Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report
for the six months ended 31 December 2021

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for the six months ended 31 December 2021

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Directors' Report

The Directors present their report on the consolidated entity consisting of Aurizon Holdings Limited and its controlled entities ("the Company" or "the Group") for the six months ended 31 December 2021.

Directors

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

T Poole
M Bastos
R Caplan
M Fraser (retired 11 February 2022)
A Harding
S Lewis
S Ryan
L Strambi
K Vidgen

Principal activities

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

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

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

Coal
Transport of metallurgical and thermal coal from mines in Queensland and New South Wales to domestic customers and coal export terminals.

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

Network
Manages the provision of access to and operation of the Central Queensland Coal Network (CQCN).

Review of operations

A review of the Group's operations for the interim reporting period and the results of those operations are set out in the Operating and Financial Review as set out on pages 3 to 19 of this interim financial report.

Dividends

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

	Cents per Share	$m
For the six months ended 31 December 2021		
Final dividend for 2021 (70% franked)	**14.4**	**265.0**
For the six months ended 31 December 2020		
Final dividend for 2020 (70% franked)	13.7	262.3

The Directors have declared a 95% franked interim dividend of 10.5 cents per ordinary share for the six months ended 31 December 2021. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 1 March 2022. The payment date is 30 March 2022.

Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest $100,000 unless otherwise stated (where rounding is applicable) in accordance with *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 20.

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

Tim Poole
Chairman

Brisbane
14 February 2022

OPERATING AND FINANCIAL REVIEW

CONSOLIDATED RESULTS

The Group's financial performance is explained using measures that are not defined under IFRS and are therefore termed non-IFRS measures. The non-IFRS financial information contained within this Directors' Report and Notes to the Consolidated Financial Statements has not been audited in accordance with Australian Auditing Standards. The non-IFRS measures used to monitor Group performance are EBITDA (Statutory and Underlying), EBITDA margin - Underlying, EBIT (Statutory and Underlying), NPAT Underlying, Return on Invested Capital (ROIC), Net debt and Net gearing ratios. Each of these measures is discussed in more detail on page 44. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being Intermodal.

1. Half on Half Comparison

Financial Summary

($m)		1HFY2022	1HFY2021	Variance
Total revenue		**1,515.2**	**1,498.4**	**1%**
Operating costs				
Employee benefits		(423.0)	(422.3)	-
Energy and fuel		(115.4)	(91.8)	(26%)
Track access		(39.5)	(46.0)	14%
Consumables		(206.3)	(194.4)	(6%)
Other		(4.1)	(5.6)	27%
EBITDA		**726.9**	**738.3**	**(2%)**
	- statutory	726.9	738.3	(2%)
Depreciation and amortisation		(292.7)	(284.1)	(3%)
EBIT		**434.2**	**454.2**	**(4%)**
	- statutory	434.2	454.2	(4%)
Net finance costs		(64.5)	(73.3)	12%
Income tax expense		**(112.8)**	**(113.9)**	**1%**
	- statutory	(112.8)	(113.9)	1%
NPAT		**256.9**	**267.0**	**(4%)**
	- statutory	256.9	267.0	(4%)
Profit after tax from discontinued operations	- statutory	-	5.2	(100%)
NPAT (group)	**- statutory**	**256.9**	**272.2**	**(6%)**
Earnings per share[1]		**14.0**	**14.1**	**(1%)**
	- statutory	14.0	14.1	(1%)
Earnings per share[1] (continuing and discontinued operations)		**14.0**	**14.4**	**(3%)**
	- statutory	14.0	14.4	(3%)
Return on invested capital (ROIC)[2]		10.4%	10.8%	(0.4ppt)
Net cashflow from operating activities		710.9	700.4	1%
Interim dividend per share (cps)		10.5	14.4	(27%)
Gearing (net debt / net debt + equity) (group)		44.4%	47.8%	3.4ppt
Net tangible assets per share ($) (group)		2.2	2.2	-
People (FTE)		4,872	4,840	(1%)
Labour costs[3] / Revenue		27.6%	28.0%	0.4ppt
Above Rail Tonnes (m)[4]		123.5	128.1	(4%)

[1] Calculated on weighted average number of shares on issue – 1,840m 1HFY2022 and 1,892m 1HFY2021
[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] 1HFY2022 excludes $4.0m redundancy costs (1HFY2021 excludes $2.6m redundancy costs)
[4] Includes both Coal and Bulk

EBITDA by Segment

($m)	1HFY2022	1HFY2021	Variance
Coal	286.2	274.1	4%
Bulk	74.5	73.6	1%
Network	380.4	407.7	(7%)
Other	(14.2)	(17.1)	17%
Group (Continuing operations)	**726.9**	**738.3**	**(2%)**

EBIT by Segment

($m)	1HFY2022	1HFY2021	Variance
Coal	181.8	170.9	6%
Bulk	57.5	60.5	(5%)
Network	210.4	241.3	(13%)
Other	(15.5)	(18.5)	16%
Group (Continuing operations)	**434.2**	**454.2**	**(4%)**

Group Performance Overview

Group EBITDA decreased $11.4m or 2% due to lower earnings in Network which was principally driven by the non-recurrence of WIRP fees relating to prior years. This was partly offset by Coal earnings which increased despite lower volumes with a mix shift to higher yielding customers, and marginally higher Bulk earnings. There was also a small improvement in Other EBITDA from higher asset sales. If the retrospective WIRP fees were not included in the prior year's earnings, EBITDA growth would have been 5%.

Group revenue was 1% higher despite the reduction in WIRP fees for Network with improved revenue yield offsetting a 3% reduction in Coal haulage volumes.

Operating costs increased $28.2m or 4% primarily due to additional costs incurred in Bulk to support new contracts. Fuel prices also increased in Bulk and Coal although this is largely passed through to customers.

Depreciation increased $8.6m or 3% primarily due to capital expenditure in Bulk to support growth and increased ballast and rail renewals in Network. With the increase in depreciation, EBIT declined $20.0m or 4%.

ROIC was 0.4ppts lower with the decreased EBIT and slightly higher invested capital.

Reconciliation to Statutory Earnings

Underlying earnings is a non-statutory measure and is the primary reporting measure used by management and the Group's chief operating decision-making bodies for managing and assessing the financial performance of the business. Underlying earnings is derived by adjusting statutory earnings for significant items as noted in the following table:

($m)	1HFY2022	1HFY2021
Continuing operations		
Statutory & Underlying EBITDA	**726.9**	**738.3**
Depreciation and amortisation	(292.7)	(284.1)
Statutory & Underlying EBIT	**434.2**	**454.2**
Net finance costs	(64.5)	(73.3)
Statutory & Underlying Profit before tax	**369.7**	**380.9**
Income tax expense	(112.8)	(113.9)
Statutory & Underlying NPAT – Continuing operations	**256.9**	**267.0**
Discontinued operations		
Underlying EBIT	**-**	**7.1**
Income tax expense	-	(1.9)
Statutory & Underlying NPAT – Discontinued operations	**-**	**5.2**
Statutory & Underlying NPAT – Continuing and discontinued operations	**256.9**	**272.2**

Balance Sheet Summary

($m)	31 Dec. 2021	30 Jun. 2021
Assets classified as held for sale	0.1	5.0
Other current assets	674.7	806.9
Total current assets	**674.8**	**811.9**
Property, plant and equipment (PP&E)	8,464.9	8,483.2
Other non-current assets	436.8	469.5
Total non-current assets	**8,901.7**	**8,952.7**
Total Assets	**9,576.5**	**9,764.6**
Total borrowings	3,550.0	3,738.0
Other current liabilities	601.5	658.2
Other non-current liabilities	1,131.4	1,093.8
Total Liabilities	**5,282.9**	**5,490.0**
Net Assets	**4,293.6**	**4,274.6**
Gearing (net debt / (net debt + equity))	**44.4%**	**45.6%**

Balance Sheet Movements

Current assets decreased by $137.1m largely due to:

- Decrease in trade and other receivables of $124.3m predominately due to the receipt of take-or-pay that was accrued at 30 June 2021
- Decrease in cash and cash equivalents of $24.3m
- Reduction in assets classified as held for sale of $4.9m due to divestment of the Forrestfield Intermodal Terminal

This was partly offset by an increase in other assets of $15.8m, including the timing of insurance prepayments.

Non-current assets decreased by $51.0m largely due to a $34.4m unfavourable valuation of derivative financial instruments and a decrease of $18.3m in the carrying value of property, plant and equipment.

Current liabilities, excluding borrowings, decreased by $56.7m largely due to:

- Decrease in trade and other payables of $44.9m due to a reduction in trade creditors and capital accruals
- Decrease in provisions of $36.3m primarily due to timing of the payment of short-term incentives

This was partly offset by an increase in current tax liabilities of $33.1m, primarily due to 30 June 2021 being in a current tax asset position because of a tax benefit recognised on disposal of the shares held in Aquila Resources Limited in FY2021.

Total borrowings decreased by $188.0m due to the net repayment of bank debt facilities of $113.0m and a favourable valuation of derivative financial instruments.

Other non-current liabilities increased by $37.6m largely due to a $40.9m increase in net deferred tax liabilities.

