Aurizon Network Pty Ltd

ABN 78 132 181 116

Annual Financial Report for the year ended 30 June 2021

This financial report is the consolidated financial statements of the Group consisting of Aurizon Network Pty Ltd and its subsidiaries.

The financial report is presented in 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 report for the Group for the year ended 30 June 2021 has been authorised for issue in accordance with a resolution of the Directors on 9 August 2021. The Directors have the power to amend and reissue the financial report.

Directors' Report

The Directors of Aurizon Network Pty Ltd (the Company) present their report, together with the financial statements of the Company and its controlled entities (collectively referred to as the consolidated entity or the Group) for the financial year ended 30 June 2021 (FY2021). 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.

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
M Bastos
A Harding
L Strambi
K Vidgen

Principal activities

The nature of the Company'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 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 Regulatory Asset Base (RAB) and 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 $46.5 million (10%) to $505.3 million in FY2021, with increased revenue of $36.4 million (3%) and reduced operating costs of $23.1 million (6%) partially offset by higher depreciation of $13.0 million (4%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the QCA on 17 December 2020. Actual net tonnes were 208.3mt compared to the regulatory system forecast of 239.7mt.

Total Access Revenue increased by $47.2 million (4%):

- Allowable revenue was lower by $3.9 million in FY2021.
- Reduced volumes compared to the regulatory forecast resulted in an under-recovery after Take-or-Pay of $34.6 million in FY2021 (Access Revenue in FY2021 included the recognition of $88.2 million Take-or-Pay revenue in relation to the Blackwater, Goonyella, Moura and Newlands systems). This compares to an under-recovery of $22.6 million in FY2020.
- Customer funded infrastructure rebates were also higher by $6.2 million in FY2021 compared to FY2020 as a result of the true-up adjustment in FY2020, partially offset by the impact of lower volumes in FY2021.
- FY2021 Access Revenue benefited from favourable revenue cap movements of $13.0 million. FY20 included a repayment of $0.8 million in relation to FY2018 and $12.2 million in relation to FY2019.
- Other Access Revenue was lower by $4.0 million, this included pass-through Energy Costs (EC) revenue due to the lower volumes, offset in lower expenses.

Review of operations (continued)

- The above movements were more than offset by the recognition of the Wiggins Island Rail Project (WIRP) Fees of $60.3 million in FY2021, including recovery of historic fees following the successful Supreme Court decision in September 2020. No WIRP Fees were booked in FY2020.

Services and other revenue was $10.8 million (19%) lower in FY2021. This was primarily due to lower external construction revenue in FY2021 and insurance recoveries that were received in FY2020.

Operating costs decreased by $23.1 million (6%) primarily due to lower external construction costs associated with the lower revenue, reduced electric traction charges (offset in Access Revenue and EC revenue) and lower maintenance costs partially offset by expenditure incurred on the Precision railroading initiative.

Depreciation increased $13.0 million (4%) primarily due to historic rail renewal and ballast undercutting investment.

Network's 2019-2020 Regulatory Asset Base (RAB) roll-forward is estimated to be $5.3bn[1] excluding Access Facilitation Deeds of $0.4bn.

Operational update

Network maintained strong operational performance during FY2021 despite challenges presented by wet weather and the COVID-19 pandemic.

- The supply chain was impacted by reduced global demand which resulted in volumes in the CQCN declining by 8% to 208.3mt. Notwithstanding the reduced demand, record haulage volume was achieved in the GAPE system.
- Total System Availability was 84.1%. As FY2021 utilises a new capacity model, it is noted that the System Availability measure is not directly comparable to prior years.
- Cancellations due to Network cause decreased from 2.5% to 1.6%.
- Cycle velocity declined marginally from 23.3km/h to 23.0km/h.

The RM902, Network's new ballast cleaning machine is completing in service commissioning. It is expected that the machine will be fully operational in Q1FY2022.

Network continues to pursue Precision Railroading initiatives to deliver more volume with existing capital for all users through faster turnaround time and improved on-time running performance of all trains on the network. These initiatives include the Modern Scheduling and Automated Track Inspection System (ATIS) trials which are currently being conducted by Network.

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

The Weighted Average Cost of Capital (WACC) applied under the 2017 Access Undertaking 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 the Company notifies relevant parties of proposed options to address the deficit. The Independent Export continues the development of the Initial Capacity Assessment Report (ICAR) with the assistance of external consultants. The Independent Expert has advised that the ICAR is expected to be completed at the end of September 2021.

[1] Includes deferred capital.

Likely developments (continued)

Wiggins Island Rail Project (WIRP)

On 1 September 2020, the Queensland Court of Appeal affirmed the Supreme Court decision in the Group's favour and the WIRP customers did not seek leave to appeal that decision. As a result, the Group is able to charge customers non-regulated WIRP fees with effect from March 2016 and commenced billing in November 2020.

The WIRP customers previously 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 partially reduced. The Company lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert's Determination and the WIRP customers filed their defence on 1 March 2021.

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to the WIRP project costs. WIRP fees of $60.3 million, including $48.9 million of historical fees (relating to FY2016 - FY2020), have been recognised in FY2021 (FY2020: $nil).

Environmental regulation and performance

The Company is exposed to a range of environmental regulations as part of the Aurizon Group. The Aurizon Group has a centralised team which monitors compliance with, and performance against, these regulations. The Aurizon Group is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. To deliver on this commitment, the Company seeks to comply with all applicable environmental laws and regulations.

The *National Greenhouse and Energy Reporting Act 2007* (NGER) (Cth) requires the Aurizon Group to report its annual greenhouse gas emissions and energy use. The Company does not have a facility that is captured by the Emissions Reduction Fund Safeguard Mechanism.

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 $100,000, unless otherwise stated (where rounding is applicable) in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the instrument applies.

Auditor's independence declaration

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

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

M Fraser
Chairman

Brisbane
9 August 2021

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Auditor's Independence Declaration

As lead auditor for the audit of Aurizon Network Pty Ltd for the year ended 30 June 2021, 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
9 August 2021

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Financial Report
for the year ended 30 June 2021

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIGNED REPORTS

Aurizon Network Pty Ltd
Consolidated income statement
For the year ended 30 June 2021

	Notes	2021 $m	2020 $m
Revenue from continuing operations	1	**1,224.9**	1,188.5
Employee benefits expense	2	**(150.6)**	(151.7)
Energy and fuel		**(104.4)**	(109.2)
Consumables	2	**(120.7)**	(141.3)
Depreciation and amortisation	2	**(327.0)**	(314.0)
Impairment losses		**(1.6)**	(1.9)
Other expenses		**(15.3)**	(11.6)
Operating profit		**505.3**	458.8
Finance income		**0.3**	-
Finance expenses	2	**(133.7)**	(139.5)
Net finance costs		**(133.4)**	(139.5)
Profit before income tax		**371.9**	319.3
Income tax expense	3	**(112.0)**	(96.0)
Profit for the year attributable to owners of Aurizon Network Pty Ltd		**259.9**	223.3

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

	Notes	2021 $m	2020 $m
Profit for the year		**259.9**	223.3
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges	13(c)	**17.9**	(33.2)
Income tax relating to changes in fair value of cash flow hedges	13(c)	**(5.4)**	10.0
Other comprehensive income/(expense) for the year, net of tax		**12.5**	(23.2)
Total comprehensive income for the year attributable to owners of Aurizon Network Pty Ltd		**272.4**	200.1

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

Aurizon Network Pty Ltd
Consolidated balance sheet
As at 30 June 2021

	Notes	2021 $m	2020 $m
ASSETS			
Current assets			
Cash and cash equivalents		**1.1**	6.7
Trade and other receivables	4	**242.0**	204.1
Inventories	5	**38.0**	41.9
Other assets		**1.6**	1.6
Total current assets		**282.7**	254.3
Non-current assets			
Inventories	5	**12.1**	10.5
Derivative financial instruments	15(a)	**123.1**	220.8
Property, plant and equipment	6	**5,252.2**	5,301.1
Intangible assets	7	**90.5**	98.7
Total non-current assets		**5,477.9**	5,631.1
Total assets		**5,760.6**	5,885.4
LIABILITIES			
Current liabilities			
Trade and other payables	8	**115.0**	137.2
Borrowings	14	**59.0**	591.6
Derivative financial instruments	15(a)	**0.1**	31.2
Provisions	9	**65.3**	61.3
Other liabilities	10	**111.2**	56.7
Total current liabilities		**350.6**	878.0
Non-current liabilities			
Borrowings	14	**3,183.6**	2,661.1
Derivative financial instruments	15(a)	**66.6**	44.8
Deferred tax liabilities	3(c)	**681.2**	650.9
Provisions	9	**3.0**	3.2
Other liabilities	10	**123.2**	136.0
Total non-current liabilities		**4,057.6**	3,496.0
Total liabilities		**4,408.2**	4,374.0
Net assets		**1,352.4**	1,511.4
EQUITY			
Contributed equity	13(a), 13(b)	**1,002.9**	1,202.9
Reserves	13(c)	**(56.1)**	(68.6)
Retained earnings		**405.6**	377.1
Total equity		**1,352.4**	1,511.4

