# Aurizon Operations Limited

ABN 47 564 947 264

# Annual Financial Report for the year ended 30 June 2023

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

The financial report is presented in Australian dollars.

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

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

The financial report for the Group for the year ended 30 June 2023 has been authorised for issue in accordance with a resolution of the Directors on 14 August 2023. The Directors have the power to amend and reissue the financial report.

# Directors' Report

The Directors of Aurizon Operations Limited (the Company) present their report, together with the financial statements of the Company and its controlled entities (collectively referred to as the consolidated entity or the Group) for the financial year ended 30 June 2023 (FY2023). Aurizon Operations Limited is a subsidiary of Aurizon Holdings Limited. Aurizon Holdings Limited and its subsidiary entities are referred to as the Aurizon Group.

**Directors**

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

A Harding
G Lippiatt
D Wenck

**Principal activities**

The principal activities of entities within the Group during the year were:

*Coal*

Transport of metallurgical and thermal coal from mines in Queensland (QLD) and New South Wales (NSW) to domestic customers and coal export terminals.

*Bulk*

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. Bulk also manages the Tarcoola-to-Darwin rail infrastructure, the intrastate rail freight network in South Australia (SA), and containerised freight services between Adelaide and Darwin.

**Review of operations**

*Group Performance Overview*

Underlying EBITDA from continuing operations is down $52.5 million or 8% to $626.0 million in FY2023 due to lower volumes from the impact of prolonged wet weather, higher Take-or-Pay costs for Coal and unfavourable movement in Other due to the prior year impact of asset sales and the recognition of an adjustment to the provision for long service leave. This is partly offset by an increase in Bulk due to the inclusion of Bulk Central following completion of the acquisition in July 2022 and higher volumes from existing and new customers.

Group revenue from continuing operations increased $317.0 million or 14% with higher revenue in Bulk due to the inclusion of Bulk Central and higher volumes for grain and iron ore customers, partly offset by the reduction in Coal due to lower volumes and the non-recurrence of asset sales in Other.

Operating costs increased $369.5 million or 23% with increased costs across all segments due to the inclusion of Bulk Central in the Bulk segment, the impact of Take-or-Pay in Coal and the recognition of an adjustment to the provision for long service leave in Other.

Depreciation increased by $65.2 million or 25% due to the increased asset base in Bulk for Bulk Central as well as growth capital expenditure.

**Dividends**

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

## Significant changes in the state of affairs

*Acquisitions*

The following significant acquisitions have occurred during FY2023:

- The Group acquired Aurizon Bulk Central Holdings LP (formerly One Rail Australia Holdings LP) on 29 July 2022. The One Rail Bulk segment has been integrated into the Group's Bulk segment and renamed Aurizon Bulk Central. Refer to note 22 for further information.
- The Group increased its ownership interest in Ox Mountain Limited (UK registered) from 42% to 69% on 9 January 2023 for consideration of $30.1 million. Refer to note 22 for further information.

*Funding*

During the period, Aurizon Finance Pty Ltd (a wholly owned subsidiary of the Company):

- Added A$1,450.0 million capacity to existing bank debt facilities as part of the One Rail Australia acquisition with tenors of 2 to 5 years.
- Re-financed A$415.0 million of bilateral bank debt facilities with maturities extended to July 2026. Subsequent to the reporting date, $50.0 million capacity was added on 3 July 2023.
- Repaid A$300.0 million of bank debt, sourced as part of the One Rail Australia acquisition
- Successfully priced ~A$503.0 million of US Private Placement (USPP) Notes in June 2023 across tenors of 7, 10, 11 and 12 years which settled in July 2023 with the funds used to repay debt sourced as part of the One Rail Australia acquisition.

*Capital structure*

During the year, the Company:

- Completed a return of capital to the parent of $165.7 million on 29 July 2022, for which there was no change to the number of ordinary shares, to fund the acquisition of One Rail Australia. In connection with the acquisition, the Company received a capital contribution from the parent of $50.0 million on 31 December 2022 and issued 50.0 million ordinary shares to the parent.
- Completed a return of capital to the parent of $26.0 million for sale and divestment costs relating to Aurizon Holding Limited's disposal of East Coast Rail, there was no change to the number of ordinary shares on issue.
- Received a capital contribution from the parent of $317.7 million funded from the proceeds from the East Coast Rail divestment and issued 317.7 million ordinary shares to the parent. Subsequently, the Company completed a return of capital to the parent of $4.6 million relating to completion adjustments paid on behalf of the parent, for which there was no change to the ordinary shares on issue.
- Received a capital contribution from the parent of $250.0 million on 29 June 2023 and issued 250.0 million ordinary shares to the parent.

*Deed of Cross Guarantee*

On 28 April 2023, six subsidiaries were acceded to the Aurizon Operations Deed of Cross Guarantee. Refer to note 21 for further information.

## Events since the end of the financial year

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

## Likely developments

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

## Environmental and Cultural Heritage regulation and performance

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 Aurizon Group seeks to comply with all applicable laws and regulations that have an environmental or cultural heritage focus.

Aurizon Bulk Central has been steadily integrated into the Aurizon Group’s existing annual second line environmental assurance program which assesses compliance with legislative obligations and applicable licences. Aurizon Bulk Central's SA environmental licence has been consolidated with the Aurizon Group licence. No material non-compliances were reported.

The Aurizon Group successfully transitioned its three Safeguard Mechanism Facilities (covering Scope 1 greenhouse gas emissions associated with rail activities in QLD, NSW and Western Australia) to a single National Transport Facility from 1 July 2022. Aurizon 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 the Aurizon Group. To date, the Aurizon Group has not been required to purchase or retire Australian Carbon Credit Units (ACCUs) to meet its obligations under the safeguard mechanism. This has been achieved through effective management of its Scope 1 emissions intensity. The Safeguard Mechanism reforms passed by Federal parliament in March 2023, which commence on 1 July 2023, mean that the Aurizon Group is estimated to have a carbon liability for the first time in FY2024. Sufficient ACCUs have been purchased to offset the FY2024 estimated carbon liability.

No incidents involving impact to cultural heritage values have occurred since the launch of Aurizon’s Cultural Heritage Governance Framework (CHGF). Two learning modules and online tools, designed to support the CHGF, provide a summary of key Cultural Heritage (CH) information and guidance for employees whose roles interface with CH. Over 1,200 staff have completed the first module. Opportunities to integrate Aurizon Bulk Central’s CH framework into the CHGF are being assessed.

Further details on the Company's climate and environmental performance will be published in the Aurizon Group's forthcoming Sustainability Report which will be published in October 2023.

## 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 FY2023.

## 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 financial year.

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

## Rounding of amounts

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

## Auditor's independence declaration

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

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

A Harding
Director

Brisbane
14 August 2023

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14 August 2023

Board of Directors
Aurizon Operations Limited
900 Ann Street
Fortitude Valley, QLD 4006
Australia

Dear Board Members

**Auditor's Independence Declaration to Aurizon Operations Limited**

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 Operations Limited.

As lead audit partner for the audit of the financial report of Aurizon Operations Limited for the year ended 30 June 2023, 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
DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

# Financial Report
## for the year ended 30 June 2023

### FINANCIAL STATEMENTS



### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



### SIGNED REPORTS



### OTHER INFORMATION

## Consolidated income statement

for the year ended 30 June 2023

| | Notes | **2023 $m** | 2022 $m |
|---|---|---|---|
| Revenue from continuing operations | 2 | **2,610.9** | 2,268.3 |
| Other income | | **1.8** | 27.4 |
| **Total revenue and other income** | | **2,612.7** | 2,295.7 |
| Employee benefits expense | 3 | **(817.8)** | (699.2) |
| Energy and fuel | | **(232.0)** | (149.7) |
| Track access | | **(505.5)** | (457.2) |
| Consumables[1] | | **(417.5)** | (314.9) |
| Depreciation and amortisation | 3 | **(326.6)** | (261.4) |
| Impairment losses | | **(12.8)** | (0.9) |
| Other expenses[1] | | **(50.5)** | (9.9) |
| Share of net profit of investments accounted for using the equity method | | **0.7** | 0.4 |
| **Operating profit** | | **250.7** | 402.9 |
| Finance income | | **4.4** | 2.5 |
| Finance expenses | 3 | **(95.2)** | (17.9) |
| **Net finance costs** | | **(90.8)** | (15.4) |
| **Profit before income tax** | | **159.9** | 387.5 |
| Income tax expense | 4 | **(57.9)** | (118.2) |
| **Profit for the year attributable to the owners of Aurizon Operations Limited** | | **102.0** | 269.3 |

[1] Amounts for FY2022 have been reclassified for consistency with current year presentation.

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

## Consolidated statement of comprehensive income

for the year ended 30 June 2023

| | Notes | **2023 $m** | 2022 $m |
|---|---|---|---|
| **Profit for the year** | | **102.0** | 269.3 |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss | | | |
| Changes in the fair value of cash flow hedges | 15(b) | **20.6** | 2.0 |
| Income tax relating to changes in the fair value of cash flow hedges | 15(b) | **(6.2)** | (0.6) |
| Reclassification to profit or loss on cessation of joint venture | 15(b) | **-** | (0.2) |
| Exchange differences on translation of foreign operations | 15(b) | **4.2** | (1.0) |
| **Other comprehensive income for the year, net of tax** | | **18.6** | 0.2 |
| **Total comprehensive income for the year attributable to the owners of Aurizon Operations Limited** | | **120.6** | 269.5 |

# Consolidated balance sheet
as at 30 June 2023

| | Notes | **2023 $m** | 2022 $m |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **62.3** | 157.1 |
| Trade and other receivables | 5 | **436.5** | 396.3 |
| Inventories | 6 | **164.5** | 124.7 |
| Derivative financial instruments | 17(a) | **1.7** | 1.5 |
| Current tax receivables | | **5.0** | - |
| Other assets | 9 | **163.8** | 29.0 |
| Assets classified as held for sale | | **-** | 0.1 |
| **Total current assets** | | **833.8** | 708.7 |
| | | | |
| **Non-current assets** | | | |
| Inventories | 6 | **48.1** | 38.2 |
| Derivative financial instruments | 17(a) | **29.7** | - |
| Property, plant and equipment | 7 | **4,755.5** | 3,236.9 |
| Intangible assets | 8 | **149.9** | 126.6 |
| Other assets | 9 | **96.3** | 75.5 |
| Investments accounted for using the equity method | 18 | **56.2** | 22.0 |
| **Total non-current assets** | | **5,135.7** | 3,499.2 |
| | | | |
| **Total assets** | | **5,969.5** | 4,207.9 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **318.2** | 221.0 |
| Borrowings | 16 | **106.0** | - |
| Derivative financial instruments | 17(a) | **0.4** | - |
| Provisions | 11 | **233.4** | 221.8 |
| Other liabilities | 12 | **40.5** | 23.0 |
| **Total current liabilities** | | **698.5** | 465.8 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 16 | **1,404.0** | 428.0 |
| Derivative financial instruments | 17(a) | **70.1** | 66.1 |
| Deferred tax liabilities | 4(c) | **218.1** | 81.1 |
| Provisions | 11 | **48.4** | 45.9 |
| Other liabilities | 12 | **125.2** | 121.1 |
| **Total non-current liabilities** | | **1,865.8** | 742.2 |
| | | | |
| **Total liabilities** | | **2,564.3** | 1,208.0 |
| | | | |
| **Net assets** | | **3,405.2** | 2,999.9 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 15(a) | **3,141.1** | 2,720.0 |
| Reserves | 15(b) | **18.8** | 0.2 |
| Retained earnings | | **245.3** | 279.7 |
| **Total equity** | | **3,405.2** | 2,999.9 |

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

# Consolidated statement of changes in equity

for the year ended 30 June 2023

| | Notes | Contributed equity $m | Reserves $m | Retained earnings $m | Total equity $m |
|---|---|---|---|---|---|
| | | Attributable to the owners of Aurizon Operations Limited | | | |
| **Balance at 1 July 2022** | | **2,720.0** | **0.2** | **279.7** | **2,999.9** |
| Profit for the year | | **-** | **-** | **102.0** | **102.0** |
| Other comprehensive income | 15(b) | **-** | **18.6** | **-** | **18.6** |
| **Total comprehensive income for the year** | | **-** | **18.6** | **102.0** | **120.6** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Dividends paid | 14 | **-** | **-** | **(136.4)** | **(136.4)** |
| Return of capital to the parent for acquisition of subsidiary | 15(a) | **(165.7)** | **-** | **-** | **(165.7)** |
| Capital contribution from the parent for acquisition of subsidiary | 15(a) | **50.0** | **-** | **-** | **50.0** |
| Return of capital to the parent for sale and divestment costs | 15(a) | **(26.0)** | **-** | **-** | **(26.0)** |
| Capital contribution from the parent for proceeds from the divestment | 15(a) | **317.7** | **-** | **-** | **317.7** |
| Return of capital to the parent from completion adjustment on divestment | 15(a) | **(4.6)** | **-** | **-** | **(4.6)** |
| Capital contribution from the parent | 15(a) | **250.0** | **-** | **-** | **250.0** |
| Return of capital to the parent for share-based payments | 15(a) | **(0.3)** | **-** | **-** | **(0.3)** |
| | | **421.1** | **-** | **(136.4)** | **284.7** |
| **Balance at 30 June 2023** | | **3,141.1** | **18.8** | **245.3** | **3,405.2** |
| Balance at 1 July 2021 | | 2,712.0 | - | 239.1 | 2,951.1 |
| Profit for the year | | - | - | 269.3 | 269.3 |
| Other comprehensive income | 15(b) | - | 0.2 | - | 0.2 |
| Total comprehensive income for the year | | - | 0.2 | 269.3 | 269.5 |
| Transactions with owners in their capacity as owners: | | | | | |
| Dividends paid | 14 | - | - | (228.7) | (228.7) |
| Capital contribution from the parent for share-based payments | 15(a) | 8.0 | - | - | 8.0 |
| | | 8.0 | - | (228.7) | (220.7) |
| Balance at 30 June 2022 | | 2,720.0 | 0.2 | 279.7 | 2,999.9 |

