Aurizon Holdings Limited

Appendix 4E

Preliminary Financial Report

For the year ended 30 June 2023 (FY2023)

This document should be read in conjunction with the Financial Report, including any disclaimer.

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FY2023 IN REVIEW

Result Highlights (Underlying and statutory continuing operations)

($m)	FY2023	FY2022	Variance	Variance %
Total revenue	3,511	3,075	436	14%
EBITDA	1,428	1,467	(39)	(3%)
EBIT	762	875	(113)	(13%)
Significant items – acquisition costs	(49)	(14)	(35)	(250%)
EBIT Statutory	713	861	(148)	(17%)
NPAT	367	525	(158)	(30%)
NPAT Statutory	324	513	(189)	(37%)
Free cash flow (FCF)[1]	297	765	(468)	(61%)
Final dividend (cps)	8.0	10.9	(2.9)	(27%)
Total dividend (cps)	15.0	21.4	(6.4)	(30%)
Earnings per share (cps)	19.9	28.5	(8.6)	(30%)
Return on invested capital (ROIC)	7.5%	10.3%	(2.8ppt)	-
EBITDA margin	40.7%	47.7%	(7.0ppt)	-
Operating ratio (OR)	78.3%	71.5%	(6.8ppt)	-
Above Rail Tonnes (m)	253.2	244.8	8.4	3%
Gearing (net debt / (net debt + equity))	53.7%	40.9%	(12.8ppt)	-

Performance Overview

- EBITDA down $39m (3%) to $1,428m with:
  - Coal down $86m (16%) primarily due to lower volumes (from the impact of prolonged wet weather), in addition to higher Network Take-or-Pay (non-pass through) expense and costs due to wage and materials escalation.
  - Bulk up $79m (59%) with the inclusion of the One Rail Australia bulk business (Bulk Central) following completion of the transaction in July 2022, higher grain and iron ore volumes in Western Australia (WA), partly offset by wet weather, a number of derailments and customer specific production issues in Queensland (QLD), New South Wales (NSW) and the Northern Territory.
  - Network up $12m (1%) due to Take-or-Pay triggering in two major systems plus GAPE ($76m of Take-or-Pay revenue, excluding GAPE) as volumes were 19mt below regulatory forecast.
  - Other down $44m (440%) due to prior period divestment of Rockhampton workshops and the recognition of a $15m long service leave provision adjustment
- Commencement of services in April 2023 under the new Team Global Express contract for Containerised Freight
- The divestment of East Coast Rail was announced in December 2022 and completed in February 2023
- Final dividend declared of 8.0cps (60% franked) represents a payout ratio of 75% of underlying NPAT for continuing operations

Outlook

Group underlying EBITDA for FY2024 is expected to increase and be in the range of $1,590m – $1,680m. Sustaining capex expected to be $600-$660m (including ~$40m of transformational project capital) and growth capex expected to be $250-$300m. Key assumptions:

- Network: revenue and EBITDA growth driven by a $125m increase in the (regulated) Maximum Allowable Revenue. Volumes are assumed at the approved regulatory forecast of 207.8mt
- Coal: revenue and EBITDA growth with volumes expected to be higher than FY2023 (and revenue yield improvement)
- Bulk: revenue and EBITDA growth with volumes expected to be higher than FY2023 and the full year inclusion of Bulk Central (and full realisation of targeted synergies)
- Other: Containerised Freight expected to be broadly EBITDA neutral as national interstate services ramp up to full schedule by April 2024
- No significant disruptions to supply chains (such as major derailments or extreme/prolonged wet weather)

[1] *Free Cash Flow defined as net cash flow from operating activities (less non-growth capex) and interest paid. It excludes growth capex of $203m, the acquisition of One Rail Australia ($1,404m), cash costs associated with the acquisition ($49m pre-tax) and purchase of an additional investment in Ox Mountain ($30m).*

CONSOLIDATED RESULTS

Underlying continuing operations unless otherwise stated

Financial Summary

($m)	FY2023	FY2022	Variance
Total revenue and other income	**3,511**	**3,075**	**14%**
Operating costs			
Employee benefits	(977)	(853)	(15%)
Energy and fuel	(438)	(255)	(72%)
Track access	(110)	(78)	(41%)
Consumables	(539)	(419)	(29%)
Other	(19)	(3)	(533%)
EBITDA	**1,428**	**1,467**	**(3%)**
Statutory EBITDA	1,379	1,453	(5%)
Depreciation and amortisation	(666)	(592)	(13%)
EBIT	**762**	**875**	**(13%)**
Statutory EBIT	713	861	(17%)
Net finance costs	(230)	(125)	(84%)
Income tax expense	**(165)**	**(225)**	**27%**
Statutory Income tax expense	(159)	(223)	29%
NPAT	**367**	**525**	**(30%)**
Statutory NPAT	324	513	(37%)
Statutory NPAT from discontinued operations	(48)	-	-
NPAT (group) Statutory	**276**	**513**	(46%)
Earnings per share[2]	**19.9**	**28.5**	**(30%)**
Statutory	17.6	27.9	(37%)
Earnings per share[2] (continuing and discontinued operations)	**21.8**	**28.5**	**(24%)**
Statutory	15.0	27.9	(46%)
Return on invested capital (ROIC)[3]	7.5%	10.3%	(2.8ppt)
Net cash flow from operating activities	1,015	1,320	(23%)
Total dividend per share (cps)	15.0	21.4	(30%)
Gearing (net debt / (net debt + equity)) (group)	53.7%	40.9%	(12.8ppt)
Net tangible assets per share ($) (group)	2.2	2.3	(4%)
People (FTE)	5,618	4,917	(14%)
Labour costs[4] / Revenue	27.7%	27.3%	(0.4ppt)

EBITDA by Segment

($m)	FY2023	FY2022[5]	Variance
Coal	455	541	(16%)
Bulk	214	135	59%
Network	813	801	1%
Other	(54)	(10)	(440%)
Group (Continuing operations)	**1,428**	**1,467**	**(3%)**

[2] *Calculated on weighted average number of shares on issue – 1,841m for both FY2022 and FY2023*
[3] *ROIC is defined as underlying rolling twelve-month EBIT divided by the average invested capital. The average invested capital is calculated as the rolling twelve-month average of net assets (excluding cash, borrowings, tax, derivative financial assets and liabilities)*
[4] *FY2023 excludes $5m in redundancy costs (FY2022 excludes $13m in redundancy costs)*
[5] *The Bulk and Other segments for FY2022 have been restated for consistency with current year presentation.*

