended 30 June 2020

FINANCIAL STATEMENTS

Consolidated income statement	Page 47
Consolidated statement of comprehensive income	Page 47
Consolidated balance sheet	Page 48
Consolidated statement of changes in equity	Page 49
Consolidated statement of cash flows	Page 50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

About this report	Page 51
— Significant judgements and estimates	Page 51
Key events and transactions for the reporting period	Page 51

Results for the year	Operating assets and liabilities	Capital and financial risk management	Group structure	Other notes	Unrecognised items and events after reporting date
1. Segment information	7. Trade and other receivables	15. Capital risk management	21. Associates and joint arrangements	28. Notes to the consolidated statement of cash flows	35. Contingencies
2. Revenue and other income	8. Inventories	16. Dividends	22. Material subsidiaries	29. Related party transactions	36. Commitments
3. Expenses	9. Property, plant and equipment	17. Equity and reserves	23. Parent disclosures	30. Key Management Personnel compensation	37. Events occurring after the reporting period
4. Impairment of non-financial assets	10. Intangible assets	18. Borrowings	24. Deed of cross guarantee	31. Share-based payments	
5. Income tax	11. Other assets	19. Financial risk management	25. Business combination	32. Remuneration of auditors	
6. Earnings per share	12. Trade and other payables	20. Derivative financial instruments	26. Discontinued operation	33. Summary of other significant accounting policies	
	13. Provisions		27. Assets classified as held for sale	34. Changes in accounting policies	
	14. Other liabilities				

SIGNED REPORTS

Directors' Declaration	Page 100
Independent auditor's report to the members of Aurizon Holdings Limited	Page 101

ASX INFORMATION

Non-IFRS Financial Information in 2019-20 Annual Report	Page 108
---	----------

Consolidated income statement

for the year ended 30 June 2020

	Notes	2020 \$m	2019 \$m
Revenue from continuing operations	2	3,061.6	2,905.2
Other income	2	108.4	2.4
Total revenue and other income		3,170.0	2,907.6
Employee benefits expense	3	(791.6)	(778.6)
Energy and fuel		(231.3)	(233.9)
Track access		(107.2)	(101.0)
Consumables		(440.7)	(397.8)
Depreciation and amortisation	3	(558.6)	(542.6)
Impairment losses	4	(5.7)	(24.9)
Other expenses		(20.4)	0.1
Share of net profit of associates and joint venture partnerships accounted for using the equity method		(0.1)	0.1
Operating profit		1,014.4	829.0
Finance income		2.5	2.9
Finance expenses	3	(151.0)	(150.0)
Net finance costs		(148.5)	(147.1)
Profit before income tax		865.9	681.9
Income tax expense	5	(260.8)	(208.6)
Profit from continuing operations after tax		605.1	473.3
Profit from discontinued operations after tax	26	10.8	3.2
Profit for the year attributable to owners of Aurizon Holdings Limited		615.9	476.5
		Cents	Cents
Basic earnings per share for profit attributable to the ordinary equity holders of the Company:	6		
- continuing and discontinued operations		31.5	23.9
- continuing operations		31.0	23.8
Diluted earnings per share for profit attributable to the ordinary equity holders of the Company:	6		
- continuing and discontinued operations		31.5	23.9
- continuing operations		30.9	23.8

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

Consolidated statement

of comprehensive income

for the year ended 30 June 2020

	Notes	2020 \$m	2019 \$m
Profit for the year		615.9	476.5
Other comprehensive income:			
Items that may be reclassified to profit or loss			
- changes in the fair value of cash flow hedges	17(b)	(35.7)	(50.6)
- income tax relating to these items	5(d)	10.7	15.2
Other comprehensive expense for the year, net of tax		(25.0)	(35.4)
Total comprehensive income for the year attributable to owners of Aurizon Holdings Limited		590.9	441.1

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

Consolidated balance sheet

as at 30 June 2020

	Notes	2020 \$m	2019 \$m
ASSETS			
Current assets			
Cash and cash equivalents		29.3	25.2
Trade and other receivables	7	460.1	481.8
Inventories	8	145.8	117.2
Derivative financial instruments	20	0.2	0.8
Other assets	11	14.8	6.2
Assets classified as held for sale	27	65.1	108.4
Total current assets		715.3	739.6
Non-current assets			
Inventories	8	38.1	40.2
Derivative financial instruments	20	220.8	196.7
Property, plant and equipment	9	8,537.1	8,536.3
Intangible assets	10	187.5	176.9
Other assets	11	70.5	8.6
Investments accounted for using the equity method	21	2.7	2.8
Total non-current assets		9,056.7	8,961.5
Total assets		9,772.0	9,701.1
LIABILITIES			
Current liabilities			
Trade and other payables	12	323.0	406.7
Borrowings	18	657.6	149.0
Derivative financial instruments	20	35.1	-
Current tax liabilities		83.4	40.9
Provisions	13	271.3	273.0
Other liabilities	14	101.3	75.1
Liabilities directly associated with assets classified as held for sale		0.7	3.8
Total current liabilities		1,472.4	948.5
Non-current liabilities			
Borrowings	18	2,949.6	3,220.8
Derivative financial instruments	20	45.7	49.1
Deferred tax liabilities	5(f)	605.3	537.4
Provisions	13	64.0	62.9
Other liabilities	14	277.3	205.0
Total non-current liabilities		3,941.9	4,075.2
Total liabilities		5,414.3	5,023.7
Net assets		4,357.7	4,677.4
EQUITY			
Contributed equity	17(a)	506.6	906.6
Reserves	17(b)	3,395.1	3,418.5
Retained earnings		456.0	352.3
Total equity		4,357.7	4,677.4

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

Consolidated statement of changes in equity

for the year ended 30 June 2020

	Notes	Attributable to owners of Aurizon Holdings Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 30 June 2019		906.6	3,418.5	352.3	4,677.4
Adjustment on adoption of AASB 16	34(a)	-	-	1.6	1.6
Balance at 1 July 2019		906.6	3,418.5	353.9	4,679.0
Profit for the year		-	-	615.9	615.9
Other comprehensive expense	17(b)	-	(25.0)	-	(25.0)
Total comprehensive income/(expense) for the year		-	(25.0)	615.9	590.9
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	17(a)	(400.0)	(0.4)	-	(400.4)
Dividends provided for or paid	16(a)	-	-	(513.8)	(513.8)
Share-based payments	17(b)	-	2.0	-	2.0
		(400.0)	1.6	(513.8)	(912.2)
Balance at 30 June 2020		506.6	3,395.1	456.0	4,357.7
Balance at 1 July 2018		906.6	3,460.1	363.4	4,730.1
Profit for the year		-	-	476.5	476.5
Other comprehensive expense	17(b)	-	(35.4)	-	(35.4)
Total comprehensive income/(expense) for the year		-	(35.4)	476.5	441.1
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	16(a)	-	-	(487.6)	(487.6)
Share-based payments	17(b)	-	(6.2)	-	(6.2)
		-	(6.2)	(487.6)	(493.8)
Balance at 30 June 2019		906.6	3,418.5	352.3	4,677.4

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

Consolidated statement of cash flows

for the year ended 30 June 2020

	Notes	2020 \$m	2019 \$m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		3,407.6	3,325.5
Payments to suppliers and employees (inclusive of GST)		(2,032.1)	(1,867.4)
Interest received		2.8	2.9
Income taxes paid		(146.5)	(145.3)
Principal elements of lease receipts		5.7	-
Net cash inflow from operating activities from continuing operations	28	1,237.5	1,315.7
Net cash inflow/(outflow) from operating activities from discontinued operations	26	9.9	(25.4)
Net cash inflow from operating activities		1,247.4	1,290.3
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	25	(24.5)	-
Payments for property, plant and equipment		(492.3)	(407.8)
Proceeds from sale of business		165.3	-
Proceeds from sale of property, plant and equipment		15.8	13.0
Interest paid on qualifying assets	3	(3.9)	(3.9)
Payments for intangibles		(32.1)	(32.8)
Distributions received from associates		-	0.7
Net cash (outflow) from investing activities from continuing operations		(371.7)	(430.8)
Net cash inflow from investing activities from discontinued operations	26	0.4	11.1
Net cash (outflow) from investing activities		(371.3)	(419.7)
Cash flows from financing activities			
Proceeds from borrowings		702.0	139.0
Repayment of borrowings		(486.0)	(390.0)
Payments of transaction costs related to borrowings		(4.8)	(2.4)
Principal elements of lease payments		(14.6)	-
Interest paid		(151.1)	(150.5)
Proceeds from settlement of derivatives		-	11.5
Payments for buy-back of ordinary shares		(400.0)	-
Payments of transaction costs for buy-back of ordinary shares		(0.4)	-
Payments for shares acquired for share-based payments		(3.2)	(0.6)
Dividends paid to Company's shareholders	16	(513.8)	(487.6)
Net cash (outflow) from financing activities from continuing operations		(871.9)	(880.6)
Net cash inflow/(outflow) from financing activities from discontinued operations	26	-	-
Net cash (outflow) from financing activities		(871.9)	(880.6)
Net (decrease)/increase in cash and cash equivalents from continuing operations		(6.1)	4.3
Net increase/(decrease) in cash and cash equivalents from discontinued operations	26	10.3	(14.3)
Cash and cash equivalents at the beginning of the financial year		25.2	34.8
Effects of exchange rate changes on cash and cash equivalents		(0.1)	0.4
Cash and cash equivalents at end of the financial year		29.3	25.2

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

Notes to the consolidated financial statements

30 June 2020

About this report

Aurizon Holdings Limited is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purposes of preparing the financial statements. The financial statements are for the consolidated entity consisting of Aurizon Holdings Limited (the Company) and its subsidiaries and together are referred to as the Group or Aurizon.

The financial statements were approved for issue by the Directors on 10 August 2020. The Directors have the power to amend and reissue the financial statements.

The financial statements are general purpose financial statements which:

- › Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- › Have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value
- › Are presented in Australian dollars, with all amounts in the financial report being rounded off in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* to the nearest hundred thousand dollars, unless otherwise indicated
- › Where necessary, comparative information has been restated to conform with changes in presentation in the current year
- › Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2019
- › Equity account for associates and joint arrangements listed at note 21

The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- › The amount in question is significant because of its size or nature
- › It is important for understanding the results of the Group
- › It helps to explain the impact of significant changes in the Group's business – for example, acquisitions, disposals and impairment write downs
- › It relates to an aspect of the Group's operations that is important to its future performance

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

KEEPING IT SIMPLE

The "Keeping it simple" explanations are designed to provide a high level overview of the accounting treatment of the more complex sections of the financial statements. Disclosures in the notes to the financial statements provide information required by the Accounting Standards or ASX Listing Rules. The notes provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Details of the following judgements and estimates which are material to the financial statements can be found in the following notes:

	Note
Revenue	2
Impairment	4
Income tax	5
Useful lives	9
Discontinued operations	26

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 Queensland Competition Authority (QCA) approved Aurizon Network Pty Ltd's (a wholly-owned subsidiary of the Group) consolidated Compliant Access Undertaking and Volume Reset Draft Amending Access Undertaking (DAAU) for the Central Queensland Coal Network (CQCN) on 21 February 2020. Key elements of the consolidated Compliant Access Undertaking and Volume Reset DAAU include:

- › Extending the term of the Access Undertaking to 10 years, from 1 July 2017 to 30 June 2027, enabling improved long-term investment decisions for the CQCN;
- › Greater customer involvement in assessing and pre-approving strategies and annual budgets for asset renewals and replacement (capital expenditure) and maintenance expenditure;
- › The ability for operating cost efficiencies to be retained by Aurizon;
- › An improved return which better reflects the risks of owning and operating the CQCN; and
- › A rebate mechanism to customers if Aurizon performs below target levels.

The Weighted Average Cost of Capital (WACC) applied under the Compliant Access Undertaking and Volume Reset DAAU is 5.90%, increasing to 6.30% upon completion of an independent capacity assessment of the CQCN. In the event that a capacity deficit is identified, the WACC increase to 6.30% will commence when Aurizon notifies relevant parties of proposed options to address the deficit. The independent capacity assessment is expected to be completed in the second half of financial year 2021.

The consolidated Compliant Access Undertaking and Volume Reset DAAU approved by the QCA assumed the independent capacity assessment would be complete by 1 March 2020 and therefore, a combined WACC of 6.03% (5.90% July – February, 6.30% March – June) would apply for financial year 2020. 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 financial year 2020 which forms part of the revenue cap adjustment. The net financial year 2020 revenue cap adjustment is up to \$3.0 million and includes the over-recovery of WACC offset by a volume under-recovery and other adjustments. The net revenue cap adjustment is collectible in financial year 2022 and is subject to QCA approval.

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

Notes to the consolidated financial statements

30 June 2020 (continued)

Key events and transactions for reporting period (continued)

(a) Access revenue (continued)

Wiggins Island Rail Project (WIRP)

In the 2019 financial year, legal proceedings occurred in relation to the notices received by Aurizon Network Pty Ltd from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Group's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 March 2020 and 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered in the first half of financial year 2021.

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 reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court of Queensland proceedings and will not impact the recovery of the regulated access charge component of WIRP capital expenditure. The Group is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the 2020 financial year.

(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.

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

On 6 May 2020, the Full Federal Court unanimously dismissed an appeal by the ACCC that the sale of the Acacia Ridge Intermodal Terminal to Pacific National contravened section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. On 26 June 2020, the ACCC sought special leave to the High Court to appeal the decision of the Full Federal Court.

It is anticipated that the special leave application decision will be received before the end of calendar year 2020. The Group remains committed to exiting the Acacia Ridge Intermodal Terminal and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as held for sale and a discontinued operation as at 30 June 2020.

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

(c) Sale of rail grinding business

Sale of the rail grinding business to Loram Pty Ltd completed on 31 October 2019. The net gain on sale of \$105.4 million has been classified as a significant item.

(d) Acquisition of Flinders TBSH Pty Ltd

Aurizon Operations Limited (a wholly-owned subsidiary of the Group) acquired 100% of the issued shares in Flinders TBSH Pty Ltd, a bulk transport, handling and stevedoring services provider in North Queensland, for consideration of \$24.8 million on 20 March 2020. The company was renamed Aurizon Port Services Pty Ltd. The acquisition includes long-term leases at the Port of Townsville with bulk storage warehouses and handling facilities adjacent to rail lines. Refer to note 25 for further information.

(e) Debt refinancing

During the year Aurizon Network Pty Ltd:

- Reduced the capacity of the syndicated bank debt facility maturing July 2021 from \$490.0 million to \$380.0 million in July 2019;
- Issued a long term \$82.0 million fixed rate Medium Term Note maturing 22 March 2030 in September 2019; and
- Cancelled existing syndicated bank debt facility maturing July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling \$1,300.0 million maturing June 2023 – June 2025 in June 2020.

\$525.0 million Medium Term Note maturing October 2020 (AMTN 1) is classified as a current liability and the Group has sufficient bank debt facility capacity to repay the Medium Term Note.

(f) On-market share buy-back scheme

The Group has completed an on-market share buy-back program of up to \$400.0 million. The Group acquired 75.5 million shares for total consideration of \$400.0 million.

(g) Deed of Cross Guarantee

The Deed of Cross Guarantee, for which Aurizon Holdings Limited was the Trustee, was revoked effective 14 February 2020. Aurizon Operations Limited has subsequently entered a Deed of Cross Guarantee as Trustee with all parties of the former consolidated group (the 'closed group'), except for Aurizon Holdings Limited, on 22 April 2020. Refer to note 24 for further information.

(h) Change in accounting policies

The Group adopted AASB 16 *Leases* retrospectively from 1 July 2019 and comparatives for the 2019 financial year have not been restated as permitted under specific transitional provisions in the standard. The impact of the new leasing standard and change in accounting policies are disclosed in note 34.

(i) Impact of COVID-19

COVID-19 has had no material impact on the Group in financial year 2020. The potential risk of the COVID-19 pandemic on key assumptions used in impairment testing and assessment of useful lives is included in the significant judgement disclosures.

Results for the year

IN THIS SECTION

Results for the year provides segment information and a breakdown of individual line items in the consolidated income statement that the Directors consider most relevant, including a summary of the accounting policies, judgements and estimates relevant to understanding these line items.