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

# Consolidated statement of cash flows

for the year ended 30 June 2023

| | Notes | 2023 $m | 2022 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **2,795.6** | 2,487.6 |
| Payments to suppliers and employees (inclusive of GST) | | **(2,279.4)** | (1,885.1) |
| Interest received | | **4.4** | 2.5 |
| Income taxes paid | | **(82.6)** | (3.2) |
| Principal elements of lease receipts | | **7.5** | 7.1 |
| **Net cash inflow from operating activities** | 23 | **445.5** | 608.9 |
| **Cash flows from investing activities** | | | |
| Payments for business acquisitions (net of cash acquired) and investment in joint venture | 22 | **(1,434.0)** | (16.9) |
| Payments for property, plant and equipment | | **(402.9)** | (258.4) |
| Proceeds from sale of property, plant and equipment | | **7.6** | 41.7 |
| Payments for intangibles | | **(15.3)** | (9.7) |
| Proceeds from/(payments to) related parties under the Intra Group Loan Agreement | | **93.0** | (93.0) |
| Interest paid on qualifying assets | 3 | **(4.2)** | (1.5) |
| Distributions from joint ventures | | **0.7** | 0.5 |
| **Net cash outflow from investing activities** | | **(1,755.1)** | (337.3) |
| **Cash flows from financing activities** | | | |
| Proceeds from external borrowings | | **1,376.0** | - |
| Repayment of external borrowings | | **(300.0)** | - |
| Payments of transaction costs related to borrowings | | **(10.5)** | - |
| Principal elements of lease payments | | **(19.9)** | (17.3) |
| Interest paid | | **(83.6)** | (16.3) |
| Proceeds from settlement of related party receivable | | **-** | 0.4 |
| Return of capital to the parent for share-based payments | | **(6.2)** | - |
| Capital contribution from parent | | **396.4** | - |
| Dividends paid to Company's shareholder | 14 | **(136.4)** | (228.7) |
| **Net cash inflow/(outflow) from financing activities** | | **1,215.8** | (261.9) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(93.8)** | 9.7 |
| Cash and cash equivalents at the beginning of the financial year | | **157.1** | 147.7 |
| Effects of exchange rate changes on cash and cash equivalents | | **(1.0)** | (0.3) |
| **Cash and cash equivalents at the end of the financial year** | | **62.3** | 157.1 |

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

# Notes to the consolidated financial statements

30 June 2023

## About this report

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

The financial report is a general purpose financial 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 the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*;
- presents reclassified comparative information where required for consistency with current year presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2022; 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 2023 (FY2023) has been authorised for issue in accordance with a resolution of the Directors on 14 August 2023. 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 |
|---|---|
| Useful lives of rollingstock | 7 |
| Recoverable amount of property, plant and equipment (Western Australia cash generating unit (CGU)) | 7 |
| Impairment tests for goodwill (Bulk Queensland, Bulk New South Wales and Bulk Central CGU) | 8 |
| Business combination | 22 |

## 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) Acquisition of subsidiaries and interests in joint ventures

**One Rail Australia**

The Aurizon Group signed a Partnership Interest Sale Agreement with Macquarie Asset Management (on behalf of its managed funds and client) on 21 October 2021 to acquire 100% of the general and limited partnership interest in Aurizon Bulk Central Holdings LP (formerly One Rail Australia Holdings LP). Aurizon Bulk Central Holdings LP and its subsidiaries are collectively referred to as 'One Rail Australia'. The acquisition completed on 29 July 2022 for consideration of $2,403.9 million.

One Rail Australia comprised two main business segments:

- One Rail Bulk: Integrated bulk rail haulage and general freight assets in South Australia and the Northern Territory and below rail operator and economic owner of 2,460km of rail infrastructure including the 2,245km Tarcoola-to-Darwin railway line; and
- East Coast Rail: Coal haulage in New South Wales and Queensland.

The ownership interest in One Rail Bulk was acquired by the Company and integrated into the Group's Bulk segment and renamed Aurizon Bulk Central. Aurizon Bulk Central is the only rail freight operator along the South Australia/Northern Territory corridor and products hauled include copper, grain, iron ore, gypsum and containerised freight. Aurizon Bulk Central also manages the Tarcoola-to-Darwin rail infrastructure, and the intrastate rail freight network in South Australia. Provision of access to the below rail infrastructure is regulated by the Essential Services Commission of South Australia (ESCOSA).

The ownership interest in East Coast Rail was disposed of by Aurizon Holdings Limited and did not form part of the Group.

The acquisition of One Rail Australia was funded from cash, existing bank debt facilities and new bank debt facilities. Refer to note 17(b)(i) for further information on the Group's financing arrangements.

Acquisition costs of $48.7 million (2022: $14.2 million) including landholder duty, advisory fees and other costs have been expensed to profit or loss during the period and classified in other expenses. This amount has been classified as a significant item.

Refer to note 22 for further information on the One Rail Australia acquisition.

**Ox Mountain Limited**

The Group increased its ownership interest in Ox Mountain Limited (UK registered) from 42% to 69% on 9 January 2023 for consideration of $30.1 million. Ox Mountain Limited is a maintenance software developer and distributor focusing on asset intensive sectors such as mining and rail operations/infrastructure and has customers and operations in Australia and globally. The investment 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.

### (b) Debt financing

To fund the acquisition of One Rail Australia in July 2022, the Group added $1,450.0 million of capacity to existing unsecured bank debt facilities. The additional capacity included a $650.0 million bridge facility maturing July 2024, a $400.0 million revolving facility maturing July 2025 and a $400.0 million term loan facility maturing July 2027. The $650.0 million bridge facility has been partly repaid during FY2023, with $350.0 million utilised at reporting date.

The Group successfully priced a US Private Placement (USPP) comprising of both USD and AUD tranches (~A$503.0 million equivalent) in June 2023 which settled subsequent to reporting date on 26 July 2023. The proceeds from the USPP have been used to repay the remainder of the $350.0 million bridge facility drawn to fund the acquisition of One Rail Australia. The USPP includes a A$50.0 million tranche maturing July 2033, a A$50.0 million tranche maturing July 2034, a US$133.0 million tranche maturing July 2030, a US$70.0 million tranche maturing July 2033 and a US$70.0 million tranche maturing July 2035. Cross-currency interest rate swaps covering the entirety of the US$273.0 million issued have been executed to swap USD tranches to AUD floating rate debt.

In June 2023, the Group also re-financed existing floating rate bilateral facilities and reduced the capacity from $625.0 million to $605.0 million (the capacity at reporting date was $555.0 million, with $50.0 million capacity added on 3 July 2023). The re-financed bilateral facilities include $465.0 million ($415.0 million at reporting date) maturing July 2026, $65.0 million maturing November 2023, and $75.0 million maturing November 2025. The maturity of the $125.0 million working capital facility was also extended to June 2024.

## Key events and transactions for the reporting period (continued)

### (b) Debt financing (continued)

Floating-to-fixed rate interest rate swaps with a notional amount of $1,550.0 million have been executed with a range of maturities from three to 10 years. As at 30 June 2023, variable rate borrowings are 98% hedged through fixed rate interest rate swaps for an average period of 4.6 years.

### (c) Capital structure

To fund the acquisition of One Rail Australia, the Company completed a return of capital to the parent of $165.7 million on 29 July 2022. There was no change to the number of ordinary shares on issue. In connection with the Group's acquisition of Aurizon Bulk Central, the Company received a capital contribution from the parent of $50.0 million on 31 December 2022 and issued 50.0 million ordinary shares to the parent.

Sale and divestment costs relating Aurizon Holding Limited's disposal of East Coast Rail were paid by the Company on the parent's behalf. The Company completed a return of capital to the parent of $22.8 million on 31 December 2022 and a further return of capital of $3.2 million on 30 June 2023. There was no change to the number of ordinary shares on issue.

The Company received a capital contribution from the parent of $317.7 million on 20 June 2023 funded from the proceeds from Aurizon Holding Limited's divestment of East Coast Rail. The Company issued 317.7 million ordinary shares to the parent. The Company subsequently completed a return of capital to the parent of $4.6 million on 20 June 2023 relating to the completion adjustments paid by the Company on the parent's behalf. There was no change to the number of ordinary shares on issue.

The Company received a capital contribution from the parent of $250.0 million on 29 June 2023 and issued 250.0 million ordinary shares to the parent.

# Results for the year

**IN THIS SECTION**

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

## 1 Segment information

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

### (a) Description of reportable segments

The following summary describes the operations of each reportable segment:

**Coal**

This segment provides transport of metallurgical and thermal coal from mines in Queensland and New South Wales to domestic customers and coal export terminals.

**Bulk**

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

**Other**

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

## 1 Segment information (continued)

### (b) Segment information

The results of the reportable segments are measured on the same basis as the accounting policies described in the consolidated financial statements. The results of the reportable segments are set out as below:

| 30 June 2023 | Coal $m | Bulk $m | Other $m | Total $m |
|---|---|---|---|---|
| **External revenue** | | | | |
| **Revenue from external customers** | | | | |
| Services revenue | | | | |
| Track access | 349.9 | - | - | 349.9 |
| Freight transport[1] | 1,175.5 | 1,034.9 | 5.5 | 2,215.9 |
| Other services | - | 10.8 | - | 10.8 |
| Other revenue | 5.7 | 15.6 | 13.0 | 34.3 |
| **Total revenue from external customers[2]** | 1,531.1 | 1,061.3 | 18.5 | 2,610.9 |
| **Internal revenue** | | | | |
| Services revenue | | | | |
| Other services | - | 0.6 | - | 0.6 |
| **Total internal revenue** | - | 0.6 | - | 0.6 |
| **Total external and internal revenue** | 1,531.1 | 1,061.9 | 18.5 | 2,611.5 |
| Other income | - | 0.4 | 1.4 | 1.8 |
| **Total revenue and other income** | 1,531.1 | 1,062.3 | 19.9 | 2,613.3 |
| Internal elimination | | | | (0.6) |
| **Consolidated revenue and other income** | | | | 2,612.7 |
| **EBITDA (Underlying)[3]** | 454.9 | 214.2 | (43.1) | 626.0 |
| Depreciation and amortisation | (203.6) | (108.0) | (15.0) | (326.6) |
| **EBIT (Underlying)[3]** | 251.3 | 106.2 | (58.1) | 299.4 |
| Significant items (note 1(c)) | | | | (48.7) |
| **EBIT[3]** | | | | 250.7 |
| Net finance costs | | | | (90.8) |
| **Profit before income tax** | | | | 159.9 |

[1] As a result of the integrated bulk rail haulage and general freight assets in South Australia and the Northern Territory, freight transport revenue for Bulk includes track access as it is not separately invoiced to customers.

[2] Includes $22.4 million of related party revenue.

[3] Refer to page 80 for Non-IFRS Financial Information.

# 1 Segment information (continued)

## (b) Segment information (continued)

| 30 June 2022 | Coal $m | Bulk[1] $m | Other[1] $m | Total $m |
|---|---|---|---|---|
| External revenue | | | | |
| Revenue from external customers | | | | |
| Services revenue | | | | |
| Track access | 359.7 | - | - | 359.7 |
| Freight transport | 1,195.1 | 673.0 | 0.9 | 1,869.0 |
| Other services | - | 20.0 | 0.2 | 20.2 |
| Other revenue | 4.7 | 4.4 | 10.3 | 19.4 |
| Total revenue from external customers[2] | 1,559.5 | 697.4 | 11.4 | 2,268.3 |
| Internal revenue | | | | |
| Services revenue | | | | |
| Other services | - | 0.1 | - | 0.1 |
| Total internal revenue | - | 0.1 | - | 0.1 |
| Total external and internal revenue | 1,559.5 | 697.5 | 11.4 | 2,268.4 |
| Other income | - | 2.2 | 25.2 | 27.4 |
| Total revenue and other income | 1,559.5 | 699.7 | 36.6 | 2,295.8 |
| Internal elimination | | | | (0.1) |
| Consolidated revenue and other income | | | | 2,295.7 |
| EBITDA (Underlying)[3] | 541.2 | 134.7 | 2.6 | 678.5 |
| Depreciation and amortisation | (208.7) | (38.3) | (14.4) | (261.4) |
| EBIT (Underlying)[3] | 332.5 | 96.4 | (11.8) | 417.1 |
| Significant items (note 1(c)) | | | | (14.2) |
| EBIT[3] | | | | 402.9 |
| Net finance costs | | | | (15.4) |
| Profit before income tax | | | | 387.5 |

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

[2] Includes $21.0 million of related party revenue.

