Aurizon Network Pty Ltd

ABN 78 132 181 116

Annual Financial Report
for the year ended 30 June 2020

These financial statements are the consolidated financial statements of the Group consisting of Aurizon Network Pty Ltd and its subsidiaries.

The financial statements presented in the Australian dollars.

Aurizon Network Pty Ltd is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Level 8
900 Ann Street
Fortitude Valley QLD 4006

The financial statements were authorised for issue by the Directors on 10 August 2020. The Directors have the power to amend and reissue the financial statements.

Directors' Report

The Directors present their report on the consolidated entity consisting of Aurizon Network Pty Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2020. Throughout the report, the consolidated entity is referred to as the Group.

Directors

The following persons were Directors of Aurizon Network Pty Ltd during the financial year and up to the date of this report:

M Fraser (Chairman)
P Bains (appointed 21 April 2020)
M Bastos
A Harding
M Riches (resigned 17 December 2019)
L Strambi (appointed 6 February 2020)
K Vidgen

Principal activities

The nature of the entity's operations and its principal activities during the year were:

(i) provision of access to, and operation and management of, the Central Queensland Coal Network (CQCN); and
(ii) the provision of design, construction, overhaul, maintenance and management services to Aurizon Holdings Limited and its subsidiary entities (the Aurizon Group) as well as external below rail customers.

Review of operations

Business summary

The Company operates the 2,670 kilometre CQCN. The open access network is the largest coal rail network in Australia and one of the country's most complex, connecting multiple customers from more than 40 mines to five export terminals located at three ports. The CQCN includes four major coal systems (Moura, Blackwater, Goonyella and Newlands) and a connecting link (Goonyella to Abbot Point Expansion (GAPE)).

Coal access revenue is from the provision of access to the CQCN and is the primary source of revenue. It is determined based on railed coal volumes and the applicable system reference tariffs approved by the Queensland Competition Authority (QCA). This regulatory framework permits the Company to earn an approved return on its Regulated Asset Base (RAB), recover its capital expenditure and provides operating allowances over each regulatory period covered by a QCA approved access undertaking. Access revenue also includes revenue from Non-Coal Access (Freight and Passenger Trains) and above regulatory returns in certain circumstances, such as in relation to GAPE.

The Company also derives revenue from Services and Other Revenue including the maintenance of private infrastructure, external design and construction works, customer funded infrastructure charges and other services.

Performance overview

EBIT improved $65.8 million (17%) to $458.8 million in FY2020, with increased revenue of $70.8 million (6%) and reduced operating costs of $2.1 million (1%) partially offset by higher depreciation of $7.1 million (2%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the QCA on 21 February 2020. Actual net tonnes were 226.9mt compared to the regulatory system forecast of 240.0mt.

Total Access Revenue increased $61.4 million (6%), benefiting from:

- Increased regulatory allowable revenue of $76.6 million including the impact of the 2017 Access Undertaking;
- The non-recurrence of the FY2018 true-up that impacted FY2019 revenue, totalling $60.1 million; and
- Lower customer funded infrastructure rebates, which were $17.8 million favourable compared to FY2019 due to a combination of lower volumes and a true-up adjustment following the finalisation of the 2017 Access Undertaking as rebates had been previously paid on a transitional tariff basis.

Review of operations (continued)

This was partially offset by:

- A volume related under-recovery of allowable revenue in FY2020 of $22.6 million compared to an over-recovery of $11.8 million in FY2019,
- Unfavourable Revenue Cap movements of $57.5 million, being a repayment in FY2020 of both $0.8 million in relation to FY2018 and $12.2 million in relation to FY2019 compared to a recovery of $44.5 million in FY2019.
- GAPE revenue was $2.7 million lower.

Access Revenue included the recognition of $25.6 million Take-or-Pay in relation to the Goonyella and Moura systems.

Services and other revenue increased $9.4 million (20%) mainly due to additional external construction works revenue ($9.1 million) partially offset in expenses.

Operating costs decreased by $2.1 million (1%) from a reduction in consumables due to lower professional services spend (primarily relating to UT5 and the WIRP dispute) and overhead savings. These savings were partially offset by an increase in other expenses of $3.7 million largely due to minor asset and inventory impairments. Employee costs were in line with prior year as higher redundancy costs were offset by cost saving initiatives.

Depreciation increased $7.1 million (2%) due to increased levels of asset renewals and ballast undercutting.

The Regulated Asset Base (RAB) roll-forward value at 1 July 2020 is estimated to be $5.5 billion (including all deferred capital but excluding Access Facilitation Deeds (AFDs) of $0.4 billion).

Operational update

The Group maintained strong operational performance during FY2020 despite challenges presented by bush fires, wet weather and the COVID-19 pandemic.

- The supply chain delivered the third highest volumes on record in the CQCN of 226.9mt with new monthly CQCN records achieved in July and December. Volumes during FY2020 were impacted by isolated customer demand and production issues along with additional reactive maintenance requirements particularly in the second half of FY2020
- Total System Availability declined marginally from 83.8% to 83.3%
- Cancellations due to Network rail infrastructure increased from 1.8% to 2.5% partly reflecting additional reactive maintenance requirements, primarily in Blackwater and Goonyella
- Cycle velocity improved from 23.1km/h to 23.3km/h

The RM902, the Company's new ballast cleaning machine remains in the commissioning phase following the identification of some design modification requirements. It is now expected that the machine will be fully operational in the second half of FY2021.

Dividends

Details of dividends provided for or paid are set out in note 12 to the financial report.

State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Events since the end of the financial year

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

Likely developments

During FY2020 legal proceedings continued in relation to the notices received by the Company in September 2015 from Wiggins Island Rail Project (WIRP) customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Company's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 to 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered during the first half of FY2021.

The customers also initiated other disputes under their respective WIRP Deeds, which were the subject of an expert determination in February 2019. Those disputes relate to various matters on the completion of the WIRP construction works. The Expert's Determination was issued on 4 June 2019 and found that the WIRP Fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court proceedings and will not impact recovery of the regulated access charge component of WIRP capital expenditure. The Company is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in FY2020.

Environmental regulation and performance

The Company is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, the Company seeks to comply with all applicable environmental laws and regulations.

The Company acknowledges the strong scientific consensus of climate change and supports the objectives of the Paris Agreement, to find a pathway to limiting global warming to below 2°C. Aurizon also acknowledges the objectives of the Paris Agreement to pursue efforts to limit the temperature increase even further to 1.5°C. To this end, Aurizon the Company continues to incorporate the recommendations of the Financial Stability Board's (FSB) Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), when considering climate-related risks

The CQCN supply chain has continued its concerted long-term focus on minimising rail-related coal dust emissions by implementing key controls outlined in the CQCN Coal Dust Management Plan (CDMP). The CDMP recognises that each part of the supply chain has a role to play in minimising emissions, including load profiling and veneering of coal wagons at the start of their journeys to a port.

The *National Greenhouse and Energy Reporting Act 2007* (NGER) (Cth) requires the Company to report its annual greenhouse gas emissions and energy use. The Company has implemented systems and processes for the collection and calculation of the data required and is registered under the NGER Act. At the close of the third Emissions Reduction Fund Safeguard Mechanism (Safeguard) compliance period (ending 30 June 2020), the Company's facility was not captured.

Further details of the Company's climate change and environmental performance will be published in Aurizon's forthcoming Sustainability Report, which will be published in October 2020 and made available on Aurizon's website aurizon.com.au/sustainability.

Environmental prosecutions

There have been no environmental prosecutions during this financial year.

Indemnification and insurance of officers

The Company's Constitution provides that the Company may indemnify any person who is, or has been, an officer of the Group, including the Directors and Company Secretary, against liabilities incurred whilst acting as such officers to the maximum extent permitted by law.

The Company's holding company, Aurizon Holdings Limited, has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the instrument applies.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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

M Fraser
Chairman

Brisbane
10 August 2020

Auditor's Independence Declaration

As lead auditor for the audit of Aurizon Network Pty Ltd for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aurizon Network Pty Ltd and the entities it controlled during the period.

Tim Allman
Partner
PricewaterhouseCoopers

Brisbane
10 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Financial Report
for the year ended 30 June 2020

	Notes	**2020 $m**	2019 $m
Revenue from continuing operations	1	**1,188.5**	1,117.7
Employee benefits expense	2	**(151.7)**	(151.6)
Energy and fuel		**(109.2)**	(109.2)
Consumables	2	**(141.3)**	(147.2)
Depreciation and amortisation	2	**(314.0)**	(306.9)
Impairment losses	2	**(1.9)**	-
Other expenses		**(11.6)**	(9.8)
Operating profit		**458.8**	393.0
Finance income		**-**	0.1
Finance expenses	2	**(139.5)**	(143.0)
Net finance costs		**(139.5)**	(142.9)
Profit before income tax		**319.3**	250.1
Income tax expense	3	**(96.0)**	(75.8)
Profit for the year attributable to owners of Aurizon Network Pty Ltd		**223.3**	174.3

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

	Notes	**2020 $m**	2019 $m
Profit for the year		**223.3**	174.3
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	13(d)	**(33.2)**	(45.8)
Income tax relating to these items	3(d)	**10.0**	13.6
Other comprehensive expense for the year, net of tax		**(23.2)**	(32.2)
Total comprehensive income for the year attributable to owners of Aurizon Network Pty Ltd		**200.1**	142.1

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

	Notes	**2020 $m**	2019 $m
ASSETS			
Current assets			
Cash and cash equivalents		**6.7**	3.1
Trade and other receivables	4	**204.1**	219.3
Inventories	5	**41.9**	27.9
Other assets		**1.6**	1.4
Total current assets		**254.3**	251.7
Non-current assets			
Inventories	5	**10.5**	11.6
Derivative financial instruments	16	**220.8**	196.7
Property, plant and equipment	6	**5,301.1**	5,347.8
Intangible assets	7	**98.7**	97.0
Total non-current assets		**5,631.1**	5,653.1
Total assets		**5,885.4**	5,904.8
LIABILITIES			
Current liabilities			
Trade and other payables	8	**137.2**	217.9
Borrowings	14	**591.6**	167.0
Provisions	9	**61.3**	61.7
Other liabilities	10	**56.7**	56.6
Derivative financial instruments	16	**31.2**	-
Total current liabilities		**878.0**	503.2
Non-current liabilities			
Borrowings	14	**2,661.1**	3,132.9
Derivative financial instruments	16	**44.8**	46.0
Deferred tax liabilities	3(f)	**650.9**	636.3
Provisions	9	**3.2**	3.4
Other liabilities	10	**136.0**	161.0
Total non-current liabilities		**3,496.0**	3,979.6
Total liabilities		**4,374.0**	4,482.8
Net assets		**1,511.4**	1,422.0
EQUITY			
Contributed equity	13(a), 13(b)	**1,202.9**	3.4
Convertible notes	13(c)	**-**	1,200.0
Reserves	13(d)	**(68.6)**	(45.4)
Retained earnings		**377.1**	264.0
Total equity		**1,511.4**	1,422.0

