

Aurizon Holdings Limited

ABN 14 146 335 622

Interim Financial Report for the six months ended 31 December 2022

Interim Financial Report

for the six months ended 31 December 2022

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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 2022.

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
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 Australia. Bulk also manages the Tarcoola-to-Darwin rail infrastructure, and the interstate rail freight network in South Australia.

Network

Manages the provision of access to the Central Queensland Coal Network (CQCN) below rail infrastructure and operation and maintenance of the network.

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 4 to 16 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 2022		
Final dividend for 2022 (100% franked)	10.9	201
For the six months ended 31 December 2021		
Final dividend for 2021 (70% franked)	14.4	265

The Directors have declared a 100% franked interim dividend of 7.0 cents per ordinary share for the six months ended 31 December 2022. The Conduit Foreign Income component of the dividend is nil. The Record Date for determining dividend entitlements for the dividend declared is 28 February 2023. The payment date is 29 March 2023.

Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000,000 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 17.

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



Tim Poole
Chairman

Brisbane
13 February 2023

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 EBIT (Statutory and Underlying), EBITDA (Statutory and Underlying), EBITDA margin - 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 47. Unless otherwise noted, the Operating and Financial Review information excludes discontinued operations being One Rail Australia Holdings Limited.

1. Half on Half Comparison

Financial Summary

(\$m)		1HFY2023	1HFY2022	Variance
Total revenue		1,694	1,515	12%
Operating costs				
Employee benefits		(472)	(423)	(12%)
Energy and fuel		(236)	(115)	(105%)
Track access		(52)	(40)	(30%)
Consumables		(250)	(206)	(21%)
Other		(11)	(4)	(175%)
EBITDA		673	727	(7%)
	- statutory	626	727	(14%)
Depreciation and amortisation		(328)	(293)	(12%)
EBIT		345	434	(21%)
	- statutory	298	434	(31%)
Net finance costs		(102)	(64)	(59%)
Income tax expense		(74)	(113)	35%
	- statutory	(66)	(113)	42%
NPAT		169	257	(34%)
	- statutory	130	257	(49%)
Profit after tax from discontinued operations	- statutory	(46)	-	-
NPAT (group)	- statutory	84	257	(67%)
Earnings per share¹		9.2	14.0	(34%)
	- statutory	7.1	14.0	(49%)
Earnings per share¹ (continuing and discontinued operations)		10.6	14.0	(24%)
	- statutory	4.6	14.0	(67%)
Return on invested capital (ROIC) ²		8.5%	10.4%	(1.9ppt)
Net cashflow from operating activities		421	711	(41%)
Interim dividend per share (cps)		7.0	10.5	(33%)
Gearing (net debt / (net debt + equity)) (group)		55.0%	44.4%	(10.6ppt)
Net tangible assets per share (\$) (group)		2.2	2.2	-
People (FTE)		5,390	4,872	(11%)
Labour costs ³ / Revenue		27.6%	27.6%	-

¹ Calculated on weighted average number of shares on issue – 1,841m

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, and assets and liabilities held for sale)

³ 1HFY2023 excludes \$4m redundancy costs (1HFY2022 excludes \$4m redundancy costs)

EBITDA by Segment

(\$m)	1HFY2023	1HFY2022	Variance
Coal	230	286	(20%)
Bulk	100	75	33%
Network	363	380	(4%)
Other	(20)	(14)	(43%)
Group (Continuing operations)	673	727	(7%)

Group Performance Overview

Group EBITDA decreased \$54m or 7% due to lower earnings in Coal and Network which was principally driven by lower volumes from the impact of prolonged wet weather. This was partly offset by higher Bulk earnings following the completion of the acquisition of One Rail Australia (now Bulk Central) in July 2022. Bulk also benefited from higher grain volumes but this was more than offset by impacts in Bulk East from wet weather, several derailments and customer specific production issues. The small adverse move in Other EBITDA was from a reduction in asset sales compared to the prior year.

The inclusion of Bulk Central and an increase in fuel and energy prices were the major contributors to the 12% increase in revenue and the 30% increase in operating costs. Fuel and energy is largely pass-through and is recorded in both revenue and operating costs. If Bulk Central costs, fuel and energy and access (also pass-through) costs were removed, the increase in operating costs would be 7%. This cost increase is mostly in the Bulk business and supports the additional volumes and services being added outside of Bulk Central.

Depreciation increased \$35m or 12% primarily due to capital expenditure in Bulk to support growth and the impact from the inclusion of Bulk Central. With the increase in depreciation, EBIT declined \$89m or 21%.

ROIC was 1.9ppts lower with the decreased EBIT and higher invested capital for Bulk growth – both Bulk Central and other equipment investments.

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)	1HFY2023	1HFY2022
Continuing operations		
Underlying EBITDA	673	727
Depreciation and amortisation	(328)	(293)
Underlying EBIT	345	434
Significant items – Acquisition costs	(47)	-
Statutory EBIT	298	434
Net finance costs	(102)	(64)
Statutory Profit before tax	196	370
Income tax expense	(66)	(113)
Statutory NPAT – Continuing operations	130	257
Continuing operations significant adjustments, net of tax	39	-
Underlying NPAT – Continuing operations	169	257
Statutory NPAT – Discontinued operations	(46)	-
Discontinued operations significant adjustments, net of tax	73	-
Underlying NPAT – Discontinued operations	27	-
Statutory NPAT – Continuing and discontinued operations	84	257
Underlying NPAT – Continuing and discontinued operations	196	257

Acquisition costs for One Rail Australia of \$47m (\$39m post tax) have been classified as a significant adjustment. This includes landholder duty, advisory fees and other costs. Significant adjustments for discontinued operations of \$98m (\$73m post tax) comprise \$23m for sale and divestment costs and \$75m for the impairment of assets held for sale.

Balance Sheet Summary

(\$m)	31 Dec. 2022	30 Jun. 2022
Assets classified as held for sale	962	-
Other current assets	923	860
Total current assets	1,885	860
Property, plant and equipment (PP&E)	9,910	8,416
Other non-current assets	411	400
Total non-current assets	10,321	8,816
Total Assets	12,206	9,676
Liabilities directly associated with assets classified as held for sale	527	-
Total borrowings	5,341	3,221
Other current liabilities	673	713
Other non-current liabilities	1,389	1,330
Total Liabilities	7,930	5,264
Net Assets	4,276	4,412
Gearing (net debt / (net debt + equity))	55.0%	40.9%

Balance Sheet Movements

Current assets increased by \$1,025m largely due to:

- › East Coast Rail classified as a discontinued operation held for sale on the acquisition of One Rail Australia of \$962m
- › Increase in trade and other receivables of \$60m and inventories of \$39m predominately due to the acquisition of One Rail Australia
- › Increase in other assets of \$27m, including the timing of insurance prepayments

This was partly offset by a reduction in cash and cash equivalents of \$51m and derivative financial instruments of \$18m.

Non-current assets increased by \$1,505m including the provisional fair value of One Rail Australia property, plant and equipment of \$1,409m and capital additions of \$402m, partly offset by depreciation of \$314m.

Current liabilities, excluding borrowings, increased by \$487m largely due to:

- › East Coast Rail liabilities of \$527m, including borrowings, classified as held for sale on acquisition of One Rail Australia
- › Increase in trade and other payables of \$28m due to an increase in capital and general accruals from the acquisition of One Rail Australia, partly offset by a reduction in trade payables
- › Increase in other liabilities of \$19m due an increase in contract liabilities and period end payroll accruals

This was partly offset by a decrease in current tax liabilities of \$69m due to the timing of payment of tax liabilities and provisions of \$19m primarily due to the timing of payments for short-term incentives.

Total borrowings increased by \$2,120m due to the acquisition of One Rail Australia and funding for capital purchases including other Bulk growth.

Other non-current liabilities increased by \$59m largely due to a \$34m increase in net deferred tax liabilities and \$18m unfavourable valuation of derivative financial instruments.

Gearing (net debt / (net debt + equity)) was 55.0% as at 31 December 2022 reflecting higher borrowings.

