

# Aurizon Network Pty Ltd

## Costing Manual

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## TABLE OF CONTENTS

<b>PART 1. PURPOSE OF COSTING MANUAL</b>	
1.1 Background .....	1
1.2 Legislative Context .....	1
1.3 Purpose .....	1
<b>PART 2. ADMINISTRATION OF COSTING MANUAL</b>	
2.1 Duration of Costing Manual .....	3
2.2 Review of Costing Manual .....	3
<b>PART 3. COSTING FRAMEWORK</b>	
3.1 Organisational Structure .....	4
3.2 Costing Principles .....	4
3.3 Internal Costing Accounts .....	5
<b>PART 4. SEPARATION OF BELOW RAIL ASSETS, COSTS, REVENUE AND INVESTMENTS</b>	
4.1 Separation of Below Rail Expenses .....	7
4.2 Separation of Below Rail Revenue .....	15
<b>PART 5. FINANCIAL STATEMENTS</b>	
5.1 Format of Financial Statements .....	17
5.2 Minor Changes to the Format .....	17
5.3 Notes to the Financial Statements .....	17
<b>PART 6. DEFINITIONS</b> .....	19
 <b>SCHEDULES</b>	
Pro forma Financial Statements .....	Schedule A
Aurizon Structure .....	Schedule B
Network Function Structure .....	Schedule C

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## PART 1. PURPOSE OF COSTING MANUAL

### 1.1 Background

- (a) Aurizon Network Pty Ltd (Aurizon Network) has an Undertaking that provides the framework for negotiations with access seekers for Access to Rail Infrastructure for the purpose of operating Train Services.
- (b) The intent of the Undertaking is *inter alia* to ensure that Access negotiations are conducted expeditiously on a commercial basis, and in a competitively neutral environment. The Undertaking seeks to ensure that there will be no cross subsidy between individual Train Services or between combinations of Train Services. It also outlines pricing principles to be employed in determining applicable Access Charges.
- (c) Aurizon Network is a substantial and diverse rail infrastructure business serving train operators and supply chains in Queensland. Aurizon Network provides design, maintenance and management services on the rail network.
- (d) The Aurizon Holdings Limited (Aurizon) group of companies is an integrated railway provider, in that it provides both Below Rail Services as a Railway Manager and Above Rail Services as a Railway Operator. Aurizon is obligated, under the Queensland Competition Authority Act 1997 (**the Act**), to keep accounting records for Below Rail Services separate from its accounting records for its other operations. Consistent with this obligation, Aurizon Network is a wholly owned subsidiary of Aurizon Holdings Limited (Aurizon). The Undertaking contains a requirement for the preparation of separate Financial Statements for Below Rail Services provided by Aurizon Network.
- (e) Under the Act the Queensland Competition Authority (**QCA**) may prepare a Costing Manual (referred to as the "Manual") or ask Aurizon Network to do so.

### 1.2 Legislative Context

This Manual has been prepared in accordance with the requirements of Section 159 of the Act.

### 1.3 Purpose

- (a) The principal purpose of the Manual is to provide a framework for the financial reporting obligations contained in the Undertaking to satisfy the accounting responsibilities under the Act.
- (b) The Manual provides the framework for the Identification, Attribution and Allocation of assets, costs and, revenues and investments relating to Queensland based Below Rail Services provided by Aurizon Network and the development of Financial Statements required in accordance with the Undertaking.
- (c) The Manual sets out the process for identifying the cost base for Below Rail Services separate from other services provided by Aurizon Network.
- (d) The Manual provides the basis for Aurizon Network to keep its accounting records for Below Rail Services separate from its accounting records for its other operations.
- (e) The Manual provides for an assignment of costs based on Aurizon Network's current Costing accounts. The network system operated by Aurizon Network is essentially a stand alone system servicing predominately coal traffic and the cost centre structure in the financial systems reflect this.

- (f) The Manual provides a basis for the preparation of a statement of earnings before interest, tax, depreciation and amortisation (a partial profit and loss statement) based on the cost Identification, Attribution and Allocation methodology.
- (g) The “building blocks” of Maximum Allowable Revenue (MAR), being return on capital, depreciation, maintenance costs, operating costs and tax, are reviewed and approved by the QCA after consultation with stakeholders as part of the approval of the Access Undertaking. The purpose of the Manual is not to identify efficient costs for the provision of Below Rail Services. The regulatory process described above identifies and approves the efficient costs of the operating costs building block for calculation of (MAR). However, costs should be presented in a manner that allows comparison between actual costs and allowances.
- (h) The financial reporting to which this Manual applies does not include detailed Maintenance Costs or Regulatory Asset Base (RAB) reporting which are required under separate provisions of the Undertaking.

The annual RAB roll-forward report sets out by system: opening value of the RAB, indexation, depreciation, capital expenditure, disposals and closing value of the RAB. A report detailing capital expenditure for a financial year is provided to the QCA within four months after the end of that financial year, and the roll forward is provided to the QCA for acceptance within 1 month of the QCA's acceptance of the capital expenditure claim for the relevant financial year. The RAB roll-forward report is published within 4 weeks of QCA acceptance.

Detailed maintenance and performance reporting is provided in accordance with the Undertaking.

- (i) Aurizon Network separately prepares general purpose financial statements half-yearly in accordance with the Corporations Act 2001.