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

	Notes	Attributable to owners of Aurizon Network Pty Ltd				
		Contributed equity $m	**Convertible notes $m**	**Reserves $m**	**Retained earnings $m**	**Total equity $m**
Balance at 1 July 2019		**3.4**	**1,200.0**	**(45.4)**	**264.0**	**1,422.0**
Profit for the year		**-**	**-**	**-**	**223.3**	**223.3**
Other comprehensive expense		**-**	**-**	**(23.2)**	**-**	**(23.2)**
Total comprehensive income for the year		**-**	**-**	**(23.2)**	**223.3**	**200.1**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	12(a)	**-**	**-**	**-**	**(110.2)**	**(110.2)**
Conversion of convertible notes to contributed equity	13(c)	**1,200.0**	**(1,200.0)**	**-**	**-**	**-**
Capital contribution from the parent for share-based payments	13(b)	**(0.4)**	**-**	**-**	**-**	**(0.4)**
Capital distributions to the parent for share-based payments	13(a)	**(0.1)**	**-**	**-**	**-**	**(0.1)**
		1,199.5	**(1,200.0)**	**-**	**(110.2)**	**(110.7)**
Balance at 30 June 2020		**1,202.9**	**-**	**(68.6)**	**377.1**	**1,511.4**
Balance at 1 July 2018		3.6	1,200.0	(13.2)	268.6	1,459.0
Profit for the year		-	-	-	174.3	174.3
Other comprehensive expense		-	-	(32.2)	-	(32.2)
Total comprehensive income for the year		-	-	(32.2)	174.3	142.1
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	12(a)	-	-	-	(178.9)	(178.9)
Capital contribution from the parent for share-based payments	13(b)	(0.2)	-	-	-	(0.2)
		(0.2)	-	-	(178.9)	(179.1)
Balance at 30 June 2019		3.4	1,200.0	(45.4)	264.0	1,422.0

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

	Notes	**2020 $m**	2019 $m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**1,291.1**	1,343.1
Payments to suppliers and employees (inclusive of GST)		**(617.5)**	(566.5)
Interest received		**-**	0.1
Income taxes paid		**(71.4)**	(52.6)
Net cash inflow from operating activities	19	**602.2**	724.1
Cash flows from investing activities			
Proceeds from sale of assets		**9.5**	0.1
Payments for property, plant and equipment		**(269.8)**	(222.8)
Payments for intangibles		**(12.8)**	(12.0)
Interest paid on qualifying assets		**(2.3)**	(3.1)
Net cash (outflow) from investing activities		**(275.4)**	(237.8)
Cash flows from financing activities			
Proceeds from borrowings		**502.0**	31.0
Repayment of borrowings		**(485.0)**	(290.0)
Loans from related parties		**(85.0)**	85.0
Payment of transaction costs related to borrowings		**(4.8)**	-
Interest paid		**(140.4)**	(144.6)
Proceeds from settlement of derivatives		**-**	11.5
Dividends paid to Company's shareholders	12(a)	**(110.2)**	(178.9)
Net cash (outflow) from financing activities		**(323.4)**	(486.0)
Net increase in cash and cash equivalents		**3.4**	0.3
Cash and cash equivalents at the beginning of the financial year		**3.1**	2.2
Effects of exchange rate changes on cash and cash equivalents		**0.2**	0.6
Cash and cash equivalents at end of year		**6.7**	3.1

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

About this report

Aurizon Network Pty Ltd is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purpose of preparing financial statements. During the financial year, the Aurizon Holdings Limited Board endorsed the implementation of a simplified legal structure to optimise the Aurizon Group's balance sheet and provide additional funding capacity. The internal reorganisation was completed in August 2019 and resulted in Aurizon Operations Limited (previous parent) transferring its equity investment in the Company to Aurizon Holdings Limited (ultimate parent). From 19 August 2019 Aurizon Network Pty Ltd is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group. The financial statements are for the consolidated entity consisting of Aurizon Network Pty Ltd and its subsidiaries and together are referred to as the Group.

The financial statements were approved for issue by the Directors on 10 August 2020. The Directors have the power to amend and reissue the financial statements.

The financial statements are general purpose financial statements which:

- Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- Have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- Are presented in Australian dollars with all amounts in the financial report being rounded off in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* to the nearest hundred thousand dollars, unless otherwise indicated;
- Where necessary, comparative information has been restated to conform with changes in presentation in the current year; and
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2019.

The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- The amount in question is significant because of its size or nature;
- It is important for understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group’s business - for example, acquisitions, disposals and impairment write downs; or
- It relates to an aspect of the Group’s operations that is important to its future performance.

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

KEEPING IT SIMPLE

The “Keeping it simple” explanations are designed to provide a high level overview of the accounting treatment of the more complex sections of the financial statements. The notes provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

About this report (continued)

SIGNIFICANT ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Details of the following judgements and estimates which are material to the financial statements can be found in the following notes:

	Note
Revenue	1
Useful lives	6

Key events and transactions for the reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions for the reporting period:

(a) Access Revenue

2017 Access Undertaking

The Queensland Competition Authority (QCA) approved Aurizon Network's consolidated Compliant Access Undertaking and Volume Reset Draft Amending Access Undertaking (DAAU) for the Central Queensland Coal Network (CQCN) on 21 February 2020. Key elements of the consolidated Compliant Access Undertaking and Volume Reset DAAU include:

- Extending the term of the Access Undertaking to 10 years, from 1 July 2017 to 30 June 2027, enabling improved long-term investment decisions for the CQCN;
- Greater customer involvement in assessing and pre-approving strategies and annual budgets for asset renewals and replacement (capital expenditure) and maintenance expenditure;
- The ability for operating cost efficiencies to be retained by Aurizon;
- An improved return which better reflects the risks of owning and operating the CQCN; and
- A rebate mechanism to customers if Aurizon performs below target levels.

The Weighted Average Cost of Capital (WACC) applied under the Compliant Access Undertaking and Volume Reset DAAU is 5.90%, increasing to 6.30% upon completion of an independent capacity assessment of the CQCN. In the event that a capacity deficit is identified, the WACC increase to 6.30% will commence when Aurizon notifies relevant parties of proposed options to address the deficit. The independent capacity assessment is expected to be completed in the second half of financial year 2021.

The consolidated Compliant Access Undertaking and Volume Reset DAAU approved by the QCA assumed the independent capacity assessment would be complete by 1 March 2020 and therefore, a combined WACC of 6.03% (5.90% July - February, 6.30% March - June) would apply for financial year 2020. The delay in the independent capacity assessment and the higher WACC of 6.30% applying has resulted in an over-collection of access revenue in financial year 2020 which forms part of the revenue cap adjustment. The net financial year 2020 revenue cap adjustment is up to $3.0 million and includes the over-recovery of WACC offset by a volume under-recovery and other adjustments. The net revenue cap adjustment is collectible in financial year 2022 and is subject to QCA approval.

Access revenue for the period has been recognised based on the consolidated Compliant Access Undertaking and Volume Reset DAAU.

Wiggins Island Rail Project (WIRP)

In the 2019 financial year, legal proceedings occurred in relation to the notices received by the Company from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Company's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 March 2020 and 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered in the first half of financial year 2021.

The WIRP customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court of Queensland proceedings and will not impact the recovery of the regulated access charge component of WIRP capital expenditure. The Company is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the 2020 financial year.

Key events and transactions for the reporting period (continued)

(b) Debt financing

During the period the Company:

- Reduced the capacity of the syndicated bank debt facility maturing July 2021 from $490.0 million to $380.0 million in July 2019;
- Issued a long term $82.0 million fixed rate Medium Term Note maturing 22 March 2030 in September 2019; and
- Cancelled existing syndicated bank debt facility maturing July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling $1,300 million maturing June 2023 - June 2025 in June 2020.

$525.0 million Medium Term Note maturing October 2020 (AMTN 1) is classified as a current liability and the Group has sufficient bank debt facility capacity to repay the Medium Term Note.

(c) Change in accounting policy

The Group adopted AASB 16 *Leases* retrospectively from 1 July 2019 and comparatives for the 2019 financial year have not been restated as permitted under specific transitional provisions in the standard. The adoption of the standard had no impact on the Group. Refer to note 24 for further information and the change in accounting policy.

(d) Impact of COVID-19

COVID-19 has had no material impact on the Group in financial year 2020. The potential risk of the COVID-19 pandemic on key assumptions used in the assessment of useful lives is included in the significant judgement disclosure.

Results for the year

IN THIS SECTION

Results for the year provides a breakdown of individual line items in the consolidated income statement that the Directors consider most relevant, including a summary of the accounting policies, judgements and estimates relevant to understanding these line items.

1 Revenue

KEEPING IT SIMPLE

Track Access is from the provision of access to the CQCN and is the primary source of revenue. It is determined based on railed coal volumes and the applicable system reference tariffs approved by the Queensland Competition Authority (QCA). This regulatory framework permits Network to earn an approved return on its Regulated Asset Base (RAB), recover its capital expenditure and provides operating allowances over each regulatory period covered by a QCA approved access undertaking. Access revenue also includes revenue from Non-Coal Access (Freight and Passenger Trains) and above regulatory returns in certain circumstances, such as in relation to Goonyella to Abbot Point Expansion (GAPE).

Other services revenue includes maintenance contracts for private infrastructure, external construction works and other services. Other revenue includes the recognition of charges for customer funded infrastructure.

	2020 $m	2019 $m
Revenue		
Service revenue		
Track access	**1,131.7**	1,070.3
Other services	**27.8**	15.6
Other revenue	**29.0**	31.8
Total revenue from continuing operations	**1,188.5**	1,117.7

(a) Disaggregation of revenue

The Group derives revenue from the provision of services over time. The Group operates in only one business and geographical segment (Queensland, Australia). Therefore all revenue recognised relates to this segment.

(b) Contract assets and liabilities

(i) Contract assets

The Group does not have any material contract assets at balance date (2019: $nil).

(ii) Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	2020 $m	2019 $m
Current		
Advances for other revenue	**26.5**	26.8
Non-current		
Advances for other revenue	**136.0**	161.0

Contract liabilities primarily represent amounts received from customers as advances for future track access under agreements for mine specific infrastructure. These amounts are deferred and earned over the term of the agreements using the output method as performance obligations are satisfied.

	2020 $m	2019 $m
Within one year	**26.5**	26.8
Later than one year but not later than five years	**95.7**	121.3
Later than five years	**40.3**	39.7
	162.5	187.8

The reduction in contract liabilities primarily represents revenue recognised for prepayments for customer specific infrastructure during the period.

1 Revenue (continued)

(b) Contract assets and liabilities (continued)

(iii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2020 $m	2019 $m
Revenue recognised that was included in the contract liability balance at the beginning of the year	**26.8**	26.3

(iv) Unsatisfied performance obligations

The Group has a number of long-term contracts to provide services to customers in future periods. The majority of revenues are recognised on an as invoiced basis, hence, the right to consideration from a customer corresponds directly with the entity's performance completed to date.

Long-term track access contracts are considered by management to be a series of annual performance obligations that are satisfied within each financial year. Any amounts received as advances to provide access to the CQCN are recognised over the term of the access agreement as performance obligations are satisfied. The Group applies the practical expedient in paragraph 121 of AASB 15 *Revenue from Contracts with Customers* and does not disclose information on the transaction price allocated to performance obligations that are unsatisfied.