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

	Notes	Contributed equity $m	Convertible notes $m	Reserves $m	Retained earnings $m	Total equity $m
		Attributable to owners of Aurizon Network Pty Ltd				
Balance at 1 July 2020		**1,202.9**	**-**	**(68.6)**	**377.1**	**1,511.4**
Profit for the year		**-**	**-**	**-**	**259.9**	**259.9**
Other comprehensive income/(expense)		**-**	**-**	**12.5**	**-**	**12.5**
Total comprehensive income/(expense) for the year		**-**	**-**	**12.5**	**259.9**	**272.4**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	12	**-**	**-**	**-**	**(231.4)**	**(231.4)**
Capital distribution to the parent	13(a)	**(200.1)**	**-**	**-**	**-**	**(200.1)**
Capital contribution from the parent for share-based payments	13(b)	**0.1**	**-**	**-**	**-**	**0.1**
		(200.0)	**-**	**-**	**(231.4)**	**(431.4)**
Balance at 30 June 2021		**1,002.9**	**-**	**(56.1)**	**405.6**	**1,352.4**
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 income/(expense)		-	-	(23.2)	-	(23.2)
Total comprehensive income/(expense) for the year		-	-	(23.2)	223.3	200.1
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	12	-	-	-	(110.2)	(110.2)
Conversion of convertible notes to contributed equity		1,200.0	(1,200.0)	-	-	-
Capital distribution to the parent	13(a)	(0.1)	-	-	-	(0.1)
Capital distribution to the parent for share-based payments	13(b)	(0.4)	-	-	-	(0.4)
		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

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

	Notes	2021 $m	2020 $m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**1,323.3**	1,291.1
Payments to suppliers and employees (inclusive of GST)		**(514.1)**	(617.5)
Interest received		**0.3**	-
Income taxes paid		**(57.8)**	(71.4)
Net cash inflow from operating activities	18	**751.7**	602.2
Cash flows from investing activities			
Payments for property, plant and equipment		**(277.0)**	(269.8)
Proceeds from sale of assets		**1.1**	9.5
Payments for intangibles		**(4.3)**	(12.8)
Interest paid on qualifying assets		**(2.2)**	(2.3)
Net cash outflow from investing activities		**(282.4)**	(275.4)
Cash flows from financing activities			
Proceeds from external borrowings		**633.3**	502.0
Repayment of external borrowings		**(533.0)**	(485.0)
Payment of transaction costs related to borrowings		**(2.5)**	(4.8)
Loans from related parties		**-**	(85.0)
Interest paid		**(140.7)**	(140.4)
Capital distribution to parent		**(200.4)**	-
Dividends paid to Company's shareholder	12	**(231.4)**	(110.2)
Net cash outflow from financing activities		**(474.7)**	(323.4)
Net (decrease)/increase in cash and cash equivalents		**(5.4)**	3.4
Cash and cash equivalents at the beginning of the financial year		**6.7**	3.1
Effects of exchange rate changes on cash and cash equivalents		**(0.2)**	0.2
Cash and cash equivalents at end of year		**1.1**	6.7

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

About this report

Aurizon Network Pty Ltd (the Company) is a for-profit entity for the purpose of preparing this financial report and is a company limited by shares, incorporated and domiciled in Australia. The consolidated financial report comprise the financial statements of the Company and its subsidiaries (collectively referred to as the Group or Aurizon Network).

The financial report is a general purpose financial report which:

- has 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);
- has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- is presented in Australian dollars with values rounded to the nearest $100,000 unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*;
- presents reclassified comparative information where required for consistency with current year presentation;
- adopts 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 2020; and
- has applied the Group accounting policies consistently to all periods presented.

The general purpose financial report for the Group for the year ended 30 June 2021 (FY2021) has been authorised for issue in accordance with a resolution of the Directors on 9 August 2021. The Directors have the power to amend and reissue the financial report.

Significant judgements and estimates

The preparation of the financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions of assets, liabilities, income and expense.

The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

	Note
Revenue	1
Useful lives of property, plant and equipment	6

Other accounting policies

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.

The notes to the financial statements

The following notes include information which is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant due to its size and nature or the information:

- is important for understanding the Group's current period results;
- provides an explanation of significant changes in the Group's business - for example acquisitions or divestments; or
- relates to an aspect of the Group's operations that are important to its future performance.

Key events and transactions for the reporting period

(a) Access Revenue

2017 Access Undertaking

The Weighted Average Cost of Capital (WACC) applied under the 2017 Access Undertaking is 5.90%, increasing to 6.30% upon completion of an independent capacity assessment of the Central Queensland Coal Network (CQCN). In the event that a capacity deficit is identified, the WACC increase to 6.30% will commence when the Company notifies relevant parties of proposed options to address the deficit. The Independent Export continues the development of the Initial Capacity Assessment Report (ICAR) with the assistance of external consultants. The Independent Expert has advised that the ICAR is expected to be completed at the end of September 2021.

The 2017 Access Undertaking assumed the independent capacity assessment would be complete by 1 March 2020 and therefore, a WACC of 6.30% applied for FY2021. As a result of the delay in the independent capacity assessment, there has been an over-collection of access charges in FY2021 (the difference between 5.90% and 6.30%). The over-collection of access charges in FY2021 has been partially offset by lower revenue resulting from reduced actual volumes (net of Take-or-Pay triggering in four rail network systems). A net under or over recovery of access charges by system after adjustments forms part of the revenue adjustment amount (revenue cap). The FY2021 net revenue cap adjustment is a recovery by customers of up to $16.0 million through tariff adjustments in FY2023. The FY2021 revenue cap adjustment is subject to approval by the Queensland Competition Authority (QCA).

Access revenue for the period has been recognised based on the 2017 Access Undertaking applying a WACC rate of 6.30% (2020: average WACC rate of 6.03%).

Wiggins Island Rail Project (WIRP)

On 1 September 2020, the Queensland Court of Appeal affirmed the Supreme Court decision in the Group's favour and the WIRP customers did not seek leave to appeal that decision. As a result, the Group is able to charge customers non-regulated WIRP fees with effect from March 2016 and commenced billing in November 2020.

The WIRP customers previously 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 partially reduced. The Company lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert's Determination and the WIRP customers filed their defence on 1 March 2021.

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to WIRP project costs. WIRP fees of $60.3 million, including $48.9 million of historical fees (relating to FY2016 - FY2020), have been recognised in FY2021 (2020: $nil).

(b) Debt refinancing

During the year, the Group:

- Issued a $500.0 million 10 year fixed Medium Term Note (AMTN 4) maturing 2 September 2030;
- Repaid a $525.0 million fixed Medium Term Note (AMTN 1) maturing 28 October 2020;
- Reduced the $850.0 million Bilateral Facility maturing 5 June 2023 by $100.0 million to $750.0 million;
- Issued a $75.0 million 10.5 year fixed Private Placement (AMTN 5) maturing 15 December 2031; and
- Re-financed an existing $100.0 million Working Capital Facility in December 2020 until June 2021, which was subsequently extended to June 2022 at a limit of $75.0 million.

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

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 Aurizon Network to earn an approved return on its Regulatory Asset Base (RAB) and 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.

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.

The Group derives the following types of revenue:

	2021 $m	2020 $m
Revenue		
Service revenue		
Track access	**1,178.9**	1,131.7
Other services	**14.8**	27.8
Other revenue	**31.2**	29.0
Total revenue from continuing operations	**1,224.9**	1,188.5

(a) Disaggregation of revenue from contracts with customers

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

(b) Contract liabilities

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

	2021 $m	2020 $m
Current		
Advances for track access	**26.3**	-
Advances for other revenue	**25.4**	26.5
	51.7	26.5
Non-current		
Advances for other revenue	**123.2**	136.0

Contract liabilities primarily represent amounts received from customers as advances for track access and the provision of services 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.

	2021 $m	2020 $m
Within one year	**51.7**	26.5
Later than one year but not later than five years	**92.2**	95.7
Later than five years	**31.0**	40.3
	174.9	162.5

The increase in contract liabilities represents revenue received in advance for non-regulated track access charges, offset by revenue recognised for prepayments from future access charges in previous financial years.

1 Revenue (continued)

(b) Contract liabilities (continued)

(ii) 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.

	2021 $m	2020 $m
Revenue recognised that was included in the contract liability balance at the beginning of the year	**26.5**	26.8

(iii) 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 which directly corresponds with the Group's performance completed to date.

Long-term track access contracts are considered to be a series of annual performance obligations that are satisfied within each financial year. Any amounts received in advance are recognised over the term of the agreement as performance obligations are satisfied. The Group applies the practical expedient in paragraph 121 of AASB 15 *Revenue from Contracts with Customers* (AASB 15) 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 the transaction price allocated to these unsatisfied performance obligations are not disclosed.

Significant judgements and estimates

Take-or-Pay revenue

The Group is able to recover in the financial year part of an Allowable Revenue shortfall through Take-or-Pay clauses which 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 and above rail operator and/or 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 $88.2 million has been recognised at 30 June 2021 (2020: $25.6 million).

