# Debt Investor Update

Arlette Griffiths–Smith – Acting Group Treasurer
Pam Bains – VP Network Finance

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Further information can be found on the Aurizon Debt Investor Website :
http://www.aurizon.com.au/Investors-site/Pages/Debt-Investors.aspx

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# Agenda



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# 1. Aurizon FY15 in review

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# Key headlines – FY2015

| | |
|---|---|
| **Safety** | › 43% improvement in LTIFR, 14% improvement in TRIFR |
| **Results** | › Revenue flat at $3.78bn<br>› Underlying EBIT up 14% to $970m<br>› Statutory NPAT up 139% to $604m (impact of VRP and impairment of $386m in FY2014)<br>› ROIC up 0.9ppt to 9.7%, statutory EPS up 141% at 28.4cps |
| **Operating Ratio** | › 74.3% - ahead of 75% target<br>› 70% OR target by FY2018 |
| **Transformation** | › $252m in benefits delivered since 1 July 2013, $123m in FY2015<br>› Continuous improvement to drive future benefits across all functions |
| **Capital Management** | › Dividend payout ratio range lifted to 70-100%<br>› Final FY2015 dividend 13.9 cents (30% franked) – based on 100% payout ratio, up 64%<br>› Opportunistic on-market buyback continues |
| **Growth** | › WPIOP – initial tariff delivered, work has identified ~25% reduction in estimated capital construction costs<br>› Moorebank – agreement with Government reached, negotiations with Qube ongoing |
| **Enterprise Agreements (EA)** | › Significant achievement in restructuring Queensland EAs covering ~5,000 employees<br>› Staff EA approved and implemented effective 28 January 2015, positive ballot outcome on two remaining EAs, Fair Work Commission approval expected in the coming weeks |

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# Key financial and operational highlights

| $m | FY2015 | FY2014 | Variance |
|---|---|---|---|
| Revenue | 3,780 | 3,822 | (1%) |
| EBIT (underlying) | 970 | 851 | 14% |
| EPS[1] (cps) (underlying) | 28.4 | 24.5 | 16% |
| Final dividend (cps) | 13.9 | 8.5 | 64% |
| Operating Ratio (underlying)[2,3] | 74.3% | 77.7% | 3.4ppt |
| ROIC[4] | 9.7% | 8.8% | 0.9ppt |
| Revenue / NTK ($/000 NTK) | 52.2 | 51.7 | 1% |
| Labour Costs / Revenue[5] | 25.7% | 27.1% | 1.4ppt |
| NTK / Employee (FTE) (MNTK) | 10.5 | 9.8 | 7% |
| Tonnes (m) | 282.8 | 286.6 | (1%) |

## Continued profit growth despite flat volumes

- Flat above rail volumes, lower pass through fuel revenue
- Strong Network performance with uncapped revenue and record tonnage meeting customer demand
- $123m in transformation and productivity improvement
- No underlying adjustments in FY2015, statutory EPS up 141%
- Payout ratio of 100%
- Increases in Coal and Iron Ore partly offset by Freight
- Improvement in core metrics with 9% reduction in FTE

1. EPS calculated on weighted average number of shares on issue 2,129m in FY2015 and 2,137m in FY2014
2. OR for remuneration purposes (Including diesel fuel rebate as revenue) was 75.0%
3. Profit/loss on sale of assets included in OR is consistent with prior years
4. ROIC for remuneration purposes (adjusted to exclude major projects under construction with a value greater than $250m) was 10.4%
5. Excludes $36m of Voluntary Redundancy Program (VRP) costs in FY2015 – same calculation basis as FY2014

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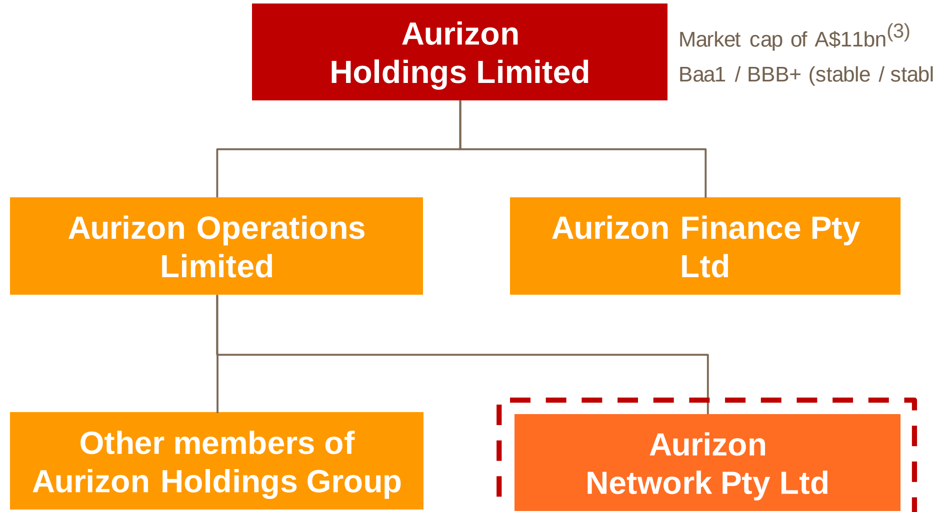
# 2. Aurizon Network

