Aurizon Operations Limited

ABN 47 564 947 264

Annual financial report for the year ended 30 June 2021

This financial report is the consolidated financial statements of the Group consisting of Aurizon Operations Limited and its subsidiaries. A list of major subsidiaries is included in note 19.

The financial report is presented in Australian dollars.

Aurizon Operations Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

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

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 Operations Limited (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 Operations Limited is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group.

Directors and company secretary

The following persons were Directors of Aurizon Operations Limited during the financial year and up to the date of this report:

A Harding
G Lippiatt
D Smith (resigned 29 April 2021)

Principal activities

During the year the principal continuing activities of the Group consisted of:

- integrated heavy haul freight railway operator
- rail transporter of coal from mine to port for export markets
- rail and road transporter, port services provider and material handler of bulk, iron ore and containerised freight

The following summary describes the operations in each of the Group's reportable segments:

Coal

This segment provides transport of coal from mines in Queensland and New South Wales to end customers and ports.

Bulk

This segment provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Queensland, New South Wales and Western Australia.

Other

This segment includes provision of services to internal and external customers and central costs not allocated such as Board, Managing Director & CEO, company secretary, strategy and investor relations.

Discontinued Operations

The Acacia Ridge Intermodal Terminal is disclosed as a discontinued operation and provides terminal services for general freight. The discontinued operation was disposed of on 26 March 2021.

Dividends

Details of dividends provided for or paid are set out in note 14 of the financial report.

Review of operations

Group Performance Overview
EBITDA Underlying from continuing operations is down $45.5 million or 7% to $650.3 million in FY2021 due to lower volumes and a reduction in revenue quality for Coal, partially offset by the full year impact of volume growth commencing during FY2020 and operational efficiencies in Bulk and an improvement in Other due to asset sales and lower project costs.

Group revenue from continuing operations decreased $145.5 million or 6% with lower revenue in Coal and Other offset by an increase in Bulk.

Operating costs decreased $100.0 million or 6% with reductions in all reportable segments due to transformation benefits and lower fuel and access costs more than offsetting an increase in labour costs.

Depreciation increased by $7.7 million or 3% due to capital expenditure in Bulk to support growth.

Significant changes in the state of affairs

Acquisitions and Disposals

The following significant acquisitions and divestments have occurred during FY2021:

- The Group acquired a 41.67% investment in Ox Mountain Limited (UK registered), a maintenance software developer and provider, for consideration of $22.4 million on 28 August 2020. The investment is accounted for using the equity method of accounting.
- The Group acquired 100% of the issued shares in ConPorts Pty Ltd (renamed to Aurizon Port Services NSW Pty Ltd), a shiploading services provider in Newcastle, for consideration of $42.7 million on 31 December 2020. The acquisition includes long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines.
- The Group completed the sale of the Acacia Ridge Intermodal Terminal to Pacific National on 26 March 2021. The net gain on sale before income tax of $161.1 million has been classified as a significant item in discontinued operations.
- The Group sold its shares held in Aquila Resources Limited to Mineral Resources Limited for $10.0 million on 26 May 2021. As a result of the sale, the Group has recognised a tax benefit of $67.8 million for a previously unrecognised deferred tax asset associated with the impairment of the carrying amount of the shares held in FY2016. The net gain on sale before income tax of $8.2 million has been classified as a significant item in earnings before income tax (EBIT). The net income tax benefit of $65.3 million has been recognised as a significant item in profit after tax.

Events since the end of the financial year

No matter of 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 and expected results of operations

In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation and performance

The Company is exposed to a range of 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.

In 2019, the NSW government introduced legislation requiring Rolling Stock Operators (RSOs) to apply for an Environment Protection Licence (EPL). The mandatory EPLs were finalised in August 2020, and their requirements are being steadily integrated into operations. The NSW Environment Protection Authority (EPA) administer the EPLs. The EPA's key areas of concern are diesel emissions and rail noise, and initial thresholds for both were set as conditions of the EPLs. The EPA has recognised past efforts of RSOs, led by Aurizon, to develop the 2018 Rail Industry Safety and Standards Board's *Code of Practice - Management of Locomotive Exhaust Emissions*.

The NSW EPLs stipulate a range of annual testing, monitoring and remedial regimes for both locomotives and wagons to meet noise thresholds, along with progressive improvements to address current rail noise generated through horns, braking and idling. These measures are available to the public and are used to validate the EPA's commitment to reducing complaints. Aurizon Group recently submitted its first Annual Rolling Stock Performance Report to the EPA, confirming all locomotives that had major engine overhauls in 2020 were compliant with required noise thresholds, and that all freight wagons in operation comply with specifications for Angle of Attack (a key contributor to wheel squeal).

The *National Greenhouse and Energy Reporting Act 2007* (NGER) (Cth) requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the NGER Act.

At the close of the fourth Emissions Reduction Fund Safeguard Mechanism (Safeguard) compliance period (ended on 30 June 2020), three of the Company's NGER facilities were captured. Through effective management of emissions, the Company remained below its respective baselines and achieved full compliance with the Safeguard. Following amendments to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* in 2019, the Company is well positioned for a timely transition of its remaining reported baselines over the coming reporting period.

Environmental prosecutions

In FY2021, Aurizon Port Services Pty Ltd (a wholly owned subsidiary of Aurizon Operations Limited) incurred a monetary fine of $10,008, issued under the *Environmental Protection Act 1994* (Qld) related to the discharge of prescribed contaminants, namely wastewater generated from outdoor cleaning, to receiving waters at the Port of Cairns following a ship unloading event. The matter was investigated internally, and appropriate actions taken.

Insurance of officers and indemnities

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 financial year.

The Company has paid a premium for insurance of 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 5.

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

A Harding
Director

Brisbane
9 August 2021

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Aurizon Operations Limited 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 Operations Limited and the entities it controlled during the period.

Tim Allman Partner PricewaterhouseCoopers	Brisbane 9 August 2021

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

Financial Report
for the year ended 30 June 2021

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIGNED REPORTS

OTHER INFORMATION

Consolidated income statement

for the year ended 30 June 2021

	Notes	**2021** **$m**	2020 $m
Revenue from continuing operations	2	**2,265.9**	2,421.8
Other income		**21.6**	108.4
Total revenue and other income		**2,287.5**	2,530.2
Employee benefits expense	3	**(685.2)**	(639.9)
Energy and fuel		**(89.3)**	(124.4)
Track access		**(536.4)**	(619.6)
Consumables		**(315.1)**	(326.6)
Depreciation and amortisation	3	**(254.4)**	(246.7)
Impairment losses		**(1.5)**	(3.8)
Other expenses		**(1.8)**	(14.6)
Share of net profit/(loss) of associates and joint venture accounted for using the equity method		**0.3**	(0.1)
Operating profit		**404.1**	554.5
Finance income		**4.4**	3.3
Finance expenses	3	**(16.3)**	(12.3)
Net finance costs		**(11.9)**	(9.0)
Profit before income tax		**392.2**	545.5
Income tax expense	4	**(47.5)**	(164.8)
Profit after tax from continuing operations		**344.7**	380.7
Profit from discontinued operations after tax	23	**123.6**	37.6
Profit for the year attributable to owners of Aurizon Operations Limited		**468.3**	418.3

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

Consolidated statement of comprehensive income

for the year ended 30 June 2021

	Notes	**2021 $m**	2020 $m
Profit for the year		**468.3**	418.3
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	15(c)	**4.2**	(6.5)
Income tax relating to changes in the fair value of cash flow hedges	15(c)	**(1.2)**	2.0
Exchange differences on translation of foreign operations	15(c)	**(0.1)**	-
Reclassification to profit or loss on disposal of shares in associate	15(c)	**1.8**	-
Other comprehensive income/(expense) for the year, net of tax		**4.7**	(4.5)
Total comprehensive income for the year attributable to owners of Aurizon Operations Limited		**473.0**	413.8

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

Consolidated balance sheet
as at 30 June 2021

	Notes	**2021 $m**	2020 $m
ASSETS			
Current assets			
Cash and cash equivalents		**147.7**	22.6
Trade and other receivables	5	**310.4**	367.7
Inventories	6	**112.3**	104.0
Derivative financial instruments	17(a)	**0.1**	0.2
Other assets	9	**80.5**	13.2
Assets classified as held for sale	24	**5.0**	65.1
Total current assets		**656.0**	572.8
Non-current assets			
Inventories	6	**33.8**	27.7
Derivative financial instruments	17(a)	**1.9**	-
Property, plant and equipment	7	**3,260.4**	3,267.5
Intangible assets	8	**103.2**	88.8
Deferred tax assets	4(c)	**-**	45.4
Other assets	9	**78.6**	70.5
Investments accounted for using the equity method	18	**26.1**	2.7
Total non-current assets		**3,504.0**	3,502.6
Total assets		**4,160.0**	4,075.4
LIABILITIES			
Current liabilities			
Trade and other payables	10	**221.9**	255.0
Borrowings	16	**-**	66.0
Derivative financial instruments	17(a)	**0.5**	3.9
Provisions	11	**231.5**	209.9
Other liabilities	12	**39.9**	128.2
Liabilities directly associated with assets classified as held for sale		**-**	0.7
Total current liabilities		**493.8**	663.7
Non-current liabilities			
Borrowings	16	**495.5**	288.5
Derivative financial instruments	17(a)	**-**	1.0
Deferred tax liabilities	4(c)	**24.5**	-
Provisions	11	**61.2**	60.8
Other liabilities	12	**133.9**	141.3
Total non-current liabilities		**715.1**	491.6
Total liabilities		**1,208.9**	1,155.3
Net assets		**2,951.1**	2,920.1
EQUITY			
Contributed equity	15(a), 15(b)	**2,712.0**	2,814.1
Reserves	15(c)	**-**	(4.7)
Retained earnings		**239.1**	110.7
Total equity		**2,951.1**	2,920.1

