

26 February 2019

Singapore Exchange Securities Trading Limited
4 Shenton Way
#02-01, SGX Centre 2
Singapore 068807
Republic of Singapore

Dear Sir/Madam

EMTN Programme

Issuer: Pacific National Finance Pty Ltd (formerly Asciano Finance Limited)
Securities: ASCIANO FINGBP300M5%N230919
ASCIANO FINUS\$400M4.75%N280322

Attached is the financial report for the half year ended 31 December 2018 for Pacific National Holdings Pty Ltd (formerly Asciano Limited), the parent entity of Pacific National Finance Pty Ltd.

Yours faithfully



Kate Bowman

Chief Legal Officer and Company Secretary
Pacific National

PACIFIC NATIONAL HOLDINGS PTY LTD (formerly Asciano Limited)

ABN 26 123 652 862

INTERIM FINANCIAL REPORT

For the half year ended 31 December 2018

Pacific National comprises of Pacific National Holdings Pty Ltd and its controlled entities.

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The Directors present their report, together with the consolidated interim financial report of Pacific National Holdings Pty Ltd ("the Company") and its controlled entities (collectively referred to as "Pacific National" or "the Group"), for the half year ended 31 December 2018.

1. Directors

The following persons were Directors of the Company during the half year and up to the date of this report, unless otherwise stated:

Russell Smith
Dean Dalla Valle
Andrew Alley
Jerry Divoky
John Hextall
Colin Mugglestone
Deborah O'Toole
Gary Pritchard
Robert Stewart

Paul Bernath (alternate director)
Jeffrey Coates (alternate director)
William Thomson (alternate director)

2. Operating and financial review

Overview

Pacific National's vision is to be Australia's recognised leader for safe, innovative and sustainable rail freight solutions. Pacific National's strategy is to transform our business and the rail freight industry. There are three key pillars to this strategy:

- Operational and commercial excellence – radically improve the way we do business;
- Strengthen our core markets – build lasting partnerships; and
- Grow our business and the industry – create new growth opportunities.

Significant transactions during the half year

In July 2017 Pacific National entered into a binding agreement with Aurizon to purchase the Acacia Ridge Intermodal Terminal in Brisbane, Queensland. Separately, in August 2017 Pacific National also entered into a binding agreement to buy the Aurizon Queensland Intermodal Business as part of a consortium with Linfox. These transactions were subject to approval by the Australian Competition & Consumer Commission ("ACCC") and Foreign Investment Review Board. Total consideration for the two transactions was \$225.0 million, inclusive of \$5.0 million paid in February 2018 as the transactions had not yet completed within six months of signing. On 19 July 2018 the ACCC announced that it had formed the view that the proposed acquisitions of Aurizon's Acacia Ridge Intermodal Terminal and Queensland Intermodal Business by Pacific National should not proceed and had commenced proceedings against Pacific National and Aurizon in relation to the proposed acquisitions. Pacific National received a statement of claim from the ACCC in late August 2018, which was subsequently amended in November 2018 and February 2019 to remove several of the original allegations against Pacific National and Aurizon. Legal proceedings in relation to the matter were held in November 2018 and were completed in February 2019. At the time of signing these financial statements no outcome in relation to the proceedings has been handed down by the court. Pacific National refutes the allegations and has vigorously defended the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. In August 2018 Aurizon terminated the binding agreement to sell the Aurizon Queensland Intermodal Business to Pacific National and Linfox for \$20.0 million, which resulted in Pacific National being refunded its \$10.0 million bid bond.

Financing

Pacific National's funding consists of a mix of revolving bank credit facilities, US dollar denominated 10 and 12 year bonds (swapped to Australian dollars), GBP denominated 10 year bonds (swapped to Australian dollars), AUD denominated 10 year bonds and a bank guarantee facility. Pacific National's loans and borrowings mature in the period between September 2020 and March 2028.

On 11 September 2018 Pacific National amended and restated its Syndicated Facility Agreement and entered into two new \$500.0 million tranches and one \$200.0 million tranche. Each tranche is a revolving facility and they mature in September 2021, September 2022 and September 2023 respectively. At the same time the remaining \$650.0 million tranche that existed prior to the amendment and restatement was cancelled. On 16 January 2019 Pacific National reduced its bank guarantee facility from \$100.0 million to \$65.0 million.

2. Operating and financial review (continued)

Pacific National had total committed bank credit facilities of \$1,300.0 million (30 June 2018: \$750.0 million) and nil drawn bank debt at 31 December 2018 (30 June 2018: Nil). Of the total committed credit facilities, \$50.5 million relating to bank guarantees were utilised at 31 December 2018, leaving undrawn credit facilities at 31 December 2018 of \$1,249.5 million (30 June 2018: \$702.9 million).

Review and results of operations

Pacific National reported a net profit after tax from continuing operations ("NPAT") attributable to the owners of Pacific National Holdings Pty Ltd of \$117.9 million (31 December 2017: \$115.6 million). The reported NPAT for the current reporting period included a material items loss after tax of \$1.8 million, primarily for the costs borne in connection with the Aurizon transactions (31 December 2017: \$1.8 million).

