

Aurizon Network Pty Ltd

ABN 78 132 181 116

**Annual Financial Report
for the year ended 30 June 2022**

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

The financial report is presented in Australian dollars.

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

Its registered office is:

Level 8
900 Ann Street
Fortitude Valley QLD 4006

The financial report for the Group for the year ended 30 June 2022 has been authorised for issue in accordance with a resolution of the Directors on 8 August 2022. The Directors have the power to amend and reissue the financial report.

Directors' Report

The Directors of Aurizon Network Pty Ltd (the Company) present their report, together with the financial statements of the Company and its controlled entities (collectively referred to as the consolidated entity or the Group) for the financial year ended 30 June 2022 (FY2022). Aurizon Network Pty Ltd is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group.

Directors

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

L Strambi (Chairman)
P Bains
M Bastos
M Fraser (retired 10 February 2022)
A Harding
K Vidgen

Principal activities

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

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

Review of operations

Business summary

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

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

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

Performance overview

Network operating profit declined \$48.8 million (10%) from \$505.3 million in FY2021 to \$456.5 million in FY2022, with decreased revenue of \$32.0 million (3%), increased operating costs of \$11.2 million (3%) and depreciation of \$5.6 million (2%).

Regulatory access revenue has been accounted for based on actual railed volumes using tariffs approved by the Queensland Competition Authority (QCA) on 22 June 2021. Actual net tonnes were 206.5mt compared to the regulatory system forecast of 226.9mt. Total Access Revenue reduced by \$45.2 million (4%):

- Allowable Revenue was lower by \$11.2 million in FY2022 primarily due to capital underspends in FY2019 and FY2020.
- Reduced volumes compared to the regulatory forecast resulted in an under-recovery after Take-or-Pay (excluding GAPE) of \$39.0 million in FY2022 (Access Revenue in FY2022 included the recognition of \$32.8 million Take-or-Pay revenue). This compares to an under-recovery of \$34.6 million (including \$88.2 million of Take-or-Pay) in FY2021.
- The Group settled all disputes with WIRP customers under their respective WIRP Deeds in July 2022. WIRP fees of \$47.0 million have been recognised in FY2022 (2021: \$60.3 million), including additional historical fees of \$30.3 million relating to FY2016 - FY2021 and \$16.7 million in fees relating to FY2022.
- GAPE revenue was \$20.0 million lower primarily due to the risk-free rate reset in June 2021 and the inclusion of a Transfer Fee in FY2021.
- The above movements were partially offset by higher Other Access revenue of \$3.7 million.

Review of operations (continued)

Services and other revenue was \$13.2 million (29%) higher in FY2022. This was primarily due to higher external construction revenue in FY2022 and is partly offset in higher operating costs.

Operating costs increased by \$11.2 million (3%) primarily due to higher construction costs associated with the higher revenue, increased electric traction charges and higher maintenance costs.

Depreciation increased \$5.6 million (2%) primarily due to ongoing rail renewal, plant and ballast undercutting investment.

Operational update

Network maintained strong operational performance during FY2022:

- CQCN volumes declined by 1% to 206.5mt. The volume reductions were largely attributable to wet weather, mine specific maintenance and production issues as well as COVID-19 related restrictions and disruptions.
- Total System Availability was 82.6% compared to 84.1% in the prior corresponding period.
- Cancellations due to the Network rail infrastructure increased from 1.6% to 2.1%.
- Cycle velocity declined marginally from 23.0km/h to 22.8km/h.

Dividends

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

State of affairs

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

Events since the end of the financial year

The Company completed a return of capital of \$350.0 million to Aurizon Holdings Limited on 29 July 2022. The return of capital was funded from existing bank debt facilities. There was no change to the number of ordinary shares on issue.

Likely developments

The 2017 Access Undertaking UT5 provides for certain variable components of WACC (predominately risk-free rate, debt risk premium, inflation and the tax allowance) (Reset Values) to be reset on 1 July 2023 to take account of prevailing market conditions at that time. The two-stage process will involve preliminary Reset Values submitted to the QCA for consultation in July 2022 which will inform FY2024 tariffs and final Reset Values agreed in July 2023. Any variation between final Reset Values and preliminary Reset Values will be included in FY2026 Revenue Adjustment Amounts.

Environmental and Cultural Heritage regulation and performance

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

In FY2022, Aurizon contributed to the development of Rail Industry Safety and Standards Board's (RISSB) Train Horn Use Code of Practice (CoP). The CoP seeks to minimise horn use impacts on the community whilst maintaining safe operations, through standardisation of network rules and improved driver awareness.

In FY2022, Aurizon launched its Cultural Heritage Governance Framework (CHGF). Leading the CHGF is a Commitment Statement which is *"to minimise our impact on Indigenous and non-Indigenous cultural heritage through a framework founded on knowledge, understanding and respect"*. The CHGF provides an implementation framework, specifying jurisdictional requirements, articulating responsibilities, accountabilities, and providing direction to bespoke guidelines and procedures. The CHGF is supported by a Cultural Heritage Awareness learning package available to all Aurizon employees.

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

Environmental and Cultural Heritage prosecutions

The Company did not incur any monetary fines, nor was it subject to any prosecutions related to environment or cultural heritage regulations in FY2022.

Indemnification and insurance of officers

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

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

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

Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest \$100,000, unless otherwise stated (where rounding is applicable) in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the instrument applies.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



L Strambi
Chairman

Brisbane
8 August 2022

8 August 2022

Board of Directors
Aurizon Network Pty Ltd
900 Ann Street
Fortitude Valley, QLD 4006
Australia

Dear Board Members

Auditor's Independence Declaration to Aurizon Network Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Board of Directors of Aurizon Network Pty Ltd.

As lead audit partner for the audit of the financial report of Aurizon Network Pty Ltd for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully


DELOITTE TOUCHE TOHMATSU



Matthew Donaldson
Partner
Chartered Accountants

Financial Report

for the year ended 30 June 2022

FINANCIAL STATEMENTS

Consolidated income statement	Page 7
Consolidated statement of comprehensive income	Page 8
Consolidated balance sheet	Page 9
Consolidated statement of changes in equity	Page 10
Consolidated statement of cash flows	Page 11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

About this report	Page 12
Significant judgements and estimates	Page 12
Key events and transactions for the reporting period	Page 13

Results for the year	Operating assets and liabilities	Capital and financial risk management	Group structure	Other notes	Unrecognised items and events after reporting date
1. Revenue	4. Trade and other receivables	11. Capital risk management	16. Subsidiaries	18. Notes to the consolidated statement of cash flows	23. Commitments and contingencies
2. Expenses	5. Inventories	12. Dividends	17. Parent entity disclosures	19. Related party transactions	24. Events occurring after the reporting period
3. Income tax	6. Property, plant and equipment	13. Equity		20. Key Management Personnel	
	7. Intangible assets	14. Borrowings		21. Auditor's remuneration	
	8. Trade and other payables	15. Financial risk management		22. Summary of other significant accounting policies	
	9. Provisions				
	10. Other liabilities				

SIGNED REPORTS

Directors' declaration	Page 61
Independent auditor's report to the members of Aurizon Network Pty Ltd	Page 62

Aurizon Network Pty Ltd
Consolidated income statement
For the year ended 30 June 2022

	Notes	2022 \$m	2021 \$m
Revenue from continuing operations	1	1,192.9	1,224.9
Employee benefits expense	2	(154.3)	(155.1)
Energy and fuel		(107.7)	(104.4)
Consumables		(127.8)	(116.2)
Depreciation and amortisation	2	(332.6)	(327.0)
Impairment losses		(1.2)	(1.6)
Other expenses		(12.8)	(15.3)
Operating profit		456.5	505.3
Finance income		0.2	0.3
Finance expenses	2	(109.8)	(133.7)
Net finance costs		(109.6)	(133.4)
Profit before income tax		346.9	371.9
Income tax expense	3	(105.0)	(112.0)
Profit for the year attributable to owners of Aurizon Network Pty Ltd		241.9	259.9

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

Aurizon Network Pty Ltd
Consolidated statement of comprehensive income
For the year ended 30 June 2022

	Notes	2022 \$m	2021 \$m
Profit for the year		241.9	259.9
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges	13(b)	105.1	17.9
Income tax relating to changes in fair value of cash flow hedges	13(b)	(31.5)	(5.4)
Other comprehensive income/(expense) for the year, net of tax		73.6	12.5
Total comprehensive income for the year attributable to owners of Aurizon Network Pty Ltd		315.5	272.4