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

Consolidated statement of changes in equity

for the year ended 30 June 2021

	Notes	Attributable to owners of Aurizon Operations Limited Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2020		**2,814.1**	**(4.7)**	**110.7**	**2,920.1**
Profit for the year		**-**	**-**	**468.3**	**468.3**
Other comprehensive income/(expense)	15(c)	**-**	**4.7**	**-**	**4.7**
Total comprehensive income/(expense) for the year		**-**	**4.7**	**468.3**	**473.0**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	14	**-**	**-**	**(339.9)**	**(339.9)**
Capital distribution to the parent	15(a)	**(100.1)**	**-**	**-**	**(100.1)**
Capital distribution to the parent for share-based payments	15(b)	**(2.0)**	**-**	**-**	**(2.0)**
		(102.1)	**-**	**(339.9)**	**(442.0)**
Balance at 30 June 2021		**2,712.0**	**-**	**239.1**	**2,951.1**
Balance at 1 July 2019		6,099.3	(48.4)	352.5	6,403.4
Adjustment on adoption of AASB 16		-	-	1.6	1.6
Total equity at the beginning of the financial year		6,099.3	(48.4)	354.1	6,405.0
Profit for the year		-	-	418.3	418.3
Other comprehensive income/(expense)	15(c)	-	(4.5)	-	(4.5)
Total comprehensive income/(expense) for the year		-	(4.5)	418.3	413.8
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	14	-	-	(403.6)	(403.6)
Capital distribution to the parent	15(b)	(400.4)	-	-	(400.4)
Capital distribution to the parent for share-based payments	15(b)	(1.0)	-	-	(1.0)
Capital distribution to the parent for settlement of related party receivables	15(b)	(1,683.8)	-	-	(1,683.8)
Capital distribution to the parent for transfer of equity investment in Aurizon Network Pty Ltd	15(b)	(1,200.0)	-	-	(1,200.0)
Transfer of equity investment in Aurizon Network Pty Ltd to parent	15(b)	-	48.2	(258.1)	(209.9)
		(3,285.2)	48.2	(661.7)	(3,898.7)
Balance at 30 June 2020		2,814.1	(4.7)	110.7	2,920.1

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

Consolidated statement of cash flows
for the year ended 30 June 2021

	Notes	**2021 $m**	2020 $m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**2,503.3**	2,889.6
Payments to suppliers and employees (inclusive of GST)		**(1,870.6)**	(2,187.6)
Interest received		**4.4**	3.5
Income taxes paid		**(118.4)**	(75.1)
Principal elements of lease receipts		**6.5**	5.7
Net cash inflow from operating activities from continuing operations	25	**525.2**	636.1
Net cash (outflow)/inflow from operating activities from discontinued operations	23	**(23.0)**	143.9
Net cash inflow from operating activities		**502.2**	780.0
Cash flows from investing activities			
Payments for acquisition of subsidiary (net of cash acquired) and investment in joint venture	22	**(63.5)**	(24.5)
Payments for property, plant and equipment		**(233.1)**	(231.4)
Proceeds from sale of business and shares held in associate		**10.0**	165.3
Proceeds from sale of property, plant and equipment		**51.0**	15.2
Interest paid on qualifying assets	3	**(1.5)**	(1.6)
Payments for intangibles		**(14.0)**	(19.3)
Dividends from joint ventures and associates		**0.4**	-
Net cash outflow from investing activities from continuing operations		**(250.7)**	(96.3)
Net cash inflow/(outflow) from investing activities from discontinued operations	23	**168.8**	(39.9)
Net cash outflow from investing activities		**(81.9)**	(136.2)
Cash flows from financing activities			
Proceeds from external borrowings		**497.3**	200.0
Repayment of external borrowings		**(356.0)**	(1.0)
Proceeds from/repayment of loans from related parties		**-**	85.0
Proceeds from settlement of related party receivables		**43.1**	-
Payments of transaction costs related to borrowings		**(2.9)**	-
Principal elements of lease payments		**(16.4)**	(14.6)
Interest paid		**(15.1)**	(11.5)
Dividends paid to Company's shareholder	14	**(339.9)**	(403.6)
Capital distributions to parent		**(105.7)**	(403.5)
Net cash outflow from financing activities from continuing operations		**(295.6)**	(549.2)
Net cash outflow from financing activities from discontinued operations	23	**-**	(95.7)
Net cash outflow from financing activities		**(295.6)**	(644.9)
Net decrease in cash and cash equivalents from continuing operations		**(21.1)**	(9.4)
Net increase in cash and cash equivalents from discontinued operations	23	**145.8**	8.3
Cash and cash equivalents at the beginning of the financial year		**22.6**	22.0
Transferred to asset classified as held for sale	24	**-**	2.0
Effects of exchange rate changes on cash and cash equivalents		**0.4**	(0.3)
Cash and cash equivalents at end of the financial year		**147.7**	22.6

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

Notes to the consolidated financial statements

30 June 2021

About this report

Aurizon Operations Limited (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 comprises the financial statement of the Company and its subsidiaries (collectively referred to as the Group or Aurizon Operations).

The financial report is a general purpose financial statement 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 the *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	2
Useful lives of property, plant and equipment	7
Impairment of property, plant and equipment	7
Impairment of cash generating units (CGUs) and goodwill	8

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) Disposals

- On 26 March 2021, the Group completed the sale of the Acacia Ridge Intermodal Terminal to Pacific National. The net gain on sale before income tax of $161.1 million has been classified as a significant item in discontinued operations.
- On 26 May 2021, the Group sold its shares held in Aquila Resources Limited to Mineral Resources Limited for $10.0 million. As a result of the sale, the Group has recognised a tax benefit of $67.8 million for a previously unrecognised deferred tax asset associated with the impairment of the carrying amount of the shares held in FY2016. The net gain on sale before income tax of $8.2 million has been classified as a significant item in earnings before income tax (EBIT). The net income tax benefit of $65.3 million has been recognised as a significant item in profit after tax.

(b) Acquisition of subsidiaries and interest in joint ventures

During the year, the Group:

- Acquired a 41.67% investment in Ox Mountain Limited (UK registered), a maintenance software developer and provider, for consideration of $22.4 million on 28 August 2020. The investment is accounted for using the equity method of accounting; and
- Acquired 100% of the issued shares in ConPorts Pty Ltd (renamed to Aurizon Port Services NSW Pty Ltd), a shiploading services provider in Newcastle, for consideration of $42.7 million on 31 December 2020. The acquisition includes long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines.

Refer to note 22 for further information.

(c) Debt refinancing

During the year, the Group:

- Added $175.0 million to the existing $450.0 million Bilateral Facilities in November 2020, increasing the total limits across the facilities to $625.0 million. The existing $450.0 million facility mature 26 November 2023. The additional facilities mature 5 June 2023 ($50.0 million), 3 November 2023 ($50.0 million) and 3 November 2025 ($75.0 million);
- Issued a $500.0 million 7 year fixed Medium Term Note (AMTN 1) maturing 9 March 2028; and
- Re-financed an existing $150.0 million Working Capital Facility in December 2020 until June 2021, which was subsequently extended to June 2022 at a limit of $125.0 million.

Results for the year

IN THIS SECTION

Results for the year provides segment information and 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 Segment information

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

The following segment information has been presented for continuing operations only. Refer to note 23 for the financial results of the divested Intermodal business.

(a) Description of reportable segments

The following summary describes the operations of each reportable segments:

Coal

This segment provides transport of coal from mines in Queensland and New South Wales to end customers and ports.

Bulk

This segment provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Queensland, New South Wales and Western Australia.

Other

This segment includes provision of services to internal and external customers and central costs not allocated such as Board, Managing Director & CEO, company secretary, strategy and investor relations.

1 Segment information (continued)

(b) Segment information

The results of the reportable segments are set out as below:

30 June 2021	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue				
Revenue from external customers				
Services revenue				
Track access	445.1	-	-	445.1
Freight transport	1,163.6	612.2	-	1,775.8
Other services	-	21.3	9.4	30.7
Other revenue	3.4	1.3	9.6	14.3
Total revenue from external customers	1,612.1	634.8	19.0	2,265.9
Other income	-	-	13.4	13.4
Total revenue and other income	1,612.1	634.8	32.4	2,279.3
Continuing EBITDA (Underlying)[1]	533.3	139.9	(22.9)	650.3
Depreciation and amortisation	(208.7)	(27.9)	(17.8)	(254.4)
Continuing EBIT (Underlying)[1]	324.6	112.0	(40.7)	395.9
Significant adjustments (note1(c))				8.2
EBIT[1]				404.1
Net finance costs				(11.9)
Profit before income tax from continuing operations				392.2

[1] Refer to page 74 for Non-IFRS financial information

1 Segment information (continued)

(b) Segment information (continued)

30 June 2020	Coal $m	Bulk $m	Other $m	Total Continuing Operations $m
External revenue				
Revenue from external customers				
Services revenue				
Track access	512.8	-	-	512.8
Freight transport	1,260.3	583.4	-	1,843.7
Other services	-	24.4	25.6	50.0
Other revenue	2.2	1.0	12.1	15.3
Total revenue from external customers	1,775.3	608.8	37.7	2,421.8
Other income	-	-	3.0	3.0
Total revenue and other income	1,775.3	608.8	40.7	2,424.8
Continuing EBITDA (Underlying)[1]	611.8	108.7	(24.7)	695.8
Depreciation and amortisation	(201.2)	(18.8)	(26.7)	(246.7)
Continuing EBIT (Underlying)[1]	410.6	89.9	(51.4)	449.1
Significant adjustments (note 1(c))				105.4
EBIT[1]				554.5
Net finance costs				(9.0)
Profit before income tax from continuing operations				545.5

[1] Refer to page 74 for Non-IFRS financial information

(c) Significant adjustments

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	2021 $m	2020 $m
Net gain on sale of share in Aquila (before income tax)	**8.2**	-
Net gain on sale of Rail Grinding business (before income tax)	**-**	105.4
	8.2	105.4

Total significant adjustments from continuing operations, net of tax is $73.5 million (2020: $73.8 million) and is reconciled in the Non-IFRS financial information on page 74.

(d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. Three 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	**315.3**	384.2	**BBB+**	BBB+
Customer 2	**316.2**	309.9	**A**	A
Customer 3	**235.2**	247.2	**Unrated**	Unrated
Total	**866.7**	941.3		

2 Revenue

The Group recognises revenue from the provision of freight haulage services across Australia.