Group Performance Overview

Group EBITDA decreased $39m or 3% with the uplift in Bulk and Network offset by reductions in Coal and Other. The inclusion of Bulk Central was the largest contributor to the increase in Bulk EBITDA with the acquisition completed in July 2022. Network volumes were below the regulatory forecast by 19mt resulting in an under-recovery of allowable revenue, triggering regulatory revenue protection mechanisms including $76m of Take-or-Pay revenue. When combined with a WIRP termination fee, Network EBITDA was 1% higher. For Coal, lower volumes (5%) from the prolonged wet weather, along with higher Network Take-or-Pay (non-pass through) expense was the driver of lower EBITDA. Other EBITDA was lower due to the prior period divestment of the Rockhampton workshops and the recognition of a $15m long service leave provision adjustment.

Revenue increased by 14%, driven by Bulk and Network, more than offsetting lower revenue in Coal and Other.

Operating costs increased by $475m (30%), primarily due to the inclusion of Bulk Central. Costs also increased due to higher fuel and energy (largely pass-through), more than offsetting transformation benefits.

EBIT declined by $113m (13%) primarily due to increased depreciation ($74m or 13%) with the inclusion of Bulk Central, higher capital expenditure in Bulk and Containerised Freight to support growth and increased ballast and rail renewals in Network, and lower EBITDA.

ROIC was 2.8ppts lower at 7.5% due to lower EBIT and higher invested capital.

Reconciliation to Statutory Earnings

Underlying earnings is a non-statutory measure and is the primary reporting measure used by management and the Group's chief operating decision-making bodies for managing and assessing the financial performance of the business. Underlying earnings is derived by adjusting statutory earnings for significant items as noted in the following table:

($m)	FY2023	FY2022
Continuing operations		
Underlying EBITDA	**1,428**	**1,467**
Depreciation and amortisation	(666)	(592)
Underlying EBIT	**762**	**875**
Continuing operations significant items – acquisition costs	(49)	(14)
Statutory EBIT	**713**	**861**
Net finance costs	(230)	(125)
Statutory Profit before tax	**483**	**736**
Income tax expense	(159)	(223)
Statutory NPAT – Continuing operations	**324**	**513**
Continuing operations significant items, net of tax	43	12
Underlying NPAT – Continuing operations	**367**	**525**
Statutory NPAT – Discontinued operations	**(48)**	**-**
Discontinued operations significant items, net of tax	82	-
Underlying NPAT – Discontinued operations	**34**	**-**
Statutory NPAT – Continuing and discontinued operations	**276**	**513**
Underlying NPAT – Continuing and discontinued operations	**401**	**525**

Acquisition costs for One Rail Australia of $49m ($43m post tax) includes landholder duty, advisory fees and other costs. This amount has been expensed to profit or loss during the year and classified in other expenses. The loss from discontinued operations after tax of $48m for the year includes underlying net profit after tax of $34m, adjusted for significant items including impairment expense of $57m ($75m pre-tax), sale and divestment costs $23m ($26m pre-tax) and loss on disposal $2m ($2m pre-tax).

Balance Sheet Summary

($m)	30 June 2023	30 June 2022
Current assets	1,193	860
Property, plant and equipment (PP&E)	9,945	8,416
Other non-current assets	541	400
Total assets	**11,679**	**9,676**
Total borrowings	5,142	3,221
Other current liabilities	744	713
Other non-current liabilities	1,440	1,330
Total liabilities	**7,326**	**5,264**
Net assets	**4,353**	**4,412**
Gearing (net debt / (net debt + equity))	**53.7%**	**40.9%**
Gearing (net debt / (net debt + accumulated fair value adjustments + equity))	**54.4%**	**42.5%**

Balance Sheet Movements

Current assets increased by $333m largely due to:

- Increase in trade and other receivables predominantly due to Network Take-or-Pay, the Bulk Central acquisition and the deferred consideration from the sale of One Rail Australia Holdings Limited (receivable in February 2024)
- Increase in inventories of $49m predominately due to the Bulk Central acquisition and above rail maintenance and renewal programs
- A current tax receivable position of $104m due to the FY2023 instalments exceeding expected tax payable, to be received in 2HFY2024 following lodgement of the Group Income Tax Return
- Partly offset by a reduction of $80m in cash and cash equivalents and a reduction in derivative financial instruments due to the maturity of the interest rate swaps in June 2023 in line with the UT5 WACC reset

Property, plant and equipment increased by $1,529m predominately due to the Bulk Central acquisition. Other non-current assets increased by $141m, including a $81m favourable movement on derivative financial instruments predominately due to floating interest on borrowings being swapped for fixed interest payments.

Total borrowings increased by $1,921m due to the acquisition of One Rail Australia and funding for capital purchases to support Bulk and Containerised Freight growth.

Other current liabilities, excluding borrowings increased by $31m largely due to an increase in trade and other payables of $68m due to an increase in capital accruals as a result of the Bulk Central acquisition and capital purchases and an increase in other current liabilities of $26m including contract and lease liabilities. This was partly offset by a decrease in current tax liabilities of $69m due to the recognition of a current tax receivable in FY2023.

Other non-current liabilities increased by $110m largely due to a $143m increase in net deferred tax liabilities due to accelerated fixed asset adjustments for the Bulk Central acquisition, offset by a $14m favourable movement on derivative financial instruments and a reduction of $29m for the amortisation of contract liabilities.

Gearing (net debt / (net debt + equity)) was 53.7% as at 30 June 2023 reflecting higher borrowings.