A reconciliation of the reported NPAT and the underlying NPAT for continuing operations and for the various components of the after tax material items is provided in the table below:

	Half year 2019 \$M	Half year 2018 \$M
Statutory NPAT attributable to the owners of Pacific National Holdings Pty Ltd	117.9	115.6
Aurizon transaction related costs (net of any tax benefit)	1.8	1.8
Underlying NPAT attributable to the owners of Pacific National Holdings Pty Ltd	119.7	117.4

Pacific National reported a 1.6% increase in profit before tax to \$168.4 million (31 December 2017: profit before tax of \$165.7 million). The result was mainly due to stronger coal volumes with the market benefiting from high thermal and met coal prices, and by growth in freight volumes, offset by lower grain volumes as a result of drought conditions in much of Australia.

3. Dividends

No dividends were declared or paid by the Company for the current reporting period ended 31 December 2018 (31 December 2017: 5.16 cents per share, fully franked). Pacific National paid an aggregate \$306.0 million return of capital to shareholders during the current reporting period, with \$209.6 million and \$96.4 million paid on or about, 31 August 2018 and 30 November 2018 respectively.

4. Business strategies, prospects and likely developments

The operating and financial review sets out information on the business strategies and prospects for future financial years and refers to likely developments in Pacific National's operations and the expected results of those operations in future financial years. Information is provided to enable stakeholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Information that could give rise to likely material detriment to Pacific National, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included.

5. Events subsequent to the reporting date

The legal proceedings in relation to the proposed acquisitions of Aurizon's Acacia Ridge Intermodal Terminal and Queensland Intermodal Business by Pacific National were held in November 2018 and subsequent to balance date were completed in February 2019. At the time of signing these financial statements no outcome in relation to the proceedings has been handed down by the court. Pacific National refutes the allegations and has vigorously defended the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter.

In February 2019, a train comprising one locomotive and 81 wagons was inundated by floodwaters on the Mt Isa line in North Queensland. The train was derailed and as a result may have discharged part or all of its load of zinc and lead concentrate into the flood waters causing contamination. A Clean-up Notice pursuant to the Environmental Protection Act 1994 (Qld) has been issued by the Queensland Government to Pacific National Pty Ltd, Mount Isa Mines Limited and Queensland Rail Limited in relation to the potential contamination incident. Given the slow recession of the floodwaters, at the time of signing these financial statements Pacific National have only had limited access to the site of the derailment and the quantum of loss, and the extent of the insurance coverage, is difficult to assess.

Other than for the items noted above, there has not arisen in the interval between 31 December 2018 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of Pacific National, the results of those operations, or the state of affairs of Pacific National in future financial years.

6. Rounding of amounts

Pacific National Holdings Pty Ltd is an entity of a kind referred to in Australian Securities and Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. In accordance with that instrument, amounts in the Directors' Report and in the financial statements have been rounded off to the nearest one hundred thousand dollars unless otherwise stated.

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



Russell Smith

Chairman

26 February 2019



Dean Dalla Valle

Chief Executive Officer

26 February 2019

Consolidated Statement of Profit or Loss

For the half year ended 31 December 2018

	Note	First half 2019 \$M	First half 2018 \$M
Continuing operations			
Revenue from services rendered	2.3	1,268.2	1,233.0
Other income	2.3	8.7	12.5
Operating expenses excluding depreciation and amortisation:			
Employee benefits		(289.0)	(285.7)
Rail access		(261.8)	(265.1)
Fuel, oil and power		(145.5)	(105.7)
Repairs and maintenance		(80.7)	(91.8)
Rental, rates, lease and hire		(7.1)	(22.2)
Insurance		(4.4)	(5.3)
Other		(65.9)	(73.5)
Profit before depreciation, amortisation, net finance costs and tax		422.5	396.2
Depreciation		(143.7)	(127.1)
Amortisation		(4.5)	(8.6)
Profit before net finance costs and tax		274.3	260.5
Interest income	2.12	1.3	2.6
Interest expense		(94.4)	(92.3)
Other financing expenses		(11.3)	(8.9)
Credit value adjustment and fair value movements of undesignated derivatives		(1.5)	3.8
Finance expense	2.12	(107.2)	(97.4)
Net finance expense		(105.9)	(94.8)
Profit before tax		168.4	165.7
Tax expense	2.4	(50.5)	(50.1)
Profit from continuing operations		117.9	115.6
Loss from discontinued operations	2.2	–	(17.5)
Profit after tax		117.9	98.1
Attributable to:			
Owners of Pacific National Holdings Pty Ltd		117.9	98.1
		117.9	98.1

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2018

	Note	First half 2019 \$M	First half 2018 \$M
Profit after tax		117.9	98.1
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	2.12	11.4	1.0
Income tax expense on items that may be reclassified subsequently to profit or loss	2.12	(3.4)	(0.3)
Total items that may be reclassified subsequently to profit or loss net of tax		8.0	0.7
Other comprehensive income net of tax		8.0	0.7
Total comprehensive income		125.9	98.8
Total comprehensive income attributable to owners of Pacific National Holdings Pty Ltd from:			
Continuing operations		125.9	116.3
Discontinued operations		—	(17.5)
		125.9	98.8