The Group derives the following types of revenue:

	2021 $m	2020 $m
Services revenue		
Track access	**445.1**	512.8
Freight transport	**1,775.8**	1,843.7
Other services	**30.7**	50.0
Other revenue	**14.3**	15.3
Total revenue from continuing operations	**2,265.9**	2,421.8

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the provision of services over time. Revenue is disaggregated by the Group's reportable segments, refer to note 1(b).

(b) Contract assets and liabilities

(i) Contract assets

The Group has recognised the following revenue related contract assets:

	2021 $m	2020 $m
Current		
Contract assets for freight transport	**2.1**	1.3
Non-current		
Contract assets for freight transport	**37.1**	21.9

Contract assets primarily represent incremental costs incurred to secure, new or extensions to existing, customer contracts. These amounts are capitalised and amortised against revenue as the performance obligations are satisfied over time. No provision for impairment of contracts assets has been recognised, refer to accounting policy in note 5 (2020: $nil).

	2021 $m	2020 $m
Within one year	**2.1**	1.3
Later than one year but not later than five years	**32.9**	16.3
Later than five years	**4.2**	5.6
	39.2	23.2

2 Revenue (continued)

(b) Contract assets and liabilities (continued)

(ii) Contract liabilities

The Group has recognised the following revenue related contract liabilities:

	2021 $m	2020 $m
Current		
Advances for freight transport	**4.8**	2.0
Non-current		
Advances for freight transport	**11.8**	14.4

Contract liabilities primarily represent amounts received from customers as advances for future rail haulage services. 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	**4.8**	2.0
Later than one year but not later than five years	**7.6**	14.0
Later than five years	**4.2**	0.4
	16.6	16.4

(iii) Revenue recognised in relation to contract liabilities

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

	2021 $m	2020 $m
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Advances for freight transport	**4.5**	0.4

(iv) Unsatisfied performance obligations

The Group has a number of long-term contracts to provide services to customers in future periods. Revenue is recognised on an as invoiced basis, except for contracts that have a contract asset or a contract liability balance. For all other contracts, the right to consideration from a customer corresponds directly with the Group's performance obligations competed to date.

Long-term freight transport contracts are considered to be a series of annual performance obligations that are satisfied within each financial year. 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 freight transport 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 is not disclosed.

2 Revenue (continued)

Significant judgements and estimates

Freight Transport Contract Modifications

Modifications to existing agreements where there is also a new agreement put in place are assessed based on the facts and substance of the individual contractual arrangements and will be accounted for as either combined or separate contracts in accordance with AASB 15. There is significant judgement exercised in determining if a modification to an existing agreement should be treated as a combined or separate contract. Judgement, including expected volumes to be railed in individual contract years and whether the contract price represents the market price in the respective contract period, is applied in determining the calculation of contract assets or contract liabilities recorded. These judgements impact the timing of revenue recognised over the life of the individual contract.

(c) Accounting policies

The Group recognises revenue as performance obligations are satisfied. Revenue includes the provision of freight transport services as described below.

(i) Freight transport

Freight transport revenue is recognised as the relevant performance obligations are satisfied over time, being the provision of freight transport services.

Freight transport revenue is billed monthly in arrears and recognised at rates specified in each contractual agreement and adjusted for the amortisation of customer contract assets or contract liabilities. At each balance date, freight transport 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.

A contract modification is a separate contract if the scope of services is increased by distinct additional services and the total price increases by the market rate for those services over the remaining contract period. Where the distinct services don't indicate market prices, weighted-average contract rates are applied which may result in the recognition of a contract asset or a contract liability that amortise over the term of the individual contract. Modifications to existing agreements where there is also a new agreement put in place are assessed based on the facts and substance of the individual contractual arrangements and are accounted for as either combined or separate contracts.

A contract asset is recorded for revenue when the Group does not have an unconditional right to invoice the customer for performance obligations satisfied. A contract liability is recorded for revenue received in advance of satisfying a performance obligation and is recognised over the term of the contract.

(ii) Capitalisation of customer contract costs

Where incremental costs are incurred to secure a new or an extension to an existing customer contract these costs are capitalised as a contract asset and amortised against revenue as the performance obligations are satisfied over time in the new contract.

Where an arrangement contains a significant financing component the transaction price is adjusted to reflect the effects of the financing component and a contract asset is recognised and amortised against revenue as the performance obligations are satisfied over time.

3 Expenses

Profit before income tax from continuing operations includes the following specific expenses:

	2021 $m	2020 $m
Employee benefits expense		
Salaries, wages and allowances including on-costs	**621.4**	583.0
Defined contribution superannuation expense	**45.2**	43.2
Defined benefit superannuation expense	**7.4**	7.7
Redundancies	**11.2**	6.0
	685.2	639.9
Depreciation and amortisation		
Depreciation of property, plant and equipment	**235.6**	229.9
Amortisation of intangibles	**18.8**	16.8
	254.4	246.7
Finance expenses		
Interest and finance charges paid/payable	**11.7**	8.2
Discounting on land rehabilitation provision	**0.2**	-
Interest paid on lease liabilities	**5.1**	5.1
Amortisation of capitalised borrowing costs	**0.9**	0.6
Counterparty credit risk adjustments	**(0.1)**	-
	17.8	13.9
Capitalised interest paid on qualifying assets	**(1.5)**	(1.6)
	16.3	12.3

4 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	**50.4**	125.8
Deferred tax	**50.7**	57.3
Current tax relating to prior periods	**(15.2)**	1.7
Deferred tax relating to prior periods	**14.0**	(4.0)
	99.9	180.8
Income tax expense is attributable to:		
Profit from continuing operations	**47.5**	164.8
Profit from discontinued operations (note 23)	**52.4**	16.0
	99.9	180.8
Deferred income tax expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	**7.7**	17.0
Increase/(decrease) in deferred tax liabilities	**57.0**	36.3
	64.7	53.3

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

	2021 $m	2020 $m
Profit before income tax expense from continuing operations	**392.2**	545.5
Profit before income tax expense from discontinued operations	**176.0**	53.6
	568.2	599.1
Tax at the Australian tax rate of 30% (2020: 30%)	**170.5**	179.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Capital losses not recognised	**-**	1.1
Unrecognised deferred tax asset arising from previous impairment[1]	**(67.8)**	-
Other	**(1.6)**	2.3
Adjustments for current tax of prior periods	**(1.2)**	(2.3)
	99.9	180.8

[1] The Group sold its shares in Aquila Resources Limited on 26 May 2021. As a result of the sale, the Group has recognised a tax benefit of $67.8 million relating to an unrecognised deferred tax asset associated with the impairment of the carrying amount of the shares held in FY2016. The FY2021 net income tax benefit (including the tax effect on the proceeds from the sale) is $65.3 million.

4 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		
Inventories	**0.2**	9.1
Provisions and accruals	**89.4**	85.1
Contract liabilities	**4.4**	8.5
Financial instruments	**6.0**	1.4
Lease liabilities	**41.8**	43.0
Other items	**10.5**	14.6
Total deferred tax assets	**152.3**	161.7
Set-off of deferred tax liabilities	**(152.3)**	(116.3)
Net deferred tax assets	**-**	45.4
Deferred tax liabilities		
Property, plant and equipment	**141.9**	86.0
Intangible assets	**8.8**	8.8
Financial instruments	**6.0**	0.1
Other items	**20.1**	21.4
Total deferred tax liabilities	**176.8**	116.3
Set-off against deferred tax assets	**(152.3)**	(116.3)
Net deferred tax liabilities	**24.5**	-

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

	2021 $m	2020 $m
Inventories	**8.9**	(2.1)
Provisions and accruals	**(4.0)**	2.2
Customer contracts	**-**	7.3
Contract liabilities	**4.1**	3.0
Financial instruments	**(5.8)**	0.3
Lease liabilities	**4.1**	1.8
Other items	**0.4**	4.5
(Increase)/decrease in deferred tax assets	**7.7**	17.0
Property, plant and equipment	**52.4**	36.0
Intangible assets	**-**	0.2
Financial instrument	**5.9**	(0.2)
Other items	**(1.3)**	0.3
Increase/(decrease) in deferred tax liabilities	**57.0**	36.3
Net deferred income tax expense	**64.7**	53.3

4 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 expense, 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.

5 Trade and other receivables

	2021 **$m**	2020 $m
Current		
Trade receivables	**244.3**	273.3
Related party receivables	**12.2**	57.4
Provision for impairment of receivables	**(2.2)**	(7.7)
Net trade receivables	**254.3**	323.0
Other receivables	**56.1**	44.7
Total trade and other receivables	**310.4**	367.7

The Group has recognised a net reduction of $5.5 million (2020: net increase of $2.0 million) in the provision for impairment of trade receivables, including $3.0 million (2020: $nil) written off in the financial year.

(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) Provision 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.

6 Inventories

	2021 $m	2020 $m
Current		
Raw materials and stores - at cost	**121.9**	114.1
Provision for inventory obsolescence	**(9.6)**	(10.1)
	112.3	104.0

	2021 $m	2020 $m
Non-current		
Raw materials and stores - at cost	**40.2**	34.3
Provision for inventory obsolescence	**(6.4)**	(6.6)
	33.8	27.7

(a) Accounting policies

Inventories includes infrastructure and rollingstock 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.