All other track access contracts for periods of one year or less are billed monthly based on the services provided. As permitted under AASB 15 *Revenue from Contracts with Customers*, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

SIGNIFICANT JUDGEMENTS

Take-or-Pay revenue

Take-or-Pay may trigger when annual volumes railed are less than the regulatory forecast. Take-or-Pay is calculated based on management's judgement of the Company's cause versus above rail operator/mine cancellations. This judgement impacts the calculation of Take-or-Pay and the receivable recognised in the year that the contractual railings were not achieved. Take-or-Pay revenue of $25.6 million has been recognised at 30 June 2020 (2019: $4.2 million).

Wiggins Island Rail Project (WIRP) Access Revenue

In the 2019 financial year, legal proceedings occurred in relation to the notices received by the Company from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Company's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 March 2020 and 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered in the first half of financial year 2021.

The WIRP customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court of Queensland proceedings and will not impact the recovery of the regulated access charge component of WIRP capital expenditure. The Company is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the 2020 financial year.

1 Revenue (continued)

(c) Recognition and measurement

The Group recognises revenue as the relevant performance obligations are satisfied.

(i) Track access

Track access revenue includes revenue from regulated rail access services and non-regulated services. Track access revenue is generated from the provision of access to, and operation of, the CQCN. Access revenue is recognised over time as the relevant performance obligations are satisfied, being the provision of access to the rail network.

A contract liability is recorded for revenue received in advance of satisfying a performance obligation and is subsequently recognised in profit or loss as the performance obligation is satisfied during the term of the contract.

Approved Access Undertaking

Track access revenue is recognised as track access is provided and is measured on a number of operating parameters including volumes hauled applied to regulator approved tariffs. The tariffs charged are determined with reference to the total allowable revenue, applied to the regulatory approved annual volume forecast for each system. At each balance date, track access revenue and receivables include an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. The Group has an unconditional right to receive this consideration once the performance obligation is satisfied and therefore a trade receivable is recognised for these amounts.

Where annual volumes railed are less than the regulatory forecast, Take-or-Pay may trigger. Take-or-Pay is recognised as a receivable in the year that the contractual railings were not achieved as the related performance obligations have been satisfied.

The majority of access revenue is subject to a revenue cap mechanism that serves to ensure the rail network recovers its system allowable revenue over the regulatory period. A revenue adjustment event results in the under or over recovery of regulatory access revenue (net of Take-or-Pay revenue) for a financial year being recognised in the accounting revenues in the second financial year following the event as per the Access Undertaking. If a DAAU proposes a different treatment, the treatment per the DAAU is applied.

Access revenue for the financial year has been recognised based on the consolidated Compliant Access Undertaking and Volume Reset DAAU. Refer to key events and transactions for the reporting period for further information.

2 Expenses

Profit before income tax includes the following specific expenses:

	2020 **$m**	2019 $m
Employee benefits expense		
Defined benefit superannuation expense	**2.5**	2.8
Defined contribution superannuation expense	**14.7**	13.3
Redundancies	**9.9**	7.3
Salaries, wages and allowances including on-costs	**124.6**	128.2
	151.7	151.6

	2020 **$m**	2019 $m
Consumables		
Repairs and maintenance	**70.5**	69.4
Other	**70.8**	77.8
	141.3	147.2

	2020 **$m**	2019 $m
Depreciation and amortisation		
Depreciation	**302.9**	296.8
Amortisation of intangibles	**11.1**	10.1
	314.0	306.9

	2020 **$m**	2019 $m
Impairment losses		
Property, plant and equipment	**1.9**	-
Finance expenses		
Interest and finance charges paid/payable	**144.9**	148.4
Amortisation of capitalised borrowing costs	**3.2**	2.5
Amortisation of AMTN 2 fair value adjustment	**(2.4)**	(0.9)
Counterparty credit risk adjustments	**(3.9)**	(3.9)
	141.8	146.1
Capitalised interest paid on qualifying assets	**(2.3)**	(3.1)
	139.5	143.0

3 Income tax

KEEPING IT SIMPLE

This note provides an analysis of the Group's income tax expense/benefit (including a reconciliation of income tax expense to accounting profit), deferred tax balances and income tax recognised directly in equity.

Differences between tax law and accounting standards result in non-temporary (permanent) and temporary (timing) differences between tax and accounting income. Current income tax expense is equal to net profit before tax multiplied by the applicable tax rate, adjusted for non-temporary differences. Temporary differences do not adjust income tax expense as they reverse over time. Until they reverse, a deferred tax asset or liability must be recognised on the balance sheet. This note also includes details of income tax recognised directly in equity.

The Group recognises a significant net deferred tax liability and a current cash tax position significantly lower than the applicable tax rate. This is primarily due to accelerated fixed asset tax depreciation and is common for entities operating in a capital intensive environment.

(a) Income tax expense

	2020 $m	2019 $m
Current tax	**71.1**	61.4
Deferred tax	**25.3**	14.1
Current tax relating to prior periods	**0.2**	1.5
Deferred tax relating to prior periods	**(0.6)**	(1.2)
	96.0	75.8
Income tax expense is attributable to:		
Profit from continuing operations	**96.0**	75.8
	96.0	75.8
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets (e)	**(4.7)**	(30.0)
Increase in deferred tax liabilities (f)	**29.4**	42.9
	24.7	12.9

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

	2020 $m	2019 $m
Profit before income tax expense	**319.3**	250.1
Tax at the Australian tax rate of 30% (2019: 30%)	**95.8**	75.0
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other	**0.4**	0.5
Adjustments for tax of prior periods	**(0.2)**	0.3
Total income tax expense	**96.0**	75.8

3 Income tax (continued)

(c) Amounts recognised directly in equity

	2020 $m	2019 $m
Aggregate deferred tax arising in the reporting period and directly debited/(credited) to equity	**(0.1)**	(0.1)

(d) Tax expense/(benefit) relating to items of other comprehensive income

	2020 $m	2019 $m
Cash flow hedges	**(10.0)**	(13.6)

(e) Deferred tax assets

	2020 $m	2019 $m
Total deferred tax assets	**121.9**	107.1
Set-off of deferred tax liabilities pursuant to set-off provisions (f)	**(121.9)**	(107.1)
Net deferred tax assets	**-**	**-**

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax assets:

	Provisions/accruals $m	**Unearned revenue $m**	**Financial instruments $m**	**Other $m**	**Total $m**
At 1 July 2019	**21.6**	**0.7**	**84.1**	**0.7**	**107.1**
(Charged)/credited					
- to profit or loss	**(0.4)**	**(0.2)**	**5.4**	**(0.1)**	**4.7**
- to other comprehensive income	**-**	**-**	**10.0**	**-**	**10.0**
- to equity	**-**	**-**	**-**	**0.1**	**0.1**
At 30 June 2020	**21.2**	**0.5**	**99.5**	**0.7**	**121.9**
At 1 July 2018	20.3	0.6	41.8	0.7	63.4
(Charged)/credited					
- to profit or loss	1.3	0.1	28.7	(0.1)	30.0
- to other comprehensive income	-	-	13.6	-	13.6
- to equity	-	-	-	0.1	0.1
At 30 June 2019	21.6	0.7	84.1	0.7	107.1

3 Income tax (continued)

(f) Deferred tax liabilities

	2020 $m	2019 $m
Total deferred tax liabilities	**772.8**	743.4
Set-off of deferred tax assets pursuant to set-off provisions (e)	**(121.9)**	(107.1)
Net deferred tax liabilities	**650.9**	636.3

The table below outlines the temporary differences and movements in those temporary differences that comprise the deferred tax liabilities:

	Non-current assets $m	**Accrued income $m**	**Financial instruments $m**	**Total $m**
At 1 July 2019	**684.4**	**-**	**59.0**	**743.4**
Charged/(credited)				
- to profit or loss	**22.2**	**-**	**7.2**	**29.4**
At 30 June 2020	**706.6**	**-**	**66.2**	**772.8**
At 1 July 2018	665.6	2.0	32.9	700.5
Charged/(credited)				
- to profit or loss	18.8	(2.0)	26.1	42.9
At 30 June 2019	684.4	-	59.0	743.4

Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted for the changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

3 Income tax (continued)

(f) Deferred tax liabilities (continued)

Recognition and measurement (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

To the extent that an item is recognised in other comprehensive income or equity, the deferred tax is also recognised directly in other comprehensive income or directly in equity.

Operating assets and liabilities

IN THIS SECTION

Operating assets and liabilities provides information about the working capital of the Group and major balance sheet items, including the accounting policies, judgements and estimates relevant to understanding these items.

4 Trade and other receivables

	2020 **$m**	2019 $m
Trade receivables	**133.1**	138.1
Provision for impairment of receivables	**-**	(0.1)
Net trade receivables	**133.1**	138.0
Other receivables	**71.0**	81.3
	204.1	219.3

Other receivables include revenue for services performed but not yet invoiced under contracts including external construction contracts, Take-or-Pay and annual GAPE fees.

Recognition and measurement

Trade receivables generally have credit terms ranging from seven to 31 days. They are presented as current assets, unless collection is not expected for more than 12 months after the reporting date.

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9 *Financial Instruments*, which requires the use of the lifetime expected loss provision for all trade receivables.

The Group's debtors exhibit similar credit risk characteristics and exposure. Estimating the Group's credit risk to debtors has focused largely on experienced payment history and outlook. The trade receivable balances disclosed are unsecured and represent the Group's maximum exposure to credit risk.

5 Inventories

	2020 **$m**	2019 $m
Current		
Raw materials and stores at cost	**41.9**	27.9
	41.9	27.9
Non-current		
Raw materials and stores - at cost	**16.3**	18.0
Provision for inventory obsolescence	**(5.8)**	(6.4)
	10.5	11.6

Recognition and measurement

Inventories include infrastructure items held in centralised stores, workshops and depots. Inventories are measured at the lower of cost and net realisable value. Cost is determined using an average cost or standard cost basis.

Items expected to be consumed after more than one year are classified as non-current.

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure maintenance items. The amount of the provision is based on a proportion of the value of damaged stock, slow moving stock and stock that has become obsolete during the reporting period.