Aurizon Network Pty Ltd
Consolidated balance sheet
As at 30 June 2022

	Notes	2022 \$m	2021 \$m
ASSETS			
Current assets			
Cash and cash equivalents		15.0	1.1
Trade and other receivables	4	194.7	242.0
Inventories	5	61.5	38.0
Derivative financial instruments	15(a)	42.3	-
Other assets		2.9	1.6
Total current assets		316.4	282.7
Non-current assets			
Inventories	5	17.4	12.1
Derivative financial instruments	15(a)	37.9	123.1
Property, plant and equipment	6	5,206.6	5,252.2
Intangible assets	7	82.0	90.5
Total non-current assets		5,343.9	5,477.9
Total assets		5,660.3	5,760.6
LIABILITIES			
Current liabilities			
Trade and other payables	8	136.4	115.0
Borrowings	14	348.0	59.0
Derivative financial instruments	15(a)	-	0.1
Provisions	9	58.7	65.3
Other liabilities	10	123.8	111.2
Total current liabilities		666.9	350.6
Non-current liabilities			
Borrowings	14	2,537.8	3,183.6
Derivative financial instruments	15(a)	200.2	66.6
Deferred tax liabilities	3(c)	716.1	681.2
Provisions	9	3.0	3.0
Other liabilities	10	96.9	123.2
Total non-current liabilities		3,554.0	4,057.6
Total liabilities		4,220.9	4,408.2
Net assets		1,439.4	1,352.4
EQUITY			
Contributed equity	13(a)	1,004.1	1,002.9
Reserves	13(b)	17.5	(56.1)
Retained earnings		417.8	405.6
Total equity		1,439.4	1,352.4

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

Aurizon Network Pty Ltd
Consolidated statement of changes in equity
For the year ended 30 June 2022

	Notes	Attributable to owners of Aurizon Network Pty Ltd			Total equity \$m
		Contributed equity \$m	Reserves \$m	Retained earnings \$m	
Balance at 1 July 2021		1,002.9	(56.1)	405.6	1,352.4
Profit for the year		-	-	241.9	241.9
Other comprehensive income		-	73.6	-	73.6
Total comprehensive income for the year		-	73.6	241.9	315.5
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	12	-	-	(229.7)	(229.7)
Capital contribution from the parent for share-based payments	13(a)	1.2	-	-	1.2
		1.2	-	(229.7)	(228.5)
Balance at 30 June 2022		1,004.1	17.5	417.8	1,439.4
Balance at 1 July 2020		1,202.9	(68.6)	377.1	1,511.4
Profit for the year		-	-	259.9	259.9
Other comprehensive income		-	12.5	-	12.5
Total comprehensive income for the year		-	12.5	259.9	272.4
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	12	-	-	(231.4)	(231.4)
Capital distribution to the parent	13(a)	(200.1)	-	-	(200.1)
Capital contribution from the parent for share-based payments	13(a)	0.1	-	-	0.1
		(200.0)	-	(231.4)	(431.4)
Balance at 30 June 2021		1,002.9	(56.1)	405.6	1,352.4

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

Aurizon Network Pty Ltd
Consolidated statement of cash flows
For the year ended 30 June 2022

	Notes	2022 \$m	2021 \$m
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,342.2	1,323.3
Payments to suppliers and employees (inclusive of GST)		(547.4)	(514.1)
Interest received		-	0.3
Income taxes paid		(83.1)	(57.8)
Net cash inflow from operating activities	18	<u>711.7</u>	<u>751.7</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(280.0)	(277.0)
Proceeds from sale of assets		0.8	1.1
Payments for intangibles		(4.5)	(4.3)
Interest paid on qualifying assets		(0.4)	(2.2)
Net cash outflow from investing activities		<u>(284.1)</u>	<u>(282.4)</u>
Cash flows from financing activities			
Proceeds from external borrowings		60.0	633.3
Repayment of external borrowings		(224.0)	(533.0)
Payment of transaction costs related to borrowings		(0.1)	(2.5)
Proceeds from related parties under the Intra Group Loan Agreement		93.0	-
Interest paid		(112.7)	(140.7)
Capital distribution to parent		-	(200.4)
Dividends paid to Company's shareholder	12	(229.7)	(231.4)
Net cash outflow from financing activities		<u>(413.5)</u>	<u>(474.7)</u>
Net increase/(decrease) in cash and cash equivalents		14.1	(5.4)
Cash and cash equivalents at the beginning of the financial year		1.1	6.7
Effects of exchange rate changes on cash and cash equivalents		(0.2)	(0.2)
Cash and cash equivalents at end of year		<u>15.0</u>	<u>1.1</u>

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

About this report

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

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value;
- is presented in Australian dollars with values rounded to the nearest \$100,000 unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*;
- presents reclassified comparative information where required for consistency with current year presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2021; 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 2022 (FY2022) has been authorised for issue in accordance with a resolution of the Directors on 8 August 2022. The Directors have the power to amend and reissue the financial report.

Significant judgements and estimates

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

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

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

Other accounting policies

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

The notes to the financial statements

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

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

Key events and transactions for the reporting period

(a) Access Revenue

2017 Access Undertaking

The 2017 Access Undertaking (UT5) approved by the Queensland Competition Authority (QCA) on 19 December 2019 included an increase in the Weighted Average Cost of Capital (WACC) from 5.90% to 6.30% upon Aurizon Network Pty Ltd (a wholly owned subsidiary of the Group) notifying the Chair of the Rail Industry Group (RIG) of its proposed options to address any capacity deficits identified in the independent capacity assessment of the Central Queensland Coal Network (CQCN) completed by an Independent Expert.

The Independent Expert completed the Initial Capacity Assessment Report (ICAR) on 28 October 2021 and on 12 November 2021, Aurizon Network Pty Ltd provided the Chair of the RIG and the QCA its preliminary response to the ICAR. This was followed by a more detailed report, following consultation with customers, on 14 March 2022, on potential transitional arrangements to rectify the relevant coal systems' capacity deficits. On 17 June 2022, the Independent Expert made a recommendation to the QCA on which of the transitional arrangements identified in the detailed report would most effectively and efficiently resolve the capacity deficits identified in the ICAR, following which the QCA will make a decision. The QCA has not made such a determination yet and therefore the impact of any such determination has not been assessed.

Future transitional arrangements and associated capital expenditure requirements will be subject to a range of factors including (i) concept and feasibility studies, (ii) staged reviews of certain transitional arrangements pending reviews of existing capacity deficits post execution of other arrangements and (iii) QCA approval. As a result of customer consultation, both Aurizon Network Pty Ltd and customers have agreed that forecast demand in the relevant coal system will also be a relevant factor and have submitted to the QCA that this should be taken into account.

Consistent with the definition of the Report Date in UT5, notification to the Chair of the RIG on 12 November 2021 triggered an increase in the WACC from 5.90% to 6.30%. UT5 assumed the ICAR would be completed by 1 March 2020 and therefore a WACC of 6.30% was applied in determining tariffs from that date. As a result of the delay in the publication of the ICAR, there has been an over-collection of access charges (the difference between 5.90% and 6.30%) in FY2022 estimated to be \$9.3 million that will be captured in the FY2022 revenue adjustment amount. The total FY2022 revenue adjustment amount to be recovered in FY2024 tariffs, is estimated to be a net under recovery of approximately \$42.0 million (\$30.0 million excluding GAPE), driven by annual volumes being lower than regulatory forecast and other adjustments, partly offset by Take-or-Pay of \$32.8 million recognised in FY2022. The FY2022 revenue adjustment is subject to approval by the QCA.

Wiggins Island Rail Project (WIRP)

The Group settled all disputes with WIRP customers under their respective WIRP Deeds in July 2022. WIRP fees of \$47.0 million have been recognised in FY2022 (2021: \$60.3 million), including additional historical fees of \$30.3 million relating to FY2016 - FY2021 and \$16.7 million in fees relating to FY2022.

Results for the year

IN THIS SECTION

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

1	Revenue	Page 15
2	Expenses	Page 18
3	Income tax	Page 19

1 Revenue

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

The Group derives the following types of revenue from the provision of services over time:

	2022 \$m	2021 \$m
Revenue		
Service revenue		
Track access	1,133.7	1,178.9
Other services ¹	26.4	14.8
Other revenue ¹	32.8	31.2
Total revenue from continuing operations	1,192.9	1,224.9

¹ Other services revenue includes maintenance contracts for private infrastructure, external construction works and other services. Other revenue includes the recognition of charges for customer-funded infrastructure.

(a) Disaggregation of revenue from contracts with customers

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

(b) Contract liabilities

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

	2022 \$m	2021 \$m
Current		
Advances for track access	-	26.3
Advances for other revenue	45.7	25.4
	45.7	51.7
Non-current		
Advances for other revenue	96.9	123.2

Contract liabilities primarily represent amounts received from customers as advances for track access and the provision of services under agreements for mine-specific infrastructure. These amounts are recognised in revenue using the output method as performance obligations are satisfied over time.

	2022 \$m	2021 \$m
Within one year	45.7	51.7
Later than one year but not later than five years	72.8	92.2
Later than five years	24.1	31.0
	142.6	174.9

The decrease in contract liabilities represents revenue recognised for track access and the provision of services under agreements for mine-specific infrastructure.

1 Revenue (continued)

(b) Contract liabilities (continued)

(i) 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.