1	Segment information	Page 54
2	Revenue and other income	Page 57
3	Expenses	Page 59
4	Impairment of non-financial assets	Page 60
5	Income tax	Page 61
6	Earnings per share	Page 63

Notes to the consolidated financial statements

30 June 2020 (continued)

1 Segment information

KEEPING IT SIMPLE

Segment reporting requires presentation of financial information based on the information that is internally provided to the Managing Director & CEO and the Executive Committee (chief operating decision makers).

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 26.

(a) Description of segments

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

Network

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

Coal

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

Bulk

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

Other

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

Notes to the consolidated financial statements

30 June 2020 (continued)

1 Segment information (continued)

(b) Segment information

	Network \$m	Coal \$m	Bulk \$m	Other \$m	Total continuing operations \$m
30 June 2020					
External revenue					
Revenue from external customers					
Services revenue					
Track access	617.4	512.8	-	-	1,130.2
Freight transport	-	1,260.3	568.8	-	1,829.1
Other services	18.7	-	23.1	16.2	58.0
Other revenue	29.0	2.2	1.0	12.1	44.3
Total revenue from external customers	665.1	1,775.3	592.9	28.3	3,061.6
Internal revenue					
Services revenue					
Track access	514.3	-	-	-	514.3
Freight transport	-	-	14.6	-	14.6
Other services	9.1	-	1.3	9.4	19.8
Total internal revenue	523.4	-	15.9	9.4	548.7
Total revenue	1,188.5	1,775.3	608.8	37.7	3,610.3
Other income	-	-	-	3.0	3.0
Total revenue and other income	1,188.5	1,775.3	608.8	40.7	3,613.3
Internal elimination					(548.7)
Consolidated revenue and other income					3,064.6
Continuing EBITDA (Underlying) ^{1,2}	798.1	616.4	110.1	(57.0)	1,467.6
Depreciation and amortisation	(329.3)	(205.8)	(20.2)	(3.3)	(558.6)
Continuing EBIT (Underlying)¹	468.8	410.6	89.9	(60.3)	909.0
Significant adjustments (note 1(c))					105.4
EBIT ¹					1,014.4
Net finance costs					(148.5)
Profit before income tax from continuing operations					865.9

1 Refer to page 108 for Non-IFRS financial information.

2 Refer to note 34 for details regarding the impact of changes in the Group's accounting policies following the adoption of the new leasing standard from 1 July 2019 on segment information. The new leasing standard has been adopted retrospectively and comparatives for the 2019 financial year have not been restated as permitted under specific transitional provisions in the standard.

Notes to the consolidated financial statements

30 June 2020 (continued)

1 Segment information (continued)

(b) Segment information (continued)

	Network \$m	Coal \$m	Bulk \$m	Other \$m	Total continuing operations \$m
30 June 2019					
External revenue					
Revenue from external customers					
Services revenue					
Track access	590.0	487.7	-	-	1,077.7
Freight transport	-	1,236.2	465.2	-	1,701.4
Other services	9.7	-	23.3	41.3	74.3
Other revenue	31.9	0.9	0.5	18.5	51.8
Total revenue from external customers	631.6	1,724.8	489.0	59.8	2,905.2
Internal revenue					
Services revenue					
Track access	480.3	-	-	-	480.3
Freight transport	-	-	9.4	-	9.4
Other services	5.8	-	0.9	22.4	29.1
Total internal revenue	486.1	-	10.3	22.4	518.8
Total revenue	1,117.7	1,724.8	499.3	82.2	3,424.0
Other income	-	-	2.4	-	2.4
Total revenue and other income	1,117.7	1,724.8	501.7	82.2	3,426.4
Internal elimination					(518.8)
Consolidated revenue and other income					2,907.6
Continuing EBITDA (Underlying) ¹	721.2	609.8	54.5	(13.9)	1,371.6
Depreciation and amortisation	(320.9)	(194.7)	(17.2)	(9.8)	(542.6)
Continuing EBIT (Underlying) ¹	400.3	415.1	37.3	(23.7)	829.0
EBIT ¹					829.0
Net finance costs					(147.1)
Profit before income tax from continuing operations					681.9

¹ Refer to page 108 for Non-IFRS financial information.

Notes to the consolidated financial statements

30 June 2020 (continued)

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.

	2020 \$m	2019 \$m
Net gain on sale of rail grinding business (before income tax)	105.4	-
Total significant adjustments (continuing operations)	105.4	-

Total significant adjustments from continuing operations, net of tax is \$73.8 million.

For disclosure on the significant items relating to discontinued operations refer to note 26.

(d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. Two customers each contribute more than 10% of the Group's total revenue as detailed below:

	2020 \$m	2019 \$m	2020 credit rating	2019 credit rating
Customer 1	522.2	488.7	A	A
Customer 2	438.2	405.9	BBB+	BBB+
Total	960.4	894.6		

2 Revenue and other income

KEEPING IT SIMPLE

Aurizon recognises revenue from the provision of access to the CQC and the provision of freight haulage services across Australia.

The Group derives the following types of revenue:

	2020 \$m	2019 \$m
Services revenue		
Track access	1,130.2	1,077.7
Freight transport	1,829.1	1,701.4
Other services	58.0	74.3
Other revenue	44.3	51.8
Total revenue from continuing operations	3,061.6	2,905.2
Other income	108.4	2.4
Total revenue and other income from continuing operations	3,170.0	2,907.6

Other income includes net gain on sale of rail grinding business.

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the provision of services over time. Revenue is disaggregated by the Group's segments, refer to note 1(b).

(b) Contract assets and liabilities

(i) Contract assets

The Group has recognised the following revenue related contract assets:

	2020 \$m	2019 \$m
Current		
Contract assets for freight transport	0.2	-
Customer contract costs	1.1	-
	1.3	-
Non-current		
Contract assets for freight transport	14.7	-
Customer contract costs	7.2	-
	21.9	-

Contract assets primarily represent incremental costs incurred to secure new or extensions to existing customer contracts. These amounts are capitalised and amortised against revenue as the performance obligations are satisfied over time.

	2020 \$m	2019 \$m
Within one year	1.3	-
Later than one year but not later than five years	16.3	-
Later than five years	5.6	-
	23.2	-

(ii) Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	2020 \$m	2019 \$m
Current		
Advances for freight transport	2.0	1.8
Advances for other services	26.5	26.4
	28.5	28.2
Non-current		
Advances for freight transport	14.4	3.9
Advances for other services	136.0	161.1
	150.4	165.0

Contract liabilities primarily represent amounts received from customers as advances for future track access under agreements for mine specific infrastructure. These amounts are deferred and earned over the term of the agreements using the output method as performance obligations are satisfied.

Notes to the consolidated financial statements

30 June 2020 (continued)

2 Revenue and other income (continued)

(b) Contract assets and liabilities (continued)

(ii) Contract liabilities (continued)

	2020 \$m	2019 \$m
Within one year	28.5	28.2
Later than one year but not later than five years	109.7	124.7
Later than five years	40.7	40.3
	178.9	193.2

The reduction in contract liabilities primarily represents revenue recognised for prepayments from future access charges in previous financial years, offset by freight revenue received in advance under transport agreements during the financial year.

(iii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2020 \$m	2019 \$m
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Advances for freight transport	0.4	1.2
Advances for other services	26.8	26.0
	27.2	27.2

(iv) Unsatisfied performance obligations

The Group has a number of long-term contracts to provide services to customers in future periods. The majority of revenues are recognised on an as invoiced basis, hence, the right to consideration from a customer corresponds directly with the entity's performance completed to date.

Long-term track access and freight transport contracts are considered by management to be a series of annual performance obligations that are satisfied within each financial year. Any amounts received as prepayments to provide access to the CQCN are recognised over the term of the access agreement as performance obligations are satisfied. The Group applies the practical expedient in paragraph 121 of AASB 15 *Revenue from Contracts with Customers* and does not disclose information on the transaction price allocated to performance obligations that are unsatisfied.

All other track access and freight transport contracts for periods of one year or less are billed monthly based on the services provided. As permitted under AASB 15 *Revenue from Contracts with Customers*, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

SIGNIFICANT JUDGEMENTS

Take-or-Pay revenue

Take-or-Pay clauses may trigger when annual volumes railed are less than the regulatory forecast. Take-or-Pay is calculated based on management's judgement of below rail cause versus above rail operator/mine cancellations. This judgement impacts the calculation of Take-or-Pay and the receivable recognised in the year that the contractual railings were not achieved. Take-or-Pay revenue of \$25.6 million has been recognised at 30 June 2020 (2019: \$4.2 million).

Wiggins Island Rail Project (WIRP) Access Revenue

In the 2019 financial year, legal proceedings occurred in relation to the notices received by Aurizon Network Pty Ltd from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Group's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 March 2020 and 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered in the first half of financial year 2021.

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 reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court of Queensland proceedings and will not impact the recovery of the regulated access charge component of WIRP capital expenditure. The Group is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the 2020 financial year.

Freight Transport Contract Modifications

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

(c) Recognition and measurement

The Group recognises revenue as the relevant performance obligations are satisfied. Revenue includes the provision of track access and freight transport services as described below.

(i) Track access

Track access revenue is generated from the provision of access to, and operation of, the CQCN. Access revenue is recognised over time as the relevant performance obligations are satisfied, being the provision of access to the rail network.

A contract liability is recorded for revenue received in advance of satisfying a performance obligation and is subsequently recognised in profit and loss as the performance obligation is satisfied during the term of the contract.

Notes to the consolidated financial statements

30 June 2020 (continued)

2 Revenue and other income (continued)

(c) Recognition and measurement (continued)

(i) Track access (continued)

Approved Access Undertaking

Track access revenue is recognised as track access is provided and is measured on a number of operating parameters including volumes hauled applied to regulator approved tariffs. The tariffs charged are determined with reference to the total allowable revenue, applied to the regulatory approved annual volume forecast for each system. At each balance date, track access revenue and receivables include an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. The Group has an unconditional right to receive this consideration once the performance obligation is satisfied and therefore a trade receivable is recognised for these amounts.

Where annual volumes railed are less than the regulatory forecast, Take-or-Pay may trigger. Take-or-Pay is recognised as a receivable in the year that the contractual railings were not achieved as the related performance obligations have been satisfied.

The majority of access revenue is subject to a revenue cap mechanism that serves to ensure the rail network recovers its system allowable revenue over the regulatory period. A revenue adjustment event results in the under or over recovery of regulatory access revenue (net of Take-or-Pay revenue) for a financial year being recognised in the accounting revenues in the second financial year following the event as per the Access Undertaking.

Access revenue for the financial year has been recognised based on the consolidated Compliant Access Undertaking and Volume Reset DAAU. Refer to key events and transactions during the reporting period for further information.

(ii) Freight transport

Freight transport revenue is recognised as the relevant performance obligations are satisfied over time, being the provision of freight transport services.

Freight transport revenue is billed monthly in arrears and recognised at rates specified in each contractual agreement and adjusted for the amortisation of customer contract assets or liabilities. At each balance date, freight transport revenue includes an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. These amounts are recognised as trade receivables.

A contract modification is a separate contract if the scope of services is increased by distinct additional services and the total price increases by the market rate for those services over the remaining contract period. Where the distinct services don't indicate market prices, weighted-average contract rates are applied which may result in the recognition of a contract asset or liability that amortise over the term of the individual contract.

Modifications to existing agreements where there is also a new agreement put in place are assessed based on the facts and substance of the individual contractual arrangements and will be accounted for as either combined or separate contracts.

A contract asset is recorded for revenue when the Group does not have an unconditional right to invoice the customer for performance obligations satisfied. A contract liability is recorded for revenue received in advance of satisfying a performance obligation and is recognised over the term of the contract.

(iii) Capitalisation of customer contract costs

Where incremental costs are incurred to secure new or extensions to existing customer contracts these costs are capitalised as a contract asset and amortised against revenue as the performance obligations are satisfied over time in the new contract.

Where an arrangement contains a significant financing component the transaction price is adjusted to reflect the effects of the financing component and a contract asset is recognised and amortised against revenue as the performance obligations are satisfied over time.

3 Expenses

Profit before income tax from continuing operations includes the following specific expenses:

	2020 \$m	2019 \$m
Employee benefits expense		
Defined benefit superannuation expense	10.2	11.4
Defined contribution superannuation expense	57.9	54.3
Redundancies	16.0	21.4
Salaries, wages and allowances including on-costs	707.5	691.5
	791.6	778.6
Depreciation and amortisation		
Depreciation	530.8	516.9
Amortisation of intangibles	27.8	25.7
	558.6	542.6
Impairment losses¹		
Property, plant and equipment	5.7	24.7
Intangibles	-	0.2
	5.7	24.9
Finance expenses		
Interest and finance charges paid/payable	152.3	155.1
Interest paid on lease liability	5.1	-
Provisions: unwinding of discount	-	0.1
Amortisation of capitalised borrowing costs	3.8	3.5
Amortisation of AMTN 2 fair value adjustment	(2.4)	(0.9)
Counterparty credit risk adjustments	(3.9)	(3.9)
	154.9	153.9
Amount capitalised to qualifying assets	(3.9)	(3.9)
	151.0	150.0

¹ Refer to note 4 for information.

Notes to the consolidated financial statements

30 June 2020 (continued)

4 Impairment of non-financial assets

	2020 \$m	2019 \$m
Continuing operations		
Bulk impairment	-	11.4
Asset impairment as a result of transfer to held for sale	-	13.5
Other assets	5.7	-
	5.7	24.9
Discontinued operations		
Intermodal impairment	-	25.1
Total impairment of non-financial assets	5.7	50.0

(a) Impairment of non-financial assets

Current period

An impairment charge has been recognised for other assets not in use as at 30 June 2020 for which the carrying amount is not considered recoverable. This impairment has not been classified as a significant item.

Prior period

(i) Bulk impairment (\$11.4 million)

An impairment charge was recognised in respect of the Bulk East CGU using fair value less costs of disposal (FVLCD) methodology during the 2017 and 2018 financial years. The Bulk East CGU continued to be valued under FVLCD methodology during the 2019 financial year, and as a result, an impairment charge of \$11.4 million was recorded in respect of additional sustaining capital expenditure not considered recoverable. The residual carrying value of property, plant and equipment as at 30 June 2019 was \$45.8 million. This impairment was not classified as a significant item.

(ii) Asset impairment as a result of transfer to held for sale (\$13.5 million)

As a result of the transfer of assets to held for sale, an asset impairment of \$13.5 million was recognised in the 2019 financial year. This impairment was not classified as a significant item.

(iii) Discontinued operations – Intermodal impairment (\$25.1 million)

As a result of the sale of the Queensland Intermodal business an asset impairment of \$25.1 million was recognised at 30 June 2019.

SIGNIFICANT JUDGEMENTS

The Group considers annually whether there have been any indicators of impairment or impairment reversal and then tests whether non-current assets have suffered any impairment, in accordance with the accounting policy stated in note 9 and note 10.

Impairment tests for cash generating units (CGUs) and goodwill

CGUs are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. CGUs containing goodwill are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. CGUs that have previously recognised an impairment to the carrying amount are reviewed for impairment reversal whenever events or changes in circumstances indicate that the recoverable amount may exceed the carrying amount.

Indicators of impairment reversal were identified for the Bulk East and Western Australian CGUs.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on a corporate plan approved by the Board covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated growth rates.

The Group applies a pre-tax discount rate of 10.4% (2019: 10.9%) and terminal growth rate of 2.0% (2019: 2.0%) to the below CGUs. There is a risk that the assumptions applied to the CGUs below may be impacted by the effects of either COVID-19 or climate-related emerging risks and don't reflect the actual future impact. The recoverable amount of the Bulk East and Western Australia CGUs were tested for sensitivity of the pre-tax discount rate as well as other factors as noted below.

Bulk East CGU

The Bulk East CGU includes goodwill of \$5.2 million acquired on acquisition of a subsidiary (refer to note 25) in the financial year. The CGU was previously impaired under fair value less costs of disposal methodology. The recoverable amount of the CGU is now determined based on the value in use methodology. The recoverable amount is sensitive to changes in customer contractual arrangements and should any major contracts not be renewed, this may result in a reduction to

the recoverable amount of the CGU. The recoverable amount of the CGU supports the carrying amount including goodwill, therefore no further impairment has been recognised. Due to the sensitivity of the recoverable amount to the renewal of major customer contracts, no reversal of previous impairment has been recognised.

