

# Independent Review of Aurizon Network's 2025 UT5 DAAU Non-Electric Operating Expenditure Allowance

29 May 2026



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## Revision Control

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This report dated 29 May 2026 has been prepared for Queensland Competition Authority (the “Client”) in accordance with the terms and conditions of appointment dated 02 February 2026 (the “Appointment”) between the Client and Arcadis Australia Pacific Pty Ltd (“Arcadis”) for the purposes specified in the Appointment. For avoidance of doubt, no other person(s) may use or rely upon this report or its contents, and Arcadis accepts no responsibility for any such use or reliance thereon by any other third party.

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## Acronyms and Abbreviations

Acronym	Definition
ABN	Australian Business Number
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CEO	Chief Executive Officer
CPI	Consumer Price Index
CQCN	Central Queensland Coal Network
DAAU	Draft Amending Access Undertaking
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
FTE	Full-Time Equivalent
FY	Financial Year
GAP	Goonyella to Abbot Point
GTK	Gross Tonne Kilometre
HR	Human Resources
IT	Information Technology
MD	Managing Director
NOEA	Non-Electric Operating Expenditure Allowance
OPEX	Operating Expenditure
QCA	Queensland Competition Authority
RFI	Request For Information
UT5	Access Undertaking 5
2025 UT5 DAAU	Draft Access Amended Undertaking 2025

## Executive Summary

On 22 December 2025, Aurizon Network submitted a draft amending access undertaking (DAAU) to the Queensland Competition Authority (QCA) under Part 5 of the *QCA Act*. The DAAU proposes amendments to the 2017 access undertaking (UT5) and seeks to extend its expiry to 30 June 2037.

Aurizon Holdings Limited is a vertically integrated rail business providing both above- and below-rail services. Aurizon Network Pty Ltd, a wholly owned subsidiary, operates the below-rail coal network in central Queensland, known as the Central Queensland Coal Network (CQCN). The CQCN comprises five coal systems; Blackwater, Goonyella to Abbot Point (GAP), Goonyella, Moura and Newlands. The monopoly infrastructure services provided by the CQCN are declared for third-party access under the *Queensland Competition Authority Act 1997*.

Arcadis was engaged by the Queensland Competition Authority (QCA) to review the operating expenditure (opex) component of Aurizon Network's 2025 UT5 DAAU submission. A summary of the operating expenditure is in Table 1.

Table 1 – Aurizon Network's proposed NOEA for the purpose of this report

Category	FY2028	FY2029	FY2030	FY2031	FY2032
Base year direct and indirect CQCN opex	66.3	66.3	66.3	66.3	66.3
Base year corporate overheads	57.5	57.5	57.5	57.5	57.5
Step changes	3.3	1.8	1.8	2.1	2.1
<b>Total operating expenditure (\$FY25)</b>	<b>127.1</b>	<b>125.6</b>	<b>125.6</b>	<b>125.9</b>	<b>125.9</b>
Trend	12.8	17.2	22.2	27.1	31.8
<b>Total escalated operating expenditure (nominal)</b>	<b>139.9</b>	<b>142.8</b>	<b>147.8</b>	<b>153.0</b>	<b>157.7</b>

Source: Aurizon Network 2025 UT5 DAAU submission: Note this table does not include efficiency factor for CQCN opex or efficiency step change for corporate overheads

### Efficient base year outcome and adjustments

This review applies a base-step-trend assessment framework, under which existing costs are assessed as a base, adjusted for efficient step changes and trend escalation. Aurizon Network has proposed FY25 as the efficient base year. Arcadis has assessed the suitability of FY25 as the efficient base year for Aurizon Network's non-electric operating expenditure, having regard to the fact that operating expenditure under UT5 was previously reviewed and approved by the QCA. Consistent with regulatory practice, the assessment focuses on whether FY25 expenditure is representative of efficient, ongoing costs after adjusting for non-recurring, unsupported, or methodologically inappropriate items.

Arcadis has assessed the base year expenses by:

- Reviewing the trends of each category year on year and understanding anomalies
- Understanding whether cost drivers remain relevant or review drivers that have changed from UT5.
- Proposing adjustments after completing our analysis.

### Corporate overheads

Corporate overheads is made up of IT costs (39 per cent of total costs), real estate costs (32 per cent) and other functions such as human resources, finance and other corporate services.

Arcadis undertook a detailed movement and allocation review of corporate overheads. The total proposed corporate overhead baseline of \$57.5 million reflects relatively modest growth from FY24 and aligns broadly with Group-level cost trends.

Following a comprehensive review of the corporate overhead categories, the majority were found to be reasonable and consistent with established UT5 practices and methodologies, although several areas of concern were identified requiring further clarification and assessment. In particular, the proposed change to the allocation of CEO and Board costs, moving from direct cost as the allocator to a blended FTE and EBITDA allocator, was not considered reasonable. EBITDA was assessed as an inappropriate allocator in a regulatory context due to volatility, distortion from non-core segments, and inconsistency with regulatory precedent. An adjustment has therefore been applied to restore direct costs as the allocator for CEO and Board costs in deriving an efficient baseline.

Other changes, including the re-allocation of Safety Partners and People Partners to Direct and Indirect CQCX expenditure, were assessed as reasonable. Arcadis assesses that these refinements improve transparency and better align costs with operational responsibility in a safety-critical environment.

### **Direct and indirect CQCX operating expenditure**

Direct and indirect CQCX opex comprises of network train operations expenses (33 per cent of total CQCX opex), infrastructure management (17 per cent) and other direct and indirect functions such as Network legal, regulation and finance costs as well as safety and training.

Direct and indirect CQCX operating expenditure remains broadly stable over time, with increases largely explained by labour-related cost pressures rather than scope expansion or inefficiency. Increases in Network Train Operations were assessed as reasonable given operational requirements, safety obligations, and recruitment pressures.

One specific increase, Network legal staffing FTE increases, were assessed as not appropriate for inclusion in the base year, due to insufficient evidence of ongoing efficient cost drivers. These costs have been removed from the baseline.

### **Cost allocation**

Arcadis reviewed cost allocation methodologies and outcomes to assess alignment with UT5 principles. From our assessment Arcadis generally agreed with the underlying UT5 allocation principles and methodology and did not identify any matters warranting reconsideration of prior determinations. Accordingly, the review focused primarily on areas where methodologies changed from UT5 or where allocation outcomes moved materially. With the exception of CEO and Board costs, allocation approaches were assessed as broadly consistent with UT5 and reasonable in outcome. Observed increases in Aurizon Network's FTE share reflect structural changes implemented in 2017 rather than recent cost shifting.

### **Proposed adjustments**

After the review of corporate overheads, CQCX indirect and direct opex and the cost allocations, we have identified areas for adjustments. Four targeted adjustments have been applied to derive an efficient base year, totalling approximately \$2.0 million (Table 2). For corporate overheads, the adjustments are:

- CEO and Board costs (\$1.1 million): The proposed move from direct costs as an allocator to a blended FTE and EBITDA allocator was assessed as not reasonable. EBITDA was considered inappropriate in a regulatory context due to volatility, distortion from non-core segments, and inconsistency with regulatory precedent. CEO and Board costs have therefore been allocated using direct costs as the allocator.
- ICT costs (\$0.5 million): ICT total expenditure was assessed as broadly efficient and reasonable in principle; however given evidence of transitional capability uplift and overlap risk between the FY25

base year and proposed step changes, Arcadis applied a conservative normalisation 2% adjustment applied to reflect uncertainty regarding steady-state recurrent costs.

For CQCN opex, the adjustments are:

- Network legal FTE (\$0.4 million): Removed due to insufficient evidence that the increase reflects ongoing efficient cost drivers.
- EY regulatory fee (\$0.1 million): Removed as a non-recurring regulatory cost.

Table 2 – Aurizon Network Adjusted NOEA (\$m, real FY25)

Category	Expense Type	FY2028	FY2029	FY2030	FY2031	FY2032
<b>Base Year Opex</b>		<b>123.8</b>	<b>123.8</b>	<b>123.8</b>	<b>123.8</b>	<b>123.8</b>
Adjustment 1: CEO and Board	Corporate Overheads	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Adjustment 2: ICT	Corporate Overheads	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Adjustment 3: Legal FTE (Network Legal)	Indirect CQCN Exp	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Adjustment 4: EY regulatory fee (Network Regulation)	Indirect CQCN Exp	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Adjusted Base Year Opex</b>		<b>121.8</b>	<b>121.8</b>	<b>121.8</b>	<b>121.8</b>	<b>121.8</b>
Step Changes		3.3	1.8	1.8	2.1	2.1
<b>Adjusted NOEA (\$FY25)</b>		<b>125.1</b>	<b>123.6</b>	<b>123.6</b>	<b>123.9</b>	<b>123.9</b>
Trend		12.6	16.9	21.8	26.7	31.3
<b>Total escalated operating expenditure (nominal)</b>		<b>137.7</b>	<b>140.5</b>	<b>145.4</b>	<b>150.5</b>	<b>155.2</b>

Following these adjustments, the efficient FY25 base year operating expenditure is assessed at \$125.1 million.

# 1 Introduction

## 1.1 Background

The Queensland Competition Authority (QCA) is Queensland's economic regulator and administers the State's third-party access regime to prevent monopoly infrastructure providers from inappropriately using market power. Aurizon Network (Aurizon) is a subsidiary of Aurizon Holdings Limited and operates the declared below-rail coal network in central Queensland, namely, the Central Queensland Coal Network (CQCN). The CQCN comprises five coal systems:

- Blackwater
- Goonyella to Abbot Point (GAP)
- Goonyella
- Moura
- Newlands.

The CQCN provides the rail component of a wider coal supply chain where reliability, safety and cost discipline are central, given the scale of train operations and the dependence of users on network access. Access to Aurizon's CQCN is governed through an access undertaking approved by the QCA under the Queensland Competition Authority Act 1997. On 22 December 2025, Aurizon Network submitted a draft amending access undertaking (the 2025 UT5 DAAU) seeking to amend the 2017 access undertaking (UT5) and extend the expiry of the undertaking to 30 June 2037. For the current review, Aurizon Network's 2025 UT5 DAAU proposes reference tariffs for coal-carrying train services for the period 2027–28 to 2036–37, with operating expenditure forming a key component of the maximum allowable revenue used to derive those tariffs. QCA has appointed Arcadis to review Draft Access Amended Undertaking 2025 (2025 UT5 DAAU) in the context of the non-electric operating expenditure allowance (NOEA).

## 1.2 Aurizon Network Submission Summary

The UT5 2025 DAAU proposes a ten-year extension to the existing UT5 framework from 1 July 2027 through discussions between Aurizon Network and CQCN stakeholders. Rather than a redesign, the DAAU builds on the current undertaking, UT5, by extending the term, refining financial and policy settings, and embedding enhanced consultation, transparency and incentive mechanisms. The package combines revised revenue arrangements, policy reforms and incentive frameworks, with Aurizon Network emphasising that the overall proposal represents a balanced trade-off between increased customer protections and the financial settings required to support efficient operation and investment over a longer regulatory horizon.

Within this framework, Aurizon Network proposes a NOEA derived using a base-step-trend methodology, with FY2025 actual expenditure adopted as the base year. The FY2025 cost base is adjusted to remove non-recurrent items, allocate costs to non-coal services, and incorporate refinements to allocation approaches. Aurizon Network submits the resulting adjusted base of \$123.8 million (\$FY25) as representative of efficient ongoing expenditure for CQCN Direct and Indirect Expenses and Corporate Overheads.

From this base, the NOEA incorporates a combination of explicit step changes and trend escalation. Step changes are included to reflect identified changes in Aurizon Network's cost environment, including regulatory and compliance obligations, and project mechanisms to address material future initiatives such as IT related matters including cyber security and operational facilities. Ongoing escalation is applied using weighted CPI and WPI indices, with a 0.5 per cent efficiency factor applied to opex.

### 1.3 Purpose and scope

The purpose of this report is to provide expert independent advice to assist the QCA in determining the prudence and efficiency of Aurizon Network’s forecast NOEA for the 2025 UT5 DAAU period.

The scope of this consultancy is clearly defined and focuses exclusively on the following areas:

- **Overall governance review:** review procedures and structure of Aurizon Network.
- **Direct operating expenditure:** Costs directly related to Network Operations.
- **Indirect operating expenditure:** Business management costs indirectly related to Network Operations.
- **Corporate overheads:** Allocated head-office and corporate support costs as they relate to the CQCEN.

This review has been conducted with reference to relevant regulatory guidelines and draws upon industry best practices to ensure that the QCA’s decision-making is informed by a thorough and transparent technical assessment. Expenditure categories outside the defined scope, including capital expenditure, electrical operating costs, and costs outside the defined operating period, have been specifically excluded, as illustrated in Figure 1. Real FY25 values for items that are in scope are shown in Table 3.

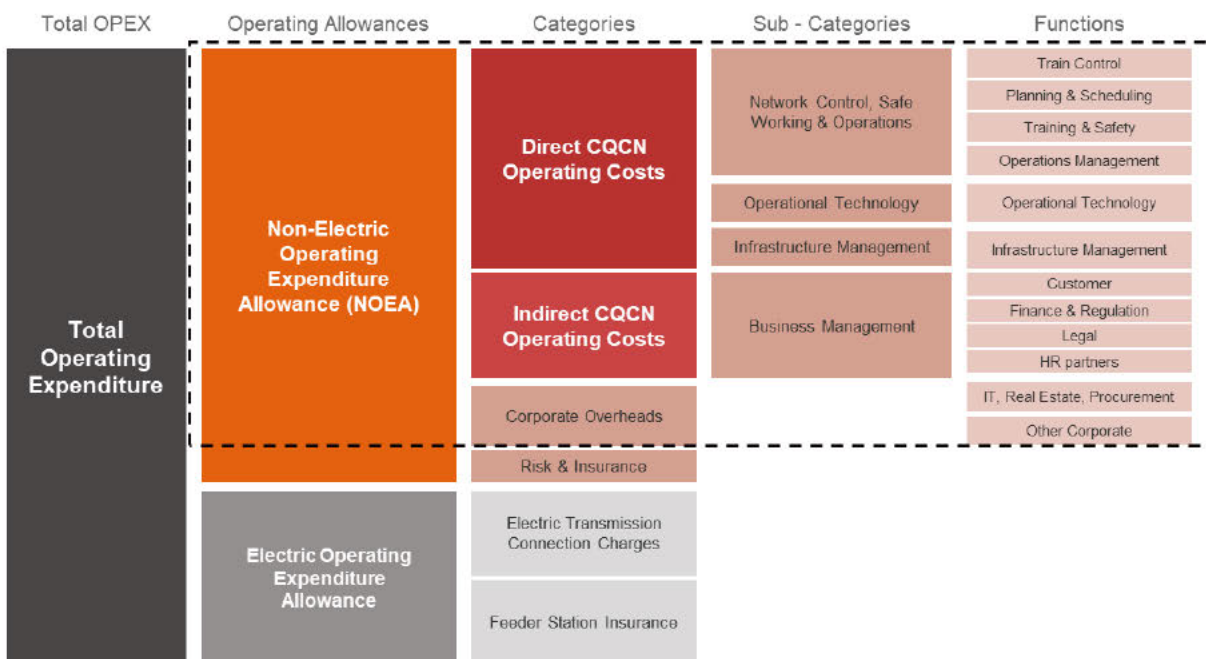


Figure 1 – OPEX structure and scope of services for this report

Table 3 presents the Aurizon Network’s proposed baseline figures for direct and indirect CQCEN operating expenses and corporate overheads, which are examined in detail in sections 3.3, 3.4 and 3.5 of this report. Step changes are addressed in section 3.9.