	2022 \$m	2021 \$m
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Advances for track access	26.3	-
Advances for other revenue	24.9	26.5
	51.2	26.5

(ii) Unsatisfied performance obligations

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

As at 30 June 2022, future contracted revenues for contracts with a timing difference are approximately \$142.6 million, of which \$45.7 million is expected to be recognised in FY2023. These amounts relate to track access and other services from contracts with customers being high credit worthy counterparties. Future contracted revenues are in nominal FY2022 dollars. Variable revenue is not included. As such, the future contracted revenues described above represent only part of the Group's forecast revenues for FY2023 and beyond.

The Group applies the practical expedient in AASB 15 Revenue from Contracts with Customers (AASB 15), paragraph 121 to all other contracts and does not disclose information on future contracted revenues. This is because the right to consideration from a customer corresponds directly with the Group's performance obligations completed to date.

Significant judgements and estimates

Take-or-Pay revenue

The Group is able to recover in the financial year part of an Allowable Revenue shortfall through Take-or-Pay clauses which may trigger when annual volumes railed are less than the regulatory forecast. Take-or-Pay is calculated based on management's judgement of the Company's cause and above rail operator and/or mine cancellations. This judgement impacts the calculation of Take-or-Pay and the receivable recognised in the year that the contractual railings were not achieved. Take-or-Pay revenue of \$32.8 million has been recognised at 30 June 2022 (2021: \$88.2 million).

1 Revenue (continued)

(c) Accounting policies

The Group recognises revenue as performance obligations are satisfied.

Track access revenue is generated from the provision of access to, and operation of, the CQCN under an approved Access Undertaking. Track access revenue is recognised over time as access to the rail network is provided and is measured on a number of operating parameters including volumes hauled applied to regulator approved tariffs. The tariffs charged are determined with reference to the total allowable revenue, applied to the regulatory approved annual volume forecast for each rail system. At each balance date, track access revenue includes an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. These amounts are recognised as trade receivables.

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

Regulated access revenue is subject to a revenue cap mechanism that serves to ensure the rail network recovers its Allowable Revenue over the regulatory period. A revenue adjustment event results in the under or over recovery of regulatory access revenue (net of Take-or-Pay revenue) for a financial year being recognised in the accounting revenues of the second financial year following the financial year in which the event occurred as per the Access Undertaking.

Access revenue for the financial year has been recognised based on the 2017 Access Undertaking applying a WACC rate of 6.30% (2021: 6.30%). Refer to key events and transactions for further information.

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

2 Expenses

Profit before income tax includes the following specific expenses:

	2022 \$m	2021 \$m
Employee benefits expense		
Salaries, wages and allowances including on-costs	135.0	135.9
Defined contribution superannuation expense	17.8	16.5
Redundancies	1.5	2.7
	154.3	155.1
 Depreciation and amortisation		
Depreciation of property, plant and equipment	320.3	314.4
Amortisation of intangibles	12.3	12.6
	332.6	327.0
 Finance expenses		
Interest and finance charges paid/payable	114.8	138.7
Amortisation of capitalised borrowing costs	3.3	3.3
Amortisation of AMTN 2 fair value adjustment	(2.4)	(2.4)
Hedge ineffectiveness ¹	(5.5)	(3.7)
	110.2	135.9
Capitalised interest paid on qualifying assets	(0.4)	(2.2)
	109.8	133.7

¹ Refer to the accounting policy in note 15.

3 Income tax

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

(a) Income tax expense

	2022 \$m	2021 \$m
Current tax	114.7	103.1
Deferred tax	(9.6)	9.6
Current tax relating to prior periods	(13.1)	(16.3)
Deferred tax relating to prior periods	13.0	15.6
	<u>105.0</u>	<u>112.0</u>
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	43.8	35.5
Decrease in deferred tax liabilities	(40.4)	(10.3)
	<u>3.4</u>	<u>25.2</u>

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

	2022 \$m	2021 \$m
Profit before income tax expense	346.9	371.9
Tax at the Australian tax rate of 30% (2021: 30%)	104.1	111.6
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other	1.0	1.1
Adjustments for tax of prior periods	(0.1)	(0.7)
Total income tax expense	<u>105.0</u>	<u>112.0</u>

3 Income tax (continued)

(c) Deferred tax balances

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

	2022 \$m	2021 \$m
Deferred tax assets		
Provisions and accruals	20.8	22.8
Contract liabilities	6.0	-
Financial instruments	10.8	57.6
Other items	-	1.0
Total deferred tax assets	37.6	81.4
Set-off against deferred tax liabilities	(37.6)	(81.4)
Net deferred tax assets	-	-
Deferred tax liabilities		
Property, plant and equipment	716.7	707.0
Intangible assets	19.9	24.1
Financial instruments	5.9	31.5
Inventories	0.8	-
Other items	10.4	-
Total deferred tax liabilities	753.7	762.6
Set-off of deferred tax assets	(37.6)	(81.4)
Net deferred tax liabilities	716.1	681.2

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

	2022 \$m	2021 \$m
Provisions and accruals	2.0	(1.6)
Contract liabilities	(6.0)	0.5
Financial instruments	46.8	36.5
Other items	1.0	0.1
Decrease in deferred tax assets	43.8	35.5
Property, plant and equipment	9.7	24.8
Intangible assets	(4.2)	(0.4)
Financial instruments	(57.1)	(34.7)
Inventories	0.8	-
Other	10.4	-
Decrease in deferred tax liabilities	(40.4)	(10.3)
Net deferred income tax expense	3.4	25.2

3 Income tax (continued)

(d) Accounting policies

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

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

(i) Current tax

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

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

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

(ii) Deferred tax

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

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

(iii) Offsetting deferred tax balances

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

(iv) Tax consolidation legislation

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

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

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

The tax sharing agreement limits the joint and several liability of the Company in the case of a default by the head entity.

Operating assets and liabilities

IN THIS SECTION

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

4	Trade and other receivables	Page 23
5	Inventories	Page 24
6	Property, plant and equipment	Page 25
7	Intangible assets	Page 30
8	Trade and other payables	Page 31
9	Provisions	Page 31
10	Other liabilities	Page 33

4 Trade and other receivables

	2022 \$m	2021 \$m
Current		
Trade receivables	121.7	123.2
Provision for impairment of receivables	(0.1)	(0.2)
Net trade receivables	121.6	123.0
Other receivables ¹	73.1	119.0
	194.7	242.0

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

The Group has recognised a net decrease of \$0.1 million (2021: net increase of \$0.2 million) in the provision for impairment of trade receivables.

(a) Accounting policies

(i) Trade receivables

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

(ii) Provisions for impairment

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

The Group recognises a provision for impairment based on expected lifetime losses of trade and other 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 and other receivables, consideration is given to historical experience of bad debts, the aging of receivables, knowledge of debtor insolvency and individual account assessment.

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

5 Inventories

	2022 \$m	2021 \$m
Current		
Raw materials and stores at cost	61.5	38.0
Non-current		
Raw materials and stores - at cost	24.2	18.8
Provision for inventory obsolescence	(6.8)	(6.7)
	17.4	12.1

(a) Accounting policies

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

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

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

6 Property, plant and equipment

	Assets under construction \$m	Land \$m	Buildings \$m	Plant and equipment \$m	Rollingstock \$m	Infrastructure \$m	Total \$m
2022							
Opening net book amount	110.8	28.6	16.1	119.0	22.1	4,955.6	5,252.2
Additions	278.6	-	-	-	-	-	278.6
Transfers between asset classes	(317.0)	-	0.5	65.6	-	250.9	-
Disposals	-	-	-	(0.5)	-	(2.2)	(2.7)
Depreciation	-	-	(1.6)	(14.5)	(2.0)	(302.2)	(320.3)
Impairment	(1.2)	-	-	-	-	-	(1.2)
Closing net book amount	71.2	28.6	15.0	169.6	20.1	4,902.1	5,206.6
At 30 June 2022							
Cost	71.2	28.6	26.8	272.6	28.9	7,787.8	8,215.9
Accumulated depreciation and impairment	-	-	(11.8)	(103.0)	(8.8)	(2,885.7)	(3,009.3)
Net book amount	71.2	28.6	15.0	169.6	20.1	4,902.1	5,206.6
2021							
Opening net book amount	121.2	25.8	5.8	128.6	24.0	4,995.7	5,301.1
Additions	258.8	0.2	9.8	0.5	-	3.2	272.5
Transfers between asset classes	(269.2)	2.6	2.3	3.5	0.1	260.7	-
Disposals	-	-	(0.1)	(0.8)	-	(4.5)	(5.4)
Depreciation	-	-	(1.7)	(12.5)	(2.0)	(298.2)	(314.4)
Impairment	-	-	-	(0.3)	-	(1.3)	(1.6)
Closing net book amount	110.8	28.6	16.1	119.0	22.1	4,955.6	5,252.2
At 30 June 2021							
Cost	110.8	28.6	26.4	210.8	28.9	7,543.2	7,948.7
Accumulated depreciation and impairment	-	-	(10.3)	(91.8)	(6.8)	(2,587.6)	(2,696.5)
Net book amount	110.8	28.6	16.1	119.0	22.1	4,955.6	5,252.2

6 Property, plant and equipment (continued)

Significant judgements and estimates

Useful lives

Context of Judgements

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

Useful lives of infrastructure assets

The useful lives of infrastructure assets are determined based on the expected engineering life, capped at the remaining term of the infrastructure leases (87 years) and are reviewed annually. Infrastructure predominantly relates to CQCN assets. Aurizon Network Pty Ltd (Network) is responsible for the provision of access to, and operation of, the below rail regulated CQCN which connects 40 mines to five export terminals as well as to domestic customers.

