Aurizon Operations Limited

ABN 47 564 947 264

Interim Financial Report
for the six months ended 31 December 2022

Aurizon Operations Limited

ABN 47 564 947 264

Interim Financial Report - 31 December 2022

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

Its registered office and principal place of business is:

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

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

	Notes	**31 December 2022 $m**	31 December 2021 $m
Revenue from continuing operations	1	**1,287.5**	1,150.5
Other income		**0.5**	7.5
Total revenue and other income		**1,288.0**	1,158.0
Employee benefits expense		**(395.7)**	(345.3)
Energy and fuel		**(131.0)**	(63.2)
Track access		**(237.7)**	(234.2)
Consumables		**(199.9)**	(159.0)
Depreciation and amortisation		**(160.7)**	(129.9)
Other expenses		**(54.7)**	(2.4)
Share of net profit of investments accounted for using the equity method		**1.1**	-
Operating profit		**109.4**	224.0
Finance income		**2.1**	1.2
Finance expenses		**(40.7)**	(9.0)
Net finance costs		**(38.6)**	(7.8)
Profit before income tax		**70.8**	216.2
Income tax expense		**(28.2)**	(66.7)
Profit after tax for the six months from continuing operations		**42.6**	149.5
Profit for the six months attributable to the owners of Aurizon Operations Limited		**42.6**	149.5

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

	31 December 2022 $m	31 December 2021 $m
Profit after tax from continuing operations	**42.6**	149.5
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**(2.8)**	0.5
Income tax relating to changes in the fair value of cash flow hedges	**0.8**	(0.2)
Exchange differences on translation of foreign operations	**(0.6)**	0.2
Other comprehensive income/(expense) for the six months, net of tax	**(2.6)**	0.5
Total comprehensive income for the six months attributable to the owners of Aurizon Operations Limited	**40.0**	150.0

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

	Notes	31 December 2022 $m	30 June 2022 $m
ASSETS			
Current assets			
Cash and cash equivalents		**112.7**	157.1
Trade and other receivables		**427.9**	396.3
Inventories		**164.6**	124.7
Derivative financial instruments	5	**0.5**	1.5
Current tax receivables		**5.1**	-
Other assets		**62.3**	29.0
Assets classified as held for sale		**-**	0.1
Total current assets		**773.1**	708.7
Non-current assets			
Inventories		**44.4**	38.2
Property, plant and equipment[1]		**4,727.2**	3,236.9
Intangible assets[1]		**149.5**	126.6
Other assets		**68.7**	75.5
Investments accounted for using the equity method		**21.8**	22.0
Total non-current assets		**5,011.6**	3,499.2
Total assets		**5,784.7**	4,207.9
LIABILITIES			
Current liabilities			
Trade and other payables		**257.2**	221.0
Borrowings	4	**450.0**	-
Derivative financial instruments	5	**1.1**	-
Provisions		**211.8**	221.8
Other liabilities		**33.7**	23.0
Total current liabilities		**953.8**	465.8
Non-current liabilities			
Borrowings	4	**1,641.6**	428.0
Derivative financial instruments	5	**66.6**	66.1
Deferred tax liabilities		**128.7**	81.1
Provisions		**55.8**	45.9
Other liabilities		**130.9**	121.1
Total non-current liabilities		**2,023.6**	742.2
Total liabilities		**2,977.4**	1,208.0
Net assets		**2,807.3**	2,999.9
EQUITY			
Contributed equity		**2,579.0**	2,720.0
Reserves		**(2.4)**	0.2
Retained earnings		**230.7**	279.7
Total equity		**2,807.3**	2,999.9

[1] Balance as at 1 July 2022 includes a reclassification of an amount of $9.1 million from software under development to assets under construction.

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
		Attributable to owners of Aurizon Operations Limited			
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)**
Capital distribution to the parent for sale and divestment cost		**(22.8)**	**-**	**-**	**(22.8)**
Net capital distribution to the parent for acquisition of subsidiary[1]		**(115.7)**	**-**	**-**	**(115.7)**
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**
Balance at 1 July 2021		2,712.0	-	239.1	2,951.1
Profit for the six months		-	-	149.5	149.5
Other comprehensive income		-	0.5	-	0.5
Total comprehensive income/(expense) for the six months		-	0.5	149.5	150.0
Transactions with owners in their capacity as owners:					
Dividends paid	3	-	-	(123.4)	(123.4)
Capital contribution from the parent for share-based payments		3.6	-	-	3.6
		3.6	-	(123.4)	(119.8)
Balance at 31 December 2021		2,715.6	0.5	265.2	2,981.3

[1] The Company completed a return of capital of $165.7 million on 29 July 2022, offset by a capital contribution from the parent of $50.0 million on 31 December 2022.