Cash Flow Summary

($m)	FY2023	FY2022
Statutory EBITDA (Continuing operations)	**1,379**	**1,453**
Working capital and other movements	(183)	(58)
Non-cash adjustments - asset impairments	13	2
Net cash inflow from Continuing operations	**1,209**	**1,397**
Interest received	3	2
Income taxes paid	(204)	(86)
Principal elements of lease receipts	7	7
Net cash inflow from operating activities from Continuing operations	**1,015**	**1,320**
Net operating cash flows from Discontinued operations	48	-
Net operating cash flows	**1,063**	**1,320**
Cash flows from investing activities		
Payments for PP&E and intangibles, net of interest paid on qualifying assets	(762)	(551)
Payments for business acquisitions and investment in joint venture	(1,434)	(17)
Distributions from joint ventures and proceeds from sale of PP&E	7	40
Net cash outflow from investing activities from Continuing operations	**(2,189)**	**(528)**
Net investing cash flows from Discontinued operations	(662)	-
Net investing cash flows	**(2,851)**	**(528)**
Cash flows from financing activities		
Net proceeds/(repayment) from borrowings	1,850	(164)
Payment of transaction costs related to borrowings	(15)	-
Payment for share buy-back, share-based payments and transaction costs	(7)	-
Interest paid	(210)	(128)
Dividends paid to Company shareholders	(329)	(459)
Principal elements of lease payments	(20)	(17)
Net cash inflow/(outflow) from financing activities from Continuing operations	**1,269**	**(768)**
Net financing cash flows from Discontinued operations	439	-
Net financing cash flows	**1,708**	**(768)**
Net increase in cash from Continuing operations	**95**	**24**
Net decrease in cash from Discontinued operations	**(175)**	**-**
Free Cash Flow (FCF)[6] from Continuing operations	**297**	**765**

Cash Flow Movements

Net cash inflow from operating activities from continuing operations decreased by $305m (23%) to $1,015m largely due to:

- Reduction in statutory EBITDA and unfavourable working capital. This predominately relates to an increase in trade and other receivables due to higher revenue and Take-or-Pay accruals for FY2023.
- Increase in income taxes paid in comparison to the prior year which included a tax benefit recognised on the disposal of shares held in Aquila.

Net cash outflow from investing activities from continuing operations increased by $1,661m (315%) to $2,189m, predominately due to the acquisition of One Rail Australia, an increase in shareholding for the Ox Mountain joint venture and an increase in capital expenditure.

Net cash inflow from financing activities from continuing operations increased by $2,037m to $1,269m due to the net drawdown of borrowings to fund the acquisition of One Rail Australia and greater capital expenditure in comparison to the prior year included a net repayment of borrowings and a reduction in dividends paid. This was partly offset by interest paid due to the increased borrowings.

[6] *Free Cash Flow defined as net cash flow from operating activities (less non-growth capex) and interest paid. It excludes growth capex of $203m, the acquisition of One Rail Australia ($1,404m), cash costs associated with the acquisition ($49m pre-tax) and purchase of an additional investment in Ox Mountain ($30m).*

Funding

The Group continues to be committed to diversifying its debt investor base and increasing average debt tenor.

Aurizon Network funding activity during FY2023:

- A$100m (in total) of 10 and 12-year private placements issued in December 2022 and February 2023
- A$1,090m re-financing of existing bilateral bank debt facilities completed in January 2023 with maturities lengthened across FY2026 to FY2028
- A$306m of United States Private Placement (USPP) Notes issued in June 2023 across tenors of 10 and 12 years (debut issuance)

Aurizon Operations funding activity during FY2023:

- A$1,450m of new bank debt facilities were established as part of the One Rail Australia acquisition in July 2022, of which, A$1,050m was drawn
- A$465m re-financing of existing bilateral debt facilities completed in June 2023 including $50m which became effective July 2023 with maturities lengthened to FY2027
- A$300m of bank debt repaid, sourced as part of the One Rail Australia acquisition
- A$503m of US Private Placement Notes issued in July 2023 across tenors of 7, 10, 11 and 12 years, with funds used to repay debt sourced as part of the One Rail Australia acquisition (debut issuance)

In respect of FY2023:

- Weighted average debt maturity tenor was 3.6 years as at 30 June 2023 which compares to 3.4 years in FY2022
- Group interest cost on drawn debt was 4.1% (FY2022: 3.4%)
- Available liquidity (undrawn facilities + cash) as at 30 June 2023 was $1,244m (FY2022: $1,622m)
- Group gearing (net debt / (net debt + equity)) as at 30 June 2023 was 53.7% (FY2022: 40.9%)
- Aurizon Network's gearing (net debt / Regulatory Asset Base (excluding Access Facilitation Deeds)) as at 30 June 2023 was 63.8% (FY2022: 53.7%)
- Aurizon Operations' gearing (net debt / (net debt + equity)) as at 30 June 2023 was 29.8% (FY2022: 5.6%)
- Aurizon Operations' and Aurizon Network's credit ratings have each been maintained at BBB+/Baa1

Dividend

The Board has declared a final dividend for FY2023 of 8.0cps (60% franked) based on a payout ratio of 75% in respect of underlying NPAT from continuing operations.

The relevant final dividend dates are:

- 28 August 2023 – ex-dividend date
- 29 August 2023 – record date
- 27 September 2023 – payment date

Tax

Underlying income tax expense from continuing operations for FY2023 was $165m. Statutory income tax expense for continuing operations was $159m with an income tax benefit of $6m from the payment of acquisition costs which are expected to be tax deductible and have been treated as a significant item.

The Group statutory effective tax rate was 35.6%, which is more than 30% due to non-deductible landholder duty arising in respect of the acquisition of Bulk Central, non-deductible transaction costs in respect of the disposal of One Rail Australia Holdings Limited (ORAH) and a non-deductible impairment in discontinued operations. The Group statutory cash tax rate was 11.1%, which is less than 30% due to accelerated tax depreciation deductions from Bulk Central, immediate tax deduction of eligible capital expenditure under the temporary full expensing measure, and the treatment of Take-or-Pay income as not derived for tax purposes at 30 June 2023. Take-or-Pay will be assessable in FY2024 once invoiced to customers. The underlying effective tax rate[7] for FY2024 is expected to be in the range of 29-31% and the underlying cash tax rate[8] is expected to remain approximately 25% for the short to medium term.

Aurizon publishes additional tax information in accordance with the voluntary Tax Transparency Code in its Sustainability Report. See the Sustainability section of the Aurizon website for further detail.

Discontinued Operations

The acquisition of One Rail Australia on 29 July 2022 comprised two business segments, including East Coast Rail, a coal haulage business in NSW and QLD.