Cash Flow Summary

(\$m)	1HFY2023	1HFY2022
Statutory EBITDA (Continuing operations)	626	727
Working capital and other movements	(100)	20
Non-cash adjustments - asset impairments	5	-
Cash flows from operations from Continuing operations	531	747
Interest received	2	1
Income taxes paid	(116)	(40)
Principal elements of lease receipts	4	3
Net cash inflow from operating activities from Continuing operations	421	711
Net operating cash flows from Discontinued operations	37	-
Net operating cash flows	458	711
Cash flows from investing activities		
Payments for PP&E and intangibles, net of interest paid on qualifying assets	(413)	(289)
Payment for acquisition of business, subsidiary and investment in joint venture	(1,404)	(9)
Distributions from joint ventures and proceeds from sale of PP&E	4	15
Net cash outflow from investing activities from Continuing operations	(1,813)	(283)
Net investing cash flows from Discontinued operations	(940)	-
Net investing cash flows	(2,753)	(283)
Cash flows from financing activities		
Net proceeds/(repayments) from borrowings	2,131	(113)
Payment of transaction costs related to borrowings	(9)	-
Payment for share buy-back, share based payments and transaction costs	(7)	-
Interest paid	(91)	(65)
Dividends paid to Company shareholders	(201)	(265)
Principle elements of lease payments	(10)	(9)
Net cash outflow from financing activities from Continuing operations	1,813	(452)
Net financing cash flows from Discontinued operations	468	-
Net financing cash flows	2,281	(452)
Net increase/(decrease) in cash from Continuing operations	421	(24)
Net decrease in cash from Discontinuing operations	(435)	-
Free Cash Flow (FCF)⁴ from Continuing operations	95	401

Cash Flow Movements

Net cash inflow from operating activities from continuing operations decreased by \$290m (41%) to \$421m largely due to:

- › Reduction in EBITDA and unfavourable working capital. This predominantly relates to Network working capital including a reduction in Take-or-Pay received of \$55m and the accrual of Energy Charge tariff revenue of \$37m
- › Increase in income taxes paid in comparison to the prior comparative period which included a tax benefit recognised on the disposal of the shares held in Aquila;

Net cash outflow from investing activities from continuing operations increased by \$1,530m (541%) to \$1,813m, due to the acquisition of One Rail Australia and increase in capital expenditure in the period. Excluding this acquisition cost of \$1,404m, the increase was \$126m or 45% with an increase in growth capex to support new contracts and future services in the Bulk business across a range of commodities throughout Australia.

Net cash inflow from financing activities from continuing operations increased by \$2,265m (501%) to \$1,813m, due to the drawdown of borrowings to fund the acquisition of One Rail Australia and capital expenditure in the period.

⁴ Free Cash Flow defined as net cash flow from operating activities less non-growth capex and interest paid. It excludes growth capex of \$135m, and acquisition of One Rail Australia (\$1,404m) and cash costs associated with the acquisition (\$39m).

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 One Rail Australia with the transaction underpinned by fully underwritten committed debt facilities. There was a \$1.67bn increase in total bank debt for Aurizon Operations sourced from existing and \$1.45bn of new facilities with tenors of 2-5 years.

East Coast Rail received \$500m in secured, amortising bank debt with terms of 2-5 years in July, part of which included a bridging facility. During 1HFY2023 a 10-year US Private Placement was issued with proceeds used to refinance the bridging facility and part of the 5-year bank debt facility. All debt will remain with East Coast Rail on completion of the sale to Magnetic Rail Group as noted below.

Aurizon Network issued a 10-year \$50m A\$ Private Placement and 12-year \$20m A\$ Private Placement in December 2022. Subsequent to the balance date in January 2023, Aurizon Network re-financed its bilateral bank facilities with maturities now in FY2026 – FY2028. In respect of 1HFY2023:

- › Weighted average debt maturity tenor was 3.3 years as at 31 January 2023 (after the Network bank debt re-financing), compared to 3.4 years in FY2022
- › Group interest cost on drawn debt was 4.0% (FY2022: 3.4%)
- › Available liquidity (undrawn facilities plus cash) as at 31 December 2022 was \$1,134m
- › Group gearing (net debt / (net debt + equity))⁵ as at 31 December 2022 was 55.0% (FY2022: 40.9%)
- › Aurizon Network's gearing (net debt / Regulatory Asset Base (excluding Access Facilitation Deeds)) as at 31 December 2022 was 65.2% (FY2022: 53.7%)
- › Aurizon Operations' gearing (net debt / (net debt + equity)) as at 31 December 2022 was 40.7%⁶ (FY2022: 5.6%)
- › Aurizon Operations' and Aurizon Network's credit ratings remain unchanged at BBB+/Baa1.

Dividend

The Board has declared an interim dividend for FY2023 of 7.0cps (100% franked) based on a payout ratio of 75% in respect of underlying NPAT from continuing operations.

The relevant interim dividend dates are:

- › 27 February 2023 – ex-dividend date
- › 28 February 2023 – record date
- › 29 March 2023 – payment date

Tax

Underlying income tax expense from continuing operations for 1HFY2023 was \$74m. Statutory income tax expense for continuing operations was \$66m with an income tax benefit of \$8m from the payment of acquisition costs which are expected to be tax deductible and have been treated as a significant adjustment.

The Group statutory effective tax rate and cash tax rate was 38% and 37% respectively, which is more than 30% due to non-deductible landholder duty arising in respect of the acquisition of One Rail Australia, and a non-deductible impairment in discontinued operations. The cash tax rate for continuing operations was 23% which is less than 30% primarily due to accelerated fixed asset related adjustments. The underlying effective tax rate⁷ for FY2023 is expected to be in the range of 29-31% and the underlying cash tax rate⁸ 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 acquisition of One Rail Australia on 29 July 2022 comprised two business segments, including East Coast Rail, a coal haulage business in New South Wales and Queensland.

The investments held in the East Coast Rail entities were transferred to One Rail Australia Holdings Limited (ORAH) (formerly NHK Pty Ltd), a subsidiary of the Company, on 29 July 2022 and classified as a discontinued operation held for sale. The Company signed a binding sale agreement with Magnetic Rail Group Pty Ltd (Magnetic) on 16 December 2022 to sell 100% of the shares of ORAH. The divestment is in accordance with the Company's Undertaking to the Australian Competition and Consumer Commission (ACCC) as part of the acquisition of One Rail Australia.

The ACCC has provided its approval for the sale to proceed and the sale agreement is now unconditional. Accordingly, the Company and Magnetic are working towards completing the transaction and expect that to occur in February 2023.

⁵ Group gearing excludes the East Coast Rail net debt classified as held for sale.

⁶ Net debt includes \$53m loan receivable from Aurizon Network

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 export coal industry, the nation's second largest source of export revenue in CY2022. 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)	1HFY2023	1HFY2022	Variance
Revenue			
Above Rail ⁹	582	610	(5%)
Track Access ⁹	175	184	(5%)
Other	4	2	100%
Total revenue	761	796	(4%)
Track Access costs	(185)	(192)	4%
Operating costs	(346)	(318)	(9%)
EBITDA	230	286	(20%)
Depreciation and amortisation	(100)	(104)	4%
EBIT	130	182	(29%)

Metrics

	1HFY2023	1HFY2022	Variance
Total tonnes hauled (m)	90.5	98.7	(8%)
CQCN	66.9	70.3	(5%)
NSW & SEQ	23.6	28.4	(17%)
Contract utilisation	78%	83%	(5ppt)
Total NTK (b)	20.9	23.2	(10%)
CQCN	16.5	17.8	(7%)
NSW & SEQ	4.4	5.4	(19%)
Average haul length (km)	231	235	(2%)
Total revenue / NTK (\$/'000 NTK)	36.4	34.3	6%
Above Rail Revenue / NTK (\$/'000 NTK)	27.8	26.3	6%
Operating Ratio	82.9%	77.1%	(5.8ppt)
Opex / NTK (\$/'000 NTK)	30.2	26.5	(14%)
Opex / NTK (excluding access costs) (\$/'000 NTK)	21.3	18.2	(17%)
Locomotive productivity ('000 NTK / Active locomotive day)	369.3	390.1	(5%)
Active locomotives (as at 31 December)	310	319	(3%)
Wagon productivity ('000 NTK / Active wagon day)	14.0	14.7	(5%)
Active wagons (as at 31 December)	8,077	8,449	(4%)
Payload (tonnes)	7,889	7,869	-

Coal Performance Overview

Coal EBITDA decreased \$56m (20%) to \$230m primarily due to a decrease in volumes.

Volumes decreased 8.2mt (8%) to 90.5mt with reductions in the Central Queensland Coal Network (CQCN), NSW and South-East Queensland (SEQ).

- › Across the CQCN, volumes decreased by 3.4mt (5%) to 66.9mt with performance impacted by a range of factors including prolonged wet weather, mine production issues and labour availability. This was partly offset by increased railings from the new Anglo contract.
- › In NSW and SEQ, volumes decreased by 4.8mt (17%) to 23.6mt due to the end of contracts for Yancoal Moolarben and New Acland in addition to prolonged wet weather, including major flooding in July and customer specific production issues.

⁹ \$10m has been reclassified from access revenue to above rail revenue for 1HFY2022 for consistency with current year presentation.

Aurizon Holdings Limited
Directors' Report
Operating and Financial Review
31 December 2022
(continued)

Coal revenue decreased by \$35m (4%) to \$761m largely due to the reduction in volumes. Revenue yield improved due to CPI and higher fuel revenue from higher fuel prices. Excluding fuel, Above Rail revenue per NTK decreased by 2%, impacted by the contract cessations detailed above and a reduction in average contract rates.

Total operating costs increased \$21m (4%) to \$531m largely due to higher fuel costs partly offset by lower track access. The major drivers of these movements are:

- › Track access costs decreased by \$7m (4%) due to lower volumes, partly offset by higher CQC electric access cost.
- › Other operating costs increased \$28m (9%) primarily due to higher fuel due to higher prices. Excluding fuel, other operating costs increased \$4m due to minor increases in traincrew and maintenance costs.