# About Aurizon Network

- Aurizon Network controls, manages, operates and maintains the fixed rail infrastructure "below rail" assets of the Central Queensland Coal Network (**CQCN**)
  - Regulated Asset Base (**RAB**) of A$4.5 billion[(1)]
  - Rated Baa1 / BBB+ (stable / stable)
- Aurizon Network services a diversified group of coal miners, predominantly large, global, investment grade[(2)] companies
- The CQCN is Australia’s largest export coal rail network and is the vital rail link between Queensland’s coal mines and the various ports used to export coal
- The CQCN is a natural monopoly infrastructure asset regulated by the Queensland Competition Authority (**QCA**)
- The regulatory framework is designed to provide open access to accredited rail operators and allow a reasonable return on capital to the owner over the life of the asset
- Aurizon Holdings is the ultimate parent of Aurizon Network
  - Australia's largest rail freight company (by tonnes hauled)
  - Listed on ASX and included in the S&P / ASX 50 index
  - Rated Baa1 / BBB+ (stable / stable)

## Aurizon Holdings legal structure




Other members of Aurizon Holdings Group:
- “Above-rail” freight haulage
- Construction, engineering and project management
- Specialised track maintenance

Aurizon Network Pty Ltd:
- “Below-rail” operations
- RAB of A$4.5bn[(1)]
- Baa1 / BBB+ (stable / stable)

1) FY13 approved roll-forward RAB excluding Access Facilitation Deed Assets as at 30 June 2013, the QCA has deferred approval of subsequent RAB rollovers until the finalisation of UT4.
2) Refers also to mines that are owned by parents with investment grade credit ratings
3) As at June 2015

Issuer under the A$ MTN Debt Issuance Programme dated October 4, 2013 and the EMTN Issuance Programme dated September 2, 2014

# About the CQCN

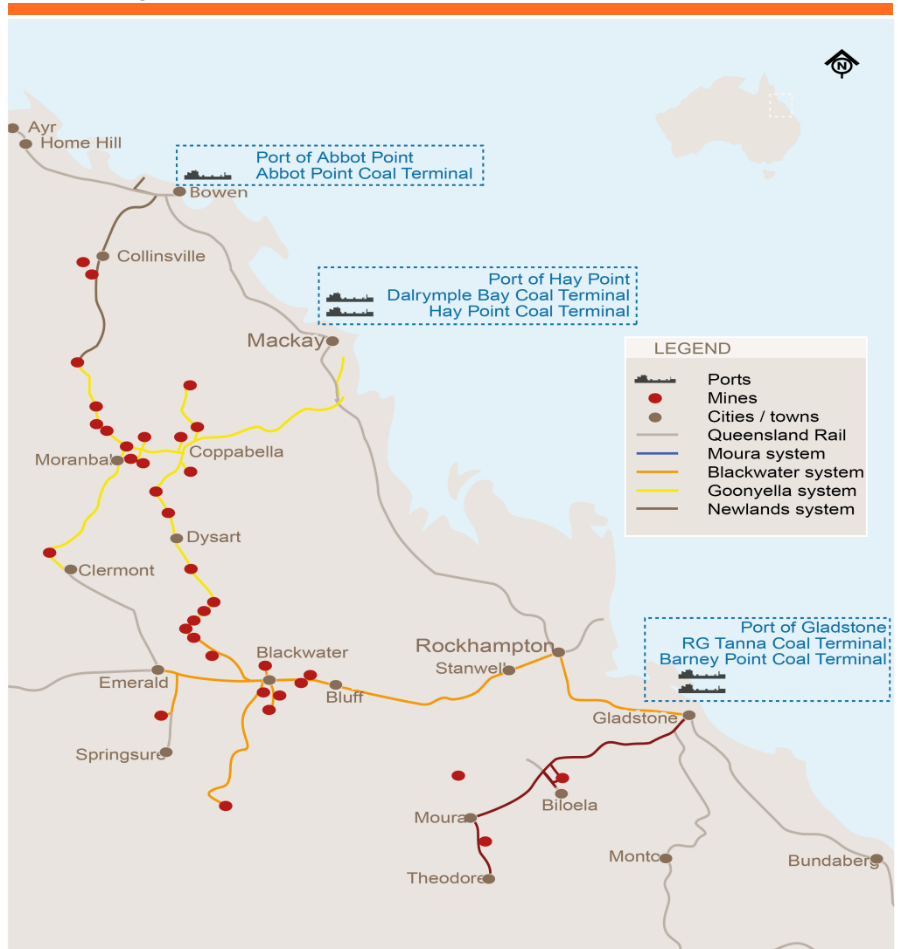
- The CQCN comprises 4 major coal systems and 1 connecting system link serving Queensland's Bowen Basin coal region: Newlands, Goonyella, Blackwater and Moura with GAPE the connecting system link
  - 2,670 kilometres network length
  - Over 40 operating coal mines serviced[1]
- Aurizon Network's operations are governed by 99 year lease arrangements with the State of Queensland
- Approximately 72 services per day delivering to six export coal terminals at three ports
- Open access network with 3 above rail coal operators – Aurizon Operations, Pacific National and BMA Rail

