



Aurizon Network Pty Ltd

ABN 78 132 181 116

**Financial Statements for Below Rail Services provided
for the year ended 30 June 2021**

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About this report

Aurizon Holdings Limited (Aurizon), has established its organisational structure to facilitate the separation of the management of Rail Infrastructure from the above rail operation of Train Services. To this end, Aurizon Network Pty Ltd (Aurizon Network or the Company), a wholly owned subsidiary, was incorporated on 11 July 2008, responsible for the provision of Below Rail Services including:

- (i) Access to Aurizon Network rail network and the negotiation and administration of all access agreements;
- (ii) Managing Aurizon Network's assets including infrastructure maintenance, renewal and enhancement; and
- (iii) Network operations including train control and scheduling, emergency response and incident management and investigation.

Aurizon Network is obligated under sub clause 3.8 of Aurizon Network's Access Undertaking to prepare financial statements for Below Rail Services provided by Aurizon Network and under sub clause 10.4.1 of Aurizon Network's Access Undertaking, publish those financial statements. In order to prepare financial statements of the Below Rail Services, there are certain adjustments to include below rail transactions captured outside of the Aurizon Network legal entity and exclude non-below rail transactions that have been accounted for within the Aurizon Network legal entity. The Below Rail financial statements do not therefore reflect the statutory financial position of Aurizon Network.

These financial statements are prepared in accordance with the Costing Manual and take the form of a Statement of Earnings before Interest, Tax, Depreciation and Amortisation and accompanying notes. This financial report supplements other reporting as required by the Access Undertaking, including the maintenance reports and Regulatory Asset Base (RAB) roll-forward.

As this report is prepared based on accounting records (refer Note 1 Basis of Preparation) in accordance with the Costing Manual, there are certain amounts and balances which will differ from those associated with an economic/regulatory framework. For example:

- (i) Insurance expense represents amounts paid to the Aurizon Group for the amount it determines as Aurizon Network's share of the Group's insurance policy. This does not necessarily represent the expense for a stand-alone insurance policy for Aurizon Network, on which the allowance has been based.
- (ii) Operating and Maintenance allowances include a return on assets as compensation to Aurizon Network for the non-RAB assets deployed in the provision of the operating and maintenance services, primarily mechanised plant.
- (iii) Operating and maintenance allowances include some costs which are incurred however no regulatory allowance is received.

Although capitalised for accounting purposes, plant depreciation costs associated with the mechanised ballast undercutting renewal costs have been included within Infrastructure maintenance expense to allow comparability with the maintenance allowance which includes this as a direct maintenance cost.

Key events and transactions for the reporting period

The financial position and performance of the Company was particularly affected by the following events and transactions during the reporting period.

Access Revenue

2017 Access Undertaking

Under the 2017 Access Undertaking, the Weighted Average Cost of Capital (WACC) is 5.9%, increasing to 6.3% upon the Company responding to an independent capacity assessment of the Central Queensland Coal Network completed by the Independent Expert. The Independent Expert completed the Initial Capacity Assessment Report (ICAR) on 28 October 2021. The Company provided its preliminary response to the ICAR with proposed options to address capacity deficits identified by the Independent Expert on 12 November 2021.

The 2017 Access Undertaking approved by the Queensland Competition Authority (QCA) on 19 December 2019, assumed the ICAR would be completed by 1 March 2020 and therefore, a WACC of 6.3% was applied in determining tariffs for FY2021. As a result of the delay in the ICAR, which was not completed in FY2021, there has been an over-collection of access charges (the difference between 5.9% and 6.3%). The over-collection of access charges in FY2021 has been partially offset by lower revenue resulting from reduced actual volumes (net of Take-or-Pay triggering in four rail network systems). A net under or over recovery of access charges by system after adjustments forms part of the revenue adjustment amount (revenue cap). The FY2021 net revenue cap adjustment is a recovery by customers of \$17.7 million through tariff adjustments in FY2023. The FY2021 revenue cap adjustment is subject to approval by the QCA.

Impact of COVID-19

COVID-19 has had no material impact on the Company in financial year 2021.