Depreciation decreased \$4m (4%), resulting in an EBIT decrease of 29% against the prior comparative period.

Operationally, key productivity metrics were generally lower against the prior comparative period due to lower volumes. Active locomotives decreased with the transfer of units to support Bulk growth.

Contract update

- › Executed a 5-year maintenance agreement with BMA Rail commencing 1 July 2023

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 Australia. Bulk also manages the Tarcoola-to-Darwin rail infrastructure and the interstate rail freight network in South Australia.

Financial Summary

(\$m)	1HFY2023	1HFY2022	Variance
Revenue			
Freight Transport	511	330	55%
Other	10	14	(29%)
Total revenue	521	344	51%
Operating costs	(421)	(269)	(57%)
EBITDA	100	75	33%
Depreciation and amortisation	(53)	(17)	(212%)
EBIT	47	58	(19%)
Total tonnes hauled (m)	33.6	24.8	35%
Operating Ratio (%)	91.0%	83.1%	(7.9ppt)

Bulk Performance Overview

Bulk EBITDA increased \$25m (33%) to \$100m due to the acquisition of One Rail Australia (Bulk Central) on 29 July 2022 and increased grain volumes compared to the prior comparative period. Revenue increased \$177m (51%) to \$521m with:

- › The inclusion of Bulk Central from 29 July 2022
- › Stronger grain volumes nationally, including in Western Australia (WA) with the CBH contract which commenced during 1HFY2022
- › Higher fuel prices than the prior comparative period
- › Marginal revenue yield improvements including CPI increases.

Partly offsetting this was the loss of the QLD livestock contract in 2HFY2022 and some significant weather, derailment events and customer production issues in QLD and NSW.

In Bulk East, volumes increased by 0.3mt driven by stronger grain volumes, the commencement of Centrex volumes in QLD, partly offset by the loss of the livestock contract. In Bulk West, iron ore volumes increased 0.3mt largely due to higher volumes from KML. Non-iron ore Bulk West volumes increased 2.6mt largely due to the ramp up of CBH grain volumes, partly offset by lower volumes from the Alumina customers. Volumes in Bulk Central increased by 5.7mt due to the acquisition of One Rail Australia on 29 July 2022.

Operating costs increased \$152m (57%) with:

- › The acquisition of One Rail Australia from 29 July 2022
- › Higher fuel prices than the prior comparative period
- › Increased costs to support contract wins predominately in grain (including ramp up costs for both traincrew, rollingstock and facilities)
- › Increased costs to support the new Tronox contract from 2HFY2022
- › Increased costs from three significant derailment events in 1HFY2023

Operating costs were partly offset by ongoing benefits from the Bulk transformation program and lower costs from the loss of the QLD livestock contract.

Depreciation increased \$36m or 212% with additional depreciation from the One Rail Australia acquisition along with increased capital expenditure supporting the growth in revenue and EBITDA. Therefore, EBIT decreased 19% compared to a 33% increase in EBITDA.

Contract update¹⁰

- › OZ Minerals – 5-year contract extension for the haulage of copper in SA/NT
- › BP – 6-year contract extension for the haulage of fuel in WA
- › Centrex – 4-year contract for road, rail and stevedoring of phosphate rock in north QLD
- › Aeris Resources – 5-year contract for road, rail and stevedoring for base metals in NSW
- › SIMEC – 3-year contract extension for the haulage of iron ore in SA
- › Gypsum Resources Australia – capital investment for track upgrades for the 10-year contract for the haulage of gypsum in SA

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, 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)	1HFY2023	1HFY2022	Variance
Revenue			
Track Access	583	543	7%
Services and other	31	26	19%
Total revenue	614	569	8%
Energy and fuel	(110)	(53)	(108%)
Other operating costs	(141)	(136)	(4%)
EBITDA	363	380	(4%)
Depreciation and amortisation	(173)	(170)	(2%)
EBIT	190	210	(10%)

Metrics

	1HFY2023	1HFY2022	Variance
Tonnes (m)	102.9	104.9	(2%)
NTK (b)	25.1	26.4	(5%)
Operating Ratio (%)	69.1%	63.1%	(6.0ppt)
Maintenance / NTK (\$/'000 NTK)	2.7	2.4	(13%)
Opex / NTK (\$/'000 NTK)	16.9	13.6	(24%)
Cycle Velocity (km/hr)	21.0	23.1	(9%)
System Availability	82.3%	82.9%	(0.6ppt)
Average haul length (km)	244	251	(3%)

Network Performance Overview

Network EBITDA decreased \$17m (4%) to \$363m in 1HFY2023, with increased revenue of \$45m (8%) offset by increased operating costs of \$62m (33%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the Queensland Competition Authority (QCA) on 26 May 2022 and the subsequent Electric Energy Charge DAAU approved on 16 November 2022.

Total Access Revenue increased by \$40m (7%) with the main drivers being:

- › Electric Energy Charge (EC) was \$51m higher in 1HFY2023 due to the EC tariff increasing from \$1.11 to \$2.82 per EGTK'000
- › Allowable revenue increased by \$19m primarily due to the capital underspends in FY2019 and FY2020 that reduced Allowable Revenue in FY2022
- › Reduced volumes compared to the regulatory forecast resulted in an under-recovery (excluding GAPE) of \$52m in 1HFY2023. This compares to an under-recovery of \$28m in 1HFY2022
- › Net unfavourable Revenue Cap movements of \$3m relating to FY2020 and FY2021
- › GAPE revenue was \$5m lower primarily due to the depreciating asset value and the Transfer Fee collected in FY2021 that is being returned via FY2023 Access Charges
- › Other Access Revenue was \$1m higher

¹⁰ Includes contracts executed by One Rail Australia in July 2022

- › Services and other revenue was \$5m (19%) higher in 1HFY2023 primarily due to higher external construction revenue.

Operating costs increased by \$62m (33%) with the main drivers being:

- › Electric traction charges increased \$57m in 1HFY2023 (offset in Access Revenue) due to higher wholesale energy prices and higher connection costs
- › Higher external construction costs associated with higher revenue and higher maintenance costs partly offset by operational cost savings.

Depreciation increased \$3m (2%) primarily due to historical rail renewal and ballast undercutting investment.

Network's 2021-2022 Regulated Asset Base (RAB) roll-forward is estimated to be 5.7bn¹¹ (including access Facilitation Deeds of \$0.3bn).

Regulation Update

The 2017 Access Undertaking (UT5) 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%
- › On 12 November 2021, Network provided the Chair of the Rail Industry Group (RIG) and the QCA its preliminary response to the ICAR, which set out the proposed options to address the capacity deficits identified in each coal system by the Independent Expert in the ICAR.
- › Consistent with the definition of the term 'Report Date' in UT5, Network's view was that this notification to the Chair of the RIG on 12 November 2021 (Report Date), triggered an increase in Network's Weighted Average Cost of Capital (WACC) from 5.9% to 6.3%. The QCA-approved reference tariffs assumed an uplift in the WACC to 6.3% would be effected from 1 March 2020. As a result of the delay in the ICAR, there has been an over-collection of access charges (the difference between 5.9% and 6.3%) in FY2022. Network's FY2022 Revenue Adjustment Amounts submission included a WACC adjustment that would see \$9m returned to Access Holders via FY2024 tariffs. This amount was calculated on the basis that the Report Date occurred on 12 November 2021. On 15 December 2022, the QCA rejected the FY2022 Revenue Adjustment Amounts submission, taking the view that the WACC uplift did not apply from 12 November 2021 but instead from 14 March 2022 (the date upon which Network submitted its Detailed Report in response to the ICAR). The WACC adjustment associated with a 14 March Report Date would see a return to Access Holders of \$18m, an increase of \$9m. On 20 January 2023, Network submitted an amended FY2022 Revenue Adjustment Amounts submission in compliance with the QCA's decision (so as to ensure the other aspects of the QCA's decision could operate without delays arising) and reserved its rights in relation to the proper interpretation of the Report Date. On the same day, Network lodged an application with the Supreme Court of Queensland to appeal the QCA decision, seeking a declaration from the court about the proper interpretation of the definition of Report Date.
- › The QCA published the IE's Annual Capacity Assessment Report 2022 (ACAR) on 23 June 2022. The ACAR is an annual capacity assessment undertaken by the IE of the deliverable network capacity of each coal system in the CQCN and includes a review of the System Operating Parameters for each coal system. Following considerable analysis and work with Network, the ACAR identified some improvements in the average annual deliverable network capacity of each coal system since the publication of the ICAR for the period FY2022 – FY2024, when measured as a percentage of the current contracted capacity for each coal system. This means that the capacity deficits identified in the ICAR are now slightly lower for nearly all coal systems. The changes identified are as follows:
 - Goonyella System has improved by ~ 2% to ~ 93 – 95%;
 - Blackwater System has improved by ~ 2-4% and is forecast to be at ~100% in FY2026;
 - GAPE System is slightly lower for FY2023 and FY2024 then at similar levels for other years;
 - Moura System has improved by ~ 7% to ~99%; and
 - Newlands System is lower in FY2023 compared to the ICAR however similar for other years.
- › As required under UT5, on 17 June 2022, the IE made a recommendation to the QCA on which of the Transitional Arrangements identified in Network's Detailed Report would most effectively and efficiently resolve the deficits identified in the ICAR. On 16 November 2022, the QCA made an initial determination on transitional arrangements to be implemented, the most notable being the installation of remote-control signalling in the Newlands system.
- › The Performance Rebate mechanism in UT5 came into effect on the 'Report Date'. The Performance Rebate is payable if an End User does not receive its contracted Train Service Entitlement for the period from the 'Report Date' due to a performance breach by Network as determined by the IE under UT5. Any transitional arrangements that are implemented to rectify an Existing Capacity Deficit will be taken into consideration in the calculation of the Performance Rebate. In accordance with the terms of the undertaking, stakeholders have requested that the QCA undertake a review of the Performance Rebate mechanism.
- › On 8 June 2022, Network submitted to the QCA a DAAU to adjust the EC under UT5 for FY2023. Due to the significant increase and forecast volatility in the wholesale electricity rates, it was necessary to submit the DAAU to adjust the EC tariff from \$1.11 to \$2.82 per thousand eGTK. The QCA approved the DAAU on the 16 November 2022.