Gearing (net debt / (net debt + equity)) was 44.4% as at 31 December 2021 reflecting the lower borrowings.

Cash Flow Summary

($m)	1HFY2022	1HFY2021
Statutory EBITDA (Continuing operations)	**726.9**	**738.3**
Working capital and other movements	20.0	72.7
Cash flows from operations from Continuing operations	**746.9**	**811.0**
Interest received	0.8	3.3
Income taxes paid	(40.3)	(117.0)
Principal elements of lease receipts	3.5	3.1
Net cash inflow from operating activities from Continuing operations	**710.9**	**700.4**
Net operating cash flows from Discontinued operations	-	6.0
Net operating cash flows	**710.9**	**706.4**
Cash flows from investing activities		
Payments for PP&E and intangibles, net of interest paid on qualifying assets	(289.5)	(277.2)
Payment for acquisition of business, subsidiary and investment in joint venture	(8.7)	(63.3)
Distributions from joint ventures and proceeds from sale of PP&E	14.5	9.8
Net cash (outflow) from investing activities from Continuing operations	**(283.7)**	**(330.7)**
Net investing cash flows from Discontinued operations	-	(2.0)
Net investing cash flows	**(283.7)**	**(332.7)**
Cash flows from financing activities		
Net (repayments)/proceeds from borrowings, net of transaction costs	(113.0)	208.5
Payment for share buy-back, share based payments and transaction costs	-	(251.6)
Interest paid	(65.0)	(81.6)
Dividends paid to Company shareholders	(265.0)	(262.3)
Principle elements of lease payments	(8.5)	(8.1)
Net cash outflow from financing activities from Continuing operations	**(451.5)**	**(395.1)**
Net financing cash flows from Discontinued operations	-	-
Net financing cash flows	**(451.5)**	**(395.1)**
Net decrease in cash from Continuing operations	**(24.3)**	**(25.4)**
Net increase in cash from Discontinuing operations	**-**	**4.0**
Free Cash Flow (FCF)[5] from Continuing operations	**362.2**	**288.1**
Free Cash Flow (FCF)[5] from Discontinued operations	**-**	**4.0**

Cash Flow Movements

Net cash inflow from operating activities from continuing operations increased by $10.5m (1%) to $710.9m due to a reduction in income taxes paid from a tax benefit recognised on disposal of the shares held in Aquila Resources Limited; partly offset by a reduction in EBITDA and working capital (mainly due to an increase in inventory and reduction in provisions).

Net cash outflow from investing activities from continuing operations decreased by $47.0m (14%) to $283.7m, due to acquisitions in the prior comparative period.

Net cash outflow from financing activities from continuing operations increased by $56.4m (14%) to $451.5m, due to the net repayment of borrowings.

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

One Rail Australia Acquisition

The Group signed a Partnership Interest Sale Agreement with Macquarie Asset Management (on behalf of its managed funds and client) on 21 October 2021 to acquire 100% of the partnership interests in One Rail Australia LP (ORA) for consideration of $2.35b.

ORA comprises two main business segments:

- Integrated bulk rail haulage and general freight assets in South Australia (SA) and the Northern Territory (NT) and below rail operator and economic owner of 2,460km of rail infrastructure including the 2,245km Tarcoola-to-Darwin railway line (ORA Bulk); and
- Coal haulage in New South Wales (NSW) and Queensland (QLD) (East Coast Rail or ECR), including a long-term coal haulage contract with Glencore for its mines in the Hunter Valley.

ORA Bulk will be integrated into the Group's bulk segment and will form a new cash generating unit (CGU), Bulk Central. ORA Bulk is the sole rail freight operator along the SA/NT corridor and commodities hauled include copper, grain, magnetite, phosphate and rare earths. Below rail infrastructure is operated by ORA Bulk under two long-term government concessions including the Tarcoola-to-Darwin Railway expiring 2054 and SA regional lines expiring 2047 and are regulated by the Essential Services Commission of South Australia (ECOSA).

ECR will be divested through a demerger or a trade sale, whichever creates greater value for shareholders.

The Australian Competition and Consumer Commission (ACCC) has commenced the informal merger clearance process with a provisional decision date of 10 March 2022. All other conditions precedent have been satisfied with consent received from the Australasia Railway Corporation (AARC) and the Government of South Australia. Completion is targeted for April 2022, followed by the divestment of ECR.

Funding

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

Major funding outcomes were related to the acquisition of ORA with the transaction underpinned by fully underwritten committed debt facilities. There will be a $1.93b increase in total bank debt for Aurizon Operations sourced from existing and $1.45b of new facilities with terms of 2-5 years. There will also be $500.0m in secured amortising bank debt for ECR with terms of 2-5 years. Syndication commitments have been received to increase Aurizon's banking group to 15 lenders (an increase of three banks) and ECR to eight banks (an increase of five banks). Both Moody's and S&P have confirmed their current BBB+/Baa1 credit ratings for Aurizon Operations with improved thresholds after the transaction was announced.

During 1HFY2022 there were no adjustments to the funding mix for the Aurizon Group.

In respect of 1HFY2022:

- Weighted average debt maturity tenor was 3.9 years. This was lower than 1HFY2021 (4.5 years) due mostly to the debt portfolio's duration reducing by 12 months, partially offset by the issuance of a 10.5-year $75.0m A$ Private Placement in June 2021 and 7.0-year $500.0m A$ Medium Term Note (AMTN) in March 2021
- Group interest cost on drawn debt was 3.4% (1HFY2021 4.3%)
- Available liquidity (undrawn facilities plus cash) as at 31 December 2021 was $1,707.9m
- Group gearing (net debt / (net debt + equity)) as at 31 December 2021 was 44.4% (1HFY2021 47.8%)
- Aurizon Network's gearing (net debt / Regulatory Asset Base (excluding Access Facilitation Deeds)) as at 31 December 2021 was 59.1% (1HFY2021 61.3%)
- Aurizon Operations' gearing (net debt / (net debt + equity)) as at 31 December 2021 was 8.2%[6] (1HFY2021 14.3%)
- Aurizon Operations' and Aurizon Network's credit ratings remain unchanged at BBB+/Baa1.

Dividend

The Board has declared an interim dividend for FY2022 of 10.5cps (95% franked) based on a payout ratio of 75% in respect of underlying NPAT from continuing operations.

The relevant interim dividend dates are:

- 28 February 2022 – ex-dividend date
- 1 March 2022 – record date
- 30 March 2022 – payment date

[6] *Net debt includes $96.0m loan receivable from Aurizon Network*

Tax

Income tax expense for 1HFY2022 was $112.8m. The Group effective tax rate was 30.5% which is more than 30% due to non-deductible consultancy fees relating to business acquisitions. The Group cash tax rate was 22.2%, which is less than 30% primarily due to accelerated fixed asset related adjustments.

The underlying effective tax rate[7] for FY2022 is expected to be in the range of 29-31% and the underlying cash tax rate[8] is expected to be less than 25% for the short to medium term.

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

Discontinued Operations

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

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

BUSINESS UNIT REVIEW

Coal

Aurizon's Coal business provides a critical service to Australia's $62b[9] export coal industry, the nation's second largest source of export revenue in CY2021. Aurizon hauls around half of Australia's export coal volume. Coal hauled is split approximately evenly between metallurgical coal and thermal coal, with demand linked to Asian steel production and energy generation, respectively.

Aurizon transports coal from mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland (QLD), and the Hunter Valley and Illawarra coal systems in New South Wales (NSW), with domestic customers and coal export terminals.

Financial Summary

($m)	1HFY2022	1HFY2021	Variance
Revenue			
Above Rail	600.1	584.3	3%
Track Access	193.5	230.0	(16%)
Other	2.4	1.1	118%
Total revenue	**796.0**	**815.4**	**(2%)**
Track Access costs	(192.2)	(228.7)	16%
Operating costs	(317.6)	(312.6)	(2%)
EBITDA	**286.2**	**274.1**	**4%**
Depreciation and amortisation	(104.4)	(103.2)	(1%)
EBIT	**181.8**	**170.9**	**6%**

Metrics

	1HFY2022	1HFY2021	Variance
Total tonnes hauled (m)	98.7	101.8	(3%)
CQCN	70.3	71.2	(1%)
NSW & SEQ	28.4	30.6	(7%)
Contract utilisation	83%	82%	1.0ppt
Total NTK (b)	23.2	23.7	(2%)
CQCN	17.8	17.8	-
NSW & SEQ	5.4	5.9	(8%)
Average haul length (km)	235	233	1%
Total revenue / NTK ($/'000 NTK)	34.3	34.4	-
Above Rail Revenue / NTK ($/'000 NTK)	25.9	24.7	5%
Operating Ratio	77.2%	79.0%	1.8ppt
Opex / NTK ($/'000 NTK)	26.5	27.2	3%
Opex / NTK (excluding access costs) ($/'000 NTK)	18.2	17.5	(4%)
Locomotive productivity ('000 NTK / Active locomotive day)	390.1	387.9	1%
Active locomotives (as at 31 December)	319	331	(4%)
Wagon productivity ('000 NTK / Active wagon day)	14.7	14.8	(1%)
Active wagons (as at 31 December)	8,449	8,707	(3%)
Payload (tonnes)	7,869	7,862	-
Velocity (km/hr)	23.7	23.9	(1%)

[9] *Australian Bureau of Statistics (CY2021)*

Coal Performance Overview

Coal EBITDA increased $12.1m (4%) to $286.2m primarily due to an increase in above rail revenue quality and lower traincrew and maintenance expenses. This was partly offset by the impact from lower volumes hauled.