The investments held in the East Coast Rail entities were transferred to ORAH (formerly NHK Pty Ltd), a subsidiary of the Company, on 29 July 2022 and classified as a discontinued operation held for sale. The Company signed a binding agreement with Magnetic Rail Group Pty Ltd (Magnetic) on 16 December 2022 to sell 100% of the shares of ORAH and the sale completed on 17 February 2023 for consideration of $438m including completion adjustments. The total consideration includes $313m cash proceeds received on completion of the sale and $125m cash proceeds receivable in February 2024. On completion of the sale, Magnetic assumed ORAH's existing borrowings of $474m.

[7] *Underlying effective tax rate = income tax expense excluding the impact of significant items / underlying consolidated profit before tax*
[8] *Underlying cash tax rate = cash tax payable excluding the impact of significant items / underlying consolidated profit before tax*

BUSINESS UNIT REVIEW

Coal

Aurizon's Coal business provides a critical service to Australia's export coal industry, the nation's largest source of export revenue in FY2023. Aurizon hauls around half of Australia's export coal volume. Coal hauled is split approximately evenly between metallurgical coal and thermal coal, with demand linked to Asian steel production and energy generation, respectively.

Aurizon transports coal from mines in the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in QLD and the Hunter Valley and Illawarra coal systems in NSW, to domestic customers and coal export terminals.

Financial Summary

($m)	FY2023	FY2022	Variance
Revenue			
Above Rail	1,175	1,195	(2%)
Track Access	350	360	(3%)
Other	6	4	50%
Total revenue	**1,531**	**1,559**	**(2%)**
Track Access costs	(400)	(376)	(6%)
Operating costs	(676)	(642)	(5%)
EBITDA	**455**	**541**	**(16%)**
Depreciation and amortisation	(204)	(208)	2%
EBIT	**251**	**333**	**(25%)**

Metrics

	FY2023	FY2022	Variance
Total tonnes hauled (m)	185.0	194.0	(5%)
CQCN	133.6	141.1	(5%)
NSW & SEQ	51.4	52.9	(3%)
Contract utilisation	80%	84%	(4ppt)
Total NTK (b)	42.2	45.2	(7%)
CQCN	33.0	35.3	(7%)
NSW & SEQ	9.2	9.9	(7%)
Average haul length (km)	228	233	(2%)
Total revenue / NTK ($/'000 NTK)	36.3	34.5	5%
Above Rail Revenue / NTK ($/'000 NTK)	27.8	26.4	5%
Operating Ratio	83.6%	78.6%	(5.0ppt)
Opex / NTK ($/'000 NTK)	30.3	27.1	(12%)
Opex / NTK (excluding access costs) ($/'000 NTK)	20.9	18.8	(11%)
Locomotive productivity (‘000 NTK / Active locomotive day)	373.2	389.1	(4%)
Active locomotives (as at 30 June)	311	314	(1%)
Wagon productivity (‘000 NTK / Active wagon day)	14.2	14.7	(3%)
Active wagons (as at 30 June)	8,201	8,285	(1%)
Payload (tonnes)	7,859	7,938	(1%)

Coal Performance Overview

Coal EBITDA decreased $86m (16%) to $455m primarily due to a decrease in volumes, higher Network Take-or-Pay (non-pass through) expense and costs due to wage and materials escalation.

Volumes decreased 9.0mt (5%) to 185.0mt with reductions in the Central Queensland Coal Network (CQCN), NSW and South-East Queensland (SEQ).

- Across the CQCN, volumes decreased by 7.5mt (5%) to 133.6mt with performance impacted by a range of factors including prolonged wet weather, numerous incidents including a major third-party derailment, mine production issues and labour availability. This was partly offset by increased railings from the Anglo contract.
- In NSW and SEQ, volumes decreased by 1.5mt (3%) to 51.4mt due to end of contracts for Yancoal Moolarben and New Acland in addition to significant wet weather in 1HFY2023, partly offset by improved operational performance in 2HFY2023.

Coal revenue decreased by $28m (2%) to $1,531m largely due to the reduction in volumes. Revenue yield improved due to CPI-linked price escalation and higher fuel revenue from higher prices. Above Rail revenue per NTK increased by 5% driven by CPI-linked price escalation, partly offset by the contract cessations detailed above and the impact of a contract rollover.

Total operating costs increased by $58m (6%) to $1,076m largely due to Network Take-or-Pay (non-pass through), higher fuel costs and higher wage and materials escalation. The major drivers of these movements are:

- Track access costs increased by $24m (6%) due to Network Take-or-Pay (non-pass through) and higher CQCN electric access costs partly offset by lower volumes.
- Other operating costs increased $34m (5%) primarily due to higher fuel relating to higher prices in addition to higher traincrew and maintenance costs impacted by higher inflation on labour and materials.

Depreciation decreased $4m (2%), resulting in an EBIT decrease of 25% against the prior year.

Operationally, key productivity metrics were lower compared to the prior year due to lower volumes. Active locomotives decreased with the transfer of units to support Bulk growth.

Contract update

- 10-year contract with Malabar for the haulage of coal from the Maxwell Underground Mine in the Upper Hunter Valley with the first service in June 2023
- 5-year contract with New Wilkie Energy for the haulage of coal from the New Wilkie Mine in SEQ commencing in FY2024
- BMA Rail Maintenance agreement commenced on 1 July 2023
- 5-year contract (signed in August 2023) with SIMEC Mining for the haulage of coal from the Tahmoor Mine in the Illawarra coal region, commencing in Q1FY2024.

Bulk

Aurizon's Bulk business provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of mining, metal, industrial and agricultural customers throughout Australia. Aurizon's Bulk business also manages the Tarcoola-to-Darwin rail infrastructure, the intrastate rail freight network in South Australia and containerised freight services between Adelaide and Darwin.

Financial Summary

($m)	FY2023	FY2022[9]	Variance
Revenue			
Freight Transport	1,035	672	54%
Other	28	28	-
Total revenue	**1,063**	**700**	**52%**
Operating costs	(849)	(565)	(50%)
EBITDA	**214**	**135**	**59%**
Depreciation and amortisation	(108)	(39)	(177%)
EBIT	**106**	**96**	**10%**
Total tonnes hauled (m)	68.2	50.8	34%
Operating Ratio	90.0%	86.3%	(3.7ppt)

Bulk Performance Overview

Bulk EBITDA increased by $79m (59%) to $214m due to the acquisition of Bulk Central on 29 July 2022, higher grain and iron ore volumes and growth from new contracts. Revenue increased $363m (52%) to $1,063m with:

- The acquisition of Bulk Central on 29 July 2022
- Stronger grain volumes nationally, including in WA with the CBH contract which commenced during 1HFY2022
- The commencement of the Centrex contract in QLD in 1HFY2023
- The commencement of a long-term haulage contract with Tronox in 2HFY2022
- Improved volumes from existing and new customers on the Kalgoorlie Freighter

This was partly offset by the loss of the QLD livestock contract in the prior year and significant weather and derailment events in QLD and NSW.