## **PART 2. ADMINISTRATION OF COSTING MANUAL**

### **2.1 Duration of Costing Manual**

- (a) The Manual will take effect from the date specified as being the effective date, following approval by the QCA.
- (b) Aurizon Network must publish the current approved Costing Manual upon [www.aurizon.com.au](http://www.aurizon.com.au).
- (c) This Manual will apply to the annual Financial Statements prepared for the financial year commencing 1 July 2019, and will continue to apply, subject to paragraph (d) and (f) until superseded by approved changes in accordance with clause 2.2 below.
- (d) If, for any 12 month financial period during the term of the Manual, the QCA ceases to be the regulator of Aurizon Network's Below Rail Services, Aurizon Network may withdraw the Manual.
- (e) If, for any 12 month financial period during the term of the Manual, Aurizon Network does not have an approved Undertaking, Aurizon Network may seek approval from QCA to defer the preparation of the annual Financial Statements.
- (f) Apart from the circumstances identified in Paragraph (d), Aurizon Network may withdraw the Manual at any time, provided it has received written approval from the QCA.

### **2.2 Review of Costing Manual**

- (a) If, at any time during the term of the Manual, Aurizon Network is of the view that changes to the Manual are desirable, Aurizon Network may submit amendments to the QCA.
- (b) Where amendments to the Manual are submitted to the QCA, the QCA must consider the amendments to the Manual, and approve, or not approve them. If the QCA does not approve the amendments to the Manual, the previously approved Manual will continue to apply.
- (c) If the QCA does approve the amendments, the amended Manual will apply from:
  - (i) the date of the QCA's approval; or
  - (ii) a later date approved by the QCA.
- (d) The QCA may, from time to time, revise the Manual as long as it complies with section 159(3) of the Act.
- (e) Aurizon Network must publish any amendments to the Costing Manual including the date the amendments come in to force.

## **PART 3. COSTING FRAMEWORK**

### **3.1 Organisational Structure**

- (a) Aurizon Network is a wholly owned subsidiary of Aurizon Holdings Limited (Aurizon).

This Aurizon Structure is illustrated in Schedule B.

- (b) Aurizon has established its organisational structure to facilitate the separation of the management of Rail Infrastructure from the operation of Train Services.

- (c) Aurizon Network also represents a business unit of Aurizon, separate from other operating business units and corporate support services. Aurizon Network is responsible for the provision of Below Rail Services.

This Network structure is illustrated in Schedule C.

- (d) The principles of cost Identification, Attribution and Allocation recognise that Aurizon's organisational structure may change over time. Therefore, the Identification, Attribution and Allocation of costs and revenues are based on functions regardless of the area within Aurizon that provides them. The principles in the Manual have been developed on this basis, however at any point in time costing information will be drawn from responsibility-based accounts reflecting Aurizon's current organisational structure.

### **3.2 Costing Principles**

- (a) All costs and revenues must be Identified, Attributed or Allocated as Below Rail Services or Other Services;

- (b) The fundamental principle underlying Aurizon Network's approach to costing is that, wherever possible, costs and revenues are directly Identified or Attributed to a function, and functions are directly Identified or Attributed as a Below Rail Service provided by Aurizon Network or Other Services provided by Aurizon Network. Costs and revenues are only Allocated to a function/service where it is not possible or practical to disaggregate those costs in a manner that allows for them to be directly Identified or Attributed to a function/service. This principle avoids the application of general rules of Allocation applying to all circumstances. Rather, it requires a detailed process to be put in place to analyse the assets owned, and the costs incurred, by Aurizon Network.

- (c) The general approach described in the Manual is based on the following:

- (i) Where costs are directly incurred in the performance of Below Rail Services provided by Aurizon Network, those costs are directly Identified as Below Rail Costs;
- (ii) Where costs are incurred in common for the provision of Below Rail Services provided by Aurizon Network and/or Other Services, and where there is a causal relationship between the resources used for Below Rail Services provided by Aurizon Network, and/or Other Services, these costs are Attributed on a reasonable basis of cost causality as approved by the QCA; and
- (iii) Where costs and revenues are used jointly for the provision of Below Rail Services provided by Aurizon Network and/or Other Services, and where there is no direct causal relationship between the resources used for Below Rail Services provided by Aurizon Network or Other Services, these costs are Allocated on a reasonable basis as approved by the QCA.

- (d) In Identifying, Attributing and Allocating costs and revenue, rigid application of the methodologies in the Manual is not necessary for immaterial amounts.
- (e) The Manual establishes a methodology for the Identification, Attribution and Allocation of costs based on the accounting information available and methodologies applicable at the time of its development. Where, in the future, costs are identified for which the Identification, Attribution or Allocation methodology has not been explicitly defined within this Manual, Aurizon Network will, as far as reasonably possible, Identify, Attribute or Allocate these costs in a manner consistent with the methodology and principles defined within the Manual.
- (f) The Financial Statements of Aurizon Network are prepared from the audited consolidated financial statements for Aurizon Network Pty Ltd and adjusted in accordance with the requirements of this Manual. These adjustments are audited to ensure compliance with this Manual.

### 3.3 Internal Costing Accounts

- (a) Aurizon maintains its Costing Accounts on a regular basis. Monthly management accounts are prepared for Network. These accounts provide detailed information on the costs of various business activities and reconcile to Aurizon Network's audited general purpose consolidated financial statements which are publicly available.
- (b) The Costing Accounts associate costs and revenue to functional activities, and from this separate Aurizon Network's costs and revenue into Below Rail or Other Services. The resulting information forms the basis for the Financial Statements.
- (c) For financial accounting purposes all transactions are booked to an appropriate cost centre and account code to allow identification of:
  - (i) the nature of the activity requiring the transaction;
  - (ii) the element of activity (e.g. labour, materials); and
  - (iii) the responsible cost centre and manager.
- (d) This financial account coding is designed primarily around the requirements for construction of Aurizon's Costing accounts based on the objectives of responsibility management. This financial account coding and underlying information is collected and arranged such that it is suitable for functional cost analysis.
- (e) The declared service provided by Aurizon Network is restricted to the Central Queensland coal region, and assets and activities serve this one geographic sector. Therefore the responsibility-based accounting provides direct Identification of all costs to functions and hence to Below Rail or Other Services, rather than regions.