[3] Refer to page 80 for Non-IFRS Financial Information.

## 1 Segment information (continued)

### (c) Significant items

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

| | **2023 $m** | 2022 $m |
|---|---|---|
| Acquisition costs for One Rail Australia | **(48.7)** | (14.2) |

Significant items is reconciled in the Non-IFRS financial information on page 80.

### (d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. Three customers each contribute more than 10% of the Group's total revenue as detailed below and largely relate to the Coal reportable segment:

| | **2023 $m** | 2022[1] $m | **2023 Credit Rating** | 2022 Credit Rating |
|---|---|---|---|---|
| Customer 1 | **366.9** | 367.6 | **A-** | A- |
| Customer 2 | **325.0** | 323.9 | **BBB+** | BBB+ |
| Customer 3 | **183.2** | 244.2 | **Unrated** | Unrated |
| **Total** | **875.1** | 935.7 | | |

[1] Amounts for FY2022 have been updated.

## 2 Revenue

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

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

| | **2023 $m** | 2022 $m |
|---|---|---|
| Services revenue | | |
| Track access | **349.9** | 359.7 |
| Freight transport | **2,215.9** | 1,869.0 |
| Other services | **10.8** | 20.2 |
| Other revenue[1] | **34.3** | 19.4 |
| **Total revenue from continuing operations** | **2,610.9** | 2,268.3 |

[1] Other revenue includes revenue from property leases.

### (a) Disaggregation of revenue from contracts with customers

Revenue is disaggregated by the Group's reportable segments, refer to note 1(b).

## 2 Revenue (continued)

### (b) Contract assets and liabilities

#### (i) Contract assets

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

| | 2023 $m | 2022 $m |
|---|---|---|
| **Current** | | |
| Contract assets for freight transport | **11.5** | 9.1 |
| **Non-current** | | |
| Contract assets for freight transport | **74.5** | 41.7 |

Contract assets primarily represent incremental costs incurred to secure, new or extensions to existing customer contracts. These amounts are capitalised and amortised against revenue as the performance obligations are satisfied over time. No provision for impairment of contract assets has been recognised, refer to the accounting policy in note 5 (2022: $nil).

| | 2023 $m | 2022 $m |
|---|---|---|
| Within one year | **11.5** | 9.1 |
| Later than one year but not later than five years | **49.6** | 36.0 |
| Later than five years | **24.9** | 5.7 |
| | **86.0** | 50.8 |

The increase in contract assets represents incremental costs on new customer contracts where the performance obligations are satisfied over time.

#### (ii) Contract liabilities

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

| | 2023 $m | 2022 $m |
|---|---|---|
| **Current** | | |
| Advances for freight transport | **9.1** | 1.8 |
| **Non-current** | | |
| Advances for freight transport | **9.7** | 12.5 |

Contract liabilities primarily represent amounts received from customers as advances for future rail haulage services. These amounts are recognised in revenue either as volumes are delivered or on a straight line basis over the contract term as performance obligations are satisfied over time.

| | 2023 $m | 2022 $m |
|---|---|---|
| Within one year | **9.1** | 1.8 |
| Later than one year but not later than five years | **6.0** | 7.3 |
| Later than five years | **3.7** | 5.2 |
| | **18.8** | 14.3 |

## 2 Revenue (continued)

### (b) Contract assets and liabilities (continued)

### (iii) Revenue recognised in relation to contract liabilities

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

| | **2023** **$m** | 2022 $m |
|---|---|---|
| *Revenue recognised that was included in the contract liability balance at the beginning of the year* | | |
| Advances for freight transport | **2.8** | 5.6 |

### (iv) Unsatisfied performance obligations

The Group has a number of long-term contracts to provide services to customers in future periods. Revenue is recognised on an as-invoice basis because the right for consideration corresponds directly with the Group's performance obligations completed to date, except for contracts with a timing difference for which a contract asset or contract liability has been recognised.

As at 30 June 2023, future contracted revenues for contracts with a timing difference are approximately $1,672.9 million (2022: $1,871.8 million), of which $495.3 million is expected to be recognised in FY2024. These amounts relate to track access, freight transport and other services from contracts with customers. Future contracted revenues are in FY2023 dollars. Variable revenue is not included. As such, the future contracted revenues described above represent only part of the Group's forecast revenues for FY2024 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.

### (c) Accounting policies

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

### (i) Freight transport

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

Freight transport revenue is billed monthly in arrears and recognised at rates specified in each contractual agreement and adjusted for the amortisation of customer contract assets or contract liabilities. At each reporting date, freight transport revenue includes an amount of revenue for which performance obligations have been met under the respective contract but have not yet settled. These amounts are recognised as trade receivables.

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

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

### (ii) Track access

Track access revenue is generated from the provision of access to, and operation of, the rail infrastructure in South Australia and the Northern Territory. Track access revenue is recognised over time as access to the rail network is provided. Track access revenue recognised for services provided between related parties within the Group as a result of the integrated bulk rail haulage and general freight assets in South Australia and the Northern Territory are eliminated.

## 2 Revenue (continued)

### (c) Accounting policies (continued)

### (iii) Capitalisation of customer contract costs

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

## 3 Expenses

Profit before income tax includes the following specific expenses:

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Employee benefits expense** | | |
| Salaries, wages and allowances including on-costs | **747.8** | 631.8 |
| Defined contribution superannuation expense | **65.3** | 56.2 |
| Redundancies | **4.7** | 11.2 |
| | **817.8** | 699.2 |
| **Depreciation and amortisation** | | |
| Depreciation of property, plant and equipment | **310.3** | 244.3 |
| Amortisation of intangibles | **16.3** | 17.1 |
| | **326.6** | 261.4 |
| **Finance expenses** | | |
| Interest and finance charges paid/payable | **86.4** | 13.5 |
| Discounting of land rehabilitation provision | **0.8** | 0.7 |
| Interest paid on lease liabilities | **5.9** | 4.8 |
| Amortisation of capitalised borrowing costs | **4.2** | 1.2 |
| Hedge ineffectiveness[1] | **2.1** | (0.8) |
| | **99.4** | 19.4 |
| Capitalised interest paid on qualifying assets | **(4.2)** | (1.5) |
| | **95.2** | 17.9 |

[1] Refer to the accounting policy in note 17.

## 4 Income tax

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

### (a) Income tax expense

| | **2023** **$m** | 2022 $m |
|---|---|---|
| Current tax | **(40.5)** | 65.0 |
| Deferred tax | **98.3** | 52.8 |
| Current tax relating to prior periods | **(10.7)** | (3.1) |
| Deferred tax relating to prior periods | **10.8** | 3.5 |
| | **57.9** | 118.2 |

| | | |
|---|---|---|
| **Deferred income tax expense included in income tax expense comprises:** | | |
| Decrease/(increase) in deferred tax assets | **4.0** | (19.6) |
| Increase in deferred tax liabilities | **105.1** | 75.9 |
| | **109.1** | 56.3 |

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

| | **2023** **$m** | 2022 $m |
|---|---|---|
| Profit before income tax expense | **159.9** | 387.5 |
| Tax at the Australian tax rate of 30% (2022: 30%) | **48.0** | 116.3 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non-deductible acquisition costs | **8.7** | 2.0 |
| Other | **1.1** | (0.5) |
| Adjustments for tax of prior periods | **0.1** | 0.4 |
| | **57.9** | 118.2 |

## 4 Income tax (continued)

### (c) Deferred tax balances

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

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Deferred tax assets** | | |
| Provisions and accruals | **88.2** | 80.2 |
| Contract liabilities | **4.1** | 4.3 |
| Financial instruments | **8.7** | 5.5 |
| Lease liabilities | **40.3** | 37.2 |
| Other items | **17.9** | 13.1 |
| **Total deferred tax assets** | **159.2** | 140.3 |
| Set-off against deferred tax liabilities | **(159.2)** | (140.3) |
| **Net deferred tax assets** | **-** | - |
| **Deferred tax liabilities** | | |
| Inventories | **4.4** | 4.0 |
| Property, plant and equipment | **306.2** | 184.2 |
| Intangible assets | **15.2** | 9.4 |
| Financial instruments | **28.2** | 18.6 |
| Other items | **23.3** | 5.2 |
| **Total deferred tax liabilities** | **377.3** | 221.4 |
| Set-off of deferred tax assets | **(159.2)** | (140.3) |
| **Net deferred tax liabilities** | **218.1** | 81.1 |

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

| | **2023 $m** | 2022 $m |
|---|---|---|
| Inventories | **-** | 0.2 |
| Provisions and accruals | **1.5** | 10.2 |
| Contract liabilities | **0.2** | 0.1 |
| Financial instruments | **1.1** | (31.6) |
| Lease liabilities | **2.8** | 4.6 |
| Other items | **(1.6)** | (3.1) |
| **Decrease/(increase) in deferred tax assets** | **4.0** | (19.6) |
| Inventories | **0.4** | 4.0 |
| Property, plant and equipment | **95.0** | 42.1 |
| Intangible assets | **5.8** | 0.6 |
| Financial instruments | **(14.2)** | 44.1 |
| Other items | **18.1** | (14.9) |
| **Increase in deferred tax liabilities** | **105.1** | 75.9 |
| **Net deferred income tax expense** | **109.1** | 56.3 |

## 4 Income tax (continued)

### (d) Accounting policies

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

Income tax expense is calculated as the profit or 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.

## 5 Trade and other receivables

| | **2023** **$m** | 2022 $m |
|---|---|---|
| **Current** | | |
| Trade receivables | **304.6** | 239.8 |
| Related party receivables | **15.4** | 11.2 |
| Provision for impairment of receivables | **(1.7)** | (0.6) |
| Net trade receivables | **318.3** | 250.4 |
| | | |
| Loans receivable from related parties | **-** | 93.0 |
| Other receivables | **118.2** | 52.9 |
| | **436.5** | 396.3 |

The Group has recognised a net increase of $1.1 million (2022: net reduction of $1.6 million) in the provision for impairment of trade receivables. No amounts were written off in the financial year (2022: $nil).

### (a) Accounting policies

### (i) Trade receivables

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

### (ii) Provision for impairment

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

The Group recognises a provision for impairment based on expected lifetime losses of trade 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.

## 6 Inventories

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Current** | | |
| Raw materials and stores - at cost | **175.6** | 133.1 |
| Provision for inventory obsolescence | **(11.1)** | (8.4) |
| | **164.5** | 124.7 |

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Non-current** | | |
| Raw materials and stores - at cost | **54.4** | 44.6 |
| Provision for inventory obsolescence | **(6.3)** | (6.4) |
| | **48.1** | 38.2 |

### (a) Accounting policies

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

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

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

## 7 Property, plant and equipment

| | Assets under construction $m | Land $m | Buildings $m | Plant and equipment $m | Rollingstock $m | Infrastructure $m | Other leased assets $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| **2023** | | | | | | | | |
| Opening net book amount | 206.6 | 99.8 | 209.9 | 137.3 | 2,107.1 | 392.3 | 83.9 | 3,236.9 |
| Additions | 423.7 | - | - | - | - | - | 11.2 | 434.9 |
| Transfers between asset classes | (454.0) | 28.5 | 4.4 | 73.8 | 292.0 | 55.0 | - | (0.3) |
| Acquisitions through business combinations (note 22) | 37.4 | 78.4 | 3.8 | 15.9 | 226.7 | 1,026.5 | 20.6 | 1,409.3 |
| Disposals | (2.6) | (0.4) | (0.3) | (2.3) | (1.0) | (0.2) | - | (6.8) |
| Depreciation | - | (2.3) | (13.0) | (35.6) | (193.8) | (50.5) | (15.1) | (310.3) |
| Impairment | - | - | - | - | (7.8) | (0.4) | - | (8.2) |
| **Closing net book amount** | 211.1 | 204.0 | 204.8 | 189.1 | 2,423.2 | 1,422.7 | 100.6 | 4,755.5 |
| | | | | | | | | |
| **At 30 June 2023** | | | | | | | | |
| Cost | 211.1 | 206.3 | 445.5 | 522.4 | 6,020.3 | 1,765.2 | 159.6 | 9,330.4 |
| Accumulated depreciation and impairment | - | (2.3) | (240.7) | (333.3) | (3,597.1) | (342.5) | (59.0) | (4,574.9) |
| **Net book amount** | 211.1 | 204.0 | 204.8 | 189.1 | 2,423.2 | 1,422.7 | 100.6 | 4,755.5 |

## 7 Property, plant and equipment (continued)

| | Assets under construction $m | Land $m | Buildings $m | Plant and equipment $m | Rollingstock $m | Infrastructure $m | Other leased assets $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| 2022 | | | | | | | | |
| Opening net book amount | 128.8 | 95.4 | 219.4 | 149.6 | 2,148.8 | 395.1 | 94.5 | 3,231.6 |
| Additions | 245.4 | - | - | - | - | - | 2.2 | 247.6 |
| Transfers between asset classes | (164.1) | 0.1 | 5.1 | 12.5 | 136.2 | 10.2 | - | - |
| Acquisitions through business combinations | - | 4.7 | 0.4 | 6.2 | - | 3.5 | - | 14.8 |
| Disposals | (3.5) | (0.4) | (3.5) | (1.0) | (3.6) | (0.2) | - | (12.2) |
| Adjustments to leased assets | - | - | - | - | - | - | 0.3 | 0.3 |
| Depreciation | - | - | (11.5) | (30.0) | (173.4) | (16.3) | (13.1) | (244.3) |
| Impairment | - | - | - | - | (0.9) | - | - | (0.9) |
| Closing net book amount | 206.6 | 99.8 | 209.9 | 137.3 | 2,107.1 | 392.3 | 83.9 | 3,236.9 |
| | | | | | | | | |
| At 30 June 2022 | | | | | | | | |
| Cost | 206.6 | 99.8 | 441.0 | 465.2 | 5,512.7 | 685.7 | 135.7 | 7,546.7 |
| Accumulated depreciation and impairment | - | - | (231.1) | (327.9) | (3,405.6) | (293.4) | (51.8) | (4,309.8) |
| Net book amount | 206.6 | 99.8 | 209.9 | 137.3 | 2,107.1 | 392.3 | 83.9 | 3,236.9 |

## 7 Property, plant and equipment (continued)

**Significant judgements and estimates**

**Useful lives of rollingstock**

The Group has approximately 592 active locomotives and 13,438 active wagons which are predominately used by the Coal and Bulk business units to transport bulk commodities and containerised freight to end customers and ports. The fleet is a mix of standard gauge and narrow gauge, with 138 active electric locomotives and 454 active diesel locomotives. The useful life of rollingstock is determined based on the expected engineering life.

