Aurizon Operations Limited

ABN 47 564 947 264

Interim Financial Report
for the six months ended 31 December 2023

Aurizon Operations Limited

ABN 47 564 947 264

Interim Financial Report - 31 December 2023

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

Its registered office and principal place of business is:

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

	Notes	**31 December 2023 $m**	31 December 2022 $m
Revenue from continuing operations	1	**1,472.1**	1,287.5
Other income		**2.2**	0.5
Total revenue and other income		**1,474.3**	1,288.0
Employee benefits expense		**(444.8)**	(395.7)
Energy and fuel		**(117.1)**	(131.0)
Track access		**(311.7)**	(237.7)
Consumables		**(231.3)**	(199.9)
Depreciation and amortisation		**(173.2)**	(160.7)
Other expenses		**(4.4)**	(54.7)
Share of net profit of investments accounted for using the equity method		**0.7**	1.1
Operating profit		**192.5**	109.4
Finance income		**2.7**	2.1
Finance expenses		**(55.9)**	(40.7)
Net finance costs		**(53.2)**	(38.6)
Profit before income tax		**139.3**	70.8
Income tax expense		**(41.8)**	(28.2)
Profit after tax for the six months		**97.5**	42.6
Profit for the six months attributable to the owners of Aurizon Operations Limited		**97.5**	42.6

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

	31 December 2023 $m	31 December 2022 $m
Profit for the six months	**97.5**	42.6
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(30.9)**	(2.8)
Income tax relating to changes in the fair value of cash flow hedges	**9.3**	0.8
Exchange differences on translation of foreign operations	**(1.2)**	(0.6)
Other comprehensive income/(expense) for the six months, net of tax	**(22.8)**	(2.6)
Total comprehensive income for the six months attributable to the owners of Aurizon Operations Limited	**74.7**	40.0

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

	Notes	**31 December 2023 $m**	30 June 2023 $m
ASSETS			
Current assets			
Cash and cash equivalents		**38.2**	62.3
Trade and other receivables		**465.8**	436.5
Inventories		**183.1**	164.5
Derivative financial instruments	5	**0.5**	1.7
Current tax receivables		**-**	5.0
Other assets		**217.7**	163.8
Total current assets		**905.3**	833.8
Non-current assets			
Inventories		**52.5**	48.1
Trade and other receivables		**9.6**	-
Derivative financial instruments	5	**7.2**	29.7
Property, plant and equipment		**4,849.4**	4,755.5
Intangible assets		**142.0**	149.9
Other assets		**88.8**	96.3
Investments accounted for using the equity method		**55.7**	56.2
Total non-current assets		**5,205.2**	5,135.7
Total assets		**6,110.5**	5,969.5
LIABILITIES			
Current liabilities			
Trade and other payables		**275.7**	318.2
Borrowings	4	**79.0**	106.0
Derivative financial instruments	5	**1.0**	0.4
Current tax liabilities		**0.3**	-
Provisions		**233.3**	233.4
Other liabilities		**42.4**	40.5
Total current liabilities		**631.7**	698.5
Non-current liabilities			
Borrowings	4	**1,523.8**	1,404.0
Derivative financial instruments	5	**58.7**	70.1
Deferred tax liabilities		**224.2**	218.1
Provisions		**53.4**	48.4
Other liabilities		**172.3**	125.2
Total non-current liabilities		**2,032.4**	1,865.8
Total liabilities		**2,664.1**	2,564.3
Net assets		**3,446.4**	3,405.2
EQUITY			
Contributed equity		**3,141.6**	3,141.1
Reserves		**(4.0)**	18.8
Retained earnings		**308.8**	245.3
Total equity		**3,446.4**	3,405.2