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	December 2018 \$M	June 2018 \$M
Current assets			
Cash and cash equivalents	2.9	53.9	171.9
Trade and other receivables	2.9	269.2	274.2
Prepayments and other assets		14.8	18.5
Inventories		17.5	15.7
Derivative financial assets	2.9	7.4	6.2
Total current assets		362.8	486.5
Non-current assets			
Lease assets	2.6	250.6	—
Property, plant and equipment		2,922.1	2,970.5
Intangible assets		914.8	908.1
Prepayments and other assets		30.0	30.1
Derivative financial assets	2.9	415.0	309.2
Net deferred tax assets		170.9	207.9
Total non-current assets		4,703.4	4,425.8
Total assets		5,066.2	4,912.3
Current liabilities			
Lease liabilities	2.6	29.3	—
Trade payables	2.10	75.7	116.2
Other payables and accrued expenses	2.10	197.5	185.2
Provisions		11.3	15.5
Employee benefits		82.6	82.9
Derivative financial liabilities	2.10	27.6	44.5
Total current liabilities		424.0	444.3
Non-current liabilities			
Lease liabilities	2.6	230.4	—
Other payables and accrued expenses	2.10	99.4	89.5
Provisions		35.9	35.6
Employee benefits		65.3	67.9
Loans and borrowings	2.10	3,009.4	2,910.3
Derivative financial liabilities	2.10	66.3	49.1
Total non-current liabilities		3,506.7	3,152.4
Total liabilities		3,930.7	3,596.7
Net assets		1,135.5	1,315.6
Equity			
Contributed equity	2.14	5,312.8	5,618.8
Reserves		(4,991.5)	(4,999.4)
Retained earnings		814.2	696.2
Total equity attributable to owners of Pacific National Holdings Pty Ltd		1,135.5	1,315.6

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2018

First half 2018 \$M	Contributed equity	Reserves	Accumulated losses	Total
Balance at 1 July 2017	5,618.8	(2,022.8)	(2,322.4)	1,273.6
Profit after tax	–	–	98.1	98.1
Other comprehensive income ("OCI"):				
Effective portion of changes in fair value of cash flow hedges	–	1.0	–	1.0
Income tax benefit on OCI	–	(0.3)	–	(0.3)
Total comprehensive income	–	0.7	98.1	98.8
Transactions with owners in their capacity as owners:				
Dividends paid	–	(50.4)	–	(50.4)
	–	(50.4)	–	(50.4)
Balance at 31 December 2017	5,618.8	(2,072.5)	(2,224.3)	1,322.0

First half 2019 \$M	Contributed equity	Reserves	Retained earnings	Total
Balance at 1 July 2018	5,618.8	(4,999.5)	696.3	1,315.6
Profit after tax	–	–	117.9	117.9
Other comprehensive income ("OCI"):				
Effective portion of changes in fair value of cash flow hedges	–	11.4	–	11.4
Income tax benefit on OCI	–	(3.4)	–	(3.4)
Total comprehensive income	–	8.0	117.9	125.9
Transactions with owners in their capacity as owners:				
Return of capital	(306.0)	–	–	(306.0)
	(306.0)	–	–	(306.0)
Balance at 31 December 2018	5,312.8	(4,991.5)	814.2	1,135.5

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half year ended 31 December 2018

	Note	First half 2019 \$M	First half 2018 \$M
Operating cash flows			
Receipts from customers		1,476.6	1,439.8
Payments to suppliers and employees		(1,093.8)	(1,052.8)
Interest and other costs of finance paid		(101.1)	(94.3)
Interest received		1.5	2.1
Net income tax receipts		—	31.2
Net operating cash inflows		283.2	326.0
Investing cash flows			
Payments for property, plant and equipment and intangible assets		(93.7)	(56.5)
Proceeds from sale of property, plant and equipment and intangible assets		0.5	0.3
Loans to related parties		(32.6)	—
Refund/(deposit) from/on acquisition of investments		10.0	(40.0)
Net investing cash outflows		(115.8)	(96.2)
Financing cash flows			
Return of capital		(271.4)	—
Payment of lease liabilities		(14.0)	—
Dividends paid	2.13	—	(53.2)
Net financing cash outflows		(285.4)	(53.2)
Net (decrease)/increase in cash and cash equivalents		(118.0)	176.6
Cash and cash equivalents at the beginning of the half year		171.9	111.7
Cash and cash equivalents at the end of the half year		53.9	288.3

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. How we have prepared this report

This section describes the basis of preparation of the financial statements for the Group as a whole. This section also analyses the impact of any newly endorsed accounting standards which will be effective for Pacific National either in the current reporting period or in future years.

Reporting entity

Pacific National Holdings Pty Ltd ("Parent" or "the Company") is a for profit entity domiciled in Australia. The Company is primarily involved in the management of rail assets and associated operations and services. This consolidated interim financial report ("report") comprises the consolidated financial statements of the Company and its controlled entities (collectively referred to as "Pacific National" or "the Group"). The report was approved by the Board of Directors on 26 February 2019.

Basis of preparation

This consolidated interim financial report for the half year ended 31 December 2018 has been prepared in accordance with *AASB 134 Interim Financial Reporting*. Accordingly, this half year financial report does not include all the notes of the type normally included in an annual financial report.

This is the first set of the Group's financial statements where *AASB 9 Financial Instruments* and *AASB 15 Revenue from Contracts with Customers* have been applied. The Group has also early adopted *AASB 16 Leases* and included in this set of financial statements.

Changes to significant accounting policies are described in the notes to financial statements. Other than the changes resulting from the application of *AASB 9* and *AASB 15* and early adoption of *AASB 16*, the accounting policies adopted are consistent with those of the previous financial year unless stated otherwise.

Pacific National sold the Patrick businesses effective 18 August 2016 with income, expenses and other comprehensive income for the Patrick businesses presented as discontinued operations in the comparative period for the six months ended 31 December 2017.

New accounting standards and interpretations

A number of new or amended standards became applicable for the current reporting period. However, except for *AASB 16 Leases* discussed below, the new or amended standards did not have a significant impact on the Group's financial position and performance for the current or prior reporting period.