Volumes decreased 3.1mt or 3% to 98.7mt with reductions in the Central Queensland Coal Network (CQCN), NSW and South-East Queensland (SEQ).

- Across the CQCN, volumes decreased by 0.9mt (1%) to 70.3mt due to customer specific maintenance and production issues across several customers, cessation of the Stanwell contract, wet weather, derailments and protestor activity. This was partly offset by increased railings for several other mines
- In NSW and SEQ, volumes decreased by 2.2mt (7%) to 28.4mt due to customer specific production issues, wet weather and protestor activity in NSW in addition to the ramp-down of the New Acland mine. This was partly offset by the commencement of railings for Peabody in the Illawarra.

Coal revenue decreased by $19.4m (2%) to $796.0m due to the 3.1mt reduction in volumes and lower track access revenue resulting from higher volume railed under end user agreements, contract expiry and lower overall volumes. This was partly offset by higher revenue quality, with increased CPI favourably impacting contracted rates, and fuel revenue resulting from an increase in price. Above rail revenue per NTK increased by 5% due to the impact of a mix shift in the period towards higher yielding contracts as some customers took advantage of elevated coal prices.

Total operating costs decreased $31.5m (6%) to $509.8m with lower track access, traincrew and maintenance costs partly offset by higher fuel costs. The major drivers of these movements are:

- Track access costs decreased by $36.5m (16%) due to higher volume railed under end user agreements, contract expiry and lower overall volumes.
- Other operating costs increased $5.0m (2%) due to higher fuel (largely price related), higher insurance costs relating to insurance deductible expenses during 1HFY2022 offset by lower traincrew and maintenance costs.

Depreciation increased $1.2m (1%), resulting in an EBIT increase of 6% against the prior corresponding period.

Operationally, key productivity metrics generally remained flat or slightly deteriorated due to lower volumes. Active locomotives decreased with the transfer of units to support Bulk growth. Velocity was impacted by derailments, wet weather and protestor activity.

Market update

Australia exported 187mt of coal in 1HFY2022, up 2% against the prior year. Although import restrictions remain for Australian export volume into China, alternative markets continue to be found for Australian coal.

Australia exported 82mt of metallurgical coal in 1HFY2022, down 5% against the prior year. India remained Australia's largest metallurgical coal export market with export volume of 25mt (30% share), followed by Japan at 19mt (23% share) and South Korea at 12mt (15% share). In CY2021, crude steel production in China decreased by 3%, India increased by 18% (to reach a record 118mt) and Japan increased by 16%. The average hard coking coal (Premium Low Vol) price in 1HFY2022 increased by 183% (compared to the prior year) to US$316/t as availability for seaborne premium hard coking coals was limited, coupled with strong steel margins and increasing post-pandemic demand globally. At 31 December 2021, the hard coking coal (Premium Low Vol) price was US$357/t.

Australia exported 105mt of thermal coal in 1HFY2022, up 7% against the prior year. Japan remained Australia's largest thermal coal export market with export volume of 45mt (43% share), followed by South Korea at 21mt (20% share) and Taiwan at 15mt (14% share). The average thermal coal price in 1HFY2022 increased by 196% (compared to the prior year) to US$175/t, amid tight global supply and high demand driven by northern hemisphere winter restocking and concerns in China of winter power-generation shortages. In addition, China's domestic production has been impacted by safety inspections. At 31 December 2021, the thermal coal price was US$170/t.

Contract update

- New Hope – New Acland contract ended December 2021
- Yancoal – Moolarben contract ended December 2021

Bulk

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

Financial Summary

($m)	1HFY2022	1HFY2021	Variance
Revenue			
Freight Transport	329.7	310.0	6%
Other	14.7	11.5	28%
Total revenue	**344.4**	**321.5**	**7%**
Track Access costs	(41.8)	(48.1)	13%
Operating costs	(228.1)	(199.8)	(14%)
EBITDA	**74.5**	**73.6**	**1%**
Depreciation and amortisation	(17.0)	(13.1)	(30%)
EBIT	**57.5**	**60.5**	**(5%)**
Total tonnes hauled (m)	24.8	26.3	(6%)
Operating Ratio	83.3%	81.2%	(2.1ppt)

Bulk Performance Overview

Bulk EBITDA increased $0.9m (1%) to $74.5m due to increased grain volumes, offset by the cessation of Mt Gibson iron ore volumes. Revenue increased $22.9m (7%) to $344.4m with:

- The commencement of the CBH Grain contract in WA in 1HFY2022
- Stronger grain volumes in both QLD and NSW
- The acquisition of ConPorts Pty Ltd (renamed Aurizon Port Services NSW Pty Ltd) on 31 December 2020
- Higher fuel prices
- Marginal revenue yield improvements including CPI increases.

Partly offsetting this was the loss of BHP Nickel West from April 2021 and the cessation of Mt Gibson iron ore volumes in December 2020.

In Bulk East, volumes increased by 0.5mt driven by stronger grain volumes in NSW and QLD and higher IPL volumes on the Mt Isa corridor. In Bulk West, iron ore volume was down 1.8mt predominately due to the cessation of Mt Gibson volumes in December 2020. Non-iron ore Bulk West volumes decreased by 0.2mt largely due to the loss of BHP Nickel West, offset by the commencement of CBH grain volumes.

Operating costs increased $28.3m (14%) with:

- Increased costs to support contract wins predominately in grain (including ramp up costs for both traincrew, rollingstock and facilities)
- The acquisition of ConPorts Pty Ltd (renamed Aurizon Port Services NSW Pty Ltd) on 31 December 2020
- Higher fuel prices.

Operating costs were offset by ongoing cost benefits from the Bulk transformation program and lower costs from the loss of BHP Nickel West.

Depreciation increased $3.9m or 30% with increased capital expenditure supporting the growth in revenue and EBITDA. Therefore, EBIT decreased 5% compared to a 1% increase in EBITDA.

Market update

Battery demand will be led by the global uptake of electric vehicles, which is expected to drive demand for commodities such as nickel, cobalt, copper and lithium. In the September 2021 quarter, Australian Bureau of Statistics reported that copper exploration expenditure in Australia rose by 61% (compared to the same period of the prior year) and nickel (including cobalt) exploration expenditure increased by 22% across the same period. Australian metal ore mining capital expenditure increased in the September quarter by 2% against the prior year to A$4.8b, the 16th consecutive quarter of year-on-year growth for the sector.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) has projected Australian export volume for major crops of wheat, barley and canola, with a record combined total of 38.6mt for the 2021-22 season. Australia's largest grain co-operative, CBH Group reported record grain receivals of 21.3mt for the 2021-22 season, exceeding the previous record set in 2016-17 (16.7mt).[10]

[10] *CBH Group media release (February 2022)*

Contract update

- CBH – 10-year[11] grain haulage contract commenced October 2021
- Alcoa – five-year contract extension for alumina and associated inputs
- Lynas – five-year contract for WA operations including new facility currently under construction
- Tronox - 5+5-year term executed for the transport of Mineral Sands concentrate from the Broken Hill region
- Queensland Government (Department of Transport and Main Roads) - loss of Livestock contract in Queensland from December 2021

Network

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

Financial Summary

($m)	1HFY2022	1HFY2021	Variance
Revenue			
Track Access	542.9	568.6	(5%)
Services and other	26.3	24.4	8%
Total revenue	**569.2**	**593.0**	**(4%)**
Operating costs	(188.8)	(185.3)	(2%)
EBITDA	**380.4**	**407.7**	**(7%)**
Depreciation and amortisation	(170.0)	(166.4)	(2%)
EBIT	**210.4**	**241.3**	**(13%)**

Metrics

	1HFY2022	1HFY2021	Variance
Tonnes (m)	104.9	103.7	1%
NTK (b)	26.4	26.0	2%
Operating Ratio	63.0%	59.3%	(3.7ppt)
Maintenance / NTK ($/'000 NTK)	2.4	2.3	(4%)
Opex / NTK ($/'000 NTK)	13.6	13.5	(1%)
Cycle Velocity (km/hr)	23.1	22.9	1%
System Availability	82.9%	82.9%	-
Average haul length (km)	251	251	-

Network Performance Overview

Network EBITDA decreased $27.3m (7%) to $380.4m in 1HFY2022, with decreased revenue of $23.8m (4%) and increased operating costs of $3.5m (2%). The prior year included the recognition of $48.9m of WIRP Fees relating to the period March 2016 to June 2020 following the successful Court of Appeal decision in September 2020. If this revenue was not included in the prior year's result, EBITDA would have increased $21.6m or 6%.

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the Queensland Competition Authority (QCA) on 22 June 2021.