Statement of Earnings before Interest, Tax, Depreciation and Amortisation

	2021 \$000's	2020 \$000's
Access charges - coal	1,028,707	1,021,664
Access charges - other	10,627	10,357
Electric traction energy charges	47,735	53,321
Other	1,134	2,212
Total revenue	1,088,203	1,087,554
Infrastructure maintenance	145,966	148,897
Derailment / collision / flood repairs	2,786	6,426
Network control services	28,288	26,042
Infrastructure management	7,782	10,010
Business management	34,703	27,351
Insurance	2,670	3,784
Traction electricity	104,915	109,946
Other expenses	15,788	21,050
Corporate overhead (note 4)	56,364	55,619
Total operating expenses	399,262	409,125
Earnings before interest, tax depreciation and amortisation	688,941	678,429

The above Statement of Earnings before Interest, Tax, Depreciation and Amortisation should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Basis of preparation

These financial statements are prepared to meet the needs of the QCA and access seekers for access to rail infrastructure for the purpose of operating trains.

These financial statements constitute a special purpose financial report prepared in accordance with sub clause 3.8 of Aurizon Network's Access Undertaking and the Costing Manual as approved by the QCA on 28 May 2020. These financial statements are prepared from the audited consolidated general purpose financial statements for Aurizon Network Pty Ltd for the year ended 30 June 2021 and adjusted in accordance with the requirements of the Costing Manual. For a summary of the significant accounting policies, refer to the audited consolidated general purpose financial statements of Aurizon Network, available on the Aurizon Holdings' website, aurizon.com.au.

Statement of Earnings Before Interest, Tax, Depreciation and Amortisation

The sources of information for the Statement of Earnings Before Interest, Tax, Depreciation and Amortisation for the year ended 30 June 2021 are:

- (a) The accounting records of Aurizon Network for the period from 1 July 2020 to 30 June 2021; and
- (b) The accounting records of Aurizon Group for the period from 1 July 2020 to 30 June 2021 for the purposes of determining the allocation of a portion of the corporate overhead from the Group.

The maintenance allowance included in the Maximum Allowable Revenue for each year includes a return on assets to Aurizon Network for non-RAB assets deployed in the provision of the operating and maintenance services, primarily mechanised plant. Depreciation on these assets attributed to maintenance activities has been included within Infrastructure Maintenance on the Statement of Earnings Before Interest, Tax, Depreciation and Amortisation.

2. Below rail services provided by Aurizon Network

Aurizon Network's Access Undertaking and Costing Manual require the Statement of Earnings before Interest, Tax, Depreciation and Amortisation to identify Below Rail Services Provided by Aurizon Network.

Below Rail Services are activities associated with the provision and management of Rail Infrastructure, including the construction, maintenance and renewal of Rail Infrastructure assets, and the network management services required for the safe operation of Train Services on the Rail Infrastructure, including Network Control Services and the implementation of safeworking procedures.

Aurizon Network is the business established to manage the provision of Below Rail Services.

3. Internal charges

Internal charges for services provided by Aurizon Network to other Aurizon companies are treated as revenue. Internal charges treated as revenue are access charges, traction electricity charges and ancillary infrastructure charges. The total internal charges reported as below rail revenue for the year ended 30 June 2021 are \$457.6 million (2020: \$523.4 million).

Access charges for Aurizon train services are in accordance with Aurizon Network's access agreements and where applicable consistent with Reference Tariffs approved by the QCA. Other internal charges are either similar to charges levied on external customers or in accordance with internal service agreements.

4. Corporate overhead

Allocation basis

Under the organisational model of the Aurizon Group, corporate services are not charged to Aurizon Network separately and are therefore included in corporate overhead. The methodology employed for allocating Aurizon Group's corporate costs to Below Rail Services in accordance with the Costing Manual is as follows:

- Obtain the operating expenses for each non-operational function of the Aurizon Group;
- Exclude cost centres for each of the functional areas, per the table below, that specifically relate to operating functions other than Below Rail Services; then
- Apply allocators calculated as at the end of financial year to all other cost centres in the Internal Costing Accounts as follows:

Corporate Non-Operating Function	Allocation Basis
Board & CEO	Direct costs
Finance (excluding Network Finance)	
- Mergers & Acquisitions, Finance Partner Coal, Finance Partner Bulk, and Group Accounting, Planning & Reporting and Governance	Nil
- Accounts Receivable	Number of transactions
- All other sub-functions including– Treasury, Tax, Investor Relations, Insurance, Admin Resource Centre. Finance Partner TSP & Corporate.	Direct costs
Technical Services and Planning	
- Real Estate	Generally identifiable by occupancy, with FTEs used for unidentifiable costs
- Technology	Technology labour costs: - 7.3% identifiable to Network; - 81.6% allocated using FTEs Technology consumables costs: - 12.5% Identifiable to Network; - 60.2% allocated using FTEs
- Procurement	Direct costs
- Accounts Payable	Number of transactions
Corporate	
- Organisational Development & Capability, Remuneration, Payroll, Risk & Assurance and Employee Relations, Safety Health & Environment	FTEs
- External Communications, External Relations, Company Secretary, Legal	Direct costs
- HR centrally held costs	
- executive bonuses	9%
- leave discounting	10%
- Safety and HR partners – TSP and Corporate	FTEs
- Safety and HR partner – Network	100%
- Safety and HR partner – Coal and Bulk, Brand and Community Engagement	Nil

4. Corporate overhead (continued)

Where:

- FTEs% is the number of below rail network employees as a percentage of total Aurizon Group employees.
- Direct costs is the direct operational costs (excluding depreciation, access charges and traction costs) of the below rail network business as a percentage of the total direct operational costs (excluding depreciation, access charges and traction costs) of the Aurizon Group.

Impact of varied allocators on the corporate cost allocation

	2021		2020	
	Current Year Allocation \$000's	UT5 Notional Allocation \$000's	Current Year Allocation \$000's	UT5 Notional Allocation \$000's
CEO & Board	1,925	1,986	1,784	1,711
Finance	3,617	3,553	3,784	3,450
Real Estate	14,720	13,827	15,078	14,799
Human Resources	6,839	5,623	5,854	4,967
General Counsel and Corporate Secretary	1,461	1,508	1,653	1,585
Information Technology	21,203	17,532	21,242	17,389
Safety, Health and Environment	3,293	2,278	3,399	2,320
Other Corporate Services	3,306	3,176	2,825	2,536
Total Corporate Overhead	56,364	49,483	55,619	48,757

Where:

- Current Year Allocation is the corporate overhead allocated using allocation percentages calculated using current parameters (eg FTE, direct costs) in the year of allocation applied to actual corporate overhead costs, as specified in the Costing Manual.
- UT5 Notional Allocation is the corporate overhead that would have been notionally allocated using the allocation percentages implicit in the approved UT5 allowances (ie same percentage each year) applied to actual corporate overhead costs.

5. Self-insurance

In its operating cost allowance, the Company receives an allowance for self-insurance for the purpose of allowing the Company to manage specific risks which are unable to be insured through an insurance policy. The self-insurance premiums include all claims that may be made against the Company or its relevant Access Holders for which the Company self-insures.

Self-insurance coverage for the year is as follows:

Uninsured property risks:	Claims > \$0 and less than the assumed pass-through thresholds:
- Weather-related	- \$1,000,000 for weather related events
- Dewirement	- \$8,000,000 for all other events including derailments
- Derailment	
- Earthquake	
- Fire	
- Accidental and malicious damage	
Public liability	Claims below deductible level (\$500,000)

As required by the Access Undertaking, set out below are the number and amount of claims on the self-insurance funding during the year. A claim refers to an event in one of the property risk categories outlined in the tables below and it is considered resolved when the Company no longer expects to incur any costs in relation to it.

The amount of claims raised during the year and amount of claims resolved during the year exclude amounts which have been recovered through tariff adjustments. Balances presented as credit balance represent amounts refunded in the year from prior year overclaim. Amounts below \$50,000 are included if they are additional costs of the claim raised in the prior year. In relation to livestock strikes, all strikes in a coal system are grouped as one claim upon the self-insurance funds.

Weather	2021	2020
Number of claims made in the year	-	6
Number of claims successfully resolved in the year	2	4
Amount of individual claims raised during the year > \$50,000 (\$000s)	-	2,355
Amount of aggregated claims made during the year < \$50,000 (\$000s)	295	8
Total amount of claims raised during the year (\$000s)	295	2,363
Total amount of claims resolved during the year (\$000s)	295	1,282

Dewirements	2021	2020
Number of claims made in the year	7	10
Number of claims successfully resolved in the year	8	9
Amount of individual claims raised during the year > \$50,000 (\$000s)		
Rocklands	-	65
Dalrymple Bay	(10)	57
Mindi Up Road	481	-
Amount of aggregated claims made during the year < \$50,000 (\$000s)	136	151
Total amount of claims raised during the year (\$000s)	607	272
Total amount of claims resolved during the year (\$000s)	212	186