7 Property, plant and equipment

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Right-of-use $m	Total $m
2021								
Opening net book amount	**180.9**	**98.5**	**205.5**	**141.5**	**2,154.9**	**391.8**	**94.4**	**3,267.5**
Additions	**223.5**	**-**	**-**	**-**	**0.7**	**-**	**3.4**	**227.6**
Transfers between asset classes	**(245.7)**	**-**	**28.9**	**28.3**	**163.7**	**22.1**	**-**	**(2.7)**
Acquisition of subsidiary	**0.1**	**-**	**9.3**	**10.7**	**-**	**2.7**	**9.7**	**32.5**
Disposals	**-**	**(3.1)**	**(11.8)**	**(2.0)**	**(3.5)**	**(3.8)**	**-**	**(24.2)**
Adjustments to leased assets	**-**	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**
Assets classified as held for sale	**(1.2)**	**-**	**-**	**-**	**-**	**(1.7)**	**-**	**(2.9)**
Depreciation	**-**	**-**	**(11.0)**	**(28.9)**	**(167.0)**	**(16.0)**	**(12.7)**	**(235.6)**
Impairment	**-**	**-**	**(1.5)**	**-**	**-**	**-**	**-**	**(1.5)**
Closing net book amount	**157.6**	**95.4**	**219.4**	**149.6**	**2,148.8**	**395.1**	**94.5**	**3,260.4**
At 30 June 2021								
Cost	**157.6**	**95.4**	**465.5**	**461.5**	**5,397.5**	**678.3**	**133.3**	**7,389.1**
Accumulated depreciation and impairment	**-**	**-**	**(246.1)**	**(311.9)**	**(3,248.7)**	**(283.2)**	**(38.8)**	**(4,128.7)**
Net book amount	**157.6**	**95.4**	**219.4**	**149.6**	**2,148.8**	**395.1**	**94.5**	**3,260.4**

7 Property, plant and equipment (continued)

	Assets under construction $m	Land $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Infrastructure $m	Right-of-use $m	Total $m
2020								
Opening net book amount	142.4	113.4	259.0	143.4	2,176.2	386.7	-	3,221.1
Adjustment for change in accounting policy	-	-	(48.9)	-	-	-	102.2	53.3
Restated opening net book amount	142.4	113.4	210.1	143.4	2,176.2	386.7	102.2	3,274.4
Additions	232.3	-	-	0.2	0.8	-	0.3	233.6
Transfers between asset classes	(191.9)	-	10.4	16.0	139.2	26.3	-	-
Acquisition of subsidiary	-	-	6.1	11.6	-	0.9	14.6	33.2
Disposals	(0.6)	(1.1)	(2.6)	(1.1)	(0.5)	(1.0)	(4.7)	(11.6)
Assets classified as held for sale	(1.3)	(13.8)	(7.2)	(0.1)	-	(5.8)	-	(28.2)
Depreciation[1]	-	-	(11.3)	(28.5)	(160.8)	(15.3)	(14.2)	(230.1)
Impairment	-	-	-	-	-	-	(3.8)	(3.8)
Closing net book amount	180.9	98.5	205.5	141.5	2,154.9	391.8	94.4	3,267.5
At 30 June 2020								
Cost	180.9	98.5	446.7	435.9	5,249.6	664.8	120.0	7,196.4
Accumulated depreciation and impairment	-	-	(241.2)	(294.4)	(3,094.7)	(273.0)	(25.6)	(3,928.9)
Net book amount	180.9	98.5	205.5	141.5	2,154.9	391.8	94.4	3,267.5

[1] Depreciation includes continuing operations $229.9 million (note 3) and discontinued operations $0.2 million (note 23).

7 Property, plant and equipment (continued)

Significant judgements and estimates

Useful lives

Context of judgements

The Group'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 Group'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 Rollingstock

Rollingstock assets are predominantly used by the Coal and Bulk business units to transport bulk commodities to end customers and ports. The useful lives of rollingstock assets are determined based on the expected engineering life and are reviewed annually.

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

- Long term market and commodity demand under the six scenarios developed under our *Strategy in Uncertainty* framework
- Our contract position in key markets
- Flexibility of fleet capacity, including the ability to shift standard gauge fleet between New South Wales and Western Australia (WA), narrow gauge fleet between Queensland and WA and between commodities within states
- Competitors fleet mix and their associated investment profile over time
- The risk of obsolescence as alternative technologies are developed
- Continuous improvement in fleet investment strategies such as those predicated on condition-based and preventative maintenance approaches as well as advancements in component change out models

The impact of the above indicators, and other factors that may emerge, on demand and supply of rollingstock are uncertain. Consequently, there is a risk (both upside and downside) that the engineering useful lives assigned to rollingstock assets may require revision to an alternate benchmark in the future resulting in a change in depreciation rates on a prospective basis.

Impairment tests for property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The level of rollingstock required is determined with consideration of the Group's Enterprise Fleet Plan (EFP). Key assumptions include forecast volumes, productivity and contingent fleet requirements. There is a risk that the key assumptions applied in the EFP may be impacted by the effects of indicators described in the useful lives judgements, and do not reflect actual rollingstock requirements. For further information on impairment test for cash generating units refer to note 8.

(a) Leases

Right-of-use assets

The Group primarily leases buildings with terms mostly ranging from one to 20 years. The leases generally provide the Group with the right to renewal at which time the lease terms are renegotiated. The Group applies the following practical expedients permitted by the standard:

- Payments for short-term leases of less than 12 months are recognised as an expense in profit or loss as incurred; and
- Payments for leases for which the underlying asset is of a low value are recognised as an expense in profit or loss as incurred.

7 Property, plant and equipment (continued)

(a) Leases (continued)

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet includes the following amounts relating to right-of-use assets:

	2021 **$m**	2020 $m
Right-of-use assets		
Buildings	**91.5**	88.8
Equipment	**3.0**	5.6
Total leased assets	**94.5**	94.4
Lease liabilities		
Current	**17.0**	17.4
Non-current	**120.7**	125.4
Total lease liabilities	**137.7**	142.8

(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 right-of-use assets		
Buildings	**10.1**	13.5
Equipment	**2.6**	0.7
	12.7	14.2
Interest expense	**5.1**	5.1
Expense relating to short-term leases	**1.6**	1.4
Expenses relating to variable lease payments not included in lease liabilities	**5.9**	4.8

The total cash outflow for leases during the financial year was $29.0 million (2020: $25.9 million).

(b) Accounting policies

(i) Property, plant and equipment

Carrying value
Property, plant and equipment is stated at historical cost, less any accumulated depreciation and 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.

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.

7 Property, plant and equipment (continued)

(b) Accounting policies (continued)

(i) Property, plant and equipment (continued)

The deprecation 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	25 - 50 years
Field signals	15 - 40 years
• Buildings	10 - 40 years
• Rollingstock, including:	
Locomotives	25 - 35 years
Locomotives componentisation	8 - 12 years
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.

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

(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.

7 Property, plant and equipment (continued)

(b) Accounting policies (continued)

(iii) Impairment tests for property, plant and equipment (continued)

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.

8 Intangible assets

	Goodwill $m	Software $m	Software under development $m	Total $m
2021				
Opening net book amount	**5.2**	**72.7**	**10.9**	**88.8**
Additions	**-**	**-**	**10.8**	**10.8**
Transfers between asset classes	**-**	**21.7**	**(19.0)**	**2.7**
Acquisition of subsidiary (note 22)	**19.7**	**-**	**-**	**19.7**
Amortisation	**-**	**(18.8)**	**-**	**(18.8)**
Closing net book amount	**24.9**	**75.6**	**2.7**	**103.2**
At 30 June 2021				
Cost	**24.9**	**267.6**	**2.7**	**295.2**
Accumulated amortisation and impairment	**-**	**(192.0)**	**-**	**(192.0)**
Net book amount	**24.9**	**75.6**	**2.7**	**103.2**
2020				
Opening net book amount	-	72.1	7.8	79.9
Additions	-	-	20.5	20.5
Transfers between asset classes	-	17.4	(17.4)	-
Acquisition of subsidiary (note 22)	5.2	-	-	5.2
Amortisation	-	(16.8)	-	(16.8)
Closing net book amount	5.2	72.7	10.9	88.8
At 30 June 2020				
Cost	5.2	246.6	10.9	262.7
Accumulated amortisation and impairment	-	(173.9)	-	(173.9)
Net book amount	5.2	72.7	10.9	88.8

8 Intangible assets (continued)

(a) Impairment tests for goodwill

For the purpose of impairment testing, goodwill is allocated to CGUs according to the level at which management monitors goodwill. Goodwill is tested annually or more regularly if there are indicators of impairment.

The recoverable amount of a CGU is determined based on the higher of the value-in-use (VIU) method or the fair value less cost of disposal (FVLCD) method, both of which require the use of assumptions. These calculations use cash flow projections extrapolated using estimated growth rates.

The following table presents a summary of the goodwill allocation and the key assumptions used in determining the recoverable amount:

2021	**Bulk NSW**	**Bulk QLD**
Goodwill allocation ($m)	**19.7**	**5.2**
Valuation approach	**FVLCD**	**VIU**
Discount rate basis	**Post-tax**	**Pre-tax**
Discount rate (%)	**8.5**	**10.8**
Cash flow projection (years)	**20**	**4**
Long-term growth rate (%)	**2.0**	**2.0**
2020		
Goodwill allocation ($m)	-	5.2
Valuation approach	-	VIU
Discount rate basis	-	Pre-tax
Discount rate (%)	-	10.4
Cash flow projection (years)	-	4
Long-term growth rate (%)	-	2.0

Significant judgements and estimates

Impairment tests for cash generating units (CGUs) and goodwill

Following the acquisition of ConPorts Pty Ltd on 31 December 2020 (refer to note 22(a)), the existing NSW CGU was separated into Bulk NSW and Coal NSW and the existing Bulk East CGU was renamed to Bulk QLD.

CGUs are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. CGUs containing goodwill are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. CGUs that have previously recognised an impairment to the carrying amount are reviewed for impairment reversal whenever events or changes in circumstances indicate that the recoverable amount may exceed the carrying amount.

Indicators of impairment reversal were identified for the Western Australia CGU. The carrying amount of the Bulk QLD and Bulk NSW CGUs contain goodwill and have therefore also been tested for impairment.

There is a risk that the assumptions applied in calculating the recoverable amount of the CGUs may be impacted by the effects of indicators described in the useful lives judgements, and as a result change the estimated recoverable amount.

Western Australia CGU

The recoverable amount of the Western Australia CGU has been determined based on VIU methodology. The calculation uses a four year cash flow projection, a pre-tax discount rate of 10.8% (2020: 10.4%) and a long-term growth rate of 2.0% (2020: 2.0%) has been applied. The Western Australia CGU was tested for sensitivity of the pre-tax discount rate as well as other factors noted below.

The Western Australia CGU has a small number of customers and the recoverable amount is sensitive to changes in iron ore customer contractual arrangements. The recoverable amount of the CGU was determined taking into consideration expected expiry of iron ore customer contracts. Should contracts with iron ore customers not be renewed or the iron ore customers either cease to operate before the expected end of mine life or be unable to comply with current contractual arrangements, it may result in a change to the impairment recorded for the CGU. The recoverable amount of the CGU supports the carrying amount, therefore no further impairment has been recognised. Due to the carrying value being highly sensitive to the iron ore customer assumptions, no reversal of previous impairments has been recognised.