Wiggins Island Rail Project (WIRP) Access Revenue

On 1 September 2020, the Queensland Court of Appeal affirmed the Supreme Court decision in the Group's favour and the WIRP customers did not seek leave to appeal that decision. As a result, the Group is able to charge customers non-regulated WIRP fees with effect from March 2016 and commenced billing in November 2020.

The WIRP customers previously 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 partially reduced. The Company lodged proceedings against the WIRP customers in the Supreme Court of Queensland on 18 December 2020 to appeal the Expert's Determination and the WIRP customers filed their defence on 1 March 2021.

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to the WIRP project costs. WIRP fees of $60.3 million, including $48.9 million of historical fees (relating to FY2016 - FY2020), have been recognised in FY2021 (2020: $nil).

1 Revenue (continued)

(c) Accounting policies

The Group recognises revenue as performance obligations are satisfied.

Track access revenue is generated from the provision of access to, and operation of, the CQCN under an approved Access Undertaking. Track access revenue is recognised over time as access to the rail network 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 rail system. At each balance date, track access revenue includes an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. These amounts are recognised as trade receivables.

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

Regulated access revenue is subject to a revenue cap mechanism that serves to ensure the rail network recovers its 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 of the second financial year following the financial year in which the event occurred as per the Access Undertaking.

Access revenue for the financial year has been recognised based on the 2017 Access Undertaking applying a WACC rate of 6.30% (2020: average WACC rate of 6.03%). Refer to key events and transactions for the reporting period for further information.

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

2 Expenses

Profit before income tax includes the following specific expenses:

	2021 $m	2020 $m
Employee benefits expense		
Salaries, wages and allowances including on-costs	**131.4**	124.6
Defined contribution superannuation expense	**14.2**	14.7
Defined benefit superannuation expense	**2.3**	2.5
Redundancies	**2.7**	9.9
	150.6	151.7
Consumables		
Repairs and maintenance	**68.9**	70.5
Other	**51.8**	70.8
	120.7	141.3
Depreciation and amortisation		
Depreciation of property, plant and equipment	**314.4**	302.9
Amortisation of intangibles	**12.6**	11.1
	327.0	314.0
Finance expenses		
Interest and finance charges paid/payable	**138.7**	144.9
Amortisation of capitalised borrowing costs	**3.3**	3.2
Amortisation of AMTN 2 fair value adjustment	**(2.4)**	(2.4)
Counterparty credit risk adjustments	**(3.7)**	(3.9)
	135.9	141.8
Capitalised interest paid on qualifying assets	**(2.2)**	(2.3)
	133.7	139.5

3 Income tax

Income tax comprises current and deferred tax recognised in profit or loss or directly in equity or other comprehensive income.

(a) Income tax expense

	2021 $m	2020 $m
Current tax	**103.1**	71.1
Deferred tax	**9.6**	25.3
Current tax relating to prior periods	**(16.3)**	0.2
Deferred tax relating to prior periods	**15.6**	(0.6)
	112.0	96.0

	2021 $m	2020 $m
Deferred income tax expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	**35.5**	(4.7)
Increase/(decrease) in deferred tax liabilities	**(10.3)**	29.4
	25.2	24.7

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

	2021 $m	2020 $m
Profit before income tax expense	**371.9**	319.3
Tax at the Australian tax rate of 30% (2020: 30%)	**111.6**	95.8
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other	**1.1**	0.4
Adjustments for tax of prior periods	**(0.7)**	(0.2)
Total income tax expense	**112.0**	96.0

3 Income tax (continued)

(c) Deferred tax balances

The table below outlines the items which comprise the deferred tax balances:

	2021 $m	2020 $m
Deferred tax assets		
Provisions and accruals	**22.8**	21.2
Contract liabilities	**-**	0.5
Financial instruments	**57.6**	99.5
Other items	**1.0**	0.7
Total deferred tax assets	**81.4**	121.9
Set-off against deferred tax liabilities	**(81.4)**	(121.9)
Net deferred tax assets	**-**	-
Deferred tax liabilities		
Property, plant and equipment	**707.0**	682.1
Intangible assets	**24.1**	24.5
Financial instruments	**31.5**	66.2
Total deferred tax liabilities	**762.6**	772.8
Set-off of deferred tax assets	**(81.4)**	(121.9)
Net deferred tax liabilities	**681.2**	650.9

The table below outlines the items which comprise deferred income tax expense:

	2021 $m	2020 $m
Provisions and accruals	**(1.6)**	0.4
Contract liabilities	**0.5**	0.2
Financial instruments	**36.5**	(5.4)
Other items	**0.1**	0.1
(Increase)/decrease in deferred tax assets	**35.5**	(4.7)
Property, plant and equipment	**24.8**	2.0
Intangible assets	**(0.4)**	20.2
Financial instruments	**(34.7)**	7.2
Increase/(decrease) in deferred tax liabilities	**(10.3)**	29.4
Net deferred income tax expense	**25.2**	24.7

3 Income tax (continued)

(d) Accounting policies

The tax position is calculated based on the tax rates and laws enacted or substantively enacted at the reporting date, in the relevant operating jurisdiction. The tax laws and accounting standards have different rules in respect of timing and recognition of income and expenses, resulting in temporary differences (which reverse over time) and non-temporary differences (which do not reverse over time or are temporary differences that do not meet the recognition criteria under the accounting standards).

Income tax expense is calculated as the profit/(loss) before tax, multiplied by the applicable tax rate, and adjusted for non-temporary differences. Income tax expense includes a current tax and deferred tax component and is recognised in the profit or loss, except to the extent that it relates to items recognised in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable for the period, and any adjustment to tax payable in respect of prior periods. Current tax includes both temporary differences and non-temporary differences.

The positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation are periodically evaluated and provisions are provided where appropriate based on amounts expected to be paid to the tax authorities.

Current tax assets and liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(ii) Deferred tax

Deferred tax represents taxes to be paid or deductions available in future income years, and any adjustment to deferred tax amounts in respect of prior periods. Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except:

- when arising on the initial recognition of goodwill;
- when arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit; or
- where it is not probable that future amounts will be available to utilise those temporary differences or carried forward tax losses.

(iii) Offsetting deferred tax balances

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset and when the deferred tax balances relate to taxes levied by the same tax authority.

(iv) Tax consolidation legislation

The Company is a member of a tax consolidated group of which Aurizon Holdings Limited is the head entity.

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 liabilities and deferred tax assets arising from unused tax losses and unused tax credits are subsequently assumed by Aurizon Holdings Limited.

The members of the tax consolidated group have also entered into tax funding and tax sharing agreements. The tax funding agreement sets out the funding obligations of members in respect of income tax amounts and 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.

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

	2021 $m	2020 $m
Current		
Trade receivables	**123.2**	133.1
Provision for impairment of receivables	**(0.2)**	-
Net trade receivables	**123.0**	133.1
Other receivables[1]	**119.0**	71.0
	242.0	204.1

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

The Group has recognised a net increase of $0.2 million (2020: net decrease of $0.1 million) in the provision for impairment of trade receivables.

(a) Accounting policies

(i) Trade receivables

Trade receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. Trade receivables are generally due for settlement within 31 days and are therefore classified as current.

(ii) Provisions for impairment

The collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectable are written off when identified.

The Group recognises a provision for impairment based on expected lifetime losses of trade receivables. The amount of the provision for impairment is recognised in profit or loss in other expenses.

(b) Credit risks related to receivables

In assessing an appropriate provision for impairment of trade receivables consideration is given to historical experience of bad debts, the aging of receivables, knowledge of debtor insolvency and individual account assessment.

The Group's trade receivables exhibit similar credit risk characteristics and exposures. Customer credit risk is managed in accordance with the procedures and controls set out in the Group's credit risk management policy. Credit limits are established for all customers based on external and internal credit rating criteria. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letter of credit which can be called upon if the counterparty is in default under the terms of the agreement.

5 Inventories

	2021 **$m**	2020 $m
Current		
Raw materials and stores at cost	**38.0**	41.9
Non-current		
Raw materials and stores - at cost	**18.8**	16.3
Provision for inventory obsolescence	**(6.7)**	(5.8)
	12.1	10.5

(a) Accounting policies

Inventories include infrastructure items held in centralised stores, workshops and depots. Items expected to be consumed after more than 12 months are classified as non-current.

Inventories are valued at the lower of cost and net realisable value. The cost of individual items of inventory are determined using weighted average cost.

The Group recognises a provision for inventory obsolescence based on an assessment of damaged stock, slow moving stock and stock that has become obsolete. The amount of the provision for inventory obsolescence is recognised in profit or loss in other expenses.