In adopting the expected engineering life of rollingstock, the Group monitors a range of indicators including:

- the flexibility of fleet capacity, including the ability to shift standard gauge fleet between New South Wales, Western Australia, South Australia and the Northern Territory, narrow gauge fleet between Queensland and sections of track infrastructure in South Australia and Western Australia, and between commodities within states
- the risk of obsolescence as alternative technologies such as battery and hydrogen are developed
- continuous improvement in fleet investment strategies such as those predicated on condition-based and preventative maintenance approaches, as well as advancements in component change-out models
- competitors fleet mix and their associated investment profile over time.

There is a risk that the indicators monitored could positively or negatively impact the expected engineering life of rollingstock resulting in a change in depreciation on a prospective basis.

**Recoverable amount of property, plant and equipment (Western Australia CGU)**

The Western Australia CGU provides integrated supply chain services including road transportation and material handling for a range of products and has previously been impaired. The Western Australia CGU has a carrying amount of $333.0 million and includes property, plant and equipment, software and working capital. There are indicators the previously recognised impairment losses for the Western Australia CGU may no longer be required. The recoverable amount of the Western Australia CGU has been determined based on a value-in-use calculation. The estimate uses a four-year cash flow projection (2022: four-year), a pre-tax discount rate of 11.63% (2022: 11.5%) and a long-term growth rate of 2.5% (2022: 2.5%). The recoverable amount of the CGU supports the carrying amount, therefore no further impairment or impairment reversal has been recognised.

The Western Australia CGU has a small number of customers, and the recoverable amount is sensitive to changes in these customer contractual arrangements, particularly iron ore customers. The recoverable amount of the CGU was determined taking into consideration the expected expiry and renewal of iron ore customer contracts. Should contracts with customers not be renewed or customers either cease to operate before the expected end-of-mine life or be unable to comply with current contractual arrangements, it may result in a further impairment.

In addition, the terminal value calculation assumes a level of sustaining capital expenditure into perpetuity and the recoverable amount is sensitive to changes in this estimate. If the amount of sustaining capital expenditure required is lower or higher than the estimated amount, it may result in a further impairment or impairment reversal.

## 7 Property, plant and equipment (continued)

### (a) Leases

*Bulk leased assets*

The Group is the below rail operator and economic owner of rail infrastructure including the 2,245km Tarcoola-to-Darwin railway line through long term leases. The infrastructure and land leases include corridor land and buildings. The assets associated with the leases are classified in infrastructure, land, buildings and plant and equipment.

The following table summarises the infrastructure and land leases:

| Leases | Lessee | Lessor | Term[1] | Expiry | Rental Amount | Extension Option |
|---|---|---|---|---|---|---|
| Tarcoola-to-Darwin | Aurizon Bulk Central Network Pty Ltd | The AustralAsia Railway Corporation, The Northern Territory of Australia and the State of South Australia | 32 years | 14 January 2054 | $1 if demanded | None |
| Intrastate rail freight network in South Australia | Aurizon Bulk Central Pty Ltd | State of South Australia | 25 years | 7 November 2047 | $1 per annum (rail corridor land) and commercial rent (balance of land) | 15 years[2] |

[1] Remaining lease term from 29 July 2022, being the date of acquisition of the lessee company.

[2] The Group has an option to extend the lease by a further 15 years. The extension option is on the same terms as the initial lease period. Notice must be provided at any time after the expiry of 40 years and before the expiry of 45 years after the commencement date of 7 November 1997. The extension option is dependent on the Group providing and undertaking to carry out a Renewal Investment Plan.

*Other leased assets*

The Group primarily leases buildings with terms mostly ranging from one to 32 years. The leases generally provide the Group with the right to renewal at which time the lease terms are renegotiated. The Group applies the following practical expedients permitted by the standard:

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

## 7 Property, plant and equipment (continued)

### (a) Leases (continued)

### (i) Amounts recognised in the consolidated balance sheet

Property, plant and equipment includes the following amounts relating to leased assets:

| | 2023 $m | 2022 $m |
|---|---|---|
| **Bulk leased assets**[1] | | |
| Bulk infrastructure | **996.1** | - |
| Land[2] | **66.1** | - |
| Buildings | **2.2** | - |
| Plant and equipment | **1.9** | - |
| | **1,066.3** | - |
| **Other leased assets** | | |
| Land | **4.9** | - |
| Buildings | **82.5** | 83.3 |
| Plant and equipment | **6.7** | 0.6 |
| Rollingstock | **6.5** | - |
| | **100.6** | 83.9 |
| **Total leased assets** | **1,166.9** | 83.9 |

Other liabilities includes the following amounts relating to lease liabilities:

| | 2023 $m | 2022 $m |
|---|---|---|
| **Lease liabilities** | | |
| Current | **19.9** | 16.0 |
| Non-current | **114.0** | 107.1 |
| **Total lease liabilities** | **133.9** | 123.1 |

[1] Bulk leased assets include the Tarcoola-to-Darwin railway line and the intrastate rail freight network in South Australia. Leased assets have been recognised on acquisition to reflect favourable or unfavourable terms of a lease when compared to market terms and are depreciated over the lease term.

[2] Land includes the beneficial leasehold interests in respect of the intrastate rail freight network in South Australia.

## 7 Property, plant and equipment (continued)

### (a) Leases (continued)

### (ii) Amounts recognised in the consolidated income statement

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

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Depreciation of Bulk leased assets** | **34.0** | - |
| **Depreciation of other leased assets** | | |
| Land | **0.2** | - |
| Buildings | **11.3** | 10.5 |
| Plant and equipment | **1.8** | 2.6 |
| Rollingstock | **1.8** | - |
| | **15.1** | 13.1 |
| **Total leased assets depreciation** | **49.1** | 13.1 |
| Interest expense | **5.9** | 4.8 |
| Expenses relating to short-term leases | **0.4** | 0.7 |
| Expenses relating to variable lease payments not included in lease liabilities | **4.6** | 7.8 |

The total cash outflow for leases during the financial year was $30.4 million (2022: $30.4 million).

### (b) Accounting policies

### (i) Property, plant and equipment

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

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

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

## 7 Property, plant and equipment (continued)

**(b) Accounting policies (continued)**

**(i) Property, plant and equipment (continued)**

The useful lives applied 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: | |
| Locomotives | 25 - 35 years |
| Locomotives componentisation | 8 - 12 years |
| Wagons | 25 - 35 years |
| Wagon componentisation | 10 - 17 years |
| • Plant and equipment | 3 - 20 years |

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

**(ii) Leases**

An asset and a corresponding liability, except for where the lease is prepaid, are recognised at the date at which the 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 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.

Other leased 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.

Other leased assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the asset is depreciated over the underlying asset's useful life.

**(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 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 costs of disposal or value-in-use.

## 7 Property, plant and equipment (continued)

**(b) Accounting policies (continued)**

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

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

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

## 8 Intangible assets

| | Goodwill $m | Software $m | Software under development $m | Total $m |
|---|---|---|---|---|
| **2023** | | | | |
| Opening net book amount | **26.7** | **61.3** | **38.6** | **126.6** |
| Additions | **-** | **-** | **16.4** | **16.4** |
| Transfers between asset classes | **-** | **38.6** | **(38.3)** | **0.3** |
| Acquisitions through business combinations (note 22) | **23.5** | **-** | **-** | **23.5** |
| Disposals | **(0.6)** | **-** | **-** | **(0.6)** |
| Amortisation | **-** | **(16.3)** | **-** | **(16.3)** |
| **Closing net book amount** | **49.6** | **83.6** | **16.7** | **149.9** |
| | | | | |
| **At 30 June 2023** | | | | |
| Cost | **49.6** | **308.1** | **16.7** | **374.4** |
| Accumulated amortisation and impairment | **-** | **(224.5)** | **-** | **(224.5)** |
| **Net book amount** | **49.6** | **83.6** | **16.7** | **149.9** |
| | | | | |
| 2022 | | | | |
| Opening net book amount | 24.9 | 75.6 | 31.5 | 132.0 |
| Additions | - | - | 11.2 | 11.2 |
| Transfers between asset classes | - | 4.1 | (4.1) | - |
| Acquisitions through business combinations | 1.8 | - | - | 1.8 |
| Disposals | - | (1.3) | - | (1.3) |
| Amortisation | - | (17.1) | - | (17.1) |
| Closing net book amount | 26.7 | 61.3 | 38.6 | 126.6 |
| | | | | |
| At 30 June 2022 | | | | |
| Cost | 26.7 | 269.0 | 38.6 | 334.3 |
| Accumulated amortisation and impairment | - | (207.7) | - | (207.7) |
| Net book amount | 26.7 | 61.3 | 38.6 | 126.6 |

## 8 Intangible assets (continued)

### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to the group of assets at the time of acquisition. The Group tests goodwill for impairment on at least an annual basis.

The recoverable amount of a CGU is determined based on the higher of value-in-use or fair value less costs of disposal calculations which require the use of assumptions. These calculations use cash flow projections extrapolated using estimated growth rates.

The following table presents a summary of the goodwill allocation:

| $m | Bulk QLD | Bulk NSW | Bulk Central |
|---|---|---|---|
| **2023** | **5.2** | **20.9** | **23.5** |
| 2022 | 5.2 | 21.5 | - |

**Significant judgements and estimates**

**Impairment tests for goodwill**

Goodwill of $49.6 million (2022: $26.7 million) is allocated to CGUs within the Bulk segment and is a result of business acquisitions.

**Long-term financial impacts of climate change**

The Aurizon Group has a net zero operational emissions target (Scope 1 & 2) by 2050. In addition, the Aurizon Group is one of the companies within the transport industry captured by the Australian Government's Safeguard Mechanism policy. The Safeguard Mechanism baseline commences from 1 July 2023 and requires a decline in the rate of 4.9% each year to be applied to all safeguard facilities to 2030. Decarbonising of the Aurizon Group's operations are being pursued through a range of initiatives and investments set out in the Aurizon Group's Climate Strategy and Action Plan (CSAP), including:

- Leveraging existing energy efficiency capabilities and assets, such as electrified rail in the Central Queensland Coal Network
- Investing in the development and adoption of low-carbon technologies through the Aurizon Group's $50 million Future Fleet Fund
- Integrating renewable energy into the Aurizon Group's current energy mix
- Using carbon offsets through project development/investment and/or purchase where required to meet decarbonsation goals.

The potential long-term financial impacts of climate change, including the cost of reaching the Aurizon Group's net zero operational emissions target by 2050, are continuing to be assessed. At this stage, based on the potential to recover or pass on these costs in customer contracts, we do not consider the potential impacts of climate change to present a risk of impairment of the carrying value of any CGU.

There are risks, including factors outside of the Group's control which may impact assumptions. Refer to the risks outlined in the Aurizon Group's Annual Report.

**Bulk NSW CGU**

The Bulk NSW CGU provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of products. The Bulk NSW CGU has a carrying amount of $151.4 million and includes property, plant and equipment, goodwill, software and working capital. The recoverable amount of the Bulk NSW CGU has been determined based on a fair value less costs of disposal calculation. The estimate uses a 10-year cash flow projection (2022: 20-year) based on a pipeline of known opportunities and estimated volume growth rates between nil and 1.2% per annum, a long-term growth rate of 2.5% (2022: 2.5%) and a post-tax discount rate of 8.1% (2022: 8.0%). The cash flow projections are developed using the Group's own information with benchmarking to external sources and are therefore Level 3 inputs in the fair value hierarchy.

The recoverable amount of the CGU supports the carrying amount, therefore no impairment has been recognised.