Total Access Revenue reduced by $25.7m (5%) with the main drivers being:

- WIRP Fees were $48.7m lower in 1HFY2022 as 1HFY2021 included the recognition of retrospective WIRP fees as noted above
- GAPE revenue was $11.6m lower primarily due to the risk-free rate reset in June 2021 and the inclusion in 1HFY2021 of a Transfer Fee
- The positive impact of higher volumes and increased access tariffs compared to the prior period. Tariffs are higher because the regulatory volume forecast in FY2022 is lower than FY2021 (226.9mt vs 239.7mt). Therefore, although actual volumes are below the regulatory forecast which results in a revenue under-recovery of $28.4m, this under-recovery is lower than the prior period ($65.7m).

Services and other revenue were $1.9m (8%) higher in 1HFY2021 primarily due to higher external construction revenue.

Operating costs increased by $3.5m (2%) primarily due to $3.9m additional insurance and incident recovery costs, $2.0m higher electric traction charges (offset in Access Revenue) and higher external construction costs associated with the higher revenue partly offset by operational cost savings. Operating costs were $9.0m lower compared to the regulatory allowance.

[11] *The performance-based agreement has an initial term of six years, with options to extend to 10 years.*

Depreciation increased $3.6m (2%) primarily due to historical rail renewal and ballast undercutting investment.

Network's 2020-2021 Regulatory Asset Base (RAB) roll-forward is estimated to be $5.4b[12] (excluding Access Facilitation Deeds of $0.3b).

Regulation Update

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

- The QCA published the Independent Expert's (IE) Initial Capacity Assessment Report (ICAR) on 1 November 2021. The ICAR identified that the average annual deliverable network capacity of each coal system in the CQCN for the period FY2022 – FY2024, when measured as a percentage of the current contracted capacity for each coal system, is estimated as follows:
  - Goonyella: ~93%
  - Blackwater System: ~96%
  - GAPE System: ~64%
  - Moura System: ~93%
  - Newlands System: ~66%
- Network responded to the ICAR on 12 November 2021 with its initial views on potential transitional arrangements that could be implemented to address the capacity deficits that have been identified in each coal system. Network is currently consulting with the Access Holders in each coal system to inform its detailed response report on potential transitional arrangements, and expects to submit this to the QCA, IE and the Rail Industry Group (RIG) in early March 2022.
- The response to the ICAR on 12 November 2021, triggered an increase in Network's Weighted Average Cost of Capital (WACC) from 5.9% to 6.3%. The QCA-approved reference tariffs assumed 6.3% WACC from 1 March 2020.
- The Performance Rebate mechanism in UT5 came into effect on 12 November 2021. The Performance Rebate is payable if an end user does not receive its contracted Train Service Entitlement for the period 12 November 2021 until 30 June 2022 due to a performance breach by Network as determined by the IE under UT5, with certain permitted exclusions. Any transitional arrangements that are implemented to rectify an Existing Capacity Deficit (ECD) will be taken into consideration in the calculation of the Performance Rebate.

Network continues to engage with the RIG in relation to Maintenance and Renewals Strategies and Budgets ahead of the submission of the FY2023 Annual Review of Reference Tariffs on 28 February 2022.

Operational Update

Network maintained strong operational performance during 1HFY2022:

- Volumes increased by 1% to 104.9mt. Volume growth was limited due to mine-specific maintenance and production issues as well as wet weather
- Total System Availability was 82.9% and remained in line with the prior comparative period
- Cancellations due to the Network rail infrastructure increased from 1.0% to 1.7%
- Cycle velocity improved marginally from 22.9km/h to 23.1km/h

Wiggins Island Rail Project (WIRP)

The Group commenced billing customers non-regulated WIRP fees with effect from March 2016 in FY2021 following a decision by the Queensland Court of Appeal.

The WIRP customers previously initiated other disputes under their respective WIRP Deeds which were the subject of an Expert Determination in February 2019. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be partially reduced. Network lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert's Determination and the WIRP customers filed their defence on 1 March 2021. Network filed its Replies to that defence on 20 April 2021.

[12] *Includes deferred capital*

Other

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

($m)	1HFY2022	1HFY2021	Variance
Total revenue	**17.6**	**13.9**	**27%**
Operating costs	(31.8)	(31.0)	(3%)
EBITDA	**(14.2)**	**(17.1)**	**17%**
Depreciation and amortisation	(1.3)	(1.4)	7%
EBIT	**(15.5)**	**(18.5)**	**16%**

Other Performance Overview

EBITDA improved by $2.9m (17%) mainly due to higher asset sales.

Intermodal – Discontinued Operation

($m)	1HFY2022	1HFY2021	Variance
Total revenue	**-**	**14.4**	**-**
Operating costs	-	(7.3)	-
EBITDA – Underlying	**-**	**7.1**	**-**
EBIT – Underlying	**-**	**7.1**	**-**
Income tax expense	-	(1.9)	-
NPAT (Discontinued operation) – Statutory	**-**	**5.2**	**-**

Intermodal Performance Overview

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

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. These initiatives are being successfully embedded in business-as-usual practices and therefore less specific project information will be provided in the future.

Precision Railroading Operations

Project Precision is a multi-year supply chain efficiency program led by Network. The objective is to deliver more volume with existing capital for all users, through faster turnaround time and Disciplined Train Operations (DTO) - a process designed to remove the variability and improve schedule adherence and on-time running performance of all trains on the network.

The project is achieving efficiency through three objectives: Improve the Plan, Execute the Plan, and Reduce External Stakeholder Impacts.

Using modern scheduling techniques, Network's Integrated Rail Planning and Availability Optimisation initiatives maximise the optimal distribution of trains and track maintenance on the Network. In periods of high demand, this approach can result in additional services compared to conventional techniques. In periods of low demand, modern scheduling can optimise the number of train sets deployed in the system by operators to maximise capital productivity while meeting customer demand.

Following the successful trial in FY2021 where Network undertook planning on behalf of all operators, improvements made to the Integrated Rail Planning process throughout 1HFY2022 have resulted in at least 115 additional cycles planned, or 3.0Mtpa, compared to the unimproved planning process.

While overall volumes are subdued, modern scheduling improves Network's ability to plan customer demand at the time it is required by the customer, whereas historically periods of intense track maintenance would have meant a delay in meeting customer demand until system availability improved, lifting overall utilisation of the rail system at any given point in time.

Reduce External Stakeholder Impacts

Network has collaborated in FY2022 with other supply chain participants to improve the interface of the rail system with external stakeholders. Analysis and modelling undertaken by Network in relation to parcel delivery windows is supporting improvements to Dalrymple Bay Coal Terminal planning processes which can increase throughput and asset efficiency across the Goonyella System.

Whilst improvements have been made in Improving the Plan and Executing the Plan, challenges relating to customer demand driven by weather and coal availability have impacted actual asset productivity. Mine cancellations across the CQCN as a percentage of agreed services has increased to 8.5% YTD, a 50.3% increase over the previous corresponding period.

Project Precision is transitioning to business as usual in FY2022 with accountability now embedded in the Network Planning and Scheduling function going forward, including the ongoing management of DTO.

Automated Track Inspection System (ATIS)

The ATIS initiative seeks to measure track and overhead line alignment via locomotive-mounted equipment using lasers to achieve precise measurements at line speed. ATIS is a collection of systems including a Track Geometry Measurement System (TGMS), a Wire Geometry Measurement System (WGMS) and a Pantograph Collision Detection System (PCDS). Network currently uses a track-recording car to obtain these measurements, with the service provided by a third party which consumes train paths that would otherwise be used by revenue train services.

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

During FY2021, the project team trialled the use of a TGMS that was installed on a diesel locomotive based in Callemondah. The trial successfully proved that track geometry information could be captured via an autonomous device mounted to a locomotive at a quality level comparable to the track-recording car which is currently used for this purpose. The automated TGMS unit continues to provide track geometry measurements across the Blackwater and Moura Systems.

Network is currently trialling the WGMS and PCDS systems. The trial seeks to confirm that overhead wire alignment information can also be captured via automated means. Verification reporting is expected to be completed in 2HFY2022.

Assuming the WGMS and PCDS trials are successful, Network will seek full implementation of the ATIS technology across the CQCN, subject to customer approval.

TrainGuard

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

Asset Maintenance

Above Rail Asset Management (ARAM) is a multi-year transformation project and has progressed with the dedicated project team for a third year working in close collaboration with various business stakeholders. The program of work has matured Aurizon supply chain and vendor management processes, standardised planning processes across the business, improved depot work execution efficiency and is now transitioning Aurizon's major rollingstock fleets from simple time based to more mature condition-based maintenance strategies.

FY2022 has seen the successful implementation of more mature maintenance strategies across three of four major rollingstock fleets and will allow the business to continue on the maintenance maturity journey. As the dedicated project draws to a close at the end of FY2022 and sustainable Business-as-Usual (BAU) plans are put in place, the value created will continue into future years, delivering sustained and further optimisation of the maintenance life cycle for Aurizon's rollingstock.

TrainHealth

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

ADDITIONAL INFORMATION

Risk

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

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

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

Optimise Strategic Lever

Delivery of Optimise Initiatives

Aurizon maintains a pipeline of transformation and efficiency initiatives that are expected to deliver a cost effective and customer aligned model. Failure to deliver on these initiatives may occur due to unsuccessful implementation of the associated action plans. Impacts of non-delivery include not achieving budget and failure to maximise volumes within customer contracts, and sub-optimal return on capital deployed.