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

	Notes	Attributable to owners of Aurizon Operations Limited			
		Contributed equity $m	**Reserves $m**	**Retained earnings $m**	**Total equity $m**
Balance at 30 June 2023		**3,141.1**	**18.8**	**245.3**	**3,405.2**
Adjustment on adoption of AASB 17		**-**	**-**	**(0.6)**	**(0.6)**
Balance at 1 July 2023		**3,141.1**	**18.8**	**244.7**	**3,404.6**
Profit for the six months		**-**	**-**	**97.5**	**97.5**
Other comprehensive income		**-**	**(22.8)**	**-**	**(22.8)**
Total comprehensive income/(expense) for the six months		**-**	**(22.8)**	**97.5**	**74.7**
Transactions with owners in their capacity as owners:					
Dividends paid	3	**-**	**-**	**(33.4)**	**(33.4)**
Capital contribution from the parent for share-based payments		**0.5**	**-**	**-**	**0.5**
		0.5	**-**	**(33.4)**	**(32.9)**
Balance at 31 December 2023		**3,141.6**	**(4.0)**	**308.8**	**3,446.4**
Balance at 1 July 2022		2,720.0	0.2	279.7	2,999.9
Profit for the six months		-	-	42.6	42.6
Other comprehensive income		-	(2.6)	-	(2.6)
Total comprehensive income/(expense) for the six months		-	(2.6)	42.6	40.0
Transactions with owners in their capacity as owners:					
Dividends paid	3	-	-	(91.6)	(91.6)
Return of capital to the parent for acquisition of subsidiary		(165.7)	-	-	(165.7)
Capital contribution from the parent for acquisition of subsidiary		50.0	-	-	50.0
Capital distribution to the parent for sale and divestment costs		(22.8)	-	-	(22.8)
Capital distribution to the parent for share-based payments		(2.5)	-	-	(2.5)
		(141.0)	-	(91.6)	(232.6)
Balance at 31 December 2022		2,579.0	(2.4)	230.7	2,807.3

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

	31 December 2023 $m	31 December 2022 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,581.9**	1,409.8
Payments to suppliers and employees (inclusive of GST)	**(1,303.4)**	(1,217.9)
Interest received	**2.4**	2.2
Income taxes paid	**(58.2)**	(23.8)
Principal elements of lease receipts	**3.8**	3.8
Net cash inflow from operating activities	**226.5**	174.1
Cash flows from investing activities		
Payments for business acquisitions (net of cash acquired)	**-**	(1,403.9)
Payments for property, plant and equipment	**(214.4)**	(237.9)
Proceeds from sale of property, plant and equipment	**3.0**	2.2
Payments for intangibles	**(9.9)**	(8.5)
Proceeds from related parties under the Intra Group Loan Agreement	**-**	35.0
Interest paid on qualifying assets	**(1.1)**	(1.6)
Distributions from joint ventures	**-**	0.7
Net cash outflow from investing activities	**(222.4)**	(1,614.0)
Cash flows from financing activities		
Proceeds from external borrowings	**503.2**	1,665.0
Repayment of external borrowings	**(483.0)**	-
Payments of transaction costs related to borrowings	**(3.4)**	(9.1)
Proceeds from related parties under the Intra Group Loan Agreement	**56.0**	-
Payment for shares acquired for share based payments	**(3.1)**	-
Principal elements of lease payments	**(11.5)**	(9.8)
Interest paid	**(53.7)**	(31.7)
Dividends paid to Company's shareholder	**(33.4)**	(91.6)
Capital distribution to parent	**-**	(127.5)
Net cash (outflow)/inflow from financing activities	**(28.9)**	1,395.3
Net decrease in cash and cash equivalents from continuing operations	**(24.8)**	(44.6)
Cash and cash equivalents at the beginning of the financial year	**62.3**	157.1
Effects of exchange rate changes on cash and cash equivalents	**0.7**	0.2
Cash and cash equivalents at end of interim reporting period	**38.2**	112.7

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

About this report

Corporate information

Aurizon Operations Limited (the Company) is a for-profit entity for the purpose of preparing this interim financial report and is a company limited by shares, incorporated and domiciled in Australia. The consolidated interim financial report comprises the financial statements for the six months ended 31 December 2023 of the Company and its subsidiaries (collectively referred to as the Group or Aurizon Operations). Aurizon Operations Limited is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group.