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

Network earns a Return of Capital as part of Allowable Revenue for each coal system under the QCA approved Access Undertaking. The Return of Capital compensates Network for depreciation of the Regulatory Asset Base (RAB) over QCA endorsed regulatory lives for individual asset classes which differ to the expected engineering life used for statutory reporting purposes. The QCA has also approved an accelerated depreciation profile for additions to the RAB from FY2010 onwards. As a result, at the commencement of each regulatory period, where an asset class has a remaining regulatory useful life:

- higher than 20 years, RAB depreciation is based on a 20-year rolling life, which resets to 20 years each regulatory period
- lower than 20 years, depreciation is calculated on a straight-line basis.

The accelerated depreciation profile adopted by the QCA increases the rate at which Network recovers the Return of Capital and increases Allowable Revenue in the near term.

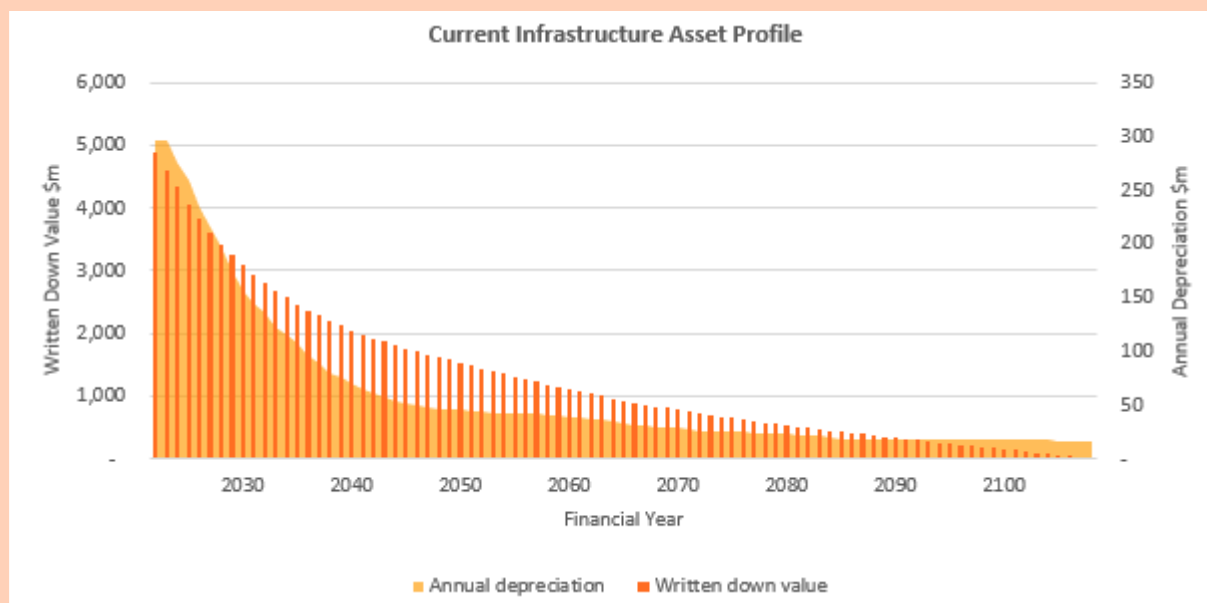
The QCA approved economic life of the CQCN can be re-assessed at the commencement of each regulatory period and therefore the QCA approved economic life of the CQCN RAB is not an indicator that useful lives adopted for statutory reporting purposes should be revised.

A range of indicators of global coal demand over the short, medium and long term are reviewed annually to assess the appropriateness of useful lives assigned to infrastructure assets for statutory reporting purposes. Indicators include the following:

- Asian GDP growth and steel-related demand
- crude steel production method and scrap metal availability
- global supply competitiveness and Australian supply constraints for metallurgical coal
- government policies, including the ability of customers to gain regulatory approvals and raise funding to support development of their resource base
- climate policy targets and how they are intended to be met at both a country and corporate level, including net-zero emissions targets set by major import nations of Australian coal. Major import nations of Australian coal with net zero emissions targets include India (2070), Japan (2050), South Korea (2050) and China (2026).
- the viability of new and alternative technologies that are developed to reduce emissions targets such as carbon capture, utilisation and storage (CCUS), and hydrogen-based steel making, that may positively or negatively impact future coal demand

6 Property, plant and equipment (continued)

The impact of the above indicators and other factors that may emerge on global coal demand and Australian coal supply are uncertain at this time and difficult to predict. Consequently, there is a risk that the useful lives assigned to infrastructure assets may require revision in the future, resulting in a change in depreciation rates on a prospective basis. The graph below summarises the annual depreciation profile of the current written down value of total infrastructure assets of \$4,902.1 million over the useful life applied for each class of assets described in note 6(b)(i) and excludes future capital investments:



All infrastructure assets have a maximum useful life of FY2109. As an indication of sensitivity, the table below summarises the increase in annual depreciation if the maximum useful life of current infrastructure assets are reduced by 10, 20, 30 or 40 years:

Reduction in maximum useful life (years):	Increase in annual depreciation (\$m p.a):
10	2
20	5
30	10
40	17

(a) Leases

Other leased assets

The following table summarises the coal infrastructure and corridor land and buildings leases:

Leases	Lessee	Lessor	Term	Expiry	Rental Amount	Extension Option ¹
CQCN	Aurizon Network Pty Ltd	State of Queensland (land) and Queensland Treasury Holdings (infrastructure)	99 years	30 June 2109	\$1 if demanded	99 years
Part of the North Coast Line	Aurizon Network Pty Ltd	State of Queensland (land) and Queensland Rail (infrastructure)	99 years	30 June 2109	\$1 if demanded	99 years

¹ The extension option is on the same terms as the initial lease period. Notice must be provided within at least 20 years prior to the expiring of the existing term. The extension option under the corridor land leases are dependent on the infrastructure lease extension being exercised and granted.

6 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 leased assets:

	2022 \$m	2021 \$m
Other leased assets		
Coal infrastructure	4,307.1	4,341.1
Corridor land	25.8	25.8
Buildings	1.6	1.8
	4,334.5	4,368.7

(ii) Amounts recognised in consolidated income statement

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

	2022 \$m	2021 \$m
Depreciation of other leased assets		
Coal infrastructure	264.8	257.3
Buildings	0.2	0.2
	265.0	257.5

(b) Accounting policies

(i) Property, plant and equipment

Carrying value

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

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

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.

6 Property, plant and equipment (continued)

(b) Accounting policies (continued)

(i) Property, plant and equipment (continued)

The depreciation rates used for each class of assets are:

- | | |
|------------------------------|---------------|
| • Infrastructure, including: | |
| Tracks | 7 - 50 years |
| Track turnouts | 20 - 25 years |
| Ballast | 8 - 20 years |
| Civil works | 20 - 99 years |
| Bridges | 30 - 99 years |
| Electrification | 20 - 50 years |
| Field signals | 15 - 40 years |
| • Buildings | 10 - 40 years |
| • Rollingstock, including: | |
| Wagons | 25 - 35 years |
| Wagon componentisation | 10 - 17 years |
| • Plant and equipment | 3 - 20 years |

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

(ii) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Where the Group is a sub-lessor and the sub-lease is for the duration of the head lease, the right-of-use asset recognised from the head lease is derecognised and a lease receivable equal to the present value of future lease payments receivable is recognised.

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

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

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

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

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

(iii) Impairment tests for property, plant and equipment

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

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

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

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

6 Property, plant and equipment (continued)

(b) Accounting policies (continued)

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

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

7 Intangible assets

	Software \$m	Software development under \$m	Total \$m
2022			
Opening net book amount	86.8	3.7	90.5
Additions	-	3.8	3.8
Transfers between asset classes	7.5	(7.5)	-
Amortisation	(12.3)	-	(12.3)
Closing net book amount	82.0	-	82.0
At 30 June 2022			
Cost	144.2	-	144.2
Accumulation amortisation and impairment	(62.2)	-	(62.2)
Net book amount	82.0	-	82.0
2021			
Opening net book amount	87.4	11.3	98.7
Additions	-	4.4	4.4
Transfers between asset classes	12.0	(12.0)	-
Amortisation	(12.6)	-	(12.6)
Closing net book amount	86.8	3.7	90.5
At 30 June 2021			
Cost	136.7	3.7	140.4
Accumulated amortisation and impairment	(49.9)	-	(49.9)
Net book amount	86.8	3.7	90.5

7 Intangible assets (continued)

(a) Accounting policies

(i) Software

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

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

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

8 Trade and other payables

	2022	2021
	\$m	\$m
Current		
Trade payables	112.9	96.7
Other payables	23.5	18.3
	136.4	115.0

(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.