Table 3 – Proposed baseline NOEA in scope for the purpose of this report (\$FY25)

Category	FY2028	FY2029	FY2030	FY2031	FY2032
Base year direct and indirect CQCEN OPEX	66.3	66.3	66.3	66.3	66.3
Base year corporate overheads	57.5	57.5	57.5	57.5	57.5

Step changes	3.3	1.8	1.8	2.1	2.1
<b>Total in scope</b>	<b>127.1</b>	<b>125.6</b>	<b>125.6</b>	<b>125.9</b>	<b>125.9</b>

Arcadis acknowledges the cooperation of Aurizon Network in responding to information requests and providing data and explanations to support this review.

## 1.4 Limitations

In preparing this Report, Arcadis has drawn upon meetings, data, analyses, plans and other information provided by Aurizon and relevant third parties and/or organisations, most of which are referenced in the Report.

Except as otherwise stated, Arcadis has not verified the accuracy or completeness of the data and certain assumptions have had to be made. To the extent that the statements, opinions, facts, information, conclusions and/or observations are based in whole or part on the data, these are contingent upon the accuracy and completeness of the data.

Should any data or information subsequently prove to be incorrect, incomplete, or not fully disclosed to Arcadis, the conclusions drawn may be affected accordingly. The facts and matters described in this Report and its appendices reflect conditions as understood at the time of writing and are not intended to account for events or circumstances arising after this date.

## 2 Methodology

### 2.1 Assessment framework

Arcadis has implemented a multi-staged process to review the proposed NOEA in the 2025 UT5 DAAU.

The review has been conducted in a series of structured stages, progressing from scope definition and data assurance through to efficiency assessment and governance review as per steps outlined below.

#### 1. Scope Definition and Review Framework

The scope of work was agreed with the QCA, including the specific focus on non-electric operating expenditure and our assessment of costs using the base-step-trend assessment methodology. Clear protocols were established for requests for information (RFIs), data provision, and stakeholder engagement to ensure transparency, consistency, and auditability throughout the review. Deliverables and timelines were also agreed upfront to support alignment with the 2025 UT5 DAAU assessment process.

#### 2. Establishing the FY25 Base-Year Expenditure

A central component of the review has been the establishment of a robust and efficient FY25 starting point for NOEA. This step is critical, as the base-year expenditure materially influences the allowance outcomes under the base-step-trend approach. In assessing the suitability of the proposed FY25 baseline, we note that Aurizon Network’s operating expenditure for the UT5 period has previously been subject to review and approval by the QCA. Arcadis review of the UT5 documentation did not identify any material matters warranting challenge to the original base-year position or underlying allocation principles. As such, the approved UT5 expenditure was considered an appropriate and credible starting point for assessing the reasonableness of subsequent cost movements.

Consistent with this, our approach has not been to reassess the historical cost base from first principles, but rather to examine movements from the previously approved UT5 position to determine whether FY25

expenditure remains representative of efficient, ongoing operating costs. This has been undertaken through detailed movement analysis and review of expenditure trends, with a focus on identifying material changes, non-recurrent items, or shifts in cost allocation that may affect the suitability of FY25 as a base year.

Our analysis focused on validating the prudence and efficiency of Aurizon Network's proposed base-year expenditure through comparative historical analysis, with particular focus on movements between FY23, FY24 and FY25. Accordingly, the baseline assessment combined historical trend analysis, targeted normalisation adjustments, and validation of cost allocation outcomes to arrive at an efficient recurrent FY25 cost base.

In undertaking this assessment, we sought to understand the underlying drivers of base-year expenditure. Where costs varied materially relative to prior years, further assessment was undertaken to determine whether the change reflected appropriate and ongoing cost drivers relevant to future expenditure. Trend analysis of recent actuals was therefore used as a key tool to assess whether FY25 represents a stable and appropriate continuation of the approved cost base, rather than an outlier, and to inform any adjustments required to establish an efficient recurrent baseline.

## 2.1 Data Preparation and Normalisation

To ensure consistency and comparability across reporting periods and expenditure categories, we undertook the following data preparation steps:

- **Conversion to real terms:** All historical non-electric operating expenditure data were converted to real \$FY25 using the Brisbane Consumer Price Index (CPI). This ensures that movements in expenditure reflect real cost changes rather than inflation.
- **Coding reconciliation:** Historical expenditure was mapped to Aurizon Network's 2025 expenditure coding structure. This enabled direct reconciliation between transaction-level data and the categories and totals presented in the 2025 UT5 DAAU submission and ensured internal consistency across datasets.

## 3. Cost Allocation and Direct, Indirect Expenses and Corporate Overhead Assessment

We reviewed Aurizon Network's cost allocation methodologies, building on the previously approved UT5 framework and confirming the continued appropriateness of the underlying allocation principles before adopting them as the basis of assessment. Particular focus was given to allocation methodology that had changed from UT5, or which resulted in material changes in the proportion of costs allocated to the regulated network business.

In undertaking this review, we noted that cost allocation approaches applied under UT5 were previously considered as part of the QCA's approval process. Accordingly, our assessment did not re-examine all allocation methodologies from first principles, but instead focused on two key elements:

- Assess material movements in allocation outcomes, were supported by appropriate cost drivers and remained reasonable for regulatory purposes.
- Assess whether the cost drivers and/or scale of functions remain appropriate in 2025 UT5 DAAU.

The assessment was therefore focused on both the appropriateness of allocation methodologies and the reasonableness of resulting cost outcomes, rather than solely on whether methodologies had changed relative to UT5.

To support this assessment, selected allocation drivers were reviewed and, where relevant, recomputed using Aurizon Network's underlying data to verify the direction and magnitude of movements (for example, changes in FTE-based allocation outcomes). This enabled us to assess whether observed changes in allocated costs reflected underlying business drivers rather than mechanical or distortive effects.

Our review therefore focused on:

- whether maintained allocation methodologies remain appropriate and justified given current cost drivers and operating conditions;
- allocation methodologies that changed relative to UT5;
- the reasonableness of key allocation drivers underpinning corporate overhead and shared service costs.

#### **4. Comparative Cost Analysis and Efficient Baseline Assessment**

Following data normalisation and allocation validation, we undertook a comparative cost analysis to assess the efficiency of Aurizon Network’s recurrent non-electric operating expenditure. This analysis considered expenditure trends over time, cost drivers, and year-on-year movements, with particular attention to identifying non-recurrent items and step changes.

Based on this analysis, we derived an efficient recurrent FY25 baseline, reflecting expenditure that is considered prudent, efficient, and representative of ongoing operating requirements. This baseline provides a sound foundation for the subsequent application of trend and step adjustments under the base-step-trend framework.

#### **5. Assessment of step changes**

Proposed step changes to baseline expenditure were assessed separately from the base-year analysis. Each step change was evaluated against the QCA’s prudence and efficiency criteria, including whether the expenditure is driven by an identified need, reflects incremental costs, and represents the efficient cost of achieving the intended outcome.

Where relevant, step changes were tested for overlap with baseline expenditure or other step change proposals to avoid duplication.

#### **6. Governance and Organisational Review**

To complement the quantitative assessment, we conducted a governance review to assess whether Aurizon Network’s operating expenditure outcomes are supported by appropriate organisational and governance arrangements.

This review examined:

- Aurizon Group’s corporate and legal structure;
- Aurizon Network’s management and organisational arrangements within the group;
- The role and autonomy of Aurizon Network in decision-making;
- Aurizon Network’s share of group-wide functions and activities; and
- The nature and extent of intra-group services and transactions.

The governance review provides context for assessing the prudence and efficiency of operating expenditure, particularly in relation to corporate overheads, shared services, and group-driven cost pressures.

#### **7. Escalation and trend assessment**

We reviewed Aurizon Network’s proposed escalation approach, including the choice of escalation indices, weighting of escalators, and application across expenditure categories.

This assessment considered whether the proposed escalators reasonably reflect underlying cost drivers, are consistent with the nature of the costs being escalated and align with regulatory expectations and precedent. The objective was to ensure that escalation transforms the efficient FY25 baseline into a forecast allowance that remains efficient over the 2025 UT5 DAAU period.

## 2.2 Information provided

Aurizon Network provided Arcadis with information to support this review, including detailed financial data, transaction-level expenditure extracts, cost allocation methodologies, governance and organisational documentation, and explanations of proposed changes from UT5. Information was provided through the formal 2025 UT5 DAAU submission, targeted responses to RFIs, and follow-up clarification where required. RFIs were used to obtain additional detail on specific cost drivers, allocation methodologies, and areas requiring clarification to support the assessment of prudence and efficiency. A full list of RFIs issued and responses received is provided in **Appendix B**.

## 3 Assessment

### 3.1 Data reconciliation

Establishing a robust and transparent FY25 starting point for the NOEA is essential for the base-step-trend assessment methodology. Our analysis to date has focused on validating the prudence and efficiency of Aurizon Network's proposed base-year expenditure, with emphasis on governance, comparative cost assessment, and appropriate adjustments for ongoing efficient costs.

#### Data Preparation and Normalisation

- **Conversion to Real Terms:** All historical non-electric operating expenditure figures have been converted to real \$FY25, using the All Groups Brisbane Consumer Price Index (CPI) to ensure consistency and comparability across reporting periods.
- **Coding Reconciliation:** We have mapped all expenditure codes to Aurizon's 2025 coding structure. This enables direct comparison and reconciliation to the categories and totals presented in the 2025 UT5 DAAU submission.

### 3.2 Aurizon Network opex relative to the Aurizon Group

To review overall Aurizon Network non-electrical operating costs, we have compared movements in Aurizon Group's overall cost base over time to the level and share of non-electrical operating expenditure allocated to Aurizon Network.

Table 4 – Aurizon Group and segment revenue

Revenue	FY25	FY24	FY23	FY25 vs FY24	FY24 vs FY23
Group	3,952	3,844	3,511	2.8%	9.5%
Network	1,428	1,435	n.d.	-0.5%	
Coal	1,777	1,743	1,531	2.0%	13.8%
Bulk	1,122	1,096	1,063	2.4%	3.1%
Other	142	76	n.d.	86.8%	

Source: Aurizon Financial Statements

Note: There are discrepancies between total segments and Group total revenue that were not further investigated due to immateriality. Network and Other segments were not disclosed in FY23 financial statements.

Table 5 – Aurizon Group and segment operating expenses

Operating costs	Sub expense	FY25	FY24	FY23	FY25 vs FY24	FY24 vs FY23
Group		-2,376	-2,220	-2,083	7.0%	6.6%
	Employee benefits	-1,149	-1,086	-977	5.8%	11.2%
	Energy and fuel	-358	-391	-438	-8.4%	-10.7%
	External track access	-164	-146	-110	12.3%	32.7%
	Consumables	-613	-582	-539	5.3%	8.0%
	Other	-92	-15	-19	513.3%	-21.1%
Network		-334	-345	n.d.	-3.2%	
Coal		-767	-741	-676	3.5%	9.6%
Bulk		-953	-984	-849	-3.2%	15.9%
Other		-218	-139	n.d.	56.8%	

Source: Aurizon Financial Statements

Note: There are discrepancies between total segments and Group total revenue that were not further investigated due to immateriality. Network and Other segments were not disclosed in FY23 financial statements.

Table 6 – Historical opex and proposed FY25 base year

Network (\$m, nominal)	FY25 (proposed base year)	FY25 (actual)	FY24	FY23	FY25 (base) vs FY24	FY24 vs FY23
Corporate overheads	57.6	59.4	56.9	51.9	1.1%	9.6%
CQCN Direct	52.9	51.6	49.5	42.8	6.9%	15.6%
CQCN Indirect	16.1	15.2	13.8	12.7	16.5%	8.9%
<b>Total</b>	<b>126.6</b>	<b>126.2</b>	<b>120.3</b>	<b>107.5</b>	<b>5.3%</b>	<b>11.9%</b>

Source: Aurizon Network

Aurizon Group revenue increased from \$3.5m in FY23 to \$3.8m in FY24 and \$4.0m in FY25, representing growth of 9.5% in FY24 and 2.8% in FY25. Over the same period, Aurizon Group operating costs increased from \$2.1m in FY23 to \$2.2m in FY24 and \$2.4m in FY25, equating to growth of 6.6% in FY24 and 7.0% in FY25.

At the Group level, growth in operating costs is evident across several categories, including employee benefits and consumables, consistent with broader cost pressures affecting the business. These two areas are key categories into the Aurizon Network non-electrical opex. This provides context for movements observed in costs allocated to the Network.

Aurizon Network's non-electrical operating expenditure has combined:

- corporate overheads,
- CQCN direct costs, and

- CQCN indirect costs.

This is then compared to the growth in operating costs across both group level and compared to the total opex for Network disclosed in the Group Financial Statements. On this basis, Aurizon Network's total non-electrical opex increased from \$107.5 million in FY23 to \$120.3 million in FY24 and \$126.2 million in FY25 (actual). This represents growth of 11.9% in FY24 and 4.9% in FY25.

The increase in FY24 was primarily driven by growth in CQCN direct costs and corporate overheads, both of which increased at a faster rate than Group operating costs in that year. In FY25, growth in Network non-electrical opex moderated and was below the growth rate observed at the Group level, despite continued increases in corporate overheads and CQCN indirect costs.

### **Comparison with Aurizon Group operating cost base**

To assess whether changes in the FY25 base are driven by movements in overall costs or changes in allocation to Aurizon Network, Network non-electrical opex has been compared with Aurizon Group operating costs.

Aurizon Network's non-electrical opex represents a broadly stable share of Aurizon Group operating costs over the period:

- 5.2% in FY23,
- 5.4% in FY24, and
- 5.3% in FY25 (proposed base year costs and FY25 actual costs, relative to Aurizon Group opex).

While there was a modest increase in the Network share in FY24, the share declined slightly in FY25. This indicates that the increase in Aurizon Network's non-electrical opex in FY25 occurred without a material increase in the proportion of Group operating costs allocated to the Network.

Consistent with this, Aurizon Network non-electrical opex increased more slowly than Group operating costs in FY25 (4.9% compared with 7.0%), suggesting that the FY25 base-year outcome is influenced more by movements in the underlying cost base than by a change in allocation share.

Overall, comparison of Aurizon Network's non-electrical operating expenditure with Aurizon Group's revenue and cost base indicates that:

- increases in corporate overheads and CQCN expenses broadly align with growth in Group operating costs over time; and
- the Network share of Group operating costs has remained relatively stable, with no high-level indication of an increase in allocation to Aurizon Network in FY25's proposed base year.