Operating costs increased $284m (50%) with:

- The acquisition of Bulk Central on 29 July 2022
- Increased costs to support contract wins in grain (including ramp up costs for traincrew, rollingstock and facilities)
- Increased costs to support the new Tronox contract from 2HFY2022
- Increased costs from four significant derailment events
- Partly offset by ongoing cost benefits from the Bulk transformation program and lower costs from the loss of the QLD livestock contract

Depreciation increased $69m (177%) due to the acquisition of Bulk Central and increased capital expenditure supporting growth.

Contract update

The contract wins detailed below have terms with a range of one to six years in length:

- Northparkes – contract for the port services of copper concentrate in NSW
- Aurelia Peak – contract for road, rail and stevedoring of base metals in NSW
- IPL - contract for road, rail and stevedoring of sulphur in QLD
- Chinova – contract for road, rail and stevedoring of copper concentrate in QLD
- Seaway – contract for rail of grain and cotton in QLD
- Centrex – contract for road, rail and stevedoring of phosphate rock in north QLD
- Aeris Resources – contract for road, rail and stevedoring for base metals in NSW
- ANL – contract for stevedoring in Port of Gladstone

Contract extensions: GrainCorp (grain, QLD), Thallon (grain, QLD), Cargill (grain, QLD), BHP: Copper South Australia (copper, SA), SIMEC (iron ore, SA), AOL (iron ore, SA), Woolworths (containerised freight, SA/NT), BP (fuel, WA)

[9] *The Bulk and Other segments for FY2022 have been restated for consistency with current year presentation.*

Network

Network refers to the business of Aurizon Network Pty Ltd (Network) which operates the 2,670km CQCN. The open access network is the largest coal rail network in Australia, 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).

Financial Summary

($m)	FY2023	FY2022	Variance
Revenue			
Track Access	1,255	1,134	11%
Services and other	82	59	39%
Total revenue	**1,337**	**1,193**	**12%**
Energy and fuel	(215)	(108)	(99%)
Operating costs	(309)	(284)	(9%)
EBITDA	**813**	**801**	**1%**
Depreciation and amortisation	(351)	(345)	(2%)
EBIT	**462**	**456**	**1%**

Metrics

	FY2023	FY2022	Variance
Tonnes (m)	207.6	206.5	1%
NTK (b)	50.4	51.9	(3%)
Operating Ratio	65.4%	61.8%	(3.6ppt)
Maintenance / NTK ($/'000 NTK)	2.8	2.6	(8%)
Opex / NTK ($/'000 NTK)	17.4	14.2	(23%)
Cycle Velocity (km/hr)	21.5	22.8	(6%)
System Availability	83.4%	82.6%	0.8ppt
Average haul length (km)	243	251	(3%)

Network Performance Overview

Network EBITDA increased $12m (1%) to $813m in FY2023, with increased revenue of $144m (12%) and increased operating and energy and fuel costs of $132m (34%).

Regulatory access revenue has been accounted for based on actual railed tonnes using tariffs approved by the Queensland Competition Authority (QCA) on 26 May 2022 and the subsequent Electric Energy Charge Draft Amending Access Undertaking (DAAU) approved on 16 November 2022 and Minerva DAAU approved on 16 February 2023.

Total Access Revenue increased by $121m (11%) with the main drivers being:

- Electric Energy Charge (EC) was $102m higher in FY2023 due to the EC tariff increasing from $1.11 to $2.82 per EGTK'000
- Allowable Revenue increased by $34m primarily due to the capital underspends in FY2019 and FY2020 that reduced Allowable Revenue in FY2022
- Reduced volumes compared to the regulatory forecast resulted in an under-recovery after Take-or-Pay (excluding GAPE) of $21m in FY2023 (Access Revenue in FY2023 included the recognition of $76m Take-or-Pay revenue). This compares to an under-recovery of $39m (including $33m of Take-or-Pay) in FY2022
- Net unfavourable Revenue Cap movements of $6m relating to FY2020 and FY2021
- GAPE revenue was $9m lower primarily due to the depreciating asset value and the Transfer Fee collected in FY2021 that is being returned via FY2023 Access Charges
- WIRP Fees were $10m lower due to FY2022 including $30m of historical fees relating to FY2016-FY2021, partially offset by a $19m termination fee included in FY2023
- Other Access Revenue was $8m lower.

Services and other revenue was $23m (39%) higher in FY2023 primarily due to higher external construction revenue.

Total operating costs increased by $132m (34%) with the main drivers being:

- Electric traction charges increased $107m (100%) (offset in Access Revenue) due to higher wholesale energy prices and higher connection costs
- Higher external construction costs associated with the higher revenue and higher maintenance costs partly offset by operational cost savings.

Depreciation increased $6m (2%) primarily due to historical rail renewal and ballast undercutting investment.

Network's 2022-2023 Regulatory Asset Base (RAB) roll-forward is estimated to be $6.2bn[10] (including Access Facilitation Deeds of $0.3bn) as at 1 July 2023.

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[10] *Includes deferred capital*

Regulation Update

Network continues to implement the 2017 Access Undertaking (UT5) which was approved by the QCA on 19 December 2019. The status of key aspects of UT5 are summarised below.