For example, costs incurred in providing train control services are Identified as relating to the region across which those train control services are provided – they are not Allocated to the provision of the individual line sections within that region. Any Allocation of Below Rail Costs to a more detailed geographic level is essentially arbitrary in nature.
- (f) The functional cost analysis process represents the financial accounts to reflect the functional activities that give rise to the costs, using physical resource and empirical measures to Attribute and Allocate those costs that cannot be directly Identified to a function.

- (g) The amount of internal charges shall be included in the cost base of the users of those services as recorded in Aurizon's Costing accounts.
- (h) For maintenance of Rail Infrastructure, a standard costing system using work orders underlies and balances to the Costing accounts. The work order system allows for the identification of costing information at an activity level, which then permits a functional analysis of such costs. Work orders typically incorporate a description of the nature of the activity undertaken and the location.
- (i) For activities other than maintenance of Rail Infrastructure, information is drawn from the cost centre/account code (primarily the responsible cost centre and manager) and supporting information, such as supporting transaction explanations and traffic statistics, in order to undertake a functional analysis of these costs. Where supporting information does not provide sufficiently detailed information regarding the functions undertaken at a particular location, Aurizon Network may undertake surveys in order to gain such detailed information.
- (j) The costs and revenue associated with each function are then separated into Below Rail or Other Services in accordance with the process set out in Part 4 of the Manual.



## PART 4. SEPARATION OF BELOW RAIL COSTS AND REVENUE

### 4.1 SEPARATION OF BELOW RAIL EXPENSES

- (a) Expenses shall only include those items recorded in the Costing accounts of Aurizon Network. However:
- (b) Corporate overhead costs are included as calculated using the methodology for the calculation of efficient stand-alone corporate costs in section 4.1.10. Expenses shall be classified as relating to Below Rail Services provided by Aurizon Network or Other Services provided by Aurizon Network by responsibility-based accounting determining the cost centre and function for which the costs are incurred.

In some instances, Attribution or Allocation of expenses may be required in order to align with the Identified functions. Aurizon Network's major expense categories, aligned to the categories in the UT5 Final Decision where applicable, are shown in Table 4.1 which also lists their assignment.

The costs associated with these functions (except a net Gain on Disposal of Assets or net Gain on Derivatives) shall be aggregated and reported under "Expenses" in the Statement of Earnings Before Interest, Tax, Depreciation and Amortisation.

**Table 4.1 Summary of Procedures for Assigning Expenses**

<b>Aurizon Network Cost</b>	<b>Below Rail Services</b>	<b>Other Services</b>
<b>Network Control, safeworking and operations services</b>	Identifiable	
<b>Maintenance</b>	Identifiable	Identifiable
<b>Derailment / Flood Repairs</b>		
Derailments and collisions	Identifiable	Identifiable
Flood Repairs	Identifiable	Identifiable
<b>Infrastructure management</b>	Identifiable	Identifiable
<b>Business Management</b>	Identifiable / Allocated	Allocated
<b>Insurance</b>		
Insurance Premium	Identifiable	Identifiable
<b>Traction Electricity</b>	Identifiable	
<b>Other Items</b>		
QCA Levy	Identifiable	
(Gain)/ Loss on disposal of assets <sup>2</sup>	Identifiable	Identifiable
Professional fees (eg audit)	Allocated	Allocated
Bad/doubtful debts	Identifiable	Identifiable
Miscellaneous	Identifiable	Identifiable
<b>Corporate Overhead</b>	Allocated	

#### **4.1.1 Network Control, safeworking and operations services**

- (a) Network Control, safeworking and operations services are performed by Aurizon Network staff and are Identified in Aurizon's Costing System in separate cost centres from other activities. Network Control, Safe Working and Operations includes controlling the movement of trains, light engines and track machines, and the safe working of these vehicles as they traverse the rail infrastructure.
- (b) There is no allocation of Network Control, safeworking and operations services costs in the Costing accounts between coal and non-coal services to assist in establishing coal tariffs. In the UT5 Final Decision, the QCA has determined an allocation of 5.1% of costs of train control to non-coal services based on 'percentage of time spent on track'. The total costs of Network Control, safeworking and operations services are reported as Below Rail Services in the Financial Statements since it relates to the use of coal systems for providing transportation by rail.

#### **4.1.2 Maintenance**

##### **4.1.2.1 Maintenance of Track, Bridges, Signals and Traction Power Distribution Equipment**

- (a) The cost of these functions is identified by cost centre in Aurizon's Costing System by utilising work orders with standard unit rates that allow for direct costs, indirect costs (leave, training, downtime etc) and a share of administration costs.
- (b) All the costs are Below Rail except for the following costs Identified from work orders:
  - (i) Maintenance of lines which are not part of the declared network and are maintained by Aurizon Network under contracts with the relevant infrastructure owner (these costs should be treated as Other Services provided by Aurizon Network).
- (c) Costs associated with new construction on the declared Aurizon network shall be capitalised.
- (d) Costs associated with new construction on lines that are not part of Aurizon Network's declared network shall be treated as Other Services provided by Aurizon Network.