Going concern

Notwithstanding the existence of a \$61.2 million net current asset deficiency (June 2018: net current assets of \$42.2 million), the financial statements have been prepared on a going concern basis as the Company has significant undrawn financing facilities which can be drawn down to pay debts as they fall due.

Change in accounting policy

AASB 9 Financial Instruments

The Group has adopted *AASB 9 Financial Instruments* for the period beginning 1 July 2018. *AASB 9* sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces *AASB 139 Financial Instruments: Recognition and Measurement*.

The details of new significant accounting policies and the nature and effect of the changes to the previous accounting policies are set out below.

Classification and measurement of financial assets and financial liabilities

AASB 9 largely retains the existing requirements in *AASB 139* for the classification and measurement of financial assets and financial liabilities. However, it eliminates the previous *AASB 139* categories for financial assets of held to maturity, loans and receivables and available for use.

The adoption of *AASB 9* has not had a significant effect on the Group's accounting policies related to the financial liabilities and derivative financial instruments.

Under *AASB 9*, on initial recognition, a financial asset is classified as measured at: amortised costs; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit or loss ("FVTPL"). The classification of financial assets under *AASB 9* is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1. How we have prepared this report (continued)

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment of financial assets

AASB 9 replaces the “incurred loss” in AASB 139 with a forward-looking “expected credit loss” (“ECL”) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

Under AASB 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are the ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for trade receivables and contract assets using lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is “credit-impaired” when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Hedge Accounting

The Group has elected to adopt the new general hedge accounting model in AASB 9. This requires the Group to ensure that hedge accounting relationships are aligned with the risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

1. How we have prepared this report (continued)

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, plant and equipment and inventory purchases. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in the fair value of hedging instrument is accumulated in cash flow hedge reserve as separate component of equity.

Under AASB 139, the change in the fair value of the forward element of the forward exchange contracts ("forward points") was recognised immediately in profit and loss. However, under AASB 9 the forward points are separately accounted for as a cost of hedging; they are recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity.

AASB 15 Revenue from Contracts with Customers

The Group has also adopted AASB 15 *Revenue from Contracts with Customers* for the period beginning 1 July 2018. The Group applied AASB 15 using the cumulative effect method. There was no financial impact arising on initial application of AASB 15. Details of the changes in accounting policies are disclosed below.

Rendering of services

The principal continuing activities of the Group are the management of rail assets and associated operations and services. These services are sold on their own in contracts with customers. Rail haulage revenue is recognised when the risks and rewards are transferred to the customer, generally considered to be when freight arrives at its intended destination. Other revenue is recognised upon provision of services such as maintenance and terminal services.

The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the services provided to customers. The Group's services are generally considered interdependent and therefore the accounting for these transactions will be on the basis that each contract has one performance obligation.

The services are satisfied over time given the customer simultaneously receives and consumes the benefits provided by the Group. Thus, revenue for these service contracts are recognised over time rather than at a point in time.

Variable consideration – growth/volume rebates

The majority of contracts with customers provide for growth/volume rebates. The Group recognises revenue from rendering the services at the fair value of the consideration received or receivable net of growth/volume rebates.

Contract balances

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on delivery of services. The contract assets are transferred to receivables when the right become unconditional. This usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advanced consideration received from customers for the delivery of services for which revenue is recognised over time.

The Group provides retrospective growth/volume rebates to its customers on the services provided certain threshold are exceeded as specified in the contract. Under its existing accounting policy, the Group estimates the expected growth/volume rebates using the probability-weighted average amount of rebates approach and includes them in the *Trade and other receivables*. These amounts are subsequently offset against the amounts payable by customer.

Retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group considered the most likely amount method is an appropriate estimation of the variable consideration. Additionally, the recognition of variable consideration is subject to the constraint that a significant reversal will not occur when the uncertainty is subsequently reduced.

Based on the impact assessment undertaken by the Group, except for the presentation and disclosure requirements presented in the consolidated financial statements, there is no material impact on the application of AASB 15.

AASB 16 Leases

The Group has early adopted AASB 16 *Leases* with a date of initial application of 1 July 2018.

Using the modified retrospective approach, the cumulative effect of initial application was recognised in retained earnings at 1 July 2018. Details of the changes in accounting policies are disclosed below and in note 2.6.

Definition of a lease

Under AASB 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to AASB 16 on 1 July 2018, the Group elected to reassess all existing contracts using the new definition of a lease in AASB 16.

1. How we have prepared this report (continued)

As a lessee

As a lessee, the Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and liabilities on the balance sheet for all leased assets, including those with a lease term of less than twelve months.

Leases classified as operating leases under AASB 117

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2018 and adjusted for asset specific rates and lease duration. Right-of-use assets were measured at an amount equal to the lease liability on transition, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

The Group used the following practical expedients when applying AASB 16:

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- Relied on the current assessment of whether leases are onerous rather than performing impairment review for the right-of-use assets on the date of initial application.

Lessor

The Group is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with AASB 16 from the date of initial application.

Under AASB 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group re-assessed the classification of sub-lease contract previously classified as an operating lease under AASB 117. The Group concluded that the sub-lease is a finance lease under AASB 16.

The Group applied AASB 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

Impacts on financial statements

On transition to AASB 16, the Group recognised \$270.4 million of right-of-use assets and \$270.4 million of lease liabilities before any adjustment for any prepaid or accrued lease payments. There was no difference recognised in retained earnings on the date of initial application, nor adjustment to prepaid assets or lease liabilities originally recognised.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of the respective lease liability at 1 July 2018. The weighted average rate applied ranged between 3% and 6%.