Western Australia CGU

The Western Australia CGU was previously impaired under value in use methodology. The Western Australia CGU has a small number of customers and the recoverable amount is sensitive to changes in customer contractual arrangements. The recoverable amount of the CGU was determined taking into consideration expected end of mine life for major contracts. Should any major contracts not be renewed or the remaining iron ore customer either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements, it may result in a change to the impairment recorded for the CGU. The recoverable amount of the CGU supports the carrying amount, therefore no further impairment has been recognised. Due to the sensitivity in major customer assumptions no reversal of previous impairment has been recognised.

Impairment tests for property, plant and equipment

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have previously been impaired are reviewed for impairment reversal whenever events or changes in circumstance indicate that the recoverable amount may exceed the carrying amount.

The Group prepares an Enterprise Fleet Plan to determine the level of rollingstock required. The Enterprise Fleet Plan covers a 10-year period and key assumptions include forecast volumes, productivity and required level of contingent fleet.

There is a risk that the key assumptions applied may be impacted by the effects of either COVID-19 or climate-related emerging risks and the forecast volumes, productivity or contingent fleet requirements don't reflect the actual rollingstock required.

Notes to the consolidated financial statements

30 June 2020 (continued)

5 Income tax

KEEPING IT SIMPLE

This note provides an analysis of the Group's income tax expense/benefit (including a reconciliation of income tax expense to accounting profit), deferred tax balances and income tax recognised directly in equity.

Differences between tax law and accounting standards result in non-temporary (permanent) and temporary (timing) differences between tax and accounting income. Current income tax expense is equal to net profit before tax multiplied by the applicable tax rate, adjusted for non-temporary differences. Temporary differences do not adjust income tax expense as they reverse over time. Until they reverse, a deferred tax asset or liability must be recognised on the balance sheet. This note also includes details of income tax recognised directly in equity.

The Group recognises a significant net deferred tax liability and a current cash tax position significantly lower than the applicable tax rate. This is primarily due to accelerated fixed asset tax depreciation and is common for entities operating in a capital intensive environment.

(a) Income tax expense

	2020 \$m	2019 \$m
Current tax	186.6	127.6
Deferred tax	81.2	73.4
Current tax relating to prior periods	1.1	(1.5)
Deferred tax relating to prior periods	(3.7)	1.3
	265.2	200.8

Income tax expense/(benefit) is attributable to:

Profit from continuing operations	260.8	208.6
Profit/(loss) from discontinued operations (note 26(b))	4.4	(7.8)
	265.2	200.8

Deferred income tax expense included in income tax expense comprises:

Increase/(decrease) in deferred tax assets (note 5(e))	11.7	(21.2)
Increase in deferred tax liabilities (note 5(f))	65.8	95.9
	77.5	74.7

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2020 \$m	2019 \$m
Profit before income tax expense from continuing operations	865.9	681.9
Profit/(loss) before income tax expense from discontinued operations	15.2	(4.6)
	881.1	677.3
Tax at the Australian tax rate of 30% (2019: 30%)	264.3	203.2
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Capital losses not recognised	1.1	3.6
Other	2.4	(5.8)
Adjustments for current tax of prior periods	(2.6)	(0.2)
	265.2	200.8

(c) Amounts recognised directly in equity

	2020 \$m	2019 \$m
Aggregate deferred tax arising in the reporting period and directly debited/(credited) to equity	0.7	(1.6)

(d) Tax expense/(benefit) relating to items of other comprehensive income

	2020 \$m	2019 \$m
Cash flow hedges	(10.7)	(15.2)

Notes to the consolidated financial statements

30 June 2020 (continued)

5 Income tax (continued)

(e) Deferred tax assets

	2020 \$m	2019 \$m
Total deferred tax assets	265.2	236.1
Set-off of deferred tax liabilities pursuant to set-off provisions	(265.2)	(236.1)
Net deferred tax assets	-	-

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax assets:

Movements	Consumables and spares \$m	Provisions/ accruals \$m	Customer contracts \$m	Unearned revenue \$m	Financial instruments \$m	Other \$m	Total \$m
At 1 July 2019	7.0	108.7	7.3	12.2	85.1	15.8	236.1
Adjustment on adoption of AASB 16	-	-	-	-	-	26.2	26.2
Acquisition of subsidiary (note 25)	-	0.2	-	-	-	4.4	4.6
(Charged)/credited							
- to profit or loss	2.1	(2.6)	(7.3)	(3.2)	5.1	(5.8)	(11.7)
- to other comprehensive income	-	-	-	-	10.7	-	10.7
- directly to equity	-	-	-	-	-	(0.7)	(0.7)
At 30 June 2020	9.1	106.3	-	9.0	100.9	39.9	265.2
At 1 July 2018	(1.2)	121.3	14.7	11.9	41.9	9.5	198.1
(Charged)/credited							
- to profit or loss	8.2	(12.6)	(7.4)	0.3	28.0	4.7	21.2
- to other comprehensive income	-	-	-	-	15.2	-	15.2
- directly to equity	-	-	-	-	-	1.6	1.6
At 30 June 2019	7.0	108.7	7.3	12.2	85.1	15.8	236.1

(f) Deferred tax liabilities

	2020 \$m	2019 \$m
Total deferred tax liabilities	870.5	773.5
Set-off of deferred tax liabilities pursuant to set-off provisions	(265.2)	(236.1)
Net deferred tax liabilities	605.3	537.4

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax liabilities:

Movements	Non-current assets \$m	Accrued income \$m	Financial instruments \$m	Total \$m
At 1 July 2019	711.8	2.4	59.3	773.5
Adjustment on adoption of AASB 16	26.2	-	-	26.2
Acquisition of subsidiary (note 25)	5.0	-	-	5.0
Charged/(credited)				
- profit or loss	58.4	0.4	7.0	65.8
At 30 June 2020	801.4	2.8	66.3	870.5
At 1 July 2018	642.3	1.7	33.6	677.6
Charged/(credited)				
- profit or loss	69.5	0.7	25.7	95.9
At 30 June 2019	711.8	2.4	59.3	773.5

Notes to the consolidated financial statements

30 June 2020 (continued)

5 Income tax (continued)

(f) Deferred tax liabilities (continued)

SIGNIFICANT JUDGEMENTS

The deferred tax asset of \$67.8 million, attributable to the impairment of the investment in an associate in the 2016 financial year has not been recognised as it is not considered probable that it will be recovered in the foreseeable future. The recoverability of the deferred tax asset is dependent on the sale of shares in the associate.

Recognition and measurement

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

To the extent that an item is recognised in other comprehensive income or directly in equity, the deferred tax is also recognised in other comprehensive income or directly in equity.

6 Earnings per share

KEEPING IT SIMPLE

Earnings per share (EPS) is the amount of post-tax profit attributable to each share.

(a) Basic earnings per share

Basic EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding.

	2020 Cents	2019 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	31.5	23.9
- continuing operations	31.0	23.8

(b) Diluted earnings per share

Diluted EPS is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	2020 Cents	2019 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company:		
- continuing and discontinued operations	31.5	23.9
- continuing operations	30.9	23.8

(c) Weighted average number of shares used as denominator

	2020 Number '000	2019 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,952,895	1,990,128
Adjustments for calculation of diluted EPS:		
Rights	2,918	1,567
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted EPS	1,955,813	1,991,695

Operating assets and liabilities

IN THIS SECTION

Operating assets and liabilities provides information about the working capital of the Group and major balance sheet items, including the accounting policies, judgements and estimates relevant to understanding these items.

7	Trade and other receivables	Page 65
8	Inventories	Page 65
9	Property, plant and equipment	Page 66
10	Intangible assets	Page 69
11	Other assets	Page 70
12	Trade and other payables	Page 70
13	Provisions	Page 70
14	Other liabilities	Page 72

Notes to the consolidated financial statements

30 June 2020 (continued)

7 Trade and other receivables

	2020 \$m	2019 \$m
Current		
Trade receivables	352.1	366.1
Provision for impairment of receivables	(7.7)	(5.8)
Net trade receivables	344.4	360.3
Other receivables	115.7	121.5
	460.1	481.8

Other receivables include revenue for services performed but not yet invoiced under contracts including external construction contracts, Take-or-Pay and annual GAPE fees.

The creation or release of the provision for impairment of receivables has been included in profit or loss. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash. During the financial year, \$1.9 million of the provision for impairment of receivables was expensed to profit or loss (2019: \$21.9 million released).

Recognition and measurement

Trade receivables generally have credit terms ranging from seven to 31 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9 *Financial Instruments*, which requires the use of the lifetime expected loss provision for all trade receivables.

The Group's debtors exhibit similar credit risk characteristics and exposure. Estimating the Group's credit risk to debtors has focused largely on experienced payment history and outlook. The trade receivable balances disclosed are unsecured and represent the Group's maximum exposure to credit risk.

8 Inventories

	2020 \$m	2019 \$m
Current		
Raw materials and stores – at cost	155.9	130.9
Provision for inventory obsolescence	(10.1)	(13.7)
	145.8	117.2
Non-current		
Raw materials and stores – at cost	50.5	53.0
Provision for inventory obsolescence	(12.4)	(12.8)
	38.1	40.2

Recognition and measurement

Inventories include infrastructure and rollingstock items held in centralised stores, workshops and depots. Inventories are measured at the lower of cost and net realisable value. Cost is determined predominantly on an average cost basis.

Items expected to be consumed after more than one year are classified as non-current.

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure and rollingstock maintenance items. The amount of the provision is based on a proportion of the value of damaged stock, slow moving stock and stock that has become obsolete during the reporting period.

Notes to the consolidated financial statements

30 June 2020 (continued)

9 Property, plant and equipment

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure \$m	Right-of-use \$m	Total \$m
2020								
Opening net book amount	281.7	138.9	266.1	285.7	2,202.0	5,361.9	-	8,536.3
Adjustment for change in accounting policy (note 34(a))	-	-	(48.9)	-	-	-	102.2	53.3
Restated opening net book amount	281.7	138.9	217.2	285.7	2,202.0	5,361.9	102.2	8,589.6
Additions	494.6	-	-	-	-	-	0.3	494.9
Transfers between asset classes	(473.9)	0.3	10.5	20.5	139.4	303.3	-	0.1
Acquisition of subsidiary (note 25)	-	-	6.1	11.6	-	0.9	14.6	33.2
Disposals	-	(1.1)	(2.6)	(1.9)	(0.1)	(5.4)	(4.7)	(15.8)
Assets classified as held for sale	(1.3)	(13.8)	(7.2)	(0.1)	-	(5.8)	-	(28.2)
Depreciation ¹	-	-	(12.6)	(43.8)	(162.4)	(298.0)	(14.2)	(531.0)
Impairment ²	-	-	-	(1.9)	-	-	(3.8)	(5.7)
Closing net book amount	301.1	124.3	211.4	270.1	2,178.9	5,356.9	94.4	8,537.1
At 30 June 2020								
Cost	301.1	124.3	461.1	670.1	5,284.7	7,917.6	120.0	14,878.9
Accumulated depreciation and impairment	-	-	(249.7)	(400.0)	(3,105.8)	(2,560.7)	(25.6)	(6,341.8)
Net book amount	301.1	124.3	211.4	270.1	2,178.9	5,356.9	94.4	8,537.1
Owned	301.1	98.5	209.5	270.1	2,178.9	985.5	-	4,043.6
Leased	-	25.8	1.9	-	-	4,371.4	94.4	4,493.5
	301.1	124.3	211.4	270.1	2,178.9	5,356.9	94.4	8,537.1
2019								
Opening net book amount	275.3	126.5	231.3	327.6	2,231.7	5,467.5	-	8,659.9
Additions	467.6	-	-	-	-	-	-	467.6
Transfers between asset classes	(424.7)	0.6	64.0	41.3	128.6	192.3	-	2.1
Disposals	-	(1.9)	(5.7)	(3.1)	(1.1)	(5.1)	-	(16.9)
Assets classified as held for sale	(25.2)	13.7	5.9	(27.7)	(0.1)	1.1	-	(32.3)
Depreciation ¹	-	-	(19.6)	(50.7)	(155.2)	(291.6)	-	(517.1)
Impairment ²	(11.3)	-	(9.8)	(1.7)	(1.9)	(2.3)	-	(27.0)
Closing net book amount	281.7	138.9	266.1	285.7	2,202.0	5,361.9	-	8,536.3
At 30 June 2018								
Cost or fair value	281.7	138.9	520.2	655.3	5,165.2	7,644.2	-	14,405.5
Accumulated depreciation and impairment	-	-	(254.1)	(369.6)	(2,963.2)	(2,282.3)	-	(5,869.2)
Net book amount	281.7	138.9	266.1	285.7	2,202.0	5,361.9	-	8,536.3
Owned	281.7	113.4	264.0	285.7	2,202.0	973.4	-	4,120.2
Leased	-	25.5	2.1	-	-	4,388.5	-	4,416.1
	281.7	138.9	266.1	285.7	2,202.0	5,361.9	-	8,536.3

1 Depreciation of \$531.0 million (2019: \$517.1 million) includes depreciation from continuing operations of \$530.8 million (2019: \$516.9 million) (note 3) and discontinued operations of \$0.2 million (2019: \$0.2 million) (note 26).

2 Impairment of \$5.7 million (2019: \$27.0 million) includes impairment from continuing operations of \$5.7 million (2019: \$24.7 million) (note 3) and discontinued operations of \$nil (2019: \$2.3 million) (note 26).

Notes to the consolidated financial statements

30 June 2020 (continued)

9 Property, plant and equipment (continued)

SIGNIFICANT JUDGEMENTS

Useful lives

The useful lives of assets are determined based on the expected period of time over which economic benefits from use of the asset will be derived. The useful life of assets is reviewed on an annual basis with consideration of key assumptions including historical and forecast usage rates, technological advancements, changes in legal and economic environments.

The useful life of property, plant and equipment in use in the Queensland Coal, New South Wales and Network CGUs were reviewed in the financial year due to the potential effects of COVID-19 and climate-related emerging risks. The assumptions reviewed included volume growth, including a negative volume growth scenario to reflect the potential impact on thermal coal exports, and expected end of mine life for major contracts. The assumptions reviewed support the remaining useful life of property, plant and equipment in use in these CGUs.

There is a risk that the assessment of factors used to determine useful lives of property, plant and equipment may be impacted by the effects of either COVID-19 or climate-related emerging risks and as a result useful lives may be revised in the future resulting in a change in depreciation rates.

(a) Leases

The Group has adopted AASB 16 *Leases* retrospectively from 1 July 2019, and has not restated comparatives for the 2019 financial year as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. Refer note 34(a) for further information.

On adoption of AASB 16 *Leases*, fit-out assets relating to leased buildings were reclassified to right-of-use. Coal infrastructure, corridor land and buildings captured by leases with the State and Queensland Rail as noted below were not reclassified to the right-of-use asset class in order to continue to show the breakdown of the carrying amount of these right-of-use assets across the respective asset classes.

Right-of-use assets

The Group primarily leases buildings with terms mostly ranging from one to 20 years. The leases generally provide the Group with the right to renewal at which time the lease terms are renegotiated. The Group applies the following practical expedients permitted by the standard:

- › Payments for short-term leases of less than 12 months are recognised as an expense in profit or loss as incurred; and
- › Payments for leases for which the underlying asset is of a low value are recognised as an expense in profit or loss as incurred.

Coal infrastructure

The Group leases infrastructure assets including:

- › CQCN from the State; and
- › North Coast Line owned by Queensland Rail.

The infrastructure assets are leased to Aurizon Network Pty Ltd. The term of each lease is 99 years, expiring 30 June 2109, at a rental of \$1 per year if demanded. The State and Queensland Rail (Infrastructure Lessors) have an option to extend the infrastructure leases by a further 99 years, with at least 20 years notice prior to expiry of the existing term. As the rental is only payable if demanded, no lease liability is recognised on balance sheet for coal infrastructure assets.

