

24 February 2022

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

Dear Sir/Madam

EMTN Programme

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

Attached is the Interim Financial Report for the half year ended 31 December 2021 for Pacific National Holdings Pty Ltd (formerly Asciano Limited), the parent entity of Pacific National Finance Pty Ltd.

Yours faithfully



Kate Bowman
Group General Counsel and Company Secretary
Pacific National

PACIFIC NATIONAL HOLDINGS PTY LTD

ABN 26 123 652 862

INTERIM FINANCIAL REPORT

For the half year ended 31 December 2021

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

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PACIFIC NATIONAL HOLDINGS PTY LTD
2 DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

The Directors present their report, together with the interim financial report of Pacific National Holdings Pty Ltd ("the Company") and its controlled entities (collectively referred to as "Pacific National" or "the Group"), for the half year reporting period ended 31 December 2021.

1. Directors

The Directors of Pacific National Holdings Pty Ltd at any time during or since the end of the half year and up to the date of this report were as follows:

Russell Smith
 Paul Scurrah
 Paul Bernath
 Scott Hatton
 John Hextall
 Colin Mugglestone
 Deborah O'Toole
 Robert Stewart
 Jeffrey Coates
 Nicholas Buddicom (alternate director)
 Hugh Willis (alternate director)

2. Operating and financial review

Overview

Pacific National's purpose is to deliver what matters for its people, customers and shareholders. Pacific National's vision is to be Australia's most trusted and respected logistics partner. Its priorities are:

- Safety – above all else, home safely every day
- People and leadership – Inspiring people, leadership excellence and a respectful culture
- Customers – innovating and succeeding together
- Community – enhancing and caring for the communities we operate in and through
- Financial Success – controlling our destiny and earning the right to grow

Review and results of operations

Pacific National reported a net profit after tax ("NPAT") of \$116.0 million (31 December 2020: \$91.6 million). The reported NPAT for the current reporting period included a material items loss after tax of \$9.3 million (31 December 2020: \$0.6 million) for costs in connection with the restructuring of the Pacific National business, the cost of carbon credits in relation to the Emissions Reduction Fund scheme and legal costs with respect to the acquisition of the Acacia Ridge Terminal ("ART").

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

	Half year 2022 \$M	Half year 2021 \$M
Statutory NPAT attributable to the owners of Pacific National Holdings Pty Ltd	116.0	91.6
Pacific National restructure (net of tax benefit)	4.9	0.5
Carbon credit cost in relation to Emissions Reduction Fund scheme (net of tax benefit)	4.0	–
Legal costs related to the acquisition of the ART (net of any tax benefit)	0.4	0.1
Total material items after tax	9.3	0.6
Underlying NPAT attributable to the owners of Pacific National Holdings Pty Ltd	125.3	92.2

Pacific National reported a 26.1% increase in profit before tax to \$165.5 million (31 December 2020: \$131.3 million). The result was mainly driven by improvements in freight due to yield optimisation from the continued transformation initiatives and a strong grain harvest. The increase was partly offset by end-of-contract impacts in Coal and the effect of external factors including the continuing impact of the COVID-19 pandemic on supply chain participants and their ability to provide continuity of service. In addition, Pacific National further benefited from a lower interest expense following the issuance of a new AUD bond in September 2021 on more favourable terms and lower levels of drawdown bank facilities when compared to the comparative period.

2. Operating and financial review (continued)

Impact of COVID-19 Pandemic

In determining the appropriateness of the basis of preparation, the Directors have considered the impact of the COVID-19 pandemic on the position of Pacific National at 31 December 2021 and its operations in future periods. As an essential service, Pacific National has operated services throughout COVID-19 and has implemented additional health and hygiene protocols in its operations. Considering the uncertainty created by the COVID-19 pandemic, the Group has performed well.

Notwithstanding the impact of COVID-19, due to the forecast cash flows and available financing facilities of the Group being sufficient to meet the requirements of the Group, the Directors have concluded that the Group remains a going concern and the financial statements have been prepared on that basis.