Capacity Assessments

- The QCA published the Independent Expert's (IE) Initial Capacity Assessment Report (ICAR) on 1 November 2021 which identified Existing Capacity Deficits (ECD) within each Coal System.
- On 12 November 2021, Network provided the Chair of the Rail Industry Group (RIG) and the QCA its preliminary response to the ICAR, which set out the proposed options to address the ECD identified in each Coal System. Network provided a Detailed Report in response to the ICAR on 14 March 2022.
- On 16 November 2022, the QCA made an initial determination on Transitional Arrangements proposed by Network to be implemented, the most notable being the installation of remote-control signalling in the Newlands System which the IE subsequently assessed as being prudent and efficient.
- On 23 March 2023, the QCA approved amendments to UT5 to allow for further studies on Transitional Arrangements, recovery of reasonable costs incurred by Network in undertaking those studies and the staged implementation of any initiatives.
- The QCA published the IE's Annual Capacity Assessment Report 2023 (ACAR) on 29 June 2023. The ACAR identified some differences between it and the findings in the ICAR in relation to the average annual deliverable network capacity of each coal system for the period FY2022 – FY2024, when measured as a percentage of the current contracted capacity for each coal system, which are as follows:
  - Goonyella System has improved by ~ 5% to ~ 98%
  - Blackwater System has improved by ~ 8% to ~104%
  - GAPE System is slightly lower by 1% to 63%
  - Moura System has improved by ~ 6% to ~99%
  - Newlands System has improved by 4% to 70%

Report Date and Weighted Average Cost of Capital (WACC)

- The QCA-approved reference tariffs assumed an uplift in the WACC to 6.3% would be effected from 1 March 2020. As a result of the delay in the ICAR being published, there was an over-collection of access charges (the difference between 5.9% and 6.3%) in FY2022, which will be returned to Access Holders as part of the FY2022 Revenue Adjustment Amount, reflected in FY2024 Access Tariffs.
- On 15 December 2022, the QCA rejected the FY2022 Revenue Adjustment Amount submission, taking the view that the WACC uplift did not apply from 12 November 2021 but instead from 14 March 2022 (the date upon which Network submitted its Detailed Report in response to the ICAR).
- Network considers it met the requirements of the Report Date when it notified the Chair of the RIG of its Preliminary Response to the ICAR on 12 November 2021, resulting in an increase in Network's WACC from 5.9% to 6.3%. The WACC adjustment associated with a 14 March 2022 Report Date would see an additional return to Access holders of $9m in FY2024 tariffs.
- To allow any dependent regulatory processes to continue to progress, on 20 January 2023, Network submitted an amended FY2022 Revenue Adjustment Amounts submission in compliance with the QCA's decision and reserved its rights in relation to the proper interpretation of the Report Date. On the same day, Network lodged an application with the Supreme Court of Queensland to appeal the QCA decision, seeking a declaration from the court about the proper interpretation of the definition of the Report Date. The Supreme Court hearing took place on 14 June 2023.
- On 28 July 2023, the Supreme Court dismissed Network's application and decided that the Report Date is 14 March 2022. Network is considering the judgement and its next steps. At this time, there is no requirement for any further adjustment to FY2024 tariffs.

Performance Rebate

- The Performance Rebate mechanism in UT5 came into effect on the 'Report Date'. The Performance Rebate is payable if an End User does not receive its contracted Train Service Entitlement due to a performance breach by Network as determined by the IE under UT5.
- In accordance with the terms of UT5, stakeholders requested the QCA undertake a review of the Performance Rebate mechanism and more specifically whether the Rebate Objectives set out in UT5 had been met in a material way.
- On 23 March 2023, the QCA issued a Draft Decision recommending that no changes be made to the UT5 Rebate mechanism. This Draft Decision resulted in Network engaging with stakeholders, which concluded with Network responding to the Draft Decision with voluntary UT5 amendments agreed with stakeholders relating to further information gathering processes to support the IE's annual rebate calculation.
- Due to Network's response to the Draft Decision, on 29 June 2023 the QCA provided its Final Decision determining that the Performance Rebate mechanism had not met the defined Rebate Objectives in a material way and that drafting changes were required to UT5 in the form provided to the QCA by Network.
- Network responded to the Final Decision on 30 June 2023 with a DAAU with the stakeholder agreed amendments.

UT5 Reset Values

- UT5 provides for certain components of allowable revenue and WACC (predominately risk-free rate, debt risk premium, inflation and the tax allowance) (together the Reset Values) to be reset on 1 July 2023 to take account of prevailing market conditions at that time. The reset process involves the establishment of:
  - Preliminary Reset Values in FY2023 to form the basis of tariffs that will apply in FY2024. On 25 May 2023, the QCA approved Network's preliminary Reset Values.

– Final Reset Values will be determined in FY2024. On 31 July 2023, Network submitted final Reset Values to the QCA for approval.

- Preliminary Allowable Revenues and Reference Tariffs for FY2024 will be based on the QCA's approved preliminary WACC of 8.18% and opening FY2024 RAB Value of $6.2bn[11] (including Access Facilitation Deeds in respect of mine specific infrastructure of $0.3bn).
- Network's final Reset Values submission proposed a final reset WACC of 8.51% based on a risk-free rate of 3.87% and a debt risk premium of 2.48%. Network is providing additional information to the QCA in support of its submission prior to it being published. Network's proposed final Reset Values remain subject to approval by the QCA, following a period of stakeholder consultation.
- While the final Reset Values will take effect from 1 July 2023, FY2024 Allowable Revenues and Tariffs will not be amended during that year to reflect the QCA's decision on the final Reset Values. The difference between the preliminary and final Reset Allowable Revenues for FY2024 (1 July 2023 to 30 June 2024) will be reconciled through the usual Revenue Adjustment Amounts (Revenue Cap) process in two years' time and will be incorporated into FY2026 Reference Tariffs.

Operational Update

During FY2023:

- CQCN volumes increased by 1% to 207.6mt. Volumes were impacted by prolonged periods of wet weather, mine specific maintenance and production issues and a derailment at Marmor in the Blackwater system.
- Wet weather, access to skilled labour and rising sub-contractor costs impacted maintenance and asset renewal expenditure.
- Employees covered by the Aurizon Infrastructure Enterprise Agreement (QLD) voted in favour of the proposed terms which were subsequently approved by Fair Work Australia on 28 July 2023.
- Total System Availability was 83.4% compared to 82.6% in the prior year.
- Cancellations due to the Network rail infrastructure increased from 2.1% to 2.3%.
- Cycle velocity declined marginally from 22.8km/h to 21.5km/h.

Other

Other includes other Containerised Freight, which is not considered a separate reportable segment, as well as other revenue and central costs not allocated such as the Board, Managing Director & CEO, Company Secretary, strategy and investor relations.