6 Property, plant and equipment

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Total $m
2021							
Opening net book amount	**121.2**	**25.8**	**5.8**	**128.6**	**24.0**	**4,995.7**	**5,301.1**
Additions	**258.8**	**0.2**	**9.8**	**0.5**	**-**	**3.2**	**272.5**
Transfers between asset classes	**(269.2)**	**2.6**	**2.3**	**3.5**	**0.1**	**260.7**	**-**
Disposals	**-**	**-**	**(0.1)**	**(0.8)**	**-**	**(4.5)**	**(5.4)**
Depreciation	**-**	**-**	**(1.7)**	**(12.5)**	**(2.0)**	**(298.2)**	**(314.4)**
Impairment	**-**	**-**	**-**	**(0.3)**	**-**	**(1.3)**	**(1.6)**
Closing net book amount	**110.8**	**28.6**	**16.1**	**119.0**	**22.1**	**4,955.6**	**5,252.2**
At 30 June 2021							
Cost	**110.8**	**28.6**	**26.4**	**210.8**	**28.9**	**7,543.2**	**7,948.7**
Accumulated depreciation and impairment	**-**	**-**	**(10.3)**	**(91.8)**	**(6.8)**	**(2,587.6)**	**(2,696.5)**
Net book amount	**110.8**	**28.6**	**16.1**	**119.0**	**22.1**	**4,955.6**	**5,252.2**

	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	-	-	-	(1.9)	-	-	(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

6 Property, plant and equipment (continued)

Significant judgements and estimates

Useful lives

Context of Judgements

Aurizon's business is primarily linked to the demand for and supply of Australian commodities, almost entirely destined for export markets in Asia. As part of Aurizon's *Strategy in Uncertainty* framework, scenario analysis is used to test market drivers and evaluate capital, fleet and haulage opportunities and sustainability in the context of climate change risks. A key component of this analysis is understanding the drivers of demand and supply for commodities transported. This process considers short-term impacts as well as risks that emerge over the medium to long term, where the timing and magnitude is less certain. In addition to the fundamental drivers of Australian commodities, more subjective factors are also considered including government policy and trade considerations.

Useful lives of Infrastructure Assets

The useful lives of infrastructure assets are determined based on the expected engineering life, capped at the remaining term of the infrastructure leases and are reviewed annually. Infrastructure predominantly relates to CQCN assets. The Group is responsible for the provision of access to, and operation of, the below rail regulated CQCN which connects 40 mines to five export terminals as well as to domestic customers.

Access to the rail network is managed under a process approved by the QCA. The QCA determines the Group's access pricing based on the estimated value of our assets, which is known as the Regulatory Asset Base (RAB). Economic depreciation considered for regulatory purposes within Allowable Revenue varies from depreciation applied for statutory reporting purposes as a result of an accelerated depreciation profile and differences in applied asset lives. For example, under the 2017 Access Undertaking, the QCA determined that the existing depreciation approach would be retained, including 20-year rolling depreciation for assets included in the RAB post 1 July 2009.

Demand for Australian coal is dependent on seaborne-traded markets which are increasingly concentrated in Asia. Metallurgical coal is primarily used to produce steel and thermal coal is used as a heat source in energy generation. Around 70% of volumes hauled across the network is considered to be metallurgical coal (remaining 30% thermal coal), with demand linked to Asian steel production. Therefore, the useful life of infrastructure assets will be impacted primarily by the future demand for Australian metallurgical coal which is dependent on economic development in Asia including steel intensive growth, alternatives to steel and current steel production methods, competing supply of metallurgical coal, changes in government policies (for example, domestic/imported coal preferences and net zero emission targets) and technological advancements.

During the period, major import nations of Australian coal have set net zero emissions targets and include China (2060), Japan (2050) and South Korea (2050). India, who is also a significant export market for Australian coal, is yet to set a long term emissions target.

In performing its annual review of the appropriateness of the useful lives of Infrastructure assets, management monitors and assesses a range of indicators of global coal demand over the short, medium, and long term. Indicators include the following:

- Asian GDP growth and steel related demand
- Crude steel production method and scrap metal availability
- Global supply competitiveness and Australian supply constraints for metallurgical coal
- Climate policy targets and how they are intended to be met at both a country and corporate level
- The viability of new and alternative technologies that are developed to reduce emissions targets such as carbon capture, utilisation and storage (CCUS) and hydrogen-based steel making, that may positively or negatively impact future coal demand
- The ability of customers to gain regulatory approvals and raise funding to support development of their resource base

The impact of the above indicators, and other factors that may emerge, on global coal demand and Australian coal supply are uncertain at this time and difficult to predict. Consequently, there is a risk that the engineering useful lives assigned to infrastructure assets may require revision to an alternate benchmark in the future resulting in a change in depreciation rates on a prospective basis. As an indication of sensitivity, if the useful life of assets with a remaining life greater than 50 years were capped at 60 - 70 years, annual depreciation would increase by $4.0 - $9.0 million per annum.

6 Property, plant and equipment (continued)

(a) Leases

Coal infrastructure

The Company leases infrastructure assets including:

- CQCN from the State of Queensland; 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 of Queensland 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.

Corridor land and buildings

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

(i) Amounts recognised in the consolidated balance sheet

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

	2021 $m	2020 $m
Leased assets		
Coal infrastructure	**4,341.1**	4,371.4
Corridor land	**25.8**	25.8
Buildings	**1.8**	1.9
	4,368.7	4,399.1

(ii) Amounts recognised in consolidated income statement

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

	2021 $m	2020 $m
Depreciation of leased assets		
Coal infrastructure	**257.3**	245.7
Buildings	**0.2**	0.2
	257.5	245.9

(b) Accounting policies

(i) Property, plant and equipment

Carrying value

Property, plant and equipment (including leased coal infrastructure, corridor land and buildings) is stated at historical cost, less any accumulated depreciation or impairment. Costs include expenditure that is directly attributable to the acquisition of the items and borrowing costs that are related to the acquisition or construction of an asset. Costs may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

6 Property, plant and equipment (continued)

(b) Accounting policies (continued)

(i) Property, plant and equipment (continued)

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 depreciation rates used for each class of assets are:

• Infrastructure, including:	
Tracks	7 - 50 years
Track turnouts	20 - 25 years
Ballast	8 - 20 years
Civil works	20 - 88 years
Bridges	30 - 88 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.

(ii) Leases

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 recognised from the head lease is derecognised and a lease receivable equal to the present value of future lease payments receivable is recognised.

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.

6 Property, plant and equipment (continued)

(b) Accounting policies (continued)

(iii) Impairment tests for property, plant and equipment

Property, plant and equipment subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In testing for impairment, the recoverable amount is estimated for an individual asset or, if it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount for the cash generating unit (CGU) to which the asset belongs. CGUs are the smallest identifiable group of assets that generate cash flows that are largely independent from the cash flows of other assets or group of assets. Each CGU is no larger than a reportable segment.

Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less cost of disposal or value-in-use.

An impairment loss is recognised in profit or loss if the carrying amount of the asset or a CGU exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of other assets in the CGU (group of CGUs).

Where there is an indicator that previously recognised impairment losses may no longer exist or may have decreased, the asset is tested for impairment. The impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset and is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

7 Intangible assets

	Software $m	Software under development $m	Total $m
2021			
Opening net book amount	**87.4**	**11.3**	**98.7**
Additions	**-**	**4.4**	**4.4**
Transfers between asset classes	**12.0**	**(12.0)**	**-**
Amortisation	**(12.6)**	**-**	**(12.6)**
Closing net book amount	**86.8**	**3.7**	**90.5**
At 30 June 2021			
Cost	**136.7**	**3.7**	**140.4**
Accumulation amortisation and impairment	**(49.9)**	**-**	**(49.9)**
Net book amount	**86.8**	**3.7**	**90.5**
2020			
Opening net book amount	86.2	10.8	97.0
Additions	-	12.8	12.8
Transfers 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
Accumulated amortisation and impairment	(37.3)	-	(37.3)
Net book amount	87.4	11.3	98.7

(a) Accounting policies

(i) 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-as-a-Service (SaaS) arrangements are service contracts which provide the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing licence fees, are recognised as an expense in profit or loss. Some of these costs incurred are for the development of software code that enhances or creates additional capability to existing systems and are recognised as an intangible asset when the recognition criteria are met.

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

	2021 $m	2020 $m
Current		
Trade payables	**96.7**	121.7
Other payables	**18.3**	15.5
	115.0	137.2

(a) Accounting policies

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 agreed with the supplier.

9 Provisions

	2021 $m	2020 $m
Current		
Employee benefits (a)	**65.3**	61.3
Non-current		
Employee benefits (a)	**3.0**	3.2
Total provisions	**68.3**	64.5

(a) Employee benefits

	2021 $m	2020 $m
Annual leave	**13.6**	14.4
Long service leave	**34.3**	32.6
Other	**20.4**	17.5
	68.3	64.5

Long service leave includes all unconditional entitlements where employees have completed the required period of service and a provision for the probability that employees will reach the required period of service. The Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months based on past experience. The current provision for employee benefits includes $31.5 million (2020: $29.8 million) that is not expected to be taken or paid within the next 12 months.

9 Provisions (continued)

(a) Employee benefits (continued)

(i) 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 2020 and the State Actuary found the fund was in surplus from a whole of Government perspective. The Defined Benefit Fund was closed to new members in 2007 therefore any potential future deficit would be diluted as membership decreases. Accordingly, no asset or liability is recognised for the Group’s share of any potential surplus or deficit of the QSuper Defined Benefit Fund. The State has provided the Group with an indemnity if the Treasurer requires the Group to pay any amounts required to meet any potential deficit. The indemnity is subject to the Group 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.