5. Self-insurance (continued)

Derailments	2021	2020
Number of claims made in the year	17	10
Number of claims successfully resolved in the year	19	10
Amount of individual claims raised during the year > \$50,000 (\$000s)		
Duaringa	-	(21)
Dakenba	-	(3)
Callemondah Yard Sep 2019	-	107
Dalrymple Bay	19	8
Derailment Tikardi	-	628
Middlemount Junction	1	1,573
Balook	255	203
Callemondah Yard Jan 2020	-	111
Boorgoon to Kinrola Junction	880	-
Westwood Common Loop Collision	210	-
Dalrymple Bay	219	-
Amount of aggregated claims made during the year < \$50,000 (\$000s)	60	65
Total amount of claims raised during the year (\$000s)	1,645	2,670
Total amount of claims resolved during the year (\$000s)	4,418	871
Public Liability	2021	2020
Number of claims made in the year	20	21
Number of claims successfully resolved in the year	22	22
Amount of individual claims raised during the year > \$50,000 (\$000s)		
IR19-04940 - Ardurad Road Crossing	-	(1)
Protestor Activity Newlands	-	619
Amount of aggregated claims made during the year < \$50,000 (\$000s)	240	503
Total amount of claims raised during the year (\$000s)	240	1,121
Total amount of claims resolved during the year (\$000s)	458	902

6. Coal Systems

The Central Queensland Coal Region incorporates the following Coal Systems:

- (a) The **Newlands System** – the Rail Infrastructure comprising the rail corridor from the port of Abbot Point to Newlands mine, and all branch lines directly connecting coal mine loading facilities to that corridor, with the exception of the corridor between the Newlands mine and the North Goonyella mine (and beyond).
- (b) The **Goonyella System** – the Rail Infrastructure comprising the rail corridor from the ports at Hay Point and Dalrymple Bay to Hail Creek mine, Blair Athol mine, North Goonyella mine and the junction with the Gregory mine branch line and all branch lines directly connecting coal mine loading facilities to those corridors, with the exception of: (a) the branch line to Gregory mine; and (b) the corridor beyond North Goonyella mine to Newlands mine (and beyond).
- (c) The **Blackwater System** – the Rail Infrastructure comprising the rail corridor from the port of Gladstone (including domestic coal terminals in the vicinity of Gladstone) to Gregory, Minerva and Rolleston mines, and all branch lines directly connecting coal mine loading facilities to those corridors with the exception of the corridor to Oaky Creek (and beyond) and the corridor to Moura mine (and beyond).
- (d) The **Moura System** - The Rail Infrastructure comprising the rail corridor from the port of Gladstone (including domestic coal terminals in the vicinity of Gladstone) to Moura mine and the loading facility for Baralaba mine in the vicinity of Moura mine, and all branch lines directly connecting coal mine loading facilities to that corridor but excluding the corridor to Blackwater (and beyond).
- (e) The **Goonyella to Abbot Point (GAPE) System** – the Rail Infrastructure comprising: (a) the Goonyella Newlands Connection; and (b) that part of any other Coal System which is used by a Train Service that also uses or connects to any part of the Goonyella Newlands Connection, except where that Train Service originates or terminates south of Gregory.

Certificate of Aurizon Network Pty Ltd

I certify that the foregoing financial statements and notes to and forming part thereof for the year ended 30 June 2021 have been prepared pursuant to sub clause 3.8 of *Aurizon Network's 2017 Access Undertaking (UT5) – FY22 Annual Review of Reference Tariffs* approved by the Queensland Competition Authority on 22 June 2021 and the provisions of the *Costing Manual* approved by the QCA on 28 May 2020.



Pam Bains

Group Executive Network
Aurizon Network Pty Ltd

16 December 2021



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

Opinion

We have audited the Financial Statements for the Below Rail Services, as set out on pages 5 to 11, being a special purpose financial report, of Aurizon Network Pty Ltd (the Company), which comprises the statement of earnings before interest, tax, depreciation and amortization for the year ended 30 June 2021, notes to the financial report and the certificate by the Aurizon Network Pty Ltd.