Financing

On 8 September 2021 Pacific National issued \$400.0 million AUD denominated 10-year fixed rate bonds at a discount with a maturity of 8 September 2031.

On 11 October 2021 Pacific National amended its Syndicated Facility Agreement such that the commitments of the \$200.0 million tranche due to mature in September 2023 was amended to \$300.0 million with a new maturity of October 2024, the commitments of the \$500.0 million tranche due to mature in September 2022 was amended to \$200.0 million with a new maturity of October 2025, and the commitments of the \$400.0 million tranche due to mature in July 2025 was extended with a new maturity of July 2026.

At 31 December 2021 Pacific National had total committed bank credit facilities of \$965.0 million (30 June 2021: \$1,165.0 million), which includes \$900.0 million of corporate purpose bank facilities and the \$65.0 million bank guarantee facility (30 June 2021: \$1,100.0 million and \$65.0 million respectively). Of the total committed credit facilities, \$200.0 million of the corporate purpose bank facilities were drawn and \$42.4 million relating to bank guarantees were utilised at 31 December 2021 (30 June 2021: \$440.0 million and \$47.0 million respectively), leaving undrawn credit facilities at 31 December 2021 of \$722.6 million (30 June 2021: \$678.0 million).

3. Dividends

No dividends were declared or paid by the Company for the current reporting period ended 31 December 2021 (31 December 2020: no dividends). Pacific National paid an aggregate \$198.7 million return of capital, of which \$5.8 million was settled in the form of non-cash transaction, to shareholders during the current reporting period (2021: \$20.9 million).

4. Business strategies, prospects and likely developments

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

5. Events subsequent to the reporting date

There has not arisen in the period between 31 December 2021 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of Pacific National, the results of those operations, or the state of affairs of Pacific National in future financial years.

6. Rounding of amounts

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

Signed in accordance with a resolution of the Directors.

DocuSigned by:

 27E2D1D568EB441...

Russell Smith

Chairman

24 February 2022

DocuSigned by:

 0C9B9D66DFDF479...

Paul Scurrah

Chief Executive Officer

24 February 2022

Consolidated Statement of Profit or Loss
For the half year ended 31 December 2021

	Note	First half 2022 \$M	First half 2021 \$M
Revenue from services rendered	2.2	1,216.6	1,131.8
Other income	2.2	9.5	7.7
Operating expenses excluding depreciation and amortisation:			
Employee benefits		(315.2)	(297.3)
Rail access		(217.3)	(217.6)
Fuel, oil and power		(135.0)	(85.0)
Repairs and maintenance		(72.2)	(81.5)
Rental, rates, lease and hire		(5.0)	(4.3)
Insurance		(10.9)	(9.7)
Other		(57.9)	(61.3)
Profit before depreciation, amortisation, net finance costs and tax		412.6	382.8
Depreciation		(155.7)	(151.8)
Amortisation		(8.1)	(7.7)
Profit before net finance costs and tax		248.8	223.3
Interest income	2.10	0.1	2.1
Interest expense	2.10	(80.2)	(90.5)
Other financing expenses		(6.1)	(5.1)
Credit value adjustment and fair value movements of undesignated derivatives		2.9	1.5
Finance expense	2.10	(83.4)	(94.1)
Net finance expense		(83.3)	(92.0)
Profit before tax		165.5	131.3
Tax expense	2.3	(49.5)	(39.7)
Profit after tax		116.0	91.6
Attributable to:			
Owners of Pacific National Holdings Pty Ltd		116.0	91.6
		116.0	91.6

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

Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2021

	Note	First half 2022 \$M	First half 2021 \$M
Profit after tax		116.0	91.6
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedge reserve	2.10	26.9	(28.5)
Income tax (expense)/benefit on items that may be reclassified subsequently to profit or loss	2.10	(8.1)	8.5
Total items that may be reclassified subsequently to profit or loss net of tax		18.8	(20.0)
Other comprehensive income/(loss) net of tax		18.8	(20.0)
Total comprehensive income attributable to owners of Pacific National Holdings Pty Ltd		134.8	71.6