Corridor land and buildings

Aurizon Network Pty Ltd, leases corridor land and buildings owned by the State. The leases expire on 30 June 2109 and rental is \$1 per year if demanded. As the rental is only payable if demanded, no lease liability is recognised on balance sheet for corridor land and buildings.

(i) Amounts recognised in the consolidated balance sheet

The balance sheet includes the following amounts relating to leased assets:

	2020 \$m	1 July 2019 \$m ¹
Right-of-use assets		
Buildings	88.8	101.7
Equipment	5.6	0.5
	94.4	102.2
Other leased assets²		
Coal infrastructure	4,371.4	4,388.5
Corridor land	25.8	25.5
Buildings	1.9	2.1
	4,399.1	4,416.1
Total leased assets	4,493.5	4,518.3
Lease liabilities		
Current	17.4	14.1
Non-current	125.4	128.8
	142.8	142.9

1 Refer to note 34 for details regarding the impact of changes in the Group's accounting policies following the adoption of the new leasing standard from 1 July 2019

2 Reflects the assets of the CQCN

(ii) Amounts recognised in consolidated income statement

The consolidated income statement includes the following amounts relating to right-of-use assets:

	2020 \$m	2019 \$m
Right-of-use assets		
Buildings	13.5	-
Equipment	0.7	-
	14.2	-
Other leased assets		
Coal infrastructure	245.7	240.6
Buildings	0.2	0.2
	245.9	240.8
Total leased assets depreciation	260.1	240.8
Interest expense (included in net finance costs)	5.1	-
Expense relating to short-term leases (included in consumables)	1.4	-
Expenses relating to variable lease payments not included in lease liabilities (included in consumables)	4.8	-

The total cash outflow for leases during the financial year was \$25.9 million.

Notes to the consolidated financial statements

30 June 2020 (continued)

9 Property, plant and equipment (continued)

(b) Recognition and measurement

(i) Property, plant and equipment

Carrying value

Property, plant and equipment (including leased coal infrastructure, corridor land and buildings) are stated at historical cost, less any accumulated depreciation or impairment. Historical costs include expenditure that is directly attributable to the acquisition of the items, gains or losses on qualifying cash flow hedges of foreign currency purchases transferred from equity and capitalised interest.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

Depreciation is calculated on a straight-line basis, except for motor vehicles included in plant and equipment for which depreciation is calculated on a diminishing value method. Straight-line allocates the cost of an item of property, plant and equipment net of residual values over the expected useful life of each asset. Estimates of remaining useful life and residual values are reviewed and adjusted, if appropriate, on an annual basis.

The Group builds mine specific infrastructure for customers and provides access to those customers under access facilitation deeds. Infrastructure controlled by the Group under these deeds is depreciated over the term of the deed, except for where economic benefits are expected to flow to the Group after the end of the term of the deed.

The depreciation rates used for each class of assets are:

Infrastructure, including:	
- Tracks	8 – 50 years
- Track turnouts	20 – 25 years
- Ballast	8 – 20 years
- Civil works	20 – 100 years
- Bridges	30 – 100 years
- Electrification	20 – 50 years
- Field signals	15 – 40 years
Buildings	10 – 40 years
Rollingstock, including:	
- Locomotives	25 – 35 years
- Locomotives componentisation	8 – 12 years
- Wagons	25 – 35 years
- Wagon componentisation	10 – 17 years
Plant and equipment	3 – 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(ii) Leases

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases (refer to note 33(d)). From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Where the Group is a sub-lessor and the sub-lease is for the duration of the head lease, the right-of-use asset recognised from the head leases are derecognised and a lease receivable equal to the present value of future lease payments receivable is recognised.

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

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

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

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

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

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation is calculated using the straight-line method over the estimated useful life which varies from two to 20 years.

(iii) Impairment of assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have previously been impaired are reviewed for impairment reversal whenever events or changes in circumstance indicate that the recoverable amount may exceed the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash generating units).

Notes to the consolidated financial statements

30 June 2020 (continued)

10 Intangible assets

	Goodwill \$m	Software \$m	Software under development \$m	Total \$m
2020				
Opening net book amount	-	158.2	18.7	176.9
Additions	-	-	33.3	33.3
Transfers between asset classes	-	29.7	(29.8)	(0.1)
Acquisition of subsidiary (note 25)	5.2	-	-	5.2
Amortisation	-	(27.8)	-	(27.8)
Closing net book amount	5.2	160.1	22.2	187.5
At 30 June 2020				
Cost	5.2	371.3	22.2	398.7
Accumulated amortisation and impairment	-	(211.2)	-	(211.2)
Net book amount	5.2	160.1	22.2	187.5
	Software \$m	Software under development \$m	Key customer contracts \$m	Total \$m
2019				
Opening net book amount	126.6	46.0	-	172.6
Additions	-	32.3	-	32.3
Transfers between asset classes	57.5	(59.6)	-	(2.1)
Amortisation	(25.7)	-	-	(25.7)
Impairment	(0.2)	-	-	(0.2)
Closing net book amount	158.2	18.7	-	176.9
At 30 June 2019				
Cost	344.1	18.7	3.0	365.8
Accumulated amortisation and impairment	(185.9)	-	(3.0)	(188.9)
Net book amount	158.2	18.7	-	176.9

Recognition and measurement

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary or business at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Any impairment is recognised as an expense and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or group of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, employee costs and an appropriate portion of relevant overheads. Software development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Software is stated at historical cost, less any accumulated amortisation or impairment. Amortisation is calculated using the straight-line method over the estimated useful life which varies from three to 11 years.

Notes to the consolidated financial statements

30 June 2020 (continued)

11 Other assets

	2020 \$m	2019 \$m
Current		
Contract assets	1.3	-
Lease receivable	6.5	-
Other current assets	7.0	6.2
	14.8	6.2
Non-current		
Contract assets	21.9	-
Lease receivable	48.6	-
Other non-current assets	-	8.6
	70.5	8.6

(a) Contract assets

Refer to note 2(b) for further information relating to contract assets.

(b) Lease receivable

Lease receivables represent the present value of future lease payments receivable on sub-lease arrangements where the expiry of the term of the sub-lease is the same as the head lease. Refer to note 34 for details regarding the impact of changes in the Group's accounting policies following the adoption of the new leasing standard from 1 July 2019.

Minimum lease payments receivable on sub-leases are as follows:

	2020 \$m	2019 \$m
Within one year	8.2	-
Later than one year but not later than five years	32.9	-
Later than five years	22.6	-
	63.7	-
Less: Unearned interest income	(8.6)	-
Total lease receivables	55.1	-

Interest income (included in net finance costs) relating to sub-lease arrangements during the financial year was \$1.9 million. Income relating to variable lease payments received (included in other revenue) during the financial year was \$7.6 million.

The total cash inflow for sub-leases in the financial year was \$15.2 million.

12 Trade and other payables

	2020 \$m	2019 \$m
Current liabilities		
Trade payables	289.0	297.5
Other payables	34.0	109.2
	323.0	406.7

Other payables in the 2019 financial year included a payable of \$81.3 million (including GAPE) in respect of the over-collection of access revenue. This was settled and there is no similar payable included in the 2020 financial year.

Recognition and measurement

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days or within the terms agreed with the supplier.

13 Provisions

	2020 \$m	2019 \$m
Current		
Employee benefits (a)	229.3	234.7
Provision for insurance claims	8.6	1.4
Litigation and workers compensation provision	20.9	33.6
Other provisions	12.5	3.3
	271.3	273.0
Non-current		
Employee benefits (a)	13.4	12.6
Litigation and workers compensation provision	9.7	10.9
Decommissioning/make good	2.9	3.0
Land rehabilitation	38.0	34.2
Other provisions	-	2.2
	64.0	62.9
Total provisions	335.3	335.9

(a) Employee benefits

	2020 \$m	2019 \$m
Annual leave	67.1	55.4
Long service leave	112.0	110.5
Other ¹	63.6	81.4
	242.7	247.3

¹ Included in other employee benefits are short-term incentives, retirement allowances and termination benefits. As well as payroll tax on leave and short-term incentive plans.

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, short-term incentive plan and redundancy provision. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of \$105.6 million (2019: \$90.6 million) that is not expected to be taken or paid within the next 12 months.

Details of employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave and leave loading that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The short-term employee benefit obligations are recognised in the provision for employee benefits.

Notes to the consolidated financial statements

30 June 2020 (continued)

13 Provisions (continued)

Details of employee benefits (continued)

(ii) Other long-term employee benefit obligations

The liabilities for retirement allowance and long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iii) Short-term incentive plans

The Group recognises a liability for short-term incentive plans based on a formula that takes into consideration the Group and individual key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when the Group decides to terminate the employment, or when an employee accepts redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Superannuation

The Group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to the Public Sector Superannuation (QSuper) scheme.

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a whole of Government basis and reported in the whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund at least every three years. The latest valuation was completed as at 30 June 2019 and the State Actuary found the fund was in surplus from a whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the QSuper Defined Benefit Fund. The State of Queensland has provided Aurizon with an indemnity if the Treasurer requires Aurizon to pay any amounts required to meet any potential deficit/surplus. The indemnity is subject to Aurizon not taking any unilateral action, other than with the approval of the State that causes a significant increase in unfunded liabilities.

The Group also makes superannuation guarantee payments into the QSuper Accumulation Fund (Non-Contributory) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office and to other complying Superannuation Funds designated by employees nominating Choice of Fund.

Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The pre-tax discount rates for employee benefits are based on Australian corporate bond rates and range between 0.6% and 2.5% (2019: 1.5% and 2.7%).

To measure the estimated costs to remediate contaminated land an inflation rate of 1.6% (2019: 1.9%) has been applied, based on remediation dates ranging between five to 40 years. A weighted average discount rate of 1.2% (2019: 2.0%) has been used in determining present value, based on the interest rate which reflects the maturity profile of the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Notes to the consolidated financial statements

30 June 2020 (continued)

13 Provisions (continued)

Recognition and measurement (continued)

The provision for insurance claims is raised for insurance claims external to the Group and represents the aggregate deductible component in relation to loss or damage to property, plant and equipment and rollingstock.

A provision is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. Estimates are made based on the average number of claims and average claim payments over a specified period of time. Claims Incurred But Not Reported are also included in the estimate.

A provision for onerous contracts is recognised by the Group when the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits to be received. It is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting period.

14 Other liabilities

	2020 \$m	2019 \$m
Current		
Contract liabilities	28.5	28.2
Income received in advance	36.9	36.7
Lease liabilities	17.4	-
Other current liabilities	18.5	10.2
	101.3	75.1
Non-current		
Contract liabilities	150.4	165.0
Lease liabilities	125.4	-
Other non-current liabilities	1.5	40.0
	277.3	205.0

(a) Contract liabilities

Refer to note 2(b) for further information relating to contract liabilities.

(b) Income received in advance

Income received in advance primarily represents deposits received.

(c) Lease liabilities

Lease liabilities represent the present value of future lease payments. Refer to note 34 for details regarding the impact of changes in the Group's accounting policies following the adoption of the new leasing standard from 1 July 2019.

Minimum lease payments are as follows:

	2020 \$m	2019 \$m
Within one year	22.3	-
Later than one year but not later than five years	72.6	-
Later than five years	75.8	-
	170.7	-
Less: Discounted using Group's incremental borrowing rate	(27.9)	-
Total lease liabilities	142.8	-

Capital and financial risk management

IN THIS SECTION

Capital and financial risk management provides information about the capital management practices of the Group and shareholder returns for the year, and discusses the Group's exposure to various financial risks, how these affect the Group's financial position and performance, and what the Group does to manage these risks.

15	Capital risk management	Page 74
16	Dividends	Page 74
17	Equity and reserves	Page 74
18	Borrowings	Page 76
19	Financial risk management	Page 76
20	Derivative financial instruments	Page 83

Notes to the consolidated financial statements

30 June 2020 (continued)

15 Capital risk management

KEEPING IT SIMPLE

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. During the financial year, the Board endorsed the implementation of a simplified legal structure to optimise the Company's balance sheet and provide additional funding capacity for the Group. The Group and the Company monitor its capital structure by reference to its gearing ratio.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net debt excludes lease liabilities (included in other liabilities) recognised on adoption of the new lease accounting standard effective from 1 July 2019. Net gearing ratio is defined as Net debt divided by 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 gearing ratio is also disclosed to include derivative financial instruments used to hedge market risk on borrowings and is reconciled in the Non-IFRS financial information on page 108.

	Notes	2020 \$m	2019 \$m
Total borrowings	18	3,607.2	3,369.8
Less: cash and cash equivalents		(29.3)	(25.2)
Net debt		3,577.9	3,344.6
Total equity		4,357.7	4,677.4
Total capital		7,935.6	8,022.0
Gearing ratio		45.1%	41.7%
Alternative gearing ratio		43.3%	40.0%

16 Dividends

(a) Ordinary shares

	2020 \$m	2019 \$m
Interim dividend for the year ended 30 June 2020 of 13.7 cents 70% franked (2019: 11.4 cents 70% franked) per share, paid 23 March 2020	267.0	226.9
Final dividend for the year ended 30 June 2019 of 12.4 cents 70% franked (2018: 13.1 cents 60% franked) per share, paid 23 September 2019	246.8	260.7
	513.8	487.6

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

	2020 \$m	2019 \$m
Since 30 June 2020, the Directors have recommended the payment of a final dividend of 13.7 cents per fully paid ordinary share 70% franked (2019: 12.4 cents 70% franked). The aggregate amount of the proposed dividend expected to be paid on 21 September 2020 out of retained earnings, but not recognised as a liability at year end is:	262.3	246.8

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2020 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ending 30 June 2021. The amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

	2020 \$m	2019 \$m
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2019: 30%)	92.6	64.9

17 Equity and reserves

KEEPING IT SIMPLE

Issued capital represents the amount of consideration received for securities issued by Aurizon.

When the Company purchases its own shares, as a result of the share-based payment plans and share buy-back, the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

(a) Contributed equity

(i) Issued capital

	2020 Shares '000	2019 Shares '000	2020 \$m	2019 \$m
Ordinary shares - fully paid	1,914,643	1,990,128	506.6	906.6

(ii) Movements in ordinary share capital

Details	Number of shares '000	\$m
At 1 July 2018	1,990,128	906.6
At 30 June 2019	1,990,128	906.6
On-market share buy-back	(75,485)	(400.0)
At 30 June 2020	1,914,643	506.6

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Notes to the consolidated financial statements

30 June 2020 (continued)

17 Equity and reserves (continued)

(b) Reserves

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2019		(1.8)	(46.6)	(0.6)	3,467.5	3,418.5
Fair value gains/(losses) taken to equity		-	(39.3)	-	-	(39.3)
Fair value (gains)/losses transferred to property, plant and equipment		-	3.6	-	-	3.6
Deferred tax		-	10.7	-	-	10.7
Other comprehensive income		-	(25.0)	-	-	(25.0)
Transactions with owners in their capacity as owners						
Buy-back of ordinary shares		-	-	-	(0.4)	(0.4)
Share-based payments expense	31(b)	-	-	5.9	-	5.9
Employee share trust to employees		-	-	(3.2)	-	(3.2)
Deferred tax		-	-	(0.7)	-	(0.7)
Balance at 30 June 2020		(1.8)	(71.6)	1.4	3,467.1	3,395.1

	Notes	Share of an associate's OCI \$m	Cash flow hedges \$m	Share-based payments \$m	Capital reserves \$m	Total \$m
Balance at 1 July 2018		(1.8)	(11.2)	5.6	3,467.5	3,460.1
Fair value gains/(losses) taken to equity		-	(52.2)	-	-	(52.2)
Fair value (gains)/losses transferred to property, plant and equipment		-	1.6	-	-	1.6
Deferred tax		-	15.2	-	-	15.2
Other comprehensive income		-	(35.4)	-	-	(35.4)
Transactions with owners in their capacity as owners						
Share-based payments expense	31(b)	-	-	(7.2)	-	(7.2)
Employee share trust to employees		-	-	(0.6)	-	(0.6)
Deferred tax		-	-	1.6	-	1.6
Balance at 30 June 2019		(1.8)	(46.6)	(0.6)	3,467.5	3,418.5

Nature and purpose of reserves

Cash flow hedges

The hedging reserve is used to record the effective portion of gains or losses on hedging instruments that are designated cash flow hedges and are recognised in other comprehensive income. Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

Share-based payments

Share-based payments represent the fair value of share-based remuneration provided to employees.