(b) Accounting policies

A provision is 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 measured at the present value of the best estimate of the expenditure required to settle the present obligation at the reporting date.

(i) Employee benefits

The provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave, short-term incentive plans and termination benefits.

Liabilities for wages and salaries and accumulating non-monetary benefits expected to be settled within 12 months of the reporting date, are recognised in respect of employees' services up to the end of the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for annual leave and long service leave 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 date. Expected future payments that are not expected to be settled within 12 months are discounted using market yield at the reporting date of Australian corporate bond rates and reflects the terms to maturity. Remeasurements as a result of adjustments and changes in actuarial assumptions are recognised in profit or loss.

A liability for short-term incentive plans is recognised 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.

A termination benefit is payable when the Group decides to terminate the employment, or when an employee accepts redundancy in exchange for these benefits. A provision is recognised at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group recognises costs for restructuring and is measured using the present value of the expected amounts to be paid to settle the obligation.

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

10 Other liabilities

	2021 $m	2020 $m
Current		
Contract liabilities	**51.7**	26.5
Tax loan payable to parent entity	**59.5**	30.1
Other current liabilities	**-**	0.1
	111.2	56.7
Non-current		
Contract liabilities	**123.2**	136.0
	123.2	136.0

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, explains how these affect the Group's financial position and performance and what the Group does to manage these risks.

11 Capital risk management

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. The Group and the Company monitor its capital structure by reference to its gearing ratio, ability to generate free cash flows and credit rating.

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 Net debt plus Equity. Net debt and Net gearing ratio are measures of the Group's indebtedness and provides an indicator of the balance sheet strength. The gearing ratio excludes derivative financial instruments used to hedge market risk on borrowings.

	Notes	**2021** **$m**	2020 $m
Total borrowings	14	**3,242.6**	3,252.7
Less: cash and cash equivalents		**(1.1)**	(6.7)
Net debt		**3,241.5**	3,246.0
Total equity		**1,352.4**	1,511.4
Total capital		**4,593.9**	4,757.4
Net gearing ratio		**70.6%**	68.2%

12 Dividends

Declared and paid during the period	**$m**
For the year ended 30 June 2021	
Final dividend for 2020 (unfranked)	**113.2**
Interim dividend for 2021 (unfranked)	**118.2**
	231.4
For the year ended 30 June 2020	
Interim dividend for 2020 (unfranked)	110.2
Proposed and unrecognised at period end	
For the year ended 30 June 2021	
Final dividend for 2021 (unfranked)	**141.7**
For the year ended 30 June 2020	
Final dividend for 2020 (unfranked)	113.1

13 Equity

(a) Contributed equity

	2021	2020
Number of ordinary shares	**130**	130
Contributed equity ($m)	**999.8**	1,199.9

Ordinary shares are classified as equity. The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. Ordinary shares entitle the holder to participate in dividends. Contributed equity is reduced for payments made to the parent entity.

(b) Other contributed equity

	2021 $m	2020 $m
Capital contribution from the parent for share-based payments	**2.1**	1.8
Aggregate deferred tax on related share-based payments	**1.0**	1.2
Total other contributed equity	**3.1**	3.0

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 by the Company as an employee benefits 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.

(c) Reserves

	2021 $m	2020 $m
Cash flow hedges		
Balance 1 July	**(68.6)**	(45.4)
Fair value gains/(losses) taken to equity	**17.9**	(33.2)
Tax (benefit)/expense relating to items of other comprehensive income	**(5.4)**	10.0
Balance 30 June	**(56.1)**	(68.6)

(i) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred.

14 Borrowings

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

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

	2021 $m	2020 $m
Current - Unsecured		
Medium term notes	**-**	524.6
Bank debt facilities	**59.0**	67.0
	59.0	591.6
Non-current - Unsecured		
Medium term notes	**2,711.5**	2,249.8
Bank debt facilities	**480.0**	420.0
Capitalised borrowing costs	**(7.9)**	(8.7)
	3,183.6	2,661.1
Total borrowings	**3,242.6**	3,252.7

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

The Group manages its exposure to interest rate risk as set out in note 15(a). Details of the Group's financing arrangements and exposure to risks arising from borrowings are set out in note 15(b).

Details of changes to the Group's financing arrangements during the reporting period are outlined in Key events and transactions.

(a) Accounting policies

Borrowings are initially recognised at fair value of the consideration received, less directly attributable borrowing costs. Borrowings are subsequently measured at amortised cost using the effective interest rate method.

Directly attributable borrowing costs are capitalised and amortised over the expected term of the bank debt facilities and Medium Term Notes.

Borrowings are classified as current liabilities, except for those liabilities where the Group has an unconditional right to defer settlement for at least 12 months after the reporting period which are classified as non-current liabilities.

15 Financial risk management

Financial risk management is carried out by Aurizon Group Treasury under policies that have been approved by the Board for managing each of the below risks, including principles and procedures with respect to risk tolerance, delegated levels of authority on the type and use of derivative financial instruments and the reporting of these exposures. The policies are subject to periodic reviews.

In accordance with Board approved policies, the Group typically uses derivative financial instruments to hedge underlying exposures arising from the Group's operational activities relating to changes in foreign exchange rates and changes in interest rates.

The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance as set out in the table below:

Risk	Exposure	Measurement
Market risks		
- Interest rate risk	The Group is exposed to interest rate risk in respect to short and long-term borrowings where interest is charged at variable rates.	The Group mitigates interest rate risk primarily by maintaining an appropriate mix of fixed and floating rate borrowings. Where necessary the Group hedges interest rates using derivative financial instruments - interest rate swaps to manage cash flows and interest rate exposure.
- Interest rate and foreign exchange risk	The Group is exposed to interest rate and foreign exchange risk in respect of the Euro (€) denominated Medium Term Notes (EMTNs).	To mitigate the risk of adverse movement in interest rates and foreign exchange in respect of Euro denominated borrowings the Group enters into cross currency interest rate swaps (CCIRS) to replace Euro principal and interest payments with Australian dollar repayments.
- Foreign exchange risk	The Group is exposed to foreign exchange risk in respect of purchases of inventory and property, plant and equipment denominated in foreign currency.	The Group manages foreign currency risk on contractual commitments by entering into forward exchange contracts.
Liquidity and funding risk	The Group is exposed to liquidity and funding risk from operations and borrowings, where the risk is that the Group may not be able to refinance debt obligations or meet other cash outflow obligations when required.	The Group mitigates liquidity and funding risk by ensuring a sufficient range of funds are available to meet its cash flow obligations when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.
Credit risk	The Group is exposed to credit risk from financial instrument contracts and trade and other receivables. The maximum exposure to credit risk at reporting date is the carrying amount, net of any provision for impairment.	The Group enters into financial instrument contracts with high credit quality financial institutions with a minimum long-term credit rating of A- or better by Standard & Poor's. The Board approved policies limit the amount of credit exposure to any one financial institution by credit rating band. The Group manages counterparty credit risk through approval, granting and renewal of credit limits, regularly monitoring exposures against credit limits and assessing overall financial stability and strength of counterparties on an ongoing basis. Refer to note 4 for credit risk exposures relating to trade and other receivables.

15 Financial risk management (continued)

(a) Market risk

(i) Interest rate risk

Exposure

The Group had the following variable rate borrowings and interest rate swap contracts outstanding at 30 June:

	Weighted average interest rate %	Balance $m
2021		
Variable rate exposure	**2.6**	**2,609.8**
Interest rate swaps (notional principal amount)	**1.8**	**(2,725.0)**
Net exposure to interest rate risk		**(115.2)**
2020		
Variable rate exposure	3.7	1,975.8
Interest rate swaps (notional principal amount)	1.9	(1,975.0)
Net exposure to interest rate risk		0.8

Interest rate derivatives used for hedging

The Group currently has interest rate swaps in place to cover 104% (2020: 100%) of the variable rate borrowings, including fixed rate borrowings converted to variable rate borrowings as a result of fair value hedge relationships outlined in note 15(a)(ii). The interest rate swaps balance at 30 June 2021 included $175.0 million which settled in July 2021. The weighted average maturity of interest rate swaps is 1.8 years (2020: 2.1 years).

Sensitivity

The following table summarises the gain/(loss) impact of a 100 basis points (bps) increase or decrease in interest rates on net profit and equity before tax.

	Increase $m	Decrease $m
2021		
Effect on profit	**1.2**	**(1.2)**
Effect on equity	**44.6**	**(45.6)**
2020		
Effect on profit	-	-
Effect on equity	66.2	(67.9)

Amounts recognised in profit or loss

The Group recognised a net realised loss arising from interest rate swaps of $38.6 million (2020: $23.9 million) as a result of market interest rates closing lower than the average interest rate hedged. The total realised loss represents the effective portion of hedges which have been recognised in interest expense.

