

Aurizon Operations Limited

ABN 47 564 947 264

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 Operations Limited is a Company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Aurizon Operations Limited
Level 8
900 Ann Street
Fortitude Valley QLD 4006

Aurizon Operations Limited
Condensed consolidated income statement
For the six months ended 31 December 2021

	Notes	31 December 2021 \$m
Revenue from continuing operations	1	1,150.5
Other income		7.5
Total revenue and other income		<u>1,158.0</u>
Employee benefits expense		(345.3)
Energy and fuel		(63.2)
Track access		(234.2)
Consumables		(159.0)
Depreciation and amortisation		(129.9)
Other expenses		(2.4)
Operating profit		<u>224.0</u>
Finance income		1.2
Finance expenses		(9.0)
Net finance costs		<u>(7.8)</u>
Profit before income tax		216.2
Income tax expense		(66.7)
Profit after tax for the six months from continuing operations		<u>149.5</u>
Profit after tax from continuing and discontinued operations attributable to owners of Aurizon Operations Limited		<u>149.5</u>

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

Aurizon Operations Limited
Condensed consolidated statement of comprehensive income
For the six months ended 31 December 2021

	31 December 2021 \$m
Profit after tax from continuing and discontinued operations	149.5
Other comprehensive income	
<i>Items that may be reclassified to profit or loss</i>	
Changes in the fair value of cash flow hedges	0.5
Income tax relating to changes in the fair value of cash flow hedges	(0.2)
Exchange differences on translation of foreign operations	0.2
Other comprehensive income/(expense) for the six months, net of tax	0.5
Total comprehensive income for the six months attributable to owners of Aurizon Operations Limited	150.0

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

Aurizon Operations Limited
Condensed consolidated balance sheet
As at 31 December 2021

		31 December 2021
	Notes	\$m
ASSETS		
Current assets		
Cash and cash equivalents		118.3
Trade and other receivables		366.4
Inventories		120.1
Derivative financial instruments	5	0.3
Other assets		23.3
Assets classified as held for sale		0.1
Total current assets		<u>628.5</u>
Non-current assets		
Inventories		37.9
Property, plant and equipment		3,254.6
Intangible assets		99.9
Other assets		79.2
Investments accounted for using the equity method		25.7
Total non-current assets		<u>3,497.3</u>
Total assets		<u>4,125.8</u>
LIABILITIES		
Current liabilities		
Trade and other payables		170.0
Derivative financial instruments	5	0.3
Provisions		205.9
Other liabilities		37.6
Total current liabilities		<u>413.8</u>
Non-current liabilities		
Borrowings	4	480.9
Derivative financial instruments	5	13.1
Deferred tax liabilities		44.1
Provisions		65.0
Other liabilities		127.6
Total non-current liabilities		<u>730.7</u>
Total liabilities		<u>1,144.5</u>
Net assets		<u>2,981.3</u>
EQUITY		
Contributed equity		2,715.6
Reserves		0.5
Retained earnings		265.2
Total equity		<u>2,981.3</u>

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

Aurizon Operations Limited
Condensed consolidated statement of changes in equity
For the six months ended 31 December 2021

	Notes	Attributable to owners of Aurizon Operations Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 1 July 2021		2,712.0	-	239.1	2,951.1
Profit for the six months		-	-	149.5	149.5
Other comprehensive income		-	0.5	-	0.5
Total comprehensive income for the six months		-	0.5	149.5	150.0
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	3	-	-	(123.4)	(123.4)
Capital distribution from the parent for share-based payments		3.6	-	-	3.6
		3.6	-	(123.4)	(119.8)
Balance at 31 December 2021		2,715.6	0.5	265.2	2,981.3

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

Aurizon Operations Limited
Condensed consolidated statement of cash flows
For the six months ended 31 December 2021

	31 December 2021 \$m
Cash flows from operating activities	
Receipts from customers (inclusive of GST)	1,297.9
Payments to suppliers and employees (inclusive of GST)	(990.3)
Interest received	1.2
Income taxes paid	27.7
Principal elements of lease receipts	3.5
Net cash inflow from operating activities from continuing operations	340.0
Net cash inflow from operating activities from discontinued operations	-
Net cash inflow from operating activities	340.0
Cash flows from investing activities	
Payments for acquisition of business, subsidiary (net of cash acquired) and investment in joint venture	(8.7)
Payments for property, plant and equipment	(134.2)
Proceeds from sale of property, plant and equipment	13.4
Interest paid on qualifying assets	(0.7)
Payments for intangibles	(4.2)
Dividends from joint ventures and associates	0.5
Net cash outflow from investing activities from continuing operations	(133.9)
Net cash outflow from investing activities from discontinued operations	-
Net cash outflow from investing activities	(133.9)
Cash flows from financing activities	
Proceeds from/repayment of loans from related parties	(96.0)
Proceeds from settlement of related party receivables	0.3
Principal elements of lease payments	(8.4)
Interest paid	(8.2)
Dividends paid to Company's shareholder	(123.4)
Net cash outflow from financing activities from continuing operations	(235.7)
Net cash inflow/(outflow) from financing activities from discontinued operations	-
Net cash outflow from financing activities	(235.7)
Net decrease in cash and cash equivalents from continuing operations	(29.6)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	-
Cash and cash equivalents at the beginning of the financial year	147.7
Effects of exchange rate changes on cash and cash equivalents	0.2
Cash and cash equivalents at end of interim reporting period	118.3

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

About this report

Corporate information

Aurizon Operations Limited (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 comprises the financial statement for the six months ended 31 December 2021 of the Company and its subsidiaries (collectively referred to as the Group or Aurizon Operations). Aurizon Operations Limited is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group.