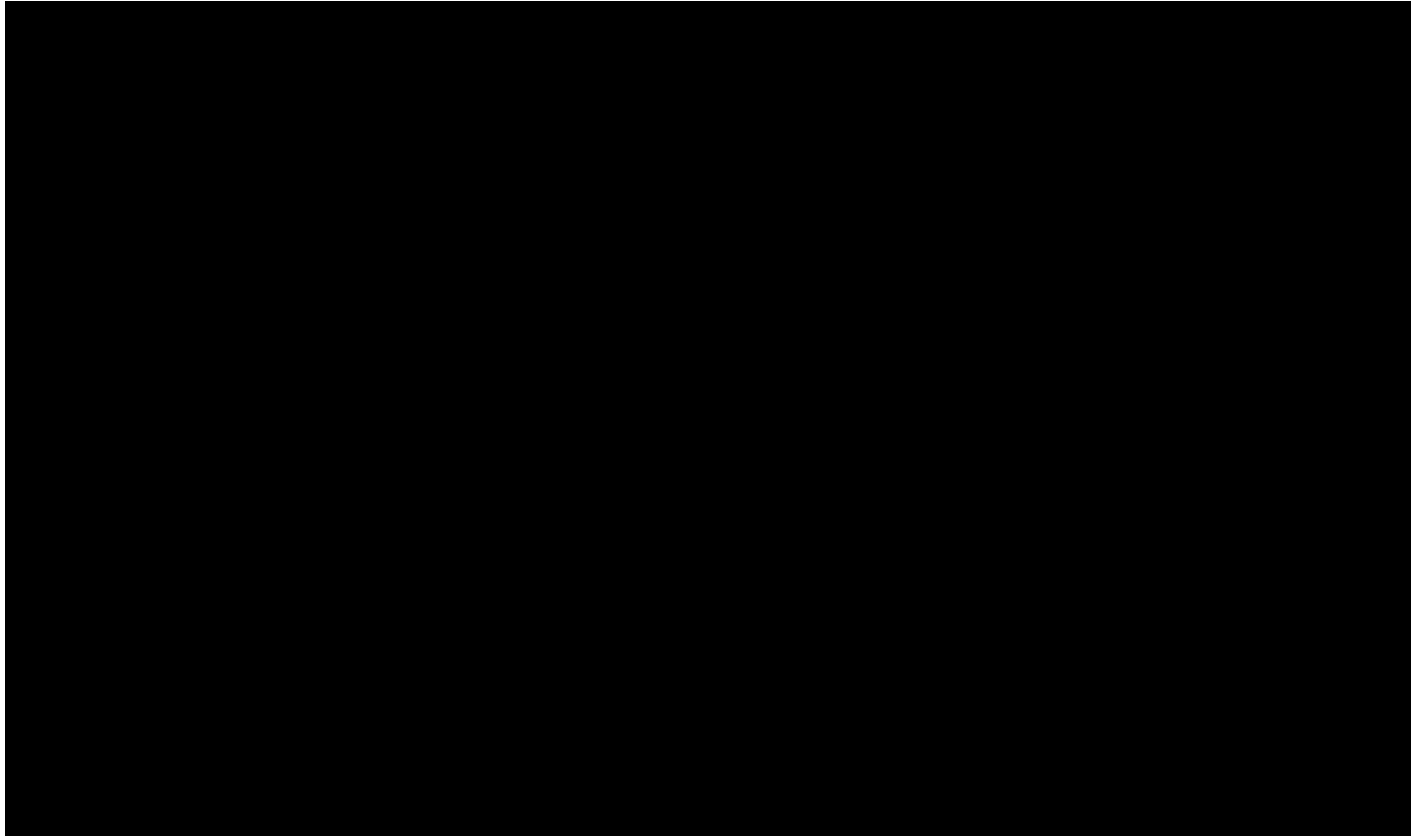
Accordingly, changes observed in the FY25 base year appear to be driven primarily by underlying cost movements across the Aurizon Group, rather than by a material increase in the share of costs allocated to Aurizon Network.

## **3.3 Corporate Overheads**

### **3.3.1 Corporate Overhead Movement Analysis**

All financial figures have been normalised to FY25 values to provide a consistent base for year-over-year comparison. A detailed, line-by-line movement analysis of corporate overheads (Figure 2) was conducted to identify and explain material changes between prior years (adjusted to FY25 terms) and the FY25 baseline

year. The proposed baseline amount for corporate overheads is \$57.5 million in FY25. The total comprises of the following categories, analysed below.



*Figure 2 – Corporate overheads year on year*

The following bar chart demonstrates the total sum of Corporate Overheads and impact of the proposed adjustments on total FY25 year (CEO & Board \$1.1m and ICT normalisation \$0.5m).

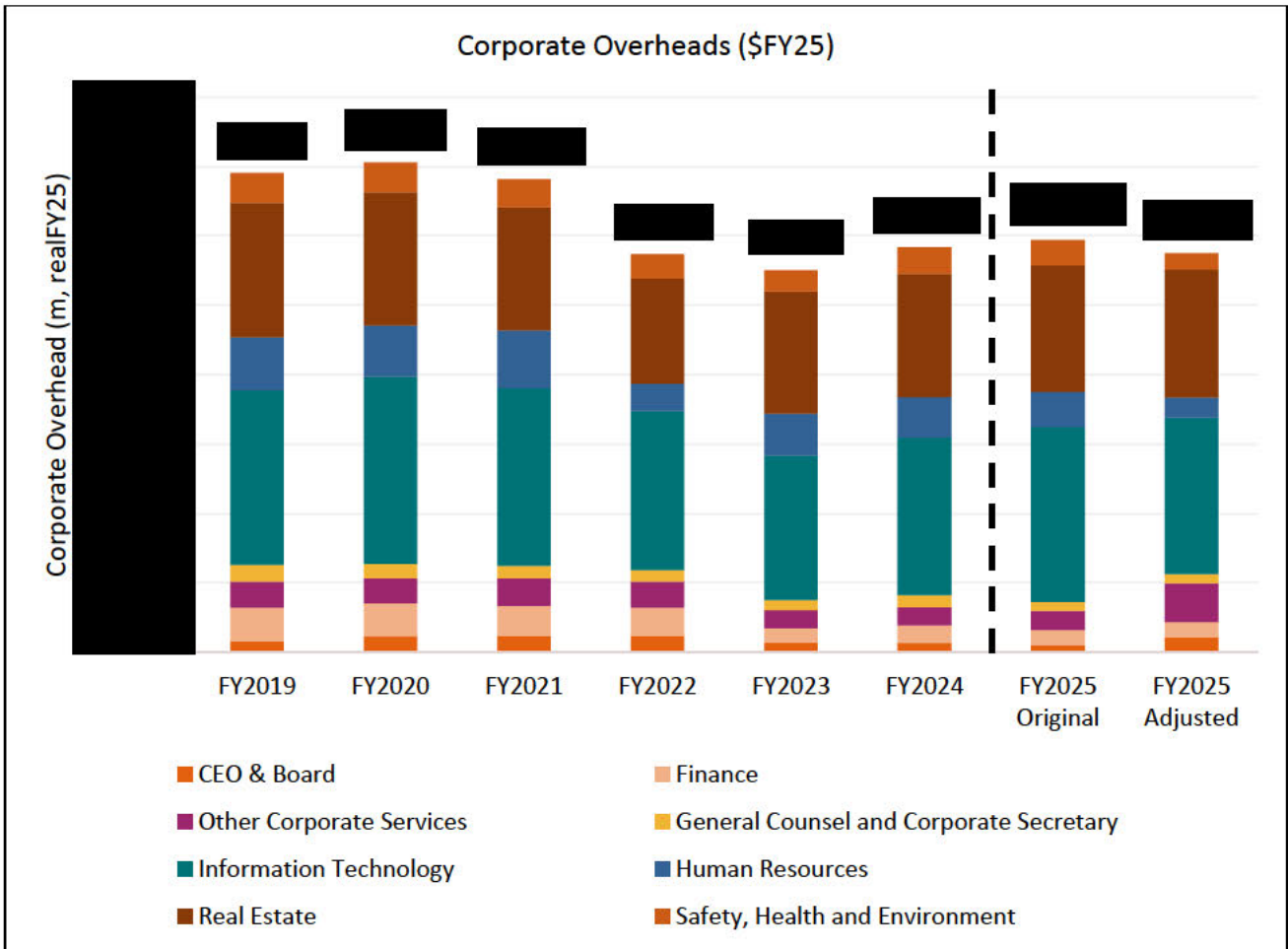


Figure 3 Corporate Overheads total by year including original and adjusted FY25 base year

### Information Technology (IT)

IT represents the largest cost component. For FY25, IT expenses are projected to decrease slightly compared to FY24, primarily due to revised outsourcing arrangements. Aurizon Network has proposed shifting its allocation methodology from a full-time equivalent (FTE) basis to a licensing-based consumption approach, as the outsourcing service provider's personnel are not included in FTE counts. This restructure, which aligns cost allocation more closely with actual usage, is expected to deliver cost savings of approximately \$2.6 million, reflecting a prudent and efficient adjustment that we consider reasonable.

A noticeable increase in IT costs is evident between FY23 and FY24, with total allocated IT costs rising from [redacted] million to [redacted] million in nominal terms, an increase of 12.7 percent. Analysis of Aurizon's Network's corporate overhead history workbook at a cost-centre level confirms that this increase was driven entirely by growth in the enterprise-wide IT cost pool, rather than any change in Aurizon Network's allocation share. The FTE allocation rate remained broadly stable at 21.3 percent in FY23 and 21.1 percent in FY24, confirming that the increase reflects enterprise-level cost decisions rather than a mechanical shift in Network's proportional share.

From the information provided (and further detail has been requested) it appears that the principal cost-centre drivers of the FY23 to FY24 increase, and their estimated impact on Network's allocated costs, are as follows:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Enterprise Resource Planning partially offsets these increases, declining by \$0.6 million and reducing the Aurizon Network-allocated amount by approximately \$173K. While the cost-centre data confirms the composition of the increase, the drivers raise two concerns relevant to the efficiency assessment. First the Cyber Security cost pool nearly doubled between FY23 and FY24, Aurizon Network has confirmed in response to RFI 28 that ICT costs increases in recent years have been “significantly driven by cybersecurity” with ongoing investment expected. From the information provided there is lack of clarity whether this level of investment represents efficient, steady-state expenditure or reflects a period of accelerated capability build-up that will moderate.

The impact of this analysis is discussed in Section 4.8.

**CEO and Board**

In UT5, CEO and Board costs have been allocated to Aurizon Network on a direct cost basis. Under this approach, 19.6 per cent of total CEO and Board costs would be attributed to the Network, calculated based on the established methodology applied in UT5. This would result in the allocation for the FY25 base year of \$1.0 million.

For 2025 DAAU UT5, Aurizon Network proposes to move away from a direct cost allocator and adopt a blended allocator, weighting:

- 50 per cent FTE, of 21.1 per cent, and
- 50 per cent EBITDA, of which comprises of 63 per cent

This results in a blended allocation of approximately 42 per cent of total CEO and Board costs to Aurizon Network, which increases the CEO and Board costs to \$2.1 million.

FTE-based allocation

In earlier periods, approximately 16 per cent of Group FTEs were allocated to Network for the purpose of corporate cost allocation. Following Aurizon’s corporate restructure in 2017, Infrastructure Engineering and Infrastructure Delivery functions, comprising of approximately 270 staff, were transferred from Operations to Network. This restructure was the main contributing factor to the increase in Network’s share of Group FTEs from around 16 per cent to 21.1 per cent. This increase reflects previously agreed structural changes and, if applied in isolation, would mechanically increase the allocation of CEO and Board costs recovered from Network.

EBITDA-based allocation

While EBITDA may be considered a high-level indicator of business performance, its use as an allocator for CEO and Board costs is not appropriate in a regulatory setting. Aurizon reports EBITDA across four segments: Coal, Network, Bulk and Other. The “Other” segment, while representing a relatively small proportion of total revenue, has become materially loss-making. This distorts the relative EBITDA shares

across segments and introduces implicit cross-subsidisation, whereby loss-making activities skew the allocation of shared corporate costs to other parts of the business.

Aurizon has noted that the “Other” segment includes Containerised Freight as well as unallocated central costs, including the Board, Managing Director and CEO, Company Secretary, strategy and investor relations. In addition, FY23 costs for this segment include a \$15 million long-service-leave adjustment arising from a legislative change relating to periods prior to the initial public offering. As a result, the EBITDA contribution of the “Other” segment is heavily influenced by factors that are unrelated to the underlying consumption of CEO and Board effort.<sup>1</sup>

Allocating CEO and Board costs using EBITDA that is itself distorted by segment-specific losses creates a biased outcome that is not driven by underlying causal cost drivers and therefore does not represent an efficient or prudent basis for cost recovery. EBITDA is also inherently volatile, particularly for segments exposed to commodity markets, demand cycles or structural change. Anchoring the allocator to a single financial year’s EBITDA outcome introduces material base-year sensitivity and does not provide a stable or representative measure of the relative allocation of CEO and Board costs across the business.

Further, the use of EBITDA as an allocator creates a risk of over-allocating costs to regulated networks, given their relatively stable earnings profile and regulated revenue framework. This outcome is not aligned with cost causation and risks transferring a disproportionate share of group-level governance costs to regulated customers. EBITDA is a short-term financial outcome, whereas CEO and Board effort is also driven by long-term strategic oversight across all Aurizon Group segments, including the management of regulatory risk, capital allocation, structural change and loss-making or transitioning businesses, none of which are reliably reflected in segment EBITDA outcomes.

In addition, several Aurizon segments, notably coal, face longer-term risks associated with earnings volatility and potential asset stranding. If EBITDA were to decline materially in these segments, the proposed approach would mechanically shift a greater share of CEO and Board costs onto the Network business, despite no corresponding change in governance effort.

#### Benchmarking against other regulated entities

A review of cost allocation practices across comparable Australian regulated entities indicates that EBITDA is not used to allocate CEO or Board costs.

*Table 7 – Comparison of Corporate Overhead Costs Allocation relative to other regulated entities*

Entity	Allocator driver	Source
Queensland Rail	Corporate Overheads Allocator (“Standard Allocator A”) applied to allocate non-attributable corporate overheads between Below Rail and Above Rail activities. The allocator is reviewed annually, calibrated for continuing validity, and subject to QCA oversight.	Queensland Rail, Corporate Overheads Allocation Methodology (Financial Statements and QCA submissions)
Ausgrid	Regulated Asset Base (RAB) proportions. Operating expenditure that cannot be directly attributed (including corporate functions) is allocated between SCS Distribution and SCS Dual Function Assets based on the proportion of distribution and dual-function asset RAB values. The allocator is set at the start of the regulatory control period and remains fixed.	Ausgrid, Cost Allocation Methodology, October 2022 <a href="https://www.aer.gov.au/system/files/Ausgrid%20Cost%20Allocation%20Methodology%20October%202022%20%28resubmission%29.pdf">https://www.aer.gov.au/system/files/Ausgrid%20Cost%20Allocation%20Methodology%20October%202022%20%28resubmission%29.pdf</a>

<sup>1</sup> Response to RFI18

Transgrid	Direct labour effort/organisational scale. Corporate and shared costs (including executive and governance costs) are allocated using labour-based allocators reflecting management and operational effort, consistent with AER cost allocation principles.	Transgrid, <i>Cost Allocation Methodology</i> <a href="https://www.transgrid.com.au/media/muzj3dj2/cost-allocation-methodology.pdf">https://www.transgrid.com.au/media/muzj3dj2/cost-allocation-methodology.pdf</a>
Sydney Water	Where causality cannot be established, corporate overheads allocated using a <b>close approximation</b> to causal allocation. For example, corporate costs may be allocated to cost objects based on the proportion of direct operating costs calculated for each cost object. This explicitly identifies corporate overhead allocation as the non-causal/approximation case.	<a href="https://www.ipart.nsw.gov.au/sites/default/files/documents/sydney-waters-revised-cost-allocation-manual-may-2019.pdf">https://www.ipart.nsw.gov.au/sites/default/files/documents/sydney-waters-revised-cost-allocation-manual-may-2019.pdf</a>

The benchmarking evidence summarised in Table 7 indicates that the allocation of CEO and Board costs by comparable regulated entities is conceptually aligned with Aurizon Network’s previous direct cost allocation approach, rather than the proposed blended FTE and EBITDA methodology.

Across the benchmark entities, corporate governance and executive costs are treated as non-service-specific and are therefore allocated using a clear hierarchy: direct attribution where practicable, followed by simple and transparent structural proxies, such as labour effort, organisational scale or asset base, where causality cannot be directly established. While the mechanics differ across entities, the underlying principle is consistent: allocators are chosen to approximate cost causation.