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting

The table below summarises the hedging instruments used to manage market risk:

	2021 $m	2020 $m
Non-current assets		
Interest rate swaps - AMTN 3	**-**	3.2
CCIRS - EMTN 1	**109.2**	155.3
CCIRS - EMTN 2	**13.9**	62.3
Total derivative financial instrument assets	**123.1**	220.8
Current liabilities		
Interest rate swaps	**(0.1)**	(31.2)
Non-current liabilities		
Interest rate swaps	**(40.2)**	(44.8)
Interest rate swaps - AMTN 3	**(0.4)**	-
Interest rate swaps - AMTN 4	**(26.0)**	-
Total non-current derivative financial instrument liabilities	**(66.6)**	(44.8)
Total derivative financial instrument liabilities	**(66.7)**	(76.0)

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting (continued)

The following table summarises the impact of hedging instruments designated in hedging relationships on the consolidated balance sheet:

	Notional amount		Carrying amount assets/(liabilities)		Change in fair value used for measuring ineffectiveness for the year	
	2021	2020	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Cash flow hedges						
Interest rate risk						
Interest rate swaps[1]	**A$2,725m**	A$4,525.0m	**(40.3)**	(76.0)	**35.7**	(30.0)
Foreign exchange and interest rate risks						
CCIRS – EMTN 1	**€500.0m**	€500.0m	**(1.0)**	0.2	**(1.2)**	(0.7)
CCIRS – EMTN 2	**€500.0m**	€500.0m	**(10.8)**	(6.8)	**(4.0)**	(2.5)
Fair value hedges						
Interest rate risk						
Interest rate swaps - AMTN 3	**A$82.0m**	A$82.0m	**(0.4)**	3.2	**(3.9)**	3.4
Interest rate swaps - AMTN 4	**A$500.0m**		**(26.0)**	-	**(27.3)**	-
Foreign exchange and interest rate risks						
CCIRS – EMTN 1	**€500.0m**	€500.0m	**110.2**	155.1	**(41.2)**	2.9
CCIRS – EMTN 2	**€500.0m**	€500.0m	**24.7**	69.1	**(38.9)**	15.7

[1] Amounts for FY2020 include forward dated interest rate swaps for a notional amount of A$2,550.0 million which commenced in June 2021.

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting (continued)

The following table summarises the impact of hedged items designated in cash flow hedging relationships on the consolidated balance sheet and the effect of the hedge relationships on other comprehensive income:

	Cash flow hedge reserve[1]		Change in fair value used for measuring ineffectiveness for the year		Hedging gain/(loss) recognised in comprehensive income[1]	
	2021 $m	2020 $m	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Cash flow hedges (before tax)						
Interest rate risk						
Forecast floating interest payments	**40.3**	76.0	**(35.7)**	30.0	**36.0**	(30.0)
Foreign exchange and interest rate risks						
EMTN 1	**11.8**	5.2	**1.2**	0.7	**(6.6)**	(0.6)
EMTN 2	**28.0**	16.5	**4.0**	2.5	**(11.5)**	(2.6)

[1] Cash flow hedge reserve includes the cumulative impact of cross currency basis in relation to EMTN 1 and EMTN 2 of $19.4 million (2020: $19.3 million). The hedging loss recognised in other comprehensive income includes the cross currency basis relating to EMTN 1 and EMTN 2 of $13.1 million (2020: $0.3 million).

The following table summarises the impact of hedged items designated in fair value hedging relationships on the consolidated balance sheet:

	Carrying amount[1]		Accumulated fair value adjustment		Change in fair value used for measuring ineffectiveness for the year	
	2021 $m	2020 $m	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Fair value hedges (before tax)						
Interest rate risk						
AMTN 2	**-**	-	**(7.1)**	(9.5)	**-**	-
AMTN 3	**(81.5)**	(85.4)	**0.5**	(3.4)	**3.9**	(3.4)
AMTN 4	**(472.7)**	-	**27.3**	-	**27.3**	-
	(554.2)	(85.4)	**20.7**	(12.9)	**31.2**	(3.4)
Foreign exchange and interest rate risks						
EMTN 1	**(832.6)**	(873.9)	**(122.0)**	(163.2)	**41.2**	(2.9)
EMTN 2	**(824.3)**	(863.2)	**(46.1)**	(85.0)	**38.9**	(15.7)
	(1,656.9)	(1,737.1)	**(168.1)**	(248.2)	**80.1**	(18.6)
Total borrowings subject to fair value hedges	**(2,211.1)**	(1,822.5)	**(147.4)**	(261.1)	**111.3**	(22.0)

[1] Carrying amount excludes the effects of discounts on the face value of AMTNs and EMTNs issued.

15 Financial risk management (continued)

(b) Liquidity and funding risk

(i) Financing arrangements

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

		Utilised[1]		Facility limit	
	Maturity	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Working capital facility	Jun-22	**60.5**	67.5	**75.0**	100.0
Bilateral facility	Jun-23	**370.0**	420.0	**750.0**	850.0
Bilateral facility	Jun-24	**110.0**	-	**300.0**	300.0
Bilateral facility	Jun-25	**-**	-	**150.0**	150.0
AMTN 1	Oct-20	**-**	525.0	**-**	525.0
AMTN 2[2]	Jun-24	**425.0**	425.0	**425.0**	425.0
AMTN 3[2]	Mar-30	**82.0**	82.0	**82.0**	82.0
AMTN 4[2]	Sep-30	**500.0**	-	**500.0**	-
AMTN 5[2]	Dec-31	**75.0**	-	**75.0**	-
EMTN 1[2]	Sep-24	**710.6**	710.6	**710.6**	710.6
EMTN 2[2]	Jun-26	**778.2**	778.2	**778.2**	778.2
Total Group financing arrangements		**3,111.3**	3,008.3	**3,845.8**	3,920.8

[1] Amount utilised includes bank guarantees of $1.5 million (2020: $0.5 million) and excludes capitalised borrowing costs of $7.9 million (2020: $8.7 million) and discounts on Medium Term Notes of $6.9 million (2020: $7.4 million).

[2] Amounts utilised on EMTNs and AMTNs exclude accumulated fair value adjustments of $147.4 million (2020: $261.1 million).

The Group has access to working capital facilities totalling $75.0 million (2020: $100.0 million) which can be utilised for short-term working capital and financial bank guarantees. At 30 June, the Group utilised $1.5 million (2020: $0.5 million) for financial bank guarantees.

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 19).

15 Financial risk management (continued)

(b) Liquidity and funding risk (continued)

(ii) Maturities of financial liabilities

The table below analyses the Group's financial liabilities, including derivatives, into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not reconcile with the amounts disclosed in the consolidated balance sheet:

	1 year or less $m	1 - 5 years $m	More than 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
2021					
Non-derivative financial instruments					
Trade and other payables	**115.0**	**-**	**-**	**115.0**	**115.0**
Other liabilities	**59.5**	**-**	**-**	**59.5**	**59.5**
Borrowings (excluding the effect of CCIRS)	**144.0**	**2,757.9**	**743.8**	**3,645.7**	**3,242.6**
Financial guarantees	**1.5**	**-**	**-**	**1.5**	**-**
Total non-derivative financial instruments	**320.0**	**2,757.9**	**743.8**	**3,821.7**	**3,417.1**
Derivatives					
Interest rate swaps	**24.6**	**16.8**	**-**	**41.4**	**40.3**
Interest rate swaps - AMTN 3	**-**	**(0.5)**	**0.4**	**(0.1)**	**0.4**
Interest rate swaps - AMTN 4	**(3.8)**	**2.9**	**21.9**	**21.0**	**26.0**
CCIRS - EMTN 1	**(2.2)**	**(88.3)**	**-**	**(90.5)**	**(109.2)**
CCIRS - EMTN 2	**6.5**	**42.5**	**-**	**49.0**	**(13.9)**
Total derivatives	**25.1**	**(26.6)**	**22.3**	**20.8**	**(56.4)**
2020					
Non-derivative financial instruments					
Trade and other payables	137.2	-	-	137.2	137.2
Other liabilities	30.1	-	-	30.1	30.1
Borrowings (excluding the effect of CCIRS)	675.9	1,907.6	938.4	3,521.9	3,252.7
Financial guarantees	0.5	-	-	0.5	-
Total non-derivative financial instruments	843.7	1,907.6	938.4	3,689.7	3,420.0
Derivatives					
Interest rate swaps	39.9	37.9	-	77.8	76.0
Interest rate swaps - AMTN 3	-	(1.1)	(2.2)	(3.3)	(3.2)
CCIRS - EMTN 1	(2.4)	(123.3)	-	(125.7)	(155.3)
CCIRS - EMTN 2	6.2	33.6	(28.6)	11.2	(62.3)
Total derivatives	43.7	(52.9)	(30.8)	(40.0)	(144.8)

15 Financial risk management (continued)

(b) Liquidity and funding risk (continued)

(ii) Maturities of financial liabilities (continued)

(c) Hedging instruments

(i) Accounting policies

Derivative financial instruments are recognised initially at fair value on the date the instrument is entered into and are subsequently remeasured at fair value or 'market to market' at each reporting date. The gain or loss on remeasurement is recognised immediately in profit or loss unless the derivative is designated as a hedging instrument in which case the remeasurement is recognised in equity.