8 Intangible assets (continued)

(a) Impairment tests for goodwill (continued)

Bulk QLD CGU

The recoverable amount of the Bulk QLD CGU has been determined based on VIU methodology and the cash flow projection, pre-tax discount rate and long-term growth rate as described in note 8(a). The Bulk QLD CGU was tested for sensitivity of the pre-tax discount rate and changes in customer contractual arrangements.

The recoverable amount is sensitive to changes in customer contractual arrangements and should any major customer not be renewed it may result in a reduction to the recoverable amount of the CGU. The recoverable amount of the CGU supports the carrying amount, including goodwill, therefore no further impairment has been recognised. Due to the sensitivity of the recoverable amount to the renewal of major customer contracts, no reversal of previous impairments has been recognised.

Bulk NSW CGU

The Bulk NSW CGU includes goodwill recognised on acquisition of a subsidiary (refer to note 22(a)) in FY2021. The recoverable amount of the CGU has been determined based on FVLCD methodology and the cash flow projection, post-tax discount rate and a long-term growth rate as described in note 8(a). The recoverable amount of the CGU supports the carrying amount, therefore no impairment has been recognised.

(b) Accounting policies

(i) Goodwill

The goodwill recognised by the Group is a result of business combinations and represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. Goodwill is initially measured as the amount the Group paid to acquire a business over and above the fair value of net assets acquired.

(ii) 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.

9 Other assets

	2021 $m	2020 $m
Current		
Contract assets (a)	**2.1**	1.3
Lease receivable (b)	**7.2**	6.5
Other current assets	**4.4**	5.4
Tax loan receivable from parent entity	**66.8**	-
	80.5	13.2
Non-current		
Contract assets (a)	**37.1**	21.9
Lease receivable (b)	**41.5**	48.6
	78.6	70.5

(a) Contract assets

Refer to note 2(b) for further information relating to contract assets.

(b) Lease receivable

Lease receivables represent the present value of future lease payments receivable on sub-lease arrangements where the expiry of the term of the sub-lease is the same as the head lease.

Minimum lease payments receivable on sub-leases are as follows:

	2021 $m	2020 $m
Within one year	**8.7**	8.2
Later than one year but not later than five years	**28.6**	32.9
Later than five years	**18.2**	22.6
	55.5	63.7
Less: Unearned interest income	**(6.8)**	(8.6)
Total lease receivables	**48.7**	55.1
Interest income relating to sub-lease arrangements	**1.8**	1.9
Income relating to variable lease payments received	**7.1**	7.6

The total cash inflow for sub-leases in the financial year was $15.4 million (2020: $15.2 million).

10 Trade and other payables

	2021 $m	2020 $m
Current		
Trade payables	**149.3**	182.0
Related party payables	**56.4**	54.2
Other payables	**16.2**	18.8
	221.9	255.0

(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.

11 Provisions

	2021 **$m**	2020 $m
Current		
Employee benefits (a)	**189.7**	168.0
Provision for insurance claims	**13.7**	8.6
Litigation and workers compensation provision	**25.0**	20.9
Other provisions	**3.1**	12.4
	231.5	209.9
Non-current		
Employee benefits (a)	**10.9**	10.2
Litigation and workers compensation provision	**12.3**	9.7
Decommissioning/make good	**2.7**	2.9
Land rehabilitation	**35.3**	38.0
	61.2	60.8
Total provisions	**292.7**	270.7

(a) Employee benefits

	2021 **$m**	2020 $m
Annual leave	**54.2**	52.7
Long service leave	**83.5**	79.4
Other	**62.9**	46.1
	200.6	178.2

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 an amount of $78.0 million (2020: $75.8 million) that is not expected to be taken or paid within the next 12 months.

(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.

11 Provisions (continued)

(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, 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.

(ii) Provision for insurance claims

A provision for insurance claims is raised for insurance claims external to the Group and represents the aggregate deductible component in relation to loss or damage to property, plant and equipment.

(iii) Litigation and workers compensation provision

A provision is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. Estimates are made based on the average number of claims and average claim payments over a specified period of time. Claims that are Incurred But Not Reported are also included in the estimate.

(iv) Land rehabilitation

A provision is recognised for the present value of estimated costs of land rehabilitation where the Group has a legal or constructive obligation to restore a site.

An inflation rate of 2.4% (2020: 1.6%) is applied to estimate future land rehabilitation costs. This estimate is discounted at a weighted average discount rate of 2.0% (2020: 1.2%) to determine the present value of the provision. The unwinding of the discount is recognised in profit or loss in finance costs.

12 Other liabilities

	2021 $m	2020 $m
Current		
Contract liabilities (a)	**4.8**	2.0
Income received in advance	**1.3**	36.9
Lease liabilities (b)	**17.0**	17.4
Other current liabilities	**16.8**	18.4
Tax loan payable to parent entity	**-**	53.5
	39.9	128.2
Non-current		
Contract liabilities (a)	**11.8**	14.4
Lease liabilities (b)	**120.7**	125.4
Other non-current liabilities	**1.4**	1.5
	133.9	141.3

(a) Contract liabilities

Refer to note 2(b) for further information relating contract liabilities.

(b) Lease liabilities

Lease liabilities represent the present value of future lease payments.

Minimum lease payments are as follows:

	2021 $m	2020 $m
Within one year	**21.8**	22.3
Later than one year but not later than five years	**70.4**	72.6
Later than five years	**71.7**	75.8
	163.9	170.7
Less: Discounted using Group's incremental borrowing rate	**(26.2)**	(27.9)
Total lease liabilities	**137.7**	142.8

Capital and financial risk management

IN THIS SECTION

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

13 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 debt excludes lease liabilities. 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.

	Notes	**2021 $m**	2020 $m
Total borrowings	16	**495.5**	354.5
Less: cash and cash equivalents		**(147.7)**	(22.6)
Net debt		**347.8**	331.9
Total equity		**2,951.1**	2,920.1
Total capital		**3,298.9**	3,252.0
Net gearing ratio		**10.5%**	10.2%

14 Dividends

Declared and paid during the period

	$m
For the year ended 30 June 2021	
Final dividend for 2020 (unfranked)	**191.7**
Interim dividend for 2021 (unfranked)	**148.2**
	339.9
For the year ended 30 June 2020	
Final dividend for 2019 (unfranked)	246.8
Interim dividend for 2020 (unfranked)	156.8
	403.6

Proposed and unrecognised at period end

For the year ended 30 June 2021	
Final dividend for 2021 (unfranked)	**124.5**
For the year ended 30 June 2020	
Final dividend for 2020 (unfranked)	191.8

15 Equity

(a) Contributed equity

	2021	2020
Number of ordinary shares ('000)	**8,992,758**	8,992,758
Contributed equity ($m)	**2,673.6**	2,773.7

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	**25.5**	26.5
Aggregated deferred tax on related share-based payments	**12.9**	13.9
Total other contributed equity	**38.4**	40.4

The grant by Aurizon Holdings Limited of rights over its equity instruments to the employees of subsidiary companies in the Aurizon Group is treated as a capital contribution to that subsidiary company. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period 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

	Share of an associate's OCI $m	**Cash flow hedges $m**	**Foreign currency translation $m**	**Total $m**
Balance at 1 July 2020	**(1.8)**	**(3.3)**	**0.4**	**(4.7)**
Fair value gains/(losses) taken to equity	**-**	**7.8**	**-**	**7.8**
Fair value (gains)/losses transferred to property, plant and equipment	**-**	**(3.6)**	**-**	**(3.6)**
Tax expense/(benefit) relating to items of other comprehensive income	**-**	**(1.2)**	**-**	**(1.2)**
Reclassification to profit or loss on disposal of shares in associate	**1.8**	**-**	**-**	**1.8**
Exchange differences on translation of foreign operations	**-**	**-**	**(0.1)**	**(0.1)**
Other comprehensive income	**1.8**	**3.0**	**(0.1)**	**4.7**
Balance at 30 June 2021	**-**	**(0.3)**	**0.3**	**-**
Balance at 1 July 2019	(1.8)	(47.0)	0.4	(48.4)
Fair value gains/(losses) taken to equity	-	(10.1)	-	(10.1)
Fair value (gains)/losses transferred to property, plant and equipment	-	3.6	-	3.6
Tax expense/(benefit) relating to items of other comprehensive income	-	2.0	-	2.0
Other comprehensive income	-	(4.5)	-	(4.5)
Transactions with owners in their capacity as owners				
Transfer of equity investment in Aurizon Network Pty Ltd to parent	-	48.2	-	48.2
Balance at 30 June 2020	(1.8)	(3.3)	0.4	(4.7)

(i) Cash flow hedges 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.

15 Equity (continued)

(c) Reserves (continued)

(ii) Foreign currency translation reserve

On consolidation all exchange differences arising from translation of controlled entities with a financial currency that is not Australian dollars are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is disposed, the cumulative amount recognised within the reserve relating to that foreign operation is transferred to profit or loss.

16 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		
Bank debt facilities	**-**	66.0
	-	66.0
Non-current - Unsecured		
Medium-term notes	**499.0**	-
Bank debt facilities	**-**	290.0
Capitalised borrowing costs	**(3.5)**	(1.5)
	495.5	288.5
Total borrowings	**495.5**	354.5

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 17(a). Details of the Group’s financing arrangements and exposure to risks arising from borrowings are set out in note 17(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.

17 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	Management
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.
- Foreign exchange risk	The Group is exposed to foreign exchange risk in respect of purchases of inventory and property, plant and equipment denominated in a 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 is 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 5 for credit risk exposures relating to trade and other receivables.

17 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	**1.4**	**500.0**
Interest rate swaps (including debt credit margins)	**1.8**	**(50.0)**
Net exposure to interest rate risk		**450.0**
2020		
Variable rate exposure	1.7	356.0
Interest rate swaps (including debt credit margins)	1.8	(200.0)
Net exposure to interest rate risk		156.0

Interest rate derivatives used for hedging

The Group currently has Interest rate swaps in place to cover 10% (2020: 56%) 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 18(a)(ii). The weighted average maturity of interest rate swaps is less than one year (2020: 1.0 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	**(4.5)**	**4.5**
Effect on equity	**-**	**-**
2020		
Effect on profit	(1.6)	1.6
Effect on equity	1.9	(1.9)

Amounts recognised in profit or loss

The Group recognised a net realised loss arising from interest rate swaps of $1.5 million (2020: $2.0 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 finance expense.