Aurizon Network’s previous direct cost methodology sits within this framework. Under this approach, shared corporate costs are allocated using direct operating costs as a proxy.. Arcadis reviewed this calculation which is Aurizon Network Direct Costs divided by total Aurizon Holdings Direct Costs. The benchmark examples demonstrate that, where regulators permit movement away from pure direct attribution, the accepted alternatives are still structural, scale-based proxies, not financial performance measures.

By contrast, the proposed use of EBITDA, whether standalone or as part of a blended allocator, marks a departure from established regulatory practice. EBITDA reflects pricing outcomes, accounting effects and segment-specific volatility rather than the underlying drivers of CEO and Board effort. Its use risks introducing base-year sensitivity and systematically increasing allocations to regulated monopoly networks without evidence of corresponding increases in governance effort.

Accordingly, the benchmarking evidence supports the continued application of Aurizon Network’s existing direct cost approach in the FY25 base year.

**Human resources and other corporate services**

HR costs have declined in the base year due to a transfer of HR and Safety Partners from Corporate Overheads to Direct and Indirect CQC Operating Costs, which acknowledges the establishment of dedicated functions within Aurizon Network. This change will be further discussed in the context of Direct CQC costs. The total of HR and other corporate services in FY25 sums to ██████, which remains relatively consistent with prior year amounts of ██████ (FY24) and ██████ (FY23). We note that the ██████ in FY25 also does not include an adjustment of \$0.9m, relating to specific HR expenses for Aurizon Network. Refer to section 3.3.2 for further discussion on this adjustment.

**Safety**

Reduction in FY25 costs driven by reallocation to Direct CQC Operating Costs. Deemed reasonable to have a dedicated cost centre for this.

## Real estate

Current real estate is [REDACTED] The increase from FY24 is \$0.7m in real dollars and \$1.1m in nominal dollars. The increase in nominal dollars includes a refinement of \$0.2m, which reflects rental revaluations undertaken by an independent external valuer. Given the arm’s-length nature of the intercompany rental arrangements between Aurizon Group and Aurizon Network, and the use of an independent valuation process, this approach is considered reasonable.

Aurizon has not provided adequate disaggregation or explanation for the remaining increase. However, commercial lease arrangements in Queensland commonly incorporate annual fixed or CPI-linked escalations, as well as periodic market rent reviews. Recent evidence indicates that commercial and industrial rents in Queensland have experienced growth rates at or above this level in recent years:

- Knight Frank reports that Brisbane recorded approximately 15% prime industrial rental growth over calendar year 2023, the second-highest growth rate among east-coast capital cities.<sup>2</sup>
- Market reports indicate Brisbane industrial rental growth of around 6-9% over calendar year 2024. This remains above CPI over the same period, consistent with tight supply, elevated construction costs, and ongoing demand for industrial space. However, this growth is expected to slow in 2025.<sup>3</sup>

Having regard to the magnitude of the residual increase, the use of independent valuation to mitigate transfer pricing concerns, and a top-down assessment of efficient Network costs (particularly in light of other adjustments applied), real estate expenditure is considered reasonable.

We would expect clearer disclosure of the drivers of intercompany real estate cost movements in future submissions to support transparency and ongoing assessment of efficiency.

## Other

Items below are noted to have consistent cost drivers and allocation to UT5 and the costs are relatively consistent with prior periods:

- General Counsel and Corporate Secretary
- Finance

### 3.3.2 Corporate Overhead Allocation

Table 8 summarises Aurizon Network’s corporate overhead functions and associated allocation methods. Arcadis has reviewed each function to assess whether the allocation approach remains appropriate having regard to the nature of the costs and the extent to which costs are attributable to Aurizon Network.

Table 8 – Allocation for Corporate Overheads

2025 UT5 DAAU		Consistent with UT5 Final Decision
Corporate Function	Allocation method	

<sup>2</sup> Knight Frank, *Australian Industrial Review Q4 2023*, Brisbane market commentary, April 2024, <https://www.knightfrank.com.au/blog/2024/04/04/brisbanes-prime-industrial-rents-grow-by-15-in-2023-despite-record-new-construction->.

<sup>3</sup> TMX Transform, *Queensland Industrial Real Estate Market: 2024 Recap, 2025 Forward View*, December 2024; and Knight Frank, *Australian Horizon Report 2024*, Industrial property outlook, December 2023, <https://tmxtransform.com/blog/queenslands-industrial-real-estate-market-2024-recap-2025-forward-view/>.

Board and CEO	Blended allocator (FTE/EBITDA)	No. Allocation refinement was required to ensure the costs are representative of a stand-alone business (i.e., not subsidised by the Aurizon Enterprise).
Finance	Blend of direct costs, FTEs and accounts payable/receivable	Yes
People and Development (long-term incentive payments)	Direct costs	Yes
People and Development (Capability and Development, Remuneration & Employee Relations, People Strategy & Services)	FTEs	Yes
People and Development (Network People Partners)	Included in Business Management costs, moved from Corporate Overhead to Indirect costs	No. People Partnering specific to Aurizon Network has been established to enable dedicated operational support and direct cost attribution.
IT	FTEs, computer devices, end users	No. Refinements have been made, including changes to cost allocation methodology to improve transparency and better align costs with Below Rail Systems.
Other enterprise services	Direct costs, FTEs, direct costs	Yes
Network safety partners	Included in Network control, safeworking and operations	No. Specific Safety Partnering for Aurizon Network has been established to enable dedicated operational support and direct cost attribution.
Governance, internal audit, risk services	FTEs	Yes

## Board and CEO

Aurizon Network has proposed moving from the previously applied direct cost allocation to a blended allocator based on FTEs and EBITDA. As discussed in 3.3.1 above, Arcadis has undertaken a detailed assessment of this proposed change and considers that the use of EBITDA is not an appropriate allocator for CEO and Board costs in a regulatory context, as it reflects financial performance outcomes rather than the underlying drivers of governance effort and introduces volatility and base-year sensitivity.

Consistent with established regulatory practice and having regard to benchmarking evidence across comparable regulated entities, Arcadis considers that CEO and Board costs should continue to be allocated using a structural proxy that approximates cost drivers, rather than financial performance measures. Accordingly, we have not deemed the proposed blended FTE–EBITDA allocator reasonable and deem the direct cost allocator approach more appropriate.

## Finance

Finance costs are allocated using a combination of direct attribution, FTE-based allocation, and transaction-related measures such as accounts payable and receivable. Arcadis has reviewed the proposed allocation method and notes that no material changes to the allocation approach have been identified. Cost drivers and cost allocation remain appropriate for the nature of the function. Current approach deemed reasonable.

## People and development – long term incentive payments

Long-term incentive costs are allocated to Aurizon Network on a direct cost basis. Cost drivers and cost allocation remain appropriate for the nature of the function. Current approach deemed reasonable.

### **People and Development – Capability and Development, Remuneration & Employee Relations, People Strategy & Services**

These People and Development functions are allocated using an FTE-based allocator which is analysed below in the FTE analysis section. Arcadis has reviewed the proposed allocation method and did not identify any changes to either the approach or the basis on which costs are allocated from the methodology accepted under UT5. Arcadis considers the underlying allocation approach and cost drivers appropriate for the nature of the function and, in the absence of material change, considers the current approach deemed reasonable.

### **People and Development – Network People Partners**

Network People Partnering costs have been removed from corporate overheads and are instead directly attributed to Aurizon Network, reflecting the establishment of Network specific roles. Arcadis has reviewed this reclassification and considers the direct costs of these costs to be appropriate, as it improves transparency and reduces reliance on proxy allocation. The reallocation is considered reasonable and has no net impact on overall Network expenditure.

### **Information Technology (IT)**

IT costs are allocated using a combination of allocation drivers, including FTEs, end users, and computer devices, under Aurizon's proposed Consumption Model. Arcadis has reviewed the proposed allocation framework and considers the approach broadly reasonable for allocating shared IT costs. Refer to section 3.7 for further detail on IT.

### **Other Enterprise Services**

Other enterprise services are allocated using a combination of direct attribution, FTE-based allocators, and direct cost drivers. Arcadis has reviewed the allocation approach and notes that these services are, where possible, supported by dedicated cost centres, including for below-rail procurement activities. We deem this a reasonable approach.

### **Network Safety Partners**

Network Safety Partnering costs have been removed from corporate overheads and reallocated to Network-specific cost centres, reflecting the establishment of dedicated safety support for Aurizon Network. Arcadis has reviewed this change and considers the direct allocation of these costs appropriate. The reallocation improves cost accuracy and is considered reasonable.

### **Governance, Internal Audit and Risk Services**

Governance, internal audit and risk services are allocated using an FTE-based allocator. Arcadis has reviewed the proposed allocation method and has not identified any material change to the approach or to the basis of allocation. Cost drivers and cost allocation remain appropriate for the nature of the function. Current approach deemed reasonable. Governance considerations are addressed separately in section 4.

### **FTE analysis**

Aurizon Network's current FTE allocation reflects organisational changes that occurred following the corporate restructure effective 1 July 2017, under which the Infrastructure Engineering and Infrastructure Delivery functions were transferred from Operations to the Network business. At the time of transfer, these functions comprised approximately 270 FTEs. As a result, Aurizon Network's FTE share increased relative to the 16.1 per cent allocation approved under UT5. While the allocation approach remains consistent with UT5 in principle, we have assessed whether the resulting Network FTE share remains reasonable and broadly consistent with expectations having regard to the post-restructure operating model.

Table 9 – FTE allocation

Metric	FY25	FY24	FY23
Aurizon Group FTEs	5,988	5,930	5,618
Aurizon Network FTEs	1,265	1,249	1,197
FTE % Network	21.1%	21.1%	21.3%
FTE % Network (estimating intermodal in FY22-FY19)	21.1%	21.1%	21.3%
Change YoY in Network FTEs	1%	4%	6%
Network FTE at 16.1%	964	955	904
Difference	300	295	293

Source: Aurizon Network (financial statements and SAP extracts to reflect headcount by segment), Arcadis

We have focused on the most recent three years, where FTE data are directly observed from financial statements. FTEs across both Aurizon Group and Aurizon Network have grown. However, the proportion of Aurizon Network FTEs has remained relatively stable at around 21 per cent, relative to Group, declining marginally from 21.3 per cent in FY23 to 21.1 per cent in FY24 and FY25 (Table 9).

Table 9 also presents a comparison against a hypothetical allocation based on the 16.1 per cent UT5 benchmark. Under such a benchmark, Network FTEs in FY25 would be approximately 300 FTEs lower than observed. This comparison highlights that the current Network FTE share is materially above the historical UT5 benchmark, reflecting the post-2017 structural changes, rather than recent growth in Network staffing.

### 3.4 Direct CQCX Expenses

#### 3.4.1 Direct CQCX Expenses Movement Analysis

Similarly, we performed movement analysis for both direct and indirect operating expenditure, focusing on changes by cost category. The overall Direct CQCX expenses remain relatively stable between FY2023 and FY25, with no significant variances observed across most functional categories, with the exception of Network Train Operations and Planning and Scheduling.

**Network Train Operations** comprises both Train Control and Electrical Control functions. The increase in expenditure between FY23 and FY25 is primarily driven by Train Control, reflecting an increase in FTEs from 95.9 in FY24 to 102.2 in FY25, alongside growth in labour costs.

Labour costs within Train Control increased by 4.3%, which is marginally above the 3.5% increase provided for under enterprise agreements. This differential reflects a combination of factors, including staff turnover, progression within classifications, and associated on-costs such as accommodation and allowances, which are typical for these roles.

The increase in Train Control staffing and associated labour costs is consistent with the operational requirements of managing a complex and safety-critical rail network. Train Control roles often require travel to and work in remote locations, giving rise to additional costs associated with travel and accommodation. In addition, through our expertise and understanding from historical dealings with Aurizon and our knowledge on rail related labour in Queensland, Aurizon has experienced challenges in recruiting and retaining skilled labour in regional and remote areas of Queensland in recent years, which can place upward pressure on labour costs.

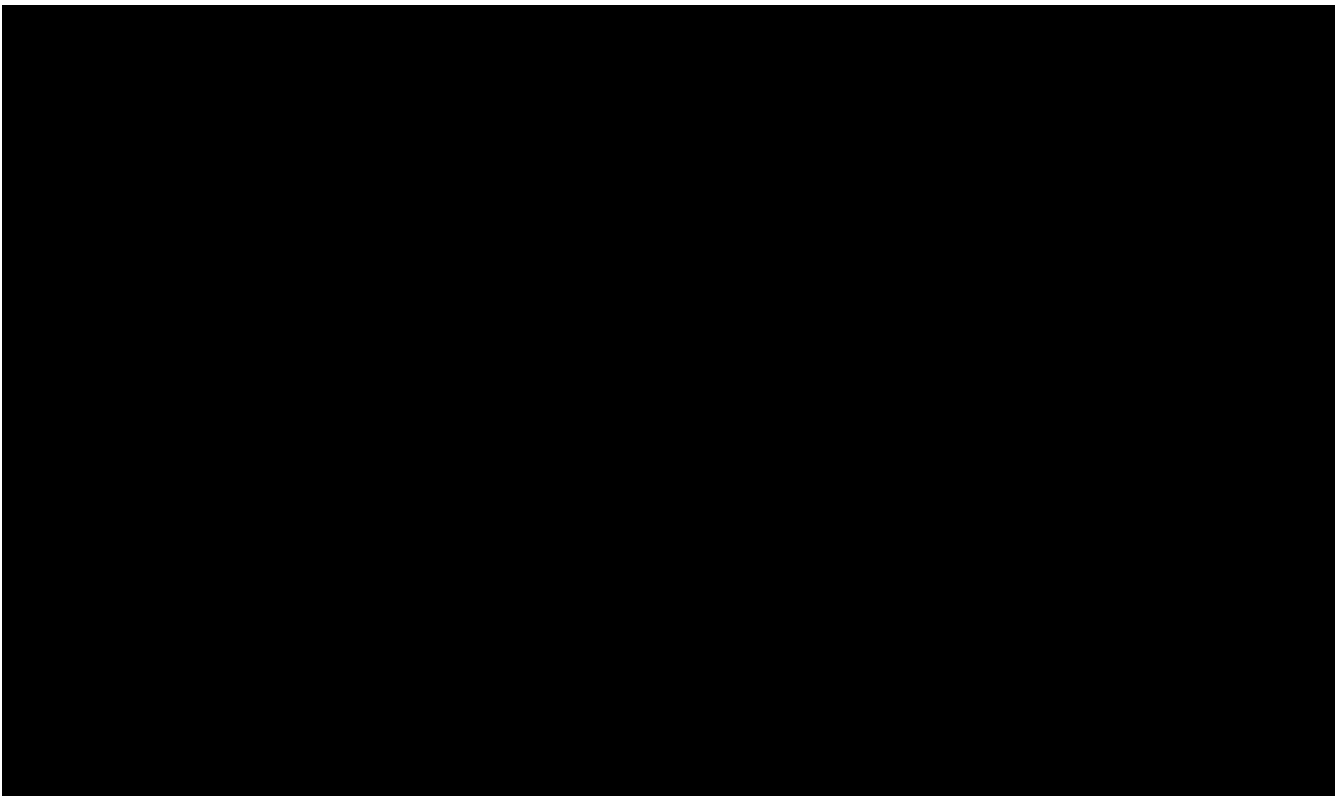
In real terms, Network Train Operations expenditure increased by approximately \$1.0 million between FY23 and FY24, and by a further \$1.5 million between FY24 and FY25. These increases are modest relative to the

overall Network operating cost base and reflect incremental resourcing and cost pressures rather than a step-change in operating scope or inefficiency.

Having regard to the safety-critical nature of Train Control functions, the observed increase in staff numbers and associated labour costs is considered appropriate and reasonable. To compare this to the Aurizon group, Aurizon Group reported an increase of 6 per cent in employee benefits between FY24 and FY25.