Hedge accounting

At inception of the hedging relationships, the Group formally designated the relationship between hedging instruments and hedged items, as well as its risk management objective for undertaking various hedge transactions. The Group also documents its assessment at hedge inception date and on an ongoing basis as to whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair value or cash flows of hedged items.

The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item and a qualitative assessment is performed to assess effectiveness. If changes in circumstances affect the terms of the hedged item such as the terms no longer match exactly with the critical terms of the hedged instrument, a hypothetical derivative method is used to assess effectiveness.

Rebalancing

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.

15 Financial risk management (continued)

(c) Hedging instruments (continued)

(i) Accounting policies (continued)

For the purpose of hedge accounting, hedges are classified as fair value hedges or cash flow hedges and are accounted for as set out in the table below.

Hedges that meet the criteria for hedge accounting are accounted for as follows:

	Fair value hedge	**Cash flow hedge**
What is it?	A derivative or financial instrument designated as hedging the changes in fair value of a recognised asset or liability or firm commitment. A fair value hedge is used to swap fixed interest payments to variable interest payments in order to manage the Group's exposure to interest rate risk.	A derivative or financial instrument hedging the exposure to variability in cash flow attributable to a particular risk associated with an asset, liability or forecasted transaction. A cash flow hedge is used to swap variable interest rate payments to fixed interest rate payments or to lock in foreign currency rates in order to manage the Group's exposure to interest rate risk and foreign exchange risk.
Movement in fair value	Changes in the fair value of the derivative are recognised in profit or loss, together with the changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings are recognised in profit or loss within finance expenses together with the changes in fair value of the hedged fixed rate borrowing attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised separately to the effective portion in profit or loss within finance expenses.	The effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated in equity in the cash flow hedge reserve. The change in the fair value that is identified as ineffective is recognised immediately in profit or loss within other income or other expenses. Amounts accumulated in equity are transferred to profit or loss when the hedged item affects profit or loss. When the forecast transaction results in the recognition of a non-financial asset (property, plant and equipment), the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset.
Discontinuation of hedge accounting	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 in finance income over the period to maturity using a recalculated effective interest rate.	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 transferred to profit or loss.

Netting of payments

Derivative transactions are administered under International Swaps and Derivatives Association (ISDA) Master 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. The Group does not currently have legally enforceable right of set-off between transaction types and therefore these amounts are presented separately in the consolidated balance sheet.

ISDA's held with counterparties allow for the netting of payments and receipts for the settlement of interest rate swap transactions.

15 Financial risk management (continued)

(d) Fair value measurements

The carrying value of cash and cash equivalents and non-interest bearing financial assets and liabilities approximates fair value due to their short maturity.

The fair value of borrowings is estimated by discounting future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. The market interest rates were determined to be between 1.0% and 3.2% (2020: 0.9% and 3.0%) depending on the type of facility.

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

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

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

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

The Group's derivative financial instruments are classified as Level 2 (2020: Level 2). During the period there were no transfers between Level 1, Level 2 or Level 3 in the fair value hierarchy (2020: nil).

15 Financial risk management (continued)

(d) Fair value measurements (continued)

The table below summarises the carrying amount and fair value of the Group's financial assets and liabilities:

		Carrying amount		Fair value	
	Notes	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Financial assets carried at fair value					
Interest rate swaps - AMTN 3		**-**	3.2	**-**	3.2
CCIRS - EMTN 1		**109.2**	155.3	**109.2**	155.3
CCIRS - EMTN 2		**13.9**	62.3	**13.9**	62.3
		123.1	220.8	**123.1**	220.8
Financial assets carried at amortised cost					
Cash and cash equivalents		**1.1**	6.7	**1.1**	6.7
Trade and other receivables	4	**242.0**	204.1	**242.0**	204.1
		243.1	210.8	**243.1**	210.8
Financial liabilities carried at fair value					
Interest rate swaps		**(40.3)**	(76.0)	**(40.3)**	(76.0)
Interest rate swaps - AMTN 3		**(0.4)**	-	**(0.4)**	-
Interest rate swaps - AMTN 4		**(26.0)**	-	**(26.0)**	-
		(66.7)	(76.0)	**(66.7)**	(76.0)
Financial liabilities carried at amortised cost					
Trade and other payables	8	**(115.0)**	(137.2)	**(115.0)**	(137.2)
Borrowings[1]	14	**(3,242.6)**	(3,252.7)	**(3,407.2)**	(3,328.2)
Other liabilities	10	**(59.5)**	(30.1)	**(59.5)**	(30.1)
		(3,417.1)	(3,420.0)	**(3,581.7)**	(3,495.5)
Off-balance sheet					
Unrecognised financial assets					
Third party guarantees		**-**	-	**19.1**	19.1
Bank guarantees		**-**	-	**189.5**	191.2
Insurance company guarantees		**-**	-	**0.1**	-
Unrecognised financial liabilities					
Bank guarantees		**-**	-	**(1.5)**	(0.5)
		-	-	**207.2**	209.8

[1] Borrowings includes $2,211.1 million (2020: $1,822.5 million) subject to fair value hedges.

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.

16 Subsidiaries

The ultimate parent of this consolidated Group is Aurizon Network Pty Ltd. The companies listed below are those whose results, in addition to the Company, principally affect the amounts shown in the financial report:

Controlled entities:		**Equity holding**	
	Country of incorporation	**2021 %**	2020 %
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 financial year.

Subsidiaries are all 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 operations will continue subsequent to disposal, transactions including revenue and expenses are included in the continuing operations profit or loss with elimination entries recognised in profit or loss of the discontinued operation.

Intercompany transactions and balances are eliminated on consolidation.

17 Parent entity disclosures

The financial information for the parent entity Aurizon Network Pty Ltd has been prepared on the same basis as the consolidated financial statements, except for investments in subsidiaries which are carried at cost less accumulated impairment losses.

(a) Summary financial information

	2021 $m	2020 $m
Current assets	**282.7**	254.3
Non-current assets	**5,477.9**	5,631.1
Total assets	**5,760.6**	5,885.4
Current liabilities	**(350.5)**	(875.0)
Non-current liabilities	**(4,057.6)**	(3,496.0)
Total liabilities	**(4,408.1)**	(4,371.0)
Net assets	**1,352.5**	1,514.4
Equity		
Contributed equity	**1,002.9**	1,202.9
Reserves	**(56.1)**	(68.6)
Retained earnings	**405.7**	377.1
Total equity	**1,352.5**	1,511.4
Profit for the year	**259.9**	223.3
Other comprehensive income	**12.5**	(23.2)
Total comprehensive income	**272.4**	200.1

(b) Guarantees entered into by the parent entity

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

Contingent liabilities of the parent entity are the same as those disclosed in note 23.

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.

18 Notes to the consolidated statement of cash flows

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

	2021 $m	2020 $m
Profit for the period	**259.9**	223.3
Depreciation and amortisation	**327.0**	313.9
Impairment of non-current assets	**1.6**	1.9
Interest expense	**133.7**	139.5
Non-cash employee benefits expense - share-based payments	**0.7**	-
Net loss on sale of non-current assets	**4.3**	4.0
Net exchange differences	**0.2**	(0.4)
Change in operating assets and liabilities:		
(Increase)/Decrease in trade receivables	**(37.9)**	15.3
(Increase)/Decrease in inventories	**2.3**	(12.9)
(Increase)/Decrease in other operating assets	**-**	(0.2)
Increase/(Decrease) in trade and other payables	**(10.4)**	(77.9)
Increase/(Decrease) in other liabilities	**12.4**	(25.0)
Increase/(Decrease) in other operating liabilities	**29.3**	(3.2)
Increase/(Decrease) in deferred tax liabilities	**24.8**	24.6
Increase/(Decrease) in other provisions	**3.8**	(0.7)
Net cash inflow from operating activities	**751.7**	602.2

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

	Current borrowings $m	Non-current borrowings $m	Liabilities held to hedge borrowings $m	Assets held to hedge borrowings $m	Total $m
2021					
Balance as at 1 July 2020	**(591.6)**	**(2,661.1)**	**(76.0)**	**220.8**	**(3,107.9)**
Financing cash flows[1]	**533.0**	**(630.8)**	**-**	**-**	**(97.8)**
Changes in fair values:					
Effect of changes in exchange rates	**-**	**53.7**	**-**	**(53.7)**	**-**
Other changes in fair values	**(0.4)**	**55.5**	**9.3**	**(44.0)**	**20.4**
Other non-cash movements	**-**	**(0.9)**	**-**	**-**	**(0.9)**
Balance as at 30 June 2021	**(59.0)**	**(3,183.6)**	**(66.7)**	**123.1**	**(3,186.2)**

	Current borrowings $m	Non-current borrowings $m	Liabilities held to hedge borrowings $m	Assets held to hedge borrowings $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[1]	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)

[1] Financing cash flows consists of the net amount of proceeds from borrowings, repayment of borrowings, payments of transaction costs related to borrowings.