6 Property, plant and equipment

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Total $m
2020							
Opening net book amount	**140.6**	**25.5**	**7.0**	**142.2**	**25.8**	**5,006.7**	**5,347.8**
Additions	**269.8**	**-**	**-**	**-**	**0.4**	**-**	**270.2**
Transfers between asset classes	**(283.3)**	**0.3**	**0.1**	**4.5**	**0.2**	**278.2**	**-**
Disposals	**(5.9)**	**-**	**-**	**(1.1)**	**(0.8)**	**(4.3)**	**(12.1)**
Depreciation	**-**	**-**	**(1.3)**	**(15.1)**	**(1.6)**	**(284.9)**	**(302.9)**
Impairment[1]	**-**	**-**	**-**	**(1.9)**	**-**	**-**	**(1.9)**
Closing net book amount	**121.2**	**25.8**	**5.8**	**128.6**	**24.0**	**4,995.7**	**5,301.1**
At 30 June 2020							
Cost	**121.2**	**25.8**	**14.3**	**208.8**	**27.8**	**7,299.0**	**7,696.9**
Accumulated depreciation and impairment	**-**	**-**	**(8.5)**	**(80.2)**	**(3.8)**	**(2,303.3)**	**(2,395.8)**
Net book amount	**121.2**	**25.8**	**5.8**	**128.6**	**24.0**	**4,995.7**	**5,301.1**
Owned	**121.2**	**-**	**3.9**	**128.6**	**24.0**	**624.3**	**902.0**
Leased	**-**	**25.8**	**1.9**	**-**	**-**	**4,371.4**	**4,399.1**
	121.2	**25.8**	**5.8**	**128.6**	**24.0**	**4,995.7**	**5,301.1**
2019							
Opening net book amount	88.0	24.9	8.0	156.3	26.6	5,104.0	5,407.8
Additions	241.4	-	-	-	-	-	241.4
Transfers between asset classes	(188.8)	0.6	0.2	3.4	0.6	184.0	-
Disposals	-	-	-	(0.5)	-	(4.1)	(4.6)
Depreciation	-	-	(1.2)	(17.0)	(1.4)	(277.2)	(296.8)
Closing net book amount	140.6	25.5	7.0	142.2	25.8	5,006.7	5,347.8
At 30 June 2019							
Cost	140.6	25.5	14.3	228.6	36.5	7,041.7	7,487.2
Accumulated depreciation and impairment	-	-	(7.3)	(86.4)	(10.7)	(2,035.0)	(2,139.4)
Net book amount	140.6	25.5	7.0	142.2	25.8	5,006.7	5,347.8
Owned	140.6	-	4.9	142.2	25.8	618.2	931.7
Leased	-	25.5	2.1	-	-	4,388.5	4,416.1
	140.6	25.5	7.0	142.2	25.8	5,006.7	5,347.8

[1]An impairment charge of $1.9 million (2019: $nil) has been recognised for other assets not in use as at 30 June 2020 for which the carrying amount is not considered recoverable.

6 Property, plant and equipment (continued)

SIGNIFICANT JUDGEMENTS

Useful lives
The useful lives of assets are determined based on the expected period of time over which economic benefits from use of the asset will be derived. The useful life of assets is reviewed on an annual basis with consideration of key assumptions including historical and forecast usage rates, technological advancements, changes in legal and economic environments.

The useful life of property, plant and equipment was reviewed in the financial year due to the potential effects of COVID-19 and climate-related emerging risks. The assumptions reviewed included volume growth, including a negative volume growth scenario to reflect the potential impact on thermal coal exports, and expected end of mine life for major contracts. The assumptions reviewed support the remaining useful life of property, plant and equipment in use.

There is a risk that the assessment of factors used to determine useful lives of property, plant and equipment may be impacted by the effects of either COVID-19 or climate-related emerging risks and as a result useful lives may be revised in the future resulting in a change in depreciation rates.

(a) Leases

The Group has adopted AASB 16 *Leases* retrospectively from 1 July 2019, and has not restated comparatives for the 2019 financial year as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. Refer to note 24（a）for further information.

On adoption of AASB 16 *Leases*, coal infrastructure, corridor land and buildings captured by leases with the State and Queensland Rail as noted below were not reclassified to a right-of-use asset class in order to continue to show the breakdown of the carrying amount of these right-of-use assets across the respective asset classes.

(i) Coal infrastructure

The Company leases infrastructure assets including:

- CQCN from the State; and
- North Coast Line owned by Queensland Rail.

The term of each lease is 99 years, expiring 30 June 2109, at a rental of $1 per year if demanded. The State and Queensland Rail (Infrastructure Lessors) have an option to extend the infrastructure leases by a further 99 years, with at least 20 years notice prior to expiry of the existing term. As the rental is only payable if demanded, no lease liability is recognised on balance sheet for coal infrastructure assets.

(ii) Corridor land and buildings

The Company leases corridor land and buildings owned by the State. The leases expire on 30 June 2109 and rental is $1 per year if demanded. As the rental is only payable if demanded, no lease liability is recognised on balance sheet for corridor land and buildings.

6 Property, plant and equipment (continued)

(a) Leases (continued)

(iii) Amounts recognised in the consolidated balance sheet

The balance sheet includes the following amounts relating to leased assets:

	2020 $m	2019 $m
Leased assets[1]		
Coal infrastructure	**4,371.4**	4,388.5
Corridor land	**25.8**	25.5
Buildings	**1.9**	2.1
	4,399.1	4,416.1

[1] Refer to note 24(a) for details regarding the impact of changes in the Group's accounting policies following the adoption of the new leasing standard from 1 July 2019. Leased assets reflect the assets of the CQCN.

(iv) Amounts recognised in consolidated income statement

The consolidated income statement includes the following amounts relating to leased assets:

	2020 $m	2019 $m
Depreciation		
Coal infrastructure	**245.7**	240.6
Buildings	**0.2**	0.2
	245.9	240.8

(b) Recognition and measurement

(i) Property, plant and equipment

Carrying value

Property, plant and equipment (including leased coal infrastructure, corridor land and buildings) are stated at historical cost, less any accumulated depreciation or impairment. Historical costs include expenditure that is directly attributable to the acquisition of the items, gains or losses on qualifying cash flow hedges of foreign currency purchases transferred from equity and capitalised interest.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

Depreciation is calculated on a straight-line basis, except for motor vehicles included in plant and equipment for which depreciation is calculated on a diminishing value method. Straight-line allocates the cost of an item of property, plant and equipment net of residual values over the expected useful life of each asset. Estimates of remaining useful life and residual values are reviewed and adjusted, if appropriate, on an annual basis.

The Group builds mine specific infrastructure for customers and provides access to those customers under access facilitation deeds. Infrastructure controlled by the Group under these deeds is depreciated over the term of the deed, except for where economic benefits are expected to flow to the Group after the end of the term of the deed.

6 Property, plant and equipment (continued)

(b) Recognition and measurement (continued)

(i) Property, plant and equipment (continued)

The depreciation rates used for each class of assets are:

• Infrastructure, including:	
Tracks	8 - 50 years
Track turnouts	20 - 25 years
Ballast	8 - 20 years
Civil works	20 - 100 years
Bridges	30 - 100 years
Electrification	20 - 50 years
Field signals	15 - 40 years
• Buildings	10 - 40 years
• Rollingstock, including:	
Wagons	25 - 35 years
Wagon componentisation	10 - 17 years
• Plant and equipment	3 - 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(ii) Leases

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Refer to note 23(e) for details. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Where the Group is a sub-lessor and the sub-lease is for the duration of the head lease, the right-of-use asset recognsied from the head leases are derecognised and a lease receivable equal to the present value of future lease payments receivable is recognsied.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group’s incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation is calculated using the straight-line method over the estimated useful life which varies from two to 20 years.

6 Property, plant and equipment (continued)

(b) Recognition and measurement (continued)

(iii) Impairment of assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have previously been impaired are reviewed for impairment reversal whenever events or changes in circumstance indicate that the recoverable amount may exceed the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs of disposal and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash generating units).

7 Intangible assets

	Software $m	Software under development $m	Total $m
2020			
Opening net book amount	**86.2**	**10.8**	**97.0**
Additions	**-**	**12.8**	**12.8**
Transfer between asset classes	**12.3**	**(12.3)**	**-**
Amortisation	**(11.1)**	**-**	**(11.1)**
Closing net book amount	**87.4**	**11.3**	**98.7**
At 30 June 2020			
Cost	**124.7**	**11.3**	**136.0**
Accumulation amortisation and impairment	**(37.3)**	**-**	**(37.3)**
Net book amount	**87.4**	**11.3**	**98.7**
2019			
Opening net book amount	57.2	37.9	95.1
Additions	-	12.0	12.0
Transfer between asset classes	39.1	(39.1)	-
Amortisation	(10.1)	-	(10.1)
Closing net book amount	86.2	10.8	97.0
At 30 June 2019			
Cost	114.8	10.8	125.6
Accumulated amortisation and impairment	(28.6)	-	(28.6)
Net book amount	86.2	10.8	97.0

Recognition and measurement

Software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, employee costs and an appropriate portion of relevant overheads. Software development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Software is stated at historical cost, less any accumulated amortisation or impairment. Amortisation is calculated using the straight-line method over the estimated useful life which varies from three to 11 years.

8 Trade and other payables

	2020 **$m**	2019 $m
Current		
Trade payables	**122.5**	114.2
Other payables	**14.7**	103.7
	137.2	217.9

Other payables in the 2019 financial year included a payable of $81.3 million (including GAPE) in respect of the over-collection of access revenue. This was settled and there is no similar payable included in the 2020 financial year.

Recognition and measurement

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days or within the terms set agreed with the supplier.

9 Provisions

	2020 **$m**	2019 $m
Current		
Employee benefits (a)	**61.3**	61.7
Non-current		
Employee benefits (a)	**3.2**	3.4

(a) Employee benefits

	2020 **$m**	2019 $m
Annual leave	**14.4**	11.7
Long service leave	**32.6**	32.3
Other[1]	**17.5**	21.1
	64.5	65.1

[1] Included in other employee benefits are short-term incentive plans, retirement allowances and termination benefits. As well as payroll tax on leave and short-term incentive plans.

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, short-term incentive plans and redundancy provision. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the probability that employees will reach the required period of service. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of $29.8 million (2019: $25.6 million) that is not expected to be taken or paid within the next 12 months.

Details of employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave and leave loading that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The short-term employee benefit obligations are recognised in the provision for employee benefits.

9 Provisions (continued)

(a) Employee benefits (continued)

Details of employee benefits (continued)

(ii) Other long-term employee benefit obligations

The liabilities for retirement allowance, long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Short-term incentive plans

The Group recognises a liability for short-term incentive plans based on a formula that takes into consideration the Group and individual key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when the Group decides to terminate employment, or when an employee accepts redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits, and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. Benefit falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Superannuation

The Group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to the Public Sector Superannuation (QSuper) scheme.

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a whole of Government basis and reported in the whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund at least every three years. The latest valuation was completed as at 30 June 2019 and the State Actuary found the fund was in surplus from a whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the QSuper Defined Benefit Fund. The State of Queensland has provided Aurizon with an indemnity if the Treasurer requires Aurizon to pay any amounts required to meet the potential deficit/surplus. The indemnity is subject to Aurizon not taking any unilateral action, other than with the approval of the State that causes a significant increase in unfunded liabilities.

The Group also makes superannuation guarantee payments into the QSuper Accumulation Fund (Non-Contributory) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office and to other complying superannuation funds designated by employees nominating Choice of Fund.

Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The weighted average pre-tax discount rates for employee benefits are based on Australian corporate bond rates and range between 0.6% and 2.5% (2019: 1.5% and 2.7%).

10 Other liabilities

	2020 **$m**	2019 $m
Current		
Contract liabilities	**26.5**	26.8
Tax loan payable to parent entity	**30.1**	29.7
Other current liabilities	**0.1**	0.1
	56.7	56.6
Non-current		
Contract Liabilities	**136.0**	161.0
	136.0	161.0

(a) Contract liabilities

Refer to note 1(b) for further information relating to contract liabilities.

Capital and financial risk management

IN THIS SECTION

Capital and financial risk management provides information about the capital management practices of the Group and shareholder returns for the year, and discusses the Group's exposure to various financial risks, how these affect the Group's financial position and performance, and what the Group does to manage these risks.

11 Capital risk management

KEEPING IT SIMPLE

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. During the financial year, the Aurizon Holdings Limited Board endorsed the implementation of a simplified legal structure to optimise the Aurizon Group's balance sheet and provide additional funding capacity for the Aurizon Group. The Group and the Company monitor its capital structure by reference to its gearing ratio.