**Planning and scheduling** see an increase of \$600k in FY25. This is driven by the factoring of the tool RACE in the baseline costs of \$500k. Refer to section 3.7 for further discussion.

**Training** expenditure increased by approximately \$0.3 million in FY25. . Training costs are inherently linked to safety and competency requirements for network operations and are expected to fluctuate modestly over time in response to operational needs. Therefore this increase in costs in FY25 is deemed reasonable.



*Figure 4 – Direct CQCN operating expenses including adjustments*

The following bar chart demonstrates the total sum of operating expenses and impact of the proposed adjustments on total FY25 year (2% adjustment ICT \$0.5m).

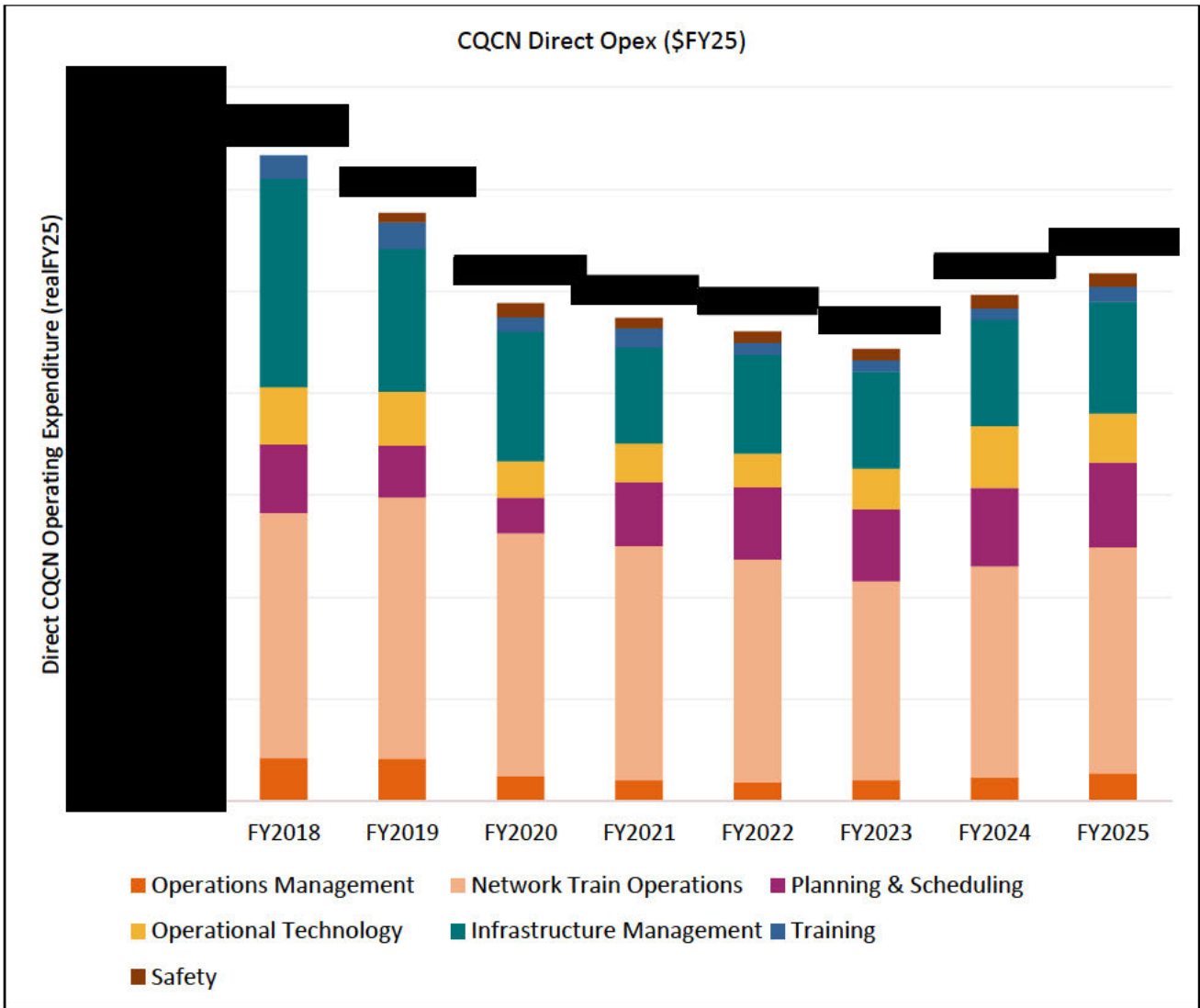


Figure 5 – Direct CQCN operating expenses, including adjustments, stacked chart

### 3.5 Indirect CQCN Expenses

The overall indirect CQCN expenses remain relatively stable between FY23 and FY25, with few significant variances observed across most functional categories, with the exception of:

- HR business partners
- Network legal

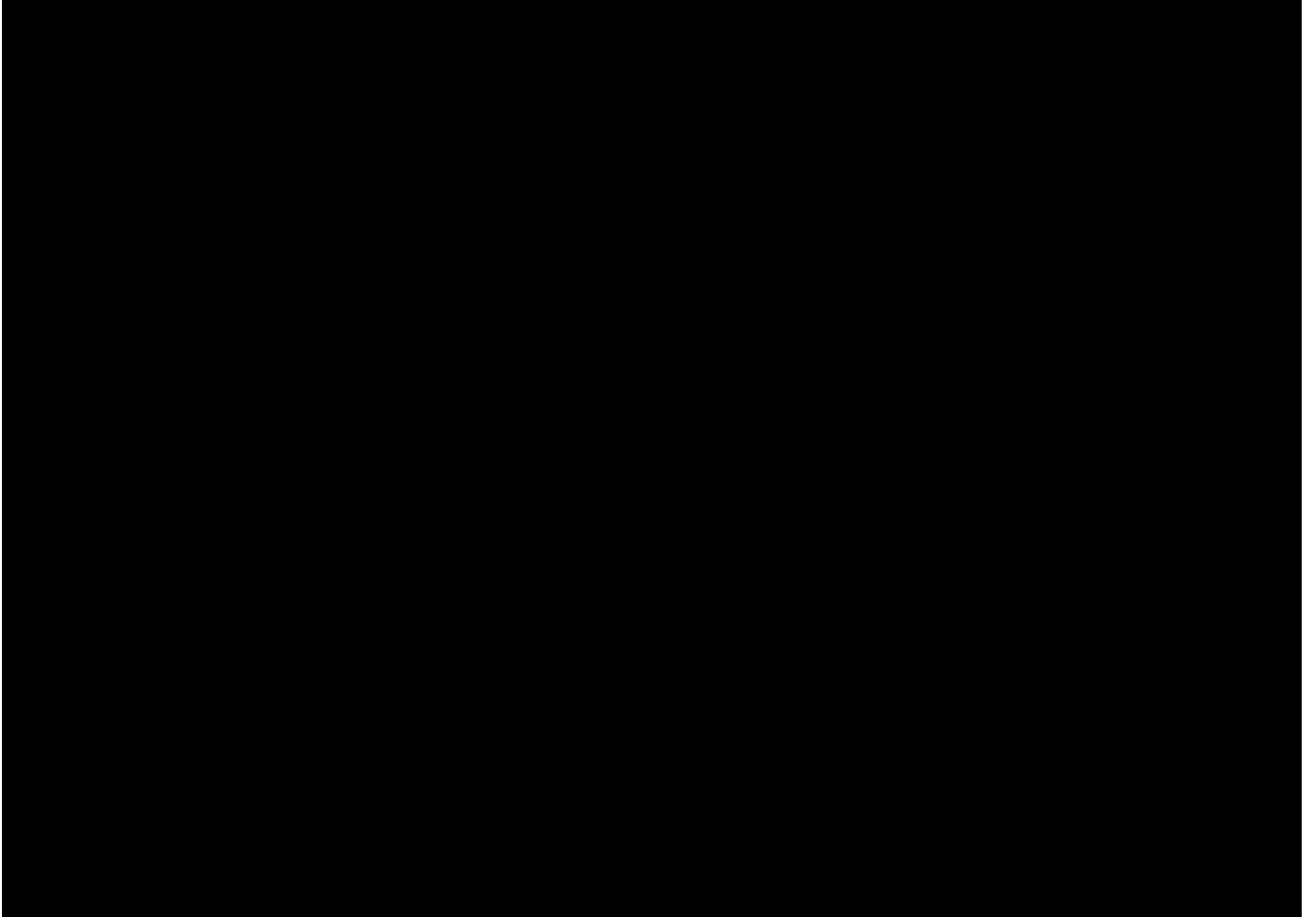
**HR business partners**, functions established to support Aurizon Network have resulted in a transfer of \$0.9 million into indirect CQCN expenses in FY25 through direct cost attribution. Based on our review of the supporting documentation, organisational structure and allocation approach, Arcadis considers this treatment reasonable, noting that the costs are commensurate with the scale, geographic dispersion and operational complexity of a large, safety critical rail network, particularly given the increasing strategic focus on workforce capability, compliance, fatigue management and organisational resilience. From our industry experience, we have noted that this is particularly relevant in the current market environment where specialist rail, operational

and safety-critical workforce remains constrained, increasing the importance of proactive workforce planning and embedded business support functions.

Arcadis also notes that Aurizon has stated that the broader ERP modernisation program (SAP HANA) is intended to improve workforce, payroll and people-management capability and is forecast to deliver longer-term labour efficiencies. In this context, the current HR Business Partners expenditure is assessed as supporting a more strategic and preventative workforce management model, rather than representing inefficient or material cost growth in underlying support costs.

**Network legal** costs increased materially between FY24 and FY25 of \$0.378m (real). Aurizon Network advised that this reflects the engagement of ■■■ additional legal FTEs. Total FTEs in 2025 were ■■■. However, the underlying drivers leading to additional legal capability relative to FY24 is unclear. Further, the FTEs have almost doubled in two years, whereby in FY23, FTE under Network legal was ■■■. It is noted that no contractors were engaged during these periods. In the absence of supporting justification demonstrating necessity and efficiency, it is unclear whether the increase represents a prudent step-change to base operating costs and these are therefore adjusted from the base year.

In reaching this conclusion, Arcadis has had regard to the longer-term history of Network Legal expenditure, where it is indicated that Network Legal costs reached an unusually elevated in FY19, driven by what appears to have been a discrete non-recurrent event, before normalising materially in subsequent years. The normalised level of around ■■■ FTE in FY23 is therefore taken as an appropriate and stable efficiency reference point, reflecting a period of settled operating conditions prior to the proposed increase. Arcadis acknowledges that Aurizon Network's regulatory environment, including the current UT5 DAAU process, access dispute management, and preparation for future regulatory resets, places genuine and ongoing demands on legal capability. However, in the absence of specific evidence identifying a new and ongoing legal obligation that would justify a structural increase of ■■■ FTE within the base year, the increase has not been accepted as a recurrent efficient cost. Should Aurizon provide further information, that provides evidence demonstrating that the additional FTE reflects a permanent and ongoing requirement, for example, new compliance obligations or sustained increases in access dispute complexity, this position would be revisited.



*Figure 6 – Indirect CQCN operating expenses including adjustments*

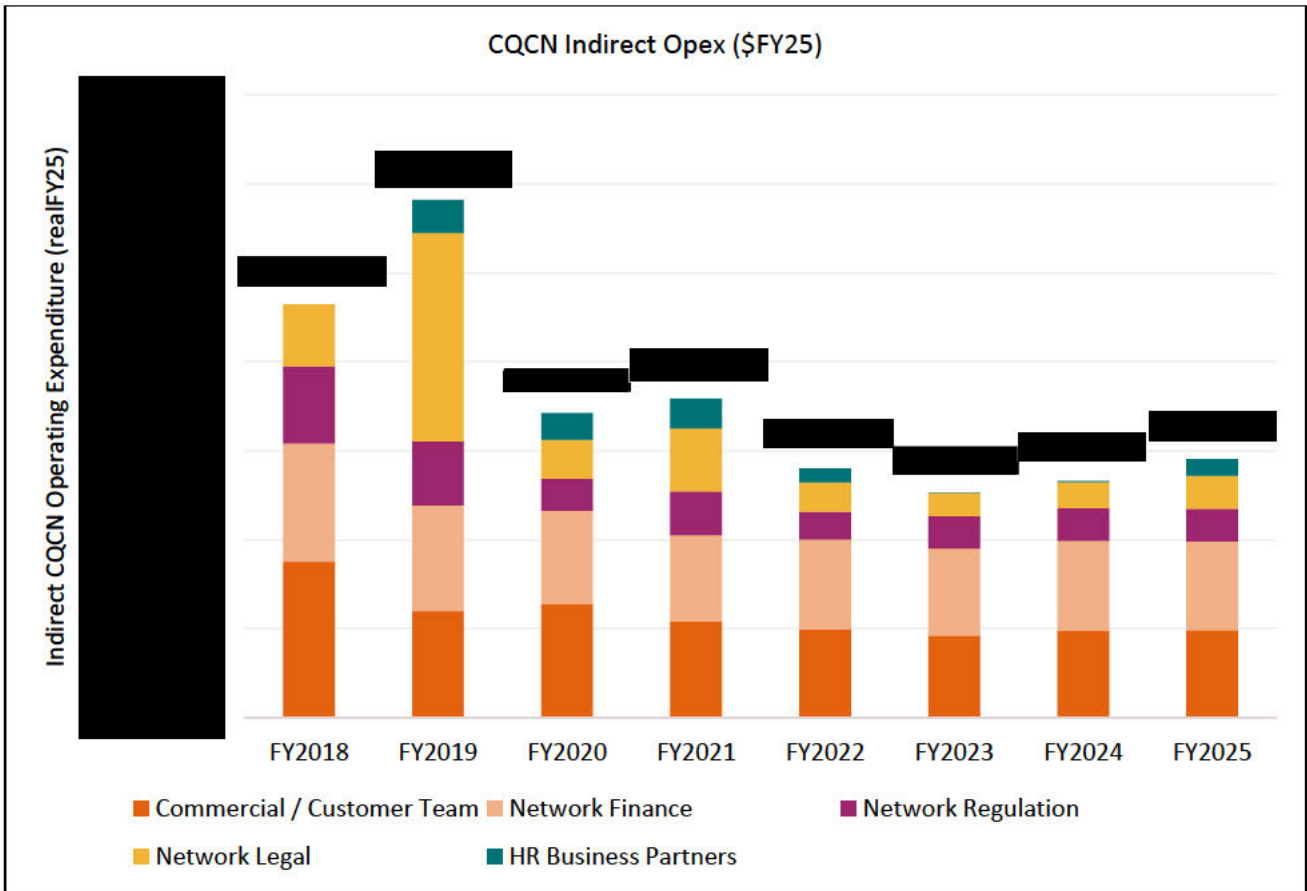


Figure 7- Indirect CQCN operating expenses, including adjustments

### 3.5.1 Indirect CQCN Cost Allocation and Safety and People Partners

Functional costs allocation for Direct and Indirect CQCN Operating Costs are shown in Table 10, with commentary on allocation and functional area by Arcadis in the review column.

Table 10 – Allocation for Direct and Indirect CQCN OPEX with Arcadis commentary

2025 UT5 DAAU		
Functional Area	% of costs allocated to the Below Rail Service	Consistent with UT5 Final Decision
Customer/Commercial	90%	Yes
Finance	97.2%	Yes
Regulation	100%	Yes
Legal	90%	Yes
Safety Partners (direct CQCN expenses)	100%	No; Safety Partners was previously an allocated Corporate Overhead Safety Partnering specific to Aurizon Network has been established to provide operational support and enable direct cost attribution.