**Key statistics[1]**

| | |
|---|---|
| Contracted annual tonnages (FY14) | 255.4Mt |
| Coal mines serviced (2014) | >40 |
| Coal export terminals | 6 |
| Coal domestic terminals | 5 |
| Export coal (FY14) | 96% |
| Port capacity (2014) | 257Mtpa |
| Network length | 2,670km |
| Electrified track length | 1,866km |

1) Based on Aurizon Network's Half Year result, 31 December 2014

## CQCN system overview



# 3. Capital management

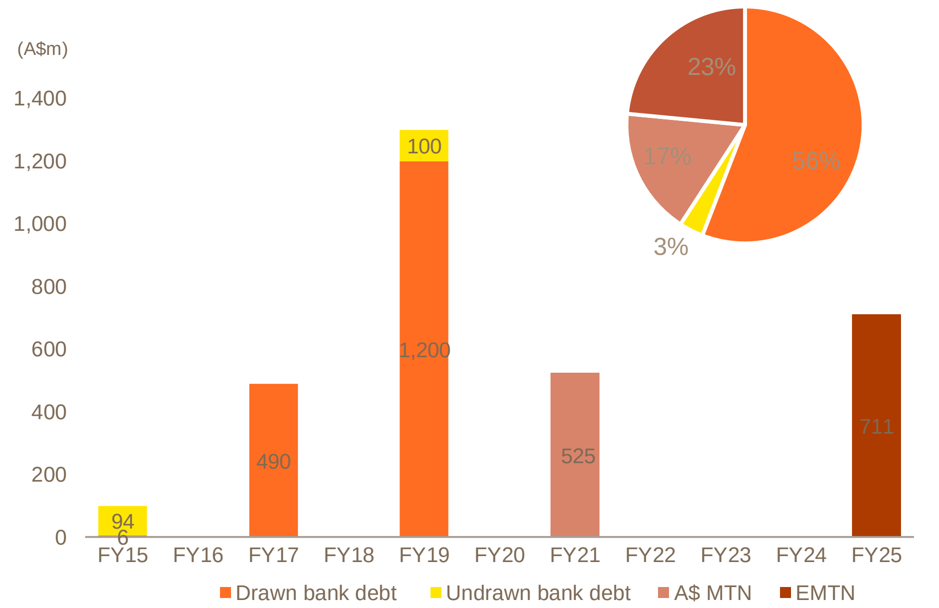
# Strong financial position and ratings stability

## Overview of Aurizon Network

- Aurizon Network operates as a separate standalone entity to Aurizon Operations and Aurizon Holdings
- Standalone debt facilities are in place at the Aurizon Network level supported by the below rail regulated infrastructure assets
- Aurizon Network's target gearing level is consistent with the regulator's assumption of 55% Debt to RAB
- Aurizon Network is rated by Moody's (Baa1 / stable) and S&P (BBB+ / stable) and is committed to maintaining a strong investment grade rating
- This capital structure provides financial flexibility, including the ability to introduce a minority equity interest in the future
- Debt facilities used to fund the major growth projects. Existing facilities are sufficient to fund committed Network projects

## Debt maturity profile (as at 30 June 2015)

- Aurizon Network is committed to prudent capital management through the diversification of funding sources and adequate liquidity and risk management activities
- A$200m of undrawn capacity available at Aurizon Network level (including working capital facilities)



# 4. Regulatory Update

# Aurizon Network's 2014 Draft Access Undertaking ("UT4") Status

- The Queensland Competition Authority ("QCA") published its Draft Decision on Aurizon Network's UT4 Maximum Allowable Revenue ("MAR") for the period of the next undertaking on 30 September 2014
  - The decision details an unsmoothed MAR of $4.04 billion including a vanilla Weighted Average Cost of Capital return of 7.17%, excluding Capital Carryover
  - Aurizon Network responded to the Draft UT4 MAR Decision on 19 December 2014
- The Queensland Competition Authority (QCA) published its Draft Decision on Aurizon Network's 2014 Draft Access Undertaking – Policy & Pricing ("UT4") on 30 January 2015
  - Aurizon Network is disappointed with the draft decision and its potential impact on investment in the CQCN
  - Aurizon Network submitted its response to the draft decision on 17 April 2015
  - QCA expects to issue its Final UT4 Decision in October 2015 with Aurizon Network implementation by February 2016
- The potential impact on Aurizon Network's credit profile is minimal as
  - The business's expenditure can be readjusted to more closely align with revenue allowances
  - The business has flexibility over distributions and Capital Expenditure
  - Aurizon's risk management strategy has aligned the pricing on its debt with the timing of the WACC determination