9 Provisions

	2022	2021
	\$m	\$m
Current		
Employee benefits (a)	58.7	65.3
Non-current		
Employee benefits (a)	3.0	3.0
Total provisions	61.7	68.3

(a) Employee benefits

	2022	2021
	\$m	\$m
Annual leave	14.0	13.6
Long service leave	30.7	34.3
Other	17.0	20.4
	61.7	68.3

9 Provisions (continued)

(a) Employee benefits (continued)

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 employee benefits or require payment within the next 12 months based on past experience. The current provision for employee benefits includes \$28.1 million (2021: \$31.5 million) that is not expected to be taken or paid within the next 12 months.

(b) Accounting policies

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation at the reporting date.

(i) Employee benefits

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

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

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

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

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

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

(ii) Superannuation

Aurizon Network Pty Ltd is a member of the State Public Sector Superannuation Scheme (QSuper) multi-employer defined benefit superannuation plan and is required to contribute a specific percentage of employee benefits expense to fund the retirement benefits of 119 employees (2021: 132).

In accordance with the requirements of AASB 119 *Employee Benefits*, given the lack of sufficient information available, the plan is accounted for as if it were a defined contribution plan. Defined contribution superannuation expense in note 2 includes \$2.0 million (2021: \$2.3 million) relating to the QSuper defined benefit plan.

10 Other liabilities

	2022 \$m	2021 \$m
Current		
Contract liabilities	45.7	51.7
Tax loan payable to parent entity	78.1	59.5
	123.8	111.2
Non-current		
Contract liabilities	96.9	123.2
	96.9	123.2

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

Capital and financial risk management

IN THIS SECTION

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

11	Capital risk management	Page 35
12	Dividends	Page 35
13	Equity	Page 36
14	Borrowings	Page 37
15	Financial risk management	Page 38

11 Capital risk management

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Group monitors its capital structure by reference to gearing ratio, ability to generate free cash flows and credit rating.

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

	Notes	2022 \$m	2021 \$m
Total borrowings	14	2,885.8	3,242.6
Less: cash and cash equivalents		(15.0)	(1.1)
Net debt		2,870.8	3,241.5
Total equity		1,439.4	1,352.4
Total capital		4,310.2	4,593.9
Net gearing ratio		66.6%	70.6%

12 Dividends

	\$m
Declared and paid during the period	
For the year ended 30 June 2022	
Final dividend for 2021 (unfranked)	141.7
Interim dividend for 2022 (unfranked)	88.0
	229.7
For the year ended 30 June 2021	
Final dividend for 2020 (unfranked)	113.2
Interim dividend for 2021 (unfranked)	118.2
Total	231.4

Proposed and unrecognised at period end

For the year ended 30 June 2022	
Final dividend for 2022 (unfranked)	109.0
For the year ended 30 June 2021	
Final dividend for 2021 (unfranked)	141.7

13 Equity

(a) Contributed equity

(i) Issued capital

	2022	2021
Number of ordinary shares	130	130
Contributed equity (\$m)	999.8	999.8

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.

(ii) Other contributed equity

	2022 \$m	2021 \$m
Capital contribution from the parent for share-based payments	3.3	2.1
Aggregate deferred tax on related share-based payments	1.0	1.0
Total other contributed equity	4.3	3.1

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.

(b) Reserves

	2022 \$m	2021 \$m
Cash flow hedges		
Balance 1 July	(56.1)	(68.6)
Fair value gains/(losses) taken to equity	105.1	17.9
Tax expense/(benefit) relating to items of other comprehensive income	(31.5)	(5.4)
Balance 30 June	17.5	(56.1)

(i) Cash flow hedge reserve

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

14 Borrowings

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

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

	2022 \$m	2021 \$m
Current - Unsecured		
Bank debt facilities	255.0	59.0
Loans from related parties	93.0	-
	<u>348.0</u>	<u>59.0</u>
Non-current - Unsecured		
Medium-Term notes	2,422.5	2,711.5
Bank debt facilities	120.0	480.0
Capitalised borrowing costs	(4.7)	(7.9)
	<u>2,537.8</u>	<u>3,183.6</u>
Total borrowings	<u>2,885.8</u>	<u>3,242.6</u>

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 may also draw upon funds from Aurizon Operations Limited (related party) pursuant to the Intra Group Loan Agreement (refer to note 19).

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

(a) Accounting policies

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

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

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

15 Financial risk management

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

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

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

Risk	Exposure	Mitigation
Market risk		
- Interest rate risk	The Group is exposed to interest rate risk in respect to short and long-term borrowings where interest is charged at variable rates.	The Group mitigates interest rate risk primarily by maintaining an appropriate mix of fixed and floating rate borrowings. Where necessary, the Group hedges interest rates using derivative financial instruments - interest rate swaps to manage cash flows and interest rate exposure.
- Interest rate and foreign exchange risk	The Group is exposed to interest rate and foreign currency exchange risk in respect of the Euro (€) denominated Medium-Term Notes (EMTNs).	To mitigate the risk of adverse movements in interest rates and foreign exchange in respect of Euro denominated borrowings, the Group enters into cross currency interest rate swaps (CCIRS) to replace Euro principal and interest payments with Australian dollar repayments.
- Foreign exchange risk	The Group is exposed to foreign exchange risk in respect of purchases of inventory and property, plant and equipment denominated in 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 are available to meet its cash flow obligations when due under both normal and stressed conditions without incurring unacceptable losses or 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 provisions 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 risk through approval, granting and renewal of credit limits, regularly monitoring exposures against credit limits, and assessing overall financial stability and strength of counterparties on an ongoing basis. Refer to note 4 for credit risk exposures relating to trade and other receivables.

15 Financial risk management (continued)

(a) Market risk

(i) Interest rate risk

Exposure

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

	Weighted average interest rate %	Balance \$m
2022		
Variable rate exposure	1.8	2,520.8
Interest rate swaps (notional principal amount)	1.0	<u>(2,300.0)</u>
Net exposure to interest rate risk		<u>220.8</u>
2021		
Variable rate exposure	2.6	2,609.8
Interest rate swaps (notional principal amount)	1.8	<u>(2,725.0)</u>
Net exposure to interest rate risk		<u>(115.2)</u>

Interest rate derivatives used for hedging

The Group currently has interest rate swaps in place to cover 91% (2021: 104%) of the variable rate borrowings, including fixed rate borrowings converted to variable rate borrowings as a result of fair value hedge relationships outlined in note 15(a)(ii). The weighted average maturity of interest rate swaps is less than one year (2021: 1.8 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
2022		
Effect on profit	(2.2)	2.2
Effect on equity	18.2	(18.5)
2021		
Effect on profit	1.2	(1.2)
Effect on equity	44.6	(45.6)

Amounts recognised in profit or loss

The Group recognised a net loss on interest rate swaps of \$19.0 million (2021: loss of \$38.6 million) as a result of market interest rates (i.e. floating rates) closing lower than the average interest rate hedged resulting in a loss on the floating-to-fixed interest rate swaps, partly offset by a gain on the fixed-to-floating interest rate swaps. The net loss represents the effective portion of hedges which have been recognised in interest expense.

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting

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

	2022 \$m	2021 \$m
Current assets		
Interest rate swaps	42.3	-
Non-current assets		
CCIRS - EMTN 1	37.9	109.2
CCIRS - EMTN 2	-	13.9
Total derivative financial instrument assets	<u>80.2</u>	<u>123.1</u>
Current liabilities		
Interest rate swaps	-	0.1
Non-current liabilities		
Interest rate swaps	-	40.2
Interest rate swaps - AMTN 3	10.8	0.4
Interest rate swaps - AMTN 4	105.1	26.0
Interest rate swaps - AMTN 5	13.0	-
CCIRS - EMTN 2	71.3	-
Total non-current derivative financial instrument liabilities	<u>200.2</u>	<u>66.6</u>
Total derivative financial instrument liabilities	<u>200.2</u>	<u>66.7</u>

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting (continued)

The following table summarises the impact of hedging instruments designated in hedging relationships, recognised as derivative financial instruments in the consolidated balance sheet:

	Notional amount		Carrying amount assets/(liabilities)		Favourable/(unfavourable) change in fair value used for measuring ineffectiveness for the year	
	2022	2021	2022	2021	2022	2021
			\$m	\$m	\$m	\$m
Cash flow hedges						
Foreign exchange risk						
Forward contracts ¹	€2.3m	-	-	-	-	-
Interest rate risk						
Interest rate swaps ²	A\$2,300.0m	A\$2,725.0m	42.3	(40.3)	82.6	35.7
Foreign exchange and interest rate risks						
CCIRS – EMTN 1 ³	€500.0m	€500.0m	(1.3)	(1.0)	(0.3)	(1.2)
CCIRS – EMTN 2 ³	€500.0m	€500.0m	(10.7)	(10.8)	0.1	(4.0)
Fair value hedges						
Interest rate risk						
Interest rate swaps - AMTN 3 ⁴	A\$82.0m	A\$82.0m	(10.8)	(0.4)	(10.7)	(3.9)
Interest rate swaps - AMTN 4 ⁴	A\$500.0m	A\$500.0m	(105.1)	(26.0)	(82.3)	(27.3)
Interest rate swaps - AMTN 5 ⁴	A\$75.0m	-	(13.0)	-	(13.7)	-
Foreign exchange and interest rate risks						
CCIRS – EMTN 1 ³	€500.0m	€500.0m	39.2	110.2	(80.0)	(41.2)
CCIRS – EMTN 2 ³	€500.0m	€500.0m	(60.6)	24.7	(101.5)	(38.9)

¹ Forward contracts have an average AUD:EUR exchange rate of 0.6566 related to capital commitments.