17 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting

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

	2021 $m	2020 $m
Current assets		
Foreign exchange contracts	**0.1**	0.2
Non-current assets		
Interest rate swaps	**1.9**	-
Total derivative financial instrument assets	**2.0**	0.2
Current liabilities		
Foreign exchange forward contracts	**(0.5)**	(1.5)
Interest rate swaps	**-**	(2.4)
	(0.5)	(3.9)
Non-current liabilities		
Foreign exchange contracts	**-**	(0.2)
Interest rate swaps	**-**	(0.8)
	-	(1.0)
Total derivative financial instrument liabilities	**(0.5)**	(4.9)

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						
Foreign exchange risk						
Forward contracts	**US$4.5m**	US$4.0m	**(0.1)**	(0.7)	**0.6**	(1.2)
Forward contracts	**€2.5m**	€8.1m	**(0.3)**	(0.8)	**0.5**	(1.1)
Interest rate risk						
Interest rate swaps	**A$50.0m**	A$200.0m	**-**	(3.1)	**3.1**	-
Fair value hedges						
Interest rate risk						
Interest rate swaps - AMTN 1	**A$500.0m**	-	**1.9**	-	**1.6**	-

17 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		Change in fair value used for measuring ineffectiveness for the year		Hedging gain/(loss) recognised in comprehensive income	
	2021 $m	2020 $m	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Cash flow hedges (before tax)						
Foreign exchange risk						
Firm commitments	**0.4**	1.5	**(1.1)**	2.3	**1.1**	(2.3)
Interest rate risk						
Forecast floating interest payments	**-**	3.1	**(3.1)**	-	**3.1**	(10.1)
Foreign exchange and interest rate risks						
CCIRS[1]	**-**	-	**-**	-	**-**	5.9

[1] Hedge gain/(loss) recognised in comprehensive income includes movements in cash flow hedges classified as held for sale up to the date of an internal reorganisation on 19 August 2019 when the Company transferred its equity investment in Aurizon Network Pty Ltd to Aurizon Holdings Limited. Refer to note 23(b).

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 1	**(501.6)**	-	**(1.6)**	-	**(1.6)**	-

[1] Carrying amount excludes the effect of discounts on the face value.

17 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	**15.1**	83.3	**125.0**	150.0
Bilateral facility	Jun-23	**-**	-	**50.0**	-
Bilateral facility	Nov-23	**-**	290.0	**500.0**	450.0
Bilateral facility	Nov-25	**-**	-	**75.0**	-
AMTN 1[2]	Mar-28	**500.0**	-	**500.0**	-
		515.1	373.3	**1,250.0**	600.0

[1] Amount utilised includes bank guarantees of $15.1 million (2020: $17.3 million) but excludes capitalised borrowing costs of $3.5 million (2020: $1.5 million)

[2] Amount utilised excludes accumulated fair value adjustments of $1.6 million (2020: $nil).

The Group has access to working capital facilities totalling $125.0 million (2020: $150.0 million) which may be utilised for short-term working capital and financial bank guarantees. At 30 June, the Group utilised $15.1 million (2020: $17.3 million) for financial bank guarantees.

Under limited circumstances the Group may also draw upon funds from Aurizon Network Pty Ltd pursuant to the Intra Group Loan Agreement (refer to note 26).

(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:

2021	1 year or less $m	1 - 5 years $m	More than 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
Non-derivatives financial instruments					
Trade payables	**221.9**	**-**	**-**	**221.9**	**221.9**
Borrowings	**15.0**	**60.0**	**530.0**	**605.0**	**495.5**
Financial guarantees	**15.1**	**-**	**-**	**15.1**	**-**
Lease liabilities	**21.8**	**70.4**	**71.7**	**163.9**	**137.7**
Total non-derivatives financial instruments	**273.8**	**130.4**	**601.7**	**1,005.9**	**855.1**
Derivatives					
Interest rate swaps	**0.1**	**-**	**-**	**0.1**	**-**
Interest rate swaps - AMTN	**(5.7)**	**(4.5)**	**2.2**	**(8.0)**	**(1.9)**
Gross settled forward exchange contracts (inflow)	**(0.5)**	**-**	**-**	**(0.5)**	**0.4**
Total derivatives	**(6.1)**	**(4.5)**	**2.2**	**(8.4)**	**(1.5)**

17 Financial risk management (continued)

(b) Liquidity and funding risk (continued)

(ii) Maturities of financial liabilities (continued)

2020	1 year or less $m	1 - 5 years $m	More than 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
Non-derivatives financial instruments					
Trade payables	255.0	-	-	255.0	255.0
Borrowings	70.0	300.1	-	370.1	354.5
Financial guarantees	17.3	-	-	17.3	-
Other liabilities	53.5	-	-	53.5	53.5
Lease liabilities	22.3	72.6	75.8	170.7	142.8
Total non-derivatives financial instruments	418.1	372.7	75.8	866.6	805.8
Derivatives					
Interest rate swaps	3.2	0.1	-	3.3	3.2
Foreign exchange contracts	-	-	-	-	1.5
(inflow)	(1.5)	(0.3)	-	(1.8)	-
outflow	0.2	-	-	0.2	-
Total gross settled forward exchange contracts	(1.3)	(0.3)	-	(1.6)	-
Total derivatives	1.9	(0.2)	-	1.7	4.7

(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 hedge relationship, 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 values 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.

17 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 change 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 expense. 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 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.

17 Financial risk management (continued)

(d) Fair value measurement

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

The fair value of borrowings is estimated by discounting the 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% to 2.8% (2020: 0.9% to 1.4%) 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 gain/(loss) with reference to market rates. The fair value of interest rate swaps is determined as the net present value of contracted cash flows. The existing exposure method, which estimates future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted for both forward foreign exchange contracts and interest rate swaps.

The Group's derivative financial instruments are classified as Level 2 (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).

17 Financial risk management (continued)

(d) Fair value measurement (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					
Foreign exchange contracts		**0.1**	0.2	**0.1**	0.2
Interest rate swaps - AMTN 1		**1.9**	-	**1.9**	-
		2.0	0.2	**2.0**	0.2
Financial assets carried at amortised cost					
Cash and cash equivalents		**147.7**	22.6	**147.7**	22.6
Trade and other receivables	5	**310.4**	367.7	**310.4**	367.7
Other assets	9	**66.8**	-	**66.8**	-
		524.9	390.3	**524.9**	390.3
Financial liabilities carried at fair value					
Foreign exchange contracts		**(0.5)**	(1.7)	**(0.5)**	(1.7)
Interest rate swaps		**-**	(3.2)	**-**	(3.2)
		(0.5)	(4.9)	**(0.5)**	(4.9)
Financial liabilities carried at amortised cost					
Trade and other payables	10	**(221.9)**	(255.0)	**(221.9)**	(255.0)
Borrowings[1]	16	**(495.5)**	(354.5)	**(505.4)**	(360.4)
Lease liabilities	12	**(137.7)**	(142.8)	**(137.7)**	(142.8)
Other liabilities	12	**-**	(53.5)	**-**	(53.5)
		(855.1)	(805.8)	**(865.0)**	(811.7)
Off-balance sheet					
Unrecognised financial assets					
Bank guarantees		**-**	-	**109.5**	124.4
Insurance company guarantees		**-**	-	**0.8**	2.4
Unrecognised financial liabilities					
Bank guarantees		**-**	-	**(15.1)**	(17.3)
		-	-	**95.2**	109.5

[1] Borrowings includes $501.6 million (2020: $nil) 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.

18 Associates and joint ventures

The Group has an interest in the following associates and joint ventures:

Name	Country of operation	Ownership interest 2021 %	2020 %	Principal activity
Associates				
Aquila Resources Limited[1]	Australia	**-**	15	Exploration and mining
Joint ventures				
Ox Mountain Limited[2]	United Kingdom	**42**	-	Software
Chun Wo/CRGL	China-Hong Kong	**17**	17	Construction
ARG Risk Management Limited	Bermuda	**50**	50	Insurance
Integrated Logistics Company Pty Ltd	Australia	**14**	14	Consulting
ACN 169 052 288	Australia	**15**	15	Dormant

[1] The sale of the shares held in Aquila Resources Limited completed on 26 May 2021.

[2] Refer to note 22 for further information.

The Group's share of net profit from investments in joint ventures in the period is $0.3 million (2020: net loss $0.1 million). The Group's share of net assets from investment in joint ventures at reporting date are $26.1 million (2020: $2.7 million) and are not considered material.

(a) Accounting policies

Investments in associates and joint ventures are accounted for using the equity method of accounting. Investments are initially recognised at cost and subsequently adjusted for the Group's share of net profit or loss. The carrying value of an investment is reduced by the value of dividends received from the associate or joint venture.

When the Group's share of losses in an associate equals or exceeds its interest, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying amount of investments are tested for impairment in accordance with the policy described in note 7.

19 Material subsidiaries

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

Name of entity	Country of incorporation	Equity holding	
		2020	2020
		%	%
Australia Eastern Railroad Pty Ltd	Australia	**100**	100
Australia Western Railroad Pty Ltd	Australia	**100**	100
Aurizon Property Pty Ltd	Australia	**100**	100
Aurizon Finance Pty Ltd	Australia	**100**	100
Aurizon Port Services Pty Ltd	Australia	**100**	100
Aurizon Port Service NSW Pty Ltd	Australia	**100**	-
Iron Horse Insurance Company Pte Ltd	Singapore	**100**	100

(a) 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 will be 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.