The interim financial report:

- has been prepared on the going concern basis of accounting;
- has been prepared in accordance with the requirements of Accounting Standard *AASB 134 Interim Financial Reporting*;
- has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- is presented in Australian dollars with all values rounded to the nearest $100,000 unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*; and
- does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual financial report of the Company for the year ended 30 June 2023. The annual financial report for the year ended 30 June 2023 is accessible at www.aurizon.com.au.

Key events and transactions for the reporting period

(a) Debt financing

On 26 July 2023, the Group successfully settled a US Private Placement (USPP) comprising of both USD and AUD tranches for ~A$503.3 million equivalent. The proceeds from the USPP have been used to repay the A$350.0 million bridge facility drawn to fund the acquisition of One Rail Australia. The USPP includes a A$50.0 million tranche maturing July 2033, a A$50.0 million tranche maturing July 2034, a US$133.0 million tranche maturing July 2030, a US$70.0 million tranche maturing July 2033 and a US$70.0 million tranche maturing July 2035. Cross-currency interest rate swaps covering the entire US$273.0 million issued have been executed to swap USD fixed rate tranches to AUD floating rate debt.

In June 2023, the Group re-financed the bilateral bank debt facilities to a total capacity of $605.0 million, of which $50.0 million capacity was added on 3 July 2023. During the period, the capacity was reduced by $65.0 million as a bilateral bank debt facility was repaid at maturity.

(b) Comparative Period

Key events and transactions affecting the performance of the Group in the comparative period are disclosed within the annual financial report for the year ended 30 June 2023.

Results for the six months

IN THIS SECTION

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

1 Segment information

The Group determines and presents operating segments on a business unit structure basis as this is how the results are reported internally and how the business is managed. The Managing Director & CEO and the Executive Committee (chief operating decision-makers) assess the performance of the Group based on underlying earnings before net interest, tax, depreciation and amortisation (EBITDA). Refer to page 26 for Non-IFRS Financial Information.

(a) Description of reportable segments

The following summary describes the operations of each reportable segment:

Coal

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

Bulk

This segment provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Australia. This segment also manages the Tarcoola-to-Darwin rail infrastructure, and the intrastate rail freight network in South Australia, and containerised freight services between Adelaide and Darwin.

Other

This segment includes other containerised freight, which is not considered a separate reportable segment, as well as other revenue 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 2023	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue				
Revenue from external customers				
Services revenue				
Track access	**236.9**	**-**	**-**	**236.9**
Freight transport[1]	**642.0**	**545.6**	**22.4**	**1,210.0**
Other services	**-**	**6.5**	**-**	**6.5**
Other revenue	**8.1**	**5.8**	**4.8**	**18.7**
Total revenue from external customers	**887.0**	**557.9**	**27.2**	**1,472.1**
Internal revenue				
Services revenue				
Other services	**-**	**0.4**	**-**	**0.4**
Total internal revenue	**-**	**0.4**	**-**	**0.4**
Total external and internal revenue[2]	**887.0**	**558.3**	**27.2**	**1,472.5**
Other income	**-**	**0.2**	**2.0**	**2.2**
Total revenue and other income	**887.0**	**558.5**	**29.2**	**1,474.7**
Internal elimination				**(0.4)**
Consolidated revenue and other income				**1,474.3**
Continuing EBITDA (Underlying)[3]	**282.9**	**112.5**	**(29.7)**	**365.7**
Depreciation and amortisation	**(103.6)**	**(60.5)**	**(9.1)**	**(173.2)**
Continuing EBIT (Underlying)[3]	**179.3**	**52.0**	**(38.8)**	**192.5**
Net finance costs				**(53.2)**
Profit before income tax from continuing operations				**139.3**

[1] As a result of the integrated bulk rail haulage and general freight assets in South Australia and Northern Territory, freight transport revenue for Bulk includes track access as it is not separately invoiced to customers.

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

[3] Refer to page 26 for Non-IFRS Financial Information.