##### **4.1.2.2 Maintenance of Traction Power Supply Equipment**

- (a) All maintenance of the traction power supply systems is identified as a Below Rail cost.

##### **4.1.2.3 Maintenance of Buildings and Facilities**

- (a) Maintenance of Aurizon Network's building and facilities is derived in the Aurizon's Costing Accounts from work order cost details recorded in Aurizon's costing system, including location and type of building or facility and maintenance activity.
- (b) Maintenance costs are Identified with particular buildings or facilities, and Allocated to Below Rail Services provided by Aurizon Network or Other Services provided by Aurizon Network depending on the building or facilities use. Specific allocations are:
  - (i) Maintenance of water, power and lighting facilities in Below Rail yards (Identified in the Undertaking) are 100% Below Rail;

- (ii) Buildings or facilities utilised for housing telecommunications backbone equipment are 100% Below Rail;

#### **4.1.2.4 Telecommunications**

- (a) Telecommunications maintenance relates to the Communications Network.

These core assets of the network include pole routes, optic fibre installations, microwave links, radio networks and associated interface equipment (eg power supplies and buildings to house equipment). Most railways including Aurizon developed telecommunications networks for the purpose of linking train control centres to signals and other safe working communications. Over the years the backbone has been expanded in size, complexity and technical sophistication to cater for technical developments in train control and signalling.

Aurizon Network is the “owner” of the Control Communications assets in the CQCN and maintenance costs for the assets are separately Identified by work order. These costs are to be treated 100% Below Rail.

#### **4.1.3 Derailment/Flood repairs**

##### **4.1.3.1 Derailments and Collisions**

- (a) Infrastructure repair and other costs arising from derailments, collisions and other accidents recorded in the accounts of Aurizon Network shall be treated as Below Rail unless it relates to lines which are not part of the declared network and are maintained by Aurizon Network under contracts with the relevant infrastructure owner, in which case it will be Identified as Other Services.

##### **4.1.3.2 Flood Repairs**

- (a) Infrastructure repair and other costs arising from flooding and other natural disasters shall be separately recorded in the accounts of Aurizon Network, and treated as Below Rail unless it relates to lines which are not part of the declared network and are maintained by Aurizon Network under contracts with the relevant infrastructure owner, in which case it will be Identified as Other Services.

#### **4.1.4 Infrastructure Management**

- (a) This item refers to the management of the Below Rail infrastructure by Aurizon Network. This includes Regional Managers in major regional locations responsible for maintenance strategies.
- (b) Aurizon’s Costing Accounts shall separate Aurizon Network’s infrastructure management costs from specific maintenance costs in the Aurizon Network cost centres.
- (c) All the costs are Below Rail except for the management of infrastructure on lines which are not part of the declared network and are maintained by Aurizon Network under contracts with the relevant infrastructure owner (these costs should be treated as Other Services provided by Aurizon Network) and can be identified from work orders/timesheets.

#### 4.1.5 Business management costs

- (a) Business management costs includes areas within the Network function that provide management and support services to the operational areas of Network. These include Group Executive Network, Finance, Regulation, Customers, Legal and Network Operations Management.
- (b) Business management costs are incurred within Aurizon Network and are Identifiable in Aurizon Network's Costing accounts by cost centre.

Table 4.2 summarises the separation of business support costs.

**Table 4.2 Summary of Business management costs**

Business management costs	Below Rail Services	Other Below Rail Services
Group Executive Network	Identifiable or Allocated at 90.0%	Allocated at 10.0%
Network Finance	Identifiable /or Allocated at 97.2%	Allocated at 2.8%
Network Regulation	Identifiable 100%	
Customers (formerly Commercial Development)	Identifiable / Allocated at 90.0%	Allocated at 10.0%
Network Legal	Identifiable / Allocated at 90.0%	Allocated at 10.0%
Network Operations Management	Identifiable 100%	-

- (c) Costs of Finance, Regulation, Customers and Legal by their nature predominantly relate to Below Rail Services. As timesheets are not kept to record time spent on various activities, an allocation to Other Services will be made based on % allocations approved in the UT5 Final Decision.
- (d) Costs of Group Executive Network are included within the costs of Below Rail Services and Other Services using the same allocation percentages for Customer and Legal (which are the most conservative). It should be noted however that costs of Group Executive were disallowed from the UT4 allowances for business management costs and were not included within the UT5 allowance for this same reason.
- (e) The UT5 Final Decision includes a general allocation for non-coal traffic of 1.15%. This was applied to total system wide and corporate overhead costs excluding electric traction energy costs and connection costs, Train Operations, Infrastructure management and those categories of Business management costs that are allocated at less than 100%. This allocation has not been included within the Below Rail Financial Statements as non-coal traffic is still a Below Rail service as it relates to the use of coal systems for providing transportation by rail.

#### **4.1.6 Insurance**

- (a) Insurance premiums charged directly to Aurizon Network are able to be identified via the cost centre structure and can be identified with Below Rail Services provided by Aurizon Network or Other Services provided by Aurizon Network from an analysis of these cost centres.
- (b) The Aurizon Group has in place a group insurance program for a number of different insurance policies direct with the insurance market. The policies in this program cover Aurizon Network and its activities. A specific premium is not allocated by the insurers to Aurizon Network. The amounts recognised as insurance premiums in the Costing Accounts for Aurizon Network represent an allocation of the Aurizon Group's premium. The insurance allowance included in the reference tariffs has been estimated for Aurizon Network on a standalone basis and not the allocation basis noted above.
- (c) The UT5 Final Decision provides for a self-insurance allowance for uninsurable risks including derailment, dewirement, weather damage and third-party repairs. The level of self-insurance funding for the uninsurable risks is equal to the amount collected through the reference tariffs. The amount detailed within these Costing Accounts, excludes amounts which have been recovered through any QCA approved tariff adjustment. Details regarding the number of claims on the self-insurance funding during the relevant year can be found in the Notes to these financial statements.