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

Consolidated Statement of Financial Position
As at 31 December 2021

	Note	December 2021 \$M	June 2021 \$M
Current assets			
Cash and cash equivalents	2.7	94.0	78.1
Trade and other receivables	2.7	262.2	267.5
Contract asset		16.8	5.1
Prepayments and other assets		25.7	14.2
Inventories		22.2	23.5
Derivative financial assets	2.7	10.6	9.6
Total current assets		431.5	398.0
Non-current assets			
Property, plant and equipment		3,051.5	3,028.9
Lease assets		226.4	224.1
Intangible assets		975.2	978.5
Contract asset		111.6	88.8
Prepayments and other assets		1.7	—
Derivative financial assets	2.7	200.8	168.5
Net deferred tax assets		5.5	33.8
Total non-current assets		4,572.7	4,522.6
Total assets		5,004.2	4,920.6
Current liabilities			
Trade payables	2.8	54.5	102.1
Other payables and accrued expenses	2.8	247.5	234.7
Provisions		27.5	30.0
Employee benefits		95.8	95.1
Lease liabilities		20.6	19.8
Derivative financial liabilities	2.8	22.3	39.6
Total current liabilities		468.2	521.3
Non-current liabilities			
Other payables and accrued expenses	2.8	232.3	203.5
Provisions		28.2	30.9
Employee benefits		38.6	44.9
Lease liabilities		225.1	221.8
Loans and borrowings	2.8	3,197.5	3,013.3
Derivative financial liabilities	2.8	5.9	12.6
Total non-current liabilities		3,727.6	3,527.0
Total liabilities		4,195.8	4,048.3
Net assets		808.4	872.3
Equity			
Contributed equity	2.12	4,351.2	4,549.9
Reserves		(4,943.3)	(4,962.1)
Retained earnings		1,400.5	1,284.5
Total equity		808.4	872.3

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

Consolidated Statement of Changes in Equity
For the half year ended 31 December 2021

First half 2021 \$M	Contributed equity	Reserves	Retained earnings	Total
Balance at 1 July 2020	4,570.8	(4,954.5)	1,068.6	684.9
Profit after tax	–	–	91.6	91.6
Other comprehensive income ("OCI"):				
Net movement in cash flow hedge reserve	–	(28.5)	–	(28.5)
Income tax expense on OCI	–	8.5	–	8.5
Total comprehensive income	–	(20.0)	91.6	71.6
Balance at 31 December 2020	4,570.8	(4,974.5)	1,160.2	756.5
First half 2022 \$M	Contributed equity	Reserves	Retained earnings	Total
Balance at 1 July 2021	4,549.9	(4,962.1)	1,284.5	872.3
Profit after tax	–	–	116.0	116.0
Other comprehensive income:				
Net movement in cash flow hedge reserve	–	26.9	–	26.9
Income tax expense on OCI	–	(8.1)	–	(8.1)
Total comprehensive income	–	18.8	116.0	134.8
Transactions with owners in their capacity as owners:				
Return of capital	(198.7)	–	–	(198.7)
	(198.7)	–	–	(198.7)
Balance at 31 December 2021	4,351.2	(4,943.3)	1,400.5	808.4

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

Consolidated Statement of Cash Flows
For the half year ended 31 December 2021

	Note	First half 2022 \$M	First half 2021 \$M
Operating cash flows			
Receipts from customers		1,386.7	1,276.1
Payments to suppliers and employees		(1,062.2)	(981.2)
Interest and other costs of finance paid		(79.7)	(109.1)
Interest received		0.1	2.8
Net operating cash inflows		244.9	188.6
Investing cash flows			
Payments for property, plant and equipment and intangible assets		(202.0)	(111.3)
Proceeds from sale of property, plant and equipment and intangible assets		26.4	–
Loans to related parties		(0.8)	(0.2)
Net investing cash outflows		(176.4)	(111.5)
Financing cash flows			
Return of capital		(192.9)	–
Drawdown of borrowings		160.0	–
Repayments of borrowings		(400.0)	(863.3)
Proceeds from new bond issue, net of transaction costs		396.1	–
Payment of finance lease liabilities		(15.8)	(14.9)
Net financing cash outflows		(52.6)	(878.2)
Net increase/(decrease) in cash and cash equivalents		15.9	(801.1)
Cash and cash equivalents at the beginning of the half year		78.1	871.3
Cash and cash equivalents at the end of the half year		94.0	70.2