## 8 Intangible assets (continued)

### (a) Impairment tests for goodwill (continued)

**Bulk QLD CGU**

The Bulk QLD CGU provides integrated supply chain services, including rail and road transportation, port services and material handling for a range of products and has previously been impaired. The Bulk QLD CGU has a carrying amount of $211.7 million and includes property, plant and equipment, goodwill, software and working capital. The recoverable amount of the Bulk QLD CGU has been determined based on a fair value less costs of disposal calculation (2022: value-in-use calculation). The estimate uses a four-year cash flow projection (2022: four-year) including expected volume growth relating to existing contractual arrangements and anticipated cost savings, a long-term growth rate of 2.5% (2022: 2.5%) and a post-tax discount rate of 8.1% (2022: pre-tax discount rate of 11.5%). The cash flow projections are developed using the Group's own information and are therefore Level 3 inputs in the fair value hierarchy.

The recoverable amount of the Bulk QLD CGU is sensitive to changes in customer contractual arrangements, growth in volumes and realisation of anticipated cost savings. Any reasonably possible change in these assumptions could lead to a further impairment or impairment reversal.

**Bulk Central CGU**

The Bulk Central CGU provides integrated supply chain services including rail transportation and material handling for a range of products. This CGU also manages the Tarcoola-to-Darwin rail infrastructure, the intrastate rail freight network in South Australia, and containerised freight services between Adelaide and Darwin. The Bulk Central CGU has a carrying amount of $1,422.9 million and includes property, plant and equipment, goodwill and working capital.

The recoverable amount of the Bulk Central CGU has been estimated on a fair value less costs of disposal basis. The estimate uses a 10-year cash flow projection based on a pipeline of known opportunities and estimated volume growth rates, a long term growth rate of 2.5% and a post-tax discount rate of 8.1%. The cash flow projections are developed using the Group's own information with benchmarking to external sources and are therefore Level 3 inputs in the fair value hierarchy.

As the Bulk Central CGU was recently acquired, the carrying amount approximates the recoverable amount. Goodwill of $23.5 million solely arose from a net deferred tax liability recognised on acquisition in accordance with accounting standards (refer to note 22 for further information). If the timing of future growth opportunities is delayed or forecast growth in volumes is not achieved, it may lead to a future impairment of the Bulk Central CGU.

### (b) Accounting policies

#### (i) Goodwill

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

#### (ii) Software

Costs incurred in developing products or systems, and costs incurred in acquiring software and 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. No amounts were capitalised in the year.

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 15 years (2022: three to 11 years).

## 9 Other assets

| | **2023** **$m** | 2022 $m |
|---|---|---|
| **Current** | | |
| Contract assets (a) | **11.5** | 9.1 |
| Lease receivable (b) | **7.7** | 7.7 |
| Other current assets | **10.5** | 4.2 |
| Tax loan receivable from parent entity | **134.1** | 8.0 |
| | **163.8** | 29.0 |
| **Non-current** | | |
| Contract assets (a) | **74.5** | 41.7 |
| Lease receivable (b) | **21.8** | 33.8 |
| | **96.3** | 75.5 |

### (a) Contract assets

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

### (b) Lease receivable

Lease receivables represent the present value of future lease payments receivable on sub-lease arrangements where the expiry of the term of the sub-lease is the same as the head lease. The collectability of lease receivables is reviewed on an ongoing basis. No provision for impairment of lease receivables has been recognised, refer to the accounting policy in note 5 (2022: $nil).

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

| | **2023** **$m** | 2022 $m |
|---|---|---|
| Within one year | **8.7** | 9.0 |
| Later than one year but not later than five years | **16.8** | 24.2 |
| Later than five years | **7.4** | 13.6 |
| | **32.9** | 46.8 |
| Less: Unearned interest income | **(3.4)** | (5.3) |
| Total lease receivables | **29.5** | 41.5 |
| Interest income relating to sub-lease arrangements | **1.3** | 1.6 |
| Income relating to variable lease payments received | **10.6** | 5.4 |

The total cash inflow for sub-leases in the financial year was $19.3 million (2022: $14.1 million).

## 10 Trade and other payables

| | 2023 $m | 2022 $m |
|---|---|---|
| **Current** | | |
| Trade payables | **203.4** | 151.4 |
| Related party payables | **86.5** | 52.7 |
| Other payables | **28.3** | 16.9 |
| | **318.2** | 221.0 |

### (a) Accounting policies

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

## 11 Provisions

| | 2023 $m | 2022 $m |
|---|---|---|
| **Current** | | |
| Employee benefits (a) | **181.4** | 176.8 |
| Provision for insurance claims | **25.6** | 11.5 |
| Litigation and workers compensation provision | **25.7** | 31.4 |
| Other provisions | **0.7** | 2.1 |
| | **233.4** | 221.8 |
| **Non-current** | | |
| Employee benefits (a) | **11.9** | 9.6 |
| Litigation and workers compensation provision | **12.2** | 13.3 |
| Land rehabilitation | **21.3** | 20.0 |
| Make good and other provisions | **3.0** | 3.0 |
| | **48.4** | 45.9 |
| **Total provisions** | **281.8** | 267.7 |

### (a) Employee benefits

| | 2023 $m | 2022 $m |
|---|---|---|
| Annual leave | **70.3** | 58.7 |
| Long service leave | **91.6** | 74.4 |
| Other | **31.4** | 53.3 |
| | **193.3** | 186.4 |

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 $91.0 million (2022: $72.2 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.

## 11 Provisions (continued)

### (b) Accounting policies (continued)

### (i) Employee benefits

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

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

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

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

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

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

### (ii) Superannuation

Aurizon Operations Limited and the following subsidiaries are members of the State Public Sector Superannuation Scheme (QSuper) multi-employer defined benefit superannuation plan and are required to contribute a specific percentage of employee benefits expense to fund the retirement benefits of 373 employees (2022: 427):

- Aurizon Eastern Railroad Pty Ltd
- Australian Western Railroad Pty Ltd
- Aurizon Intermodal Pty Ltd
- Interail Australia Pty Ltd

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 3 includes $5.7 million (2022: $6.4 million) relating to the QSuper defined benefit plan.

### (iii) Provision for insurance claims

The Group Insurance Program includes certain placements with a wholly owned captive insurance company, Iron Horse Insurance Company Pte Ltd (incorporated in the Republic of Singapore). The captive insurance company underwrites the Company and its subsidiaries for property and liability insurance. A provision is recognised for the estimated liability of known claims and an allowance for Incurred But Not Reported claims for property and liability. Estimates are based on expected claim costs.

### (iv) Litigation and workers compensation provision

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

### (v) Land rehabilitation

A provision is recognised for the present value of estimated costs of land rehabilitation and make good where the Group has a legal or constructive obligation to restore a site. The present value of estimated costs is calculated by inflating estimated costs at 2.9% (2022: 2.6%) and discounting at a weighted average discount rate of 4.1% (2022: 3.8%). The unwinding of the discount is recognised in profit or loss in finance costs and the movement in the provision is recognised in profit or loss in other expenses.

## 11 Provisions (continued)

### (b) Accounting policies (continued)

### (v) Land rehabilitation (continued)

The Group is the below rail operator and economic owner of the 2,245km Tarcoola-to-Darwin railway line and 215km of intrastate rail freight network in South Australia under long-term infrastructure (the Concession Deed) and land leases as described in note 7. At expiry of the Concession Deed, the Tarcoola-to-Darwin railway is required to be returned in a condition which is capable of continued operations. The Concession Deed does not require the removal of track infrastructure. At expiry of the land lease for the intrastate rail freight network in South Australia, the lessor may elect to acquire all or any part of the track infrastructure for fair market value. For any unacquired track infrastructure, the Group may remove that part of the track infrastructure or return it to the lessor. Therefore, no land rehabilitation provision is recognised in respect of the Tarcoola-to-Darwin railway or the intrastate rail freight network in South Australia.

## 12 Other liabilities

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Current** | | |
| Contract liabilities (a) | **9.1** | 1.8 |
| Lease liabilities (b) | **19.9** | 16.0 |
| Other current liabilities | **11.5** | 5.2 |
| | **40.5** | 23.0 |
| **Non-current** | | |
| Contract liabilities (a) | **9.7** | 12.5 |
| Lease liabilities (b) | **114.0** | 107.1 |
| Other non-current liabilities | **1.5** | 1.5 |
| | **125.2** | 121.1 |

### (a) Contract liabilities

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

### (b) Lease liabilities

Lease liabilities represent the present value of future lease payments.

Minimum lease payments are as follows:

| | **2023 $m** | 2022 $m |
|---|---|---|
| Within one year | **25.8** | 20.4 |
| Later than one year but not later than five years | **77.4** | 67.9 |
| Later than five years | **77.8** | 56.6 |
| | **181.0** | 144.9 |
| Less: Discounted using the Group's incremental borrowing rate | **(47.1)** | (21.8) |
| Total lease liabilities | **133.9** | 123.1 |

# Capital and financial risk management

**IN THIS SECTION**

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

## 13 Capital risk management

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Group 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 debt excludes lease liabilities. Net gearing ratio is defined as Net debt divided by Net debt plus Equity. Net debt and Net gearing ratio are measures of the Group's indebtedness, and provides an indicator of the balance sheet strength.

| | Notes | **2023 $m** | 2022 $m |
|---|---|---|---|
| Total borrowings | 16 | **1,510.0** | 428.0 |
| Less: cash and cash equivalents | | **(62.3)** | (157.1) |
| Less: loans receivable from related parties | | **-** | (93.0) |
| **Net debt** | | **1,447.7** | 177.9 |
| | | | |
| Total equity | | **3,405.2** | 2,999.9 |
| **Total capital** | | **4,852.9** | 3,177.8 |
| | | | |
| **Net gearing ratio** | | **29.8%** | 5.6% |

## 14 Dividends

| **Declared and paid during the period** | **$m** |
|---|---|
| **For the year ended 30 June 2023** | |
| Final dividend for 2022 (unfranked) | **91.6** |
| Interim dividend for 2023 (unfranked) | **44.8** |
| | **136.4** |
| | |
| For the year ended 30 June 2022 | |
| Final dividend for 2021 (unfranked) | 123.4 |
| Interim dividend for 2022 (unfranked) | 105.3 |
| | 228.7 |

| **Proposed and unrecognised at period end** | |
|---|---|
| **For the year ended 30 June 2023** | |
| Final dividend for 2023 (unfranked) | **33.4** |
| | |
| For the year ended 30 June 2022 | |
| Final dividend for 2022 (unfranked) | 91.6 |

## 15 Equity

### (a) Contributed equity

### (i) Issued capital

| | Number of shares '000 | $m |
|---|---|---|
| At 1 July 2021 | 8,992,758 | 2,673.6 |
| At 30 June 2022 | 8,992,758 | 2,673.6 |
| Return of capital to the parent for acquisition of subsidiary | **-** | **(165.7)** |
| Capital contribution from the parent for acquisition of subsidiary | **50,000** | **50.0** |
| Return of capital to the parent for sale and divestment costs | **-** | **(26.0)** |
| Capital contribution from the parent for proceeds from the divestment | **317,684** | **317.7** |
| Return of capital to the parent for completion adjustment on divestment | **-** | **(4.6)** |
| Capital contribution from the parent | **250,000** | **250.0** |
| Return of capital to the parent for share-based payments | **-** | **(0.7)** |
| **At 30 June 2023** | **9,610,442** | **3,094.3** |

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

| | 2023 $m | 2022 $m |
|---|---|---|
| Capital contribution from the parent for share-based payments | **33.9** | 33.3 |
| Aggregated deferred tax on related share-based payments | **12.9** | 13.1 |
| **Total other contributed equity** | **46.8** | 46.4 |

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

## 15 Equity (continued)

### (b) Reserves

| | Cash flow hedges $m | Foreign currency translation $m | Total $m |
|---|---|---|---|
| **Balance at 1 July 2022** | **1.1** | **(0.9)** | **0.2** |
| Fair value gains/(losses) taken to equity | **18.2** | **-** | **18.2** |
| Fair value (gains)/losses transferred to property, plant and equipment | **2.4** | **-** | **2.4** |
| Tax expense/(benefit) relating to items of other comprehensive income | **(6.2)** | **-** | **(6.2)** |
| Exchange differences on translation of foreign operations | **-** | **4.2** | **4.2** |
| Other comprehensive income | **14.4** | **4.2** | **18.6** |
| **Balance at 30 June 2023** | **15.5** | **3.3** | **18.8** |

| | Cash flow hedges $m | Foreign currency translation $m | Total $m |
|---|---|---|---|
| Balance at 1 July 2021 | (0.3) | 0.3 | - |
| Fair value gains/(losses) taken to equity | 1.7 | - | 1.7 |
| Fair value (gains)/losses transferred to property, plant and equipment | 0.3 | - | 0.3 |
| Tax expense/(benefit) relating to items of other comprehensive income | (0.6) | - | (0.6) |
| Reclassification to profit or loss on cessation of joint venture | - | (0.2) | (0.2) |
| Exchange differences on translation of foreign operations | - | (1.0) | (1.0) |
| Other comprehensive income | 1.4 | (1.2) | 0.2 |
| Balance at 30 June 2022 | 1.1 | (0.9) | 0.2 |

#### (i) Cash flow hedges reserve

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

#### (ii) Foreign currency translation reserve

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

## 16 Borrowings

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

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

| | 2023 $m | 2022 $m |
|---|---|---|
| **Current - Unsecured** | | |
| Bank debt facilities | **106.0** | - |
| | **106.0** | - |
| **Non-current - Unsecured** | | |
| Medium-Term Notes | **435.0** | 430.3 |
| US Private Placement Notes[1] | **1.9** | - |
| Bank debt facilities | **970.0** | - |
| Other borrowings[2] | **5.8** | - |
| Capitalised borrowing costs | **(8.7)** | (2.3) |
| | **1,404.0** | 428.0 |
| **Total borrowings** | **1,510.0** | 428.0 |

[1] The US Private Placement Notes has five tranches maturing July 2030, July 2033 and July 2035 which settled subsequent to reporting date on 26 July 2023.