Capital reserves

Capital reserves represent capital contributions from Queensland State Government pre-IPO less cumulative share buy-backs and transaction costs charged to this account.

Notes to the consolidated financial statements

30 June 2020 (continued)

18 Borrowings

KEEPING IT SIMPLE

The Group borrows money through bank debt facilities and through the issuance of debt securities in capital markets.

The carrying amount of the Group's borrowings is as follows:

	2020 \$m	2019 \$m
Current - Unsecured		
Medium-term notes	524.6	-
Bank debt facilities	133.0	149.0
	657.6	149.0
Non-current - Unsecured		
Medium-term notes	2,249.8	2,670.0
Bank debt facilities	710.0	560.0
Capitalised borrowing costs	(10.2)	(9.2)
	2,949.6	3,220.8
Total borrowings	3,607.2	3,369.8

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

The Group manages its exposure to interest rate risk as set out in note 19(a). Risk is managed in accordance with Board approved Treasury Policies.

During the year Aurizon Network Pty Ltd:

- › Reduced the capacity of the syndicated bank debt facility maturing July 2021 from \$490.0 million to \$380.0 million in July 2019;
- › Issued a long term \$82.0 million fixed rate Medium Term Note maturing 22 March 2030 in September 2019; and
- › Cancelled existing syndicated bank debt facility maturing July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling \$1,300.0 million maturing June 2023 – June 2025 in June 2020.

\$525.0 million Medium Term Note maturing October 2020 (AMTN 1) is classified as a current liability and the Group has sufficient bank debt facility capacity to repay the Medium Term Note.

Details of the Group's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 19(c).

Recognition and measurement

(i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity.

Establishment costs have been capitalised and are amortised over the life of the related borrowing less one year, with the expectation that borrowings will be refinanced within the year prior to maturity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year and the Group does not expect to repay within 12 months.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

(ii) Borrowing costs

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings, excluding working capital facilities, during the year of 4.9% (2019: 4.6%).

19 Financial risk management

KEEPING IT SIMPLE

Exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk arises in the normal course of the Group's business. A central treasury department oversees financial risk under Board approved Treasury Policies that cover specific areas related to these exposures, as well as the use of derivative and non-derivative financial instruments.

Compliance with the Board approved Treasury Policies is monitored on an ongoing basis, including regular reporting to the Board. Trading for speculation is prohibited.

(a) Market risk

Market risk is the risk that adverse movements in foreign exchange and/or interest rates will affect the Group's financial performance or the value of its holdings of financial instruments. The Group monitors and measures market risk relative to risk limits established in the Board approved Treasury Policies. The objective of risk management is to manage the market risks inherent in the business to protect profitability and return on assets.

(i) Foreign exchange risk

Exposure to foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in or related to a currency that is not the Group's functional currency. The Group's foreign exchange exposure relates largely to the Euro (€) denominated Medium-Term Notes maturing September 2024 (EMTN 1) and June 2026 (EMTN 2). The Group also has exposure to movements in foreign currency exchange rates through anticipated purchases of parts and equipment.

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Risk management

Cross currency interest rate swap agreements

To mitigate the risk of adverse movements in foreign exchange and interest rates in relation to borrowings denominated in foreign currency, the Group enters into cross currency interest rate swap (CCIRS) agreements through which it replaces the related foreign currency principal and interest liability payments with Australian Dollar principal and interest payments. These cross currency interest rate swap agreements are designated into cash flow and fair value hedge relationships.

Foreign exchange contracts

The Group uses forward contracts to manage its foreign exchange risk arising from anticipated purchases of parts and equipment. These contracts are hedging highly probable forecast foreign currency exposures and are denominated in the same currency as the highly probable future purchases. The forward contracts are designated as cash flow hedges and are timed to mature when foreign currency payments are scheduled to be made. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

At the reporting date, the Group's exposure to foreign exchange risk after taking into consideration hedges of foreign currency borrowings and forecast foreign currency transactions is not considered material.

(ii) Interest rate risk

Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings which expose the Group to interest rate risk.

At reporting date, the Group has exposure to the following variable rate borrowings and interest rate swaps:

	30 June 2020		30 June 2019	
	Weighted average interest rate %	Balance \$m	Weighted average interest rate %	Balance \$m
Variable rate exposure	4.5	2,331.8	4.5	2,197.8
Interest rate swaps (including debt credit margins)	4.4	(2,175.0)	4.3	(2,175.0)
Net exposure to interest rate risk		156.8		22.8

Risk management

The Group manages cash flow interest rate risk by using interest rate swaps. CCIRS have been put in place to remove any exposure to Euro interest rates and associated foreign exchange from the EMTN issuances which in effect convert the debt to variable AUD.

Interest rate swaps currently in place cover approximately 93% (2019: 99%) of the variable rate exposure. The weighted average maturity of outstanding swaps is approximately 2.0 years (2019: 2.7 years).

The International Swaps and Derivatives Association (ISDA) agreements held with counterparties allow for the netting of payments and receipts with respect to settlements for interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was \$25.9 million (2019: \$2.2 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which have been recognised in interest expense.

(iii) Sensitivity on interest rate risk

The following table summarises the gain/(loss) impact of interest rate changes, relating to existing borrowings and financial instruments, on net profit and equity before tax. The effect on equity is based on the financial instruments notional principal. For the purpose of this disclosure, sensitivity analysis is isolated to a 100 basis points increase/decrease in interest rates (with the decrease in interest rates limited to a reduction to 0.0% where the sensitivity would have reduced interest rates to negative), assuming hedge designations and effectiveness and all other variables remain constant.

	Effect on profit (before tax)		Effect on equity (before tax)	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
100 bps movement in interest rates				
100 bps decrease in interest rates	1.6	0.2	(69.8)	(62.4)
100 bps increase in interest rates	(1.6)	(0.2)	68.1	60.4

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

(a) Market risk (continued)

(iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement

The impact of hedging instruments designated in hedging relationships on the consolidated balance sheet of the Group is as follows:

	Notional amount		Carrying amount assets/ (liability) refer to note 20		Change in fair value used for measuring ineffectiveness for the year	
	2020	2019	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Cash flow hedges						
Foreign exchange risk						
Forward contracts	US\$4.0m	US\$11.0m	(0.7)	0.5	(1.2)	(0.7)
Forward contracts	€13.0m	€13.0m	(0.8)	0.3	(1.1)	(0.2)
Interest rate risk						
Interest rate swaps (current)	A\$2,175.0m	A\$2,175.0m	(37.9)	(41.4)	3.5	(45.7)
Interest rate swaps (forward dated) ¹	A\$2,550.0m	A\$1,225.0m	(41.2)	(7.7)	(33.5)	(7.7)
Foreign exchange and interest rate risks						
CCIRS - EMTN 1	€500.0m	€500.0m	0.2	0.9	(0.7)	(0.3)
CCIRS - EMTN 2	€500.0m	€500.0m	(6.8)	(4.3)	(2.5)	(0.5)
Fair value hedges						
Interest rate risk						
Interest rate swaps - AMTN 2	-	-	-	-	-	(3.3)
Interest rate swaps - AMTN 3	A\$82.0m	-	3.2	-	3.4	-
Foreign exchange and interest rate risks						
CCIRS - EMTN 1	€500.0m	€500.0m	155.1	150.7	2.9	44.3
CCIRS - EMTN 2	€500.0m	€500.0m	69.1	49.4	15.7	62.8

¹ Forward dated interest rate swaps entered into commencing June 2021 on maturity of current interest rate swaps in June - August 2021

The impact of hedged items designated in hedging relationships on the consolidated balance sheet is as follows:

	Cash flow hedge reserve ¹		Change in fair value used for measuring ineffectiveness for the year	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Cash flow hedges (before tax)				
Foreign exchange risk				
Firm commitments	1.5	(0.8)	2.3	0.9
Interest rate risk				
Forecast floating interest payments	79.1	49.1	30.0	53.4
Foreign exchange and interest rate risks				
EMTN 1	5.2	4.7	0.7	0.3
EMTN 2	16.5	13.8	2.5	0.5

¹ Cash flow hedge reserve includes the cumulative impact of cross currency basis relating to EMTN 1 and EMTN 2 of \$19.3 million for the financial year ended 30 June 2020 (2019: \$19.1 million)

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

(a) Market risk (continued)

(iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement (continued)

	Carrying amount ¹		Accumulated fair value adjustment		Change in fair value used for measuring ineffectiveness for the year	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Fair value hedges (before tax)						
Interest rate risk						
AMTN 3	(85.4)	-	(3.4)	-	(3.4)	-
Foreign exchange and interest rate risks						
EMTN 1	(873.9)	(870.9)	(163.2)	(160.3)	(2.9)	(44.3)
EMTN 2	(863.2)	(847.4)	(85.0)	(69.2)	(15.7)	(62.8)
	(1,737.1)	(1,718.3)	(248.2)	(229.5)	(18.6)	(107.1)
Total borrowings (subject to fair value hedges)	(1,822.5)	(1,718.3)	(251.6)	(229.5)	(22.0)	(107.1)

¹ Carrying amount excludes the effect of discounts

The above hedging relationships affected other comprehensive income as follows:

	Hedging gain/(loss) recognised in comprehensive income	
	2020 \$m	2019 \$m
Cash flow hedges (before tax)		
Foreign exchange risk		
Forward contracts	(2.3)	(0.8)
Interest rate risk		
Interest rate swaps	(30.0)	(53.4)
Foreign exchange and interest rate risk		
CCIRS	(3.4)	3.6
	(35.7)	(50.6)

There was no material ineffectiveness related to cash flow hedges and fair value hedges recognised in the consolidated income statement during the financial year.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with financial institutions and receivables from customers.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees received from certain parties.

Historically, there has been no significant change in customers' credit risk and the lifetime expected loss assessment of the Group remains unchanged. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

- › External credit rating (as far as available)
- › Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- › Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- › The financial position of customers, past experience and other factors (macroeconomic information)

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables, the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note 19(d) for further details.

The Group has policies in place to ensure that sales of services are only made to customers with an appropriate credit profile or where appropriate security is held. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit quality of the customer is assessed, taking into account its financial position, past experience and other factors.

Credit risk on cash transactions and derivative contracts is managed through the Board approved Treasury Policies which restricts the Group's exposure to financial institutions by credit rating band. The Treasury Policies limit the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are regularly monitored.

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, sufficient liquidity is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Financing arrangements

The Group has access to the following arrangements at the end of the financial year:

	Security	Maturity	Utilised ¹		Facility limit	
			2020 \$m	2019 \$m	2020 \$m	2019 \$m
Aurizon Finance Pty Ltd						
Working capital facility	Unsecured	Dec-20	83.3	84.3	150.0	150.0
Bilateral facility	Unsecured	Nov-23	290.0	90.0	450.0	450.0
			373.3	174.3	600.0	600.0
Aurizon Network Pty Ltd						
Working capital facility	Unsecured	Dec-20	67.5	82.6	100.0	100.0
Syndicated facility ²	Unsecured	Jul-21	-	470.0	-	490.0
Syndicated facility ²	Unsecured	Oct-22	-	-	-	500.0
Bilateral facility ²	Unsecured	Jun-23	420.0	-	850.0	-
Bilateral facility ²	Unsecured	Jun-24	-	-	300.0	-
Bilateral facility ²	Unsecured	Jun-25	-	-	150.0	-
AMTN 1	Unsecured	Oct-20	525.0	525.0	525.0	525.0
AMTN 2 ³	Unsecured	Jun-24	425.0	425.0	425.0	425.0
AMTN 3 ⁴	Unsecured	Mar-30	82.0	-	82.0	-
EMTN 1 ⁵	Unsecured	Sept-24	710.6	710.6	710.6	710.6
EMTN 2 ⁵	Unsecured	Jun-26	778.2	778.2	778.2	778.2
			3,008.3	2,991.4	3,920.8	3,528.8
Total Group financing arrangements			3,381.6	3,165.7	4,520.8	4,128.8

1 Amount utilised includes bank guarantees of \$17.8 million (2019: \$17.9 million) and excludes capitalised borrowing costs of \$10.2 million (2019: \$9.2 million) and discounts on Medium-Term Notes of \$7.1 million (2019: \$10.3 million)

2 Aurizon Network Pty Ltd cancelled existing syndicated bank debt facility maturing July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling \$1,300.0 million maturing between June 2023 - June 2025 in June 2020

3 Amount utilised excludes accumulated fair value adjustment of \$9.5 million (2019: \$11.9 million) which will be recognised in profit or loss over the remaining term of the AMTN 2 bond

4 AMTN 3 amount utilised excludes accumulated fair value adjustment of \$3.4 million (2019: \$nil)

5 EMTN 1 amount utilised excludes accumulated fair value adjustments of \$163.2 million (2019: \$160.3 million). EMTN 2 amount utilised excludes accumulated fair value adjustments \$85.0 million (2019: \$69.2 million)

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling \$250.0 million (2019: \$250.0 million) which may be utilised in the form of short-term working capital funding and the issuance of bank guarantees. At the end of the financial year, the Group utilised \$17.8 million (2019: \$17.9 million) for financial bank guarantees.

The Group has complied with all debt covenants during the 2020 and 2019 financial years.

The following table summarises the contractual timing of undiscounted cash flows, including estimated interest payments, of financial liabilities and derivative instruments, expressed in AUD. The contractual amount assumes current interest rates and foreign exchange rates estimated using forward curves applicable at the end of the reporting period.

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 year \$m	Between 1 and 5 years \$m	Over 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets)/ liabilities ¹ \$m
2020					
Non-derivatives					
Trade payables	323.0	-	-	323.0	323.0
Borrowings ¹	745.9	2,207.7	938.4	3,892.0	3,607.2
Financial guarantees	17.8	-	-	17.8	-
Lease liabilities ²	22.3	72.6	75.8	170.7	142.8
	1,109.0	2,280.3	1,014.2	4,403.5	4,073.0
Derivatives					
Interest rate swaps	43.1	36.9	(2.2)	77.8	75.9
Foreign exchange contracts	-	-	-	-	1.5
(inflow)	(1.5)	(0.3)	-	(1.8)	-
outflow	0.2	-	-	0.2	-
CCIRS - EMTN 1 ¹	(2.4)	(123.3)	-	(125.7)	(155.3)
CCIRS - EMTN 2 ¹	6.2	33.6	(28.6)	11.2	(62.3)
	45.6	(53.1)	(30.8)	(38.3)	(140.2)
2019					
Non-derivatives					
Trade payables	406.7	-	-	406.7	406.7
Borrowings ¹	104.4	2,779.5	835.7	3,719.6	3,369.8
Financial guarantees	17.9	-	-	17.9	-
	529.0	2,779.5	835.7	4,144.2	3,776.5
Derivatives					
Interest rate swaps	20.1	30.4	-	50.5	49.1
Foreign exchange contracts	-	-	-	-	(0.8)
(inflow)	(0.5)	-	-	(0.5)	-
outflow	0.2	-	-	0.2	-
CCIRS - EMTN 1 ¹	4.5	(90.0)	-	(85.5)	(151.6)
CCIRS - EMTN 2 ¹	14.0	75.3	(13.0)	76.3	(45.1)
	38.3	15.7	(13.0)	41.0	(148.4)

¹ Borrowings exclude the effect of cross currency interest rate swap derivatives

² Lease liabilities are included in other liabilities, refer to note 14

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

(d) Fair value measurements

The fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. 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 fair value an instrument are observable, the instrument is included in Level 2.

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

- › Forward foreign exchange contracts
- › Interest rate swaps
- › CCIRS

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

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

The fair value of CCIRS has been determined as the net present value of contracted 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.

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to Aurizon for similar financial instruments. For the period ended 30 June 2020, the borrowing rates were determined to be between 0.9% to 3.0%, depending on the type of borrowing (2019: 1.8% to 4.2%).