Below is a reconciliation between the operating lease commitments note as at 30 June 2018 as disclosed in the Group's consolidated financial statements and the lease liability recognised on initial application as at 1 July 2018:

	\$M
Operating lease commitment as disclosed in the Group's consolidated financial statements as at 30 June 2018	489.6
Discounted using the incremental borrowing rate at 1 July 2018	(239.4)
Difference in term and extension options reasonably certain to be exercised	19.9
Changes in estimates regarding variable lease payments based on an index or rate	(1.7)
Difference upon reassessment of contracts	2.0
Lease liabilities recognised as at 1 July 2018	270.4

The Group classified leases into property, motor vehicles, locomotives, wagons, IT equipment and forklifts.

2. Key financial information

This section describes key aspects of the operating results and financial performance of the Group. It also presents information about Pacific National's long term contractual commitments, leases and management of capital.

2.1 Segment reporting

The segment results for the half year reconciled to the Group profit after tax are set out in the following table:

	First half 2019 \$M	First half 2018 \$M
Revenue		
External revenue	1,268.2	1,233.0
Other income	8.7	12.5
Revenue and other income	1,276.9	1,245.5
Operating expenses	(851.8)	(847.5)
Profit before depreciation, amortisation, net finance costs, material items and tax	425.1	398.0
Depreciation	(143.7)	(127.1)
Amortisation	(4.5)	(8.6)
Profit before net finance costs, material items and tax	276.9	262.3
Net finance expense	(105.9)	(94.8)
Profit before material items and tax	171.0	167.5
Material items		
Costs related to transactions with Aurizon	(2.6)	(1.8)
Profit before tax	168.4	165.7
Tax expense	(50.5)	(50.1)
Profit from continuing operations	117.9	115.6

The segment contribution to Group assets and liabilities corresponds to the Consolidate Statement of Financial Position.

2.2 Discontinued operations

On 15 March 2016, Pacific National Holdings Pty Ltd (formerly Asciano Limited) announced to the ASX that it had entered into a binding agreement to sell 100% of its issued capital to the Rail Consortium. The agreement received the relevant approvals and was effective 29 July 2016. Following the change in ownership, the Patrick businesses and its subsidiaries were sold by Pacific National Holdings Pty Ltd to the Container Ports ("Ports") and Bulk Automotive Ports Services ("BAPS") Consortia on 18 August 2016.

During the comparative period a \$17.5 million payable was recognised by Pacific National in relation to the final purchase price adjustments from the sale of the Patrick businesses, which was the subject of an expert determination received on 27 February 2018. The purchase price adjustments were recognised as a loss on sale of the Patrick businesses in discontinued operations and paid to the Ports and BAPS Consortia in March 2018.

2.3 Revenue and other income

Revenue recognised, disaggregated based on the type of service provided to its customers, during the half year is set out below:

	First half 2019 \$M	First half 2018 \$M
Revenue		
Rail haulage	1,240.1	1,204.3
Other logistics	28.1	28.7
Total revenue	1,268.2	1,233.0
Other income		
Lease rental income	8.4	6.8
Other income	0.3	5.7
Total other revenue	8.7	12.5

2.4 Taxes

The total taxation charge in the statement of profit or loss is analysed as follows:

	First half 2019 \$M	First half 2018 \$M
Reconciliation of income tax expense to prima facie tax payable:		
Profit before tax	168.4	165.7
Income tax at 30% (2018: 30%)	50.5	49.7
Other non-deductible expenses	–	0.5
Adjustments of current tax for prior periods	–	(13.1)
Adjustments of deferred tax for prior periods	–	13.3
Non-assessable income	–	(0.3)
Income tax expense recognised in the profit or loss	50.5	50.1
Tax recognised directly in other comprehensive income		
Changes in fair value of cash flow hedge	3.4	0.3
	3.4	0.3

2.5 Contingent liabilities

From time to time, the Company is subject to claims and litigation during the normal course of business. The Board has given consideration to such matters which are or may be subject to litigation at year end. In July 2017 Pacific National entered into a binding agreement with Aurizon to purchase the Acacia Ridge Intermodal Terminal in Brisbane, Queensland. Separately, in August 2017 Pacific National also entered into a binding agreement to buy the Aurizon Queensland Intermodal Business as part of a consortium with Linfox. These transactions were subject to approval by the Australian Competition & Consumer Commission ("ACCC") and Foreign Investment Review Board ("FIRB"). Total consideration for the two transactions was \$225.0 million, inclusive of \$5.0 million paid in February 2018 as the transactions had not yet completed within six months of signing. On 19 July 2018 the ACCC announced that it had formed the view that the proposed acquisitions of Aurizon's Acacia Ridge Intermodal Terminal and Queensland Intermodal Business by Pacific National should not proceed and had commenced proceedings against Pacific National and Aurizon in relation to the proposed acquisitions. Pacific National received a statement of claim from the ACCC in late August 2018, which was subsequently amended in November 2018 and February 2019 to remove several of the original allegations against Pacific National and Aurizon. Legal proceedings in relation to the matter were held in November 2018 and were completed in February 2019. At the time of signing these Financial Statements no outcome in relation to the proceedings has been handed down by the court. Pacific National refutes the allegations and has vigorously defended the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. In August 2018 Aurizon terminated the binding agreement to sell the Aurizon Queensland Intermodal Business to Pacific National and Linfox for \$20.0 million, which resulted in Pacific National being refunded its \$10.0 million bid bond. These transactions with Aurizon are further described in note 2.7 and note 2.15.