¹¹ Includes deferred capital

Aurizon Holdings Limited
Directors' Report
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(continued)

- › UT5 provides for certain variable components of WACC (predominately risk-free rate, debt risk premium), inflation and the tax allowance (Reset Values) to be reset on 1 July 2023 to take account of prevailing market conditions at that time. The reset process involves:
 - preliminary Reset Values being submitted to the QCA in July 2022 for consultation which will inform FY2024 tariffs. On 16 November 2022, the QCA largely accepted the methodology proposed for calculating the majority of inputs used to develop the preliminary Reset Values for FY2024 Tariffs but noted some issues with the sample data used for determining the debt risk premium;
 - updated preliminary Reset Values being submitted to the QCA in late February 2023 to reflect the latest available information. Network expects that the QCA will have regard to these updated values when establishing the preliminary Allowable Revenues and Reference Tariffs that will form the basis of FY2024 access charges; and
 - final Reset Values being submitted to the QCA for approval in July 2023.
- › Preliminary Allowable Revenues and Reference Tariffs for FY2024 will be based on Aurizon Network's proposed preliminary WACC of 8.18% and estimated opening FY2024 RAB value of \$5.9bn¹² (including access Facilitation Deeds of \$0.3bn). Market movements will inform the final reset risk-free rate and debt risk premium, and may result in a final Reset WACC that varies from the preliminary reset WACC of 8.18% that will apply in FY2024.
- › While the final Reset Values will take effect from 1 July 2023, FY2024 Allowable Revenues and Tariffs will not be amended during that year to reflect the QCA's decision on the final Reset Values. Any variation between final Reset Values and preliminary Reset Values will be included in FY2026 Revenue Adjustment Amounts.

Operational Update

During 1HFY2023:

- › CQCN volumes declined by 2% to 102.9mt. The volume reductions were largely attributable to wet weather and mine specific maintenance and production issues.
- › Total System Availability was 82.3% and remained in line with the prior comparative period
- › Cancellations due to the Network rail infrastructure increased from 1.7% to 1.8%
- › Cycle velocity decreased from 23.1km/h to 21.0km/h

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)	1HFY2023	1HFY2022	Variance
Total revenue	6	18	(67%)
Operating costs	(26)	(32)	19%
EBITDA	(20)	(14)	(43%)
Depreciation and amortisation	(2)	(2)	-
EBIT	(22)	(16)	(38%)

Other Performance Overview

EBITDA decreased by \$6m (43%) with fewer asset sales compared to the prior comparative period.

¹² Includes deferred capital

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. Project Precision has transitioned to business as usual in FY2022 with accountability now embedded in the Network Planning and Scheduling function.

Outlined below are the major initiatives currently being pursued in the business.

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 FY2022 Network successfully trialed and progressed verification reporting of the WGMS and PCDS systems confirming that overhead wire alignment and contact information can also be captured via automated means.

Following the endorsement and support from our customers, the ATIS production equipment will be implemented across the CQCN in FY2023 and FY2024.

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. The technology was deployed on initial trainsets (and associated track infrastructure) in Blackwater (Callemondah to Bluff) in 1HFY2023, with installation on the remaining trainsets in the corridor to take place in 2HFY2023. Goonyella system to follow.

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 the CQCN Siemens electric locomotive fleet, installation across the CQCN diesel is scheduled for completion during FY2023. TrainHealth has expanded to the NSW Coal system and is leveraging the technology solutions delivered in CQCN, installation is scheduled for completion in FY2023. In addition to the expansion of TrainHealth across the Coal BU, WA Bulk are now investing in TrainHealth with the 6000 class equivalent fleet due for completion in FY2023.

ADDITIONAL INFORMATION

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 these disclosures, we take a direct approach to reporting ESG disclosures to our stakeholders with the publication of our annual Sustainability Report.

We recognise that our climate change disclosures are one of the key interests to stakeholders. Since 2017, we have aligned our climate-related disclosures to the Task Force on Climate-related Financial Disclosures (TCFD) as recommended by the Financial Stability Board. This framework enables consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. Our response to climate-related risks is outlined in our annual Sustainability Report.

In FY2021, we published our Climate Strategy and Action Plan (CSAP). The strategy builds on our existing work in reducing our carbon footprint. We recognise that we all have a responsibility to act on climate change – government, business, and the general community – so we can achieve an effective transition to a low-carbon future.

In 2022, we received a 'Comprehensive' rating, the highest rating for an eighth 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.

During 1HFY2023, we continued to embed our Safety Strategy through nine key priorities. Our priorities are focused on building and implementing simple systems and processes, understanding and controlling safety hazards and risks, and building leadership and capability with a strong in-field presence. Aurizon has progressed several strategic projects, including the implementation of TrainGuard phase 1 (Aurizon's SPAD and overspeed prevention technology), along with improving yard safety interfaces to reduce the number of yard incidents. There are also a range of strategic initiatives progressing to implementation in 1HFY2023, including (for example) Aurizon's enhanced fatigue management framework.

We have two primary safety metrics to measure safety performance across the enterprise; Total Recordable Injury Frequency Rate (TRIFR) and Serious Injury and Fatality Frequency Rate (SIFR(a+p)). The latter was formally introduced into Aurizon's enterprise reporting in FY2023 and replaced Rail Process Safety.

In 1HFY2023, TRIFR was 8.49 injuries per million hours worked compared to 8.41 for FY2022.

SIFR(a+p) measures the number of incidents that have the potential to cause or did actually cause serious injury or death per million hours worked. As a new measure reflecting Aurizon's broader operational profile, it helps direct our efforts to preventing serious injury or fatality events across all of Aurizon's operations and covers all rail and non-rail operations.

After a review of the recorded incidents for FY2022, we have recategorised 23 incidents, resulting in a restatement of the result for FY2022 from 6.77 to 4.41 incidents per million hours worked. In 1HFY2023 there were with 1.78 incidents per million hours worked, representing a 60% improvement compared to the prior year. The result was primarily driven by fewer serious motor vehicle and rail incidents.

In early FY2023, the One Rail Australia transaction was finalised, and the Aurizon Bulk Central business unit established. Aurizon is currently transitioning the Bulk Central business unit into its current reporting definitions and performance measures with integration planned for FY2024. While the TRIFR definition is largely consistent with Aurizon enterprise, Bulk Central does not currently report SIFR(a+p) or an equivalent measure. Bulk Central TRIFR as at 1HFY2023 is 3.90 compared to 4.09 in FY2022, representing a modest improvement. Bulk Central did not report any events that could be considered an actual SIF event during 1HFY2023.

Environment

Aurizon recognises our responsibility to aid our local communities and supply chains by delivering environmental value through effective management of environmental risks and improved enterprise environmental performance. We employ proactive and evidence-based management measures covering key environmental issues such as, climate change, resource use and clean air.

Aurizon's acquisition of One Rail Australia (now Aurizon Bulk Central) presented an opportunity to rationalise the two companies' South Australian Environment Protection Licences (EPLs) to operate rollingstock into a single licence, and to transfer One Rail Australia's New South Wales EPL to East Coast Rail, reducing the extent of regulatory oversight. Due to the relatively recent construction of Aurizon Bulk Central's rail corridor, from Alice Springs to Darwin (<30 years) there also exists opportunity to incorporate the valuable information and understanding regarding cultural heritage management into Aurizon's Cultural Heritage Governance Framework.

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 1HFY2023 continues to yield low rates of coal dust loss from tops of wagons. For further detail in relation to coal dust management and monitoring processes, refer to Aurizon's annual Sustainability Report.