19 Related party transactions

Related parties include other entities in the Aurizon Group and Key Management Personnel. There were no Key Management Personnel related party transactions during the financial year (2020: $nil). The following transactions occurred and balances are recognised with other entities in the Aurizon Group:

	2021 $'000	2020 $'000
Trade and other receivables from related parties	**56,409**	54,213
Trade and other payables to related parties	**12,210**	14,212
Tax loan payable to the parent entity	**59,545**	30,087
Access revenue received from related parties	**457,606**	514,306
Other revenue received from related parties	**5,500**	9,132
Interest revenue received from related parties	**53**	-
Expenses paid to related parties	**69,793**	116,841
Interest expenses paid to related parties	**560**	772

Expenses paid to other entities in the Aurizon Group include maintenance, facilities charges and general corporate overhead.

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

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

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 (subsidiary of Aurizon Holdings 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.

Economic dependency

The Company is dependent on other entities in the Aurizon Group for approximately 38% (2020: 45%) of access revenue derived.

20 Key Management Personnel

Key Management Personnel (KMP) include the Directors and those Executives who have the authority and responsibility for planning, directing and controlling the activities of the Group.

	2021 **$'000**	2020 $'000
Short-term employee benefits	**5,990**	5,079
Post-employment benefits	**147**	131
Long-term benefits	**130**	118
Other benefits	**778**	386
Share-based payments	**2,119**	1,724
	9,164	7,438

KMP of the Company are employed by other entities in the Aurizon Group. 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.

21 Auditors' remuneration

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

	2021 **$'000**	2020 $'000
PwC Australia		
Audit and review of financial statements	**302**	302
Other assurance services	**4**	3
Total remuneration from audit and other assurance services	**306**	305
Taxation services	**-**	11
Other advisory services	**-**	56
Total remuneration of PwC Australia	**306**	372

22 Summary of other significant accounting policies

Other significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(a) Basis of preparation

(i) New and amended standards adopted by the group

The IFRS Interpretations Committee (IFRIC) issued agenda decisions relating to the accounting for SaaS arrangements. The Group has implemented this guidance and determined that there is no material impact as a result of the change in accounting policy.

The Group has applied the following standards and amendments for the first time for the reporting period commencing 1 July 2020:

- AASB 2018-7 *Amendments to Australian Accounting Standards - Definition of Material*
- AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*
- AASB 2019-5 *Amendments to Australian Accounting Standards - Disclosures of the Effect of New IFRS Standards Not Yet issued in Australia*
- AASB 2019-1 *Amendments to Australian Accounting Standards - References to the Conceptual Framework*

The Group also elected to adopt the following amendments early:

- AASB 2020-8 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform Phase 2*

22 Summary of other significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) New and amended standards adopted by the group (continued)

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 EMTNs. 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 2020 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 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 19, 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:

	2021 $m	2020 $m	**2021 Credit Rating**	2020 Credit Rating
Customer 1	**214.2**	212.3	**A**	A
Customer 2	**154.1**	198.2	**BBB-**	BBB-
Total	**368.3**	410.5		

(c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and short-term money market investments with an original maturity of three months or less and are classified as financial assets held at amortised cost.

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(d) Foreign currency and commodity transactions

Items included in the financial statements of each of the entities included within the Group are measured using the currency of the economic environment in which the entity primarily generates and expends cash. These financial statements are presented in Australian dollars, which is the functional and presentation currency of the Company.

Transactions in foreign currencies are initially recorded in the functional currency of the entity using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Foreign exchange gains and losses arising from the translation of the monetary assets and liabilities, or from the settlement of foreign currency translations, are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges. The amounts deferred in equity in respect of cash flow hedges are recognised in profit or loss when the hedged item affects profit or loss.

(e) 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.

22 Summary of other significant accounting policies (continued)

(e) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

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 the 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.

(iii) Non-derivative liabilities

The Group initially recognises loans and debt securities issued on the date when they originate. 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.

(f) Goods and Services Tax (GST)

Revenue, 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.

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 period.

23 Commitments and contingencies

(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)

The amount of WIRP fees ultimately payable by WIRP customers will be dependent upon finalisation of the appeal of the Expert's Determination and finalisation of a cost variation factor related to WIRP project costs. WIRP fees of $60.3 million, including $48.9 million of historical fees (relating to FY2016 - FY2020), have been recognised in FY2021 (2020: $nil). Refer to key events and transactions for the reporting period for further information.

(c) Capital commitments

As at 30 June 2021, the Group has capital commitments contracted but not provided for in respect of the acquisition of property, plant and equipment of $34.9 million (2020: $27.8 million) which are due within one year.

24 Events occurring after the reporting period

No matter or circumstance, other than the matters disclosed in key events and transactions for the reporting period, has occurred subsequent to the financial period 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 60 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 2021 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
9 August 2021

Independent auditor's report

To the members of Aurizon Network Pty Ltd

Report on the audit of the financial report

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 2021 and of its financial performance for the year then ended

(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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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.

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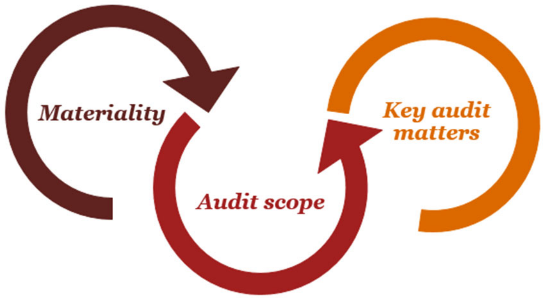
Our audit approach

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 $14 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 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 matters to the Board of Directors: – Access revenue recognition – Assessment of useful lives of assets • These are 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)*	
Take-or-Pay access revenue recognition ($88.2m) During the year ended 30 June 2021 (FY2021), the Group recorded track access revenue of $1,178.9m. 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. In FY2021, the Group determined Take-or-Pay clauses have been triggered under the 2017 Access Undertaking resulting in $88.2 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 by the Group 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.	The following procedures amongst others were performed in relation to access revenue recognition: • Obtained the computation for the Take-or-Pay revenue and compared the basis of the calculations to the 2017 Access Undertaking. • Agreed on a sample basis the Take-or-Pay calculation 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 calculations. • Compared the QCA approved tariffs and forecast volumes to actual volumes and revenue recognised during the financial year to assess the shortfall and whether Take-or-Pay clauses were triggered. • Evaluated on a sample basis the evidence in respect of the service cancellations considered for Take or Pay calculations and assessed the Group's determination of whether the cause for the resulting volume shortfall was due to below rail or any other cause.

Wiggins Island Rail Project (WIRP) revenue recognition ($60.3m)

In FY2021, the Queensland Court of Appeal affirmed a Supreme Court decision on the Group charging customers non-regulated WIRP fees dating back to March 2016.

Other disputes have been initiated by the customers and were subject to expert determination. The Expert's determination was issued in June 2019 and found that the WIRP fee should be partially reduced however the Group has appealed this decision. Due to this, the fee payable by the customers and revenue recognised by the Group is dependent on the finalisation of the appeal and finalisation of a cost variation factor related to the project costs.

We considered revenue recognition to be a key audit matter due to the complexity and judgement in the determination of Take-or-Pay and WIRP revenue.

Wiggins Island Rail Project (WIRP) revenue recognition

- Obtained the computation for WIRP revenue and on a sample basis, agreed the inputs (target costs, base fee applicable to each of the customers etc.) of the calculation to the underlying WIRP Deeds and relevant documentation.
- Tested the mathematical accuracy of the WIRP revenue calculation.
- Obtained an understanding of the Group's assessment and determination of the revenue recognised in relation to the historical and current year's fees in light of the ongoing dispute between the parties to the WIRP Deed.
- Evaluated the appropriateness of the judgements made by the Group in relation to the Expert's determination and the pending finalisation of the cost variation factor related to WIRP project costs.

Assessment of useful lives of assets
(Refer to note 6)

During FY2021, the useful lives of assets used were reviewed by the Group.

The useful lives of assets are determined based on the expected engineering life and where necessary, capped at the remaining term of the applicable leases.

In determining whether the current useful lives remain appropriate, the Group has reviewed a number of indicators which are described in note 6 to consider short-term impacts as well as risks that may emerge over the medium to long term, where the timing and magnitude are less certain.

Given the judgments incorporated by the Group as well as the magnitude of the asset balance, the assessment of useful lives of assets is considered to be a key audit matter.

To evaluate the Group's assessment of the useful lives of assets, we performed the following procedures amongst others:

- Evaluated the appropriateness of the judgements made by the Group-by considering and/or assessing:
  - external reports including selected reports on the future demand for and supply of thermal and metallurgical coal and forecast global steel production;
  - existing regulation regarding coal mining in Queensland;
  - selected reports on current metallurgical coal reserves and forecast production in Queensland;
  - current useful lives of coal exposed businesses in Queensland and New South Wales as well as Global rail businesses; and
  - commitments to selected climate-change policies of certain territories and jurisdictions to which Australian coal is exported and used in the generation of electricity and steel production.

- Evaluated the Group's sensitivity analysis to assess reasonable possible changes in the useful lives that may give rise to additional depreciation in the future.

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 2021, 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:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Allman
Partner

Brisbane
9 August 2021