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

1. How we have prepared this report

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

Reporting entity

Pacific National Holdings Pty Ltd ("Parent" or "the Company") is a for profit entity domiciled in Australia. The Company is primarily involved in the management of rail assets and associated operations and services. This consolidated interim financial report ("report") comprises the consolidated financial statements of the Company and its controlled entities (collectively referred to as "Pacific National" or "the Group"). This consolidated interim financial report was authorised for issue by the Board of Directors on 24 February 2022.

Basis of preparation

This consolidated interim financial report for the half year reporting period ended 31 December 2021 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting*. The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2021.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New accounting standards and interpretations

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

A number of new accounting standards and interpretations have been published that are not mandatory for reporting periods commencing on or after 1 July 2021 and have not been early adopted by the Group.

Going concern

Notwithstanding the existence of a net current asset deficit of \$36.7 million at 31 December 2021 (30 June 2021: \$123.3 million), the Company has significant undrawn financing facilities that can be drawn down to pay debts as they fall due. In determining the appropriateness of the basis of preparation, the Directors have considered the impact of the COVID-19 pandemic on the position of Pacific National at 31 December 2021 and its operations in future periods. As an essential service, Pacific National has operated services throughout COVID-19 and has implemented additional health and hygiene protocols in its operations. Considering the uncertainty created by the COVID-19 pandemic, the Group has performed well.

Notwithstanding the impact of COVID-19, due to the forecast cash flows and available financing facilities of the Group being sufficient to meet the requirements of the Group, the Directors have concluded that the Group remains a going concern and the financial statements have been prepared on that basis.

Impact of Coronavirus (COVID-19) Pandemic

The COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020.

With the rapidly changing COVID-19 situation in Australia, Pacific National is exposed to the risk of reduced demand due to the export markets requiring less of the commodities we haul, and also disrupted service delivery due to Pacific National and customer employee health issues limiting our ability to service customers and this risk extends to our customers and their ability to provide continuity of service.

Critical accounting estimates and judgements

In the preparation of this report, the Group was required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, and where necessary, revisions are recognised in the period in which the estimate is revised.

Significant areas of estimation and critical judgements include impairment, depreciation, taxation, provisions for employee entitlements and other obligations. Further details of the nature of these assumptions and conditions are found in the relevant note and the Company's financial report for the year ended 30 June 2021.

2. Key financial information

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

2.1 Segment reporting

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

	First half 2022 \$M	First half 2021 \$M
Revenue		
External revenue	1,216.6	1,131.8
Other income	9.5	7.7
Revenue and other income	1,226.1	1,139.5
Operating expenses	(800.3)	(755.9)
Profit before depreciation, amortisation, net finance costs, material items and tax	425.8	383.6
Depreciation	(155.7)	(151.8)
Amortisation	(8.1)	(7.7)
Profit before net finance costs, material items and tax	262.0	224.1
Net finance expense	(83.3)	(92.0)
Profit before material items and tax	178.7	132.1
Material items		
Pacific National restructure	(7.1)	(0.7)
Carbon credit cost in relation to the Emissions Reduction Fund scheme	(5.7)	–
Legal costs related to the acquisition of the Acacia Ridge Terminal	(0.4)	(0.1)
Profit before tax	165.5	131.3
Tax expense	(49.5)	(39.7)
Profit after tax	116.0	91.6