Fleet Management

Sub-optimal fleet management would result in an inability to flex operations and support an alignment between costs and revenue. If effective fleet management 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.

Talent and Capability

Continuing to attract and retain the best talent, skills and expertise is a key enabler in achieving strategic objectives. As human capital and talent markets become increasingly competitive, a loss of staff in key disciplines would undermine service delivery and erode Aurizon's competitive advantage.

Business Interruption

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

- Rail Process Safety Incident – major rail process safety event leading to death or injuries to Aurizon's people, significant disruption or loss of licence to operate
- Road Vehicle Incident - death or injuries to Aurizon's people from operating road vehicles
- 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 or due to insider threats, impacting service delivery
- Technology incidents - failure of technical infrastructure impacting technology-dependent systems and operations
- Severe weather events could impact Aurizon's people, operations, assets or customers
- Supply-chain constraints due to macroeconomic or geopolitical factors impacting Aurizon's ability to obtain critical goods and services

Pandemic – COVID-19

The global Coronavirus pandemic exposes Aurizon to two primary risks:

- Service delivery – employee health issues could restrict some services to customers, particularly as COVID-19 restrictions are eased and State and International borders reopen. This risk extends to other supply chain participants such as mines and ports as well as Aurizon's own service providers and their ability to provide continuity of service.
- Reduced demand – due to export markets requiring less of the commodities Aurizon hauls, which could reduce profitability.

Excel Strategic Lever

Commercial & Counterparty Risks

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. Deterioration in counterparty credit quality may also result in the need for Aurizon to assume more commercial risk, including more variability, in pursuit of its strategic objectives.

Competition

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.

Regulation & Compliance

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.

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.

Evolving Commodity Demand

Aurizon's customer base is exposed to shifts in global demand for Australian bulk commodities, both in terms of commodity volumes and mix. Demand may be impacted by commodity pricing, geopolitical developments, technological advances, decarbonisation or other megatrends as the world transitions to a greener economy. Aurizon actively monitors key market trends and indicators to better position itself to changes in market supply and demand. In considering its own position in relation to future coal demand, Aurizon's *Strategy in Uncertainty* framework includes a broad range of scenario analysis and portfolio stress-testing to assess both short-term impacts as well as risks that emerge over the medium to long term, where the timing and magnitude are less certain.

Geopolitical Risk

The geopolitical dynamic in the Asia-Pacific region, including Australia's trade relationship with China, has the potential to impact Australian coal and other bulk commodity exports to key global markets, creating downward pressure on pricing and other related financial impacts.

Extend Strategic Lever

Growth Strategy Execution Risk

Aurizon faces risks associated with the successful execution and delivery of the Enterprise Strategy and the ability to realise the future non-coal growth aspirations of the business.

The completion of the $2.35b acquisition of ORA, subject to final approval from the ACCC, introduce several transaction related risks. These include Aurizon's ability to successfully integrate the bulk haulage and freight assets into the existing Bulk business, including realising the anticipated growth aspirations of that business, as well as the successful divesture of the ECR business in QLD and NSW. Failure to effectively execute these initiatives could result in material financial and reputational damage to Aurizon.

Climate Change Risks

Aurizon acknowledges that climate change is affecting communities and industry on a global scale, resulting in environmental, social and financial implications. Through Aurizon's Climate Strategy and Action Plan (CSAP) it is focusing on specific targets, initiatives and investments to build resilience, manage risk, leverage opportunities and decarbonise its operations. 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 such as increased severity of extreme weather events can affect Aurizon through supply chain disruptions. Along with climate-related transition and physical risks, Aurizon acknowledges the challenges it faces in the delivery of its commitments under the CSAP and the risks associated with not delivering against these commitments.

The following remain examples of long-term implications of climate change that may impact Aurizon:

Transition Risks

- demand for seaborne thermal coal is subject to energy policy and fuel-mix decisions driven by energy costs, energy security, and regulation of GHG emissions (including carbon pricing mechanisms) in coal import nations
- demand for seaborne metallurgical coal is subject to factors such as economic development, steel-intensive growth, method of steel production (including emerging lower-carbon processes), import reliance, and regulation of GHG emissions (including carbon pricing mechanisms) in coal import nations
- Australia's supply of both metallurgical and thermal coal to seaborne export markets is subject to factors such as global competitiveness, operating coal mine production, and domestic climate policies
- An increase in global ambition towards decarbonisation was demonstrated in H1FY22 at COP26 in Glasgow. Heightened political pressure, community and investor concern over climate-related risks may result in an inability for Aurizon's business and customers to gain licences, funding or insurance for coal mining and transport activities. These pressures also have the potential to heighten the risk of litigation/social action against Aurizon or its customers
- carbon liability under the Safeguard Mechanism Rule and potential penalties for inappropriate carbon reporting under the National *Greenhouse and Energy Reporting (NGER) Act 2007* (Cth).

Physical Risks

- increased severity and/or frequency of extreme weather events leading to material asset damage, operational disruption and increased costs associated with asset repair and insurance.

Modern Slavery Risk

Aurizon understands that modern slavery and human trafficking can occur in many forms and recognises that it may be exposed to modern slavery risks in its supply chain that it may not be able to fully mitigate. Given the multi-tiered and complex supply chains that Aurizon operates in, there is a risk of engaging with suppliers who are either directly or indirectly implicated in modern day slavery. Failure to undertake adequate due diligence and apply the standards and processes set to minimise and address modern slavery risks could potentially have material reputational and financial damage for Aurizon.

Sustainability

Aurizon keeps stakeholders informed of our corporate governance and financial performance via announcements to the Australian Securities Exchange (ASX) and our 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 our website.

In addition to the above disclosures, we take a direct approach to reporting environmental, social and governance (ESG) disclosures to our 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. Our approach considers the GRI's principles for defining report content that covers stakeholder inclusiveness, sustainability context, materiality, and completeness.

In May 2021, Aurizon maintained a 'Leading' rating for the seventh consecutive year by the Australian Council of Superannuation Investors (ACSI) for Corporate Sustainability Reporting in Australia.

Safety

At Aurizon, we are committed to protecting ourselves, each other, and our communities.

In FY2022, we have retained two primary safety metrics to measure safety performance across the enterprise including Total Recordable Injury Frequency Rate (TRIFR) and Rail Process Safety (RPS).

TRIFR was 9.73 injuries per million hours worked, which was a 5% improvement against prior financial year. Importantly, there has also been a 2% improvement in Lost Time Injuries (LTIs). We continue to see the majority of injuries being low severity body strains. In 1HFY2022 Aurizon continued a number of injury prevention and management initiatives to reduce the frequency of these types of injuries.

RPS, which measures operational rail safety including derailments, signals passed at danger and rollingstock collisions (expressed per million train kilometres) improved 24% against the prior financial year to 3.90. Aurizon continues to progress several strategic initiatives, including TrainGuard, to strengthen RPS, along with improving yard safety interfaces to reduce the number of yard incidents which make up a large portion of RPS.

With our safety strategy and expansion into additional parts of supply chains such as port terminals, a change is required to best measure safety performance. We have introduced one of those enhanced measures, Potential Serious Injury and Fatality Frequency Rate (SIFRa+p), with an intention to phase out RPS. SIFRa+p measures the number of incidents that had the potential to cause, or did cause, serious injury or fatality. The result is expressed per million hours worked. Similar to RPS but importantly encompassing our activities across ports, terminals, road transport and broader infrastructure, this measure helps direct our efforts to preventing serious injury events across all of Aurizon's operations, including higher severity rail process events. In 1HFY2022 none of our people were seriously or fatally injured while at work.

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 or fatality.

During 1HFY2022, we have continued to embed our Safety Strategy through nine key priorities focused on building and implementing simple systems and process, understanding and controlling safety hazards and risks, and building leadership and capability that has a strong field presence.

Environment

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

In 1HFY2022, Aurizon contributed to the development of Rail Industry Safety and Standards Board's (RISSB) Train Horn Use Code of Practice (CoP). The CoP seeks to minimise horn use impacts on the community whilst maintaining safe operations, through standardisation of network rules and improved driver awareness.

Aurizon continues to work collaboratively with supply chain partners to minimise coal dust emissions associated with Aurizon's coal haulage operations. Data from the CQCN opacity monitoring stations indicated 1HFY2022 continues to yield low rates of coal dust loss from tops of wagons well below the long-term average. For further detail in relation to coal dust management and monitoring processes, refer to Aurizon's annual Sustainability Report.

Aurizon successfully transitioned its Safeguard Mechanism Facilities covering Scope 1 GHG emissions associated with rail activities in QLD and WA from 'reported' safeguard baselines to 'production-adjusted' safeguard baselines. Completion of this transition brings Aurizon's safeguard baselines up to date. To date, Aurizon has not been required to purchase or retire Australian Carbon Credit Units (ACCUs) to meet its obligations under the safeguard mechanism. This has been achieved through effective management of its scope 1 emissions intensity and reporting processes.