[2] Other borrowings includes the Term Loan Facility with the AustralAsia Railway Corporation in connection with the Tarcoola-to-Darwin Concession Deed.

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

The Group manages its exposure to interest rate risk as set out in note 17(a). Details of the Group’s financing arrangements and exposure to risks arising from borrowings are set out in note 17(b).

### (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, Medium-Term Notes and US Private Placement Notes.

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

## 17 Financial risk management

Financial risks, including market risk, liquidity and funding risk and credit risk, are managed through policies that have been approved by the Board. The policies outline 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. The Group typically uses derivative financial instruments to hedge underlying exposures arising from operational activities relating to changes in foreign exchange rates and interest rates.

The Group (via a wholly owned subsidiary Aurizon Finance Pty Ltd) relies on an annually reviewed duration based hedging strategy to minimise any negative impact to its financial position that may arise as a result of movements in underlying 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 risks** | | |
| - Interest rate risk | The Group is exposed to interest rate risk in respect to short and long-term borrowings where interest is charged at variable rates. | The Group mitigates interest rate risk primarily by maintaining an appropriate mix of fixed and floating rate borrowings. Where necessary, the Group hedges interest rates using derivative financial instruments — interest rate swaps to manage cash flows and interest rate exposure. |
| - Interest rate and foreign exchange risk | The Group is exposed to interest rate and foreign currency exchange risk in respect of the US dollar (US$) denominated Private Placement Notes (USPP). | To mitigate the risk of adverse movements in interest rates and foreign exchange in respect of foreign currency denominated borrowings, the Group enters into cross-currency interest rate swaps (CCIRS) to replace foreign currency 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 and option 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, trade and other receivables, contract assets and lease 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.<br><br>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 5 for credit risk exposures relating to trade and other receivables, contract assets and lease receivables. |

## 17 Financial risk management (continued)

### (a) Market risk

### (i) Interest rate risk

**Exposure**

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

| | Weighted average interest rate % | Balance $m |
|---|---|---|
| **2023** | | |
| Variable rate exposure | **4.3** | **1,576.0** |
| Interest rate swaps (including debt credit margins) | **1.6** | **(1,550.0)** |
| **Net exposure to interest rate risk** | | **26.0** |
| | | |
| 2022 | | |
| Variable rate exposure | 1.0 | 500.0 |
| Net exposure to interest rate risk | | 500.0 |

**Interest rate derivatives used for hedging**

The Group currently has interest rate swaps in place to cover 98% (2022: nil%) 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 17(a)(ii). The weighted average maturity of interest rate swaps is 4.6 years (2022: nil 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 |
|---|---|---|
| **2023** | | |
| Effect on profit | **(0.3)** | **0.3** |
| Effect on equity | **59.7** | **(62.8)** |
| | | |
| 2022 | | |
| Effect on profit | (5.0) | 5.0 |
| Effect on equity | - | - |

**Amounts recognised in profit or loss**

The Group recognised a net loss on interest rate swaps of $8.2 million (2022: net gain of $5.3 million) as a result of market interest rates (i.e. floating rates) closing lower than the average interest rates 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 finance expense.

## 17 Financial risk management (continued)

### (a) Market risk (continued)

### (ii) Effects of hedge accounting

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

| | 2023 $m | 2022 $m |
|---|---|---|
| **Current assets** | | |
| Foreign exchange contracts | **1.7** | 1.5 |
| **Non-current assets** | | |
| Interest rate swaps | **29.6** | - |
| Foreign exchange contracts | **0.1** | - |
| | **29.7** | - |
| **Total derivative financial instrument assets** | **31.4** | 1.5 |
| **Current liabilities** | | |
| Foreign exchange contracts | **0.4** | - |
| **Non-current liabilities** | | |
| Interest rate swaps - AMTN 1 | **62.9** | 66.1 |
| Interest rate swaps - USPP | **0.3** | - |
| CCIRS - USPP | **6.9** | - |
| | **70.1** | 66.1 |
| **Total derivative financial instrument liabilities** | **70.5** | 66.1 |

## 17 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**[1] | |
|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023 $m** | 2022 $m | **2023 $m** | 2022 $m |
| **Cash flow hedges** | | | | | | |
| **Foreign exchange risk** | | | | | | |
| Forward contracts[2] | **US$65.1m** | US$18.5m | **1.3** | 1.5 | **(0.2)** | 1.6 |
| Forward contracts[2] | **€7.5m** | - | **0.1** | - | **0.1** | 0.3 |
| **Interest rate risk** | | | | | | |
| Interest rate swaps[3] | **A$1,550.0m** | - | **29.6** | - | **29.6** | - |
| **Foreign exchange and interest rate risks** | | | | | | |
| CCIRS - USPP[4] | **US$273.0m** | - | **(9.0)** | - | **(9.0)** | - |
| **Fair value hedges** | | | | | | |
| **Interest rate risk** | | | | | | |
| Interest rate swaps - AMTN 1[5] | **A$500.0m** | A$500.0m | **(62.9)** | (66.1) | **4.3** | (69.1) |
| Interest rate swaps - USPP[4] | **A$50.0m** | - | **(0.3)** | - | **(0.2)** | - |
| **Foreign exchange and interest rate risks** | | | | | | |
| CCIRS - USPP[4] | **US$273.0m** | - | **2.1** | - | **2.2** | - |

[1] The change in fair value for fair value hedges excludes the impact of ineffectiveness.

[2] Forward contracts have an average AUD:USD exchange rate of 0.6745 (2022: 0.7299) and AUD:EUR exchange rate of 0.6115 (2022: nil) related to capital commitments.

[3] Floating-to-fixed interest rate swaps have an average fixed interest rate of 3.64% (2022: nil%) and receive floating BBSW.

[4] The USPP has five tranches maturing July 2030, July 2033 and July 2035. The CCIRS have an average fixed USD interest rate of 6.79%, an average floating AUD interest rate of BBSW + 3.58% spread, and an average AUD:USD exchange rate of 0.6770. The fixed-to-floating interest rate swaps have an average floating BBSW + 3.61% spread and an average fixed rate of 7.82%. The USPP settled subsequent to reporting date on 26 July 2023.

[5] Fixed-to-floating interest rate swaps have an average floating BBSW + 1.80% spread (2022: BBSW + 1.80% spread) and a fixed interest rate of 3.00% (2022: 3.00%) over the same term as the AMTN.

## 17 Financial risk management (continued)

### (a) Market risk (continued)

### (ii) Effects of hedge accounting (continued)

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

| | **Cash flow hedge reserve** | | **(Favourable)/unfavourable change in fair value used for measuring ineffectiveness for the year** | | **Hedging gain/(loss) recognised in comprehensive income** | |
|---|---|---|---|---|---|---|
| | **2023 $m** | 2022 $m | **2023 $m** | 2022 $m | **2023 $m** | 2022 $m |
| **Cash flow hedges (before tax)** | | | | | | |
| **Foreign exchange risk** | | | | | | |
| Capital commitments | **(1.5)** | (1.5) | **0.1** | (1.9) | **(0.1)** | 1.9 |
| **Interest rate risk** | | | | | | |
| Forecast floating interest payments[1] | **(29.0)** | - | **(29.6)** | - | **29.0** | - |
| **Foreign exchange and interest rate risks** | | | | | | |
| USPP[2] | **8.2** | - | **9.0** | - | **(8.2)** | - |

[1] The Group undertook a restructure of its interest rate swaps, resulting in the hedge being discontinued. The effective portion of $6.4 million has been deferred in the cash flow hedge reserve with no immediate impact on the profit or loss upon restructuring and will be reclassified to the finance cost over the maturity of the original swap subject to the existence of the hedged item.

[2] The Group successfully priced the USPP in June 2023 which settled subsequent to reporting date on 26 July 2023. Interest rate swaps and cross-currency interest rate swaps have been executed in June 2023 to swap fixed rate debt to floating rate debt.

# 17 Financial risk management (continued)

### (a) Market risk (continued)

### (ii) Effects of hedge accounting (continued)

The following table summarises the impact of hedged items designated in 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 | |
|---|---|---|---|---|---|---|
| | **2023 $m** | 2022 $m | **2023 $m** | 2022 $m | **2023 $m** | 2022 $m |
| **Fair value hedges (before tax)** | | | | | | |
| **Interest rate risk** | | | | | | |
| AMTN 1 | **(436.8)** | (432.5) | **63.2** | 67.5 | **(4.3)** | 69.1 |
| USPP[2] | **-** | - | **0.2** | - | **0.2** | - |
| | **(436.8)** | (432.5) | **63.4** | 67.5 | **(4.1)** | 69.1 |
| **Foreign exchange and interest rate risks** | | | | | | |
| USPP[2] | **-** | - | **(2.2)** | - | **(2.2)** | - |
| | **-** | **-** | **(2.2)** | **-** | **(2.2)** | **-** |
| **Total borrowings subject to fair value hedges** | **(436.8)** | (432.5) | **61.2** | 67.5 | **(6.3)** | 69.1 |

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

[2] The Group successfully priced the USPP in June 2023 which settled subsequent to reporting date on 26 July 2023. Interest rate swaps and cross-currency interest rate swaps have been executed in June 2023 to swap fixed rate debt to floating rate debt.

## 17 Financial risk management (continued)

### (b) Liquidity and funding risk

### (i) Financing arrangements

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

The Group has access to working capital facilities totalling $125.0 million (2022: $125.0 million) which can be utilised for short-term working capital and financial bank guarantees. At 30 June, the Group utilised $21.4 million (2022: $19.0 million) for financial bank guarantees.

Under limited circumstances, the Group may also draw upon funds from Aurizon Network Pty Ltd (related party) pursuant to the Intra Group Loan Agreement (refer to note 24).

Refer to key events and transactions for the reporting period for further information on the Group's debt financing activities, including the repayment of the bridge facility.

| | | **Utilised[1]** | | **Facility limit** | |
|---|---|---|---|---|---|
| | | **2023** | 2022 | **2023** | 2022 |
| | **Maturity** | **$m** | $m | **$m** | $m |
| Working capital facility | Jun-24 | **62.4** | 19.0 | **125.0** | 125.0 |
| Bilateral facility[2] | Jun-23 | **-** | - | **-** | 50.0 |
| Bilateral facility[2] | Nov-23 | **65.0** | - | **65.0** | 500.0 |
| Bilateral facility[2] | Nov-25 | **-** | - | **75.0** | 75.0 |
| Bilateral facility[2] | Jul-26 | **195.0** | - | **415.0** | - |
| Bridge loan facility | Jul-24 | **350.0** | - | **350.0** | - |
| Revolver loan facility | Jul-25 | **25.0** | - | **400.0** | - |
| Term loan facility | Jul-27 | **400.0** | - | **400.0** | - |
| AMTN 1[3] | Mar-28 | **500.0** | 500.0 | **500.0** | 500.0 |
| | | **1,597.4** | 519.0 | **2,330.0** | 1,250.0 |

[1] Amount utilised includes bank guarantees of $21.4 million (2022: $19.0 million) and excludes capitalised borrowing costs of $8.7 million (2022: $2.3 million) and discounts on Medium-Term Notes of $1.8 million (2022: $2.2 million). The facilities above exclude the Term Loan Facility with The AustralAsia Railway Corporation in connection with the Tarcoola-to-Darwin Concession Deed. The fair value of the Term Loan Facility is $5.8 million.

[2] In June 2023, Aurizon Finance Pty Ltd re-financed the existing floating rate bilateral facility, reducing capacity from $625.0 million to $605.0 million (the capacity at reporting date was $555.0 million, with $50.0 million capacity added on 3 July 2023). The $50.0 million bilateral facility that matured June 2023 was extended to July 2026, along with a portion of the $500.0 million bilateral facility maturing November 2023.

[3] Amount utilised excludes accumulated fair value adjustments of $61.2 million (2022: $67.5 million).