#### **4.1.7 Traction Electricity Energy Costs**

- (a) Traction Electricity Energy cost is the actual cost of electric energy for motive power traction. It shall be treated as a Below Rail cost, because the electricity is taken from Aurizon Network's electric overhead system by all electric trains in common. Therefore, it is necessary for rail operators to purchase traction electricity from Aurizon Network.
- (b) Aurizon Network is responsible for the traction electricity supply contract. The cost can be Identified in the accounts of Aurizon Network.

#### **4.1.8 Other Items**

##### **4.1.8.1 Qld Competition Authority Levy**

- (a) The QCA Levy is identified in Aurizon Network's Costing accounts and is Below Rail.

##### **4.1.8.2 Miscellaneous**

- (a) Other items occurring in the cost centres of Aurizon Network will be Below Rail Services provided by Aurizon Network or Other Services provided by Aurizon Network by Identification, depending on their specific nature.
- (b) Costs incurred in respect to investments in other entities or joint ventures shall be Identified as Other Services provided by Aurizon Network.

#### 4.1.9 Expenses not reported in financial statements

- (a) The following costs of Aurizon Network are excluded from the Statement of Earnings before Interest, Tax, Depreciation and Amortisation:
- Financing Costs
  - Income Tax Expense
  - Depreciation and amortisation – except for depreciation included within the maintenance allowance.
- (b) Depreciation and amortisation expenses in the Costing accounts are recorded against cost centres of Aurizon Network which by analysis allows Identification, Attribution or Allocation of these expenses to Below Rail or Other Services provided by Aurizon Network. Line section codes attached to assets in the Fixed Asset Register may be used to identify the infrastructure on which non-coal freight trains are run. Depreciation on this infrastructure will be reported as Other Services.
- (c) Depreciation in the Costing accounts does not represent the depreciation allowance in the reference tariffs due to differences in methodology between depreciation on the RAB and depreciation calculated under the Australian Accounting Standards. The Statement of Earnings is presented before deductions for depreciation and amortisation since it is not comparable to the regulatory depreciation allowances.

#### 4.1.10 Corporate Overhead

- (a) Under the functional organisational model of the Aurizon Group, corporate services (e.g. payroll, HR services, computer services, admin building services, motor vehicle fleet management) are not charged to the operating functional units separately and are therefore included in corporate overhead.
- (b) Corporate overhead comprises the following functions:
- (i) Board & CEO
  - (ii) Finance & Strategy, incorporating
    1. Treasury – provide specialised advisory support including establishment of policies, management of liquidity, management of banking relationships, establishment and management of debt facilities, development and execution of hedging strategies; and transaction processing for accounts receivable.
    2. Tax – provision of tax strategy, calculation of income taxes and preparation of income tax returns, monitoring of tax compliance, provision of specialist advice to the business on potential and executed transactions.
    3. Investor relations – provide market investment intelligence and management the performance and strategic communications for the investment community.
  - (iii) Technical Services and Planning
    1. Real Estate – responsible for delivering services for: all commercial office and other work place accommodation; operational facilities including depots, yards and other buildings used to accommodate or support operational activities; and housing and camp accommodation for staff. This includes acquisitions, disposals, leasing and portfolio management, facilities management and workplace management including space planning on commercial and operational sites.

2. Technology – responsible for: managing all information and business systems (excluding operational technology) as well as external IT partnerships across the Group; and the effectiveness of IT investments aligned to the business priorities.
  3. Inbound supply and procurement – provide the best cost commercial outcomes across all suppliers through a systematic and disciplined sourcing process, and maintain the commercial relationships with all suppliers under contract; and standardised transactional processing for accounts payable.
- (iv) Corporate
1. Organisational Development and Capability - management of organisational capability through leading the strategic framework, system development and ongoing monitoring and evaluation of components of the employee life cycle (from recruitment to exits).
  2. Brand and communications - internal and external communication programs including stakeholder relations, corporate affairs and community engagement;
  3. Remuneration and Employee Relations - policy setting and advice on remuneration and employee relations; payroll processing and preparation of statutory returns associated with employee benefits.
  4. Company secretary – prime interface between the Board and management and is responsible for ensuring compliance with statutory obligations under the *Corporations Act 2001*.
  5. Legal – General Counsel providing legal advice for the enterprise and management of the engagement of external legal service providers.
  6. Safety, health and environment (SHE) – provide expertise, coaching and governance to the Board and management; manage Aurizon’s environmental footprint and enterprise SHE resources; and manage Aurizon’s interface with external regulatory bodies.
  7. Risk and assurance – provide independent and objective assurance to management and the Board on the adequacy of governance, risk management and internal control systems and procedures.
  8. Safety and HR partners - partnering with senior management and their teams to enable the achievement of business objectives.
- (c) Corporate overhead is Allocated as relating to Below Rail Services because it is calculated using the same methodology as the regulatory allowance, and hence pertains only to Below Rail Services.
- (d) The methodology employed for allocating the Aurizon Group’s corporate costs to Below Rail Services is as follows:
- (i) Obtain from Costing Accounts the operating expenses for each non-operational function of the Aurizon Group – e.g. Finance (excluding direct Network Finance), Technical Services and Planning, Corporate, and Board & CEO.
  - (ii) Exclude cost centres in the Costing Accounts for each of these functional areas that are specifically related to operating functions other than below rail services.
  - (iii) Apply allocators calculated as at the end of the financial year to all other cost centres in the Costing Accounts as summarised in Table 4.3 where:

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

**Table 4.3 Summary of Aurizon Corporate Overhead Allocation**

Corporate Non-operating function	Allocator Applied
<b>Board &amp; CEO</b>	Direct costs
<b>Finance (excluding Network Finance)</b> <ul style="list-style-type: none"> <li>- Mergers &amp; Acquisitions, Finance Partner Coal, Finance Partner Bulk, and Group Accounting, Planning &amp; Reporting and Governance</li> <li>- Accounts Receivable</li> <li>-</li> <li>- All other sub-functions including– Treasury, Tax, Investor Relations, Insurance, Admin Resource Centre. Finance Partner TSP &amp; Corporate.</li> </ul>	Nil  Number of transactions   Direct costs
<b>Technical Services and Planning</b> <ul style="list-style-type: none"> <li>- Real Estate</li> <li>-</li> <li>- Technology</li> <li>- Procurement</li> <li>- Accounts Payable</li> </ul>	Generally identifiable by occupancy, with FTEs used for unidentifiable/shared costs   Labour costs: 7.3% Identifiable to Network; 81.6% allocated using FTEs Consumables costs: 12.5% Identifiable to Network; 60.2% allocated using FTEs  Direct costs Number of transactions
<b>Corporate</b> <ul style="list-style-type: none"> <li>- Organisational Development &amp; Capability, Remuneration, Payroll, Risk &amp; Assurance and Employee Relations, Safety Health &amp; Environment</li> <li>- External communications, External relations, Company Secretary, Legal,</li> <li>- HR – centrally held costs executive bonuses leave discounting</li> <li>-</li> <li>- Safety and HR partners – TSP and Corporate</li> <li>- Safety and HR partner – Network</li> <li>- Safety and HR partner – Coal and Bulk, Brand and Community Engagement</li> </ul>	FTEs  Direct costs   9% 10%  FTEs  100%  Nil



## 4.2 SEPARATION OF BELOW RAIL REVENUE

- (a) Revenue shall only include those items recorded in the Costing accounts of Aurizon Network.

Table 4.4 summarises the procedures for separating Aurizon Network revenue into Below Rail Services provided by Aurizon Network or Other Services provided by Aurizon Network.

**Table 4.4 Summary of Procedures for Separating Revenue**

	<b>Below Rail Services provided by Aurizon Network</b>	<b>Other Services provided by Aurizon Network</b>
<b>SALES REVENUE</b>		
Access charges - Coal	Identifiable	
Access charges - Other	Identifiable	
Electric traction energy charges	Identifiable	
<b>OTHER REVENUE</b>		
Access facilitation charges Contributions from developers		Identifiable
GAPE and WIRP fees		Identifiable
Insurance claims revenue	Identifiable	Identifiable
Other	Identifiable	Identifiable

### 4.2.1 Sales Revenue

- (a) This category relates to the main activities of Aurizon Network – provision of network infrastructure services.
- (b) Revenue items in this category are:
- External and internal below rail access revenue for Aurizon Network, net of external rebates
  - Electric traction energy charges (EC)
  - Other revenue

#### 4.2.1.1 Access Charges

- (a) External and internal access revenue is recorded in cost centres representing coal systems in the accounts of Aurizon Network. These items are to be the amounts advised by Aurizon Network as being in accordance with the access agreements for the year concerned.
- (b) Revenue from access charges for bulk coal trains shall be reported separately in the Financial Statements. Access charges for bulk coal trains shall comprise regulated tariffs AT1 to AT5. Any other non-regulated charges for these trains are reported as Below Rail Services revenue.
- (c) ‘Access charges – other’ comprises access revenue received from the running of non-coal freight services and are also reported as Below Rail Services revenue since it is derived from the coal systems used to provide transportation by rail.

#### **4.2.1.2 Electric Traction Energy Charges**

- (a) This item relates to the EC charge only in respect to electric coal trains. These items are in the accounts of Aurizon Network with the amounts being in accordance with the access agreements for the year concerned.

#### **4.2.2 Other Revenue**

##### **4.2.2.1 External Other Revenue**

- (a) Any external other revenue for Aurizon Network is Identifiable as Below Rail Services provided by Aurizon Network or Other Services provided by Aurizon Network from an analysis of cost centre data or Costing System account codes.
- (b) Access facilitation deeds, GAPE deeds and WIRP deeds have been negotiated separately to reference tariffs and associated revenue recorded in separate Costing Accounts account codes than access revenue. Access facilitation charges and fees received pursuant to these deeds are recognised as Other Services revenue.
- (c) As a result of sizing of telecommunications equipment, particularly transmission systems, there is some capacity that is used to carry additional voice and data transmissions. Some is related to the coal supply chain, some is related to providing voice services (business communications) for Aurizon Network, and some is used by third parties. Aurizon Network charges revenue for use of the backbone by External customers (e.g. Queensland Rail). This is classified as Other Services Revenue.

##### **4.2.2.2 Other Items**

- (a) From time to time other revenue items may occur which this Manual does not specifically anticipate. In such cases the general principles in Part 3 shall be followed.