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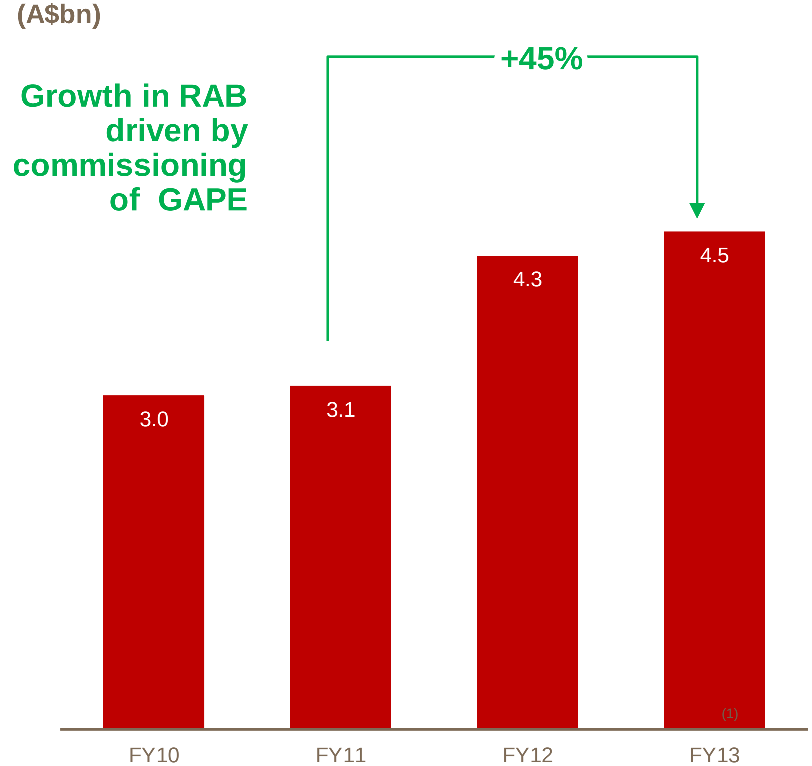
# Growth in Aurizon Network's RAB

- QCA determines Aurizon Network's access pricing based on the estimated value of the RAB
- RAB value of A$4.5bn (excluding assets subject to access facilitation deeds) as at June 30, 2013, was approved by the QCA on August 29, 2014
- Value of the RAB determined by:
  - Opening balance
  - add inflation
  - add capex
  - less depreciation
- Any future growth capex will be assessed based on expected return and probable inclusion in the RAB

**Aurizon Network's RAB over time**




| Historicals (A$ millions) | FY13 | FY14 | FY15 |
|---|---|---|---|
| Total assets | 5,033 | 5,378 | 5,811 |
| Regulated Asset Base | 4,470[1] | N/A | N/A |

| 1HY14 | 1HY15 |
|---|---|
| 5,131 | 5,505 |
| N/A[1] | N/A |

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1) FY13 approved roll-forward RAB excluding Access Facilitation Deed Assets as at 30 June 30 2013, the QCA has deferred approval of subsequent RAB rollovers until finalisation of UT4.

# 5. Financial performance and capital projects

# Network performance and operating metrics

| $m | FY2015 | FY2015 | | FY2014 | FY2015 v FY2014 |
|---|---|---|---|---|---|
| | | 2H | 1H | | |
| Revenue - Access | 1,048 | 547 | 501 | 951 | 10% |
| - Services | 13 | 7 | 6 | 17 | (24%) |
| - Other | 47 | 24 | 23 | 44 | 7% |
| **Total Revenue** | **1,108** | **578** | **530** | **1,012** | **9%** |
| Operating costs | (409) | (203) | (206) | (402) | (2%) |
| **EBITDA** | **699** | **375** | **324** | **610** | **15%** |
| EBITDA margin | 63.1% | 64.9% | 61.1% | 60.3% | 2.8ppt |
| Depreciation and amortisation | (215) | (109) | (106) | (198) | (9%) |
| **EBIT** | **484** | **266** | **218** | **412** | **17%** |
| **Operating Ratio** | 56.3% | 54.0% | 58.9% | 59.3% | 3ppt |
| Tonnes (million) | 225.7 | 111.0 | 114.7 | 214.5 | 5% |
| NTK (bn) | 56.2 | 27.8 | 28.4 | 54.2 | 4% |
| Access Revenue/NTK (A$/000 NTK) | 18.6 | 19.7 | 17.6 | 17.5 | 6% |
| Maintenance/NTK (A$/000 NTK) | 2.5 | 2.6 | 2.4 | 2.5 | - |
| Opex/NTK (A$/000 NTK) | 11.1 | 11.2 | 11.0 | 11.1 | - |