Aurizon has applied to transition its three Safeguard Mechanism Facilities (covering Scope 1 GHG emissions associated with rail activities in QLD, NSW and WA) to a single National facility with a production-adjusted safeguard baseline. Aurizon was not required to purchase or retire Australian Carbon Credit Units (ACCUs) to meet its obligations under the safeguard mechanism in FY2022. This was achieved through effective management of its scope 1 emissions intensity to remain below baselines. Aurizon is actively engaging with the Federal govt. regarding the Safeguard Mechanism as it seeks to implement significant reform directed towards reducing aggregate headroom of Australia's largest emitters.

In 1HFY2023:

- › Aurizon has not incurred any fines, penalties or prosecutions arising from environmental or cultural heritage related incidents; and
- › Aurizon has 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 over 5,500 employees living and working across our national footprint of operations. 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:

- › Providing meaningful ways for our people to develop their skills and capabilities, now and for the future. Our established Leadership programs are 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. We also recognise the need for development at all levels and are rolling out new programs for emerging leaders and non-leaders as well as a new Capability Framework, over FY2023 Q3.

- › Ensuring our people processes and systems adapt to the needs of our leaders and people, and actively facilitates the attraction and retention of our current and future workforce. This year we have focused on renewing our workforce planning process and initiatives as well as progressing a refreshed employee value proposition.
- › 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 LGBTQIA+ inclusion), meeting workforce representation targets and actively reducing the gender pay gap. In August 2022, we launched our first ALLin Action Plan 'Advancing LGBTQIA+ Inclusion at Aurizon' – aligning our activities to three pillars to support the group's vision - visibility, education and connection.
- › Integrating our recent acquisitions of road and port services organisations into Aurizon's existing processes, ensuring alignment across people and performance priorities, complementing the established cultures.

Risk

Refer to the annual report for a detailed summary of risk.

13 February 2023

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 interim financial report of Aurizon Holdings Limited for the half-year ended 31 December 2022, 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



Matthew Donaldson
Partner
Chartered Accountants

Aurizon Holdings Limited
Condensed consolidated income statement
For the six months ended 31 December 2022

	Notes	31 December 2022 \$m	31 December 2021 \$m
Revenue from continuing operations	1	1,694	1,508
Other income		-	7
Total revenue and other income		1,694	1,515
Employee benefits expense		(472)	(423)
Energy and fuel		(236)	(115)
Track access		(52)	(40)
Consumables		(250)	(206)
Depreciation and amortisation		(328)	(293)
Other expenses		(59)	(4)
Share of net profit of investments accounted for using the equity method		1	-
Operating profit		298	434
Finance income		2	1
Finance expenses		(104)	(65)
Net finance costs		(102)	(64)
Profit before income tax		196	370
Income tax expense		(66)	(113)
Profit after tax for the six months from continuing operations		130	257
Loss from discontinued operations after tax		(46)	-
Profit after tax from continuing and discontinued operations attributable to the owners of Aurizon Holdings Limited		84	257
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the owners of Aurizon Holdings Limited			
Basic earnings per share		7.1	14.0
Diluted earnings per share		7.1	13.9
Earnings per share for profit attributable to the owners of Aurizon Holdings Limited			
Basic earnings per share		4.6	14.0
Diluted earnings per share		4.6	13.9

Aurizon Holdings Limited
Condensed consolidated statement of comprehensive income
For the six months ended 31 December 2022

	31 December 2022	31 December 2021
	\$m	\$m
Profit after tax from continuing and discontinued operations	84	257
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	(24)	32
Income tax relating to changes in fair value of cash flow hedges	7	(10)
Other comprehensive income/(expense) for the six months, net of tax	(17)	22
Total comprehensive income for the six months attributable to the owners of Aurizon Holdings Limited	67	279

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

Aurizon Holdings Limited
Condensed consolidated balance sheet
As at 31 December 2022

		31 December 2022 \$m	30 June 2022 \$m
Notes			
ASSETS			
Current assets			
Cash and cash equivalents		121	172
Trade and other receivables		494	434
Inventories		225	186
Derivative financial instruments	8	26	44
Current tax receivables		6	-
Other assets		51	24
Assets classified as held for sale		962	-
Total current assets		1,885	860
Non-current assets			
Inventories		58	56
Derivative financial instruments	8	40	38
Property, plant and equipment ¹		9,910	8,416
Intangible assets ¹		225	209
Other assets		66	75
Investments accounted for using the equity method		22	22
Total non-current assets		10,321	8,816
Total assets		12,206	9,676
LIABILITIES			
Current liabilities			
Trade and other payables		322	294
Borrowings	7	976	255
Derivative financial instruments	8	1	-
Current tax liabilities		-	69
Provisions		262	281
Other liabilities		88	69
Liabilities directly associated with assets classified as held for sale		527	-
Total current liabilities		2,176	968
Non-current liabilities			
Borrowings	7	4,365	2,966
Derivative financial instruments	8	284	266
Deferred tax liabilities		831	797
Provisions		59	49
Other liabilities		215	218
Total non-current liabilities		5,754	4,296
Total liabilities		7,930	5,264
Net assets		4,276	4,412
EQUITY			
Contributed equity	6	3,674	3,674
Reserves		7	26
Retained earnings		595	712
Total equity		4,276	4,412

¹ Balance as at 1 July 2022 includes a reclassification of an amount of \$9 million from software under development to assets under construction.

Aurizon Holdings Limited
Condensed consolidated statement of changes in equity
For the six months ended 31 December 2022

	Notes	Attributable to owners of Aurizon Holdings Limited			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 1 July 2022		3,674	26	712	4,412
Profit for the six months		-	-	84	84
Other comprehensive income		-	(17)	-	(17)
Total comprehensive income for the six months		-	(17)	84	67
Transactions with owners in their capacity as owners:					
Dividends paid	5	-	-	(201)	(201)
Share-based payments		-	(2)	-	(2)
		-	(2)	(201)	(203)
Balance at 31 December 2022		3,674	7	595	4,276
Balance at 1 July 2021		3,674	(57)	658	4,275
Profit for the six months		-	-	257	257
Other comprehensive expense		-	22	-	22
Total comprehensive income/(expense) for the six months		-	22	257	279
Transactions with owners in their capacity as owners:					
Dividends paid	5	-	-	(265)	(265)
Share-based payments		-	4	-	4
		-	4	(265)	(261)
Balance at 31 December 2021		3,674	(31)	650	4,293

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

Aurizon Holdings Limited
Condensed consolidated statement of cash flows
For the six months ended 31 December 2022

	31 December 2022 \$m	31 December 2021 \$m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,879	1,800
Payments to suppliers and employees (inclusive of GST)	(1,348)	(1,053)
Interest received	2	1
Income taxes paid	(116)	(40)
Principal elements of lease receipts	4	3
Net cash inflow from operating activities from continuing operations	421	711
Net cash inflow from operating activities from discontinued operations	37	-
Net cash inflow from operating activities	458	711
Cash flows from investing activities		
Payments for business acquisitions (net of cash acquired)	(1,404)	(9)
Payments for property, plant and equipment	(403)	(282)
Proceeds from sale of property, plant and equipment	3	14
Interest paid on qualifying assets	(2)	(1)
Payments for intangibles	(8)	(6)
Distributions from joint ventures	1	1
Net cash outflow from investing activities from continuing operations	(1,813)	(283)
Net cash outflow from investing activities from discontinued operations	(940)	-
Net cash outflow from investing activities	(2,753)	(283)
Cash flows from financing activities		
Proceeds from borrowings	2,131	-
Repayment of borrowings	-	(113)
Payments of transaction costs related to borrowings	(9)	-
Principal elements of lease payments	(10)	(9)
Interest paid	(91)	(65)
Payments for shares acquired for share-based payments	(7)	-
Dividends paid to Company's shareholders	(201)	(265)
Net cash inflow/(outflow) from financing activities from continuing operations	1,813	(452)
Net cash inflow from financing activities from discontinued operations	468	-
Net cash inflow/(outflow) from financing activities	2,281	(452)
Net increase/(decrease) in cash and cash equivalents from continuing operations	421	(24)
Net decrease in cash and cash equivalents from discontinued operations	(435)	-
Cash and cash equivalents at the beginning of the financial year	172	149
Cash and cash equivalents at end of interim reporting period	158	125
Cash and cash equivalents consists of:		
Cash and cash equivalents on the balance sheet	121	125
Restricted cash and cash equivalents included in assets of disposal group held for sale	37	-
Total cash and cash equivalents of the Group	158	125

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 2022 of 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 \$1,000,000 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 2022 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 2022 is accessible at www.aurizon.com.au.

Key events and transactions for the reporting period

(a) One Rail Australia acquisition

The Group signed a Partnership Interest Sale Agreement with Macquarie Asset Management (on behalf of its managed funds and clients) on 21 October 2021 to acquire 100% of the general and limited partnership interests in Aurizon Bulk Central Holdings LP (formerly One Rail Australia Holdings LP). Aurizon Bulk Central Holdings LP and its subsidiaries are collectively referred to as 'One Rail Australia'. The acquisition completed on 29 July 2022 for consideration of \$2,404 million.