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

	31 December 2022 $m	31 December 2021 $m
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**1,409.8**	1,297.9
Payments to suppliers and employees (inclusive of GST)	**(1,217.9)**	(990.3)
Interest received	**2.2**	1.2
Income taxes paid	**(23.8)**	27.7
Principal elements of lease receipts	**3.8**	3.5
Net cash inflow from operating activities	**174.1**	340.0
Cash flows from investing activities		
Payments for business acquisitions (net of cash acquired)	**(1,403.9)**	(8.7)
Payments for property, plant and equipment	**(237.9)**	(134.2)
Proceeds from sale of property, plant and equipment	**2.2**	13.4
Proceeds from/(payments to) related parties under the Intra Group Loan Agreement	**35.0**	(96.0)
Interest paid on qualifying assets	**(1.6)**	(0.7)
Payments for intangibles	**(8.5)**	(4.2)
Distributions received from investments	**0.7**	0.5
Net cash outflow from investing activities	**(1,614.0)**	(229.9)
Cash flows from financing activities		
Proceeds from borrowings	**1,665.0**	-
Payments of transaction costs related to borrowings	**(9.1)**	-
Principal elements of lease payments	**(9.8)**	(8.4)
Interest paid	**(31.7)**	(8.2)
Proceeds from settlement of related party receivable	**-**	0.3
Dividends paid to Company's shareholder	**(91.6)**	(123.4)
Capital distribution to parent	**(127.5)**	-
Net cash inflows/(outflow) from financing activities	**1,395.3**	(139.7)
Net decrease in cash and cash equivalents from continuing operations	**(44.6)**	(29.6)
Cash and cash equivalents at the beginning of the financial year	**157.1**	147.7
Effects of exchange rate changes on cash and cash equivalents	**0.2**	0.2
Cash and cash equivalents at end of interim reporting period	**112.7**	118.3

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 2022 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 in accordance with the requirements of Accounting Standard *AASB 134 Interim Financial Reporting*;
- has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- is presented in Australian dollars with all values rounded to the nearest $100,000 unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*; and
- does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2022. 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 Aurizon 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 $2,403.9 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 sole 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 ownership interest in East Coast Rail is held by another subsidiary of Aurizon Holdings Limited and does not form part of the Group.

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

Acquisition costs of $46.9 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.

Refer to note 2 for further information on the One Rail Australia acquisition.

Key events and transactions for the reporting period (continued)

(b) Debt financing

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

- $650.0 million bridge facility maturing July 2024
- $400.0 million revolving facility maturing July 2025
- $400.0 million term loan facility maturing July 2027

Borrowing costs of $9.1 million have been capitalised to balance sheet and will be amortised to profit or loss over the expected term of the debt.

(c) Capital structure

During the period, the Company returned net capital of $115.7 million. This included a return of capital of $165.7 million on 29 July 2022, offset by a capital contribution from the parent of $50.0 million on 31 December 2022. The return of capital was funded from existing bank debt facilities.

The Company completed a return of capital of $22.8 million on 31 December 2022 relating to sale and divestment costs paid on the parent's behalf. There was no change to the number of ordinary shares on issue.

(d) 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 $30.1 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

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 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 results

31 December 2022	Coal $m	Bulk[1] $m	Other $m	Total Continuing Operations $m
External revenue				
Revenue from external customers				
Services revenue				
Track access	**175.5**	**-**	**-**	**175.5**
Freight transport	**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 adjustments (note c)				**(46.9)**
EBIT[3]				**109.4**
Net finance costs				**(38.6)**
Profit before income tax from continuing operations				**70.8**

[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 26 for Non-IFRS Financial Information.

1 Segment information (continued)

(b) Segment results (continued)

31 December 2021	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue				
Revenue from external customers				
Services revenue				
Track access[1]	184.0	-	-	184.0
Freight transport[1]	609.6	329.7	0.8	940.1
Other services	-	10.9	3.6	14.5
Other revenue	2.4	3.5	6.0	11.9
Total revenue from external customers[2]	796.0	344.1	10.4	1,150.5
Other income	-	0.3	7.2	7.5
Total revenue and other income	796.0	344.4	17.6	1,158.0
Continuing EBITDA	286.2	74.5	(6.8)	353.9
Depreciation and amortisation	(104.4)	(17.0)	(8.5)	(129.9)
Continuing EBIT	181.8	57.5	(15.3)	224.0
Net finance costs				(7.8)
Profit before income tax from continuing operations				216.2

[1] $9.5 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.

(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 $m	31 December 2021 $m
Acquisition costs for One Rail Australia	**(46.9)**	-

Significant adjustments is reconciled in the Non-IFRS Financial Information on page 26.

2 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. The ownership interest in East Coast Rail is held by another subsidiary of Aurizon Holdings Limited and does not form part of the Group.

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 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 fair value of tangible and intangible assets
The determination of 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)	**1,453.9**

	Fair value $m
Cash	**50.0**
Trade and other receivables	**44.9**
Inventories	**30.3**
Other current assets	**3.4**
Property, plant and equipment	**1,408.5**
Other non-current assets	**0.1**
Trade and other payables	**(18.3)**
Borrowings	**(5.4)**
Provisions	**(30.7)**
Other current liabilities	**(10.9)**
Other non-current liabilities	**(18.0)**
Deferred tax liabilities	**(23.5)**
Provisional fair value of net identifiable assets acquired	**1,430.4**
Add: Goodwill	**23.5**
Provisional fair value of net assets acquired	**1,453.9**

2 Acquisition of businesses and subsidiaries (continued)

(a) Current six months period (continued)

(i) One Rail Australia acquisition (continued)

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

Borrowings acquired includes a $50.0 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 $5.4 million.