(b) Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The re-measured fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest of an associate, joint venture or financial asset. Any amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the related assets or liabilities and may result in amounts previously recognised in other comprehensive income being reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

20 Parent entity disclosures

The financial information for the parent entity Aurizon Operation Limited 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	**1,382.3**	1,197.7
Non-current assets	**3,771.2**	3,791.6
Total assets	**5,153.5**	4,989.3
Current liabilities	**(1,791.1)**	(1,566.4)
Non-current liabilities	**(174.6)**	(188.9)
Total liabilities	**(1,965.7)**	(1,755.3)
Net assets	**3,187.8**	3,234.0
Equity		
Contributed equity	**(2,710.2)**	(2,812.3)
Retained earnings	**(477.4)**	(423.1)
Reserves	**(0.2)**	1.4
Total equity	**(3,187.8)**	(3,234.0)
Profit for the year	**394.2**	473.2
Other comprehensive income	**(0.3)**	-
Total comprehensive income	**393.9**	473.2

(b) Guarantees entered into by the parent entity

Financial guarantees given by the parent entity are disclosed in note 17(d).

The parent entity did not have any material contingent liabilities or contractual commitments for the acquisition of property, plant and equipment as at 30 June 2021 (2020: $nil).

As at 30 June 2021, the parent entity had contractual commitments for the acquisition of property, plant and equipment totalling $32.0 million (2020: $62.8 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

21 Deed of cross guarantee

The Company, Aurizon Operations Limited and the subsidiaries listed below are subject to a Deed of Cross Guarantee (the Deed) under which each company guarantees the debts of the others:

Aurizon Finance Pty Ltd
Aurizon Property Holding Pty Ltd
Logistics Australiasia Pty Ltd
Interail Australia Pty Ltd
Australia Eastern Railroad Pty Ltd
Australian Railroad Group Employment Pty Ltd
Aurizon Terminal Pty Ltd
Aurizon Property Pty Ltd
Aurizon Resource Logistics Pty Limited
Australian Rail Pty Ltd
Australia Western Railroad Pty Ltd
Aurizon Intermodal Pty Ltd

By entering into the cross guarantee, the wholly-owned entities have been relieved from the requirement to prepare separate financial and directors' reports under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

The above companies represent a 'closed group' for the purposes of the instrument. As there are no other parties to the Deed that are controlled by Aurizon Operations Limited, they also represent the 'extended closed group'.

(a) Financial statements of the Aurizon Operations Limited Deed of Cross Guarantee

The consolidated income statement, statement of comprehensive income and statement of financial position of the entities party to the Deed for the year ended and as at 30 June, are set out below:

	2021 $m	2020 $m
Consolidated income statement		
Revenue	**2,264.5**	2,440.4
Other income	**182.9**	110.9
Employee benefits expense	**(679.8)**	(641.2)
Energy and fuel	**(87.4)**	(123.8)
Track access	**(535.7)**	(619.5)
Consumables	**(331.6)**	(330.1)
Depreciation and amortisation expense	**(248.6)**	(245.5)
Impairment losses	**2.7**	(3.8)
Other expenses	**(2.0)**	(14.4)
Share of net profit/(loss) of associates and joint venture accounted for using the equity method	**0.2**	(0.1)
Net finance costs	**(11.2)**	(9.3)
Profit before income tax	**554.0**	563.6
Income tax expense	**(95.6)**	(169.8)
Profit for the year	**458.4**	393.8
Consolidated statement of comprehensive income		
Profit for the year	**458.4**	393.8
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	**4.2**	(2.3)
Income tax related to changes in the fair value of cash flow hedges	**(1.2)**	0.7
Exchange differences on translation of foreign operations	**(0.3)**	-
Reclassification to profit or loss on disposal of shares in associate	**1.8**	-
Other comprehensive income/(expense) for the year, net of tax	**4.5**	(1.6)
Total comprehensive income for the year	**462.9**	392.2
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**93.4**	101.6
Change in accounting policy – adoption of AASB 16	**-**	1.6
Profit for the year	**458.4**	393.8
Dividends provided for or paid	**(339.9)**	(403.6)
Retained earnings at the end of the financial year	**211.9**	93.4

21 Deed of cross guarantee (continued)

	2021 $m	2020 $m
Consolidated balance sheet		
Current assets		
Cash and cash equivalents	**145.1**	20.5
Trade receivables	**318.9**	366.4
Inventories	**112.3**	104.0
Derivative financial instruments	**0.1**	0.2
Other assets	**81.7**	12.9
Assets classified as held for sale	**5.0**	65.1
Total current assets	**663.1**	569.1
Non-current assets		
Inventories	**33.8**	27.7
Derivative financial instruments	**1.9**	-
Property, plant and equipment	**3,197.2**	3,236.0
Intangible assets	**78.3**	83.6
Deferred tax assets	**-**	40.2
Other assets	**78.6**	70.5
Investments accounted for using the equity method	**3.3**	2.7
Other financial assets[1]	**110.2**	45.0
Total non-current assets	**3,503.3**	3,505.7
Total assets	**4,166.4**	4,074.8
Current liabilities		
Trade and other payables	**296.3**	320.1
Borrowings	**-**	66.0
Derivative financial instruments	**0.5**	3.9
Other liabilities	**36.5**	126.4
Provisions	**204.6**	174.7
Liabilities directly associated with assets classified as held for sale	**-**	0.7
Total current liabilities	**537.9**	691.8
Non-current liabilities		
Borrowings	**495.5**	288.5
Deferred tax liabilities	**33.7**	-
Derivative financial instruments	**-**	1.0
Provisions	**59.7**	60.4
Other liabilities	**115.9**	130.3
Total non-current liabilities	**704.8**	480.2
Total liabilities	**1,242.7**	1,172.0
Net assets	**2,923.7**	2,902.8
Equity		
Contributed equity	**2,712.0**	2,814.1
Reserves	**(0.2)**	(4.7)
Retained earnings	**211.9**	93.4
Total equity	**2,923.7**	2,902.8

[1] Other financial assets represent investments in entities outside of the closed group.

22 Acquisition of subsidiaries and interests in joint ventures

(a) Summary of acquisitions in 2021

(i) Ox Mountain Limited

The Group acquired a 41.67% investment in Ox Mountain Limited (UK registered), a maintenance software developer and distributor, for consideration of $22.4 million on 28 August 2020. The investment is accounted for using the equity method of accounting.

(ii) ConPorts Pty Ltd

The Group acquired 100% of the issued shares in ConPorts Pty Ltd, a shiploading services provider in Newcastle, for consideration of $42.7 million on 31 December 2020. The company was renamed Aurizon Port Services NSW Pty Ltd. The acquisition includes long-term leases at the Port of Newcastle with shiploading facilities adjacent to rail lines.

Details of the provisional purchase consideration, the net assets acquired and goodwill are as follows:

	$m
Cash paid	**41.7**
Contingent consideration	**1.0**
Total purchase consideration	**42.7**

	Fair value $m
Total assets	**34.4**
Total liabilities	**(11.4)**
Net identifiable assets acquired	**23.0**
Add: Goodwill	**19.7**
Net assets acquired	**42.7**

Goodwill is attributable to future customer growth and has been allocated to the Bulk NSW CGU, refer to note 8 for further information. None of the goodwill is expected to be deductible for tax purposes.

Acquisition costs of $2.1 million were expensed to profit or loss. Net cash outflow from investing activities for the acquisition was $41.1 million, representing cash paid of $41.7 million net of cash acquired of $0.6 million.

(b) Summary of acquisitions in 2020

(i) Flinders TBSH Pty Ltd

The Group acquired 100% of the issued shares in Flinders TBSH Pty Ltd, a bulk transport, handling and stevedoring services provider in North Queensland, for consideration of $24.8 million on 20 March 2020. The company was renamed to Aurizon Port Services Pty Ltd. The acquisition includes long-term leases at the Port of Townsville with bulk storage warehouses and handling facilities adjacent to rail lines. The business is complementary to the Bulk QLD rail operation as it sits at the end of the Mt Isa rail line connecting the Port of Townsville to the commodity rich North West Minerals Province.

The fair value of the net identifiable assets acquired was $19.6 million resulting in goodwill of $5.2 million. Goodwill is attributable to future customer growth and was allocated to the Bulk QLD CGU. Net cash outflow from investing activities for the acquisition was $24.5 million, representing cash paid of $24.8 million net of cash acquired of $0.3 million.

(ii) Internal reorganisation

On 19 August 2019, Aurizon Holdings Limited completed an internal reorganisation of the Aurizon Group.

Aurizon Holdings Limited transferred its equity investment in Aurizon Finance Pty Ltd to the Company. The results and balance sheet of Aurizon Finance Pty Ltd are incorporated retrospectively as if Aurizon Finance Pty Ltd had always been part of the Group in accordance with the Group's accounting policies for business combinations that involve entities under common control (refer to note 29(d)) and principles of consolidation (refer to note 19(a)).

23 Discontinued operations

(a) Closure and sale of Intermodal

(i) Description

On 26 March 2021, the Group completed the sale of the Acacia Ridge Intermodal Terminal to Pacific National.

(ii) Financial performance and cash flow information

The financial information relating to the discontinued operation is set out below for the period to 26 March 2021.

	2021 $m	2020 $m
Revenue	**21.5**	25.0
Other income	**161.2**	2.5
Employee benefits expense	**(2.4)**	(3.6)
Energy and fuel	**(0.1)**	(0.2)
Consumables	**(3.9)**	(8.4)
Depreciation and amortisation	**-**	(0.2)
Other expenses	**(0.3)**	0.1
Profit before income tax	**176.0**	15.2
Income tax expense	**(52.4)**	(4.4)
Profit from discontinued operation after tax	**123.6**	10.8
Net cash (outflow)/inflow from operating activities	**(23.0)**	9.9
Net cash inflow from investing activities	**168.8**	0.4
Net cash inflow/(outflow) from financing activities	**-**	-
Net increase in cash generated by the discontinued operations	**145.8**	10.3

(iii) Significant items

The Group's underlying results differ from the statutory results. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

	2021 $m	2020 $m
Significant items		
Net gain on sale of Acacia Ridge Intermodal Terminal (before income tax)	**161.1**	-
Net gain on sale of assets	**-**	2.5
	161.1	2.5

Net gain on sale (before income tax) includes proceeds received of $209.0 million less net assets at the date of disposal of $45.4 million and disposal costs of $2.5 million.

23 Discontinued operations (continued)

(b) Internal reorganisation

(i) Description

On 19 August 2019, Aurizon Holdings Limited completed an internal reorganisation of the Aurizon Group.