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

	Notes	Carrying amount		Fair value	
		2020 \$m	2019 \$m	2020 \$m	2019 \$m
Financial assets carried at fair value					
Foreign exchange contracts	20	0.2	0.8	0.2	0.8
Interest rate swaps - AMTN 3	20	3.2	-	3.2	-
CCIRS - EMTN 1	20	155.3	151.6	155.3	151.6
CCIRS - EMTN 2	20	62.3	45.1	62.3	45.1
		221.0	197.5	221.0	197.5
Financial assets carried at amortised cost					
Cash and cash equivalents		29.3	25.2	29.3	25.2
Trade and other receivables	7	460.1	481.8	460.1	481.8
		489.4	507.0	489.4	507.0
Financial liabilities carried at fair value					
Foreign exchange contracts	20	(1.7)	-	(1.7)	-
Interest rate swaps	20	(79.1)	(49.1)	(79.1)	(49.1)
		(80.8)	(49.1)	(80.8)	(49.1)
Financial liabilities carried at amortised cost					
Trade and other payables	12	(323.0)	(406.7)	(323.0)	(406.7)
Borrowings	18	(3,607.2)	(3,369.8)	(3,688.6)	(3,510.9)
		(3,930.2)	(3,776.5)	(4,011.6)	(3,917.6)
Off-balance sheet					
Unrecognised financial assets					
Third party guarantees		-	-	19.1	19.1
Bank guarantees		-	-	315.6	315.2
Insurance company guarantees		-	-	2.3	2.5
Unrecognised financial liabilities					
Bank guarantees		-	-	(17.8)	(17.9)
		-	-	319.2	318.9

Notes to the consolidated financial statements

30 June 2020 (continued)

19 Financial risk management (continued)

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 year, there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

	Notes	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
2020					
Derivative financial assets	20	-	221.0	-	221.0
Derivative financial liabilities	20	-	(80.8)	-	(80.8)
Net financial instruments measured at fair value		-	140.2	-	140.2
2019					
Derivative financial assets	20	-	197.5	-	197.5
Derivative financial liabilities	20	-	(49.1)	-	(49.1)
Net financial instruments measured at fair value		-	148.4	-	148.4

20 Derivative financial instruments

KEEPING IT SIMPLE

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. The Group holds derivative financial instruments to economically hedge its foreign currency and interest rate exposures in accordance with the Board approved Treasury Policies (refer to note 19).

	2020 \$m	2019 \$m
Current assets		
Foreign exchange contracts	0.2	0.8
Non-current assets		
Interest rate swaps - AMTN 3	3.2	-
CCIRS - EMTN 1	155.3	151.6
CCIRS - EMTN 2	62.3	45.1
	220.8	196.7
Total derivative financial instrument assets	221.0	197.5
Current liabilities		
Foreign exchange contracts	(1.5)	-
Interest rate swaps	(33.6)	-
	(35.1)	-
Non-current liabilities		
Foreign exchange contracts	(0.2)	-
Interest rate swaps	(45.5)	(49.1)
	(45.7)	(49.1)
Total derivative financial instrument liabilities	(80.8)	(49.1)

Notes to the consolidated financial statements

30 June 2020 (continued)

20 Derivative financial instruments (continued)

(a) Offsetting financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2020 and 30 June 2019. The column 'net amount' shows the impact on the Group's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts \$m	Gross amounts set-off in the balance sheet \$m	Net amounts presented in the balance sheet \$m	Amounts subject to master netting arrangements \$m	Net amount ¹ \$m
2020					
Financial assets					
Derivative financial instruments	221.0	-	221.0	(0.9)	220.1
Financial liabilities					
Derivative financial instruments	(80.8)	-	(80.8)	0.9	(79.9)
2019					
Financial assets					
Derivative financial instruments	197.5	-	197.5	-	197.5
Financial liabilities					
Derivative financial instruments	(49.1)	-	(49.1)	-	(49.1)

¹ No financial instrument collateral

Master netting arrangement

Derivative transactions are administered under ISDA Master Agreements. Under the terms of these agreements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off between different transaction types, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

Notes to the consolidated financial statements

30 June 2020 (continued)

20 Derivative financial instruments (continued)

(a) Offsetting financial assets and financial liabilities (continued)

Recognition and measurement

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities, and highly probable forecast transactions (cash flow hedges). The Group has established a 100% hedge relationship against the identified exposure, therefore the hedge ratio is 1:1.

At inception, the Group documents the relationship between hedging instruments and hedged items, the risk management objective and the strategy for undertaking various hedge transactions. At inception and on an ongoing basis, the Group documents its assessment of whether the derivatives used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The fair values of derivative financial instruments used for hedging purposes are disclosed in this section. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, and accumulated in reserves in equity limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. Ineffectiveness may arise where the timing of the transaction changes from what was originally estimated or differences arise between credit risk inherent within the hedged item and the hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity using a recalculated effective interest rate.

Group structure

IN THIS SECTION

Group structure provides information about particular subsidiaries and associates and how changes have affected the financial position and performance of the Group.

21	Associates and joint arrangements	Page 87
22	Material subsidiaries	Page 87
23	Parent disclosures	Page 88
24	Deed of cross guarantee	Page 89
25	Business combination	Page 89
26	Discontinued operations	Page 89
27	Assets classified as held for sale	Page 90

Notes to the consolidated financial statements

30 June 2020 (continued)

21 Associates and joint arrangements

KEEPING IT SIMPLE

Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates and joint arrangements are accounted for using the equity method of accounting after initially being recognised at cost.

(a) Investments in associates

The Group has an interest in the following associates:

Name	Ownership interest			Principal activity
	Country of operation	2020 %	2019 %	
Aquila Resources Limited ¹	Australia	15	15	Exploration and mining

¹ Aquila Resources Limited is accounted for as an associated company because the Group has significant influence primarily through representation on its Board of Directors.

(b) Investments in joint ventures

The Group has an interest in the following joint ventures, which are equity accounted. The Group's share of net loss from joint ventures was \$0.1m (2019: net profit \$0.1 million). The joint ventures have net assets of \$2.7 million (2019: \$2.8 million) and are not considered material to the Group.

Name	Ownership interest			Principal activity
	Country of operation	2020 %	2019 %	
Coal Network Capacity Co Pty Ltd ¹	Australia	8	-	Independent Expert
Chun Wo/CRGL	China-Hong Kong	17	17	Construction
ARG Risk Management Limited	Bermuda	50	50	Insurance
Integrated Logistics Company Pty Ltd	Australia	14	14	Consulting
ACN 169 052 288	Australia	15	15	Dormant

¹ Coal Capacity Co Pty Ltd is the Independent Expert established as a result of the approved Access Undertaking.

Recognition and measurement

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in note 9. The recoverable amount of the investment in Aquila is dependent on judgements made in relation to the long-term foreign exchange rates, metallurgical coal prices, iron ore prices and the timing of development of Aquila's mining projects and is \$nil.

22 Material subsidiaries

The Group's material subsidiaries that were controlled during the financial year are set out below:

Name of entity	Country of incorporation	Equity holding	
		2020 %	2019 %
Aurizon Operations Limited	Australia	100	100
Interail Australia Pty Ltd	Australia	100	100
Australia Eastern Railroad Pty Ltd	Australia	100	100
Australia Western Railroad Pty Ltd	Australia	100	100
Aurizon Network Pty Ltd	Australia	100	100
Aurizon Property Pty Ltd	Australia	100	100
Aurizon Terminal Pty Ltd	Australia	100	100
Aurizon Finance Pty Ltd	Australia	100	100
Aurizon Port Services Pty Ltd	Australia	100	-
Iron Horse Insurance Company Pte Ltd	Singapore	100	100

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at reporting date and the results of all subsidiaries for the financial year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date that the operation was discontinued. Where arrangements between the continuing and discontinued operation will continue subsequent to disposal, transactions including revenue and expenses will be included in the continuing operations profit or loss with elimination entries recognised in profit or loss of the discontinued operation.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Notes to the consolidated financial statements

30 June 2020 (continued)

22 Material subsidiaries (continued)

Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are classified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

23 Parent disclosures

The parent and ultimate parent entity within the Group is Aurizon Holdings Limited.

During the financial year, the Aurizon Holdings Limited Board endorsed the implementation of a simplified legal structure to optimise the Group's balance sheet and provide additional funding capacity. The internal reorganisation was completed on 19 August 2019.

- › Aurizon Operations Limited transferred its equity investment in Aurizon Network Pty Ltd to the Company; and
- › The Company transferred its equity investment in Aurizon Finance Pty Ltd to Aurizon Operations Limited.

(a) Summary financial information

The individual financial statements for the parent entity, Aurizon Holdings Limited, show the following aggregate amounts:

	2020 \$m	2019 \$m
Current assets	67.7	40.9
Non-current assets	4,004.5	6,086.1
Total assets	4,072.2	6,127.0
Current liabilities	(67.5)	(42.4)
Non-current liabilities	-	(1,724.8)
Total liabilities	(67.5)	(1,767.2)
Net assets	4,004.7	4,359.8
Shareholders' equity		
Contributed equity	506.6	906.6
Retained earnings	44.6	2.0
Reserves	3,453.5	3,451.2
Total equity	4,004.7	4,359.8
Profit for the year	556.4	487.9
Total comprehensive income	556.4	487.9

The parent entity has several employees. All costs associated with these employees are borne by a subsidiary of the parent entity and are not included in the above disclosures.

(b) Guarantees entered into by the parent entity

The Deed of Cross Guarantee, for which Aurizon Holdings Limited was the Trustee, was revoked effective 14 February 2020. Refer to note 24 for further information.

On 25 January 2017, as a residual obligation under the project documents with Moorebank Intermodal Company (MIC) Aurizon Holdings Limited provided a Parent Company Guarantee (PCG) in favour of MIC in relation to 50% of the cost to complete construction of the Terminal Works and 25% of the contract sum for design and construction of the Rail Access. The estimated maximum exposure under the guarantee is \$65.8 million (2019: \$70.8 million), however Aurizon Holdings Limited has obtained a 100% cross indemnity guarantee from Qube Holdings Ltd in respect of any call under the Aurizon Holdings Limited PCG.

(c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2020 (2019: \$nil).

(d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2020, the parent entity did not have any contractual commitments for the acquisition of property, plant and equipment (2019: \$nil).

Recognition and measurement

The financial information for the parent entity, Aurizon Holdings Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Aurizon Holdings Limited. Dividends received from associates are recognised in the parent entity's income statement, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Aurizon and its wholly-owned Australian entities elected to form a tax consolidation group with effect from 22 November 2010 and are therefore taxed as a single entity. The head entity of the tax consolidated group is Aurizon Holdings Limited.

The head entity, Aurizon Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Aurizon also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into tax sharing and tax funding agreements. The tax funding agreement sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset or deferred tax asset arising from unused tax losses and tax credits assumed by the head entity from a subsidiary member.

These tax funding arrangements result in the head entity recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed.

The tax sharing agreement limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

Notes to the consolidated financial statements

30 June 2020 (continued)

23 Parent disclosures (continued)

(d) Contractual commitments for the acquisition of property, plant and equipment (continued)

(iii) Employee benefits (share-based payments)

The grant by the Company of rights over its equity instruments to the employees of subsidiaries are treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in the corresponding subsidiaries.

24 Deed of cross guarantee

The Deed of Cross Guarantee, for which Aurizon Holdings Limited was the Trustee, was revoked effective 14 February 2020. Aurizon Operations Limited has subsequently entered a Deed of Cross Guarantee as Trustee with all parties of the former consolidated group (the 'closed group'), except for Aurizon Holdings Limited, on 22 April 2020.

The parties to the Deed of Cross Guarantee included: Aurizon Holdings Limited, Aurizon Finance Pty Ltd, Aurizon Property Holding Pty Ltd, Aurizon Property Pty Ltd, Aurizon Terminal Pty Ltd, Aurizon Operations Limited, Aurizon Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Aurizon Resource Logistics Pty Limited, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd and Australian Railroad Group Employment Pty Ltd.

Refer to the 2019 Annual Report for information relating to the 2019 financial year.

25 Business combination

(a) Summary of acquisition

Aurizon Operations Limited acquired 100% of the issued shares in Flinders TBSH Pty Ltd, a bulk transport, handling and stevedoring services provider in North Queensland, for consideration of \$24.8 million on 20 March 2020. The company was renamed Aurizon Port Services Pty Ltd. The acquisition includes long-term leases at the Port of Townsville with bulk storage warehouses and handling facilities adjacent to rail lines. The business will be complementary to the Bulk East CGUs rail operation as it is located at the end of the Mt Isa rail line connecting the Port of Townsville to the commodity rich North West Minerals Province.

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

	\$m
Total purchase consideration	24.8
	Fair value \$m
Total assets	36.4
Total liabilities	(16.8)
Net identifiable assets acquired	19.6
Add: Goodwill	5.2
Net assets acquired	24.8

Goodwill is attributable to future customer growth and has been allocated to the Bulk East CGU. None of the goodwill is expected to be deductible for tax purposes.

Acquisition costs of \$0.5 million were expensed to profit or loss. Net cash outflow from investing activities for acquisition of subsidiary was \$24.5 million, representing cash paid of \$24.8 million net of cash acquired of \$0.3 million.

26 Discontinued operations

(a) Description

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.

The Group signed a binding agreement with Pacific National on 28 July 2017 to sell its Acacia Ridge Intermodal Terminal for \$205.0 million, of which a \$35.0 million non-refundable deposit was received in advance. The transaction is subject to approval by the ACCC and FIRB.

On 6 May 2020, the Full Federal Court unanimously dismissed an appeal by the ACCC that the sale of the Acacia Ridge Intermodal Terminal to Pacific National contravened section 50 of the Commonwealth's *Competition and Consumer Act (2010)*. On 26 June 2020, the ACCC sought special leave to the High Court to appeal the decision of the Full Federal Court.

It is anticipated that the special leave application decision will be received before the end of calendar year 2020.

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

SIGNIFICANT JUDGEMENTS

The Group remains committed to exiting the Intermodal business and on this basis has continued to classify the Acacia Ridge Intermodal Terminal as a discontinued operation and held for sale at 30 June 2020.

Notes to the consolidated financial statements

30 June 2020 (continued)

26 Discontinued operations (continued)

(b) Financial performance and cash flow information

Financial information relating to the discontinued operations is set out below. The 2019 financial year includes the Queensland Intermodal business that was sold on 31 January 2019.

	2020 \$m	2019 \$m
Revenue	25.0	111.0
Other income	2.5	12.1
Employee benefits expense	(3.6)	(31.2)
Energy and fuel	(0.2)	(6.1)
Track access	-	(8.7)
Consumables	(8.4)	(58.4)
Depreciation	(0.2)	(0.2)
Impairment ¹	-	(25.1)
Other expenses	0.1	1.9
Net finance costs	-	0.1
Profit/(loss) before income tax	15.2	(4.6)
Income tax (expense)/benefit	(4.4)	7.8
Profit from discontinued operations after tax	10.8	3.2
Net cash inflow/(outflow) from operating activities	9.9	(25.4)
Net cash inflow from investing activities	0.4	11.1
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash generated by the discontinued operations	10.3	(14.3)

¹ Financial year 2019 includes \$22.8 million impairment of assets classified as held for sale and \$2.3 million impairment of property, plant and equipment.

(c) Significant items

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

	2020 \$m	2019 \$m
Significant items		
Intermodal closure benefit	2.5	13.2
Intermodal impairment expense	-	(25.1)
Redundancy benefit	-	0.5
	2.5	(11.4)

Current period

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

Prior period

Intermodal closure benefit includes gain on sale of assets in the period and release of contract exit cost provisions recognised in the prior period of \$13.2 million. Significant items also include asset write downs of \$25.1 million and a redundancy benefit of \$0.5 million as a result of the sale of the Queensland Intermodal business.

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

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

	2020 \$m	2019 \$m
Assets classified as held for sale		
Property, plant and equipment	38.8	36.7
Trade and other receivables	3.9	6.2
Total assets of disposal group held for sale	42.7	42.9
Liabilities directly associated with assets classified as held for sale		
Employee benefit obligations	(0.7)	(0.7)
Net assets classified as held for sale	42.0	42.2

27 Assets classified as held for sale

	2020 \$m	2019 \$m
Property, plant and equipment	61.2	90.0
Trade and other receivables	3.9	15.3
Inventories	-	3.1
Total assets held for sale	65.1	108.4

Other notes

IN THIS SECTION

Other notes provides 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 or position of the Group.