Acquisition costs of $46.9 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.

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

The acquired business contributed revenue for continuing operations of $115.2 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 $1,310.1 million. These amounts have been calculated using the subsidiary's results and adjusting them for differences in accounting policies between the Group.

(b) Prior six months period

(i) Kooregah Pastoral Co Pty Ltd (KPC)

The Group acquired the assets of KPC for consideration of $8.3 million on 28 October 2021. KPC is a trucking and material handling business that operates in and around Hermidale in New South Wales. 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 $7.7 million.

Capital management

IN THIS SECTION

Capital management provides information about the capital management practices of the Group and shareholder returns for the six 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 2022	
Final dividend for 2022 (unfranked)	**91.6**
For the six months ended 31 December 2021	
Final dividend for 2021 (unfranked)	123.4
Proposed and unrecognised at period end	
For the six months ended 31 December 2022	
Interim dividend for 2023 (unfranked)	**44.8**
For the six months ended 31 December 2021	
Interim dividend for 2022 (unfranked)	105.3

4 Borrowings

	31 December 2022 $m	30 June 2022 $m
Current - Unsecured		
Bank debt facilities	**450.0**	-
	450.0	-
Non-current - Unsecured		
Medium-Term Notes	**430.3**	430.3
Bank debt facilities	**1,215.0**	-
Other borrowings[1]	**5.6**	-
Capitalised borrowing costs	**(9.3)**	(2.3)
	1,641.6	428.0
Total borrowings	**2,091.6**	428.0

[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.

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 2022 $m**	30 June 2022 $m	**31 December 2022 $m**	30 June 2022 $m
Working capital facility	Jun-23	**22.9**	19.0	**125.0**	125.0
Bilateral facility	Jun-23	**-**	-	**50.0**	50.0
Bilateral facility	Nov-23	**450.0**	-	**500.0**	500.0
Bilateral facility	Nov-25	**-**	-	**75.0**	75.0
Bridge loan facility	Jul-24	**650.0**	-	**650.0**	-
Revolver loan facility	Jul-25	**165.0**	-	**400.0**	-
Term loan facility	Jul-27	**400.0**	-	**400.0**	-
AMTN 1	Mar-28	**500.0**	500.0	**500.0**	500.0
Total Group financing arrangements		**2,187.9**	519.0	**2,700.0**	1,250.0

[1] Amount utilised includes bank guarantees of $22.9 million (30 June 2022: $19.0 million) and excludes capitalised borrowing costs of $9.3 million (30 June 2022: $2.3 million), discounts on AMTN of $2.0 million (30 June 2022: $2.2 million) and accumulated fair value adjustments on AMTN of $67.7 million (30 June 2022: $67.5 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 $5.6 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 2022 $m	30 June 2022 $m
Borrowings		
Carrying amount	**2,091.6**	428.0
Fair value	**2,096.7**	421.9

(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 7.1% (30 June 2022: 2.1% to 6.3%) 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 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).

	31 December 2022 $m	30 June 2022 $m
Current assets		
Foreign exchange contracts	**0.5**	1.5
Total derivative financial instrument assets	**0.5**	1.5
Current liabilities		
Foreign exchange contracts	**1.1**	-
Non-current liabilities		
Foreign exchange contracts	**0.5**	-
Interest rate swaps - AMTN 1	**66.1**	66.1
	66.6	66.1
Total derivative financial instrument liabilities	**67.7**	66.1

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

The nature of related party transactions and relationships is consistent with those disclosed in the annual report for the Company for the year ended 30 June 2022.

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. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

(a) New and amended standards adopted by the Group

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

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 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 2.

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.

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 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 $100.6 million (30 June 2022: $64.5 million) which are due within one year and $103.2 million (30 June 2022: $nil) which are due between one and 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 2022 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
13 February 2023

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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 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 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 interim financial report of the Group does not present fairly, in all material respects, the Group's financial position as at 31 December 2022 and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the accounting policies as described in the notes to the financial statements.

Basis for Conclusion

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

Directors' Responsibilities for the 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 the accounting policies as described in the notes to the financial statements and for such internal control as the directors determine is necessary to enable the preparation of the 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 2022 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, 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. 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.

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 Continuing operations $m	Six months ended 31 December 2021 Continuing operations $m
NPAT – Underlying	**81.7**	149.5
Significant adjustments, net of tax[1]	**(39.1)**	-
NPAT – Statutory	**42.6**	149.5
Income tax expense	**28.2**	66.7
Profit before income tax	**70.8**	216.2
Net finance costs	**38.6**	7.8
EBIT - Statutory	**109.4**	224.0
Add back significant adjustments:		
- Acquisition costs	**46.9**	-
EBIT – Underlying	**156.3**	224.0
Depreciation and amortisation	**160.7**	129.9
EBITDA - Underlying	**317.0**	353.9

[1] Acquisition costs includes non taxable landholder duty paid during the period of $21.0 million.