- Revenue recognised for FY15 on the basis of transitional tariffs and actual tonnages. The MAR for FY14 was capped with $70m over-collection of revenue returned to the customers in 1H FY2015. The transitional MAR for FY15 was uncapped. Upon approval of UT4, new tariffs will be adjusted to recover any revenue foregone under transitional arrangements.
- 225.7Mt throughput in FY15 was a record volume over the CQCN
- $91m EBITDA increase in FY15 from FY14 as a result of $96m increased revenues and relatively flat operating costs.

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Note: Historically, Aurizon Network's financial results have been consolidated into audited accounts of Aurizon Holdings. Summary financials and operating metrics are not comparable with information previously filed by Aurizon Holdings

1) Approved roll-forward RAB excluding Access Facilitation Deed assets as at 30 June 30 2013, the QCA has deferred approval of subsequent RAB rollovers until finalisation of UT4.
2) Underlying EBITDA is the Statutory EBITDA adjusted for impairment losses of $66.1m in FY14

# Central QLD Coal Network volumes (mt)

| | FY2015 | FY2015 | | FY2014 | FY2015 v FY2014 |
|---|---|---|---|---|---|
| | | 2H | 1H | | |
| Newlands | 14.7 | 6.7 | 8.0 | 12.0 | 23% |
| Goonyella | 119.6 | 59.5 | 60.1 | 114.5 | 4% |
| Blackwater | 63.7 | 31.2 | 32.5 | 63.1 | 1% |
| Moura | 12.3 | 5.8 | 6.5 | 12.4 | (1%) |
| GAPE | 15.4 | 7.8 | 7.6 | 12.5 | 23% |
| **Total** | **225.7** | **110.9** | **114.7** | **214.5** | **5%** |
| Average haul length[3] (kms) | 249 | 251 | 247 | 253 | (2%) |

1. Table represents tonnes hauled on the CQCN by all operators
2. Total does not add due to rounding
3. Defined as NTK/Net Tonnes

# Capitalisation and credit metrics

**Strong balance sheet with a commitment to maintaining a strong investment grade credit rating**

- Credit metrics do not reflect the benefit of higher revenues from increased throughput due to the impact of transitional tariffs

### Capitalisation

| (A$m) | Jun-13 | Dec-13 | Jun-14 | Dec-14 | Jun-15 |
|---|---|---|---|---|---|
| Cash | 22.7 | 16.2 | 1.1 | 6.5 | 116.4 |
| Debt | 2,199.8 | 2,263.0 | 2,532.5 | 2,728.0 | 2,938.3 |
| Equity | 1,819.9 | 1,921.1 | 1,833.7 | 1,834.4 | 1,813.2 |

### Credit metrics

| (A$m) | Jun-13 | Dec-13[3] | Jun-14 | Dec-14[4] | Jun-15 |
|---|---|---|---|---|---|
| Debt / RAB[1] | 49% | 51% | N/A | N/A | N/A |
| Debt / EBITDA | 3.6x | 3.8x | 4.7x | 4.8x | 4.2x |
| Debt / Underlying EBITDA[2] | 3.6x | 3.7x | 4.1x | 4.4x | 4.2x |

Note: The values of cash, debt and equity are as per the financial statements, not definitions to be used for the calculation of debt covenants

1) Approved roll-forward RAB excluding Access Facilitation Deed Assets as at 30June 2013 used for Jun-13 and Dec-13. The QCA has deferred subsequent RAB rollovers until the finalisation of UT4.
2) Underlying EBITDA is statutory EBITDA adjusted for impairment losses in FY14
3) EBITDA and Underlying EBITDA for the 12 months ended December 31, 2013 were $588m and $607m respectively
4) EBITDA for Dec-14 based on 2HY14 EBITDA of $246m plus 1HY15 EBITDA of $323m, and Under lying EBITDA of $294 for 2HY14 plus 1HY15 of $323m