28	Notes to the consolidated statement of cash flows	Page 92
29	Related party transactions	Page 93
30	Key Management Personnel compensation	Page 93
31	Share-based payments	Page 93
32	Remuneration of auditors	Page 94
33	Summary of other significant accounting policies	Page 95
34	Changes in accounting policies	Page 97

Notes to the consolidated financial statements

30 June 2020 (continued)

28 Notes to the consolidated statement of cash flows

(a) Reconciliation of net cash inflow from operating activities to profit from continuing operations

	2020 \$m	2019 \$m
Profit for the year from continuing operations	605.1	473.3
Depreciation and amortisation	558.6	542.6
Impairment of non-financial assets	5.7	24.9
Finance expenses	151.0	150.0
Non-cash employee incentive expense/(benefit)	5.8	(7.2)
Net (gain)/loss on sale of non-current assets	1.1	2.8
Net (gain)/loss on sale of business	(105.4)	-
Share of profits of associates and joint ventures	0.1	(0.1)
Net exchange differences	(0.1)	0.9
Change in operating assets and liabilities:		
(Increase)/Decrease in trade and other receivables	25.9	49.5
(Increase)/Decrease in inventories	(26.2)	(13.1)
(Increase)/Decrease in other operating assets	(19.2)	(10.2)
Increase/(Decrease) in trade and other payables	(77.3)	87.2
Increase/(Decrease) in other liabilities	(3.5)	(17.8)
Increase/(Decrease) in current tax liabilities	39.9	(31.2)
Increase/(Decrease) in deferred tax liabilities	74.4	94.7
Increase/(Decrease) in provisions	1.6	(30.6)
Net cash inflow from operating activities from continuing operations	1,237.5	1,315.7

(b) Reconciliation of liabilities arising from financing activities to financing cash flows

	Current borrowings \$m	Non-current borrowings \$m	Liabilities held to hedge borrowings ¹ \$m	Assets held to hedge borrowings ¹ \$m	Total \$m
Balance as at 1 July 2019	(149.0)	(3,220.8)	(49.1)	196.8	(3,222.1)
Reclassification	(523.5)	523.5	-	-	-
Financing cash flows ²	16.0	(227.2)	-	-	(211.2)
Effect of changes in exchange rates	-	(14.1)	-	14.1	-
Other changes in fair values	(1.1)	(9.6)	(30.0)	9.9	(30.8)
Other non-cash movements	-	(1.4)	-	-	(1.4)
Balance as at 30 June 2020	(657.6)	(2,949.6)	(79.1)	220.8	(3,465.5)
Balance as at 1 July 2018	(100.0)	(3,401.9)	(21.3)	110.4	(3,412.8)
Financing cash flows ²	(49.0)	302.4	-	(11.5)	241.9
Effect of changes in exchange rates	-	(46.4)	10.6	35.8	-
Other changes in fair values	-	(72.3)	(38.4)	62.1	(48.6)
Other non-cash movements	-	(2.6)	-	-	(2.6)
Balance as at 30 June 2019	(149.0)	(3,220.8)	(49.1)	196.8	(3,222.1)

¹ Assets and liabilities held to hedge borrowings exclude foreign exchange contracts included in note 20.

² Financing cash flows consists of the net amount of proceeds from borrowings, repayment of borrowings, payments of transaction costs related to borrowings and proceeds from settlement of derivatives in the consolidated statement of cash flows.

Notes to the consolidated financial statements

30 June 2020 (continued)

29 Related party transactions

(a) Transactions with Directors and Key Management Personnel

There were no Key Management Personnel (KMP) related party transactions during the financial year (2019: nil).

(b) Transactions with other related parties

There were no transactions with other related parties during the financial year (2019: nil).

(c) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them and intra group transactions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parent and its subsidiaries. All loans are non interest bearing. Outstanding balances are unsecured.

30 Key Management Personnel compensation

	2020 \$'000	2019 \$'000
Short-term employee benefits	8,054	9,493
Post-employment benefits	214	297
Long-term benefits	119	47
Other benefits	386	-
Share-based payments	2,662	1,932
	11,435	11,769

Short-term employee benefits include cash salary, at risk performance incentives and fees, non-monetary benefits and other short-term benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, motor vehicle lease payments and annual leave accrued or utilised during the financial year. Other short-term benefits include sign-on bonus and relocation assistance.

31 Share-based payments

KEEPING IT SIMPLE

The Performance Rights Plan was established by the Board to provide long-term incentives to the Group's senior executives based on shareholder returns taking into account the Group's financial and operational performance. Eligible executives may be granted rights on terms and conditions determined by the Board from time to time. The fair value of rights granted under the schemes is recognised as an employee benefits expense with a corresponding increase in equity.

(a) Performance rights plan

Under the Performance Rights Plan, rights may be offered to Participants selected by the Board. Unless otherwise determined by the Board, no payment is required for the grant of rights under the Performance Rights Plan.

Subject to any adjustment in the event of a bonus issue, each right is an option to subscribe for one Share. Upon the exercise of a right by a Participant, each Share issued will rank equally with other Shares of the Company.

The Performance Rights Plan schemes are described as follows:

Short-term Incentive Award (STIA)

A portion of any STIA for the Managing Director & CEO and the Executive Management Team is awarded in performance rights and are deferred. The rights vest after one year and a Participant may exercise the right provided that the Participant remains employed by the Group at the vesting date, unless otherwise determined by the Board.

Long-term Incentive Award (LTIA)

Performance rights are granted to senior executives as part of the Group's LTIA. Vesting of the rights is subject to satisfying service conditions and performance conditions including Total Shareholder Return (market based) and Return on Invested Capital (non-market based).

Retentions

Performance rights are granted to eligible executives at the Board's discretion for retention. The rights vest at the end of a specified retention period or project and a Participant may exercise the right provided that the Participant remains employed by the Group at vesting date.

Notes to the consolidated financial statements

30 June 2020 (continued)

31 Share-based payments (continued)

(a) Performance rights plan (continued)

Retentions (continued)

The table below summarises rights granted under the plan:

	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year ¹ Number '000
2020					
STIAD	546	480	(546)	(52)	428
LTIA	10,679	2,354	-	(5,043)	7,990
Retentions	263	18	-	-	281
Total	11,488	2,852	(546)	(5,095)	8,699
2019					
STIAD	105	546	(105)	-	546
LTIA	11,655	2,950	-	(3,926)	10,679
Retentions	25	263	(25)	-	263
Total	11,785	3,759	(130)	(3,926)	11,488

¹ Balance of rights at the end of the year remains unvested.

The weighted average share price at the date Participants exercised rights during the period was \$5.79 (2019: \$4.32). The weighted average remaining contractual life of unvested rights at 30 June 2020 was 1.6 years (2019: 1.2 years).

Fair value of rights granted

In determining the fair value, market techniques for valuation were applied in accordance with AASB 2 *Share-based payments*. The fair value of the portion of Short-term Incentive Award deferred (STIAD) was \$6.03 (2019: \$4.21) representing the share price at grant date. The fair value of LTIA rights, that are subject to non-market based performance conditions, was \$4.77 (2019: \$3.40) and represents the share price at grant date less an adjustment for estimated dividends payable during the vesting period. The fair value of the LTIA rights subject to the market based performance condition has been calculated using the Monte-Carlo simulation techniques based on the inputs disclosed in the table below:

	2020	2019	
	LTIA EXECES & CEO	LTIA EXECES	LTIA CEO
Grant date	17 Oct 2019	5 Oct 2018	18 Oct 2018
Vesting date	30 Jun 2023	5 Oct 2022	18 Oct 2022
Expiry date	31 Dec 2023	31 Dec 2022	31 Dec 2022
Share price at grant date	\$5.80	\$4.14	\$4.10
Expected life	4 years	4 years	4 years
Company share price volatility	17.80%	18.70%	18.90%
Risk free rate	0.80%	2.20%	2.30%
Dividend yield	5.30%	5.20%	5.20%
Fair value	\$3.12	\$1.70	\$1.77

The Company share price volatility is based on the Company's average historical share price volatility to the grant date.

(b) Expenses arising from share-based payment transactions

	2020 \$m	2019 \$m
Performance Rights Plan	5.9	7.2

Recognition and measurement

The fair value of rights granted under the Performance Rights Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Share-based compensation is settled by making on-market purchases of the Company's ordinary shares.

32 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

PwC Australia

Audit and other assurance services

	2020 \$'000	2019 \$'000
Audit and other assurance services		
Audit and review of financial statements	1,190	1,213
Other assurance services		
Other assurance services	34	58
Total remuneration for audit and other assurance services	1,224	1,271
Taxation services		
Tax advisory services	11	-
Other services		
Advisory services	59	246
Total remuneration of PwC Australia	1,294	1,517

33 Summary of other significant accounting policies

Other significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

Notes to the consolidated financial statements

30 June 2020 (continued)

33 Summary of other significant accounting policies (continued)

(a) Basis of preparation

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2019:

- › AASB 16 *Leases*
- › Interpretation 23 *Uncertainty over Income Tax Treatments*
- › AASB 2018-1 *Amendments to Australia Accounting Standards – Annual Improvements 2015-2017 Cycle*

The Group also elected to adopt the following amendments early:

- › AASB 2019-3 *Amendments to Australia Accounting Standards – Interest Rate Benchmark Reform*

The Group had to change its accounting policies as a result of adopting AASB 16. The Group elected to adopt the new rules retrospectively and recognised the cumulative effect of initially applying the new standard on 1 July 2019. This is disclosed in note 34. The Interest Rate Benchmark Reform amendments modify specific hedge accounting requirements to allow hedge accounting to continue during the period of uncertainty relating to the benchmarking reforms for affected cash flow and fair value hedges related to the Group's European Medium Term Notes (EMTN). The Interest Rate Benchmark Reform and other amendments listed above did not have any impact on the amounts recognised in prior years and are not expected to significantly affect the current or future years.

(ii) New standards and interpretations not yet adopted

Certain new accounting standards and amendments to standards have been published that are not mandatory for reporting periods commencing 1 July 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash on hand; deposits held 'at call' with financial institutions; and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Foreign currency and commodity transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and market interest rates, it enters into financial arrangements to reduce these exposures. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(d) Leases

As explained in note 33(a)(i), the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in note 9(b) and the impact of the change in note 34.

Until 30 June 2019, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease. Lease income from operating leases where the Group is a lessor was recognised as income on a straight-line basis over the lease term.

(e) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- › fair values of the assets transferred
- › liabilities incurred to the former owners of the acquired business
- › equity interests issued by the Group
- › fair value of any asset or liability resulting from a contingent consideration arrangement, and
- › fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- › consideration transferred,
- › amount of any non-controlling interest in the acquired entity, and
- › acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Notes to the consolidated financial statements

30 June 2020 (continued)

33 Summary of other significant accounting policies (continued)

(e) Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Predecessor value method of accounting is used to account for all business combinations that involve entities under common control. Acquired assets and liabilities are recorded at their existing carrying values and no goodwill is recorded. Retrospective presentation of the acquired entity's results and balance sheet are incorporated as if both entities (acquirer and acquiree) had always been combined.

(f) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

(g) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(ii) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using effective interest method and net of any impairment loss, if

- › The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows; and
- › The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. For trade receivables, the Group applies the simplified approach permitted by AASB 9 *Financial Instruments*, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(iii) Non-derivative liabilities

The Group initially recognises loans and debt securities issued on the date when they originate. Other financial liabilities are initially recognised on the trade date. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

The Company and its subsidiaries are grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

Notes to the consolidated financial statements

30 June 2020 (continued)

34 Changes in accounting policies

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

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

(a) Adjustments recognised on adoption of AASB 16

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

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

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

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

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

(i) Impact on segment disclosures and earnings per share

As a result of adopting the new leasing standard from 1 July 2019, segment continuing EBITDA has improved due to the change in policy. The impact for 2020 financial year is included in the table below.

Segment	Continuing EBITDA \$m
Network	-
Coal	4.6
Bulk	1.6
Other	2.0
	8.2

There has been no material impact on earnings per share for the 2020 financial year as a result of the adoption of AASB 16.

(ii) Practical expedients applied

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

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

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

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

Refer to note 9(b) for the Group's accounting policy relating to leases.

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.

35	Contingencies	Page 99
36	Commitments	Page 99
37	Events occurring after the reporting period	Page 99

Notes to the consolidated financial statements

30 June 2020 (continued)

35 Contingencies

KEEPING IT SIMPLE

Contingencies relate to the outcome of future events and may result in an asset or liability, but due to current uncertainty, do not qualify for recognition.

(a) Contingent liabilities

Issues relating to common law claims, product warranties and regulatory breaches are dealt with as they arise. There were no material contingent liabilities requiring disclosure in the financial statements, other than as set out below.

Guarantees and letters of credit

For information about guarantees and letters of credit given by the Group, refer to note 19(d). For information about the MIC Parent Company Guarantee, refer to note 23(b).

Transfer duty exemption

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

(b) Contingent assets

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 19(d).

Wiggins Island Rail Project (WIRP)

In the 2019 financial year, legal proceedings occurred in relation to the notices received by Aurizon Network Pty Ltd from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Group's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 March 2020 and 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered in the first half of financial year 2021.

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 reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court of Queensland proceedings and will not impact the recovery of the regulated access charge component of WIRP capital expenditure. The Group is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the 2020 financial year.

36 Commitments

(a) Capital commitments

Significant capital expenditure contracted for at the end of the financial year but not recognised as liabilities is as follows:

	2020 \$m	2019 \$m
Property, plant and equipment		
Within one year	102.6	81.1

(b) Lease commitments

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

From 1 July 2019, the Group has recognised a lease liability for these leases, except for short-term and low-value assets. Refer to note 9 and note 34 for further information.

	2019 \$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	
Within one year	19.4
Later than one year but not later than five years	75.3
Later than five years	79.9
	174.6

37 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.

Directors' Declaration

30 June 2020

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 financial statements and notes set out on pages 46 to 99 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*,
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Page 51 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director & Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.



Tim Poole
Chairman

Brisbane
10 August 2020



Independent auditor's report

To the members of Aurizon Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Aurizon Holdings Limited (the "Company") and its controlled entities (together the "Group") is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 and 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Liability limited by a scheme approved under Professional Standards Legislation.



Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$38 million, which represents approximately 5% of the Group's profit before tax from continuing operations. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax from continuing operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group is a large rail-based freight operator and transports coal, iron ore and other bulk commodities across Australia. The Group also owns and operates the Central Queensland Coal Network (CQCN) which is a multi-user track network that comprises of four major coal systems and one connecting system serving Queensland's Bowen Basin coal region. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Access Revenue recognition; and Recoverability of assets (including Bulk East and Western Australia (WA) Cash Generating Units (CGUs) and Rollingstock). These are further described in the <i>Key audit matters</i> section of our report.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
------------------	--

Access Revenue recognition (Refer to note 2 and Key events and transactions for the reporting period)	
---	--

During the year ended 30 June 2020 (FY2020), the Group recorded track access revenue of \$1,130.2 million.

Track access revenue is recognised over time as access to the Central Queensland Rail Network (CQCN) is provided and is measured on a number of operating parameters, including the volume hauled and regulator (Queensland Competition Authority (QCA)) approved pricing tariffs.

The tariffs are determined with reference to the total allowable revenue, applied to the regulatory approved annual volume forecast for each rail system.

Where annual volumes railed are less than the regulatory forecast Take-or-Pay clauses may be triggered. Take-or-Pay is calculated based on the Group's judgement of below rail cause versus above rail operator/mine cancellations.

Take-or-Pay revenue is recognised in the financial year that the contractual railings were not achieved as the Group consider that related performance obligations have been satisfied.

2017 Access Undertaking Update

On 21 February 2020, the QCA approved Aurizon Networks' consolidated Compliant Access Undertaking and Volume Reset Draft Amending Access Undertaking (DAAU) for the CQCN (2017 Access Undertaking).