## 17 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:

| **2023** | **1 year or less $m** | **1 - 5 years $m** | **More than 5 years $m** | **Total contractual cash flows $m** | **Carrying amount (assets)/ liabilities $m** |
|---|---|---|---|---|---|
| **Non-derivative financial instruments** | | | | | |
| Trade and other payables | **318.2** | **-** | **-** | **318.2** | **318.2** |
| Borrowings | **183.0** | **1,279.8** | **-** | **1,462.8** | **1,510.0** |
| Financial guarantees | **21.4** | **-** | **-** | **21.4** | **-** |
| Lease liabilities | **25.8** | **77.4** | **77.8** | **181.0** | **133.9** |
| **Total non-derivative financial instruments** | **548.4** | **1,357.2** | **77.8** | **1,983.4** | **1,962.1** |
| **Derivatives** | | | | | |
| Interest rate swaps | **(12.2)** | **(15.6)** | **(4.5)** | **(32.3)** | **(29.6)** |
| Interest rate swaps - AMTN 1 | **17.4** | **56.5** | **-** | **73.9** | **62.9** |
| Interest rate swaps - USPP | **1.8** | **0.3** | **(0.7)** | **1.4** | **0.3** |
| CCIRS - USPP | **21.1** | **9.7** | **(0.1)** | **30.7** | **6.9** |
| Gross settled forward exchange contracts (inflow) | **1.8** | **-** | **-** | **1.8** | **(1.4)** |
| **Total derivatives** | **29.9** | **50.9** | **(5.3)** | **75.5** | **39.1** |

| 2022 | | | | | |
|---|---|---|---|---|---|
| Non-derivative financial instruments | | | | | |
| Trade and other payables | 221.0 | - | - | 221.0 | 221.0 |
| Borrowings | 15.0 | 60.0 | 515.0 | 590.0 | 428.0 |
| Financial guarantees | 19.0 | - | - | 19.0 | - |
| Lease liabilities | 20.4 | 67.9 | 56.6 | 144.9 | 123.1 |
| Total non-derivative financial instruments | 275.4 | 127.9 | 571.6 | 974.9 | 772.1 |
| Derivatives | | | | | |
| Interest rate swaps - AMTN 1 | (5.7) | 1.4 | 2.2 | (2.1) | 66.1 |
| Gross settled forward exchange contracts (inflow) | 1.5 | - | - | 1.5 | (1.5) |
| Total derivatives | (4.2) | 1.4 | 2.2 | (0.6) | 64.6 |

## 17 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 'mark-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 interest rate swaps and CCIRS, which is not reflected in the fair value of the hedged item. Ineffectiveness may be due to differences in the critical terms between the interest rate swaps and loans, in the timing of forecast transactions or any off-market derivatives. 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.

## 17 Financial risk management (continued)

### (c) Hedging instruments (continued)

### (i) Accounting policies (continued)

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

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

**Netting of payments**

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

ISDA Master Agreements 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.

## 17 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** | **Gross amounts set-off in the balance sheet** | **Net amounts presented in the balance sheet** | **Amounts subject to master netting arrange-ments** | **Net amount[1]** |
| **2023** | **$m** | **$m** | **$m** | **$m** | **$m** |
| **Financial assets** | | | | | |
| Derivative financial instruments | **31.4** | **-** | **31.4** | **(51.0)** | **(19.6)** |
| **Financial liabilities** | | | | | |
| Derivative financial instruments | **(70.5)** | **-** | **(70.5)** | **51.0** | **(19.5)** |
| 2022 | | | | | |
| Financial assets | | | | | |
| Derivative financial instruments | 1.5 | - | 1.5 | - | 1.5 |
| Financial liabilities | | | | | |
| Derivative financial instruments | (66.1) | - | (66.1) | - | (66.1) |

[1] No financial instrument collateral.

### (d) Fair value measurement

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

The fair value of borrowings is estimated by discounting 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 4.8% and 6.7% (2022: 2.1% and 6.3%) 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 foreign exchange contracts is determined as the unrealised gain/(loss) with reference to market rates. The fair value of interest rate swaps is determined as the net present value of contracted cash flows. The existing exposure method, which estimates future cash flows to present value using credit adjusted discount factors after counterparty netting arrangements, has been adopted for both forward foreign exchange contracts and interest rate swaps.

The Group's derivative financial instruments are classified as Level 2 (2022: Level 2). During the period, there were no transfers between Level 1, Level 2 or Level 3 in the fair value hierarchy (2022: nil).

## 17 Financial risk management (continued)

### (d) Fair value measurement (continued)

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

| | | Carrying amount | | Fair value | |
|---|---|---|---|---|---|
| | Notes | **2023 $m** | 2022 $m | **2023 $m** | 2022 $m |
| **Financial assets carried at fair value** | | | | | |
| Foreign exchange contracts | | **1.8** | 1.5 | **1.8** | 1.5 |
| Interest rate swaps | | **29.6** | - | **29.6** | - |
| | | **31.4** | 1.5 | **31.4** | 1.5 |
| **Financial assets carried at amortised cost** | | | | | |
| Cash and cash equivalents | | **62.3** | 157.1 | **62.3** | 157.1 |
| Trade and other receivables | 5 | **436.5** | 396.3 | **436.5** | 396.3 |
| Other assets | 9 | **134.1** | 8.0 | **134.1** | 8.0 |
| | | **632.9** | 561.4 | **632.9** | 561.4 |
| **Financial liabilities carried at fair value** | | | | | |
| Foreign exchange contracts | | **(0.4)** | - | **(0.4)** | - |
| Interest rate swaps - AMTN 1 | | **(62.9)** | (66.1) | **(62.9)** | (66.1) |
| Interest rate swaps - USPP | | **(0.3)** | - | **(0.3)** | - |
| CCIRS - USPP | | **(6.9)** | - | **(6.9)** | - |
| | | **(70.5)** | (66.1) | **(70.5)** | (66.1) |
| **Financial liabilities carried at amortised cost** | | | | | |
| Trade and other payables | 10 | **(318.2)** | (221.0) | **(318.2)** | (221.0) |
| Borrowings[1] | 16 | **(1,510.0)** | (428.0) | **(1,523.2)** | (421.9) |
| | | **(1,828.2)** | (649.0) | **(1,841.4)** | (642.9) |
| **Off-balance sheet** | | | | | |
| **Unrecognised financial assets** | | | | | |
| Bank guarantees | | **-** | - | **119.1** | 105.9 |
| Insurance company guarantees | | **-** | - | **0.1** | 0.6 |
| **Unrecognised financial liabilities** | | | | | |
| Bank guarantees | | **-** | - | **(21.4)** | (19.0) |
| | | **-** | - | **97.8** | 87.5 |

[1] Borrowings includes $436.8 million (2022: $432.5 million) subject to fair value hedges.

# Group structure

**IN THIS SECTION**

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

## 18 Joint ventures

The Group has an interest in the following joint ventures:

| Name | Country of operation | Ownership interest 2023 % | 2022 % | Principal activity |
|---|---|---|---|---|
| Ox Mountain Limited[1] | United Kingdom | **69** | 42 | Software |
| ARG Risk Management Limited | Bermuda | **50** | 50 | Insurance |
| Integrated Logistics Company Pty Ltd | Australia | **14** | 14 | Consulting |
| ACN 169 052 288 | Australia | **15** | 15 | Dormant |

[1] The 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. Refer to note 22 for further information.

The Group's share of net profit from investments in joint ventures for the period is $0.7 million (2022: $0.4 million). The Group's share of net assets from investments in joint ventures at reporting date is $56.2 million (2022: $22.0 million).

### (a) Accounting policies

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

Consideration transferred to acquire additional shares is added to the existing carrying amount of the investment without remeasurement of the previously held interest and without specific allocation to the underlying assets and liabilities of the investee.

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

## 19 Material subsidiaries

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

| | | Ownership interest | |
|---|---|---|---|
| | Country of | **2023** | 2022 |
| **Controlled entities** | **incorporation** | **%** | % |
| Australia Eastern Railroad Pty Ltd | Australia | **100** | 100 |
| Australia Western Railroad Pty Ltd | Australia | **100** | 100 |
| Aurizon Property Pty Ltd | Australia | **100** | 100 |
| Aurizon Finance Pty Ltd | Australia | **100** | 100 |
| Aurizon Port Services Pty Ltd | Australia | **100** | 100 |
| Aurizon Port Services NSW Pty Ltd | Australia | **100** | 100 |
| Aurizon Bulk Central Pty Ltd | Australia | **100** | - |
| Aurizon Bulk Central Network Pty Ltd | Australia | **100** | - |
| Iron Horse Insurance Company Pte Ltd | Singapore | **100** | 100 |

### (a) Principles of consolidation

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

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

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

### (b) Changes in ownership interests

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

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

## 20 Parent entity disclosures

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

### (a) Summary financial information

| | **2023 $m** | 2022 $m |
|---|---|---|
| Current assets | **1,718.4** | 1,624.6 |
| Non-current assets | **5,282.1** | 3,689.8 |
| **Total assets** | **7,000.5** | 5,314.4 |
| Current liabilities | **3,033.5** | 1,806.5 |
| Non-current liabilities | **232.5** | 197.9 |
| **Total liabilities** | **3,266.0** | 2,004.4 |
| **Net assets** | **3,734.5** | 3,310.0 |
| **Equity** | | |
| Contributed equity | **3,139.4** | 2,718.2 |
| Retained earnings | **595.1** | 591.8 |
| **Total equity** | **3,734.5** | 3,310.0 |
| Profit for the year | **139.7** | 343.1 |
| Other comprehensive income | **-** | (0.2) |
| **Total comprehensive income** | **139.7** | 342.9 |

### (b) Guarantees entered into by the parent entity

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

Funding for the Group is sourced through a wholly-owned subsidiary of the Company, Aurizon Finance Pty Ltd (Aurizon Finance). Should Aurizon Finance not be able to pay its debt as and when they become due and payable, the Company may be liable to settle these debts. The Company estimates the liability is approximately $288.7 million (2022: $215.8 million).

As at 30 June 2023, the parent entity had contractual commitments for the acquisition of property, plant and equipment totalling $175.9 million (2022: $18.6 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

## 21 Deed of cross guarantee

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

Aurizon Finance Pty Ltd
Aurizon Terminal Pty Ltd
Aurizon Property Holding Pty Ltd
Aurizon Property Pty Ltd
Logistics Australiasia Pty Ltd
Aurizon Resource Logistics Pty Limited
Interail Australia Pty Ltd
Australian Rail Pty Ltd
Australia Eastern Railroad Pty Ltd
Australia Western Railroad Pty Ltd
Australian Railroad Group Employment Pty Ltd
Aurizon Intermodal Pty Ltd
Aurizon Bulk Central Pty Ltd*
Aurizon Bulk Central Network Pty Ltd*
ACN 654 415 700 Pty Ltd*
Aurizon Bulk Central Holdings Pty Ltd*
Aurizon Bulk Central Finance Pty Ltd*
Aurizon Bulk Central (SA Holdings) Pty Ltd*

* These wholly-owned subsidiaries became a party to the Deed by way of an Assumption Deed on 28 April 2023.

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

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

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

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

| | **2023 $m** | 2022 $m |
|---|---|---|
| **Consolidated income statement** | | |
| Revenue | **2,576.6** | 2,237.3 |
| Other income | **10.9** | 34.4 |
| Employee benefits expense | **(805.6)** | (689.5) |
| Energy and fuel | **(229.3)** | (146.5) |
| Track access | **(505.5)** | (456.9) |
| Consumables | **(434.4)** | (341.5) |
| Depreciation and amortisation | **(316.4)** | (253.3) |
| Impairment losses | **(12.8)** | (2.3) |
| Other expenses | **(50.5)** | 4.3 |
| Share of net profit of investments accounted for using the equity method | **0.1** | 0.2 |
| Net finance costs | **(92.1)** | (14.7) |
| **Profit before income tax** | **141.0** | 371.5 |
| Income tax expense | **(49.2)** | (112.1) |
| **Profit for the year** | **91.8** | 259.4 |
| | | |
| **Consolidated statement of comprehensive income** | | |
| **Profit for the year** | **91.8** | 259.4 |
| | | |
| **Other comprehensive income** | | |
| *Items that may be reclassified to profit or loss* | | |
| Changes in the fair value of cash flow hedges | **20.6** | 2.0 |
| Income tax relating to changes in the fair value of cash flow hedges | **(6.2)** | (0.6) |
| Reclassification to profit or loss on cessation of joint venture | **-** | (0.2) |
| **Other comprehensive income for the year, net of tax** | **14.4** | 1.2 |
| **Total comprehensive income for the year** | **106.2** | 260.6 |
| | | |
| **Summary of movements in consolidated retained earnings** | | |
| **Retained earnings at the beginning of the financial year** | **241.9** | 211.2 |
| | | |
| Profit for the year | **91.8** | 259.4 |
| Dividends paid | **(136.4)** | (228.7) |
| **Retained earnings at the end of the financial year** | **197.3** | 241.9 |

## 21 Deed of cross guarantee (continued)

| | 2023 $m | 2022 $m |
|---|---|---|
| **Consolidated balance sheet** | | |
| **Current assets** | | |
| Cash and cash equivalents | **58.6** | 151.4 |
| Trade and other receivables | **506.0** | 409.0 |
| Inventories | **164.3** | 124.5 |
| Derivative financial instruments | **1.7** | 1.5 |
| Other assets | **161.6** | 20.0 |
| Assets classified as held for sale | **-** | 0.1 |
| **Total current assets** | **892.2** | 706.5 |
| **Non-current assets** | | |
| Inventories | **48.1** | 38.2 |
| Derivative financial instruments | **29.7** | - |
| Property, plant and equipment | **4,614.0** | 3,162.1 |
| Intangible assets | **123.8** | 99.9 |
| Other assets | **96.3** | 75.5 |
| Investments accounted for using the equity method | **0.4** | 0.5 |
| Other financial assets[1] | **135.4** | 103.2 |
| **Total non-current assets** | **5,047.7** | 3,479.4 |
| **Total assets** | **5,939.9** | 4,185.9 |
| **Current liabilities** | | |
| Trade and other payables | **384.8** | 290.2 |
| Borrowings | **106.0** | - |
| Derivative financial instruments | **0.4** | - |
| Provisions | **208.6** | 189.6 |
| Other liabilities | **39.3** | 6.1 |
| **Total current liabilities** | **739.1** | 485.9 |
| **Non-current liabilities** | | |
| Borrowings | **1,404.0** | 428.0 |
| Derivative financial instruments | **70.1** | 66.1 |
| Deferred tax liabilities | **223.1** | 93.8 |
| Provisions | **47.5** | 45.0 |
| Other liabilities | **102.1** | 104.1 |
| **Total non-current liabilities** | **1,846.8** | 737.0 |
| **Total liabilities** | **2,585.9** | 1,222.9 |
| **Net assets** | **3,354.0** | 2,963.0 |
| **Equity** | | |
| Contributed equity | **3,141.1** | 2,720.0 |
| Reserves | **15.6** | 1.1 |
| Retained earnings | **197.3** | 241.9 |
| **Total equity** | **3,354.0** | 2,963.0 |

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

## 22 Acquisition of businesses and interests in joint ventures

### (a) Summary of acquisitions in 2023

### (i) One Rail Australia

**Significant judgements and estimates**

**Business combination**

One Rail Australia comprised two main business segments including One Rail Bulk (renamed Aurizon Bulk Central) and East Coast Rail. The ownership interest in East Coast Rail was held by another subsidiary of Aurizon Holdings Limited and did not form part of the Group.