² Floating-to-fixed interest rate swaps have an average fixed interest rate of 0.96% (2021: 1.08%) and receive floating BBSW.

³ CCIRS have an average fixed EUR interest rate of 2.56%, an average floating AUD interest rate of BBSW + 2.93% spread, and an average AUD:EUR exchange rate of 0.6730, over the same term as the EMTNs.

⁴ Fixed-to-floating interest rate swaps have an average floating BBSW + 1.91% spread (2021: BBSW + 1.95% spread) and an average fixed interest rate of 2.94% (2021: 2.90%), over the same term as the AMTNs.

15 Financial risk management (continued)

(a) Market risk (continued)

(ii) Effects of hedge accounting (continued)

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

	Cash flow hedge reserve ¹		(Favourable)/unfavourable change in fair value used for measuring ineffectiveness for the year		Hedging gain/(loss) recognised in comprehensive income ¹	
	2022	2021	2022	2021	2022	2021
	\$m	\$m	\$m	\$m	\$m	\$m
Cash flow hedges (before tax)						
Interest rate risk						
Forecast floating interest payments	(42.3)	40.3	(82.6)	(35.7)	82.6	36.0
Foreign exchange and interest rate risks						
EMTN 1	3.3	11.8	0.3	1.2	8.6	(6.6)
EMTN 2	14.1	28.0	(0.1)	4.0	13.9	(11.5)

¹ Cash flow hedge reserve includes the cumulative impact of cross-currency basis in relation to EMTN 1 and EMTN 2 of \$33.2 million (2021: \$19.4 million). The hedging gain recognised in other comprehensive income includes the cross-currency basis relating to EMTN 1 and EMTN 2 of \$22.3 million (2021: hedging loss of \$13.1 million).

The following table summarises the impact of hedged items designated in fair value hedging relationships, recognised as borrowings in the consolidated balance sheet:

	Carrying amount ¹		Accumulated fair value adjustment		(Favourable)/unfavourable change in fair value used for measuring ineffectiveness for the year	
	2022	2021	2022	2021	2022	2021
	\$m	\$m	\$m	\$m	\$m	\$m
Fair value hedges (before tax)						
Interest rate risk						
AMTN 2 ²	-	-	(4.7)	(7.1)	-	-
AMTN 3	(70.8)	(81.5)	11.2	0.5	10.7	3.9
AMTN 4	(390.4)	(472.7)	109.6	27.3	82.3	27.3
AMTN 5	(61.3)	-	13.7	-	13.7	-
	(522.5)	(554.2)	129.8	20.7	106.7	31.2
Foreign exchange and interest rate risks						
EMTN 1	(752.9)	(832.6)	(42.3)	(122.0)	79.7	41.2
EMTN 2	(722.4)	(824.3)	55.8	(46.1)	101.9	38.9
	(1,475.3)	(1,656.9)	13.5	(168.1)	181.6	80.1
Total borrowings subject to fair value hedges	(1,997.8)	(2,211.1)	143.3	(147.4)	288.3	111.3

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

² Hedge accounting for AMTN 2 was discontinued in FY2019. During FY2022, an amount of \$2.4 million (2021: \$2.4 million) has been recognised in profit or loss in finance costs.

15 Financial risk management (continued)

(b) Liquidity and funding risk

(i) Financing arrangements

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

	Maturity	Utilised ¹		Facility limit	
		2022 \$m	2021 \$m	2022 \$m	2021 \$m
Working capital facility	Jun-23	2.5	60.5	75.0	75.0
Bilateral facility	Jun-23	255.0	370.0	750.0	750.0
Bilateral facility	Jun-24	60.0	110.0	300.0	300.0
Bilateral facility	Jun-25	60.0	-	150.0	150.0
AMTN 2 ²	Jun-24	425.0	425.0	425.0	425.0
AMTN 3 ²	Mar-30	82.0	82.0	82.0	82.0
AMTN 4 ²	Sep-30	500.0	500.0	500.0	500.0
AMTN 5 ²	Dec-31	75.0	75.0	75.0	75.0
EMTN 1 ²	Sep-24	710.6	710.6	710.6	710.6
EMTN 2 ²	Jun-26	778.2	778.2	778.2	778.2
Total Group financing arrangements		2,948.3	3,111.3	3,845.8	3,845.8

¹ Amount utilised includes bank guarantees of \$2.5 million (2021: \$1.5 million) and excludes capitalised borrowing costs of \$4.7 million (2021: \$7.9 million) and discounts on Medium Term Notes of \$5.0 million (2021: \$6.9 million).

² Amounts utilised on EMTNs and AMTNs exclude accumulated fair value adjustments of \$143.3 million (2021: \$147.4 million). EMTN 1 and EMTN 2 have a notional amount of €500.0 million converted to AUD at an exchange rate of 0.7036 and 0.6425 respectively.

The Group has access to working capital facilities totalling \$75.0 million (2021: \$75.0 million) which can be utilised for short-term working capital and financial bank guarantees. At 30 June, the Group utilised \$2.5 million (2021: \$1.5 million) for financial bank guarantees.

Under limited circumstances, the Group may also draw upon funds from Aurizon Operations Limited (related party) pursuant to the Intra Group Loan Agreement (refer note 19).

15 Financial risk management (continued)

(b) Liquidity and funding risk (continued)

(ii) Maturities of financial liabilities

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

	1 year or less \$m	1 - 5 years \$m	More than 5 years \$m	Total contractual cash flows \$m	Carrying amount (assets)/ liabilities \$m
2022					
Non-derivative financial instruments					
Trade and other payables	136.4	-	-	136.4	136.4
Other liabilities	78.1	-	-	78.1	78.1
Borrowings (excluding the effect of CCIRS) ¹	439.4	2,268.0	724.8	3,432.2	2,885.8
Financial guarantees	2.5	-	-	2.5	-
Total non-derivative financial instruments	656.4	2,268.0	724.8	3,649.2	3,100.3
Derivatives					
Interest rate swaps	(43.0)	-	-	(43.0)	(42.3)
Interest rate swaps - AMTN 3	-	1.8	4.9	6.7	10.8
Interest rate swaps - AMTN 4	9.7	15.0	49.8	74.5	105.1
Interest rate swaps - AMTN 5	0.9	1.6	8.3	10.8	13.0
CCIRS - EMTN 1	19.8	(27.8)	-	(8.0)	(37.9)
CCIRS - EMTN 2	29.1	132.0	-	161.1	71.3
Total derivatives	16.5	122.6	63.0	202.1	120.0
2021					
Non-derivative financial instruments					
Trade and other payables	115.0	-	-	115.0	115.0
Other liabilities	59.5	-	-	59.5	59.5
Borrowings (excluding the effect of CCIRS) ¹	144.0	2,757.9	743.8	3,645.7	3,242.6
Financial guarantees	1.5	-	-	1.5	-
Total non-derivative financial instruments	320.0	2,757.9	743.8	3,821.7	3,417.1
Derivatives					
Interest rate swaps	24.6	16.8	-	41.4	40.3
Interest rate swaps - AMTN 3	-	(0.5)	0.4	(0.1)	0.4
Interest rate swaps - AMTN 4	(3.8)	2.9	21.9	21.0	26.0
CCIRS - EMTN 1	(2.2)	(88.3)	-	(90.5)	(109.2)
CCIRS - EMTN 2	6.5	42.5	-	49.0	(13.9)
Total derivatives	25.1	(26.6)	22.3	20.8	(56.4)

¹ Includes loans from related parties of \$93.0 million (2021: \$nil).

15 Financial risk management (continued)

(c) Hedging instruments

(i) Accounting policies

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

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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.

The main source of hedge ineffectiveness is the effect of the credit risk differential between the Group and its respective counterparties (i.e. credit curves) on the fair value of the interest rate swaps and CCIRS, which is not reflected in the fair value of the hedged item. Ineffectiveness may also arise due to differences in the critical terms between the interest rate swaps and loans or in the timing of forecast transactions. Hedge ineffectiveness is recognised against the mark-to-market position of the derivative financial instrument and in profit or loss in finance costs.