## PART 5. FINANCIAL STATEMENTS

### 5.1 Format of Financial Statements

- (a) Paragraph 3.8(a) of the Undertaking requires Aurizon Network to “develop, on an annual basis:...
- (i) *General purpose financial statements for Aurizon Network in accordance with relevant legislation and applicable Australian accounting standards; and*
  - (ii) *a supplementary set of financial statements which*
    - (A) *separately identifies Aurizon Network’s business in respect of the supply of the declared services contemplated by section 250(1)(a) of the Act from other business conducted by Aurizon Group*
    - (B) *identifies costs common to both Aurizon Network and Aurizon Group and the way in which such costs are allocated; and*
    - (C) *are otherwise developed in accordance with the methodology and format set out in the Costing Manual.*
- (b) The format to be used for the Financial Statements is specified in Schedule A to this Manual.
- (c) Comparative information for the previous financial year should be restated for changes in accounting policies or changes in the Costing Manual from one financial year to another.

### 5.2 Minor Changes to the Format

Minor changes to the wording, line items and columns in the Financial Statements can be made to meet changing circumstances subject to the approval of the QCA.

### 5.3 Notes to the Financial Statements

The Financial Statements shall be accompanied by notes which shall:

- (a) Refer to this Manual as the methodological basis of preparation of the Financial Statements;
- (b) Refer to the underlying records for Aurizon Network and where applicable Aurizon as being the source of information for preparation of the Financial Statements;
- (c) Refer to (but not repeat) the notes accompanying Aurizon Network’s general purpose financial statements for explanation of Aurizon Network’s accounting policies;
- (d) Explain the terms “Below Rail Services Provided by Aurizon Network” and “Coal System” and any changes during the year;
- (e) Disclose other amendments made to the Manual during the year, including the financial impact, where such amendments have a material impact on the Financial Statements; and
- (f) Provide explanation of material matters about which an informed reader would need to be aware to understand the Financial Statements.
- (g) Provide details on Self-Insurance in accordance with clause 3.8(d) of the Undertaking.

- (h) Identify costs common to Aurizon Network and Aurizon Group and the allocation basis that has been applied to these costs.
- (i) Provide a comparison between costs allocated using allocation percentages calculated for the current financial year, and those approved for the Undertaking.

## PART 6. DEFINITIONS

In this Manual, the following words and expressions shall have the meanings identified in this Part 6. Other parts of speech or grammatical forms of a word or phrase defined in this Manual have a corresponding meaning.

Capitalised terms included in this Manual but not defined in this Part 6, or elsewhere in this Manual, have the same meaning as in the Undertaking.

**“Allocation”** means, where assets, costs, or revenues are jointly used for the provision of a function/service and where there is no direct causal relationship between the resources used and the function/service provided, the sharing of such joint costs between those functions/services.

**“Attribution”** means, where assets, costs or revenues are jointly used for the provision of a function/service and where there is a causal relationship between the resources used and function/service provided, the sharing of costs between those functions/services on a basis of cost causality.

**“Aurizon”** means Aurizon Holdings Limited, the listed parent holding company. Aurizon wholly owns Aurizon Operations Limited that wholly owns Aurizon Network Pty Ltd.

**“Aurizon Network”** means Aurizon Network Pty Ltd ACN 132 181 116.

**“Below Rail Costs”** means the assets and/or costs, revenue and investments (as the context implies) associated with the provision of Below Rail Services.

**“Central Queensland Coal Network (CQC�)”** means, as defined within the Undertaking, the following rail corridors :

- a) from the ports at Hay Point and Dalrymple Bay to Blair Athol mine, North Goonyella mine, Hail Creek mine and the junction with the Gladstone to Gregory mine corridor;
- b) from the port of Gladstone (including domestic coal terminals in the vicinity of Gladstone and including, but not limited to, the Wiggins Island Coal Export Terminal) to Gregory, Minerva and Rolleston mines;
- c) from the port of Gladstone (including domestic coal terminals in the vicinity of Gladstone) to Moura mine and the loading facility for Baralaba mine in the vicinity of Moura mine;
- d) from the port of Abbot Point to North Goonyella mine; and
- (i) all branch lines directly connecting coal mine loading facilities to the abovementioned corridors.

**“Corporate Overhead”** costs are the cost of those activities that relate predominantly to the overall management, strategy and governance of the corporation and which under the Aurizon functional organisational model and incurred centrally and not within the operational functions. Under the Aurizon functional organisational model, Corporate Overhead also includes Corporate Services.

**“Corporate Services”** costs are the costs of services that are provided at the corporation wide level to groups and divisions within Aurizon and include, for example, payroll, HR services, computer services, administration building services, motor vehicle fleet management and legal services.

**“Costing accounts”** or **“Costing system”** means the SAP General Ledger used by the Aurizon Group and which are used to extract information for the preparation of management accounts and Financial Statements.

**“Costing Manual”** or **“Manual”** means this document which is the cost allocation manual prepared by Aurizon Network and approved by the QCA.

**“Expenses”** means all operating expenses including corporate overhead.

**“Financial Statements”** means the statement of assets and, statement of earnings before interest, tax, depreciation and amortisation and associated notes for the financial statements, which separately identify Aurizon Network’s business in respect of the declared services contemplated by section 250(1)(a) of the Act, from other business conducted by Aurizon Network, and which are required in accordance with the Undertaking.

**“Identification”** means, where costs are directly incurred, or assets directly used in the performance of a function/service, the identification of those costs to that function/service.

**“Line Section”** means a section of railway route as defined by Aurizon’s Network Assets division from time to time and that is identified for the purpose of classifying the Rail Infrastructure into line sections with reasonably consistent traffic (in terms of type of traffic and density of traffic) and reasonably consistent track standards.

**“Network”** means the operational business division established within the Aurizon Group to provide management services on the rail network.