1 Segment information (continued)

(b) Segment information (continued)

31 December 2022	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue				
Revenue from external customers				
Services revenue				
Track access	175.5	-	-	175.5
Freight transport[1]	581.9	511.5	0.8	1,094.2
Other services	-	4.9	-	4.9
Other revenue	3.5	4.7	4.7	12.9
Total revenue from external customers	760.9	521.1	5.5	1,287.5
Internal revenue				
Services revenue				
Other services	-	0.2	-	0.2
Total internal revenue	-	0.2	-	0.2
Total external and internal revenue[2]	760.9	521.3	5.5	1,287.7
Other income	-	-	0.5	0.5
Total revenue and other income	760.9	521.3	6.0	1,288.2
Internal elimination				(0.2)
Consolidated revenue and other income				1,288.0
Continuing EBITDA (Underlying)[3]	230.0	100.2	(13.2)	317.0
Depreciation and amortisation	(99.8)	(53.2)	(7.7)	(160.7)
Continuing EBIT (Underlying)[3]	130.2	47.0	(20.9)	156.3
Significant items (note c)				(46.9)
EBIT[3]				109.4
Net finance costs				(38.6)
Profit before income tax from continuing operations				70.8

[1] As a result of the integrated bulk rail haulage and general freight assets in South Australia and Northern Territory, freight transport revenue for Bulk includes track access as it is not separately invoiced to customers.

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

[3] Refer to page 26 for Non-IFRS Financial Information.

(c) Significant items

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 2023 $m	31 December 2022 $m
Acquisition costs for One Rail Australia	**-**	(46.9)

Significant items are reconciled in the Non-IFRS Financial Information on page 26.

2 Acquisition of businesses and subsidiaries

(a) Prior six months period

(i) One Rail Australia acquisition

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

	$m
Total purchase consideration (after working capital and completion adjustments)	1,453.9

	Fair value $m
Cash	50.0
Trade and other receivables	44.9
Inventories	30.8
Other current assets	3.3
Property, plant and equipment	1,409.3
Other non-current assets	0.1
Trade and other payables	(18.2)
Borrowings	(5.4)
Provisions	(31.9)
Other current liabilities	(11.0)
Other non-current liabilities	(18.0)
Deferred tax liabilities	(23.5)
Fair value of net identifiable assets acquired	**1,430.4**
Add: Goodwill	23.5
Fair value of net assets acquired	**1,453.9**

Goodwill of $23.5 million solely arises from the net deferred tax liability recognised on acquisition, in accordance with accounting standards. The net deferred tax liability arises on leased assets (comprising leasehold interests with below market rental payments) and the face value of the Term Loan Facility, offset by deferred tax assets associated with provisions. None of the goodwill is expected to be deductible for tax purposes.

The fair value of trade receivables acquired was $44.3 million. The gross contractual amount for trade receivables due was $44.6 million, of which $0.3 million was expected to be uncollectable.

Borrowings acquired included a $50.0 million Term Loan Facility 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 was $5.4 million.

Acquisition costs of $46.9 million, including landholder duty, advisory fees and other costs were expensed to profit or loss during the prior comparable period and classified in other expenses. This amount was classified as a significant item in continuing operations.

Net cash outflow from investing activities for the acquisition was $1,403.9 million, representing cash paid net of cash acquired.

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.

3 Dividends

	$m
Declared and paid during the period	
For the six months ended 31 December 2023	
Final dividend for 2023 (unfranked)	**33.4**
For the six months ended 31 December 2022	
Final dividend for 2022 (unfranked)	91.6
Proposed and unrecognised at period end	
For the six months ended 31 December 2023	
Interim dividend for 2024 (unfranked)	**38.1**
For the six months ended 31 December 2022	
Interim dividend for 2023 (unfranked)	44.8

4 Borrowings

	31 December 2023 $m	30 June 2023 $m
Current - Unsecured		
Bank debt facilities	**23.0**	106.0
Loans from related parties	**56.0**	-
	79.0	106.0
Non-current - Unsecured		
Medium-Term Notes	**449.3**	435.0
US Private Placement Notes	**508.2**	1.9
Bank debt facilities	**570.0**	970.0
Other borrowings	**6.0**	5.8
Capitalised borrowing costs	**(9.7)**	(8.7)
	1,523.8	1,404.0
Total borrowings	**1,602.8**	1,510.0

The Group's bank debt facilities and USPP contain financial covenants. The bank debt facilities, Medium-Term Notes and USPP contain general undertakings including negative pledge clauses which restrict the amount of security that the Group can provide over assets in certain circumstances. The Group has complied with all required covenants and undertakings throughout the reporting period.