In late 2021, Aurizon launched its Cultural Heritage Governance Framework (CHGF). Leading the CHGF is a Commitment Statement which is '*to minimise our impact on Indigenous and non-indigenous cultural heritage through a framework founded on knowledge, understanding and respect*.' The CHGF provides an implementation framework, specifying jurisdictional requirements, articulating responsibilities, accountabilities, and providing direction to bespoke guidelines and procedures.

In 1HFY2022:

› Aurizon did not incur any fines, penalties or prosecutions arising from environmental or cultural heritage related incidents; and

› Aurizon had two notifiable environmental incidents. Remedial actions were implemented as required and no ongoing material environmental impacts are anticipated.

People

At Aurizon, our people are our greatest asset. We have more than 4,800 employees, with more than 80% living and working in regional Australia, including more than 20% of our senior management. Our Aurizon values (Safety, People, Integrity, Customer and Excellence) guide our people's work, in delivering bulk commodities to the world, and are underpinned by a workplace culture of connection to enable great outcomes.

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

› The continued roll-out of our three core Leadership programs designed to embed a safe and high performing culture where our people live our values and are engaged and enabled to do their best work. Flexible delivery approaches, implemented in response to COVID-19, including webinars, videos and virtual check-ins, have continued to ensure leaders remained supported and engaged in their development.

› Further improvements to our people, processes and systems with a focus on our annual performance, talent and succession process facilitating the development of our internal talent pool. This engages and retains valued employees, and their knowledge, while reducing external recruitment costs.

› Continuing to strive towards creating an inclusive culture by embedding flexible work practices, creating awareness and driving action for inclusion through employee representative groups (across gender, Aboriginal and Torres Strait Islander and LGBTQ inclusion), meeting workforce representation targets, actively reducing the gender pay gap and our continued commitment to employment of Veterans.

Deloitte.

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14 February 2022

Board of Directors
Aurizon Holdings Limited
900 Ann Street
Fortitude Valley, QLD 4006
Australia

Dear Board Members

Auditor's Independence Declaration to Aurizon Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Aurizon Holdings Limited.

As lead audit partner for the review of the half-year financial report of Aurizon Holdings Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- Any applicable code of professional conduct in relation to the review.

Yours faithfully

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Mathew Donaldson
Partner
Chartered Accountants

	Notes	31 December 2021 $m	31 December 2020 $m
Revenue from continuing operations	1	**1,507.7**	1,494.1
Other income		**7.5**	4.3
Total revenue and other income		**1,515.2**	1,498.4
Employee benefits expense		**(423.0)**	(422.3)
Energy and fuel		**(115.4)**	(91.8)
Track access		**(39.5)**	(46.0)
Consumables		**(206.3)**	(194.4)
Depreciation and amortisation		**(292.7)**	(284.1)
Other expenses		**(4.1)**	(5.9)
Share of net profit of investments accounted for using the equity method		**-**	0.3
Operating profit		**434.2**	454.2
Finance income		**0.8**	3.2
Finance expenses		**(65.3)**	(76.5)
Net finance costs		**(64.5)**	(73.3)
Profit before income tax		**369.7**	380.9
Income tax expense		**(112.8)**	(113.9)
Profit after tax for the six months from continuing operations		**256.9**	267.0
Profit from discontinued operations after tax	4	**-**	5.2
Profit after tax from continuing and discontinued operations attributable to owner of Aurizon Holdings Limited		**256.9**	272.2
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of Aurizon Holdings Limited			
Basic earnings per share		**14.0**	14.1
Diluted earnings per share		**13.9**	14.1
Earnings per share for profit attributable to the ordinary equity holders of Aurizon Holdings Limited			
Basic earnings per share		**14.0**	14.4
Diluted earnings per share		**13.9**	14.4

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

	31 December 2021 $m	31 December 2020 $m
Profit after tax from continuing and discontinued operations	**256.9**	272.2
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**32.3**	(12.8)
Income tax relating to changes in fair value of cash flow hedges	**(9.7)**	3.8
Exchange differences on translation of foreign operations	**0.2**	(0.6)
Other comprehensive income/(expense) for the six months, net of tax	**22.8**	(9.6)
Total comprehensive income for the six months attributable to owners of Aurizon Holdings Limited	**279.7**	262.6

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

	Notes	**31 December 2021 $m**	30 June 2021 $m
ASSETS			
Current assets			
Cash and cash equivalents		**124.5**	148.8
Trade and other receivables		**359.5**	483.8
Inventories		**159.3**	150.4
Derivative financial instruments	8	**0.3**	0.1
Current tax receivables		**-**	8.5
Other assets		**31.1**	15.3
Assets classified as held for sale		**0.1**	5.0
Total current assets		**674.8**	811.9
Non-current assets			
Inventories		**55.5**	45.9
Derivative financial instruments	8	**90.6**	125.0
Property, plant and equipment		**8,464.9**	8,483.2
Intangible assets		**185.8**	193.9
Other assets		**79.2**	78.6
Investments accounted for using the equity method		**25.7**	26.1
Total non-current assets		**8,901.7**	8,952.7
Total assets		**9,576.5**	9,764.6
LIABILITIES			
Current liabilities			
Trade and other payables		**224.2**	269.1
Borrowings	7	**36.0**	59.0
Derivative financial instruments	8	**0.3**	0.6
Current tax liabilities		**33.1**	-
Provisions		**260.6**	296.9
Other liabilities		**83.3**	91.6
Total current liabilities		**637.5**	717.2
Non-current liabilities			
Borrowings	7	**3,514.0**	3,679.0
Derivative financial instruments	8	**74.7**	66.6
Deferred tax liabilities		**746.8**	705.9
Provisions		**68.4**	64.2
Other liabilities		**241.5**	257.1
Total non-current liabilities		**4,645.4**	4,772.8
Total liabilities		**5,282.9**	5,490.0
Net assets		**4,293.6**	4,274.6
EQUITY			
Contributed equity	6	**206.6**	206.6
Reserves		**3,437.6**	3,410.5
Retained earnings		**649.4**	657.5
Total equity		**4,293.6**	4,274.6

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

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
		Attributable to owners of Aurizon Holdings Limited			
Balance at 1 July 2021		**206.6**	**3,410.5**	**657.5**	**4,274.6**
Profit for the six months		**-**	**-**	**256.9**	**256.9**
Other comprehensive income		**-**	**22.8**	**-**	**22.8**
Total comprehensive income for the six months		**-**	**22.8**	**256.9**	**279.7**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	5	**-**	**-**	**(265.0)**	**(265.0)**
Share-based payments		**-**	**4.3**	**-**	**4.3**
		-	**4.3**	**(265.0)**	**(260.7)**
Balance at 31 December 2021		**206.6**	**3,437.6**	**649.4**	**4,293.6**
Balance at 1 July 2020		506.6	3,395.1	456.0	4,357.7
Profit for the six months		-	-	272.2	272.2
Other comprehensive expense		-	(9.6)	-	(9.6)
Total comprehensive income/(expense) for the six months		-	(9.6)	272.2	262.6
Transactions with owners in their capacity as owners:					
Buy-back of ordinary shares	6	(247.1)	(0.3)	-	(247.4)
Dividends provided for or paid	5	-	-	(262.3)	(262.3)
Share-based payments		-	(0.9)	-	(0.9)
		(247.1)	(1.2)	(262.3)	(510.6)
Balance at 31 December 2020		259.5	3,384.3	465.9	4,109.7

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

	31 December 2021 $m	31 December 2020 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,800.3**	1,812.3
Payments to suppliers and employees (inclusive of GST)	**(1,053.4)**	(1,001.3)
Interest received	**0.8**	3.3
Income taxes paid	**(40.3)**	(117.0)
Principal elements of lease receipts	**3.5**	3.1
Net cash inflow from operating activities from continuing operations	**710.9**	700.4
Net cash inflow from operating activities from discontinued operations	**-**	6.0
Net cash inflow from operating activities	**710.9**	706.4
Cash flows from investing activities		
Payments for acquisition of business, subsidiary (net of cash acquired) and investment in joint venture	**(8.7)**	(63.3)
Payments for property, plant and equipment	**(282.5)**	(261.4)
Proceeds from sale of property, plant and equipment	**14.0**	9.4
Interest paid on qualifying assets	**(1.1)**	(1.9)
Payments for intangibles	**(5.9)**	(13.9)
Distributions from joint ventures	**0.5**	0.4
Net cash outflow from investing activities from continuing operations	**(283.7)**	(330.7)
Net cash outflow from investing activities from discontinued operations	**-**	(2.0)
Net cash outflow from investing activities	**(283.7)**	(332.7)
Cash flows from financing activities		
Proceeds from borrowings	**-**	779.3
Repayment of borrowings	**(113.0)**	(568.0)
Payments of transaction costs related to borrowings	**-**	(2.8)
Principal elements of lease payments	**(8.5)**	(8.1)
Interest paid	**(65.0)**	(81.6)
Payments for buy-back of ordinary shares	**-**	(247.1)
Payments of transaction costs for buy-back of ordinary shares	**-**	(0.3)
Payments for shares acquired for share based payments	**-**	(4.2)
Dividends paid to Company's shareholders	**(265.0)**	(262.3)
Net cash outflow from financing activities from continuing operations	**(451.5)**	(395.1)
Net cash inflow/(outflow) from financing activities from discontinued operations	**-**	-
Net cash outflow from financing activities	**(451.5)**	(395.1)
Net decrease in cash and cash equivalents from continuing operations	**(24.3)**	(25.4)
Net increase in cash and cash equivalents from discontinued operations	**-**	4.0
Cash and cash equivalents at the beginning of the financial year	**148.8**	29.3
Effects of exchange rate changes on cash and cash equivalents	**-**	0.1
Cash and cash equivalents at end of interim reporting period	**124.5**	8.0

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

About this report

Corporate information

Aurizon Holdings Limited (the Company) is a for-profit entity for the purpose of preparing this interim financial report and is domiciled in Australia. The consolidated interim financial report comprises the financial statements for the six months ended 31 December 2021 of the the Company and its subsidiaries (collectively referred to as the Group or Aurizon).