**“Network Wide”** means assets, costs, revenue and investments associated with the provision of Below Rail Services not able to be Identified or Attributed to a Line Section or a geographic region.

**“Other Services”** means the activities of Aurizon Network other than those associated with the provision of the service declared for the purposes of Part 5 of the Act pursuant to section 250(1)(a) of the Act.

**“Undertaking”** refers to Aurizon Network’s access undertaking approved by the QCA in accordance with the Act in respect to the provision of Rail Infrastructure for the purpose of operating Train Services.

# COSTING MANUAL – SCHEDULE A

## PRO FORMA FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS PURSUANT TO THE ACCESS UNDERTAKING

#### BELOW RAIL SERVICES PROVIDED BY AURIZON NETWORK

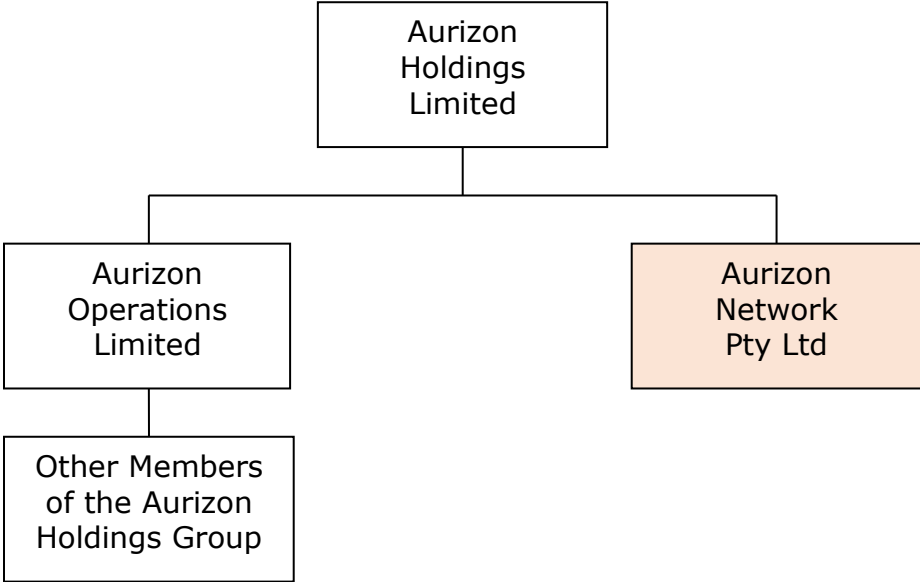
#### STATEMENT OF EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

	FOR THE YEAR ENDED 30 JUNE XXXX	FOR THE YEAR ENDED 30 JUNE XXXX
	\$000's	\$000's
<b>REVENUE</b>		
Access charges – Coal	X,XXX	X,XXX
Access charges – Other	X,XXX	X,XXX
Electric traction energy charges	X,XXX	X,XXX
Other	X,XXX	X,XXX
Total revenue	X,XXX	X,XXX
<b>EXPENSES</b>		
Maintenance	X,XXX	X,XXX
Derailment / collision / flood repairs	X,XXX	X,XXX
Network control services	X,XXX	X,XXX
Infrastructure management	X,XXX	X,XXX
Business management	X,XXX	X,XXX
Insurance	X,XXX	X,XXX
Traction electricity	X,XXX	X,XXX
Other expenses	X,XXX	X,XXX
Corporate overhead	X,XXX	X,XXX
Total expenses	X,XXX	X,XXX
<b>EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION</b>	X,XXX	X,XXX

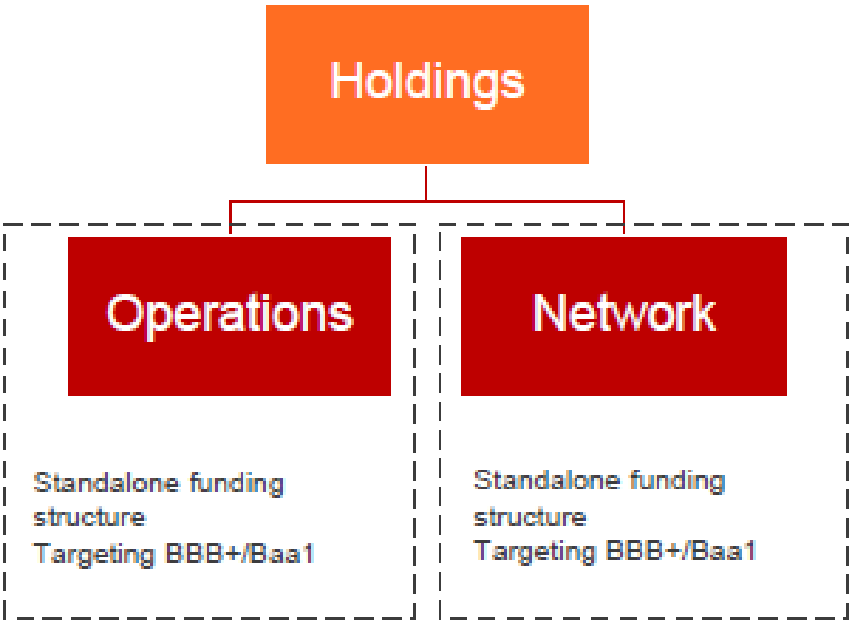
# AURIZON NETWORK COSTING MANUAL

## SCHEDULE B

### AURIZON STRUCTURE







# AURIZON NETWORK COSTING MANUAL

## SCHEDULE C

### NETWORK FUNCTION STRUCTURE