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

4 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.

		Utilised[1]		Facility limit	
	Maturity	**31 December 2023 $m**	30 June 2023 $m	**31 December 2023 $m**	30 June 2023 $m
Working capital facility	Jun-24	**46.9**	62.4	**125.0**	125.0
Bilateral facility	Nov-23	**-**	65.0	**-**	65.0
Bilateral facility	Nov-25	**-**	-	**75.0**	75.0
Bilateral facility	Jul-26	**170.0**	195.0	**465.0**	415.0
Bridge loan facility	Jul-24	**-**	350.0	**-**	350.0
Revolver loan facility	Jul-25	**-**	25.0	**400.0**	400.0
Term loan facility	Jul-27	**400.0**	400.0	**400.0**	400.0
AMTN 1	Mar-28	**500.0**	500.0	**500.0**	500.0
USPP	Jul-30	**196.5**	-	**196.5**	-
USPP	Jul-33	**153.4**	-	**153.4**	-
USPP	Jul-34	**50.0**	-	**50.0**	-
USPP	Jul-35	**103.4**	-	**103.4**	-
Total Group financing arrangements		**1,620.2**	1,597.4	**2,468.3**	2,330.0

[1] Amount utilised includes bank guarantees of $23.9 million (30 June 2023: $21.4 million) and excludes capitalised borrowing costs of $9.7 million (30 June 2023: $8.7 million), discounts on AMTN of $1.6 million (30 June 2023: $1.8 million) and accumulated fair value adjustments on AMTN and USPPs of $44.1 million (30 June 2023: $61.2 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 $6.0 million (30 June 2023: $5.8 million).

5 Financial instruments

(a) Fair values of financial instruments

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

	31 December 2023 $m	30 June 2023 $m
Borrowings		
Carrying amount	**1,602.8**	1,510.0
Fair value	**1,650.3**	1,523.2

(b) Fair value measurements

The fair value of borrowings is estimated by discounting future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. The market interest rates were determined to be between 4.8% and 8.2% (30 June 2023: 4.8% to 6.7%) depending on the type of facility.

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

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

The fair value of forward exchange contracts are determined as the unrealised gains/(loss) with reference to market rates. The fair value of interest rate swaps is determined as the net present value of contracted cash flows. The existing exposure method, which estimates future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted for both forward foreign exchange contracts and interest rate swaps.

The Group's derivative financial instruments are classified as Level 2 (30 June 2023: Level 2). During the interim reporting period to 31 December 2023, there were no transfers between Level 1, Level 2 or Level 3 in the fair value hierarchy (30 June 2023: nil).

5 Financial instruments (continued)

	31 December 2023 $m	30 June 2023 $m
Current assets		
Foreign exchange contracts	**0.5**	1.7
Non-current assets		
Interest rate swaps	**6.7**	29.6
Interest rate swaps - USPP	**0.5**	-
Foreign exchange contracts	**-**	0.1
	7.2	29.7
Total derivative financial instrument assets	**7.7**	31.4
Current liabilities		
Foreign exchange contracts	**1.0**	0.4
Non-current liabilities		
Interest rate swaps - AMTN 1	**48.1**	62.9
Interest rate swaps - USPP	**-**	0.3
CCIRS - USPP	**10.6**	6.9
	58.7	70.1
Total derivative financial instrument liabilities	**59.7**	70.5

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.

6 Related party transactions

Related parties include other entities in the Aurizon Group and Key Management Personnel. There were no Key Management Personnel related party transactions during the half year ended 31 December 2023 (31 December 2022: $nil). The following transactions occurred and balances are recognised with other entities in the Aurizon Group.