This interim financial report is a special purpose financial report, which has been prepared to satisfy the information requirements of the Directors.

The special purpose interim financial report:

- has been prepared in accordance with the requirements of Accounting Standard *AASB 134 Interim Financial Reporting*, except that the interim financial report does not include comparative information;
- 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) Acquisitions

One Rail Australia LP

The Aurizon 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 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).

The ownership interest in ECR will be held by a related party entity within the Aurizon Group and won't form part of Aurizon Operations.

The acquisition will be fully funded from a combination of existing bank debt facilities and new underwritten facilities. The committed acquisition facilities include \$1,450.0 million bank debt facilities with terms of 2 - 5 years for Aurizon Finance Pty Ltd, a wholly-owned subsidiary and the financing entity for Aurizon Operations.

Transaction costs will be expensed to profit or loss as incurred and classified as a significant item. Borrowing costs for the committed acquisition facilities will be capitalised to the balance sheet and amortised to profit or loss over the expected term of the bank debt facilities.

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.

Key events and transactions for the reporting period (continued)

(a) Business combinations (continued)

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 2 for further information.

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	Page 10
2	Acquisition of businesses, subsidiaries and interest in joint ventures	Page 12

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). These measures are not defined under IFRS and are therefore termed Non-IFRS measures. Underlying can differ from statutory due to the exclusion of significant items that permits a more appropriate and meaningful analysis of the underlying performance on a comparative basis. There are no significant items for the six months period to 31 December 2021 and therefore underlying is consistent with statutory.

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:

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 results

31 December 2021	Coal \$m	Bulk \$m	Other \$m	Total Continuing Operations \$m
Revenue				
Services revenue				
Track access	193.5	-	-	193.5
Freight transport	600.1	329.7	0.8	930.6
Other services	-	10.9	3.6	14.5
Other revenue	2.4	3.5	6.0	11.9
Total revenue¹	796.0	344.1	10.4	1,150.5
Other income	-	0.3	7.2	7.5
Total revenue and other income²	796.0	344.4	17.6	1,158.0
Continuing EBITDA	286.2	74.5	(6.8)	353.9
Depreciation and amortisation	(104.4)	(17.0)	(8.5)	(129.9)
Continuing EBIT	181.8	57.5	(15.3)	224.0
Net finance costs				(7.8)
Profit before income tax from continuing operations				216.2

¹ Includes \$10.8 million of related party revenue.

² The Group derives revenue from the provision of services over time.

2 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 the Bulk 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.

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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5	Financial instruments	Page 15

3 Dividends

	\$m
Declared and paid during the period	
For the six months ended 31 December 2021	
Final dividend for 2021 (unfranked)	123.4
Proposed and unrecognised at period end	
For the six months ended 31 December 2021	
Interim dividend for 2022 (unfranked)	105.3

4 Borrowings

	31 December 2021 \$m
Non-current - Unsecured	
Medium-Term Notes	483.8
Capitalised borrowing costs	(2.9)
	480.9
Total borrowings	480.9

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.

5 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

Borrowings

Carrying amount	480.9
Fair value	483.4

(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 3.6% 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 Group's derivative financial instruments are classified as 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.

31 December
2021
\$m

Current assets

Foreign exchange contracts	0.3
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Non-current assets

Total derivative financial instrument assets	0.3
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Current liabilities

Foreign exchange contracts	(0.3)
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Non-current liabilities

Interest rate swaps - Finance AMTN 1	(13.1)
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Total derivative financial instrument liabilities	(13.4)
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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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7	Critical accounting estimates and judgements	Page 17

6 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.

(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.

7 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.

8	Commitments and contingencies	Page 19
9	Events occurring after the reporting period	Page 19

8 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 \$92.6 million which are due within one year.

9 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.

As described on page 7, the special purpose interim financial report has been prepared to satisfy the information requirements of the Directors.

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 19:
 - (i) comply with Accounting Standards, except that the interim financial report does not include comparative information; 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 Operations Limited will be able to pay its debts as and when they become due and payable.



A Harding
Director

Brisbane
14 February 2022

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

Conclusion

We have reviewed the half-year financial report, being a special purpose financial report, of Aurizon Operations 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 7 to 20.

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 basis of preparation and 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.

Emphasis of Matter – Basis of Preparation

We draw attention to page 7 of the financial statements which describes the basis of preparation. The half-year financial report has been prepared to satisfy the information requirements of the directors. As a result, the financial report may not be suitable for other purposes. Our conclusion is not modified in respect of this matter.

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 basis of preparation and 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 basis of preparation and 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
Partner
Chartered Accountants

Brisbane, 14 February 2022