This interim financial report:

- has been prepared in accordance with the requirements of Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*;
- has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- is presented in Australian dollars with all values rounded to the nearest $100,000 unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;* and
- does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The annual report for the year ended 30 June 2021 is accessible at www.aurizon.com.au.

Key events and transactions for the reporting period

(a) Access revenue

2017 Access Undertaking

Under the 2017 Access Undertaking, the Weighted Average Cost of Capital (WACC) is 5.90%, increasing to 6.30% upon Aurizon Network Pty Ltd (a wholly owned subsidiary of the Group) responding to an independent capacity assessment of the Central Queensland Coal Network (CQCN) completed by the Independent Expert. The Independent Expert completed the Initial Capacity Assessment Report (ICAR) on 28 October 2021. Aurizon Network Pty Ltd provided its preliminary response to the ICAR with proposed options to address capacity deficits identified by the Independent Expert on 12 November 2021. The preliminary response triggered an immediate increase in the WACC from 5.90% to 6.30%.

The 2017 Access Undertaking approved by the Queensland Competition Authority (QCA) on 19 December 2019, assumed the ICAR would be completed by 1 March 2020 and therefore a WACC of 6.30% was applied in determining tariffs from that date. As a result of the delay in the ICAR, there has been an over-collection of access charges (the difference between 5.90% and 6.30%) in the period to 12 November 2021 of $9.3 million. The total FY2022 revenue adjustment amount will be captured in FY2024 tariffs.

Wiggins Island Rail Project (WIRP)

The Group commenced billing customers non-regulated WIRP fees with effect from March 2016 in FY2021 following a decision by the Queensland Court of Appeal.

The WIRP customers previously initiated other disputes under their respective WIRP Deeds which were the subject of an Expert Determination in February 2019. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be partially reduced. Aurizon Network Pty Ltd lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert's Determination and the WIRP customers filed their defence on 2 March 2021.

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to WIRP project costs. WIRP fees of $6.0 million have been recognised for the six months ended 31 December 2021 compared to $54.7 million for the six months ended 31 December 2020, which included $48.9 million of historical fees.

Key events and transactions for the reporting period (continued)

(b) Acquisitions

One Rail Australia LP

The Group signed a Partnership Interest Sale Agreement with Macquarie Asset Management (on behalf of its managed funds and client) on 21 October 2021 to acquire 100% of the partnership interest in One Rail Australia LP (ORA) for consideration of $2,350.0 million.

ORA comprises of two main business segments:

- Integrated bulk rail haulage and general freight assets in South Australia (SA) and the Northern Territory (NT) and below rail operator and economic owner of 2,460km of rail infrastructure including the 2,245km Tarcoola-to-Darwin railway line (ORA Bulk); and
- Coal haulage in New South Wales (NSW) and Queensland (QLD) (East Coast Rail or ECR), including a long-term coal haulage contract with Glencore for its mines in the Hunter Valley.

ORA Bulk will be integrated into the Group's bulk segment and will form a new cash generating unit (CGU), Bulk Central. ORA Bulk is the sole rail freight operator along the SA/NT corridor and commodities hauled include copper, grain, magnetite, phosphate and rare earths. Below rail infrastructure is operated by ORA Bulk under two long-term government concessions including the Tarcoola-to-Darwin Railway expiring 2054 and SA regional lines expiring 2047 and are regulated by the Essential Services Commission of South Australia (ECOSA).

ECR will be divested through a demerger or a trade sale, whichever creates greater value for shareholders.

The acquisition will be fully funded from a combination of existing bank debt facilities and new underwritten facilities. The committed acquisition facilities comprise of $1,450.0 million bank debt facilities with terms of 2 - 5 years for Aurizon Finance Pty Ltd, the financing entity for Aurizon Operations Limited (wholly owned subsidiaries of the Group) and $500.0 million secured amortising bank debt facilities with terms of 2 - 5 years for ECR.

Acquisition costs are estimated to be $50.0 million. Acquisition costs include stamp duty and advisory related fees and will be expensed to profit or loss as incurred and classified as a significant item.

Borrowing costs for the committed acquisition facilities are estimated to be $25.0 million and will be capitalised to the balance sheet and amortised to profit or loss over the expected term of the bank debt facilities.

Separation and divestment related costs, assuming a demerger option, are estimated to be $20.0 million and include advisory fees, IT system separation costs, recruitment and other costs. Separation and divestment related costs will be expensed to profit or loss as incurred and may be classified as a significant item.

The Australian Competition and Consumer Commission (ACCC) has commenced the informal merger clearance process with a provisional decision date of 10 March 2022. All other conditions precedent have been satisfied with consent received from the Australasia Railway Corporation (AARC) and the Government of South Australia. Completion is targeted for April 2022, followed by the divestment of ECR.

Kooregah Pastoral Co Pty Ltd (KPC)

The Group acquired the assets of KPC for consideration of $8.3 million on 28 October 2021. KPC is a trucking and material handling business that operates in and around Hermidale in New South Wales. Refer to note 3 for further information.

Comparative Period

Key events and transactions affecting the performance of the Group in the comparative period are disclosed within the Annual Report for the year ended 30 June 2021.

Results for the six months

IN THIS SECTION

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

1 Segment information

The Group 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 (chief operating decision-makers) assess the performance of the Group based on underlying earnings before net interest, tax, depreciation and amortisation (EBITDA) and underlying earnings before net interest and tax (EBIT). Refer to page 44 for Non-IFRS Financial Information.

The following segment information has been presented for continuing operations only.

(a) Description of reportable segments

The following summary describes the operations of each reportable segment:

Network

This segment manages the provision of access to and operation of the CQCN.

Coal

This segment provides transport of metallurgical and thermal coal from mines in Queensland and New South Wales to domestic customers and coal export terminals.

Bulk

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

Other

This segment 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.

1 Segment information (continued)

(b) Segment information

31 December 2021	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	347.3	193.5	-	-	540.8
Freight transport	-	600.1	321.8	0.8	922.7
Other services	3.8	-	9.8	1.8	15.4
Other revenue	16.9	2.4	3.5	6.0	28.8
Total revenue from external customers	368.0	796.0	335.1	8.6	1,507.7
Internal revenue					
Services revenue					
Track access	195.6	-	-	-	195.6
Freight transport	-	-	7.9	-	7.9
Other services	5.6	-	1.1	1.8	8.5
Total internal revenue	201.2	-	9.0	1.8	212.0
Total external and internal revenue[1]	569.2	796.0	344.1	10.4	1,719.7
Other income	-	-	0.3	7.2	7.5
Total revenue and other income	569.2	796.0	344.4	17.6	1,727.2
Internal elimination					(212.0)
Consolidated revenue and other income					1,515.2
Continuing EBITDA	380.4	286.2	74.5	(14.2)	726.9
Depreciation and amortisation	(170.0)	(104.4)	(17.0)	(1.3)	(292.7)
Continuing EBIT	210.4	181.8	57.5	(15.5)	434.2
Net finance costs					(64.5)
Profit before income tax from continuing operations					369.7

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

1 Segment information (continued)

(b) Segment information (continued)

31 December 2020	Network $m	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue					
Revenue from external customers					
Services revenue					
Track access	336.5	230.0	-	-	566.5
Freight transport	-	584.3	301.5	-	885.8
Other services	4.4	-	10.6	2.5	17.5
Other revenue	17.2	1.1	0.6	5.4	24.3
Total revenue from external customers	358.1	815.4	312.7	7.9	1,494.1
Internal revenue					
Services revenue					
Track access	232.1	-	-	-	232.1
Freight transport	-	-	8.5	-	8.5
Other services	2.8	-	0.3	1.7	4.8
Total internal revenue	234.9	-	8.8	1.7	245.4
Total external and internal revenue[1]	593.0	815.4	321.5	9.6	1,739.5
Other income	-	-	-	4.3	4.3
Total revenue and other income	593.0	815.4	321.5	13.9	1,743.8
Internal elimination					(245.4)
Consolidated revenue and other income					1,498.4
Continuing EBITDA	407.7	274.1	73.6	(17.1)	738.3
Depreciation and amortisation	(166.4)	(103.2)	(13.1)	(1.4)	(284.1)
Continuing EBIT	241.3	170.9	60.5	(18.5)	454.2
Net finance costs					(73.3)
Profit before income tax from continuing operations					380.9

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

2 Income tax

The Group's statutory effective tax rate for 31 December 2021 is 30.5% (31 December 2020: 29.8%).