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# Major committed Network growth projects

| | | |
|---|---|---|
| Network - QLD | **Wiggins Island Rail Project (WIRP)** | ▪ WIRP is the staged development of new rail lines and upgrading of existing lines to service the new Wiggins Island Coal Export Terminal at the Port of Gladstone<br>▪ Commenced: FY2012<br>▪ Spend to 30 June 2015: $725m of $831m expected total costs (including $13m of WIBL electrification and Callemondah Feeder Station costs). As detailed in previous guidance, this remains $27m lower as a result of efficiencies gained in scope design and in competitive tendering conditions on Segment<br>▪ North Coast Line, as well as delivery risks being mitigated as other segments near completion) |
| | **Hay Point Rail Expansion** | ▪ Construction of the Goonyella system expansion to support the Hay Point Port upgrade (a further 11mtpa, lifting the Goonyella system capacity to 140mtpa) has been completed<br>▪ Commissioning of this infrastructure is predicated on the commissioning of the Wotonga Feeder Station which was completed in June 2014 and was connected to Powerlink network in July 2015<br>▪ The Hay Point Coal Terminal expansion is expected to be commissioned in September 2015<br>▪ The total project spend has come in under budget at $121m |
| | **Rolleston Electrification** | ▪ Scope of work includes 5km of additional electrification (Kinrola line), 107km of electrification (Rolleston Line), Feeder Station and associated power systems infrastructure. Purpose is to harness the operational efficiency and cost benefits by enabling new high capacity electric trains to operate<br>▪ Commenced: July 2013 and completed in December 2014<br>▪ First railings commenced on 15 December 2014<br>▪ The total project spend has come in under budget at $150m |

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Note: Targets and approved amounts exclude capitalised interest

# Questions & Answers

# Appendix

# Definitions

| Metric | Description |
|---|---|
| Access Revenue | Amount received for access to the Network infrastructure under the Access Agreement |
| Average haul length | NTK/Total tonnes |
| Contract utilisation | Total volumes hauled as a percentage of total volumes contracted |
| CQCN | Central Queensland Coal Network |
| Free cash flow | Net operating cash flows less net cash flow from investing activities |
| FTE | Full Time Equivalent - The number of unique employee positions filled by all Aurizon employees (excluding contractors/consultants) as at period end. The NTK/Employee metric for the half year is annualised for comparative purposes and uses period-end FTE |
| GAPE | Goonyella to Abbot Point Expansion |
| Gearing | Net debt/(net debt + equity) |
| Gross Contracted NTKs | Gross contracted tonnages multiplied by the loaded distances (calculated on a contract by contract basis) |
| Maintenance | Maintenance costs exclude flood repairs, mechanised ballast undercutting, derailment repairs and electric traction maintenance |
| MAR | Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN |
| Mtpa | Million tonnes per annum |
| NTK | Net Tonne Kilometre. NTK is a unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons |
| Operating Ratio | 1 – EBIT margin. Operating ratio calculated using underlying revenue which excludes interest income & significant items |
| Opex | Operating expense including depreciation and amortisation |
| ROIC | Return on Invested Capital. Rolling 12-month underlying EBIT/(Net working capital + Net PP&E + AUC + Gross Intangible Assets) |
| ToP | Take-or-Pay. Contractual ToP provisions entitles Aurizon Network to recoup a portion of any lost revenue resulting from actual tonnages railed being less than the regulatory approved tonnage forecast |
| Turnaround time | The average hours between when a train departs its origin empty to its next departure time |
| Underlying | Underlying earnings is a non-statutory measure and is the primary reporting measure used by Management and the Group's chief operating decision making bodies for the purpose of managing and determining financial performance of the business. Underlying results differ from the Group's statutory results. Underlying adjusts for significant/one-off items |
| VRP | Voluntary redundancy program |
| WACC | Weighted average cost of capital |
| WIRP | Wiggins Island Rail Project |

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# 6. Experienced Board and Management teams

# Experienced Board and Management teams

## Board

### John Atkin
### Non-Executive Chairman

Mr. Atkin has more than 30 years' experience in financial services and the legal profession in Australia and internationally. Current Director of the Australian Outward Bound Foundation and a member of the Board of the State Library of NSW Foundation. Previously Chief Executive Officer of The Trust Company Limited (2009-2013), Managing Partner of Blake Dawson (2002-2008) and a Corporate and Mergers & Acquisitions partner at Mallesons Stephen Jaques (1987-2002).

### Alex Kummant
### Director,
### Executive Vice President

Mr. Kummant has more than 25 years' experience in the North American industrial sector, including in various executive roles in the rail industry. Mr. Kummant was appointed Executive Vice President Strategy of the Aurizon Holdings Group in October 2012 and then Executive Vice President of Aurizon Network in January 2014 . Prior to joining the Aurizon Holdings Group in October 2012, Mr. Kummant was Chief Executive Officer of Amtrak and Vice President in several executive roles at Union Pacific Railroad. Prior to joining Union Pacific Railroad, Mr. Kummant held various executive roles at Emerson Electric Co. and SPX Corporation.

### John Cooper
### Non-Executive Director

Mr. Cooper has more than 35 years' experience in the construction and engineering sector in Australia and overseas. Currently, Mr. Cooper is Chairman and Non-Executive Director of Southern Cross Electrical Engineering Limited and also holds a Non-Executive Directorship with NRW Holdings Limited. During his career as an executive Mr. Cooper's roles have encompassed large civil, commercial and infrastructure projects and complex engineering and project management activities in the mining, oil and gas, engineering and property sectors.