People Partners (indirect CQC expenses)	100%	No; this was previously an allocated Corporate Overhead. People Partnering specific to Aurizon Network has been established to provide operational support and enable direct cost attribution
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**Customer/Commercial**

Customer and Commercial costs are treated as indirect CQC costs, with 90 per cent allocated to the Below Rail Service. Arcadis has reviewed whether these functional activities remain relevant to Network operations and notes they continue to support access, contracting, and customer interface activities associated with the provision of below rail services. The allocation rate applied in the FY25 base year is consistent with prior years, and no evidence has been identified to suggest a change in functional relevance or allocation is required.

**Finance**

Finance costs are allocated as indirect CQC operating costs, with 97.2 per cent allocated to the Below Rail Service. Arcadis has reviewed whether finance activities captured within indirect CQC costs continue to support Network operations and whether the allocation rate has materially changed. The allocation percentage applied in the base year is consistent with prior years, and no changes to functional scope or allocation rates have been identified that would warrant departure from the existing approach.

**Regulation**

Regulatory costs are allocated entirely to the Below Rail Service, reflecting the Network-specific nature of regulation, compliance and engagement with regulatory bodies. Arcadis has reviewed the continued relevance of this functional area to Network activities and considers the 100 per cent allocation appropriate. The allocation rate is consistent with prior years and deemed reasonable for this DAAU.

**Legal**

Legal costs are allocated as indirect CQC operating costs, with 90 per cent allocated to the Below Rail Service. Arcadis has reviewed the relevance of legal activities captured within indirect costs and notes they continue to support Network operations, including access, regulatory and operational matters. While the allocation approach remains consistent with prior years and relevant, Arcadis’ assessment of the value of legal costs is addressed separately elsewhere in this report.

**Safety and People Partners**

The costs associated with Safety Partners and People Partners are included within the Safety cost group and HR People partners as presented in Figure 5 and Figure 7. This section outlines the changes, rationale, expenditure impact, and our assessment relating to the Safety Partners and People Partners cost group.

Safety Partners and People Partners have been transitioned from Corporate Overheads to Direct/Indirect CQC Operating Costs, with a 100% allocation to Below Rail Services. This represents a structural shift from shared service allocation to a dedicated model. Aurizon Network have justified this change on the basis of increased safety obligations and workforce management requirements and having dedicated resources which belong to Aurizon Network specific cost centres.

In a safety-critical environment, dedicated capability in these areas is considered necessary to support operational performance and risk management. The inclusion of Safety and People Partner functions as operating expenditure and the percentage of expenditure is considered reasonable. These functions are critical to the safe and effective operation of the network.

The move to direct and indirect cost instead of corporate overheads improves transparency by aligning costs with the activities undertaken for the network, and also bringing the costs within the scope of the operating expenditure efficiency framework, which does not apply to Corporate overheads, potentially reducing reliance on board corporate allocators and may better reflect effort. Overall, prior to the refinement from Corporate Overheads to CQCN expenses, Safety, Health and Environment is noted to be 5% less in FY25 relative to FY24. Similarly, HR is noted to be 13% less in FY25 relative to FY24 prior to the refinement.

Notwithstanding, Arcadis considers the allocation and level of expenditure associated with this cost group to be reasonable having regard to the operational requirements of a large, safety-critical rail network, including workforce management, operational safety assurance and safety compliance obligations. Based on our review of organisational structure, role functions and allocation methodologies, the level of expenditure appears proportionate to the scale and complexity of CQCN operations. The transition to a dedicated model improves cost transparency and does not appear to result in a material increase in total expenditure.

Arcadis also considered whether the transfer of Safety Partner and People costs from the corporate overhead pool direct into direct and indirect CQCN expenditure could adversely influence the FY25 base year under the base-step trend methodology. However, based on the information provided, it was assessed that the change primarily reflects a refinement in cost attribution and stated organisational alignment rather than an increase in underlying expenditure or FTE levels, and from the information provided there was no evidence of double counting or material uplift in total recoverable costs arising from the transfer.

In conclusion, while the transition represents a shift from a shared service model to a dedicated structure, our review found no evidence that this has resulted in a material increase in total cost or inefficient duplication of functions. The change is therefore considered to improve cost transparency without adversely impacting efficiency.

### 3.6 Additional non-recurrent expense checks

In addition to the movement and cost allocation reviews, Arcadis undertook further targeted checks to assess whether any non-recurrent or unusual items had been included in the proposed FY25 baseline non-electric operating expenditure. This assessment was conducted through a two-stage process comprising of investigation of anomalies identified through the expenditure movement analysis and targeted deep-dive reviews of selected cost categories.

Consistent with the agreed scope of work, this review was not intended to constitute a full audit of individual transactions. Rather, testing was focused on identifying material unusual amounts and potential non-recurrent items that could distort the establishment of an efficient ongoing FY25 cost base.

The key findings from this review are summarised below:

- **Redundancy costs:** Aurizon Network confirmed that no redundancy costs have been included in the FY25 cost base submitted for regulatory approval, across both Direct and Indirect operating expenditure. Redundancy costs are recorded in separate cost centres and do not form part of the underlying business results used to derive the regulatory allowance.
- **Consultant and contractor expenditure:** A review of consultant and contractor fees was undertaken to assess whether any costs related to one-off or non-recurrent activities. One item associated with regulatory audit-related services was identified, "EY regulatory fees". As per discussion with Aurizon Network, these costs relate to annual services for FY24 and were not accrued in the correct period. Therefore an adjustment to the base year of \$100k has been proposed.
- **Corporate and operational real estate costs:** Costs associated with corporate and operational real estate facilities were reviewed, with particular attention to depreciation treatment. Aurizon Network

confirmed that no depreciation costs are included within this category. Properties are either subject to third-party lease arrangements or, where owned by Aurizon Property, are charged to Aurizon Network on an arm's-length basis supported by independent valuations undertaken by Savills. Depreciation of Aurizon Property assets has been explicitly excluded from the NOEA assessment as per discussion with Aurizon. The Rockhampton Administration Building, which is owned by Aurizon Property, is therefore excluded from depreciation considerations in this review.

- **Asset management contractors and FTE movements:** We observed variability in contractor expenditure within Asset Management, alongside a modest increase in Asset Management FTE staff. Clarification was sought regarding the drivers of these changes and whether increased FTE levels were expected to result in a reduction in contractor reliance. Aurizon Network advised that contractor and labour hire expenditure within Asset Management predominantly relates to Control Systems, including safe working systems, train control and detection, interlocking, telecommunications, power resilience, and transmission. Contractor costs are largely associated with specific renewal programs, such as interlocking renewal programs, and are recovered through the Maintenance and Renewal Strategy budget. These costs are subsequently excluded from the operating expenditure allowance through cost transfers. In relation to FTE movements, Aurizon Network advised that increases are primarily attributable to:
  - the Asset Management Data Team, driven by customer requirements for enhanced data, analytics, and transparency in asset performance and reliability; and
  - Asset Management Control Systems, reflecting increased program activity and the growing need for operational technology resilience.

Aurizon Network noted that FTE levels related to control systems are not expected to decrease, particularly given increasing cyber security requirements associated with operational technology separation.

## 3.7 Information Technology (ICT) Assessment

### Overview and Assessment Approach

Information and Communication Technology (ICT) costs represent a significant component of Corporate Overheads and comprise a range of centrally provided services that support the Aurizon Network operation including:

- IT personnel (including operational and support FTEs)
- Software licensing and application costs
- System development, maintenance and support
- End user services
- Network and infrastructure services
- Cyber security capability and systems

These costs are shared across the broader Aurizon Group and allocated to Aurizon Network based on the underlying approved cost allocation methodology.

By comparison, similar regulated entities such as Transgrid allocate IT costs across a range of activities including development and enhancement of applications and systems, software licensing, application support, system administration, and end-user services such as desktop configuration, standard operating environment management and service desk operations. This is broadly consistent with the scope of ICT costs observed in Aurizon Network.

Arcadis has reviewed the FY25 ICT expenditure within the Base-Step Trend methodology, with a particular focus on assessing whether the FY25 base year reflects a reasonable and efficient “steady-state” operating position appropriate for forecasting future allowances. For clarity and consistency, all ICT and IT-related costs have been consolidated and considered collectively in this review, which examines the following aspects:

- the underlying ICT allocation methodology;
- the maturity and stability of expenditure included within the base year;
- the extent of transitional or implementation-related costs;
- overlap risks between the ICT base year and proposed step changes; and
- supporting benchmarking and allocation analysis undertaken by MinterEllison

The ICT base year for 2025 has been developed using modified consumption model (refer MinterEllison Modified Consumption Model) replacing the broader FTE-based allocation approaches previously applied. Arcadis considers this to represent an improvement in cost attribution, as it seeks to align ICT costs more closely with underlying service consumption and provides greater transparency and granularity in expenditure allocation across the business. Comparable regulated infrastructure entities similarly allocate ICT expenditure across application support, infrastructure, licensing, development and end-user services, and the overall scope of ICT expenditure observed is broadly consistent with industry practice.

#### **Consumption Model – assessed strengths and limitations**

However, while the methodology improves the structure and transparency of allocation, Arcadis notes that it does not, in itself, demonstrate that the FY2025 ICT base reflects efficient and stable recurring expenditure. Consistent with observations identified in the MinterEllison review:

- proxy allocation drivers are used where direct consumption data is unavailable;
- some expenditure is allocated using assumed application usage rather than directly observed consumption; and
- the base year incorporates inflight and transitional initiatives, including SAP HANA and cyber security uplift activities.

Arcadis therefore considers the allocation methodology itself to be generally reasonable and improved relative to prior approaches, while also recognising that the FY2025 ICT base retains elements of uncertainty associated with transitional expenditure and partially proxy-based allocation assumptions.

#### **Evidence of Transitional and Non-Steady States**

A key focus of the review was whether FY2025 reflects a stable operational ICT baseline or includes transitional and evolving expenditure not fully representative of normal ongoing operations.

This was particularly relevant in relation to:

- the RACE Planner capability
- the Daily Rolling Plan (DRP) implementation
- cyber security uplift activities; and
- SAP HANA implementation;

The RACE Planner assessment highlighted that ICT expenditure within the base year is not limited to simple fixed subscription costs. Aurizon Network’s submission also noted that RACE fees were competitively negotiated with Deswick. While an incremental licence cost of approximately \$500,000 per annum was identified for expanded usage, invoice evidence provided to Arcadis demonstrates that the total annual RACE Planner expenditure may be materially higher and comprises multiple interrelated licence and capability components, including operational, tactical, and specialist machine licenses, together with additional Statement of Work-based modifications required for expanded functionality and automation.

Similarly, the proposed DRP step change (\$1.5 million) was closely linked to these same planning systems and operational capability uplift activities. Arcadis therefore considered that the available information did not clearly demonstrate whether the proposed DRP recovery represented genuinely incremental recurring operating expenditure, or whether portions of implementation, licensing, support and capability uplift costs were already reflected within the ICT base allowance. Notwithstanding these uncertainties, Arcadis has accepted the proposed \$1.5 million step change on the basis that it reflects actual costs incurred in implementing the RACE/DRP capability.

This is particularly relevant given that the DRP capability has only recently transitioned from trial operation into business-as-usual processes, with expenditure influenced by evolving operational adoption and system maturity. Accordingly, while Arcadis considers the underlying capability and associated investment to be operationally beneficial and appropriate in principle, the information provided did not fully demonstrate that the proposed DRP step change-related ICT expenditure represents efficient, stable and fully incremental recurrent operating expenditure suitable for ongoing recovery under the Base-Step-Trend methodology.

Arcadis also identified that the enterprise-wide Cyber Security cost centre nearly doubled between FY23 and FY24, increasing from approximately █████ million to █████ million and contributing approximately \$696,000 to Aurizon Network's allocated ICT costs in FY24. While investment in cyber capability is appropriate for a safety-critical rail environment, the information provided did not sufficiently demonstrate whether this uplift reflects a stabilised recurring cost profile or an accelerated transitional capability expansion.

This was particularly relevant to the proposed Operational Technology (OT) Cyber Specialist step change (\$0.7 million p.a.). While Arcadis considers the proposed OT cyber functions to be operationally appropriate and aligned with prudent network resilience requirements, Aurizon did not provide a detailed reconciliation separating enterprise cyber security expenditure already embedded within the ICT base year from the proposed incremental OT cyber capability. Further, the proposed OT cyber role descriptions included governance, standards and enterprise integration responsibilities which appear to overlap, at least in part, with functions already funded through the enterprise ICT cyber capability uplift.

## **Conclusion and summary**

Arcadis considers the overall scale and nature of FY25 ICT expenditure to be broadly consistent with the operational requirements of a large, safety-critical rail infrastructure business, and accepts that ICT investment is necessary to support safe and efficient network operations. Arcadis also considers the modified consumption-based allocation methodology applied by MinterEllison to represent an improvement in cost attribution relative to prior approaches.

However the review identified that FY25 ICT includes a combination of:

- Transitional and implementation-related expenditure;
- Evolving operational capability uplift;
- Proxy-driven allocation assumptions where direct consumption data is currently unavailable; and
- Potential overlap between ICT base year expenditure and proposed step changes, particularly in relation to the DRP and cyber capability uplifts

As such, the reported base year expenditure may not fully represent an efficient, steady-state operating environment.

On this basis we recommend that a "normalisation" adjustment of 2% is applied to the ICT base year allowance. This adjustment is supported by the following specific findings from the information provided by Aurizon Network (and specifically *20260202\_RFI\_QCA\_CQCN\_DirectIndirect\_Corporate.xlsx* referred to in RFI\_02 Opex History):

- Cyber Security enterprise pool nearly doubled between FY23 and FY24. To the extent that this reflects an accelerated build-up rather than recurrent steady-state costs, it raises a concern that the Aurizon Network-allocated portion may not be representative of ongoing efficient expenditure. Given the absence of information to confirm that this is a stabilised cyber security cost trajectory, a conservative allowance has been made for this uncertainty;
- The consumption model applied by MinterEllison for FY25 states that it relies on proxy drivers where direct consumption data is unavailable, introducing allocation uncertainty that cannot be independently verified with the information provided;
- FY25 includes transitional cost elements, specifically the DRP program and the RACE Planner licencing, which may not be fully representative of a stable operating baseline.

The 2% adjustment is deliberately conservative to avoid overstating the reduction in the absence of complete cost-line visibility. It also reflects that certain step changes, including the accepted \$1.5 million RACE/DRP implementation costs, are being recovered separately and therefore should not be fully embedded within the ongoing ICT base. It is not intended to eliminate all transitional elements from the base year, but rather to apply a proportionate reduction for verified uncertainty. Should Aurizon Network provide further evidence demonstrating that all FY25 ICT costs are recurrent and efficiently incurred at steady state, this adjustment may be subject to revision.

It is noted that a more targeted adjustment would be preferable if Aurizon were to provide further detail on the ICT cost demonstrating stabilisation, in the absence of that evidence, the percentage-based approach was assessed as a reasonable and defensible estimate.

### 3.8 Non-coal allocation

Whilst non-coal operations are outside the scope of this report, non-coal sits close to the coal scope boundary and interacts with certain coal OPEX items, therefore some adjustments have been made by Aurizon for non-coal costs, which are discussed below for completeness.

Non-coal above-rail operations are passenger services and freight services (e.g. intermodal and agricultural). The revenue generated by non-coal for 2025 was only \$14m or 1.04% of total revenue.

Because non-coal is such a small proportion, it would be impractical for Network to maintain dedicated non-coal resources. Instead, Network provides services across coal and non-coal sectors and these services are inherently embedded into the corporate functions, the costs of which represent only a small portion of the overall operating cost base.