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

2.2 Revenue and other income

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

	First half 2022 \$M	First half 2021 \$M
Revenue		
Rail haulage	1,171.4	1,101.4
Other	45.2	30.4
Total revenue	1,216.6	1,131.8
Other income		
Net gain/(loss) on sale of property, plant and equipment	0.8	(0.2)
Lease rental income	8.6	7.9
Other	0.1	–
Total other revenue	9.5	7.7

2.3 Taxes

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

	First half 2022 \$M	First half 2021 \$M
Reconciliation of income tax expense to prima facie tax payable:		
Profit before tax	165.5	131.3
Income tax at 30% (2021: 30%)	49.7	39.4
Adjustments of current tax for prior periods	0.2	–
Adjustments of deferred tax for prior periods	(0.3)	–
Recognition of temporary difference	0.1	–
Other non-deductible items	–	0.3
Other deductible expenses	(0.2)	–
Income tax expense recognised in the profit or loss	49.5	39.7
Tax recognised directly in other comprehensive income		
Changes in fair value of cash flow hedge	8.1	(8.5)
	8.1	(8.5)

2.4 Contingent liabilities

Litigation

From time to time, the Company is subject to claims and litigation during the normal course of business. The Board has given consideration to such matters which are or may be subject to litigation at year end.

Environmental liabilities

The Company provides for all known environmental liabilities. While the Board believes that its provisions for environmental rehabilitation are adequate, there can be no assurance that material new provisions will not be required as a result of new information or regulatory requirements with respect to known sites, or identification of new remedial obligations at other sites.

2.5 Capital and other commitments

	December 2021 \$M	June 2021 \$M
Plant and equipment		
Contracted capital expenditure committed but not yet payable:		
Within one year	79.0	78.0
One year or later and no later than five years	202.3	1.0
Later than five years	43.2	–
	324.5	79.0
Other commitments		
Non-cancellable other contracts committed but not yet payable:		
Within one year	3.2	2.4
One year or later and no later than five years	6.8	7.4
	10.0	9.8

2.6 Financial risk management

Risk management framework

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2021.

2.7 Financial assets

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

	December 2021 \$M	June 2021 \$M
Current		
Cash and cash equivalents	94.0	78.1
Trade receivables (net of impairment)	195.2	180.8
Other receivables	67.0	86.7
Contract assets	16.8	5.1
Derivative financial assets	10.6	9.6
	383.6	360.3
Non-current		
Contract assets	111.6	88.8
Derivative financial assets	200.8	168.5
	312.4	257.3
Total financial assets	696.0	617.6

2.8 Financial liabilities

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

	December 2021 \$M	June 2021 \$M
Current		
Trade payables	54.5	102.1
Other payables and accrued expenses	247.5	234.7
Derivative financial liabilities	22.3	39.6
	324.3	376.4
Non-current		
Other payables and accrued expenses	232.3	203.5
Derivative financial liabilities	5.9	12.6
Loans and borrowings:	3,197.5	3,013.3
Syndicated bank loans	200.0	440.0
US dollar bonds (net of discount)	892.1	863.3
GBP bonds (net of discount)	558.7	552.8
AUD bonds (net of discount)	1,545.3	1,146.8
Unrealised fair value loss on US dollar bonds	13.8	20.7
Capitalised transaction costs	(12.4)	(10.3)
	3,435.7	3,229.4
Total financial liabilities	3,760.0	3,605.8

2.8.1 Bank facilities

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

\$M	Maturity	December 2021		June 2021	
		Facility	Utilised	Facility	Utilised
Syndicated revolving facility	October 2024	300.0	200.0	–	–
Syndicated revolving facility	October 2025	200.0	–	–	–
Syndicated revolving facility	July 2026	400.0	–	–	–
Syndicated revolving facility	September 2023	–	–	200.0	–
Syndicated revolving facility	September 2022	–	–	500.0	440.0
Syndicated revolving facility	July 2025	–	–	400.0	–
		900.0	200.0	1,100.0	440.0
Less: cash and cash equivalents		–	(94.0)	–	(78.1)
Net bank debt		900.0	106.0	1,100.0	361.9
Bank guarantee facility	July 2023	65.0	42.4	65.0	47.0
		965.0	148.4	1,165.0	408.9

On 11 October 2021, Pacific National amended its Syndicated Facility Agreement such that the commitments of the \$200.0 million tranche due to mature in September 2023 was amended to \$300.0 million with a new maturity of October 2024, the commitments of the \$500.0 million tranche due to mature in September 2022 was amended to \$200.0 million with a new maturity of October 2025, and the commitments of the \$400.0 million tranche due to mature in July 2025 was extended with a new maturity of July 2026.

