

Aurizon Network Pty Ltd

ABN 78 132 181 116

Interim Financial Report

for the six months ended 31 December 2021

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Interim Financial Report - 31 December 2021

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Aurizon Network Pty Ltd is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Aurizon Network Pty Ltd
Level 8
900 Ann Street
Fortitude Valley QLD 4006

Aurizon Network Pty Ltd
Condensed consolidated income statement
For the six months ended 31 December 2021

	Notes	31 December 2021 \$m	31 December 2020 \$m
Revenue from continuing operations	1	569.2	593.0
Employee benefits expense		(77.6)	(77.6)
Energy and fuel		(53.1)	(51.2)
Consumables		(59.9)	(56.0)
Depreciation and amortisation		(163.9)	(159.7)
Other expenses		(5.5)	(9.0)
Operating profit		209.2	239.5
Finance income		-	0.3
Finance expenses		(56.7)	(70.0)
Net finance costs		(56.7)	(69.7)
Profit before income tax		152.5	169.8
Income tax expense		(46.3)	(51.6)
Profit after tax for the six months from continuing operations		106.2	118.2
Profit for the six months attributable to owners of Aurizon Network Pty Ltd		106.2	118.2

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

Aurizon Network Pty Ltd
Condensed consolidated statement of comprehensive income
For the six months ended 31 December 2021

	31 December 2021 \$m	31 December 2020 \$m
Profit after tax from continuing operations	106.2	118.2
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	31.8	(13.3)
Income tax relating to changes in fair value of cash flow hedges	(9.5)	4.0
Other comprehensive income/(expense) for the six months, net of tax	22.3	(9.3)
Total comprehensive income for the six months attributable to owners of Aurizon Network Pty Ltd	128.5	108.9

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

Aurizon Network Pty Ltd
Condensed consolidated balance sheet
As at 31 December 2021

		31 December 2021 \$m	30 June 2021 \$m
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents		6.2	1.1
Trade and other receivables		135.1	242.0
Inventories		39.2	38.0
Other assets		7.7	1.6
Total current assets		188.2	282.7
Non-current assets			
Inventories		17.6	12.1
Derivative financial instruments	4	90.6	123.1
Property, plant and equipment		5,239.7	5,252.2
Intangible assets		85.9	90.5
Total non-current assets		5,433.8	5,477.9
Total assets		5,622.0	5,760.6
LIABILITIES			
Current liabilities			
Trade and other payables		100.1	115.0
Borrowings	3	132.0	59.0
Derivative financial instruments	4	-	0.1
Provisions		54.4	65.3
Other liabilities		80.4	111.2
Total current liabilities		366.9	350.6
Non-current liabilities			
Borrowings	3	3,033.2	3,183.6
Derivative financial instruments	4	61.6	66.6
Deferred tax liabilities		702.4	681.2
Provisions		3.2	3.0
Other liabilities		114.9	123.2
Total non-current liabilities		3,915.3	4,057.6
Total liabilities		4,282.2	4,408.2
Net assets		1,339.8	1,352.4
EQUITY			
Contributed equity		1,003.5	1,002.9
Reserves		(33.8)	(56.1)
Retained earnings		370.1	405.6
Total equity		1,339.8	1,352.4

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

Aurizon Network Pty Ltd
Condensed consolidated statement of changes in equity
For the six months ended 31 December 2021

Notes	Attributable to owners of Aurizon Network Pty Ltd			Total equity \$m
	Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 1 July 2021	1,002.9	(56.1)	405.6	1,352.4
Profit for the six months	-	-	106.2	106.2
Other comprehensive income	-	22.3	-	22.3
Total comprehensive income for the six months	-	22.3	106.2	128.5
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(141.7)	(141.7)
Capital contribution from the parent for share-based payments	0.6	-	-	0.6
	0.6	-	(141.7)	(141.1)
Balance at 31 December 2021	1,003.5	(33.8)	370.1	1,339.8
Balance at 1 July 2020	1,202.9	(68.6)	377.1	1,511.4
Profit for the six months	-	-	118.2	118.2
Other comprehensive expense	-	(9.3)	-	(9.3)
Total comprehensive income/(expense) for the six months	-	(9.3)	118.2	108.9
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(113.1)	(113.1)
Capital distribution to the parent	(147.2)	-	-	(147.2)
Capital contribution from the parent for share-based payments	0.4	-	-	0.4
	(146.8)	-	(113.1)	(259.9)
Balance at 31 December 2020	1,056.1	(77.9)	382.2	1,360.4

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

Aurizon Network Pty Ltd
Condensed consolidated statement of cash flows
For the six months ended 31 December 2021