An adjustment to the expenditure of \$1.2m per year has been made to remove a proportion of costs allocated to non-coal services.

Aurizon maintains that allocating costs based on GTK is a better approach than the QCA imposed time-on-track metric. Non-coal GTK over a five-year average is only 1.2% of total GTK compared to 5.1% using time on track calculator. Arcadis deems that time on track, in line with previous submissions, is reasonable to be applied to the split between coal and non-coal services.

Arcadis assesses that for the purposes of Aurizon Network's NOEA the time-on-track metric is considered the more appropriate causal driver for below-rail operating costs. Below-rail infrastructure operating costs, such as train control, scheduling, and network management, are driven primarily by the demand placed on the network by train movements over time, rather than by the weight or volume of the freight carried. A heavier coal train will impact asset life, but does not inherently consume materially more network management or control resource than a lighter non-coal service operating over the same path. Therefore, for the purpose of

NOEA time-on-track is considered to more accurately approximate the consumption of below-rail operating capacity across service types and is consistent with the bases on which the QCA has assessed this allocation in prior regulatory proceedings.

### 3.9 Step changes

This section identifies and assesses proposed step changes to Aurizon Network’s non-electric operating expenditure over the regulatory period. Step changes are considered separately from the base year to distinguish new or materially changed activities from underlying, ongoing cost pressures reflected in FY25 expenditure.

Table 11 – Aurizon Network Proposed Step Changes, \$m, nominal

Steps	Opex type	FY2028	FY2029	FY2030	FY2031	FY2032
Daily Rolling Plan	Direct/Indirect Opex	1.5	-	-	-	-
OT – Cyber Specialists	Direct/Indirect Opex	0.7	0.7	0.7	0.7	0.7
Mid period reset	Direct/Indirect Opex	-	-	-	0.3	0.3
Network control centre	Corporate overhead	1.1	1.1	1.1	1.1	1.1
<b>Total step changes proposed</b>		<b>3.3</b>	<b>1.8</b>	<b>1.8</b>	<b>2.1</b>	<b>2.1</b>

#### Daily Rolling Plan (DRP) Implementation (\$1.5M total recovery)

The proposed step change associated with the Daily Rolling Plan has been reviewed in the context of the broader ICT assessment set out in Section 4.3. The Daily Rolling Plan represents an operational planning process that has recently transitioned from trial to business-as-usual, supported by underlying ICT systems and tools.

Consistent with the ICT assessment, there is evidence that FY2025 reflects a period of transition, with costs influenced by implementation, system adoption, and evolving operational practices. As such, elements of the Daily Rolling Plan costs may be captured within the broader ICT cost base, including system licensing, support, and associated capability uplift.

In this context, the proposed recovery of approximately \$1.5 million requires careful consideration to ensure that costs are not duplicated between the step change and the ICT base year. In particular, it is not fully clear from the available information whether the step change represents:

- incremental ongoing costs that are not already captured within the ICT base year, or
- transitional and implementation-related expenditure that should not be treated as a recurring operating cost.

Given the linkage between the Daily Rolling Plan and ICT systems (including planning tools such as RACE Planner), and the evidence that FY2025 includes elements of transition and evolving usage, there is a risk that some of the proposed step change costs may overlap with expenditure already reflected in the base year.

On balance, while the Daily Rolling Plan represents a legitimate operational enhancement, the basis for the \$1.5 million recovery is not fully transparent. Consistent with the ICT assessment, this reinforces the need to ensure that only efficient, incremental, and ongoing costs are recovered, and that any transitional or duplicative expenditure is excluded, which is why the proposed adjustment.

### **Operational Technology (OT) Cyber Specialists (\$0.7 M p.a)**

The proposed step change associated with Operational Technology (OT) cyber security specialists has been reviewed in the context of the broader ICT assessment set out in Section 4.3. The roles are intended to support the protection and resilience of operational systems, including network, control, and signalling infrastructure, and are therefore aligned with the requirements of a safety-critical rail environment. Arcadis reviewed the proposed roles at an individual position level and notes that the associated salary estimates were informed by third-party salary benchmarking.

A further consideration relevant to this step change is the movement in the enterprise-wide Cyber Security cost centre between FY23-FY24. Analysis of the corporate overhead history workbook confirms that this cost centre's enterprise pool nearly doubled over that period, from █████ million (Labour & oncost █████ plus Other Expenses █████) to █████ million (Labour & oncost █████ plus Other Expenses █████) contributing approximately \$696k to the increase in Aurizon Network's allocated IT costs in FY24. This increase in enterprise cyber security is already embedded in the FY24 base from which FY25 is derived.

Aurizon has not provided a reconciliation (IT details) between the enterprise cyber security costs already included in the IT cost base and the incremental OT cyber specialist capability proposed as a step change. Without such information, it is assessed that there is a material risk that some portion of the \$0.7 million per annum step change reflects costs or capability uplift that is already, at least partly, captured within the base year IT allowance. This risk is not eliminated totally by the distinction between IT (enterprise cyber technology) and OT (operational technology), the position descriptions for the proposed OT cyber roles include responsibilities for governance, standards, and integration with enterprise systems, which overlap functions already funded through the enterprise IT pool, although it is difficult to calculate the depth of that overlap without the detailed breakdown requested.

In considering how to treat this overlap risk, Arcadis assessed whether a targeted reduction to the step change itself, reflecting the portion of OT cyber capability already embedded in the base year and any role overlap, would be an appropriate mechanism. However, on balance a targeted step change adjustment was considered less appropriate than apply a whole-of-ICT "normalisation" adjustment to the base year.

This is because the cyber overlap is one of several compounding sources of base year uncertainty within the ICT whole, including proxy-driven allocation assumptions and transitional cost elements, that collectively are assessed as affecting the reliability of the FY25 ICT cost base. Isolating and quantifying the cyber overlap alone would require a level of cost-line precision that the available data does not support, and would leave the other sources of uncertainty unaddressed.

### **Mid Period Reset (\$0.3M for each event - \$0.6M)**

- Cyclical costs for external experts and legal fees for the mid-term reset (FY2031)
- Next major regulatory reset (UT6) to occur before expiry of 2025 UT5 DAAU (FY2037)

The proposed framework introduces a mid-period reset mechanism, with Allowable Revenue determined across two five-year periods rather than a single fixed regulatory term. This approach provides flexibility to update key assumptions in response to changes in costs, demand, and operating conditions over the extended ten-year period.

In principle, the inclusion of a mid-period reset is consistent with regulatory best practice for longer-term determinations, as it balances the need for investment certainty with the ability to respond to material changes in underlying conditions. This reduces the risk of sustained over- or under-recovery where initial assumptions prove to be inaccurate over time.

The reset mechanism is particularly relevant in the current context, where elements of the cost base - including ICT, cyber security, and operational capability, are evolving. The ability to revisit these assumptions

at a defined midpoint provides an appropriate safeguard to ensure that allowances remain aligned with efficient and prudent costs.

While the introduction of a reset mechanism inherently introduces some degree of future uncertainty for users, this is mitigated by the structured and transparent nature of the regulatory process, which requires that any revisions be supported by evidence and subject to review.

On balance, the mid-period reset mechanism is assessed as reasonable, as it provides an appropriate balance between regulatory certainty and flexibility, and supports the ongoing alignment of revenues with efficient costs over the duration of the undertaking.

Arcadis considers the proposed \$0.3 million allowance for mid-term review costs to be reasonable and efficient. The cost of \$0.3m per year over two years is well below the \$0.7m incurred in one year in FY25 relating to the current review, which provides a robust benchmark for the likely scale and complexity of the mid-term reset. Given that the mid-term review is expected to be less comprehensive than a full regulatory reset, the proposed cost range reflects both the expected scope of work and the need to secure appropriate external expertise and legal support. The allowance is therefore considered reasonable, prudent, and consistent with recent precedent.

In addition to this, the \$0.7m incurred in FY25 is relevant to the FY35 and FY36 regulatory reset step change which sums to \$1.5m over two years.

#### **Network Control Centre Refurbishment (\$1.1 M p.a.)**

The proposed step change for the Network Control Centre (NCC) refurbishment relates to the upgrade of facilities supporting critical network operations. The NCC plays a central role in the safe and efficient management of rail operations and maintaining a fit-for-purpose control environment is essential in a safety-critical operating context.

The proposed refurbishment is understood to address asset condition, functionality, and operational requirements, including the need to support staff working in a high-reliability, real-time control environment. Ensuring that such facilities remain appropriate for purpose is a necessary component of maintaining efficient network operations.

While facility upgrades can, in some cases, deliver broader corporate benefits, the nature of the NCC as a specialised operational asset supports the view that the proposed works are primarily driven by the needs of the regulated network business. In this context, the refurbishment is considered to be a legitimate operational requirement rather than discretionary enhancement.

In assessing the reasonableness of the proposed expenditure, consideration has been given to whether the scope and cost are proportionate to the operational benefits delivered. Based on the available information, the level of expenditure is considered consistent with maintaining a critical operational asset in a safety-critical environment. We also note that Aurizon Network's submission recognised that these changes were procured on a competitive basis.

On balance, the NCC refurbishment is assessed as reasonable, as it represents a necessary investment to maintain safe, reliable, and efficient network operations, with costs that are considered proportionate to the function and importance of the facility.

## **4 Overall governance**

A number of documents have been reviewed as part of the governance test. In addition to those directly provided by the QCA and Aurizon, the following publicly available documents have been utilised, upon the recommendation of Aurizon as per their RFI responses.

1. Aurizon Group Corporate Governance Statement
2. Aurizon Network Pty Ltd Board Charter
3. Aurizon Holdings Limited Board Charter
4. Aurizon Holdings Limited People and Remuneration Committee Charter
5. Aurizon Holdings Limited Audit, Governance & Risk Management Committee Charter
6. Aurizon Network Pty Ltd Annual Financial Report for the year ended 30 June 2025
7. Aurizon Operations Limited Annual Financial Report for the year ended 30 June 2025
8. Aurizon Holdings Limited 2025 Annual report
9. Aurizon Holdings Limited 2025 Tax Transparency Report
10. ASX Corporate Governance Council, Corporate Governance Principles and Recommendations
11. Aurizon Whistleblower Policy
12. Aurizon Holdings Anti-Bribery and Anti-Corruption Policy
13. Aurizon Holdings Securities Dealing Policy

#### **4.1.1 Corporate Structure**

Aurizon's corporate governance framework for the company is underpinned by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Aurizon's reporting is in accordance with ASX and ASIC procedures and Australian Laws such as the Corporations Act. This includes financial reporting, which is underpinned by internal verification and certification processes to ensure integrity and accuracy.

The group possesses a suite of charters and key corporate governance documents that articulate the policies and procedures of the company. These documents include guidelines and codes of conduct.

The Aurizon Holdings group is divided into several wholly owned subsidiaries, each with their own ABN and financial reporting requirements. Aurizon Holdings is the head-entity. One of these subsidiaries is Aurizon Network which itself also has its own subsidiary companies. Aurizon Network was established to comply with the QCA Act 1997.

The Network Board issues its own Directors Report and financial statements separate from the consolidated Group reports. Network is measured as if a standalone corporation but tax-liabilities are assumed by Aurizon Holdings. However, the group does have internal tax-sharing agreements.

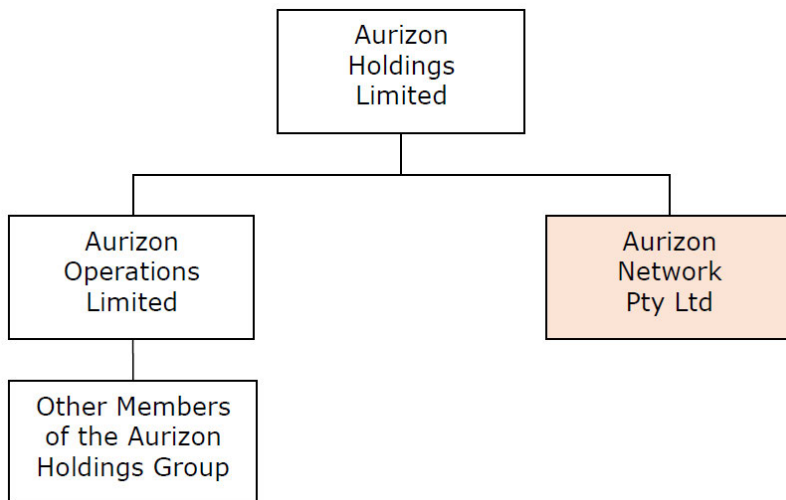


Figure 8 – Aurizon corporate structure

### 4.1.2 Network Management Structure

The Network Board is nominated by Aurizon Holdings. Whilst the Network Board is distinct from the Aurizon Holdings Board, there is significant overlap between the two boards.

The CEO & Group Managing Director of Aurizon Holdings appoints the Group Executive Network and other senior executives (Network). The Group Executive Network reports to the CEO & Group Managing Director, the Board and the Executive Leadership Team. The CEO & Group Managing Director is also a member of the Network Board. Boards are comprised of a majority of non-executive directors in order to maintain independence.

Directors visit operational locations and are briefed on legal, accounting, regulatory and technological developments. Network Board members are supported by committees and annual reviews confirm the ongoing suitability of members and their independence.

One of these committees is the Audit, Governance and Risk Management Committee, which operates under the Internal Audit Charter and oversees the internal audit functions, independent of management. Aurizon Holdings Board appoints committees and members.

A People and Remuneration Committee meets and makes recommendations to the Network Board on the remuneration policies and practices for Network Board members and senior executives (including the MD & CEO), as well as the Company’s remuneration strategy and incentive program. The committee also monitors compliance with statutory obligations relating to remuneration. No member of the committee will participate in the determination of their own remuneration or the policies that affect them.

These committees are made-up of independent non-executive directors, the purpose of which is to provide separation between them and the company. They also require members to have specific experience in those areas in which the committees operate. Whilst the Board appoints the members of the committees, the committees elect their Chairman. The CEO & Group Managing Director may attend committee meetings but has no voting rights and may be asked to leave at any time.

### 4.1.3 Network’s Role in the Group

According to their 2025 Annual Financial Report, the nature of Network’s operations and its principal activities include “*design, construction, overhaul, maintenance and management services to the Aurizon Group as well as external below rail customers*”. “*The Company also derives revenue from services and other revenue*

*including the maintenance of private infrastructure, external design and construction works, customer funded infrastructure charges and other services”.*

Network is dependent on other entities in the Aurizon group for approximately 35% of its derived access revenue. Access revenue also includes revenue from non-coal access (freight and passenger) and above-regulatory-returns in certain circumstances.

This mix of internal and external revenue sources reflects Aurizon Network’s dual role in supporting both the broader Aurizon Group and Independent customers.

#### **4.1.4 Network’s Share of the Group**

Aurizon Holdings is publicly listed but Network is not. However, Network issues ‘shares’ to its parent company and makes capital-distribution payments.

Network also provides intra-group loans to Aurizon Holdings, to Operations and to Iron Horse Insurance, which is the group’s own internal insurer, based in Singapore. It’s not known if Network borrows money directly from the markets or via the group.

#### **4.1.5 Intra-Group Activities**

A number of intra-group service agreements exist for the provision of services and have associated costs. The services include payroll, IT, accounts payable and HR operations.

For IT, software development costs are capitalised. However, software-as-a-service costs are treated as an expense. Expenses paid by Network to other entities in the group include maintenance, facilities charges and general corporate overheads.

Based on the documentation provided, Aurizon has stated that while intercompany and related-party agreements exist with the Aurizon Group structure, the allocation of Aurizon Network’s operating expenditure is not directly determined by these agreements. Instead, expenditure allocation outcomes are governed by the regulatory costing framework and cost allocation methodologies approved by the QCA. This approach has been supported by the documentation reviewed by Arcadis and aligns with the findings of the prior UT5 assessment, which confirmed that related-party arrangements do not override the established regulatory principles for cost allocation within the Group.