Net debt consists of borrowings (both current and non-current) less cash and cash equivalents. Net gearing ratio is defined as Net debt divided by Equity plus Net debt. Net debt and Net gearing ratio are measures of the Group's indebtedness and provides an indicator of the balance sheet strength. The gearing ratio excludes derivative financial instruments used to hedge market risk on borrowings.

	Notes	**2020 $m**	2019 $m
Total borrowings	14	**3,252.7**	3,299.9
Less: cash and cash equivalents		**(6.7)**	(3.1)
Net debt		**3,246.0**	3,296.8
Total equity		**1,511.4**	1,422.0
Total capital		**4,757.4**	4,718.8
Gearing ratio		**68.2%**	69.9%

12 Dividends

(a) Ordinary shares

	2020 $m	2019 $m
Interim dividend for the year ended 30 June 2020 paid March 2020 (unfranked)	**110.2**	-
Interim dividend for the year ended 30 June 2019 paid November 2018 (unfranked)	**-**	155.9
Final dividend for the year ended 30 June 2018 paid September 2018 (unfranked)	**-**	23.0

(b) Dividends not recognised at the end of the reporting period

	2020 $m	2019 $m
Since 30 June 2020, the Directors have recommended the payment of a final dividend (unfranked). The aggregate amount of the proposed dividend expected to be paid September 2020 out of retained earnings, but not recognised as a liability at year end is:.	**113.1**	-

13 Equity and reserves

(a) Issued capital

	2020 Shares	2019 Shares	2020 $m	2019 $m
Ordinary shares				
Fully paid	**130**	100	**1,199.9**	-

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

(b) Other contributed equity

	2020 $m	2019 $m
Capital contribution from the parent for share-based payments	**1.8**	2.3
Deferred tax on related share-based payments	**1.2**	1.1
Total other contributed equity	**3.0**	3.4

The grant by Aurizon Holdings Limited of rights over its equity instruments to the employees of subsidiary companies in the Aurizon Group is treated as a capital contribution to that subsidiary company. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period in the Company as an expense with a corresponding credit to equity. The difference between the market value of Aurizon Holdings Limited shares acquired by a subsidiary to settle vested share based payments schemes and the fair value expensed by the Company is treated as a distribution to the parent, settled via a reduction in issued share capital.

(c) Convertible notes

	2020 $m	2019 $m
10 x $120,000,000 convertible notes	**-**	1,200.0

On 5 June 2013, the Company issued Convertible Notes to Aurizon Operations Limited, in the discharge of the Company's obligation to repay an intercompany loan. The non-interest bearing notes have a term of 30 years, at which time the Company will be entitled to convert the notes into ordinary shares. The convertible notes may be redeemed or converted into a fixed number of ordinary shares at the option of the Company. The notes do not carry a right to vote or any dividend rights.

Aurizon Operations Limited converted the notes into 30 ordinary shares in August 2019.

(d) Reserves

	2020 $m	2019 $m
Cash flow hedges		
Balance 1 July	**(45.4)**	(13.2)
Fair value gains/(losses) taken to equity	**(33.2)**	(45.8)
Deferred tax	**10.0**	13.6
Balance 30 June	**(68.6)**	(45.4)

Cash flow hedges

The hedging reserve is used to record the effective portion of gains or losses on hedging instruments that are designated cash flow hedges and are recognised in other comprehensive income. Amounts are recognised in the consolidated income statement when the associated hedged transaction affects the consolidated income statement.

14 Borrowings

KEEPING IT SIMPLE

The Group borrows money through bank debt facilities and through the issuance of debt securities in capital markets, as well as advances from related parties from time to time.

The carrying amount of the Group's borrowings is as follows:

	2020 $m	2019 $m
Current - Unsecured		
Medium-term notes	**524.6**	-
Bank debt facilities	**67.0**	82.0
Loans from related parties	**-**	85.0
	591.6	167.0
Non-current - Unsecured		
Medium-term notes	**2,249.8**	2,670.0
Bank debt facilities	**420.0**	470.0
Capitalised borrowing costs	**(8.7)**	(7.1)
	2,661.1	3,132.9
Total borrowings	**3,252.7**	3,299.9

The Group's bank debt facilities contain financial covenants. Both 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 its assets in certain circumstances. The Group has complied with all required covenants and undertakings throughout the reporting period.

The Group manages its exposure to interest rate risk as set out in note 15(a). Risk is managed in accordance with the Board approved Treasury Policy.

During the period the Company:

- Reduced the capacity of the syndicated bank debt facility maturing July 2021 from $490.0 million to $380.0 million in July 2019;
- Issued a long term $82.0 million fixed rate Medium Term Note maturing 22 March 2030 in September 2019; and
- Cancelled existing syndicated bank debt facility maturing July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling $1,300 million maturing June 2023 - June 2025 in June 2020.

$525.0 million Medium Term Note maturing October 2020 (AMTN 1) is classified as a current liability and the Group has sufficient bank debt facility capacity to repay the Medium Term Note.

Details of the Company's financing arrangements and exposure to risks arising from current and non-current borrowings are set out in note 15(c).

14 Borrowings (continued)

Recognition and measurement

(i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method. Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity.

Establishment costs have been capitalised and are amortised over the life of the related borrowing less one year, with the expectation that borrowings will be refinanced within the year prior to maturity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year and the Group does not expect to repay within 12 months. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

(ii) Borrowings costs

Borrowing costs which are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings, excluding working capital facilities and loans from related parties, during the year of 5.1% (2019: 4.6%).

15 Financial risk management

KEEPING IT SIMPLE

Exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk arises in the normal course of the Group's business. A central treasury department oversees financial risk under a Board approved Treasury Policy that cover specific areas related to these exposures, as well as the use of derivative and non-derivative financial instruments.

Compliance with the Board approved Treasury policy is monitored on an ongoing basis, including regular reporting to the Board. Trading for speculation is prohibited.

(a) Market risk

Market risk is the risk that adverse movements in foreign exchange and/or interest rates will affect the Group's financial performance or the value of its holdings of financial instruments. The Group monitors and measures market risk relative to risk limits established in the Board approved Treasury Policy. The objective of risk management is to manage the market risks inherent in the business to protect profitability and return on assets.

(i) Foreign exchange risk

Exposure to foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in or related to a currency that is not the Group's functional currency. The Group's foreign exchange exposure relates largely to the Euro (€) denominated Medium-Term Notes maturing September 2024 (EMTN 1) and June 2026 (EMTN 2). The Group also has exposure to movements in foreign currency exchange rate through anticipated purchases of parts and equipment.

Risk management

Cross currency interest rate swap agreements

To mitigate the risk of adverse movements in foreign exchange and interest rates in relation to borrowings denominated in foreign currency, the Group enters into cross currency interest rate swap (CCIRS) agreements through which it replaces the foreign currency principal and interest liability payments with Australian dollar principal and interest payments. These cross currency interest rate swap agreements are designated into cash flow and fair value hedge relationships.

Foreign exchange contracts

The Group uses forward contracts to manage its foreign exchange risk arising from anticipated purchases of parts and equipment. These contracts are hedging highly probable forecast foreign currency exposures and are denominated in the same currency as the highly probable future purchases. The forward contracts are designated as cash flow hedges and are timed to mature when payments for major shipments of component parts are scheduled to be made. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

As at the reporting date, the Group's exposure to foreign exchange risk after taking into consideration hedges of foreign currency borrowings and forecast foreign currency transactions is not considered material.

(ii) Interest rate risk

Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings which expose the Group to cash flow interest rate risk.

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Exposure to interest rate risk (continued)

At the reporting date, the Group has exposure to the following variable rate borrowings and interest rate swaps:

	30 June 2020		30 June 2019	
	Weighted average interest rate %	**Balance $m**	Weighted average interest rate %	Balance $m
Variable rate exposure	**4.7**	**1,975.8**	4.6	2,125.8
Interest rate swaps (notional principal amount)	**4.6**	**(1,975.0)**	4.4	(1,975.0)
Net exposure to interest rate risk		**0.8**		150.8

Risk management

The Group manages cash flow interest rate risk by using interest rate swaps. CCIRS have been put in place to remove any exposure to Euro interest rates and associated foreign exchange from the EMTN issuances which in effect convert the debt to variable AUD.

Interest rate swaps currently in place cover approximately 100% (2019: 93%) of the variable rate exposure. The weighted average maturity of the outstanding swaps is approximately 2.1 years (2019: 2.7 years).

The International Swaps and Derivatives Association (ISDA) agreements held with counterparties allow for the netting of payments and receipts with respect to settlements for our interest rate swap transactions.

During the year, the net realised loss arising from interest rate hedging activities for the Group was $23.9 million (2019: $2.4 million) as a result of market interest rates closing lower than the average hedged rate. The total realised loss represents the effective portion of the hedges which have been recognised in interest expense.

(iii) Sensitivity on interest rate risk

The following table summarises the gain/(loss) impact of interest rate changes, relating to existing borrowings and financial instruments, on net profit and equity before tax. The effect on equity is based on the financial instruments notional principal. For the purpose of this disclosure, sensitivity analysis is isolated to a 100 basis points increase/decrease in interest rates (with the decrease in interest rates limited to a reduction to 0.0% where the sensitivity would have reduced interest rates to negative), assuming hedge designations and effectiveness and all other variables remain constant.

	Effect on profit (before tax)		**Effect on equity (before tax)**	
	2020 $m	2019 $m	**2020 $m**	2019 $m
100 bps movement in interest rates				
100 bps decrease in interest rates	**-**	1.5	**(67.9)**	(58.5)
100 bps increase in interest rates	**-**	(1.5)	**66.2**	56.5

15 Financial risk management (continued)

(a) Market risk (continued)

(iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement

The impact of hedging instruments designated in hedging relationships on the consolidated balance sheet of the Group is as follows:

	Notional amount		**Carrying amount assets/ (liability) refer to note 16**		**Change in fair value used for measuring ineffectiveness for the year**	
	2020	2019	**2020 $m**	2019 $m	**2020 $m**	2019 $m
Cash flow hedges						
Interest rate risk						
Interest rate swaps (current)	**A$1,975m**	A$1,975m	**(34.8)**	(38.3)	**3.5**	(41.0)
Interest rate swaps (forward dated)[1]	**A$2,550m**	A$1,225m	**(41.2)**	(7.7)	**(33.5)**	(7.7)
Foreign exchange and interest rate risks						
CCIRS – EMTN 1	**€500.0m**	€500.0m	**0.2**	0.9	**(0.7)**	(0.3)
CCIRS – EMTN 2	**€500.0m**	€500.0m	**(6.8)**	(4.3)	**(2.5)**	(0.5)
Fair value hedges						
Interest rate risk						
Interest rate swaps - AMTN 2	**-**	-	**-**	-	**-**	(3.3)
Interest rate swaps - AMTN 3	**A$82.0m**	-	**3.2**	-	**3.4**	-
Foreign exchange and interest rate risks						
CCIRS – EMTN 1	**€500.0m**	€500.0m	**155.1**	150.7	**2.9**	44.3
CCIRS – EMTN 2	**€500.0m**	€500.0m	**69.1**	49.4	**15.7**	62.8

[1] Forward dated interest rate swaps entered into commencing June 2021 on maturity of current interest rate swaps in June - August 2021.