3 Acquisition of businesses, subsidiaries and investment in joint ventures

(a) Current six months period

(i) Kooregah Pastoral Co Pty Ltd (KPC)

The Group acquired the assets of KPC for consideration of $8.3 million on 28 October 2021. KPC is a trucking and material handling business that operates in and around Hermidale in New South Wales (NSW). The acquisition includes the assets and workforce associated with the business which are expected to be complementary to Bulk's NSW operations. Goodwill of $1.8 million has been recognised which has been allocated to the Bulk NSW CGU. Acquisition costs were expensed to profit or loss. The net cash outflow from investing activities for the acquisition in the period was $7.7 million.

(b) Prior six months period

(i) Ox Mountain Limited

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

(ii) ConPorts Pty Ltd

The Group acquired 100% of the issued shares in ConPorts Pty Ltd, a shiploading services provider in Newcastle, for consideration of $42.7 million on 31 December 2020. The company was renamed Aurizon Port Services NSW Pty Ltd. The acquisition included long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines. The Group paid the contingent consideration of $1.0 million on 21 October 2021.

4 Discontinued operations

(a) Description

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

(b) Financial performance and cash flow information

Financial information relating to the discontinued operation for 31 December 2020 is set out below.

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

Capital management

IN THIS SECTION

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

5 Dividends

	Cents per Share	**$m**
Declared and paid during the period		
For the six months ended 31 December 2021		
Final dividend for 2021 (70% franked)	**14.4**	**265.0**
For the six months ended 31 December 2020		
Final dividend for 2020 (70% franked)	13.7	262.3
Proposed and unrecognised at period end		
For the six months ended 31 December 2021		
Interim dividend for 2022 (95% franked)	**10.5**	**193.3**
For the six months ended 31 December 2020		
Interim dividend for 2021 (70% franked)	14.4	266.5

6 Contributed equity

	Number of shares '000	**$m**
At 1 July 2020	1,914,643	506.6
On-market share buy-back	(60,023)	(247.1)
At 31 December 2020	1,854,620	259.5
At 1 July 2021	1,840,704	206.6
At 31 December 2021	**1,840,704**	**206.6**

7 Borrowings

	31 December 2021 $m	30 June 2021 $m
Current - Unsecured		
Bank debt facilities	**36.0**	59.0
	36.0	59.0
Non-current - Unsecured		
Medium-Term Notes	**3,133.1**	3,210.4
Bank debt facilities	**390.0**	480.0
Capitalised borrowing costs	**(9.1)**	(11.4)
	3,514.0	3,679.0
Total borrowings	**3,550.0**	3,738.0

7 Borrowings (continued)

The Group's bank debt facilities contain financial covenants. 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.

8 Financial instruments

(a) Fair values of financial instruments

The carrying amounts and fair values of the Group's financial instruments are materially the same, except for:

	31 December 2021 $m	30 June 2021 $m
Borrowings		
Carrying amount	**3,550.0**	3,738.0
Fair value	**3,675.5**	3,912.6

(b) Fair value measurements

The fair value of borrowings is estimated by discounting future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. The market interest rates were determined to be between 1.0% and 3.7% (30 June 2021: 1.0% to 3.2%) depending on the type of facility.

The Group measures the fair value of financial instruments using market observable data where possible. Fair values are categorised into three levels with each of these levels indicating the reliability of the inputs used in determining fair value. The levels of the fair value hierarchy are:

Level 1: Quoted prices for an identical asset or liability in an active market
Level 2: Directly or indirectly observable market data
Level 3: Unobservable market data.

The fair value of forward exchange contracts are determined as the unrealised gain/(loss) with reference to market rates. The fair value of interest rate swaps is determined as the net present value of contracted cash flows. The existing exposure method, which estimates 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 cross-currency interest rate swaps is determined as the net present value of contract cash flows. The future probable exposure method is applied to the estimated future cash flows to reflect the credit risk of the Group and relevant counterparties.

The Group's derivative financial instruments are classified as Level 2 (30 June 2021: Level 2). During the interim reporting period to 31 December 2021, there were no transfers between Level 1, Level 2 or Level 3 in the fair value hierarchy (30 June 2021: nil).

8 Financial instruments (continued)

	31 December 2021 $m	30 June 2021 $m
Current assets		
Foreign exchange contracts	**0.3**	0.1
Non-current assets		
Interest rate swaps	**0.8**	-
Interest rate swaps - Finance AMTN 1	**-**	1.9
CCIRS - Network EMTN 1	**89.8**	109.2
CCIRS - Network EMTN 2	**-**	13.9
	90.6	125.0
Total derivative financial instrument assets	**90.9**	125.1
Current liabilities		
Foreign exchange contracts	**(0.3)**	(0.5)
Interest rate swaps	**-**	(0.1)
	(0.3)	(0.6)
Non-current liabilities		
Interest rate swaps	**(17.2)**	(40.2)
Interest rate swaps - Finance AMTN 1	**(13.1)**	-
Interest rate swaps - Network AMTN 3	**(2.0)**	(0.4)
Interest rate swaps - Network AMTN 4	**(38.0)**	(26.0)
Interest rate swaps - Network AMTN 5	**(1.1)**	-
CCIRS - Network EMTN 2	**(3.3)**	-
	(74.7)	(66.6)
Total derivative financial instrument liabilities	**(75.0)**	(67.2)

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 of the Group.

9 Summary of significant accounting policies

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

(a) New and amended standards adopted by the Group

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

10 Critical accounting estimates and judgements

The preparation of the interim financial report requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions of assets, liabilities, income and expense.

The areas involving a higher degree of judgement or complexity and the estimates and assumptions applied are consistent with those disclosed in the Annual Report for the year ended 30 June 2021.

Unrecognised items and events after reporting date

IN THIS SECTION

Unrecognised items provides 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.

11 Commitments and contingencies

Issues relating to common law claims, product warranties and regulatory breaches are dealt with as they arise. There have been no material changes in contingent assets or liabilities since 30 June 2021.

At 31 December 2021, the Group has capital commitments contracted but not provided for in respect of the acquisition of property, plant and equipment of $134.4 million (30 June 2021: $77.3 million) which are due within one year.

12 Events occurring after the reporting period

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

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

In the opinion of the Directors of the Company:

(a) the interim financial statements and notes set out on pages 22 to 40 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the six months ended on that date, and

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

Tim Poole

Tim Poole
Chairman

Brisbane
14 February 2022

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Independent Auditor's Review Report to the Members of Aurizon Holdings Limited

Conclusion

We have reviewed the half-year financial report of Aurizon Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated balance sheet as at 31 December 2021, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 26 to 41.

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

- Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities for the Half-year Financial Report

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

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

Brisbane, 14 February 2022

Non-IFRS Financial Information

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBITDA (Statutory and Underlying), EBITDA margin – Underlying, EBIT (Statutory and 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.

EBITDA – Statutory is Group profit before net finance costs, tax, depreciation and amortisation, while EBIT – Statutory is defined as Group profit before net finance costs and tax. 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 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 amortisation.

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

ROIC is defined as underlying rolling twelve-month EBIT divided by average invested capital. Average invested capital is calculated as the rolling twelve-month average of net assets (excluding cash, borrowings, tax, derivative financial assets and liabilities). This measure is intended to ensure there is alignment between investment in infrastructure and superior returns for shareholders.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net debt excludes lease liabilities. Net gearing ratio is defined as Net debt divided by Net debt plus Equity. 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 the financial statements have not been audited in accordance with Australian Auditing Standards.

	Six months ended 31 December 2021		Six months ended 31 December 2020	
	Continuing operations $m	**Discontinued operations $m**	Continuing operations $m	Discontinued operations $m
EBITDA – Statutory & Underlying	**726.9**	**-**	738.3	7.1
Depreciation and amortisation	**292.7**	**-**	284.1	-
EBIT – Statutory & Underlying	**434.2**	**-**	454.2	7.1
Net finance costs	**64.5**	-	73.3	-
Profit before income tax	**369.7**	**-**	380.9	7.1
Income tax expense	**112.8**	**-**	113.9	1.9
NPAT – Statutory & Underlying	**256.9**	**-**	267.0	5.2
Average invested capital	**8,459**		8,383	
ROIC[1]	**10.4%**		10.8%	

Net Gearing Ratio	**31 December 2021 $m**	30 June 2021 $m
Total borrowings	**3,550.0**	3,738.0
Less: cash and cash equivalents	**(124.5)**	(148.8)
Net debt	**3,425.5**	3,589.2
Total equity	**4,293.6**	4,274.6
Total capital	**7,719.1**	7,863.8
Net Gearing Ratio	**44.4%**	45.6%
Alternative Net Gearing Ratio		
Net debt	**3,425.5**	3,589.2
Accumulated fair value adjustments	**(70.6)**	(149.0)
Alternative Net debt	**3,354.9**	3,440.2
Total equity	**4,293.6**	4,274.6
Total capital	**7,648.5**	7,714.8
Alternative Net Gearing Ratio	**43.9%**	44.6%

[1] ROIC is calculated on a rolling twelve-month underlying EBIT of $883.2 million (1HFY2022 $434.2 million; 2HFY2021 $449.0 million).