Rebalancing

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

15 Financial risk management (continued)

(c) Hedging instruments (continued)

(i) Accounting policies (continued)

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

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

	Fair value hedge	Cash flow hedge
What is it?	A derivative or financial instrument designated as hedging the changes in fair value of a recognised asset or liability or firm commitment. A fair value hedge is used to swap fixed interest payments to variable interest payments in order to manage the Group's exposure to interest rate risk.	A derivative or financial instrument hedging the exposure to variability in cash flow attributable to a particular risk associated with an asset, liability or forecasted transaction. A cash flow hedge is used to swap variable interest rate payments to fixed interest rate payments, or to lock in foreign currency rates in order to manage the Group's exposure to interest rate risk and foreign exchange risk.
Movement in fair value	<p>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.</p> <p>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.</p> <p>The gain or loss relating to the ineffective portion is recognised separately to the effective portion in profit or loss within finance expenses.</p>	<p>The effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated in equity in the cash flow hedge reserve. The change in the fair value that is identified as ineffective is recognised immediately in profit or loss within other income or other expenses.</p> <p>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.</p>
Discontinuation of hedge accounting	If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss in finance income over the period to maturity using a recalculated effective interest rate.	When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Netting of payments

Derivative transactions are administered under International Swaps and Derivatives Association (ISDA) Master Agreements. Where certain credit events occur, such as default, the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. The Group does not currently have legally enforceable right of set-off between transaction types and therefore these amounts are presented separately in the consolidated balance sheet.

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements. The net amount shows the impact on the Group's balance sheet if all set-off rights were exercised.

15 Financial risk management (continued)

(c) Hedging instruments (continued)

Netting of payments (continued)

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts \$m	Gross amounts set off in the balance sheet \$m	Net amounts presented in the balance sheet \$m	Amounts subject to master netting arrangements \$m	Net amount ¹ \$m
2022					
Financial assets					
Derivative financial instruments	80.2	-	80.2	(143.1)	(62.9)
Financial liabilities					
Derivative financial instruments	(200.2)	-	(200.2)	143.1	(57.1)
2021					
Financial assets					
Derivative financial instruments	123.1	-	123.1	-	123.1
Financial liabilities					
Derivative financial instruments	(66.7)	-	(66.7)	-	(66.7)

¹ No financial instrument collateral

(d) Fair value measurements

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

The fair value of borrowings is estimated by discounting future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments. The market interest rates were determined to be between 1.0% and 6.6% (2021: 1.0% and 3.2%) depending on the type of facility.

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

Level 1: Quoted prices for an identical asset or liability in an active market

Level 2: Directly or indirectly observable market data

Level 3: Unobservable market data

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

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

The Group's derivative financial instruments are classified as Level 2 (2021: Level 2). During the period, there were no transfers between Level 1, Level 2 or Level 3 in the fair value hierarchy (2021: nil).

15 Financial risk management (continued)

(d) Fair value measurements (continued)

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

	Notes	Carrying amount		Fair value	
		2022 \$m	2021 \$m	2022 \$m	2021 \$m
Financial assets carried at fair value					
Interest rate swaps		42.3	109.2	42.3	109.2
CCIRS - EMTN 1		37.9	13.9	37.9	13.9
		80.2	123.1	80.2	123.1
Financial assets carried at amortised cost					
Cash and cash equivalents		15.0	1.1	15.0	1.1
Trade and other receivables	4	194.7	242.0	194.7	242.0
		209.7	243.1	209.7	243.1
Financial liabilities carried at fair value					
Interest rate swaps		-	(40.3)	-	(40.3)
Interest rate swaps - AMTN 3		(10.8)	(0.4)	(10.8)	(0.4)
Interest rate swaps - AMTN 4		(105.1)	(26.0)	(105.1)	(26.0)
Interest rate swaps - AMTN 5		(13.0)	-	(13.0)	-
CCIRS - EMTN 2		(71.3)	-	(71.3)	-
		(200.2)	(66.7)	(200.2)	(66.7)
Financial liabilities carried at amortised cost					
Trade and other payables	8	(136.4)	(115.0)	(136.4)	(115.0)
Borrowings ¹	14	(2,885.8)	(3,242.6)	(2,914.0)	(3,407.2)
Other liabilities	10	(78.1)	(59.5)	(78.1)	(59.5)
		(3,100.3)	(3,417.1)	(3,128.5)	(3,581.7)
Off-balance sheet					
Unrecognised financial assets					
Third party guarantees		-	-	19.1	19.1
Bank guarantees		-	-	202.7	189.5
Insurance company guarantees		-	-	-	0.1
Unrecognised financial liabilities					
Bank guarantees		-	-	(2.5)	(1.5)
		-	-	219.3	207.2

¹ Borrowings includes \$1,997.8 million (2021: \$2,211.1 million) subject to fair value hedges.

Group structure

IN THIS SECTION

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

16	Subsidiaries	Page 50
17	Parent entity disclosures	Page 51

16 Subsidiaries

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

Controlled entities:

	Country of incorporation	Equity holding 2022 %	2021 %
Aurizon Surat Basin Pty Ltd	Australia	100	100

Principles of consolidation

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

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

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

Inter-company transactions and balances are eliminated on consolidation.

17 Parent entity disclosures

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

(a) Summary financial information

	2022 \$m	2021 \$m
Current assets	316.4	282.7
Non-current assets	5,343.9	5,477.9
Total assets	5,660.3	5,760.6
Current liabilities	666.9	350.5
Non-current liabilities	3,554.0	4,057.6
Total liabilities	4,220.9	4,408.1
Net assets	1,439.4	1,352.5
Equity		
Contributed equity	1,004.1	1,002.9
Reserves	17.5	(56.1)
Retained earnings	417.8	405.7
Total equity	1,439.4	1,352.5
Profit for the year	241.9	259.9
Other comprehensive income	73.6	12.5
Total comprehensive income	315.5	272.4

(b) Guarantees entered into by the parent entity

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

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

Other notes

IN THIS SECTION

Other notes provides information on other items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements, however are not considered critical in understanding the financial performance or position of the Group.

18	Notes to the consolidated statement of cash flows	Page 53
19	Related party transactions	Page 54
20	Key Management Personnel	Page 55
21	Auditor's remuneration	Page 55
22	Summary of other significant accounting policies	Page 55

18 Notes to the consolidated statement of cash flows

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

	2022 \$m	2021 \$m
Profit for the year	241.9	259.9
Depreciation and amortisation	332.6	327.0
Impairment of non-current assets	1.2	1.6
Finance expenses	109.8	133.7
Share-based payment expense	1.2	0.7
Net loss on disposal of assets	1.8	4.3
Net exchange differences	0.2	0.2
Change in operating assets and liabilities:		
(Increase)/Decrease in trade receivables	47.3	(37.9)
(Increase)/Decrease in inventories	(28.8)	2.3
(Increase)/Decrease in other operating assets	(1.3)	-
Increase/(Decrease) in trade and other payables	22.7	(10.4)
Increase/(Decrease) in other liabilities	(32.3)	12.4
Increase/(Decrease) in other operating liabilities	18.6	29.3
Increase/(Decrease) in deferred tax liabilities	3.4	24.8
Increase/(Decrease) in other provisions	(6.6)	3.8
Net cash inflow from operating activities	711.7	751.7

(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
2022					
Balance as at 1 July 2021	(59.0)	(3,183.6)	(66.7)	123.1	(3,186.2)
Reclassification	(255.0)	255.0	-	-	-
Financing cash flows ²	(34.0)	105.1	-	-	71.1
Changes in fair values (including foreign exchange rates)	-	288.3	(133.5)	(42.9)	111.9
Other non-cash movements ³	-	(2.6)	-	-	(2.6)
Balance as at 30 June 2022	(348.0)	(2,537.8)	(200.2)	80.2	(3,005.8)
2021					
Balance as at 1 July 2020	(591.6)	(2,661.1)	(76.0)	220.8	(3,107.9)
Financing cash flows ²	533.0	(630.8)	-	-	(97.8)
Changes in fair values (including foreign exchange rates)	(0.4)	111.3	9.3	(97.7)	22.5
Other non-cash movements ³	-	(3.0)	-	-	(3.0)
Balance as at 30 June 2021	(59.0)	(3,183.6)	(66.7)	123.1	(3,186.2)

¹ Assets and liabilities held to hedge borrowings exclude foreign exchange forward contracts included in note 15(a).

² Financing cash flows includes the net amount of proceeds from borrowings, repayment of borrowings, payments of transaction costs related to borrowings and proceeds from related parties under the Intra Group Loan Agreement.

³ Other non-cash movements includes the amortisation of the AMTN 2 fair value adjustments, amortisation of borrowing costs and amortisation of discounts on the face value of the AMTNs and EMTNs issued.