The allocation of the purchase price to the business segments and the determination of the fair values of net identifiable assets and goodwill involves significant judgement.

*Allocation of purchase consideration*
The allocation of the purchase consideration to the business segments involved judgement. The Group engaged third-party valuers to advise on the methodology and assumptions applied. The allocation of purchase consideration to the business segments was determined based on fair value methodology.

*Determination of the fair value of net identifiable assets*
The determination of the fair values of net identifiable assets, including property, plant and equipment and intangible assets involved judgement. The Group engaged third-party valuers to advise on the methodology and assumptions applied to value identifiable assets. The fair value was determined based on commonly adopted methodology for the identifiable assets, including depreciated replacement cost after consideration of economic obsolescence and discounted cash flows.

The acquisition of One Rail Australia completed on 29 July 2022. Details of the purchase consideration, net assets acquired and goodwill are as follows:

| | $m |
|---|---|
| Total purchase consideration (after working capital and completion adjustments) | **1,453.9** |

| | Fair value on acquisition date $m |
|---|---|
| Cash | **50.0** |
| Trade and other receivables | **44.9** |
| Inventories | **30.8** |
| Other current assets | **3.3** |
| Property, plant and equipment[1] | **1,409.3** |
| Other non-current assets | **0.1** |
| Trade and other payables | **(18.2)** |
| Borrowings | **(5.4)** |
| Provisions | **(31.9)** |
| Other current liabilities | **(11.0)** |
| Other non-current liabilities | **(18.0)** |
| Deferred tax liabilities | **(23.5)** |
| **Fair value of net identifiable assets acquired** | **1,430.4** |
| Add: Goodwill | **23.5** |
| **Fair value of net assets acquired** | **1,453.9** |

[1] Includes Bulk leased assets of $1,100.3 million and other leased assets of $20.6 million.

Goodwill of $23.5 million solely arises from the net deferred tax liability recognised on acquisition, in accordance with accounting standards. The net deferred tax liability arises on leased assets (comprising leasehold interests with below market rental payments) and the face value of the Term Loan Facility, offset by deferred tax assets associated with provisions. None of the goodwill is expected to be deductible for tax purposes.

## 22 Acquisition of businesses and interests in joint ventures (continued)

### (a) Summary of acquisitions in 2023 (continued)

#### (i) One Rail Australia (continued)

The fair value of trade receivables acquired is $44.3 million. The gross contractual amount for trade receivables due is $44.6 million, of which $0.3 million was expected to be uncollectable.

Borrowings acquired includes a $50.0 million Term Loan Facility with The AustralAsia Railway Corporation in connection with the Tarcoola-to-Darwin Concession Deed issued at below market interest rates. The Term Loan Facility matures in 2054 at the expiry of the Concession Period. The fair value of the loan acquired is $5.4 million.

Acquisition costs of $48.7 million, including landholder duty, advisory fees and other costs have been expensed to profit or loss during the period and classified in other expenses. This amount has been classified as a significant item.

Net cash outflow from investing activities for the acquisition was $1,403.9 million, representing cash paid net of cash acquired.

The acquired business contributed revenue of $247.4 million for the period 29 July 2022 to 30 June 2023. If the acquisition had occurred on 1 July 2022, consolidated pro-forma revenue for the period ended 30 June 2023 would have been $2,634.8 million. These amounts have been calculated using the subsidiary's results and adjusting them for differences in accounting policies between the Group.

#### (ii) Ox Mountain Limited

The Group increased its ownership interest in Ox Mountain Limited (UK registered), a maintenance software developer and distributor, from 42% to 69% for consideration of $30.1 million on 9 January 2023. The investment 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.

### (b) Summary of acquisitions in 2022

#### (i) South Maitland Railways Pty Ltd (SMR)

The Group acquired 100% of the issued shares in SMR, a railway storage and maintenance provider near Newcastle in NSW, for consideration of $8.2 million and a land holding for $0.4 million on 1 March 2022.

#### (ii) Kooregah Pastoral Co Pty Ltd (KPC)

The Group acquired the business of KPC, a trucking and material handling business that operates in and around Hermidale in NSW, for consideration of $8.3 million on 28 October 2021. The acquisition included the assets and workforce associated with the business. The net cash outflow from investing activities for the acquisition in the period was $7.7 million.

# 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.

## 23 Notes to the consolidated statement of cash flows

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

| | 2023 $m | 2022 $m |
|---|---|---|
| **Profit for the year** | **102.0** | 269.3 |
| Depreciation and amortisation | **326.6** | 261.4 |
| Impairment of non-current assets | **12.8** | 0.9 |
| Finance expenses | **95.2** | 17.9 |
| Share-based payment expense | **6.2** | 7.8 |
| Net (gain)/loss on disposal of assets | **(1.4)** | (24.2) |
| Share of net profit of investments accounted for using the equity method | **(0.7)** | (0.4) |
| Net exchange differences | **0.7** | 0.3 |
| Change in operating assets and liabilities: | | |
| (Increase)/Decrease in trade and other receivables | **(87.9)** | 8.6 |
| (Increase)/Decrease in inventories | **(19.0)** | (16.6) |
| (Increase)/Decrease in other operating assets | **(158.8)** | 54.8 |
| Increase/(Decrease) in trade and other payables | **78.3** | 9.1 |
| Increase/(Decrease) in other liabilities | **1.7** | (11.2) |
| Increase/(Decrease) in current tax liabilities | **(2.8)** | - |
| Increase/(Decrease) in deferred tax liabilities | **107.1** | 56.5 |
| Increase/(Decrease) in provisions | **(14.5)** | (25.3) |
| **Net cash inflow from operating activities** | **445.5** | 608.9 |

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

| | Current borrowings $m | Non-current borrowings $m | Liabilities held to hedge borrowings[1] $m | Assets held to hedge borrowings[1] $m | Total $m |
|---|---|---|---|---|---|
| **Balance as at 1 July 2022** | **-** | **(428.0)** | **(66.1)** | **-** | **(494.1)** |
| Reclassification | **(65.0)** | **65.0** | **-** | **-** | **-** |
| Financing cash flows[2] | **(41.0)** | **(1,024.5)** | **-** | **-** | **(1,065.5)** |
| Changes in fair value | **-** | **(6.1)** | **(4.0)** | **29.7** | **19.6** |
| Other non-cash movements[3] | **-** | **(10.4)** | **-** | **-** | **(10.4)** |
| **Balance as at 30 June 2023** | **(106.0)** | **(1,404.0)** | **(70.1)** | **29.7** | **(1,550.4)** |
| | | | | | |
| Balance as at 1 July 2021 | - | (495.5) | - | 1.9 | (493.6) |
| Changes in fair value | - | 69.1 | (66.1) | (1.9) | 1.1 |
| Other non-cash movements[3] | - | (1.6) | - | - | (1.6) |
| Balance as at 30 June 2022 | - | (428.0) | (66.1) | - | (494.1) |

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

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

[3] Other non-cash movements includes the amortisation of capitalised borrowing costs and amortisation of discounts on the face value of the AMTN issued.

## 24 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 (2022: $nil). The following transactions occurred and balances are recognised with other entities in the Aurizon Group:

| | **2023 $'000** | 2022[1] $'000 |
|---|---|---|
| Trade and other receivables from related parties | **15,357** | 11,173 |
| Trade and other payables to related parties | **86,472** | 52,668 |
| Tax loan receivable from parent entity | **134,171** | 8,025 |
| Loans receivable from related parties | **-** | 93,000 |
| Services revenue received from related parties | **22,380** | 20,990 |
| Expenses paid to related parties | **405,992** | 390,085 |
| Expenses reimbursed from related parties | **50,275** | 47,300 |
| Interest revenue received from related parties | **1,386** | 806 |
| Interest expense paid to related parties | **102** | - |

[1] Amounts for FY2022 have been updated.

Expense reimbursed from related parties in the Aurizon Group include maintenance, facilities charges and general corporate overheads.

For details on dividends paid and changes in contributed equity, refer to notes 14 and 15 respectively.

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

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

The Company enters into unsecured loans and advances with Aurizon Network Pty Ltd (subsidiary of Aurizon Holdings Limited) at floating rates of interest pursuant to 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 4.

## 25 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.

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Short-term employee benefits | **5,924** | 6,846 |
| Long-term employee benefits | **162** | 13 |
| Post-employment benefits | **128** | 115 |
| Share-based payment expense | **4,148** | 4,277 |
| | **10,362** | 11,251 |

No KMP has entered into a material contract with the Group in the financial year and there were no material contracts involving KMPs' interests existing at year end (2022: nil).

## 26 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:

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| **Deloitte Touche Tohmatsu** | | |
| Audit and review of financial statements | **665** | 465 |
| Other advisory services | **135** | 198 |
| **Total remuneration of Deloitte Touche Tohmatsu** | **800** | 663 |

## 27 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 amendments for the first time for the reporting period commencing 1 July 2022:

- AASB 2020-3 *Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments*
- AASB 2021-7 *Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.*

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future reporting periods.

In FY2022, the Group adopted AASB 2020-8 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2*. From 1 July 2023, the treasury management system has been updated to transition to an alternative benchmark rate of Secured Overnight Financing Rate (SOFR). There was no significant impact on the fair value amounts.

### (ii) New standards and interpretations not yet adopted

Certain new accounting standards and amendments to standards have been published that are not mandatory for reporting periods commencing 1 July 2022 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The Group is currently assessing the impact of AASB 17 *Insurance Contracts* on self-insurance arrangements that is effective for the Group from 1 July 2023.

## 27 Summary of other significant accounting policies (continued)

### (b) Cash and cash equivalents

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

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

### (c) Foreign currency transactions

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

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

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

### (d) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

## 27 Summary of other significant accounting policies (continued)

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

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

### (f) Financial instruments

### (i) Non-derivative financial assets

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

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

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

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

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

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

### (iii) Non-derivative liabilities

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

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

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

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

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 date.

## 28 Commitments and contingencies

### (a) Contingent liabilities

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

**Guarantees and letters of credit**

For information about guarantees and letters of credit given by the Group, refer to note 17(d).

### (b) Contingent assets

**Guarantees and letters of credit**

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

### (c) Capital commitments

At 30 June 2023, the Group has capital commitments contracted but not provided for in respect of the acquisition of property, plant and equipment of $148.6 million (2022: $64.5 million) which are due within one year, $62.8 million (2022: $nil) which are due between one and five years and $14.3 million (2022: $nil) which are due after five years.

## 29 Events occurring after the reporting period

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

## Directors' declaration
30 June 2023

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 75 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2023 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

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

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

A Harding
Director

Brisbane
14 August 2023

Deloitte.

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# Independent Auditor's Report to the Members of Aurizon Operations Limited

## *Opinion*

We have audited the financial report of Aurizon Operations Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated balance sheet as at 30 June 2023, 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 2023 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.

## *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 2023, 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.

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Deloitte.

*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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

Brisbane, 14 August 2023

## Non-IFRS Financial Information in the FY2023 Financial Report

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

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

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

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

| | **2023** | 2022 |
|---|---|---|
| | **Continuing operations $m** | Continuing operations $m |
| **NPAT – Underlying** | **144.8** | 281.2 |
| Significant items, net of tax[1] | **(42.8)** | (11.9) |
| **NPAT – Statutory** | **102.0** | 269.3 |
| Income tax expense | **57.9** | 118.2 |
| **Profit before income tax** | **159.9** | 387.5 |
| Net finance costs | **90.8** | 15.4 |
| **EBIT - Statutory** | **250.7** | 402.9 |
| Add back significant items: | | |
| - Acquisition costs | **48.7** | 14.2 |
| **EBIT – Underlying** | **299.4** | 417.1 |
| Depreciation and amortisation | **326.6** | 261.4 |
| **EBITDA - Underlying** | **626.0** | 678.5 |

[1] Acquisition costs for One Rail Australia of $48.7 million ($42.8 million post-tax) includes landholder duty which is not taxable (deductible).