Cash flow hedges (before tax)

The impact of hedged items designated in hedging relationships on the consolidated balance sheet is as follows:

	Cash flow hedge reserve[1]		**Change in fair value used for measuring ineffectiveness for the year**	
	2020 $m	2019 $m	**2020 $m**	2019 $m
Interest rate risk				
Forecast floating interest payments	**76.0**	46.0	**30.0**	48.7
Foreign exchange and interest rate risks				
EMTN 1	**5.2**	4.7	**0.7**	0.3
EMTN 2	**16.5**	13.8	**2.5**	0.5

[1] Cash flow hedge reserve includes the cumulative impact of cross currency basis in relation to EMTN 1 and EMTN 2 of $19.3 million (2019: $19.1 million).

15 Financial risk management (continued)

(a) Market risk (continued)

(iv) Effects of hedge accounting on the consolidated balance sheet and consolidated income statement (continued)

Fair value hedges (before tax)

	Carrying amount[1]		Accumulated fair value adjustment		Change in fair value used for measuring ineffectiveness for the year	
	2020 $m	2019 $m	**2020 $m**	2019 $m	**2020 $m**	2019 $m
Interest rate risk						
AMTN 3	**(85.4)**	-	**(3.4)**	-	**(3.4)**	-
Foreign exchange and interest rate risks						
EMTN 1	**(873.9)**	(870.9)	**(163.2)**	(160.3)	**(2.9)**	(44.3)
EMTN 2	**(863.2)**	(847.4)	**(85.0)**	(69.2)	**(15.7)**	(62.8)
	(1,737.1)	(1,718.3)	**(248.2)**	(229.5)	**(18.6)**	(107.1)
Total borrowings (subject to fair value hedges)	**(1,822.5)**	(1,718.3)	**(251.6)**	(229.5)	**(22.0)**	(107.1)

[1] Carrying amount excludes the effects of discounts.

The above hedging relationships affected other comprehensive income as follows:

Cash flow hedges (before tax)

	Hedging gain/(loss) recognised in comprehensive income	
	2020 $m	2019 $m
Foreign exchange risk		
Forward contracts	**-**	(0.6)
Interest rate risk		
Interest rate swaps	**(30.0)**	(48.9)
Foreign exchange and interest rate risk		
CCIRS	**(3.2)**	3.7
	(33.2)	(45.8)

There was no material ineffectiveness related to cash flow hedges and fair value hedges recognised in the consolidated income statement during the year.

15 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with financial institutions and receivables from customers.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees received from certain parties.

Historically, there has been no significant change in customers' credit risk. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. The following indicators are considered:

- External credit rating (as far as available)
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- The financial position of customers, past experience and other factors (macroeconomic information)

Apart from balances due from related parties, the Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note (d) for further details.

The Group has policies in place to ensure that sales of services are only made to customers with an appropriate credit profile or where appropriate security is held. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit quality of the customer is assessed, taking into account its financial position, past experience and other factors.

Credit risk on cash transactions and derivative contracts is managed through the Board approved Treasury Policy which restrict the Group’s exposure to financial institutions by credit rating band. The board approved Treasury Policy limits the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are regularly monitored.

15 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, sufficient liquidity is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Financing arrangements

The Group had access to the following external arrangements at the end of the reporting period:

			Utilised[1]		**Facility limit**	
			2020	2019	**2020**	2019
	Security	**Maturity**	**$m**	$m	**$m**	$m
Working capital facility	Unsecured	Dec-20	**67.5**	82.6	**100.0**	100.0
Syndicated facility[2]	Unsecured	Jul-21	**-**	470.0	**-**	490.0
Syndicated facility[2]	Unsecured	Oct-22	**-**	-	**-**	500.0
Bilateral facility[2]	Unsecured	Jun-23	**420.0**	-	**850.0**	-
Bilateral facility[2]	Unsecured	Jun-24	**-**	-	**300.0**	-
Bilateral facility[2]	Unsecured	Jun-25	**-**	-	**150.0**	-
AMTN 1	Unsecured	Oct-20	**525.0**	525.0	**525.0**	525.0
AMTN 2[3]	Unsecured	Jun-24	**425.0**	425.0	**425.0**	425.0
AMTN 3[4]	Unsecured	Mar-30	**82.0**	-	**82.0**	-
EMTN 1[5]	Unsecured	Sep-24	**710.6**	710.6	**710.6**	710.6
EMTN 2[5]	Unsecured	Jun-26	**778.2**	778.2	**778.2**	778.2
Total Group financing arrangements			**3,008.3**	2,991.4	**3,920.8**	3,528.8

[1] Amount utilised includes bank guarantees of $0.5 million (2019: $0.6 million) and excludes capitalised borrowing costs of $8.7 million (2019: $7.1 million) and discounts on Medium-Term Notes of $7.4 million (2019: $10.3 million).

[2] The Company cancelled existing syndicated bank debt facility maturing July 2021 and October 2022 and replaced them with bilateral bank debt facilities totalling $1,300 million maturing June 2023 - June 2025 in June 2020.

[3] Amount utilised excludes accumulated fair value adjustment of $9.5 million (2019: $11.9 million) which will be recognised in profit or loss over the remaining term of the AMTN 2 bond.

[4] AMTN 3 amount utilised excludes accumulated fair value adjustment of $3.4 million (2019: $nil).

[5] EMTN 1 amount utilised excludes accumulated fair value adjustments of $163.2 million (2019: $160.3 million). EMTN 2 amount utilised excludes accumulated fair value adjustments $85.0 million (2019: $69.2 million).

Within the working capital facilities, the Group has access to financial accommodation arrangements totalling $100.0 million (2019: $100.0 million) which may be utilised in the form of short-term working capital funding and the issuance of bank guarantees. At the end of the reporting period, the Group utilised $0.5 million (2019: $0.6 million) for financial bank guarantees.

The Group has complied with all debt covenants during the 2020 and 2019 financial years.

Under limited circumstances, the Group may also draw upon funds from Aurizon Operations Limited (related party) pursuant to the Intra Group Loan Agreement (refer note 20(c)).

15 Financial risk management (continued)

(c) Liquidity risk (continued)

The following table summarises the contractual timing of undiscounted cash flows, including estimated interest payments, of financial liabilities and derivative instruments, expressed in AUD. The contractual amount assumes current interest rates and foreign exchange rates estimated using forward curves applicable at the end of the reporting period.

	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
2020					
Non-derivatives					
Trade and other payables	**137.2**	**-**	**-**	**137.2**	**137.2**
Other liabilities	**30.1**	**-**	**-**	**30.1**	**30.1**
Borrowings[1]	**675.9**	**1,907.6**	**938.4**	**3,521.9**	**3,252.7**
Financial guarantees	**0.5**	**-**	**-**	**0.5**	**-**
	843.7	**1,907.6**	**938.4**	**3,689.7**	**3,420.0**
Derivatives					
Interest rate swaps	**39.9**	**36.8**	**(2.2)**	**74.5**	**72.8**
CCIRS - EMTN 1[1]	**(2.4)**	**(123.3)**	**-**	**(125.7)**	**(155.3)**
CCIRS - EMTN 2[1]	**6.2**	**33.6**	**(28.6)**	**11.2**	**(62.3)**
	43.7	**(52.9)**	**(30.8)**	**(40.0)**	**(144.8)**
2019					
Non-derivatives					
Trade and other payables	217.9	-	-	217.9	217.9
Other liabilities	29.7	-	-	29.7	29.7
Borrowings[1]	186.4	1,763.0	1,687.8	3,637.2	3,299.9
Financial guarantees	0.6	-	-	0.6	-
	434.6	1,763.0	1,687.8	3,885.4	3,547.5
Derivatives					
Interest rate swaps	18.6	28.7	-	47.3	46.0
CCIRS - EMTN 1[1]	4.5	(90.0)	-	(85.5)	(151.6)
CCIRS - EMTN 2[1]	14.0	75.3	(13.0)	76.3	(45.1)
	37.1	14.0	(13.0)	38.1	(150.7)

[1] Borrowings includes loans from related parties of $nil (2019: $85.0 million) and excludes the effect of cross currency interest rate swap derivatives.

(d) Fair value measurements

The fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Forward foreign exchange contracts
- Interest rate swaps
- CCIRS

15 Financial risk management (continued)

(d) Fair value measurements (continued)

The fair value of forward foreign exchange contracts has been determined as the unrealised gain/loss at balance date by reference to market rates. The fair value of interest rate swaps has been determined as the net present value of contracted cash flows.

These values have been adjusted to reflect the credit risk of the Group and relevant counterparties, depending on whether the instrument is a financial asset or a financial liability. The existing exposure method, which discounts estimated future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted for both forward foreign exchange contracts and interest rate swaps.

The fair value of CCIRS has been determined as the net present value of contracted cash flows. The future probable exposure method is applied to the estimated future cash flows to reflect the credit risk of the Group and relevant counterparties.

The fair value of non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Company for similar financial instruments. For the period ended 30 June 2020, the borrowing rates were determined to be between 0.9% to 3.0%, depending on the type of borrowing (2019: 1.8% to 4.2%).

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

		Carrying amount		**Fair value**	
		2020	2019	**2020**	2019
	Notes	**$m**	$m	**$m**	$m
Financial assets carried at fair value					
Interest rate swaps - AMTN 3	16	**3.2**	-	**3.2**	-
CCIRS - EMTN 1	16	**155.3**	151.6	**155.3**	151.6
CCIRS - EMTN 2	16	**62.3**	45.1	**62.3**	45.1
		220.8	196.7	**220.8**	196.7
Financial assets carried at amortised cost					
Cash and cash equivalents		**6.7**	3.1	**6.7**	3.1
Trade and other receivables	4	**204.1**	219.3	**204.1**	219.3
		210.8	222.4	**210.8**	222.4
Financial liabilities carried at fair value					
Interest rate swaps	16	**(76.0)**	(46.0)	**(76.0)**	(46.0)
Financial liabilities carried at amortised cost					
Trade and other payables	8	**(137.2)**	(217.9)	**(137.2)**	(217.9)
Borrowings	14	**(3,252.7)**	(3,299.9)	**(3,328.2)**	(3,436.6)
Other liabilities	10	**(30.1)**	(29.7)	**(30.1)**	(29.7)
		(3,420.0)	(3,547.5)	**(3,495.5)**	(3,684.2)
Off-balance sheet					
Unrecognised financial assets					
Third party guarantees		**-**	-	**19.1**	19.1
Bank guarantees		**-**	-	**191.2**	150.8
Insurance company guarantees		**-**	-	**-**	1.1
Unrecognised financial liabilities					
Bank guarantees		**-**	-	**(0.5)**	(0.6)
		-	-	**209.8**	170.4

15 Financial risk management (continued)

(d) Fair value measurements (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (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 (unobservable inputs).

During the financial year there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

	Notes	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2020					
Derivative financial assets	16	**-**	**220.8**	**-**	**220.8**
Derivative financial liabilities	16	**-**	**(76.0)**	**-**	**(76.0)**
Net financial instruments measured at fair value		**-**	**144.8**	**-**	**144.8**
2019					
Derivative financial assets	16	-	196.7	-	196.7
Derivative financial liabilities	16	-	(46.0)	-	(46.0)
Net financial instruments measured at fair value		-	150.7	-	150.7

16 Derivatives financial instruments

KEEPING IT SIMPLE

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. The Group holds derivative financial instruments to economically hedge its foreign currency and interest rate exposures in accordance with the Board approved Treasury Policy (refer to note 15).