2.6 Lease assets and liabilities

Significant accounting policies

As lessee

The Group has applied AASB 16 *Leases* using the modified retrospective approach.

Policy applicable from 1 July 2018

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. The Group's lease assets comprising properties, locomotives, wagons, motor vehicles and forklifts are used by the Group in the ordinary course of business. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- b) the Group has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- c) the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset either when:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered, or changed, on or after 1 July 2018. The Group will apply this policy to a portfolio of leases with similar characteristics.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on their relative stand-alone prices. However, for locomotives in which it is a lessee, the Group has not elected to separate non-lease components and account for the lease and non-lease components as a single lease component. For all other asset classes, non-lease components will be separated from lease components.

The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at an amount which equals the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

For short-term leases and low value assets, a lease liability and right-of-use asset will be recognised at the lease commencement date, as the Group has elected not to apply this practical expedient.

The right-of-use asset is substantially depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property. In addition, the right-of-use asset is periodically reduced by impairment losses, if any; and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the unpaid lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate adjusted for the nature of the underlying asset and length of lease liability. Generally, the Group uses its incremental borrowing rate as adjusted for the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise;
- lease payments in an optional renewal period of the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lease modifications are accounted for as a new lease with an effective date of the modification.

2.6 Lease assets and liabilities (continued)

Some leases contain extension options exercisable by the Group before the end of the contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable by the Group and not by the lessors. The Group assesses at the lease commencement whether it is reasonably certain to exercise the extension options and subsequently reassess whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The extension options provided to the Group were assessed by management.

	Properties \$M	Locomotives and Wagons \$M	Forklifts \$M	Motor vehicles \$M	December 2018 \$M
Right-of-use of assets					
Cost at 1 July 2018	235.9	9.7	10.7	9.1	265.4
Additions	—	1.1	0.6	—	1.7
Expiration	—	(0.7)	—	(0.1)	(0.8)
Closing balance	235.9	10.1	11.3	9.0	266.3
Accumulated depreciation					
Balance at 1 July 2018	—	—	—	—	—
Depreciation	(7.6)	(4.6)	(2.3)	(2.0)	(16.5)
Expiration	—	0.7	—	0.1	0.8
Closing balance	(7.6)	(3.9)	(2.3)	(1.9)	(15.7)
Carrying amounts					
At 1 July 2018	235.9	9.7	10.7	9.1	265.4
At 31 December 2018	228.3	6.2	9.0	7.1	250.6

	December 2018 \$M
Lease liabilities:	
Current	29.3
Non-current	230.4
Total lease liabilities	259.7
Maturity analysis – contractual undiscounted cash flows	
Within one year	34.0
One year or later and no later than five years	92.4
Five years or later	363.3
Total undiscounted lease liabilities	489.7
Amounts recognised in profit or loss	
Interest on lease liabilities	7.0
Variable lease payments not included in the measurement of lease liabilities	0.6
Income from sub-leasing right-of-use assets	(5.1)
	2.5
Amounts recognised in the statement of cash flows	
Total cash outflow for leases	21.0
	21.0

2.6 Lease assets and liabilities (continued)

Extension options

Some of the property (buildings), locomotive and forklift leases contain extension options that are exercisable by the Group within periods ranging from three months to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. Any extension options held are exercisable at the Group's discretion and not the lessors. The Group assesses at each lease commencement whether it is reasonably certain to exercise the extension options and reassesses its position if there is a significant event or significant change in circumstances within its control.

The following table sets out the discounted potential future lease payments in relation to extension options which are not included in the lease liabilities at reporting date.

	December 2018	
\$M	Lease liabilities recognised (discounted)	Potential future lease payments not included in lease liabilities (discounted)
Properties	235.6	17.1
Locomotives and wagons	6.3	0.4
Forklifts	9.0	8.8
	250.9	26.3

As a lessor

Lease income from lease contracts in which the Group is a lessor is as follows:

	December 2018 \$M
Operating lease	
Lease income	2.2
	2.2

Operating leases

The Group leases certain properties that it owns to third parties. The Group has classified these leases as operating leases, as they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of the lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	December 2018 \$M
Maturity analysis – contractual undiscounted cash flows	
Less than one year	4.2
One to two years	4.2
Two to three years	4.2
Three to four years	4.2
Four to five years	4.2
More than five years	45.0
Total undiscounted lease payment receivable	66.0

Finance leases

The Group sub-leases certain leased properties to third parties. The Group has not identified any finance sub-leases as at reporting date.

2.7 Capital and other commitments

	December 2018 \$M	June 2018 \$M
Plant and equipment		
Contracted capital expenditure committed but not yet payable:		
Within one year	33.4	25.5
One year or later and no later than five years	13.3	—
	46.7	25.5
Other commitments		
Non-cancellable maintenance contracts committed but not yet payable:		
Within one year	5.3	4.3
One year or later and no later than five years	—	2.3
	5.3	6.6

Other commitments

Further to the transactions with Aurizon described in note 2.5 and note 2.15, the remaining consideration payable by Pacific National for the \$205.0 million purchase of the Acacia Ridge Intermodal Terminal is \$170.0 million if this transaction completes, subject to the approval of the ACCC and FIRB.

2.8 Financial risk management

Risk management framework

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2018.