#### **4.1.6 Governance Conclusion**

The governance arrangements that directly influence operating expenditure outcomes and drive NOEA decisions have been described in the previous sections and summarised below.

Aurizon:

- Uses ASIC and ASX procedures and follows Australian laws
- Is underpinned by the principles and recommendations in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
- Has established a suite of charters which are readily available online and communicate how Aurizon will operate in a clear and uncomplicated manner

- Has established independent committees and published their charters to oversee internal functions and advise the Board
- Provides regular financial reporting which has been verified.
- Has established a whistleblower policy and a whistleblower hotline to report illegal, unethical or improper conduct
- Has established an Anti-Bribery and Anti-Corruption Policy which strictly prohibits bribery or corruption
- Periodically reviews the performance of its corporate components and internal processes.
- Operates internal economies and publishes financial information sufficiently subdivided and detailed to communicate their performance.
- Operates rigorous remuneration management processes and aligns with external peer groups.
- Provides Short-Term and Long-Term Incentive Award schemes based on performance measures.
- Provides in-house captive-insurance, based in Singapore, a world leading hub for these specialised entities.
- Shares IT costs across the group and treats IT costs in different ways dependent upon their type.

Under the QCA Act 1997 Aurizon is obligated to keep separate accounting records for its Below Rail Services, distinct from its accounting records for its other divisions. Aurizon Network maintains a distinct legal and reporting structure within the broader Aurizon Group, with separate financial reporting and board oversight.

The presence of independent non-executive directors, formal committee structures, and established internal control processes provides a sound foundation for governance and accountability. However, our review also identified a significant degree of integration between Aurizon Network and the broader Aurizon Group. This includes overlapping board membership, group-level executive appointment structures, and reliance on shared services and intra-group executive appointment structures, and reliance on shared services and intra-group transactions. While common in integrated groups, it is noted that these arrangements introduce risks in a regulated context, particularly regarding decision-making independence and the transparency of cost allocation.

In particular, the reliance on intra-group services (e.g. IT, HR, finance), together with internal financing and captive insurance arrangements, requires scrutiny to ensure costs reflect efficient outcomes consistent with market expectations.

Overall, Arcadis acknowledges that Aurizon's governance framework reflects many elements of good corporate practice. Our assessment indicates that Aurizon operates within a well-established corporate governance framework aligned with the ASX Corporate Governance Principles and Recommendations, supported by formal board structures, defined committee oversight and a comprehensive suite of corporate policies and procedures.

While a high degree of integration with the broader Aurizon Group is evident, including shared services and overlapping governance structures, this is typical of integrated infrastructure organisations and does not, in itself, indicate inefficiency.

In addition, it is noted that Aurizon Network operates within an established regulatory framework under the Queensland Competition Authority Act 1997 and the approved Access Undertaking, which includes ring-fencing arrangements designed to support the separation of regulated and non-regulated activities. These arrangements include obligations to maintain separate below rail financial accounts and a transparent Costing

Manual governing the allocation of costs between business units. These requirements provide an important regulatory safeguard to support cost transparency and mitigate the risk of cross-subsidisation between the Aurizon Network business and other parts of the Aurizon Group.

In conclusion, Arcadis believes that Aurizon’s governance framework provides an environment that provides the necessary oversight and controls which enable efficient and transparent procurement of services, materials and expertise and supports efficient, transparent operating expenditure outcomes whilst encouraging value for money within a safety critical environment. The practices are considered efficient and available to scrutiny through reporting obligations which Aurizon demonstrably adheres to.

Based on the evidence reviewed, there is no indication that governance arrangements have resulted in inefficient or inappropriate operating expenditure outcomes in the FY2025 base year.

## 5 Escalation

Escalation has been applied to corporate overheads and direct and indirect CQCN opex using two drivers: Consumer Price Index (CPI) for Brisbane and Wage Price Index (WPI) for all private industries in QLD. This is to reflect the different underlying cost drivers of operating expenditure categories.

Forecast escalation inputs are sourced from Oxford Economics Australia. Over the pricing period (FY28–FY32), Brisbane CPI is forecast to remain broadly within the Reserve Bank of Australia’s medium-term inflation target, averaging around 2.8 per cent per annum, while Queensland private-sector WPI is forecast to average around 3.6 per cent per annum. As a result, forecast wage growth exceeds CPI inflation over much of the period (Figure 9).

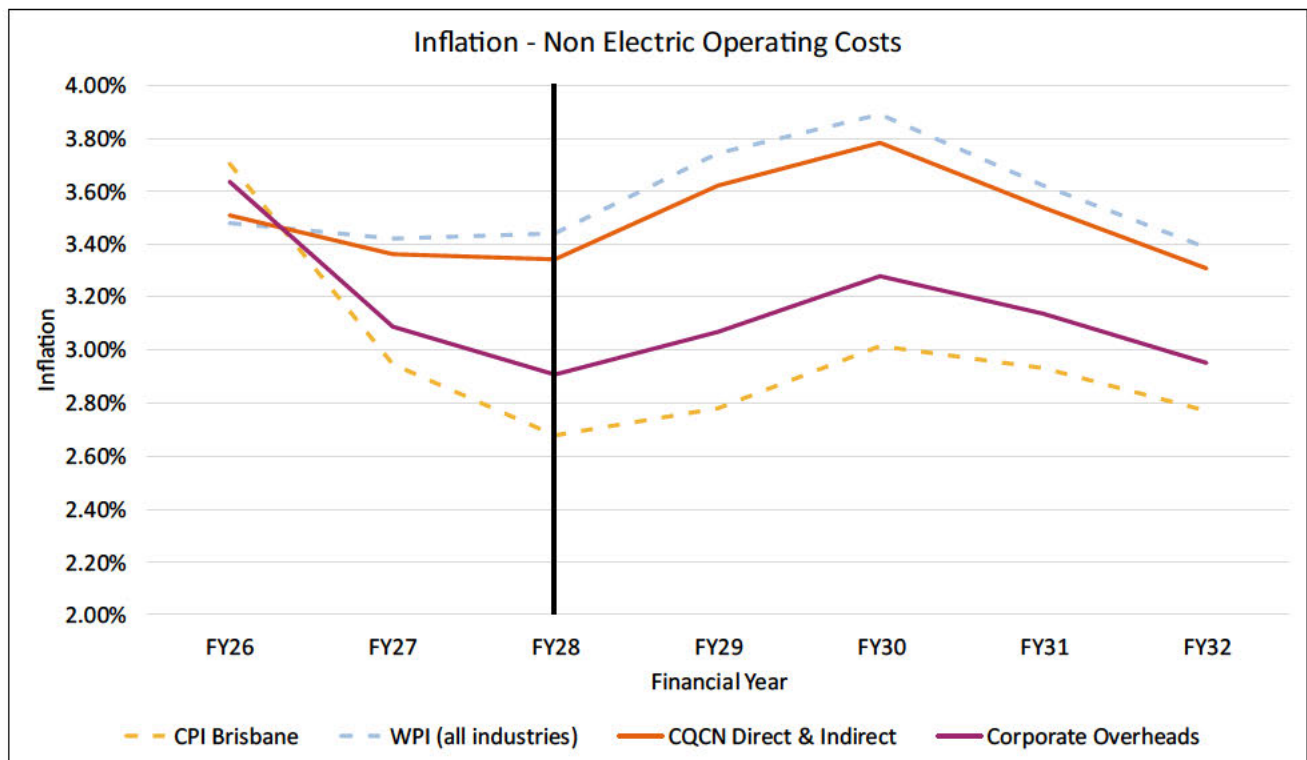


Figure 9 – Inflation - non electric operating costs

Aurizon Network applies these forecast series through category-specific weighted escalators:

- For direct and indirect QCCN operating costs, escalation is applied using a weighted average of WPI (approximately 87.6 per cent) and CPI (approximately 12.4 per cent), reflecting the predominantly labour-driven nature of these costs.
- For corporate overheads, escalation is applied using a weighted average of WPI (30 per cent) and CPI (70 per cent), reflecting a more balanced mix of labour and non-labour inputs.

## 5.1 Reasonableness of Escalation

Aurizon Network has applied escalation to operating expenditure using a combination of forecast CPI for Brisbane and WPI for all private industries in Queensland, reflecting differences in the underlying cost drivers of operating expenditure.

This approach is broadly consistent with the QCA's 2021 Inflation Forecasting Final Position Paper, which indicates that CPI should be used to escalate opex where underlying cost drivers are not materially different from price-level inflation, and that input-specific or sector-specific cost escalators may be appropriate where cost drivers differ materially from CPI. In this context, the application of WPI to labour-related components of operating expenditure is consistent with QCA guidance, given labour costs represent a material driver of direct and indirect operating expenditure.

The use of CPI and WPI (Queensland, private sector, all industries) through a weighted escalator is also consistent with the QCA's approach in the 2017 UT5 decision, where escalation of opex reflected the underlying mix of labour and non-labour inputs rather than reliance on CPI alone.

Forecast CPI and WPI inputs are sourced from Oxford Economics Australia, with CPI forecasts broadly consistent with the Reserve Bank of Australia's medium-term inflation target. The use of WPI for labour-intensive expenditure categories reflects Aurizon Network's view that wage growth is a material driver of operating costs and therefore warrants an input-specific escalator.

Aurizon Network applies differential CPI and WPI weightings across expenditure categories, reflecting differing cost structures between direct and indirect operating expenditure and corporate overheads. Provided these weightings accurately reflect the efficient baseline year cost composition, the weighted escalation framework is reasonable in principle. It is evident that this is the case as Aurizon Network has apportioned its QCCN indirect and direct costs by labour and non-labour.

Corporate overheads are primarily driven by employee-related costs and consumables. Accordingly, escalation has been applied using a weighted approach of 30% labour (WPI) and 70% non-labour (CPI), reflecting the underlying cost structure of corporate overhead expenditure. This weighting recognises that, while labour is a key driver, a significant share of corporate overheads relates to externally sourced goods and services and other non-labour inputs that are more appropriately escalated using CPI.

We note that the forecast WPI exceeds CPI inflation over much of the pricing period, implying sustained real wage growth. While it is not uncommon for nominal wages growth to exceed CPI over portions of the economic cycle, the Oxford Economics forecasts imply persistent real wage growth over the medium term.

Such an outcome is plausible given recent tight labour market conditions, including observed skills shortages in infrastructure-related roles such as engineering and construction. However, the persistence of this differential over the pricing period warrants consideration, particularly given the potential for wage growth to moderate as labour market conditions rebalance and productivity growth outcomes evolve.

On average, forecast WPI is approximately 0.8 percentage points higher than CPI over the pricing period. This represents a relatively modest differential and remains within a plausible range when considered against recent labour market conditions and historical wage–price dynamics. Accordingly, while the wage escalation assumption is a key driver of operating expenditure escalation and warrants close consideration, it is not considered unreasonable in the context of Aurizon Network’s proposed escalation framework.

## 6 Conclusion

Based on the assessment undertaken, Arcadis considers FY25 to be reasonable base year for Aurizon Network’s non-electric operating expenditure, subject to the targeted adjustments identified. Following the removal of non-recurring and insufficiently supported costs, and the correction of the proposed CEO and Board allocation methodology, the adjusted base year reflects efficient, ongoing expenditure consistent with regulatory principles.

Table 12 – Aurizon Network Adjusted NOEA (\$m, real FY25)

Category	FY2028	FY2029	FY2030	FY2031	FY2032
<b>Base Year Opex</b>	<b>123.8</b>	<b>123.8</b>	<b>123.8</b>	<b>123.8</b>	<b>123.8</b>
Adjustment 1: CEO and Board	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Adjustment 2: IT	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Adjustment 3: Legal FTE	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Adjustment 4: EY regulatory fee	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Adjusted Base Year Opex</b>	<b>121.8</b>	<b>121.8</b>	<b>121.8</b>	<b>121.8</b>	<b>121.8</b>
Step Changes	3.3	1.8	1.8	2.1	2.1
<b>Adjusted NOEA</b>	<b>125.1</b>	<b>123.6</b>	<b>123.6</b>	<b>123.9</b>	<b>123.9</b>

The analysis indicates that movements in FY25 costs are primarily driven by underlying Group-wide labour and cost pressures rather than cost shifting to the regulated network or changes in allocation share. Aurizon Network’s operating expenditure has increased broadly in line with, or at a slower rate than, Aurizon Group costs, and the share of Group costs allocated to the Network has remained broadly stable over time.

With the exception of the proposed CEO and Board allocator, cost allocation methodologies were assessed as reasonable, broadly consistent with UT5, and appropriate in outcome. Direct and indirect CQCN expenditure was also assessed as largely stable, with observed increases appropriately explained by operational requirements, safety obligations, and labour market pressures.

Accordingly, Arcadis considers the adjusted FY25 base year to provide a robust and reasonable foundation for the determination of Aurizon Network’s Non-Electric Operating Expenditure Allowance over the forthcoming regulatory period.

## Appendix A - Corporate Overheads and CQCN Direct and Indirect Tables

### Direct CQCN OPEX:

Direct CQCN Exp (\$FY25, 000s)	FY23	FY24	FY25	FY25 vs FY24	FY25 vs FY23
Operations Management					
Network Train Operations					
Planning & Scheduling					
Operational Technology					
Infrastructure Management					
Training					
Safety					
<b>Total</b>	<b>44,340</b>	<b>49,662</b>	<b>51,751</b>	<b>4%</b>	<b>17%</b>

Direct CQCN Exp (\$FY25, 000s)	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Operations Management							
Network Train Operations							
Planning & Scheduling							
Operational Technology							
Infrastructure Management							
Training							
Safety							
<b>Total</b>	<b>57,690</b>	<b>48,842</b>	<b>47,413</b>	<b>46,070</b>	<b>44,340</b>	<b>49,662</b>	<b>51,751</b>

### Indirect CQCN OPEX:

Indirect Costs (\$FY25, 000s)	FY23	FY24	FY25	FY25 vs F24	FY25 vs F23
Commercial / Customer Team					
Network Finance					
Network Regulation					
Network Legal					
HR Business Partners					
<b>Total</b>	<b>12,643</b>	<b>13,309</b>	<b>14,531</b>	<b>9.2%</b>	<b>14.9%</b>

Indirect CQCN Exp (\$FY25, 000s)	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Commercial / Customer Team							

Network Finance							
Network Regulation							
Network Legal							
HR Business Partners							
<b>Total</b>	<b>29,114</b>	<b>17,116</b>	<b>17,941</b>	<b>14,002</b>	<b>12,643</b>	<b>13,309</b>	<b>14,531</b>

**Corporate Overheads:**

Corporate Overheads (\$FY25, 000s)	FY23	FY24	FY25 adjusted	FY25 vs FY24	FY25vsFY23
CEO & Board					
Finance					
Other Corporate Services					
General Counsel and Corporate Secretary					
Information Technology					
Human Resources					
Real Estate					
Safety, Health and Environment					
<b>Total</b>	<b>55,041</b>	<b>58,345</b>	<b>57,503</b>	<b>-1%</b>	<b>4%</b>

Corporate Overheads (\$FY25)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 original	FY2025 adjusted
CEO & Board								
Finance								
Other Corporate Services								
General Counsel and Corporate Secretary								
Information Technology								
Human Resources								
Real Estate								
Safety, Health and Environment								
<b>Total</b>	<b>69,079</b>	<b>70,551</b>	<b>68,138</b>	<b>57,401</b>	<b>55,041</b>	<b>58,345</b>	<b>59,359</b>	<b>57,503</b>