In our opinion, the accompanying financial report is prepared, in all material respects, in accordance with the Costing Manual (as approved on 28 May 2020).

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 Company in accordance with the ethical requirements of the Accounting Professional and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution

We draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial report is prepared to assist the Company to meet the requirements of Aurizon Network's Access Undertaking (as approved 21 December 2020). As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Company and the Queensland Competition Authority (collectively the Recipients) and should not be distributed to parties other than the Recipients. A party other than the Recipients accessing this report does so at their own risk and Ernst & Young expressly disclaims all liability to a party other than the Recipients for any costs, loss, damage, injury or other consequence which may arise directly or indirectly from their use of, or reliance on the report. Our opinion is not modified in respect of this matter.

Other Matter

The Company's SAP IT system is used for data collection and reporting as part of the preparation of the financial report. As detailed in our Audit Plan for the year ended 30 June 2021, approved by the Company and the Queensland Competition Authority, our procedures did not include identifying and testing of IT General Controls of the Company's SAP system. Our opinion is not modified in respect of the matter.



Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report in accordance with the financial reporting requirements of the Costing Manual (as revised as approved on 28 May 2020) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



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- 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 Company'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 Company to cease to continue as a going concern.

Ernst & Young

Ernst & Young
Brisbane
16 December 2021

Glossary

Access means the non-exclusive utilisation of a specified section of Rail Infrastructure for the purposes of operating Train Services.

Access Charge means the price paid to Aurizon Network for Access under an Access Agreement.

Access Agreement means an agreement between Aurizon Network and an Access Holder for the provision of Access.

Access Holder means a person that has been granted an entitlement to Access in accordance with a specified Train Service Entitlement to operate Train Services on all or part of the Rail Infrastructure.

Access Undertaking refers to *Aurizon Network's 2017 Access Undertaking (UT5) – FY22 Annual Review of Reference Tariffs* approved by the Queensland Competition Authority on 22 June 2021 in accordance with the *Queensland Competition Authority Act 1997 (Qld)*.

Act means the *Queensland Competition Authority Act 1997 (Qld)*.

Aurizon Group means the group of companies for which Aurizon Holdings Limited (ACN 146 335 622) is the listed parent holding company. Aurizon Holdings Limited wholly owns Aurizon Operations Limited (ABN 47 564 947 264) and Aurizon Network Pty Ltd (ABN 78 132 181 116).

Aurizon Network means Aurizon Network Pty Ltd (ABN 78 132 181 116), a wholly owned subsidiary of Aurizon Holdings incorporated on 11 July 2008.

Below Rail Services means the activities associated with the provision and management of Rail Infrastructure, as outlined in Note 2 of these statements.

Central Queensland Coal Region means the coal systems defined in Note 6 of these statements.

Costing Manual means a manual either prepared by Aurizon Network and approved by the QCA; or prepared by the QCA under section 159(1) of the Act, as revised by the QCA from time to time under sections 159(2) and (3) of the Act.

Financial Statements means the Statement of Earnings Before Interest, Tax, Depreciation and Amortisation and associated notes to the financial statements, which separately identify Aurizon Network's business in respect of the declared services contemplated by section 250(1)(a) of the Act from other business conducted by Aurizon Network, and which are required in accordance with the Access Undertaking.

QCA means the Queensland Competition Authority as established by the Act.

Rail Infrastructure means rail transport infrastructure (as defined under the *Transport Infrastructure Act 1994 (Qld)*) for which Aurizon Network is the owner or lessee, the use of which is taken to be a service declared for the purposes of Part 5 of the Act pursuant to section 250(1)(a) of the Act.

Reference Tariff is an Access Charge applicable for a specified Reference Train Service, set out in Schedule F of Aurizon Network's Access Undertaking, or established by Aurizon Network and authorised by the QCA.

Reference Train Service means a notional Train Service identified in respect to a Reference Tariff and conforming to certain criteria, including carrying a specified commodity type, operating between specified geographical areas and conforming to specified technical characteristics, operational characteristics and contract terms and conditions.

Glossary (continued)

Rollingstock means locomotives, carriages, wagons, rail cars, rail motors, light rail vehicles, light inspection vehicles, rail/road vehicles, trolleys and any other vehicle that operates on or uses the track.

Train Service means any configuration of Rollingstock operating as a unit on the Rail Infrastructure from a specified origin to a specified destination.