2.9 Financial assets

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the end of the period was:

	December 2018 \$M	June 2018 \$M
Current		
Cash and cash equivalents	53.9	171.9
Trade receivables (net of impairment)	202.0	197.2
Other receivables	67.2	77.0
Derivative financial assets	7.4	6.2
	330.5	452.3
Non-current		
Derivative financial assets	415.0	309.2
	415.0	309.2
Total financial assets	745.5	761.5

2.10 Financial liabilities

The carrying amount of financial liabilities represents the maximum liquidity risk exposure. The maximum exposure to liquidity risk at the end of the period was as follows:

	December 2018 \$M	June 2018 \$M
Current		
Lease liabilities	29.3	—
Trade payables	75.7	116.2
Other payables and accrued expenses	197.5	185.2
Derivative financial liabilities	27.6	44.5
	330.1	345.9
Non-current		
Lease liabilities	230.4	—
Other payables and accrued expenses	99.4	89.5
Derivative financial liabilities	66.3	49.1
Loans and borrowings:	3,009.4	2,910.3
US dollar bonds (net of discount)	1,767.6	1,682.7
GBP bonds (net of discount)	542.0	534.2
AUD bonds (net of discount)	697.0	696.8
Unrealised fair value loss on US dollar bonds	16.8	12.3
Incremental borrowing costs	(14.0)	(15.7)
	3,405.5	3,048.9
Total financial liabilities	3,735.6	3,394.8

2.10.1 Bank facilities

The following table provides details of the components of the bank facilities and cash:

\$M	Maturity	December 2018		June 2018	
		Facility	Utilised	Facility	Utilised
Syndicated revolving facility	September 2021	500.0	—	—	—
Syndicated revolving facility	September 2022	500.0	—	—	—
Syndicated revolving facility	September 2023	200.0	—	—	—
Syndicated revolving facility	September 2019	—	—	650.0	—
		1,200.0	—	650.0	—
Less: cash and cash equivalents		—	(53.9)	—	(171.9)
Net bank debt		1,200.0	(53.9)	650.0	(171.9)
Bank guarantee facility	July 2020	100.0	50.5	100.0	47.1
		1,300.0	(3.4)	750.0	(124.8)

1. Australian dollar equivalent calculated at the spot rate as at the end of the period.

On 11 September 2018 Pacific National amended and restated its Syndicated Facility Agreement and entered into two new \$500.0 million tranches and one \$200.0 million tranche. Each tranche is a revolving debt facility and they mature in September 2021, September 2022 and September 2023 respectively. At the same time the remaining \$650.0 million tranche that existed prior to the amendment and restatement was cancelled. On 16 January 2019 Pacific National reduced its bank guarantee facility from \$100.0 million to \$65.0 million.

As at 31 December 2018, all syndicated revolving credit facilities, working capital facilities, US dollar bonds, GBP bonds and AUD bonds were unsecured.

Pacific National pays interest on its bank facilities at a margin above the bank bill swap rate. For the current reporting period to 31 December 2018 the syndicated bank loans remained undrawn.

2.10 Financial liabilities (continued)

2.10.2 US dollar bonds

The following table provides details of the components of the US dollar bonds:

\$M	Maturity	December 2018		June 2018	
		US\$	A\$ ¹	US\$	A\$
US dollar 10 year bonds ²	September 2020	600.0	850.9	600.0	810.3
US dollar 10 year bonds ²	September 2028	400.0	567.3	400.0	540.2
US dollar 12 year bonds ³	April 2023	250.0	354.5	250.0	337.6
US bonds		1,250.0	1,772.7	1,250.0	1,688.1
Discount on US dollar bonds		(4.1)	(5.1)	(4.4)	(5.4)
US bonds (net of discount)		1,245.9	1,767.6	1,245.6	1,682.7

1. Australian dollar equivalent calculated at the spot rate on 31 December 2018.
2. As at 31 December 2018, Pacific National's currency and interest rate exposure on the US dollar 10 year bonds were hedged to 100% (30 June 2018: 100%) through the use of fixed-for-fixed cross-currency interest rate swaps.
3. As at 31 December 2018, Pacific National's currency exposure on the US dollar 12 year bonds was hedged to 100% (30 June 2018: 100%) and Pacific National's interest rate exposure for all of the bonds was hedged to 62% (30 June 2018: 62%) using interest rate swaps.

2.10.3 Sterling bonds

The following table provides details of the components of the GBP bonds:

\$M	Maturity	December 2018		June 2018	
		GB£	A\$ ¹	GB£	A\$
GBP 10 year bonds ²	September 2023	300.0	542.9	300.0	535.2
Discount on GBP bonds		(0.5)	(0.9)	(0.6)	(1.0)
GBP bonds (net of discount)		299.5	542.0	299.4	534.2

1. Australian dollar equivalent calculated at the spot rate on 31 December 2018.
2. As at 31 December 2018, Pacific National's currency and interest rate exposure on the GBP bonds was hedged to 100% (30 June 2018: 100%) through the use of fixed-for-fixed cross-currency interest rate swaps.