As at 31 December 2021, all syndicated revolving credit facilities, working capital facilities, US dollar bonds, GBP bonds and AUD bonds were unsecured. Pacific National pays interest on its bank facilities at a margin above the bank bill swap rate. For the current reporting period to 31 December 2021 \$400.0 million of drawn syndicated revolving credit facilities were repaid. As at 31 December 2021 the syndicated bank loans were drawn to \$200.0 million (30 June 2021: \$440.0 million).

2.8.2 US dollar bonds

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

\$M	Maturity	December 2021		June 2021	
		US\$	A\$ ¹	US\$	A\$
US dollar 12 year bonds ²	April 2023	250.0	344.3	250.0	333.3
US dollar 10 year bonds ³	March 2028	400.0	550.9	400.0	533.4
US bonds		650.0	895.2	650.0	866.7
Discount on US dollar bonds		(2.4)	(3.1)	(2.6)	(3.4)
US bonds (net of discount)		647.6	892.1	647.4	863.3

1. Australian dollar equivalent calculated at the spot rate on 31 December 2021.
2. As at 31 December 2021, Pacific National's currency exposure on the US dollar 12 year bonds was hedged to 100% (30 June 2021: 100%) and Pacific National's interest rate exposure for all the bonds was hedged to 62% (30 June 2021: 62%) through a combination of fixed-for-floating cross-currency interest rate swaps and interest rate swaps.
3. As at 31 December 2021, Pacific National's currency and interest rate exposure on the US dollar 10 year bonds was hedged to 100% (30 June 2021: 100%) through fixed-for-fixed cross-currency interest rate swaps.

2.8.3 Sterling bonds

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

\$M	Maturity	December 2021		June 2021	
		GB£	A\$ ¹	GB£	A\$
GBP 10 year bonds ²	September 2023	300.0	559.0	300.0	553.2
Discount on GBP bonds		(0.2)	(0.3)	(0.2)	(0.4)
GBP bonds (net of discount)		299.8	558.7	299.8	552.8

1. Australian dollar equivalent calculated at the spot rate on 31 December 2021.
2. As at 31 December 2021, Pacific National's currency and interest rate exposure on the GBP bonds was hedged to 100% (30 June 2021: 100%) through fixed-for-fixed cross-currency interest rate swaps.

2.8 Financial liabilities (continued)

2.8.4 Australian dollar bonds

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

\$M	Maturity	December 2021	June 2021
		A\$	A\$
AUD 10 year bonds	May 2025	350.0	350.0
AUD 10 year bonds	May 2027	350.0	350.0
AUD 10 year bonds	September 2029	450.0	450.0
AUD 10 year bonds ¹	September 2031	400.0	–
AUD bonds		1,550.0	1,150.0
Discount on AUD bonds		(4.7)	(3.2)
AUD bonds (net of discount)		1,545.3	1,146.8

1. On 8 September 2021, Pacific National issued \$400.0 million AUD denominated 10-year fixed rate bonds at a discount with a maturity of 8 September 2031.

2.9 Fair value of financial assets and liabilities

Accounting classification and fair value

All derivative financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

All of the Company's financial assets and liabilities fall into Level 2 of the fair value hierarchy. The carrying amount approximates the fair value of all financial assets and liabilities, with the exception of GBP, US dollar and Australian dollar bonds.