	31 December 2021 \$m	31 December 2020 \$m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	740.6	700.2
Payments to suppliers and employees (inclusive of GST)	(301.4)	(276.0)
Interest received	-	0.3
Income taxes paid	(68.3)	(36.0)
Net cash inflow from operating activities	370.9	388.5
Cash flows from investing activities		
Payments for property, plant and equipment	(148.3)	(145.8)
Proceeds from sale of assets	0.7	1.0
Payments for intangibles	(1.7)	(4.1)
Interest paid on qualifying assets	(0.4)	(1.1)
Net cash outflow from investing activities	(149.7)	(150.0)
Cash flows from financing activities		
Proceeds from external borrowings	-	619.3
Repayment of external borrowings	(113.0)	(525.0)
Loans from related parties	96.0	-
Payment of transaction costs related to borrowings	-	(2.2)
Capital distribution to parent for share based payments	-	(0.3)
Interest paid	(57.1)	(75.4)
Dividends paid to Company's shareholder	(141.7)	(113.1)
Payments for reduction of contributed equity	-	(147.2)
Finance lease payments	(0.1)	-
Net cash outflow from financing activities	(215.9)	(243.9)
Net increase/(decrease) in cash and cash equivalents from continuing operations	5.3	(5.4)
Cash and cash equivalents at the beginning of the financial year	1.1	6.7
Effects of exchange rate changes on cash and cash equivalents	(0.2)	(0.3)
Cash and cash equivalents at end of interim reporting period	6.2	1.0

About this report

Corporate information

Aurizon Network Pty Ltd ("the Company") is a for-profit entity for the purpose of preparing this interim financial report and is a company limited by shares, incorporated and domiciled in Australia. The consolidated interim financial report comprise the financial statements for the six months ended 31 December 2021 of the Company and its subsidiaries (collectively referred to as the Group or Aurizon Network). Aurizon Network Pty Ltd is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group.

The interim financial report:

- has been prepared in accordance with the requirements of Accounting Standard AASB 134 *Interim Financial Reporting*;
- 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. 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 the Company 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. The Company 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. The Company 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.

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 Revenue

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1 Revenue

The Group derives the following types of revenue from the provision of services over time:

	31 December 2021 \$m	31 December 2020 \$m
Revenue from continuing operations		
Services revenue		
Track access	542.9	568.6
Other services	9.4	7.2
Other revenue	16.9	17.2
Total revenue from continuing operations	569.2	593.0

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.

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2 Dividends

	\$m
Declared and paid during the period	
For the six months ended 31 December 2021	
Final dividend for 2021 (unfranked)	141.7
For the six months ended 31 December 2020	
Final dividend for 2020 (unfranked)	113.1
Proposed and unrecognised at period end	
For the six months ended 31 December 2021	
Interim dividend for 2022 (unfranked)	88.0
For the six months ended 31 December 2020	
Interim dividend for 2021 (unfranked)	118.2

3 Borrowings

	31 December 2021 \$m	30 June 2021 \$m
Current - Unsecured		
Bank debt facilities	36.0	59.0
Loans from related parties	96.0	-
	132.0	59.0
Non-current - Unsecured		
Medium-Term Notes	2,649.4	2,711.5
Bank debt facilities	390.0	480.0
Capitalised borrowing costs	(6.2)	(7.9)
	3,033.2	3,183.6
Total borrowings	3,165.2	3,242.6

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.

The Group may also draw upon funds from Aurizon Operations Limited (related party) pursuant to the Intra Group Loan Agreement.

4 Financial instruments

(a) Fair values of other financial instruments (unrecognised)

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	3,165.2	3,242.6
Fair value	3,192.0	3,407.2

(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 gains/(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).

4 Financial instruments (continued)

	31 December 2021 \$m	30 June 2021 \$m
Non-current assets		
Interest rate swaps	0.8	-
CCIRS - EMTN 1	89.8	109.2
CCIRS - EMTN 2	-	13.9
	90.6	123.1
Total derivative financial instrument assets		
Current liabilities		
Interest rate swaps	-	(0.1)
Non-current liabilities		
Interest rate swaps	(17.2)	(40.2)
Interest rate swaps - AMTN 3	(2.0)	(0.4)
Interest rate swaps - AMTN 4	(38.0)	(26.0)
Interest rate swaps - AMTN 5	(1.1)	-
CCIRS - EMTN 2	(3.3)	-
	(61.6)	(66.6)
Total derivative financial instrument liabilities	(61.6)	(66.7)

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.

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5 Summary of significant accounting policies

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

(a) New and amended standards adopted by the Group

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

6 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.

7	Commitments and contingencies	Page 17
8	Events occurring after the reporting period	Page 17

7 Commitments and contingencies

Issues relating to common law claims and product warranties 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 \$41.8 million (30 June 2021: \$34.9 million) which are due within one year.

8 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 2 to 17:
 - (i) comply with Accounting Standards; and
 - (ii) give 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 Network Pty Ltd will be able to pay its debts as and when they become due and payable.



L Strambi
Director

Brisbane
14 February 2022

Independent Auditor's Review Report to the Members of Aurizon Network Pty Ltd

Conclusion

We have reviewed the half-year financial report of Aurizon Network Pty Ltd (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 7 to 18.

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 does not present fairly, in all material respects, the Group's financial position as at 31 December 2021 and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the accounting policies as described in the notes to the financial statements.

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.

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 the accounting policies as described in the notes to the financial statements 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 does not present fairly, in all material respects, the financial position of the Group as at 31 December 2021 and of its financial performance and its cash flows for the half-year ended on that date in accordance with the accounting policies as described in the notes to the financial statements.

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

Matthew Donaldson
Partner
Chartered Accountants

Brisbane, 14 February 2022