	2020 $m	2019 $m
Non-current assets		
Interest rate swaps - AMTN 3	**3.2**	-
CCIRS - EMTN 1	**155.3**	151.6
CCIRS - EMTN 2	**62.3**	45.1
Total derivative financial instrument assets	**220.8**	196.7
Current liabilities		
Interest rate swaps	**(31.2)**	-
Non-current liabilities		
Interest rate swaps	**(44.8)**	(46.0)
Total derivative financial instrument liabilities	**(76.0)**	(46.0)

Offsetting derivative financial instruments

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2020 and 30 June 2019. The column 'net amount' shows the impact on the Group's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			**Related amounts not offset**	
2020	**Gross amounts $m**	**Gross amounts set off in the balance sheet $m**	**Net amounts presented in the balance sheet $m**	**Amounts subject to master netting arrangements $m**	**Net amount[1] $m**
Financial assets					
Derivative financial instruments	**220.8**	**-**	**220.8**	**-**	**220.8**
Financial liabilities					
Derivative financial instruments	**(76.0)**	**-**	**(76.0)**	**-**	**(76.0)**
2019					
Financial assets					
Derivative financial instruments	196.7	-	196.7	-	196.7
Financial liabilities					
Derivative financial instruments	(46.0)	-	(46.0)	-	(46.0)

[1] No financial instrument collateral.

16 Derivatives financial instruments (continued)

Master netting arrangement

Derivative transactions are administered under ISDA Master Agreements. Under the terms of these agreements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off between transaction types, these amounts have not been offset in the balance sheet but have been presented separately in the table above.

Recognition and measurement

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as either hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges). The Group has established a 100% hedge relationship against the identified exposure, therefore the hedge ratio is 1:1.

At inception, the Group documents the relationship between hedging instruments and hedged items, the risk management objective and the strategy for undertaking various hedge transactions. The Group, at inception and on an ongoing basis, documents its assessment of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The fair values of derivative financial instruments used for hedging purposes are disclosed in this section. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. Ineffectiveness may arise where the timing of the transaction changes from what was originally estimated or differences arise between credit risk inherent within the hedge item and the hedging instrument. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing.

16 Derivatives financial instruments (continued)

Recognition and measurement (continued)

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity using a recalculated effective interest rate.

Group structure

IN THIS SECTION

Group structure provides information about particular subsidiaries and associates and how changes have affected the financial position and performance of the Group.

17 Subsidiaries

The Group's subsidiaries that were controlled during the financial year are set out below:

Name of entity	**Country of incorporation**	**Equity holding 2020 %**	**2019 %**
Aurizon Surat Basin Pty Ltd	Australia	**100**	100

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at reporting date and the results of all subsidiaries for the year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date that the operation was discontinued. Where arrangements between the continuing and discontinued operation will continue subsequent to disposal, transactions including revenue and expenses will be included in the continuing operations profit or loss with elimination entries recognised in profit or loss of the discontinued operation.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

18 Parent disclosures

The parent entity within the Group is Aurizon Network Pty Ltd.

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts below:

	2020 $m	2019 $m
Current assets	**254.3**	251.7
Non-current assets	**5,631.1**	5,653.1
Total assets	**5,885.4**	5,904.8
Current liabilities	**(875.0)**	(503.2)
Non-current liabilities	**(3,496.0)**	(3,979.6)
Total liabilities	**(4,371.0)**	(4,482.8)
Net assets		
	1,514.4	1,422.0
Shareholders' equity		
Contributed equity	**1,202.9**	3.4
Convertible notes	**-**	1,200.0
Reserves	**(68.6)**	(45.4)
Retained earnings	**377.1**	264.0
Total equity	**1,511.4**	1,422.0
Profit for the year	**223.3**	174.3
Other comprehensive income	**(23.2)**	(32.2)
Total comprehensive income	**(200.1)**	(142.1)

(b) Guarantees entered into by the parent entity

Financial guarantees given by the parent entity are disclosed in note 15(d).

(c) Contingent liabilities of the parent entity

Contingent liabilities of the parent entity are the same as those disclosed in note 25.

Recognition and measurement

The financial information for the parent entity, Aurizon Network Pty Ltd, has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Company.

(ii) Tax consolidation legislation

The Company is a member of a tax consolidated group of which Aurizon Holdings Limited is the head entity and which has implemented tax consolidation legislation as of 22 November 2010.

The Company accounts for its own current and deferred tax amounts. These tax amounts are measured as if the Company continues to be a stand-alone taxpayer in its own right. However, the current tax liability and deferred tax assets arising from unused tax losses and unused tax credits are subsequently assumed by Aurizon Holdings Limited, as the head entity of the tax consolidation group.

18 Parent disclosures (continued)

Recognition and measurement (continued)

(ii) Tax consolidation legislation (continued)

The members of the tax consolidated group have also entered into tax funding and tax sharing agreements which set out the funding obligations of members in respect of income tax amounts. The tax funding agreement allocates tax liabilities using the standalone taxpayer approach. These tax funding arrangements result in the Company recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed by the head entity on behalf of the Company. The tax sharing agreement limits the joint and several liability of the Company in the case of a default by the head entity.

Other notes

IN THIS SECTION

Other notes provide 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 or position of the Group.

19 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit after income tax to net cash inflow from operating activities

	2020 $m	2019 $m
Profit for the period	**223.3**	174.3
Depreciation and amortisation	**313.9**	306.9
Impairment of non-current assets	**1.9**	-
Interest expense	**139.5**	143.0
Non-cash employee incentive expense/(benefits)	**-**	(0.4)
Net (gain)/loss on sale of non-current assets	**4.0**	3.4
Net exchange differences	**(0.4)**	0.7
Change in operating assets and liabilities:		
(Increase)/Decrease in trade receivables	**15.3**	5.9
(Increase)/Decrease in inventories	**(12.9)**	(2.9)
(Increase)/Decrease in other operating assets	**(0.2)**	(0.1)
Increase/(Decrease) in trade and other payables	**(77.9)**	85.3
Increase/(Decrease) in other liabilities	**(25.0)**	(21.5)
Increase/(Decrease) in other operating liabilities	**(3.2)**	10.2
Increase/(Decrease) in deferred tax liabilities	**24.6**	12.9
Increase/(Decrease) in other provisions	**(0.7)**	6.4
Net cash inflow from operating activities	**602.2**	724.1

(b) Reconciliation of liabilities arising from financing activities to financing cash flows

	Current borrowings $m	**Non-current borrowings $m**	**Liabilities held to hedge borrowings[1] $m**	**Assets held to hedge borrowings[1] $m**	**Total $m**
2020					
Balance as at 1 July 2019	**(167.0)**	**(3,132.9)**	**(46.0)**	**196.7**	**(3,149.2)**
Reclassification	**(523.5)**	**523.5**	**-**	**-**	**-**
Financing cash flows[2]	**100.0**	**(27.2)**	**-**	**-**	**72.8**
Changes in fair values:					
Effect of changes in exchange rates	**-**	**(14.1)**	**-**	**14.1**	**-**
Other changes in fair values	**(1.1)**	**(9.6)**	**(30.0)**	**10.0**	**(30.7)**
Other non-cash movements	**-**	**(0.8)**	**-**	**-**	**(0.8)**
Balance as at 30 June 2020	**(591.6)**	**(2,661.1)**	**(76.0)**	**220.8**	**(3,107.9)**
2019					
Balance as at 1 July 2018	(51.0)	(3,302.5)	(21.3)	108.8	(3,266.0)
Financing cash flows[2]	(116.0)	290.0	-	11.5	185.5
Changes in fair values:					
Effect of changes in exchange rates	-	(46.4)	10.6	35.8	-
Other changes in fair values	-	(72.4)	(35.3)	40.6	(67.1)
Other non-cash movements	-	(1.6)	-	-	(1.6)
Balance as at 30 June 2019	(167.0)	(3,132.9)	(46.0)	196.7	(3,149.2)

[1] Assets and liabilities held to hedge borrowings exclude foreign exchange forward contracts included in note 16.

[2] Financing cash flows consists of the net amount of proceeds from borrowings, repayment of borrowings, payments of transaction costs related to borrowings and proceeds from settlement of derivatives in the consolidated statement of cash flows.

20 Related party transactions

(a) Transactions with Directors and key management personnel

There were no Key Management Personnel related party transactions during the financial year (2019: $nil).

(b) Transactions with other related parties

The following transactions occurred and balances are recognised with related parties:

	2020 $'000	2019 $'000
Trade and other receivables from:		
- Aurizon Operations Limited	**53,754**	58,444
- Other related parties	**459**	663
Trade and other payables to:		
- Aurizon Operations Limited	**13,582**	71,518
- Other related parties	**630**	509
Tax loan payable to:		
- Aurizon Holdings Limited	**30,087**	29,678
Loans payable to:		
- Aurizon Operations Limited	**-**	85,000
Access revenue received from:		
- Aurizon Operations Limited	**510,280**	475,884
- Other related parties	**4,026**	4,447
Other revenue received from:		
- Aurizon Operations Limited	**9,118**	5,793
- Other related parties	**14**	10
Interest revenue received from:		
- Aurizon Operations Limited	**-**	49
Expenses paid to:		
- Aurizon Operations Limited	**116,841**	130,904
Interest expenses paid to:		
- Aurizon Operations Limited	**772**	616

Expenses paid to Aurizon Operations Limited include maintenance, facilities charges and general corporate overhead. Expenses paid also include $44.7 million (2019: $42.6 million) of costs that have subsequently been capitalised to the Balance Sheet in Property, Plant and Equipment.

For details on dividends paid and contributions of equity, refer to notes 12 and 13 respectively.

(c) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them and intragroup transactions

In June 2013, a number of service agreements were executed between the Company and other entities within the Aurizon Group for the provision of services. These costs include shared services such as payroll, IT, accounts payable and HR operations. All other transactions are made on normal commercial terms and conditions and at market rates.

The Company enters into unsecured loans and advances with Aurizon Operations Limited at floating rates of interest pursuant to 9 year Intra Group Loan Agreements executed in August 2015 which allows up to $100.0 million to be advanced or loaned subject to certain limited conditions. Hence, the Company incurs interest expense and earns interest income on these loans and advances.

For details on tax loans, refer to note 3.

(d) Economic dependency

The Company is dependent on Aurizon Operations Limited for approximately 45% (2019: 44%) of access revenue derived.

21 Key Management Personnel compensation

	2020 $'000	2019 $'000
Short-term employee benefits	**5,079**	6,398
Post-employment benefits	**131**	190
Long-term benefits	**118**	75
Other benefits	**386**	-
Share-based payments	**1,724**	1,601
	7,438	8,264

Short-term employee benefits include cash salary, at risk performance incentives and fees, non-monetary benefits and other short-term benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, motor vehicle lease payments and annual leave accrued or utilised during the financial year. Other short-term benefits include sign-on bonus and relocation assistance.