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

	December 2021		June 2021	
	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
US dollar bonds, gross of discount and unrealised fair value loss	895.2	959.0	866.7	940.6
GBP bonds, gross of discount	559.0	589.7	553.2	596.6
AUD bonds, gross of discount	1,550.0	1,592.1	1,150.0	1,381.0

Valuation techniques of financial assets and liabilities measured at fair value

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

2.10 Finance income and expense

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

	First half 2022 \$M	First half 2021 \$M
Recognised directly in the Consolidated Statement of Profit or Loss		
Interest income	0.1	2.1
Finance income	0.1	2.1
Interest expense ¹	(80.2)	(90.5)
Amortisation of capitalised transaction costs	(1.4)	(1.4)
Guarantee and commitment fees	(2.8)	(2.5)
Unwind of discount on long-term provisions	(1.8)	(1.2)
Credit value adjustment recognised in the profit or loss	(0.4)	(0.6)
Net change in fair value of derivatives not designated in a hedge relationship	3.2	2.1
Finance expense	(83.4)	(94.1)
Recognised directly in the Consolidated Statement of Comprehensive Income		
Net movement in cash flow hedge reserve	26.9	(28.5)
Income tax (expense)/benefit on finance income and finance costs recognised in the Consolidated Statement of Comprehensive Income	(8.1)	8.5
Finance income recognised directly in the Consolidated Statement of Comprehensive Income, net of tax	18.8	(20.0)

1. Interest expense includes \$6.2 million of interest on lease liabilities (31 December 2020: \$6.4 million).

2.11 Dividends

No dividends were declared or paid by the Company for the current reporting period ended 31 December 2021 (31 December 2020: Nil). The company paid an aggregate \$198.7 million return of capital, of which \$5.8 million was settled in the form of a non-cash transaction, to shareholders during the current reporting period (2021: \$20.9 million).

No franking account is held by the Company as at 31 December 2021 (30 June 2021: \$nil).

2.12 Contributed equity

	Date	Price per share \$	Number of fully paid ordinary shares	\$M
Parent				
Balance at	1 July 2020		975,385,664	4,570.8
Return of capital ¹	—		—	(20.9)
Balance at	30 June 2021		975,385,664	4,549.9
Parent				
Balance at	1 July 2021		975,385,664	4,549.9
Return of capital ¹	—		—	(198.7)
Balance	31 December 2021		975,385,664	4,351.2

1. Pacific National paid an aggregate \$198.7 million return of capital, of which \$5.8 million was settled in the form of a non-cash transaction, to shareholders during the current reporting period (2021: \$20.9 million).

2.13 Events subsequent to the reporting date

There has not arisen in the period between 31 December 2021 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of Pacific National, the results of those operations, or the state of affairs of Pacific National in future financial years.

Directors' Declaration

For the half year ended 31 December 2021

The Directors declare that in their opinion:

- a) the interim financial report comprising the consolidated financial statements and notes set out on pages 4 to 15:
 - (i) present fairly, in all material respects the Group's financial position as at 31 December 2021 and its financial performance for the six month period ended on that date; and
 - (ii) complies with the Australian Accounting Standard AASB 134 *Interim Financial Reporting*; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

DocuSigned by:

27E2D1D568EB441...

Russell Smith

Chairman

24 February 2022

DocuSigned by:

0C9B9D66DFDF479...

Paul Scurrah

Chief Executive Officer

24 February 2022



Independent Auditor's Review Report

To the shareholders of Pacific National Holdings Pty Ltd

Report on the Interim Financial Report

We have reviewed the accompanying Interim Financial Report of Pacific National Holdings Pty Ltd, which comprises the Consolidated Statement of Financial Position as at 31 December 2021, Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, notes 1 to 2.13 comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Responsibilities of the Directors for the Interim Financial Report

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

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

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



Independence

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

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Interim Financial Report of Pacific National Holdings Pty Ltd does not present fairly, in all material respects, the financial position of the Pacific National Holdings Pty Ltd as at 31 December 2021, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with Australian Accounting Standards.

A stylized blue ink signature of the KPMG firm.

KPMG

A blue ink signature of Paul Thomas.

Paul Thomas
Partner

Sydney
24 February 2022