### Lance Hockridge
### Director

Mr. Hockridge became Managing Director & CEO of Aurizon Holdings, in July 2010. He has guided Aurizon's transition to a top 50 ASX company after 145 years as a government owned railway. From 2007 until 2010, he was CEO of QR Limited which was split to form Aurizon Holdings and the passenger-focussed Queensland Rail that remained in government ownership. Mr. Hockridge has more than 30 years' experience in the transportation and heavy industrial sectors in Australia and the United States with BHP Billiton and BlueScope Steel. At BHP Billiton Limited, Mr. Hockridge was a member of the leadership team that led BlueScope Steel's successful demerger from BHP and subsequent listing on the ASX. In 2005, Mr. Hockridge was appointed President of BlueScope Steel's North American operations where he led a major turnaround in safety, production and financial performance. Mr. Hockridge is a member of the Business Council of Australia's Efficient Regulation policy committee and a regular participant in industry forums on transport infrastructure and reform. He has been appointed to Q20, the business leaders group promoting Queensland investment as part of the G20 Summit in Brisbane in November 2014.

### Graeme T. John, AO
### Non-Executive Director

Mr. John has 30 years management experience in the transport operations sector including 16 years as Managing Director of Australia Post. He was also a Senior Executive of TNT Australia Ltd. Mr. John is a Director of Seven West Media Ltd. Mr. John is a former commissioner of the Australian Football League and board member of Racing Victoria. His previous roles include Chairman of Australian Air Express, Chairman of Star Track Express, Chairman of the Kahala Posts Group, Director of the International Post Corporation (Netherlands), Vice Chairman of Sai-Cheng Logistics International (China) and a trustee of the Committee for Melbourne and the MCG. He has received the Australian Sports Medal and Centenary Medal.

### Sam Lewis
### Non-Executive Director

Ms Lewis has extensive financial experience, including as a lead auditor of a number of major Australian listed entities. Ms Lewis has significant experience working with clients in the manufacturing, consumer business and energy sectors, and in addition to external audits, has provided accounting and transactional advisory services to other major organisations in Australia. Ms Lewis's expertise includes accounting, finance, auditing, risk management, corporate governance, capital markets and due diligence. Ms Lewis is currently a non-executive director and chairman of the Audit & Compliance Committee of Orora Limited and also holds a Non-Executive Directorship with Greenstone Limited. Previously, Ms Lewis was an Assurance & Advisory partner from 2000 to 2014 with Deloitte Australia.

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# Experienced Board and Management teams

## Aurizon Network management

**Clay McDonald**
**Vice President, Network Operations**

Mr. McDonald has 15 years' experience in the transport and logistics sector in Queensland and New South Wales. Prior to joining Aurizon Holdings Group, he held a number of roles with Toll Holdings, Oswalds and Banks Distribution. As Vice President Network Operations, Mr. McDonald is responsible for safely and sustainably delivering maximum system throughput at the lowest cost of operation, while ensuring the integrity of the CQCN for the coal industry. His direct responsibilities include asset maintenance, scheduling access paths, operational train control, asset management, minor maintenance execution and emergency and incident management and response.

**Simon Smart**
**Vice President, Commercial Development**

Mr. Smart has over 35 years' of operations, supply chain management and commercial experience within Australian and SE Asian heavy industry. Prior to joining Aurizon in 2009, Mr Smart performed a variety of roles within BlueScope Steel (formerly BHP Steel), progressing through Engineering, Manufacturing Management, Business Management and culminating in the role of Country President Vietnam. Since joining Aurizon, Mr Smart has held senior roles in Operations, Business Development and Rail Construction. In his current role of Vice President Commercial Development, Mr Smart is responsible for the Planning and Development of the CQCN Network and for managing the commercial arrangements for access to that network. Mr Smart holds an electrical engineering degree and MBA, both from the University of Wollongong.

**Pam Bains**
**Vice President, Finance Network**

Mrs. Bains has over 20 years' experience in finance and commercial roles in both Australian and international companies. After qualifying as a Chartered Accountant with Arthur Andersen (UK), Mrs. Bains gained experience across a number of sectors including financial services (GE Capital—Global Consumer Finance), telecommunications (Teléfonica O2), retail (Next plc) and rail freight (Aurizon Network), playing a key role during Aurizon Holdings' initial public offering and listing on the ASX. As Vice President, Finance Network, her direct responsibilities include financial planning & analysis, capital project evaluation, business partnering, governance, external and internal reporting, leadership, project delivery and strategy. She is also Chairperson of the Network Investment Committee.