19 Related party transactions

Related parties include other entities in the Aurizon Group and Key Management Personnel. There were no Key Management Personnel related party transactions during the financial year (2021: \$nil). The following transactions occurred and balances are recognised with other entities in the Aurizon Group:

	2022	2021
	\$'000	\$'000
Trade and other receivables from related parties	52,668	56,409
Trade and other payables to related parties	11,173	12,210
Tax loan payable to the parent entity	78,065	59,545
Loans payable to related parties	93,000	-
Access revenue received from related parties	381,719	457,606
Other revenue received from related parties	10,588	5,500
Interest revenue received from related parties	-	53
Expense paid to related parties	68,290	69,793
Interest expense paid to related parties	806	560

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

For details on dividends paid and changes in contributed equity, refer to notes 12 and 13 respectively.

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

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

The Company enters into unsecured loans and advances with Aurizon Operations Limited (subsidiary of Aurizon Holdings Limited) at floating rates of interest pursuant to an Intra Group Loan Agreement maturing in August 2024, which allows up to \$100.0 million to be advanced or loaned subject to certain limited conditions. Hence, the Company incurs interest expense and earns interest income on these loans and advances.

For details on tax loans, refer to note 3.

Economic dependency

The Company is dependent on other entities in the Aurizon Group for approximately 34% (2021: 39%) of access revenue derived.

20 Key Management Personnel

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

	2022 \$'000	2021 \$'000
Short-term employee benefits	5,960	5,990
Post-employment benefits	149	147
Long-term benefits	53	130
Other benefits	-	778
Share-based payments	3,583	2,119
	<u>9,745</u>	<u>9,164</u>

KMP of the Company are employed by other entities in the Aurizon Group. Compensation of KMP is also determined by related parties. It is not practical to allocate KMP compensation paid by related parties, therefore the full amount of compensation paid to KMP by related parties is included in the disclosure above.

21 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.

	2022 \$'000	2021 \$'000
Deloitte Touche Tohmatsu		
Audit and review of financial statements	302	-
Other advisory services	59	-
Total remuneration of Deloitte Touche Tohmatsu	<u>361</u>	<u>-</u>
PwC Australia		
Audit and review of financial statements	-	302
Other assurance services	-	4
Total remuneration of PwC Australia	<u>-</u>	<u>306</u>

22 Summary of other significant accounting policies

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

(a) Basis of preparation

(i) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for the reporting period commencing 1 July 2021:

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

The interest rate benchmark reform aims to discontinue Interbank Offered Rates (IBORs) and replace these interest rate benchmarks with alternative Risk Free Rates (RFRs).

In the prior year, the Group had early adopted AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform* and AASB 2020-8 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2*. These amendments modify specific hedge accounting requirements related to the Group's EMTNs and allow the Group to apply certain exemptions in respect of hedge relationships that are impacted by market-wide interest rate benchmark reform. The Group has applied these reliefs resulting in no impact on the Group's hedge accounting. Upon transition to alternative benchmarks the Group will seek to apply further reliefs in AASB 9 and continue to apply hedge accounting to its hedging arrangements.

22 Summary of other significant accounting policies (continued)

(a) Basis of preparation (continued)

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

The Group has no contractual cash flows linked to IBOR, as all foreign currency borrowings are fixed rate which are swapped back to domestic floating using CCIRS, however, IBOR reform impacts the components of hedge designation in different hedge relations.

As at 30 June 2022, the Group had Euro dominated fixed rate borrowings that were swapped back to AUD floating BBSW through CCIRS hedges. These hedging instruments have both fair value and cash flow hedge components:

Hedge relationship	Prior to transition instrument type	Latest maturity	Nominal in foreign currency	Nominal in local currency	Hedged item	Transition progress
Fair value hedge	Benchmark portion of the receive fixed EUR coupon relate to EUR swap rates	Sept-2024	€1,000.0m	\$1,488.8m	Benchmark portion of the EUR fixed coupons related to EUR swap interest rates over the term of the bond	Working with provider to transition across to the new benchmark
Cash flow hedge	Receive benchmark EUR cash flow, pay benchmark AUD cash flow combined with EUR and AUD notional and principal exchanges at effective and maturity date	Sept-2024			EUR principal repayment of the bond from first repayment date until maturity of the bond	
Cash flow hedge	Receive cash margin above the portion of the fixed EUR interest coupon of the CCIRS equivalent to credit margin component of the bond over the benchmark swap interest rate and pay cash margin above the benchmark	Sept-2024			Margin above swap benchmark rate portion of the EUR fixed coupon payable on the bond (equivalent to credit margin on debt) over the term of the bond	

Management is expecting to have no significant impact of IBOR reform, except for the operational risk. The current treasury management system is undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks.

(ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and amendments to standards have been published that are not mandatory for reporting periods commencing 1 July 2021 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.

22 Summary of other significant accounting policies (continued)

(b) Segment reporting

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

The nature of the Group's business is that it enters into long-term contracts with key customers. Access contracts with related parties, as disclosed in note 19, represent a significant component of the Group's revenue. Three other customers each contribute more than 10% of the Group's total revenue as detailed below:

	2022 \$m	2021 \$m	2022 Credit Rating	2021 Credit Rating
Customer 1	205.6	214.2	A-	A
Customer 2	121.1	154.1	BBB-	BBB-
Customer 3	147.2	103.5	BBB+	BBB+
Total	473.9	471.8		

(c) Cash and cash equivalents

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

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

(d) Foreign currency transactions

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

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

(e) Financial instruments

(i) Non-derivative financial assets

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

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

(ii) Financial assets measured at amortised cost

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

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

22 Summary of other significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial assets measured at amortised cost (continued)

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

(iii) Non-derivative liabilities

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

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

(f) Goods and Services Tax (GST)

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

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

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

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

Unrecognised items and events after reporting date

IN THIS SECTION

Unrecognised items provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance. This section also includes events occurring after the reporting period.

23	Commitments and contingencies	Page 60
24	Events occurring after the reporting period	Page 60

23 Commitments and contingencies

(a) Contingent liabilities

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

Guarantees and letters of credit

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

(b) Contingent assets

Guarantees and letters of credit

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

(c) Capital commitments

As at 30 June 2022, the Group has capital commitments contracted but not provided for in respect of the acquisition of property, plant and equipment of \$75.6 million (2021: \$34.9 million) which are due within one year.

24 Events occurring after the reporting period

The Company completed a return of capital of \$350.0 million to Aurizon Holdings Limited on 29 July 2022. The return of capital was funded from existing bank debt facilities. There was no change to the number of ordinary shares on issue.

Directors' Declaration

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

In the opinion of the Directors of the Company:

- (a) the financial statements and notes set out on pages 7 to 60 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001* and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



L Strambi
Chairman

Brisbane
8 August 2022

Independent Auditor's Report to the Members of Aurizon Network Pty Ltd

Opinion

We have audited the financial report of Aurizon Network Pty Ltd (the Company) and its subsidiaries (the Group) which comprises the consolidated balance sheet as at 30 June 2022, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. This matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Useful life of infrastructure assets</i></p> <p>At 30 June 2022, the carrying value of the Central Queensland Coal Network infrastructure assets (CQCN infrastructure assets) was \$4,902m. As disclosed in note 6, the Group determines the useful lives of the CQCN infrastructure assets based on the expected engineering life of these assets, capped at the remaining term of the applicable leases.</p> <p>These assets are primarily used to transport coal from mines to port, for subsequent export. As such, any change in the export market demand for Queensland coal or restrictions on the supply of that coal may indicate that the useful lives of the CQCN infrastructure assets should be changed.</p> <p>There is uncertainty as to the future demand for coal with climate change widely considered to be one of the key issues facing the global community and increasing pressure on governments and industry to seek lower carbon solutions.</p> <p>Given the significant carrying value of the CQCN infrastructure assets, the estimate of the useful life of the CQCN infrastructure assets is considered to be a key audit matter.</p>	<p>To assess the useful lives adopted by the Group for the CQCN infrastructure assets, we performed the following procedures amongst others:</p> <ul style="list-style-type: none"> • Obtained and evaluated information which estimates the period over which there will be demand for, and supply of, coal from Queensland This included: <ul style="list-style-type: none"> ○ Publicly available global and regional energy and coal forecasts and outlooks from industry specialists and ○ Management’s Strategy in Uncertainty scenarios • As metallurgical coal is expected to be in demand longer than thermal coal, evaluated the period over which metallurgical coal demand could be supplied by Queensland mines, with reference to publicly available metallurgical coal reserve and production estimates • Obtained publicly available information on the current regulatory environment of the coal industry in Queensland including mine approvals and government policy statements • As most publicly available information does not forecast coal demand beyond 2050, management undertook scenario analysis to assess the economic viability of the CQCN infrastructure assets beyond 2050. Together with our internal specialist we evaluated this analysis including the adopted methodology and the scenarios considered • Evaluated the Group’s useful life disclosures in the financial statements including the sensitivity analysis outlining the impact on depreciation expense of changes in the useful lives of assets that are currently capped at the remaining term of the applicable leases.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual financial report for the year ended 30 June 2022, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and 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, 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 has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


DELOITTE TOUCHE TOHMATSU


Matthew Donaldson
Partner
Chartered Accountants
Brisbane, 8 August 2022