The tariffs included in the 2017 Access Undertaking approved by the QCA assumed an independent capacity assessment would be complete by 1 March 2020 and therefore, a combined WACC of 6.03% (5.90% July - February, 6.30% March - June) would apply for FY2020.

The following procedures amongst others were performed in relation to access revenue recognition:

- Obtained management's reconciliation of the total MAR for FY2020 as per the QCA approved 2017 Access Undertaking to actual revenue billed to customers for each of the systems in the CQCN.
- Agreed the reference tariff applicable for each of the systems within the CQCN for FY2020 to the QCA approved 2017 Access Undertaking.
- Agreed on a sample basis that revenue had been recognised based on actual volumes hauled and the approved 2017 Access Undertaking reference tariffs.



Key audit matter

How our audit addressed the key audit matter

The delay in the independent capacity assessment and the higher WACC of 6.30% applying from March 2020 has resulted in an over-collection of access charges in FY2020. This over collection forms part of the net revenue cap adjustment of up to \$3.0 million to be collected in FY2022 subject to the approval of the QCA.

Access revenue for FY2020 has been recognised based on the QCA approved 2017 Access Undertaking.

Take-or-Pay

In FY2020, Take-or-Pay clauses have been triggered under the 2017 Access Undertaking resulting in \$25.6 million of revenue being recognised where the Group considered that customers have not railed their nominated forecast volumes and the reason for the shortfall was not due to Aurizon Network's management of the QCN.

There is judgement involved in respect of the revenue recognised in accordance with the Take-or-Pay clauses in determining whether the shortfall to nominated forecast volumes is due to below rail cause or above rail operator/mine cancellations.

We considered revenue recognition to be a key audit matter due to the new 2017 Access Undertaking being a key event in the financial year, complexity in revenue calculations and the judgement, including the determination of Take-or-Pay revenue.

Take-or-Pay

- Obtained computation for the Take-or-Pay revenue and agreed that the amounts recognised are in accordance with the 2017 Access Undertaking.
- Agreed on a sample basis the Take-or-Pay model inputs (including operational units such as tonnages hauled, train paths, consist configuration, kilometres travelled etc.) to underlying customer contracts and other supporting documentation.
- Tested the mathematical accuracy of the Take-or-Pay model.
- Agreed on a sample basis, the evidence to support the cause for volume shortfalls relative to nominated forecasts used in the determination of Take-or-Pay revenue.

Recoverability of assets (including Bulk East and Western Australia (WA) Cash Generating Units (CGUs) and Rollingstock)
(Refer to note 4)

Bulk East and WA CGUs

The Bulk East and WA CGUs have been impaired in prior years due to the loss of key customers, challenging and competitive Bulk markets and operational performance issues.

During FY2020, impairment reversal indicators have been identified for the Bulk East and WA CGUs.

The Bulk East and WA CGUs' recoverable amount is determined using the Value in Use (VIU) methodology utilising a discounted cash flow model.

To evaluate the Group's assessment of the recoverable amount of the Bulk East & WA CGUs, we performed a number of procedures including the following:

- Assessed whether the division of the Group's property, plant and equipment assets into CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the Group's operations and internal Group reporting.
- Assessed whether the carrying value of the CGUs included all assets, liabilities and cashflows directly attributable to the CGU and a reasonable allocation of corporate overheads.



Key audit matter

How our audit addressed the key audit matter

In determining the recoverable amount, the Group has made the following key judgements:

- the terminal value growth rate of 2.0%; and
- the pre-tax discount rate of 10.4% is appropriate.

Due to the sensitivity of the recoverable amount to the renewal of major customer contracts, no reversal of previous impairments has been recognised during the year ended 30 June 2020.

Rollingstock

The Group prepares an Enterprise Fleet Plan (EFP) to determine the level of rollingstock required.

The Enterprise Fleet Plan covers a ten-year period and key assumptions include forecast volumes, productivity and required level of contingent fleet.

Given the judgements incorporated by the Group, the assessments of the recoverability of assets (including the Bulk East & WA CGUs and rollingstock) is considered to be a key audit matter.

- Evaluated the Group’s historical ability to forecast future cashflows by comparing budgets with reported prior years’ actual results.
- Tested that forecast cashflows used in the model were consistent with the most up-to-date corporate plan formally approved by the Board.
- Evaluated the appropriateness of the judgements made by the Group in relation to key customers’ current and future contractual arrangements.
- Assessed, with assistance from PwC valuation experts:
 - the forecast terminal value growth rate of 2.0% by comparing it to economic forecasts;
 - that the pre-tax nominal discount rate applied in the model reflects the risks of the CGU; and
 - the mathematical accuracy of the model.
- Evaluated the Group’s sensitivity analysis to assess reasonable possible changes that may give rise to a further impairment or reversal of previous impairments.

Rollingstock

To evaluate the Group’s assessment of the recoverable amount of rollingstock, we performed a number of procedures including the following:

- Evaluated the key assumptions included in the Group’s EFP.
- Compared the forecast haulage demand and rollingstock requirements included in the EFP to the Board-approved corporate plan.
- Evaluated the level of contingent fleet and previously impaired rollingstock retained in service included in the EFP.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 25 to 38 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Aurizon Holdings Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Nadia Carlin', written in a cursive style.

Nadia Carlin
Partner

Brisbane
10 August 2020

A handwritten signature in blue ink, appearing to read 'Tim Allman', written in a cursive style.

Tim Allman
Partner

Non-IFRS Financial Information in 2019-20 Annual Report

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

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

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

ROIC is defined as underlying rolling twelve-month EBIT divided by average invested capital. With the introduction of the new lease accounting standard effective from 1 July 2019, which has the effect of bringing leases onto the balance sheet, the definition of average invested capital has been simplified. Average invested capital is calculated as the rolling 12-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) recognised on adoption of the new lease accounting standard effective from 1 July 2019. 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.

Non-IFRS Financial Information in 2019-20 Annual Report (continued)

	2020		2019	
	Continuing operations \$m	Discontinued operations \$m	Continuing operations \$m	Discontinued operations \$m
NPAT – Underlying	531.3	9.0	473.3	11.2
Significant adjustments, net of tax	73.8	1.8	-	(8.0)
NPAT – Statutory	605.1	10.8	473.3	3.2
Income tax expense/(benefit)	260.8	4.4	208.6	(7.8)
Profit/(loss) before income tax	865.9	15.2	681.9	(4.6)
Net finance costs/(benefit)	148.5	-	147.1	(0.1)
EBIT – Statutory	1,014.4	15.2	829.0	(4.7)
Add back significant adjustments:				
– Net gain on sale of rail grinding business	(105.4)	-	-	-
– Intermodal closure benefit	-	(2.5)	-	(13.2)
– Intermodal impairment	-	-	-	25.1
– Intermodal redundancy benefit	-	-	-	(0.5)
EBIT – Underlying	909.0	12.7	829.0	6.7
Depreciation and amortisation	558.6	0.2	542.6	0.2
EBITDA – Underlying	1,467.6	12.9	1,371.6	6.9
Average invested capital (continuing operations)	8,364		8,561	
ROIC (continuing operations)	10.9%		9.7%	

	2020 \$m	2019 \$m
Net Gearing Ratio		
Total borrowings	3,607.2	3,369.8
Less: cash and cash equivalents	(29.3)	(25.2)
Net debt	3,577.9	3,344.6
Total equity	4,357.7	4,677.4
Total capital	7,935.6	8,022.0
Net Gearing Ratio	45.1%	41.7%

	2020 \$m	2019 \$m
Alternative Net Gearing Ratio		
Net debt	3,577.9	3,344.6
Accumulated fair value adjustments ¹	(251.6)	(229.5)
Alternative Net Debt	3,326.3	3,115.1
Total equity	4,357.7	4,677.4
Total capital	7,684.0	7,792.5
Alternative Net Gearing Ratio	43.3%	40.0%

¹ Refer note 19 (a) (iv)

Shareholder Information

RANGE OF FULLY PAID ORDINARY SHARES AS AT 4 AUGUST 2020

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1-1,000	18,220	11,359,678	0.59
1,001 – 5,000	22,703	50,264,205	2.63
5,001 – 10,000	2,990	21,753,244	1.14
10,001 – 100,000	1,933	38,689,820	2.02
100,001 Over	79	1,792,575,885	93.62
Total	45,925	1,914,642,832	100.00

UNMARKETABLE PARCELS AS AT 4 AUGUST 2020

MINIMUM PARCEL SIZE	HOLDERS	UNITS
Minimum \$500.00 parcel at \$4.59 per unit	109	904

The number of shareholders holding less than the marketable parcel of shares is 904 (shares: 43,178).

SUBSTANTIAL HOLDERS OF 5% OR MORE OF FULLY PAID ORDINARY SHARES AS AT 4 AUGUST 2020*

NAME	NOTICE DATE	SHARES
The Vanguard Group Inc	20/12/2017	108,337,155
BlackRock Group	28/01/2019	141,036,686

* As disclosed in substantial shareholder notices received by the Company.

INVESTOR CALENDAR

2021 DATES	DETAILS
15 February 2021	Half Year results and interim dividend announcement
29 March 2021	Interim dividend payment date
9 August 2021	Full Year results and final dividend announcement
20 September 2021	Final dividend payment date
12 October 2021	Annual General Meeting

The payment of a dividend is subject to the Corporations Act and Board discretion. The timing of any event listed above may change. Please refer to the Company website, aurizon.com.au, for an up-to-date list of upcoming events.

ASX code: AZJ

Contact details

Aurizon
GPO Box 456
Brisbane QLD 4001

For general enquiries, please call 13 23 32 within Australia. If you are calling from outside Australia, please dial +61 7 3019 9000.

aurizon.com.au

Investor Relations

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit investorcentre.com.

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 1127 or email: investor.relations@aurizon.com.au.

TOP 20 HOLDERS OF FULLY PAID ORDINARY SHARES AS AT 4 AUGUST 2020

NAME	UNITS	% OF UNITS
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	775,184,290	40.49
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	434,125,352	22.67
CITICORP NOMINEES PTY LIMITED	221,827,478	11.59
NATIONAL NOMINEES LIMITED	119,936,840	6.26
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	58,207,609	3.04
QUEENSLAND TREASURY HOLDINGS PTY LTD	54,926,186	2.87
BNP PARIBAS NOMS PTY LTD <DRP>	43,988,881	2.30
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	17,271,598	0.90
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	16,151,753	0.84
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,746,166	0.30
NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	3,770,621	0.20
AMP LIFE LIMITED	3,532,324	0.18
AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	3,000,000	0.16
BNP PARIBAS NOMS (NZ) LTD <DRP>	2,983,338	0.16
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	2,919,205	0.15
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	2,284,843	0.12
DIVERSIFIED UNITED INVESTMENT LIMITED	1,500,000	0.08
WOODROSS NOMINEES PTY LTD	1,462,649	0.08
SANDHURST TRUSTEES LTD <SISF A/C>	1,420,000	0.07
POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	1,419,717	0.07
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)	1,771,658,850	92.53
Total Remaining Holders Balance	142,983,982	7.47

Glossary

Some terms and abbreviations used in this document, together with industry specific terms, have defined meanings.

These terms and abbreviations are set out in this glossary and are used throughout this document.

A reference to dollars, \$ or cents in this document is a reference to Australian currency unless otherwise stated. Any reference to a statute, ordinance, code or other law includes regulations and any other instruments under it and consolidations, amendments, re-enactments or replacements of any of them. Any reference to Annual Report is a reference to this document.

ABN

Australian Business Number

Above Rail

Includes the business unit segments of Coal, Bulk and Other of Aurizon Holdings Limited

ACN

Australian Company Number

ASIC

Australian Securities and Investments Commission

ASX

Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691)

ASX Listing Rules

The official listing rules of ASX

Aurizon

Aurizon Holdings Limited (ABN 14 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

Below Rail

The business unit segment of Network — Aurizon Network Pty Ltd (ACN 132 181 116) a wholly owned subsidiary of Aurizon Holdings Limited

Board

The Board of Directors of Aurizon Holdings Limited

Bulk

The Above Rail freight haulage operating division of Aurizon Holdings Limited

CAGR

Compound Annual Growth Rate, expressed as a percentage per year

CAPEX

Capital Expenditure

CGT

Capital Gains Tax

Coal

The Above Rail coal haulage operating division of Aurizon Holdings Limited

Company or Aurizon Holdings

Aurizon Holdings Limited (ACN 146 335 622) and where the context requires, includes any of its subsidiaries and controlled entities

Company Secretary

The Company Secretary of Aurizon Holdings Limited

Constitution

The constitution of Aurizon Holdings Limited

Corporations Act

Corporations Act 2001 (Cth)

CPS

Cents Per Share

CQCN

Central Queensland Coal Network

EBIT

Earnings Before Interest and Tax

EBITDA

Earnings Before Interest, Tax, Depreciation and Amortisation

EBIT Margin

Underlying Earnings Before Interest and Tax divided by total revenue and other income

EEO

Energy Efficiency Opportunity

EEO Act

Energy Efficiency Opportunity Act 2006 (Cth)

EPS

Earnings Per Share

FY

Financial Year ended 30 June, as the context requires

GAP

Goonyella to Abbot Point

GAPE

Goonyella to Abbot Point Expansion

GAAP

Generally Accepted Accounting Principles

IBNR

Incurred But Not Reported

IFRS

International Financial Reporting Standards

km

Kilometre

LTIA

Long Term Incentive Awards

M

Million

MAR

Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN across the term of an access undertaking

mt

Millions of tonnes

mtpa

Millions of tonnes per annum

Network

Aurizon Network Pty Ltd (ACN 132 181 116) a wholly-owned subsidiary of Aurizon Holdings

NGER

National Greenhouse Energy Reporting

NGER Act

National Greenhouse Energy Reporting Act 2007 (Cth)

ntk

Net tonne kilometre, unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons

OP - Operating Ratio

1 - EBIT margin, expressed as a percentage

OPEX

Operating Expense including depreciation and amortisation

OTHER

A business unit segment of Aurizon Holdings Limited

PPT

Percentage Point

QCA

Queensland Competition Authority

RAB

Regulated Asset Base, the value of the asset base on which pricing is determined by the price regulator

Rail Process Safety

The cumulative number of SPAD, derailment and rollingstock to rollingstock collision incidents, per million train kilometres, over a given recording period

Note: Infrastructure Caused SPADs have been removed from the SPAD element of Aurizon's Rail Process Safety metric

ROIC

Return on Invested Capital

Share

A fully paid ordinary share in Aurizon Holdings

STIA

Short Term Incentive Award

tonne

One metric tonne, being 1,000 kilograms

tonne kilometres

The product of tonnes and distance

TRIFR

The cumulative number of Lost Time Injuries, Medical Treatment Injuries and Restricted Work Injuries sustained by employees and contractors, per million hours worked, over a given recording period

TSC

Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services

WACC

Weighted Average Cost of Capital, expressed as a percentage

WICET

Wiggins Island Coal Export Terminal

WIRP

Wiggins Island Rail Project

Corporate Information

Aurizon Holdings Limited

ABN 14 146 335 622

Directors

Tim Poole
Andrew Harding
Marcelo Bastos
Russell Caplan
Michael Fraser
Samantha Lewis
Sarah Ryan
Lyell Strambi
Kate Vidgen

Company Secretary

Dominic D Smith

Registered Office

Level 8, 900 Ann Street
Fortitude Valley QLD 4006

Auditors

PricewaterhouseCoopers

Share Registry

Computershare Investor Services Pty Limited
Level 1, 200 Mary Street
Brisbane QLD 4001
Tel: 1800 776 476
(or +61 3 9938 4376)

Designed and produced by rowland.com.au



ecoStar is an environmentally responsible paper made Carbon Neutral. The greenhouse gas emissions of the manufacturing process including transportation of the finished product to BJ Ball Papers Warehouses has been measured by the Edinburgh Centre for Carbon Neutral Company and the fibre source has been independently certified by the Forest Stewardship Council (FSC). ecoStar is manufactured from 100% Post Consumer Recycled paper in a Process Chlorine Free environment under the ISO 14001 environmental management system.



Aurizon Holdings Limited
ABN 14 146 335 622