One Rail Australia comprised two main business segments:

- One Rail Bulk: 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; and
- East Coast Rail: Coal haulage in New South Wales and Queensland.

One Rail Bulk has been integrated into the Group's bulk segment and renamed Aurizon Bulk Central. Aurizon Bulk Central is the primary rail freight operator along the SA/NT corridor and commodities hauled include copper, grain, magnetite, iron ore, gypsum and containerised freight. Aurizon Bulk Central also manages the Tarcoola-to-Darwin rail infrastructure, and the interstate rail freight network in South Australia. Provision of access to the below rail infrastructure is regulated by the Essential Services Commission of South Australia (ESCOSA).

The investments held in the East Coast Rail entities were transferred to One Rail Australia Holdings Limited (ORAH) (formerly NHK Pty Ltd), a subsidiary of the Company, on 29 July 2022. ORAH is classified as a discontinued operation held for sale as it will be divested in accordance with the Company's Undertaking to the Australian Competition and Consumer Commission (ACCC) as part of its acquisition of One Rail Australia. Refer to section (b) for further information on the divestment of ORAH.

The acquisition of One Rail Australia was funded from cash, existing bank debt facilities and new bank debt facilities. Refer to note 7 for further information on the Group's financing arrangements and note 4 for further information on the borrowing facilities classified in discontinued operations held for sale.

Acquisition costs of \$47 million including landholder duty, advisory fees and other costs have been expensed to profit or loss during the period and classified in other expenses. This amount has been classified as a significant item in continuing operations.

Refer to note 3 for further information on the One Rail Australia acquisition.

Key events and transactions for the reporting period (continued)

(b) Discontinued operations

(i) Divestment of ORAH

ORAH is classified as a discontinued operation held for sale as it will be divested in accordance with the Company's Undertaking to the ACCC as part of its acquisition of One Rail Australia. Discontinued operations held for sale includes the assets and liabilities of the East Coast Rail business segment acquired and ORAH's debt financing facilities.

The Group signed a binding sale agreement with Magnetic Rail Group Pty Ltd (Magnetic) on 16 December 2022 to sell 100% of the ordinary shares in ORAH. After expected completion adjustments, Aurizon will receive cash proceeds of approximately \$435 million which represents the equity value of ORAH. \$125 million of the proceeds are deferred for 12 months. As at 31 December 2022, the trade sale remained conditional on approval by the ACCC.

The loss from discontinued operations after tax of \$46 million for the period includes the following:

- Net profit after tax exclusive of impairment expense and sale and divestment costs of \$27 million;
- Impairment expense of \$57 million (\$75 million pre-tax) to write down the carrying amount of the net assets classified as held for sale to the estimated recoverable amount of \$435 million; and
- Sale and divestment costs of \$16 million (\$23 million pre-tax) including IT separation costs, advisory fees and other costs.

The ACCC has provided its approval for the sale to proceed and the sale agreement is now unconditional. Accordingly, the Company and Magnetic are working towards completing the transaction and expect that to occur in February 2023.

Refer to note 4 for information on discontinued operations.

(ii) Debt financing

Debt financing facilities of the discontinued operation at balance date include the following:

- Tranche B amortising bank debt facilities of \$155 million maturing July 2027.
- 10-year amortising US Private Placement (USPP) of A\$340 million (US\$242 million) maturing November 2032.

The bank debt facilities and USPP will be novated under the terms and conditions of the binding sale agreement and has been approved by the providers of the bank facilities and debt funding.

(c) Debt financing

During the period, Aurizon Finance Pty Ltd added additional capacity to unsecured bank debt facilities including the following syndicated bank debt facilities:

- \$650 million bridge facility maturing July 2024
- \$400 million revolving facility maturing July 2025
- \$400 million term loan facility maturing July 2027

Borrowing costs of \$9 million have been capitalised to balance sheet and will be amortised to profit or loss over the expected term of the debt.

During the period, Aurizon Network Pty Ltd (Aurizon Network):

- issued a \$50 million 10-year fixed Medium-Term Note (Network AMTN 6) maturing 21 December 2032
- issued a \$20 million 12-year fixed Medium-Term Note (Network AMTN 7) maturing 21 December 2034

Subsequent to balance date, the Group re-financed the existing \$1,200 million Network Bilateral Facilities and reduced the capacity to \$935 million. The new bank debt facility tranches include:

- \$465 million bilateral facility maturing January 2026
- \$265 million bilateral facility maturing January 2027
- \$205 million bilateral facility maturing January 2028

Key events and transactions for the reporting period (continued)

(d) Access revenue

2017 Access Undertaking (UT5)

The 2017 Access Undertaking (UT5) approved by the Queensland Competition Authority (QCA) on 19 December 2019 included an increase in the Weighted Average Cost of Capital (WACC) from 5.90% to 6.30% upon Aurizon Network notifying the Chair of the Rail Industry Group (RIG) of its proposed options to address any capacity deficits identified in the initial capacity assessment report (ICAR) of the Central Queensland Coal Network (CQCN) completed by the Independent Expert appointed under UT5 (Report Date).

On 15 December 2022, the QCA rejected the FY2022 revenue adjustment amount on the view that the WACC uplift did not apply from 12 November 2021 but instead from 14 March 2022. On 20 January 2023, Aurizon Network submitted an amended FY2022 Revenue Adjustment Amounts submission in compliance with the QCA's decision (so as to ensure the other aspects of the QCA's decision could operate without delays arising) and reserved its rights in relation to the proper interpretation of the Report Date. On the same day, Aurizon Network lodged an application with the Supreme Court of Queensland to appeal the QCA decision, seeking a declaration from the court about the proper interpretation of the definition of Report Date. The QCA's decision has no impact on FY2023 access revenue as the FY2022 Revenue Adjustment Amounts will be reflected in the tariffs for FY2024.

(e) Joint ventures

Subsequent to balance date, the Group increased its ownership interest in Ox Mountain Limited (UK registered) from 42% to 69% on 9 January 2023 for consideration of \$30 million. Ox Mountain Limited is a maintenance software developer and distributor. The investment continues to be classified as a joint venture due to the Group having joint control and is accounted for using the equity method of accounting.

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 2022.

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 27
2	Income tax	Page 30
3	Acquisition of businesses and subsidiaries	Page 30
4	Discontinued operations	Page 32

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). Refer to page 47 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 the CQCN below rail infrastructure and operation and maintenance of the network.

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 Australia. This segment also manages the Tarcoola-to-Darwin rail infrastructure, and the interstate rail freight network in South 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 2022	Network \$m	Coal \$m	Bulk \$m	Other \$m	Total Continuing Operations \$m
External revenue					
Revenue from external customers					
Services revenue					
Track access	392	175	-	-	567
Freight transport	-	582	502	1	1,085
Other services	9	-	2	-	11
Other revenue	17	4	5	5	31
Total revenue from external customers	418	761	509	6	1,694
Internal revenue					
Services revenue					
Track access ¹	191	-	-	-	191
Freight transport	-	-	9	-	9
Other services	5	-	3	-	8
Total internal revenue	196	-	12	-	208
Total external and internal revenue²	614	761	521	6	1,902
Other income	-	-	-	-	-
Total revenue and other income	614	761	521	6	1,902
Internal elimination					(208)
Consolidated revenue and other income					1,694
Continuing EBITDA (Underlying)³	363	230	100	(20)	673
Depreciation and amortisation	(173)	(100)	(53)	(2)	(328)
Continuing EBIT (Underlying)³	190	130	47	(22)	345
Significant adjustments (note c)					(47)
EBIT³					298
Net finance costs					(102)
Profit before income tax from continuing operations					196

¹ Internal track access revenue between entities within the Bulk operating segment as a result of the integrated bulk rail haulage and general freight assets in SA and NT is eliminated.

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

³ Refer to page 47 for Non-IFRS Financial Information

1 Segment information (continued)

(b) Segment information (continued)

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 ¹	347	184	-	-	531
Freight transport ¹	-	610	322	1	933
Other services	4	-	9	2	15
Other revenue	17	2	4	6	29
Total revenue from external customers	<u>368</u>	<u>796</u>	<u>335</u>	<u>9</u>	<u>1,508</u>
Internal revenue					
Services revenue					
Track access	196	-	-	-	196
Freight transport	-	-	8	-	8
Other services	5	-	1	2	8
Total internal revenue	<u>201</u>	<u>-</u>	<u>9</u>	<u>2</u>	<u>212</u>
Total external and internal revenue ²	569	796	344	11	1,720
Other income	-	-	-	7	7
Total revenue and other income	<u>569</u>	<u>796</u>	<u>344</u>	<u>18</u>	<u>1,727</u>
Internal elimination					(212)
Consolidated revenue and other income					<u>1,515</u>
Continuing EBITDA	<u>380</u>	<u>286</u>	<u>75</u>	<u>(14)</u>	<u>727</u>
Depreciation and amortisation	<u>(170)</u>	<u>(104)</u>	<u>(17)</u>	<u>(2)</u>	<u>(293)</u>
Continuing EBIT	<u>210</u>	<u>182</u>	<u>58</u>	<u>(16)</u>	<u>434</u>
Net finance costs					(64)
Profit before income tax from continuing operations					<u>370</u>

¹ \$10 million has been reclassified from access revenue to freight revenue in the Coal segment for FY2022 for consistency with current year presentation.