The Company transferred its equity investment in Aurizon Network Pty Ltd to Aurizon Holdings Limited. As such, Aurizon Network Pty Ltd was disclosed as a discontinued operation held for sale.

(ii) Financial performance and cash flow information

Financial information relating to the discontinued operation is set out below:

	2020 $m
Revenue	153.9
Employee benefits expense	(24.0)
Energy and fuel	(15.2)
Consumables	(15.7)
Depreciation and amortisation[1]	(40.8)
Other expenses	(0.8)
Net finance costs	(19.0)
Profit before income tax	38.4
Income tax expense	(11.6)
Profit from discontinued operation after tax	26.8
Net cash inflow from operating activities	134.0
Net cash outflow from investing activities	(40.3)
Net cash outflow from financing activities	(95.7)
Net decrease in cash generated by the discontinued operation	(2.0)

[1] Includes $39.5 million depreciation and $1.3 million amortisation expense. As the Company transferred its equity investment in Aurizon Network Pty Ltd to Aurizon Holdings Limited and it was not a disposal outside of the Aurizon Group, depreciation and amortisation was recognised on property, plant and equipment classified as held for sale.

24 Assets classified as held for sale

	2021 $m	2020 $m
Property, plant and equipment	**5.0**	61.2
Trade and other receivables	**-**	3.9
Total assets held for sale	**5.0**	65.1

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.

25 Notes to the consolidated statement of cash flows

(a) Reconciliation of net cash inflow from operating activities to profit from continuing operations

	2021 $m	2020 $m
Profit from continuing operations	**344.7**	380.7
Depreciation and amortisation	**254.4**	246.7
Impairment of non-financial assets	**1.5**	3.8
Finance expenses	**16.3**	12.3
Non-cash employee incentive expense	**4.3**	5.7
Net loss on sale of assets	**(20.9)**	(3.0)
Gain on disposal of Rail Grinding business	**-**	(105.4)
Share of profits of associates and joint ventures	**(0.3)**	0.1
Net exchange differences	**(0.4)**	0.3
Change in operating assets and liabilities:		
(Increase)/Decrease in trade and other receivables	**18.2**	72.7
(Increase)/Decrease in inventories	**(14.5)**	(13.3)
(Increase)/Decrease in other operating assets	**(75.3)**	(18.6)
Increase/(Decrease) in trade and other payables	**(16.1)**	(59.0)
Increase/(Decrease) in other liabilities	**(57.0)**	60.4
Increase/(Decrease) in deferred tax	**50.1**	50.4
Increase/(Decrease) in provisions	**20.2**	2.3
Net cash inflow from operating activities from continuing operations	**525.2**	636.1

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

	Current borrowings $m	**Non-current borrowings $m**	**Liabilities held to hedge borrowings[1] $m**	**Assets held to hedge borrowings[1] $m**	**Total $m**
Balance as at 1 July 2020	**(66.0)**	**(288.5)**	**(3.1)**	**-**	**(357.6)**
Financing cash flows from continuing operations[2]	**66.0**	**(204.4)**	**-**	**-**	**(138.4)**
Other changes in fair values	**-**	**(1.7)**	**3.1**	**1.9**	**3.3**
Other non-cash movements	**-**	**(0.9)**	**-**	**-**	**(0.9)**
Balance as at 30 June 2021	**-**	**(495.5)**	**-**	**1.9**	**(493.6)**
Balance as at 1 July 2019	(67.0)	(87.9)	(3.1)	-	(158.0)
Financing cash flows from continuing operations[2]	1.0	(200.0)	-	-	(199.0)
Other non-cash movements	-	(0.6)	-	-	(0.6)
Balance as at 30 June 2020	(66.0)	(288.5)	(3.1)	-	(357.6)

[1] Assets and liabilities held to hedge borrowings exclude foreign exchange contracts included in note 17(a).

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

26 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:		
- Parent entity	**-**	42,544
- Other related parties	**12,210**	14,853
Trade and other payables to related parties	**(56,409)**	(54,212)
Tax loan payable to parent entity	**66,826**	(53,477)
Services revenue received from related parties	**21,821**	25,250
Expenses paid to related parties	**(460,941)**	(521,158)
Interest revenue received from related parties	**560**	772
Interest expenses paid to related parties	**(53)**	-

For details on dividends paid and contributions of equity, refer to notes 14 and 15(b) respectively.

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

A number of service agreements are in place 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 Network Pty Ltd (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 4.

27 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	**6,284**	6,418
Post-employment benefits	**110**	114
Long-term benefits	**142**	112
Other benefits	**1,528**	-
Share-based payments	**2,551**	3,005
	10,615	9,649

No KMP has entered into a material contract with the Group in the financial year and there were no material contracts involving KMPs' interests existing at year end (2020: nil).

28 Auditor's 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	**465**	495
Other assurance services	**26**	-
Advisory services	**-**	3
Total remuneration of PwC Australia	**491**	498

29 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 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business*
- AASB 2019-3 *Amendments to Australia 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 Australia Accounting Standards - References to the Conceptual Framework*

The Group also elected to adopt the following amendments early:

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

29 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. 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 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) 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.

(c) 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.

As at the reporting date, the assets and liabilities of entities within the Group that have a functional currency different from the presentation currency, are translated into Australian dollar at the rate of exchange at the balance sheet date and profit or loss are translated at the average exchange for the year. The exchange differences arising on the balance sheet translation are taken directly to a separate component in equity in the foreign currency translation reserve.

(d) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. In accordance with the acquisition method the Group measures goodwill, at acquisition date, as the fair value of the consideration transferred less the fair value of the identifiable assets and liabilities acquired. The fair value of the consideration transferred comprises the initial cash paid and an estimate for any future contingent or deferred payments the Group may be liable to pay.

The application of the acquisition method requires certain estimates and assumptions to be made particularly around the determination of fair value of any contingent or deferred consideration, the acquired intangible assets, property, plant and equipment, and liabilities assumed. Such estimates are based on information available at acquisition date.

Acquisition-related costs are expensed as incurred.

Predecessor value method of accounting is used to account for all business combinations that involve entities under common control. Acquired assets and liabilities are recorded at their existing carrying values and no goodwill is recorded. Retrospective presentation of the acquired entity’s results and balance sheet are incorporated as if both entities had always been combined.

29 Summary of other significant accounting policies (continued)

(e) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less cost of disposal, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less cost of disposal. A gain is recognised for any subsequent increases in fair value less cost of disposal of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated income statement.

(f) Financial instruments

(i) Non-derivative financial assets

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

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

(ii) Financial assets measured at amortised cost

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

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

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) is impaired.

(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 attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(g) 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.

29 Summary of other significant accounting policies (continued)

(g) Goods and Services Tax (GST) (continued)

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 Company and its subsidiaries are 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 date.

30 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 17(d).

(b) Contingent assets

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 17(d).

(c) Capital commitments

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 $42.4 million (2020: $74.8 million) which are due within one year.

31 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 periods.

Directors' declaration

30 June 2021

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 7 to 70 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*,
- (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, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 21 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 21.

Page 12 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

A Harding
Director

Brisbane
9 August 2021

Independent auditor's report

To the members of Aurizon Operations Limited

Our opinion

In our opinion:

The accompanying financial report of Aurizon Operations Limited (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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Allman
Partner

Brisbane
9 August 2021

Non-IFRS Financial Information in the FY2021 Financial Report

In addition to using profit as a measure of the Group and its segments' financial performance, Aurizon uses EBITDA (Statutory and Underlying), EBITDA margin – Underlying, EBIT (Statutory and Underlying) and NPAT – Underlying. These measurements are not defined under IFRS and are, therefore, termed 'Non-IFRS' measures.

EBITDA - Statutory is Group profit before net finance costs, tax, depreciation and amortisation while EBIT - Statutory is defined as Group profit before net finance costs and tax. EBIT underlying can differ from EBIT - Statutory due to exclusion of significant items that permits a more appropriate and meaningful analysis of the underlying performance on a comparative basis. EBITDA margin is calculated by dividing underlying EBITDA by total revenue. These measures are considered to be useful measures of the Group's operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation.

NPAT – Underlying represents the underlying EBIT less finance costs, tax expense and the tax impact of significant adjustments.

A reconciliation of the Non-IFRS measures and specific items to the nearest measure prepared in accordance with IFRS is included in the table. The Non-IFRS financial information contained within this Directors' report and Notes to the Financial Statements have not been audited in accordance with Australian Auditing Standards.

	2021		2020		
	Continuing operations $m	**Discontinued operations - Intermodal $m**	Continuing operations $m	Discontinued operation - Intermodal $m	Discontinued operation – Aurizon Network[1] $m
NPAT - Underlying	**271.2**	10.8	306.9	9.0	26.8
Significant adjustments, net of tax	**5.7**	112.8	73.8	1.8	-
Significant adjustments – Aquila income tax benefit	**67.8**	-	-	-	-
NPAT – Statutory	**344.7**	123.6	380.7	10.8	26.8
Income tax expense	**47.5**	52.4	164.8	4.4	11.6
Profit before income tax	**392.2**	176.0	545.5	15.2	38.4
Net Finance costs	**11.9**	-	9.0	-	19.0
EBIT - Statutory	**404.1**	176.0	554.5	15.2	57.4
Add back significant adjustments:					
- Net gain on sale of shares in Aquila	**(8.2)**	-	-	-	-
- Net gain on sale of Acacia Ridge Intermodal Terminal	**-**	(161.1)	-	-	-
- Net gain on sale of Rail Grinding business	**-**	-	(105.4)	-	-
- Intermodal closure benefit	**-**	-	-	(2.5)	-
EBIT - Underlying	**395.9**	14.9	449.1	12.7	57.4
Depreciation and amortisation	**254.4**	-	246.7	0.2	40.8
EBITDA - Underlying	**650.3**	14.9	695.8	12.9	98.2

[1] Aurizon Network Pty Ltd was disclosed as a discontinued operation for the Aurizon Operations Ltd statutory financial reporting purposes due to the transfer of the Company's equity investment to Aurizon Holdings Limited (parent entity) in August 2019. The financial information was prepared in accordance with the accounting policies disclosed in the financial report and may differ to the Aurizon Network Pty Ltd statutory financial report. FY2020 included the results of the discontinued operation up to the date the Company's equity investment was transferred to Aurizon Holdings Limited.