(a) Transactions with related parties

	31 December 2023 $'000	31 December 2022 $'000
Trade and other receivables from related parties	**20,779**	13,380
Trade and other payables to related parties	**41,345**	51,829
Tax loan receivable from parent entity	**171,734**	24,908
Loans payable to related parties	**56,000**	-
Loans receivable from related parties	**-**	58,000
Services revenue received from related parties	**11,637**	12,013
Expenses paid to related parties	**246,493**	190,611
Expenses reimbursed from related parties	**31,217**	28,745
Interest revenue received from related parties	**398**	574

Expenses reimbursed from related parties in the Aurizon Group include maintenance, facilities charges and general corporate overheads. Details of the terms and conditions of transactions with related parties are disclosed in the annual financial report for the year ended 30 June 2023.

7 Summary of significant accounting policies

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

(a) New and amended standards adopted by the Group

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

AASB 17 *Insurance Contracts* (AASB 17) became effective for the Group from 1 July 2023. The Aurizon Group Insurance Program includes certain placements with a wholly owned captive insurance company, Iron Horse Insurance Company Pte Ltd (incorporated in the Republic of Singapore). The captive insurance company only underwrites the Aurizon Group and its subsidiaries for property and liability insurance. Iron Horse Insurance Company Pte Ltd is a wholly owned subsidiary of the Company and provides insurance to a related party, Aurizon Network Pty Ltd. Adjustments arising from the adoption of AASB 17 by Iron Horse Insurance Company Pte Ltd in respect of liabilities held for Aurizon Network Pty Ltd have been recognised in the opening balance sheet on 1 July 2023 and do not have a material impact on the Group.

The Company is a self-insurer for workers' compensation within Queensland, under the *Workers' Compensation and Rehabilitation Act 2003*. The Company recognises a provision for the estimated workers' compensation for the Aurizon Group, including a related party, Aurizon Network Pty Ltd. The contract meets the definition of an insurance contract under AASB 17 in respect of liabilities held for Aurizon Network Pty Ltd. Adjustments arising from the adoption of AASB 17 by the Company have been recognised in the opening balance sheet on 1 July 2023 and do not have a material impact on the Group.

8 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 are consistent with those disclosed in the annual financial report for the year ended 30 June 2023.

Unrecognised items and events after reporting date

IN THIS SECTION

Unrecognised items provide 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.

9 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 2023.

At 31 December 2023, the Group has capital commitments contracted but not provided for in respect of the acquisition of property, plant and equipment of $111.3 million (30 June 2023: $148.6 million) which are due within one year and $79.7 million (30 June 2023: $62.8 million) which are due between one and five years and $14.0 million (30 June 2023: $14.3 million) which are due after five years.

10 Events occurring after the reporting period

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

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

In the opinion of the Directors of the Company:

(a) the interim financial statements and notes set out on pages 2 to 22:

  (i) comply with Accounting Standards; and

  (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2023 and of its performance for the six months ended on that date, and

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

A Harding
Director

Brisbane
12 February 2024

Deloitte.

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

Conclusion

We have reviewed the interim financial report of Aurizon Operations Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated balance sheet as at 31 December 2023, 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 material accounting policy information and other explanatory information, and the directors' declaration as set out on pages 7 to 23.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying interim financial report of the Group does not present fairly, in all material respects, the Group's financial position as at 31 December 2023 and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the accounting policies as described in the notes to the financial statements.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Interim Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' Responsibilities for the 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 does not present fairly, in all material respects, the financial position of the Group as at 31 December 2023 and of its financial performance and its cash flows for the half-year ended on that date in accordance with the accounting policies as described in the notes to the financial statements.

Deloitte.

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, 12 February 2024

Non-IFRS Financial Information in 2023-24 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. 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 items.

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 2023 Continuing operations $m	Six months ended 31 December 2022 Continuing operations $m
NPAT – Underlying	**97.5**	81.7
Significant items, net of tax	**-**	(39.1)
NPAT – Statutory	**97.5**	42.6
Income tax expense	**41.8**	28.2
Profit before income tax	**139.3**	70.8
Net finance costs	**53.2**	38.6
EBIT - Statutory	**192.5**	109.4
Add back significant items:		
- Acquisition costs	**-**	46.9
EBIT – Underlying	**192.5**	156.3
Depreciation and amortisation	**173.2**	160.7
EBITDA - Underlying	**365.7**	317.0