($m)	FY2023	FY2022[12]	Variance
Total revenue	**19**	**36**	**(47%)**
Operating costs	(73)	(46)	(59%)
EBITDA	**(54)**	**(10)**	**(440%)**
Depreciation and amortisation	(3)	-	-
EBIT	**(57)**	**(10)**	**(470%)**

Other Performance Overview

EBITDA reduced by $44m due to the divestment of Rockhampton workshops in the prior year and the recognition of a $15m long service leave provision adjustment, the latter as a result of a legislative change relating to a period prior to the Initial Public Offering. Other also includes the Containerised Freight business which was established in 2HFY2023 and commenced railing under the Team Global Express contract in April 2023.

[11] *Includes deferred capital*
[12] *The Bulk and Other segments for FY2022 have been restated for consistency with current year presentation.*

OPERATIONAL EFFICIENCY IMPROVEMENT UPDATE

As part of Aurizon's Strategy In Action, particularly the Optimise and Excel levers, Aurizon continues to focus on operational efficiency to continuously improve its operational performance, asset efficiency and cost competitiveness. Through the Optimise and Excel levers, Aurizon is making targeted investments in technology on the journey to continuous improvement.

Outlined below are the major initiatives currently being pursued in the business.

TrainGuard

TrainGuard is a platform utilising ETCS (European Train Control System) technology to support driver decision-making, particularly in relation to speed control and signal enforcement. TrainGuard will support safer and more efficient train operations with reduced rail process safety issues and improved train handling. TrainGuard is also a pathway to expanding our driver-only operations in Central Queensland. The technology was deployed on all electric trainsets (and associated track infrastructure) in Blackwater (Callemondah to Bluff) and the first TrainGuard operational service commenced in December 2022. Goonyella system to follow. The first TrainGuard driver-only operational service successfully commenced on 3 July 2023 and the ramp up of driver-only services are still underway.

TrainHealth

TrainHealth provides Aurizon with capability to monitor performance of locomotives and train handling/utilisation in real-time. This initiative enables access to real time asset data that is being used to inform the health of the locomotive, enhance asset reliability and maintenance decisions for the fleet, in addition to providing greater visibility on driver variability and support business decisions for on-time running. CQCN Siemens electric locomotive fleet and the EMD CQCN diesel fleet have been completed. TrainHealth has expanded to the NSW Coal system and is leveraging the technology solutions delivered in CQCN with all installation completed. In addition to the expansion of TrainHealth across the Coal business unit, WA Bulk have invested in TrainHealth with the 6000 class equivalent fleet installation completed.

ADDITIONAL INFORMATION

Sustainability

Aurizon keeps stakeholders informed of our corporate governance and financial performance via announcements to the Australian Securities Exchange (ASX) and our website. Investors can access copies of announcements to the ASX, notices of meetings, annual reports, policies, investor presentations, webcasts, and transcripts of those presentations on our website. In addition, we take a direct approach to reporting environmental, social and governance (ESG) disclosures to our stakeholders with the publication of our annual Sustainability Report.

We recognise that our climate change disclosures are one of the key interests to stakeholders. Since 2017, we have aligned our climate-related disclosures to the Task Force on Climate-related Financial Disclosures (TCFD) as recommended by the Financial Stability Board. This framework enables consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. Our response to climate-related risks is outlined in our annual Sustainability Report

In FY2021, we published our Climate Strategy and Action Plan (CSAP). The strategy builds on our existing work in reducing our carbon footprint. We recognise that we all have a responsibility to act on climate change – government, business, and the general community – so we can achieve an effective transition to a low-carbon future. For more information on our approach to climate change, including risks relating to decarbonisation, refer to the Risk section of the Directors' Report in the FY2023 Annual Report and our annual Sustainability Report.

In 2022, we received a 'Comprehensive' rating, the highest rating for an eighth consecutive year by the Australian Council of Superannuation Investors (ACSI) for corporate sustainability reporting in Australia.

Safety

At Aurizon, we are committed to protecting our people and the communities in which we operate.

During FY2023, we embedded our Safety Strategy focused on nine key priorities and delivered several key strategic projects and initiatives. In April, Aurizon launched its Enterprise Critical Control Management framework. While Aurizon’s business units have traditionally managed critical risk at a local level, the new enterprise program is designed to simplify process and enable a consistent approach to our eleven Critical Safety Risks across our national operations. Also, in late FY2023, Aurizon launched its new Event Learning Framework to further facilitate the prioritisation of learning from events, enabling stronger and more resilient systems to keep our people safe.

Throughout FY2023, Aurizon has continued to deliver against its Mental Health and Wellbeing Strategy, including conducting a psychosocial risk management pilot focused on understanding psychosocial risk hazards present in our operations.

As we move into FY2024, Aurizon continues to focus on embedding our strategy and focus our attention on simple systems and process, understanding and controlling risk and building leadership and the capability of our people. For example, enhancements in contractor safety and fatigue risk management.

Aurizon uses two primary safety metrics to measure safety performance across the enterprise: Total Recordable Injury Frequency Rate (TRIFR) and potential and actual Serious Injury and Fatality Frequency Rate (SIFR(a+p)). For FY2023, Aurizon has reported these two-core metrics excluding Bulk Central. Moving into FY2024, Aurizon enterprise and Bulk Central will be integrated into the one metric.

FY2023 TRIFR (excluding Bulk Central) was 8.36 injuries per million hours worked compared to 8.51 for FY2022, an improvement in our overall TRIFR of 1.76%. FY2023 SIFR(a+p) (excluding Bulk Central) was 1.92 events per million hours worked compared to 4.41 for FY2022, representing a 56% improvement.

Bulk Central TRIFR for FY2023 is 10.26 compared to 4.09 in FY2022, representing a deterioration of 151%. The increase is the result of a single event in June 2023 whereby a heavy vehicle pulled into the path of an Aurizon train at a protected level crossing outside of Katherine, Northern Territory resulting in injuries to all four train crew. Excluding this event, Bulk Central was representing a year-on-year improvement of 11%. Bulk Central SIFR(a+p) for FY2023 is 6.41 and is the first period Bulk Central has been using this measure.

Environment

Aurizon recognises our responsibility to aid our local communities and supply chains by delivering environmental value through effective management of environmental risks and improved enterprise environmental performance. We employ proactive and evidence-based management measures covering key environmental issues such as, climate change, resource use and clean air.

Following the acquisition of Bulk Central, environmental licences in South Australia have been consolidated. Bulk Central has been steadily integrated into Aurizon's existing annual second line environmental assurance program which assesses compliance with legislative obligations and applicable licences. No material non-compliances were reported.