2.10.4 Australian dollar bonds

The following table provides details of the components of the AUD bonds:

\$M	Maturity	December 2018	June 2018
		A\$	A\$
AUD 10 year bonds	May 2025	350.0	350.0
AUD 10 year bonds	May 2027	350.0	350.0
AUD bonds		700.0	700.0
Discount on AUD bonds		(3.0)	(3.2)
AUD bonds (net of discount)		697.0	696.8

2.11 Fair value of financial assets and liabilities

Accounting classification and fair value

All derivative financial instruments are carried at fair value. Different levels have been defined as follows:

- Level 1: quoted price (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); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

All of Pacific National's financial assets and liabilities fall into Level 2 of the fair value hierarchy. The carrying amount equals the fair value of all financial assets and liabilities, with the exception of GBP, US dollar and Australian dollar bonds that are carried at amortised cost

The fair values of the GBP, US dollar and Australian dollar bonds are shown below:

	December 2018		June 2018	
	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
US dollar bonds, gross of discount and unrealised fair value loss	1,772.7	1,785.8	1,688.1	1,711.2
GBP bonds, gross of discount	542.9	592.4	535.2	598.2
AUD bonds, gross of discount	700.0	734.6	700.0	729.8

Valuation techniques of financial assets and liabilities measured at fair value

Type	Valuation technique
Debt securities	Discounted cash flows using a contract cash flows and a market related discount rate.
Interest rate swaps and cross-currency swaps	Discounted cash flows.
Forward exchange contracts	Calculated using spot foreign exchange market rates and market forward curves for each currency pair at the reporting date.
Other derivative financial instruments	Calculated based on broker quotes which are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the reporting date.
Other financial liabilities	Discounted cash flows using the current market interest rate that is available to Pacific National for similar instruments at the reporting date.

2.12 Finance income and expense

Finance income and expense is reconciled to the Consolidated Statement of Profit or Loss and Consolidated Statement of Income as follows:

	First half 2019 \$M	First half 2018 \$M
Recognised directly in the Consolidated Statement of Profit or Loss		
Interest income	1.3	2.6
Finance income	1.3	2.6
Interest expense	(94.4)	(92.3)
Amortisation of deferred borrowing costs	(6.0)	(3.7)
Guarantee and commitment fees	(2.6)	(3.9)
Unwind of discount on long-term provisions	(2.7)	(1.3)
Credit value adjustment recognised in the profit or loss	(0.7)	(0.5)
Net change in fair value of derivatives not designated in a hedge relationship	(0.8)	4.3
Finance expense	(107.2)	(97.4)
Net finance expense	(105.9)	(94.8)
Recognised directly in the Consolidated Statement of Comprehensive Income		
Effective portion of changes in fair value of cash flow hedges	11.4	1.0
Tax on finance income and finance costs recognised in the Consolidated Statement of Comprehensive Income	(3.4)	(0.3)
Finance income recognised directly in the Consolidated Statement of Comprehensive Income, net of tax	8.0	0.7

2.13 Dividends

No dividends were declared and paid by the Company for the current reporting period ended 31 December 2018 (31 December 2017: 5.16 cents per share, unfranked).

2.14 Contributed equity

	Date	Price per share \$	Number of fully paid ordinary shares	\$M
Balance at	1 July 2017		975,385,664	5,618.8
Balance at	30 June 2018		975,385,664	5,618.8
Parent				
Balance at	1 July 2018		975,385,664	5,618.8
Return of capital ¹	—		—	(306.0)
Balance	31 December 2018		975,385,664	5,312.8

1. Pacific National paid an aggregate \$306.0 million return of capital to shareholders during the current reporting period, with \$209.6 million and \$96.4 million paid on or about, 31 August 2018 and 30 November 2018 respectively.

2.15 Events subsequent to the reporting date

The legal proceedings in relation to the proposed acquisitions of Aurizon's Acacia Ridge Intermodal Terminal and Queensland Intermodal Business by Pacific National were held in November 2018 and subsequent to balance date were completed in February 2019. At the time of signing these Financial Statements no outcome in relation to the proceedings has been handed down by the court. Pacific National refutes the allegations and has vigorously defended the proceedings commenced by the ACCC. No amount has been recognised in these financial statements in relation to this matter. These transactions with Aurizon are further described in note 2.5 and note 2.7.

In February 2019, a train comprising one locomotive and 81 wagons was inundated by floodwaters on the Mt Isa line in North Queensland. The train was derailed and as a result may have discharged part or all of its load of zinc and lead concentrate into the flood waters causing contamination. A Clean-up Notice pursuant to the Environmental Protection Act 1994 (Qld) has been issued by the Queensland Government to Pacific National Pty Ltd, Mount Isa Mines Limited and Queensland Rail Limited in relation to the potential contamination incident. Given the slow recession of the floodwaters, at the time of signing these financial statements Pacific National have only had limited access to the site of the derailment and the quantum of loss, and the extent of the insurance coverage, is difficult to assess.

Other than for the items noted above, there has not arisen in the interval between 31 December 2018 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of Pacific National, the results of those operations, or the state of affairs of Pacific National in future financial years.

Directors' Declaration

For the half year ended 31 December 2018

The Directors declare that in their opinion:

- a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- b) the attached financial statements and notes, therefore are in accordance with AASB 134 *Interim Financial Reporting* and give a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the Directors.



Russell Smith

Chairman

26 February 2019



Dean Dalla Valle

Chief Executive Officer

26 February 2019



INDEPENDENT AUDITOR'S REVIEW REPORT

To shareholders of Pacific National Holdings Pty Ltd

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Pacific National Holdings Pty Ltd, which comprises consolidated statement of financial position as at 31 December 2018, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 2.15 comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with the Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting*. As the auditor of Pacific National Holdings Pty Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of Pacific National Holdings Pty Ltd does not present fairly, in all material respects, the financial position of Pacific National Holdings Pty Ltd as at 31 December 2018 and of its financial performance and its cash flows for the half-year ended on that date, in accordance with Australian Accounting Standards.

KPMG

Steve Gatt
Partner

Sydney
26 February 2019