Key Management Personnel (KMP) of the Company are employed by related parties. Compensation of KMP is also determined by related parties. It is not practical to allocate KMP compensation paid by related parties, therefore the full amount of compensation paid to KMP by related parties is included in the disclosure above.

22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices.

	2020 $'000	2019 $'000
PwC Australia		
Audit and other assurance services		
Audit and review of financial statements	**302**	307
Other assurance services	**3**	3
Total remuneration for audit and other assurance services	**305**	310
Taxation services		
Tax advisory services	**11**	-
Other services		
Advisory services	**56**	-
Total remuneration of PwC Australia	**372**	310

23 Summary of significant accounting policies

Other significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

(a) Basis of preparation

(i) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2019:

- AASB 16 *Leases*
- Interpretation 23 *Uncertainty over Income Tax Treatments.*
- AASB 2018-1 *Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle*

The Group also elected to adopt the following amendments early:

- AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*

The Group had to change its accounting policies as a result of adopting AASB 16. The Group elected to adopt the new rules retrospectively and recognised the cumulative effect of initially applying the new standard on 1 July 2019. This is disclosed in note 24. This is disclosed in note 24. The Interest Rate Benchmark Reform amendments modify specific hedge accounting requirements to allow hedge accounting to continue during the period of uncertainty relating to the benchmark reforms for affected cash flow and fair value hedges related to the Group's European Medium Term Notes (EMTN). The Interest Rate Benchmark Reform and other amendments listed above did not have any impact on the amounts recognised in prior years and are not expected to significantly affect the current or future years.

(ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and amendments to standards have been published that are not mandatory for reporting periods commencing 1 July 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group operates in only one business and geographical segment (Queensland, Australia).

The nature of the Group's business is that it enters into long-term contracts with key customers. Access contracts with related parties, as disclosed in note 20(d), represent a significant component of the Group's revenue. Two other customers each contribute more than 10% of the Group's total revenue as detailed below:

	2020 $m	2019 $m	**2020 Credit Rating**	2019 Credit Rating
Customer 1	**212.3**	195.6	**A**	A
Customer 2	**198.2**	199.3	**BBB-**	BBB-
Total	**410.5**	394.9		

(c) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held 'at call' with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Foreign currency and commodity transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

23 Summary of significant accounting policies (continued)

(d) Foreign currency and commodity transactions (continued)

(ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and market interest rates, it enters into financial arrangements to reduce these exposures. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(e) Leases

As explained in note 23(a)(i), the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in note 6(b) and the impact of the change in note 24.

Until 30 June 2019, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease. Lease income from operating leases where the Group is a lessor was recognised as income on a straight-line basis over the lease term.

(f) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(ii) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using effective interest method and net of any impairment loss, if:

- The asset is held within the business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. For trade receivables, the Group applies the simplified approach permitted by AASB 9 *Financial Instruments*, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

23 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(iii) Non-derivative liabilities

The Group initially recognises loans and debt securities issued on the date when they are originated. Other financial liabilities are initially recognised on the trade date. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities are initially recognised at fair value less any directly distributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

The Aurizon Group is grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

24 Changes in accounting policies

This note explains the impact of adoption of AASB 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019.

The Group has adopted AASB 16 retrospectively from 1 July 2019 and has not restated comparatives for the 2019 financial year, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

(a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16 *Leases*, coal infrastructure, corridor land and buildings captured by leases with the State and Queensland Rail as noted below were not reclassified to a right-of-use asset class in order to continue to show the breakdown of the carrying amount of these right-of-use assets across the respective asset classes.

(i) Coal infrastructure

The Company leases infrastructure assets including:

- CQCN from the State; and
- North Coast Line owned by Queensland Rail.

The term of each lease is 99 years, expiring 30 June 2109, at a rental of $1 per year if demanded. The State and Queensland Rail (Infrastructure Lessors) have an option to extend the infrastructure leases by a further 99 years, with at least 20 years notice prior to expiry of the existing term. As the rental is only payable if demanded, no lease liability is recognised on balance sheet for coal infrastructure assets.

(ii) Corridor land and buildings

The Company leases corridor land and buildings owned by the State. The leases expire on 30 June 2109 and rental is $1 per year if demanded. As the rental is only payable if demanded, no lease liability is recognised on balance sheet for corridor land and buildings.

(iii) Practical expedients adopted

The Group used the following practical expedients permitted by AASB 16 in applying the standard for the first time:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term, leases; and
- reliance on previous assessments on whether leases are onerous.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(b) The Group's leasing activities and how these are accounted for

Refer to note 6(b) for the Group's accounting policy relating to leases.

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.

25 Contingencies

KEEPING IT SIMPLE

Contingencies relate to the outcome of future events and may result in an asset or liability, but due to current uncertainty, do not qualify for recognition.

(a) Contingent liabilities

Issues relating to common law claims, product warranties and regulatory breaches are dealt with as they arise. There were no material contingent liabilities requiring disclosure in the financial statements, other than as set out below.

Guarantees and letters of credit

For information about guarantees and letters of credit given by the Group, refer to note 15(d).

(b) Contingent assets

Guarantees and letters of credit

For information about guarantees and letters of credit given to the Group, refer to note 15(d).

Wiggins Island Rail Project (WIRP)

In the 2019 financial year, legal proceedings occurred in relation to the notices received by the Company from the WIRP customers purporting to exercise a right under their WIRP Deeds to reduce their financial exposure in respect of payment of the non-regulated WIRP fee. On 27 June 2019, the Supreme Court of Queensland ruled in the Company's favour. Customers appealed that decision and that appeal was heard in the Queensland Court of Appeal between 10 March 2020 and 12 March 2020. A decision of the Queensland Court of Appeal is expected to be delivered in the first half of financial year 2021.

The WIRP customers also initiated other disputes under their respective WIRP Deeds which were the subject of an expert determination in February 2019. The Expert's Determination was issued on 4 June 2019 and found that the WIRP fee should be reduced. These disputes relate to the same component of WIRP revenue as the Supreme Court of Queensland proceedings and will not impact the recovery of the regulated access charge component of WIRP capital expenditure. The Company is determining options for appeal of this outcome.

Due to the ongoing dispute, no revenue in respect of the WIRP fee has been recognised in the 2020 financial year.

26 Commitments

Capital commitments

Significant capital expenditure contracted for at the end of the financial year but not recognised as liabilities is as follows:

	2020 **$m**	2019 $m
Property, plant and equipment		
Within one year	**27.8**	30.8

27 Events occurring after the reporting period

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

Directors' Declaration

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 financial statements and notes set out on pages 8 to 67 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001* and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, 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.

Page 13 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

M Fraser
Chairman

Brisbane
10 August 2020

Independent auditor's report

To the members of Aurizon Network Pty Ltd

Our opinion

In our opinion:

The accompanying financial report of Aurizon Network Pty Ltd (the "Company") and its controlled entities (together the "Group") is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated income statement for the year then ended;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

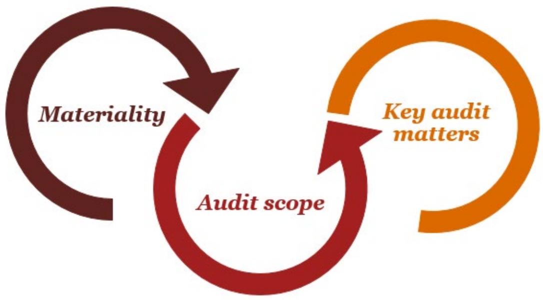
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $16 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group owns and operates the Central Queensland Coal Network (CQCN) which is a multi-user track network that comprises of four major coal systems and one connecting system serving Queensland's Bowen Basin coal region.	• Amongst other relevant topics, we communicated the following key audit matter to the Board of Directors: – Access Revenue recognition • This is further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	*How our audit addressed the key audit matter*
Access Revenue recognition *(Refer to note 1 and Key events and transactions for the reporting period)* During the year ended 30 June 2020 (FY2020), the Group recorded track access revenue of $1,131.7 million. Track access revenue is recognised over time as access to the Central Queensland Rail Network (CQCN) is provided and is measured on a number of operating parameters, including the volume hauled and regulator (Queensland Competition Authority (QCA)) approved pricing tariffs. The tariffs are determined with reference to the total allowable revenue, applied to the regulatory approved annual volume forecast for each rail system. Where annual volumes railed are less than the regulatory forecast Take-or-Pay clauses may be triggered. Take-or-Pay is calculated based on the Group's judgement of below rail cause versus above rail operator/mine cancellations. Take-or-Pay revenue is recognised in the financial year that the contractual railings were not achieved as the Group consider that related performance obligations have been satisfied. *2017 Access Undertaking Update* On 21 February 2020, the QCA approved Aurizon Networks' consolidated Compliant Access Undertaking and Volume Reset Draft Amending Access Undertaking (DAAU) for the CQCN (2017 Access Undertaking). The tariffs included in the 2017 Access Undertaking approved by the QCA assumed an independent capacity assessment would be complete by 1 March 2020 and therefore, a combined WACC of 6.03% (5.90% July - February, 6.30% March - June) would apply for FY2020. The delay in the independent capacity assessment and	The following procedures amongst others were performed in relation to access revenue recognition: • Obtained management's reconciliation of the total MAR for FY2020 as per the QCA approved 2017 Access Undertaking to actual revenue billed to customers for each of the systems in the CQCN. • Agreed the reference tariff applicable for each of the systems within the CQCN for FY2020 to the QCA approved 2017 Access Undertaking. • Agreed on a sample basis that revenue had been recognised based on actual volumes hauled and the approved 2017 Access Undertaking reference tariffs.

Key audit matter	How our audit addressed the key audit matter
the higher WACC of 6.30% applying from March 2020 has resulted in an over-collection of access charges in FY2020. This over collection forms part of the net revenue cap adjustment of up to $3.0 million to be collected in FY2022 subject to the approval of the QCA. Access revenue for FY2020 has been recognised based on the QCA approved 2017 Access Undertaking. *Take-or-Pay* In FY2020, Take-or-Pay clauses have been triggered under the 2017 Access Undertaking resulting in $25.6 million of revenue being recognised where the Group considered that customers have not railed their nominated forecast volumes and the reason for the shortfall was not due to Aurizon Network's management of the CQCN. There is judgement involved in respect of the revenue recognised in accordance with the Take-or-Pay clauses in determining whether the shortfall to nominated forecast volumes is due to below rail cause or above rail operator/mine cancellations. We considered revenue recognition to be a key audit matter due to the new 2017 Access Undertaking being a key event in the financial year, complexity in revenue calculations and the judgement, including the determination of Take-or-Pay revenue.	*Take-or-Pay* • Obtained computation for the Take-or-Pay revenue and agreed that the amounts recognised are in accordance with the 2017 Access Undertaking. • Agreed on a sample basis the Take-or-Pay model inputs (including operational units such as tonnages hauled, train paths, consist configuration, kilometres travelled etc.) to underlying customer contracts and other supporting documentation. • Tested the mathematical accuracy of the Take-or-Pay model. • Agreed on a sample basis, the evidence to support the cause for volume shortfalls relative to nominated forecasts used in the determination of Take-or-Pay revenue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar5.pdf. This description forms part of our auditor's report.

Pricewaterhouse Coopers

PricewaterhouseCoopers

Tim Allman

Partner

Brisbane

10 August 2020