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

1 Segment information (continued)

(c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	31 December 2022	31 December 2021
	\$m	\$m
Acquisition costs for One Rail Australia	<u>(47)</u>	-
Total significant adjustments (continuing operations)	<u>(47)</u>	<u>-</u>

Significant adjustments is reconciled in the Non-IFRS Financial Information on page 47.

2 Income tax

Statutory income tax expense for the Group is \$52 million (31 December 2021: \$113 million), including income tax expense from continuing operations of \$66 million (31 December 2021: \$113 million) and an income tax benefit of \$14 million from discontinued operations (31 December 2021: \$nil)

The statutory effective tax rate for the Group, including continuing and discontinued operations, for the six months ended 31 December 2022 is 38.2% (31 December 2021: 30.5%). The Group statutory effective tax rate of 38.2% is higher than 30.0% due to continuing operations including non taxable landholder duty paid during the period of \$21 million arising in respect of the One Rail Australia acquisition and discontinued operations including the non recognition of a capital loss arising from a portion of the impairment of assets held for sale (\$18 million) in calculating taxable income. A numerical reconciliation of income tax expense is summarised below.

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

	31 December 2022	31 December 2021
	\$m	\$m
Profit before income tax expense from continuing operations	196	370
Profit before income tax expense from discontinued operations	<u>(60)</u>	-
	136	370
Tax at the Australian tax rate of 30.0% (2022 - 30.0%)	41	111
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible landholder duty	6	-
Non recognition of capital loss	4	-
Share-based payments expense	1	1
Non assessable revenue	(1)	-
Other	1	1
Income tax expense from continuing and discontinued operations	<u>52</u>	<u>113</u>

3 Acquisition of businesses and subsidiaries

(a) Current six months period

(i) One Rail Australia acquisition

Significant judgements and estimates

Business combination

Context of judgements

One Rail Australia comprised two main business segments including One Rail Bulk (renamed Aurizon Bulk Central) and East Coast Rail.

3 Acquisition of businesses and subsidiaries (continued)

(a) Current six months period (continued)

(i) One Rail Australia acquisition (continued)

The East Coast Rail business segment was classified as a discontinued operation held for sale at acquisition, in accordance with the terms of a Court-enforceable undertaking given by the Company to the ACCC to divest the business. Refer to note 4 for further information.

The allocation of the purchase price to the business segments and the determination of the fair values of net identifiable assets and or any goodwill involves significant judgement.

Allocation of purchase consideration

The allocation of purchase consideration to the business segments, including the East Coast Rail assets and liabilities held for sale, involves judgement. The Group engaged third-party valuers to advise on the methodology and assumptions applied. The allocation of purchase consideration has been determined based on fair value less costs to dispose methodology.

Determination of the fair value of tangible and intangible assets

The determination of the fair value of assets, including property, plant and equipment and intangible assets is judgemental. The Group engaged third-party valuers to advise on the methodology and assumptions applied to value identifiable assets. The fair value has been determined based on commonly adopted methodology for the assets being valued including the depreciated replacement cost method.

Provisional business combination accounting

Due to the size, complexity and timing of the acquisition, the business combination accounting is substantially complete for the valuation of property, plant and equipment. If new information is obtained within twelve months from acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the fair values or any additional provisions that existed at the acquisition date, the accounting for the acquisition, including the value of goodwill, will be revised. Accordingly the assets acquired and liabilities assumed are measured on a provisional basis.

The acquisition of One Rail Australia completed on 29 July 2022. Details of the purchase consideration, provisional net assets acquired and goodwill are as follows:

	\$m
Total purchase consideration (after working capital and completion adjustments)	<u>2,404</u>
	Fair value
	\$m
Cash	50
Trade and other receivables	44
Inventories	30
Other assets	3
Property, plant and equipment	1,409
Assets held for sale	984
Trade and other payables	(18)
Borrowings	(5)
Provisions	(30)
Other current liabilities	(11)
Other non-current liabilities	(18)
Deferred tax liabilities	(24)
Liabilities directly associated with assets classified as held for sale	(34)
Provisional fair value of net identifiable assets acquired	<u>2,380</u>
Add: Goodwill	24
Provisional fair value of net assets acquired	<u>2,404</u>

3 Acquisition of businesses and subsidiaries (continued)

(a) Current six months period (continued)

(i) One Rail Australia acquisition (continued)

Provisional goodwill of \$24 million solely arises from the net deferred tax liability recognised on acquisition, in accordance with accounting standards. The net deferred tax liability arises on the right-of-use asset (comprising leasehold interests with below market rental payments) and the face value of the Corporation Loan, offset by deferred tax assets associated with provisions.

The gross contractual amount due and provisional fair value of trade receivables acquired is \$44 million.

Borrowings acquired includes a \$50 million Term Loan Facility (Corporation Loan) with The AustralAsia Railway Corporation in connection with the Tarcoola-to-Darwin Concession Deed issued at below market interest rates. The Term Loan Facility matures in 2054 at the expiry of the Concession Period. The fair value of the loan acquired is \$5 million.

Acquisition costs of \$47 million, including landholder duty, advisory fees and other costs have been expensed to profit or loss during the period and classified in other expenses. This amount has been classified as a significant item in continuing operations.

Total cash paid of \$2,404 million included \$1,454 million for continuing operations and \$950 million for discontinued operations held for sale. Net cash outflow from investing activities for continuing operations was \$1,404 million, representing cash paid net of cash acquired of \$50 million.

The acquired business contributed revenue for continuing operations of \$115 million for the period 29 July 2022 to 31 December 2022. If the acquisition had occurred on 1 July 2022, consolidated continuing operations pro-forma revenue for the period ended 31 December 2022 would have been \$1,716 million. These amounts have been calculated using the subsidiary's results and adjusting them for differences in accounting policies between the Group.

Refer to note 4 for further information on discontinued operations.

(b) Prior six months period

(i) Kooregah Pastoral Co Pty Ltd (KPC)

The Group acquired the assets of KPC for consideration of \$8 million on 28 October 2021. KPC is a trucking and material handling business that operates in and around Hermidale in New South Wales. The acquisition includes the assets and workforce associated with the business which are expected to be complementary to Bulk's New South Wales operations. The net cash outflow from investing activities for the acquisition in the period was \$8 million.

4 Discontinued operations

(a) Description

ORAH is classified as a discontinued operation held for sale as it will be divested in accordance with the Company's Undertaking to the ACCC as part of its acquisition of One Rail Australia. Discontinued operations held for sale includes the assets and liabilities of the East Coast Rail business segment acquired and ORAH's debt financing facilities.

The principal activity of ORAH is coal haulage in New South Wales and Queensland.

Debt financing facilities of the discontinued operation at balance date include the following:

- Tranche B amortising bank debt facilities of \$155 million maturing July 2027.
- 10-year amortising USPP of A\$340 million (US\$242 million) maturing November 2032.

The Group signed a binding sale agreement with Magnetic Rail Group Pty Ltd (Magnetic) on 16 December 2022 to sell 100% of the ordinary shares in ORAH. After expected completion adjustments, Aurizon will receive cash proceeds of approximately \$435 million which represents the equity value of ORAH. \$125 million of the proceeds are deferred for 12 months. As at 31 December 2022, the trade sale remained conditional on approval by the ACCC. Novation of ORAH debt financing facilities as part of the trade sale has been approved by the providers of the bank facilities and debt funding.

The ACCC has provided its approval for the sale to proceed and the sale agreement is now unconditional. Accordingly, the Company and Magnetic are working towards completing the transaction and expect that to occur in February 2023.

4 Discontinued operations (continued)

(b) Significant adjustments

Significant items are those items where their nature and amount is considered material to the financial statements. Items related to discontinued operations included within the Group's profit are detailed below:

	31 December 2022 \$m
Impairment of assets held for sale	(75)
Sale and divestment costs	(23)
Total significant adjustments (discontinued operations)	(98)

An impairment expense of \$75 million (\$57 million post-tax) has been recognised in discontinued operations to write down the carrying amount of the net assets classified as held for sale to the estimated recoverable amount of \$435 million.

Sale and divestment costs of \$23 million (\$16 million post-tax) recognised in discontinued operations include IT separation costs, advisory and transaction fees, legal fees and other costs.

The loss from discontinued operations after tax and significant adjustments is reconciled in the Non-IFRS Financial Information on page 47.