Aurizon continues to work collaboratively with supply chain partners to minimise coal dust emissions associated with Aurizon's coal haulage operations. Data from the CQCN opacity monitoring stations indicated FY2023 continues to yield low rates of coal dust loss from tops of wagons. For further detail in relation to coal dust management and monitoring processes, refer to Aurizon's annual Sustainability Report.

Aurizon successfully transitioned its three Safeguard Mechanism Facilities (covering Scope 1 GHG emissions associated with rail activities in QLD, NSW and WA) to a single National Transport Facility, with approval granted by the Clean Energy Regulator on 29 March 2023. Bulk Central's emission reporting requirements, including National Greenhouse and Energy Reporting (NGER) and National Pollutant Inventory (NPI) have been incorporated into national reporting requirements for Aurizon. Aurizon will not be required to purchase or retire Australian Carbon Credit Units (ACCUs) to meet its obligations under the Safeguard Mechanism in FY2023. This was achieved through effective management of its Scope 1 emissions intensity to remain below baselines. The Safeguard Mechanism reforms passed by Federal parliament in March 2023, which commenced on 1 July 2023, mean that Aurizon is estimated to have a carbon liability for the first time in FY2024. Sufficient ACCUs have been purchased to achieve this compliance obligation.

In FY2023:

- Aurizon has not incurred any fines, penalties or prosecutions arising from environmental or cultural heritage related incidents; and
- Aurizon has had four notifiable environmental incidents. Remedial actions were implemented as required and no ongoing material environmental impacts are anticipated.

People

At Aurizon, our people are our greatest asset. We have over 5,700 employees living and working across our national footprint of operations. Our Aurizon values (Safety, People, Integrity, Customer and Excellence) guide our people's work, in delivering bulk commodities to the world, and are underpinned by a workplace culture of connection to enable great outcomes.

Through our commitment to safe and efficient delivery for our customers, we are building our workforce for the future. Strong leadership, culture and values-aligned people practices lay the foundation to achieve this. During the year we progressed key initiatives, including:

- Providing meaningful ways for our people to develop their skills and capabilities, now and for the future. Our established Leadership programs are designed to embed a safe and high performing culture where our people live our values and are engaged and enabled to do their best work. We also recognise the need for development at all levels and rolled out new programs for emerging leaders. We also implemented a new Capability Framework to help our people identify development opportunities for current and future roles.
- Ensuring our people processes and systems adapt to the needs of our leaders and people, and actively facilitates the attraction and retention of our current and future workforce. This year we have focused on renewing our workforce planning process and initiatives as well as progressing a refreshed employee value proposition.
- Continuing to strive towards creating an inclusive culture by embedding flexible work practices, creating awareness and driving action for inclusion through employee representative groups (across gender, First Nations peoples and LGBTQIA+), meeting workforce representation targets and actively reducing the gender pay gap. In August 2022, we launched our first ALL in Action Plan 'Advancing LGBTQIA+ Inclusion at Aurizon' – aligning our activities to three pillars to support the group's vision - visibility, education and connection.
- Integrating the Bulk Central business into Aurizon's existing processes, ensuring alignment across people and performance priorities, complementing the established cultures.

Entities over which control was gained or lost during the period

The Group acquired 100% of the general and limited partnership interests in Aurizon Bulk Central Holdings LP (formerly One Rail Australia Holdings LP) and its subsidiaries listed below on 29 July 2022.

- Aurizon Bulk Central Holdings LP (formerly One Rail Australia Holdings Pty Ltd)
- Aurizon Bulk Central Finance 2 Pty Ltd (formerly One Rail Australia Finance 2 Pty Ltd)
- Aurizon Bulk Central Finance Pty Ltd (formerly One Rail Australia Finance Pty Ltd)
- Aurizon Bulk Central Network Pty Ltd (formerly One Rail Australia (North) Pty Ltd)
- Aurizon Bulk Central (SA Holdings) Pty Ltd (formerly One Rail Australia (SA Holdings) Pty Ltd)
- Aurizon Bulk Central (Northern) Pty Ltd (formerly One Rail Australia (Northern) Pty Ltd)
- Viper Line Pty Ltd
- Aurizon Bulk Central Pty Ltd (formerly One Rail Australia Pty Ltd)
- Aurizon Bulk Central (SA Rail) Pty Ltd (formerly One Rail Australia (SA Rail) Pty Ltd)
- Aurizon Bulk Central (Eastern) Pty Ltd (formerly One Rail Australia (Eastern) Pty Ltd)
- ARG Sell Down No 1 Pty Ltd
- ARG Sell Down Holdings Pty Ltd
- ARG Sell Down No 2 Pty Ltd
- Aurizon Bulk Central (VW) Pty Ltd (formerly One Rail Australia (VW) Pty Ltd)
- Aurizon Bulk Central (Operations North) Pty Ltd (formerly One Rail Australia (Operations North) Pty Ltd)
- One Rail Australia (NSW) Pty Ltd
- One Rail Australia (Queensland) Pty Ltd
- One Rail Australia (FLA) Pty Ltd
- One Rail Australia (FLACS) Pty Ltd
- One Rail Australia (FLACH) Pty Ltd

The Group divested 100% of the ordinary shares in One Rail Australia Holdings Limited (formerly NHK Pty Ltd) and its subsidiaries listed below on 17 February 2023.

- One Rail Australia (NSW) Pty Ltd
- One Rail Australia (Queensland) Pty Ltd
- One Rail Australia (FLA) Pty Ltd
- One Rail Australia (FLACS) Pty Ltd
- One Rail Australia (FLACH) Pty Ltd

Details of joint venture entities

		Ownership Interest (%)	
Entity	**Country of incorporation**	**30 Jun 2023**	**30 Jun 2022**
Joint Ventures			
Coal Network Capacity Co Pty Ltd	Australia	8	8
Ox Mountain Limited[13]	United Kingdom	69	42
ARG Risk Management Limited	Bermuda	50	50
Integrated Logistics Company Pty Ltd	Australia	14	14
ACN 169 052 288	Australia	15	15

The profit contribution from any one of these joint venture entities is not material to the Group's profit.

Risk

Refer to the annual report for a detailed summary of risk.

[13] *The Group's investment in Ox Mountain Limited continues to be classified as a joint venture due to the Group having joint control and is accounted for using the equity method of accounting.*