Capital management

IN THIS SECTION

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

5	Dividends	Page 35
6	Contributed equity	Page 35
7	Borrowings	Page 36
8	Financial instruments	Page 38

5 Dividends

	Cents per Share	\$m
Declared and paid during the period		
For the six months ended 31 December 2022		
Final dividend for 2022 (100% franked)	10.9	201
For the six months ended 31 December 2021		
Final dividend for 2021 (70% franked)	14.4	265
Proposed and unrecognised at period end		
For the six months ended 31 December 2022		
Interim dividend for 2023 (100% franked)	7.0	129
For the six months ended 31 December 2021		
Interim dividend for 2022 (95% franked)	10.5	193

6 Contributed equity

(a) Issued capital

	Number of shares '000	\$m
At 1 July 2021	1,840,704	207
At 31 December 2021	<u>1,840,704</u>	<u>207</u>
At 1 July 2022	1,840,704	207
At 31 December 2022	<u>1,840,704</u>	<u>207</u>

(b) Other contributed equity

	2022 \$m	2021 \$m
Balance at 1 July	3,467	3,467
Balance at 31 December	<u>3,467</u>	<u>3,467</u>

7 Borrowings

	31 December 2022	30 June 2022
	\$m	\$m
Current - Unsecured		
Bank debt facilities	976	255
	976	255
Non-current - Unsecured		
Medium-Term Notes	2,912	2,853
Bank debt facilities	1,460	120
Other borrowings ¹	6	-
Capitalised borrowing costs	(13)	(7)
	4,365	2,966
Total borrowings	5,341	3,221

¹ Other borrowings includes the Term Loan Facility with The AustralAsia Railway Corporation in connection with the Tarcoola-to-Darwin Concession Deed.

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.

7 Borrowings (continued)

Financing arrangements

The table below summarises the financing arrangements the Group had access to at the end of the period. The facilities are unsecured.

	Maturity	Utilised ¹		Facility limit	
		31 December		31 December	
		2022	30 June 2022	2022	30 June 2022
		\$m	\$m	\$m	\$m
Aurizon Finance Pty Ltd					
Working capital facility	Jun-23	23	19	125	125
Bilateral facility	Jun-23	-	-	50	50
Bilateral facility	Nov-23	450	-	500	500
Bilateral facility	Nov-25	-	-	75	75
Bridge loan facility	Jul-24	650	-	650	-
Revolver loan facility	Jul-25	165	-	400	-
Term loan facility	Jul-27	400	-	400	-
Finance AMTN 1	Mar-28	500	500	500	500
		2,188	519	2,700	1,250
Aurizon Network Pty Ltd					
Working capital facility	Jun-23	24	3	75	75
Bilateral facility ²	Jun-23	505	255	750	750
Bilateral facility ²	Jun-24	185	60	300	300
Bilateral facility ²	Jun-25	60	60	150	150
Network AMTN 2	Jun-24	425	425	425	425
Network AMTN 3	Mar-30	82	82	82	82
Network AMTN 4	Sep-30	500	500	500	500
Network AMTN 5	Dec-31	75	75	75	75
Network AMTN 6	Dec-32	50	-	50	-
Network AMTN 7	Dec-34	20	-	20	-
Network EMTN 1	Sep-24	711	711	711	711
Network EMTN 2	Jun-26	778	778	778	778
		3,415	2,949	3,916	3,846
Total Group financing arrangements		5,603	3,468	6,616	5,096

¹ Amount utilised includes bank guarantees of \$26 million (30 June 2022: \$21 million) and excludes capitalised borrowing costs of \$13 million (30 June 2022: \$7 million), discounts on AMTNs and EMTNs of \$6 million (30 June 2022: \$7 million), accumulated fair value adjustments on AMTNs and EMTNs of \$223 million (30 June 2022: \$211 million). The facilities above exclude the Term Loan Facility with The AustralAsia Railway Corporation in connection with the Tarcoola-to-Darwin Concession Deed. The fair value of the Term Loan Facility is \$6 million.

² Subsequent to balance date, the Group re-financed the existing \$1,200 million Network Bilateral Facilities and reduced the capacity to \$935 million. The new bank debt facility tranches include \$465 million maturing January 2026, \$265 million maturing January 2027 and \$205 million maturing January 2028.

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 2022 \$m	30 June 2022 \$m
Borrowings		
Carrying amount	5,341	3,221
Fair value	5,362	3,243

(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 4.0% and 7.6% (30 June 2022: 2.1% to 6.6%) 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 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 2022: Level 2). During the interim reporting period to 31 December 2022, there were no transfers between Level 1, Level 2 or Level 3 in the fair value hierarchy (30 June 2022: nil).

8 Financial instruments (continued)

	31 December 2022 \$m	30 June 2022 \$m
Current assets		
Interest rate swaps	25	42
Foreign exchange contracts	1	2
	<u>26</u>	<u>44</u>
Non-current assets		
CCIRS - Network EMTN 1	40	38
	<u>40</u>	<u>38</u>
Total derivative financial instrument assets	<u>66</u>	<u>82</u>
Current liabilities		
Foreign exchange contracts	1	-
	<u>1</u>	<u>-</u>
Non-current liabilities		
Foreign exchange contracts	1	-
Interest rate swaps - Finance AMTN 1	66	66
Interest rate swaps - Network AMTN 3	12	11
Interest rate swaps - Network AMTN 4	109	105
Interest rate swaps - Network AMTN 5	14	13
Interest rate swaps - Network AMTN 6	3	-
Interest rate swaps - Network AMTN 7	1	-
CCIRS - Network EMTN 2	78	71
	<u>284</u>	<u>266</u>
Total derivative financial instrument liabilities	<u>285</u>	<u>266</u>

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	Page 41
10	Critical accounting estimates and judgements	Page 41

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 2022, with the exception of the business combination outlined in note 3.

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	Page 43
12	Events occurring after the reporting period	Page 43

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 2022.

At 31 December 2022, the Group has capital commitments contracted but not provided for in respect of the acquisition of property, plant and equipment of \$177 million (30 June 2022: \$140 million) which are due within one year and \$103 million (30 June 2022: \$nil) which are due between one and five years. Capital costs of proposed options to address capacity deficits identified in the ICAR are not included in capital commitments as at 31 December 2022.

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 18 to 43 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 2022 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
Chairman

Brisbane
13 February 2023

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

Conclusion

We have reviewed the interim financial report of Aurizon Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated balance sheet as at 31 December 2022, 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 23 to 44.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim 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 2022 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 Interim Financial Report

The directors of the Company are responsible for the preparation of the interim 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 interim 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 Interim Financial Report

Our responsibility is to express a conclusion on the interim 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 interim 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 2022 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*.

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

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Matthew Donaldson
Partner
Chartered Accountants

Brisbane, 13 February 2023

Non-IFRS Financial Information in 2022-23 Interim Financial Report

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBITDA (Statutory and Underlying), EBITDA margin (Statutory and 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. Underlying can differ from 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 12-month EBIT divided by average invested capital. Average invested capital is calculated as the rolling 12-month average of net assets (excluding cash, borrowings, tax, derivative financial assets and liabilities, and assets and liabilities held for sale). 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 Notes to the Financial Statements have not been audited in accordance with Australian Auditing Standards.

	Six months ended 31 December 2022		Six months ended 31 December 2021	
	Continuing operations \$m	Discontinued operations \$m	Continuing operations \$m	Discontinued operations \$m
NPAT – Underlying	169	27	257	-
Significant adjustments, net of tax ¹	(39)	(73)	-	-
NPAT – Statutory	130	(46)	257	-
Income tax expense	66	(14)	113	-
Profit before income tax	196	(60)	370	-
Net finance costs	102	21	64	-
EBIT – Statutory	298	(39)	434	-
Add back significant adjustments:				
- Acquisition costs	47	-	-	-
- Impairment of assets held for sale	-	75	-	-
- Sale and divestment costs	-	23	-	-
EBIT – Underlying	345	59	434	-
Depreciation and amortisation	328	-	293	-
EBITDA – Underlying	673	59	727	-
Average invested capital (continuing operations)	9,244		8,459	
ROIC (continuing operations)²	8.5%		10.4%	

	31 December 2022 \$m	30 June 2022 \$m
Net Gearing Ratio		
Total borrowings	5,341	3,221
Less: cash and cash equivalents	(121)	(172)
Net debt	5,220	3,049
Total equity	4,276	4,412
Total capital	9,496	7,461
Net Gearing Ratio	55.0%	40.9%
Alternative Net Gearing Ratio		
Net debt	5,220	3,049
Accumulated fair value adjustments	223	211
Alternative Net debt	5,443	3,260
Total equity	4,276	4,412
Total capital	9,719	7,672
Alternative Net Gearing Ratio	56.0%	42.5%

¹ Significant adjustment from continuing operations includes non taxable landholder duty paid during the period of \$21 million. Significant adjustments from discontinued operations includes the non recognition of a capital loss arising from a portion of the impairment of assets held for sale (\$18 million).

² ROIC is calculated on a rolling twelve-month underlying EBIT of \$786 million (H1 FY2023 \$345 million; H2 FY2022 \$441 million).