**Lana Stockman**
**Vice President, Regulation**

Ms. Stockman has 15 years' experience in the energy sector working in both competitive and regulated markets including regulatory roles in Energy Australia and with the New Zealand Electricity Authority. She previously held various positions in revenue portfolio management and spot energy trading with Stanwell Corporation and with Meridian Energy, where she was Generation Control Centre Manager with Meridian Energy. With a combination of a Bachelor's degree in Civil Engineering and a Master Degree in Applied Finance Ms. Stockman is well placed to develop both commercial and technical regulatory strategies to support the efficient operation and growth of the CQCN within the regulatory framework.

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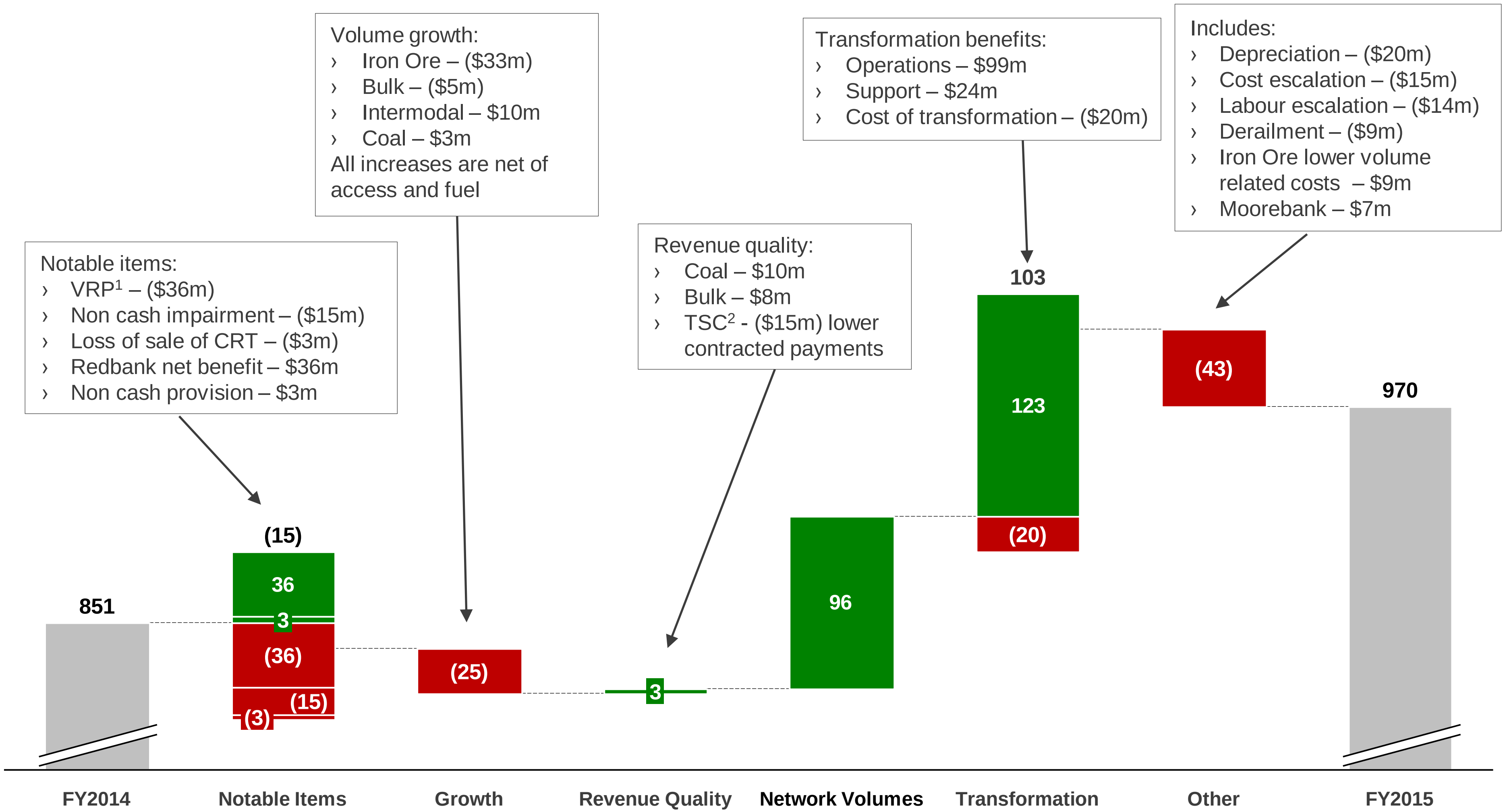
# 7. Aurizon Holdings – FY15 results analysis

# FY2015 vs FY2014 underlying EBIT bridge

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1. Voluntary Redundancy Program
2. Transport Services Contract

# Underlying EBIT by function

| $m | FY2015 | FY2015 | | FY2014 | Variance |
|---|---|---|---|---|---|
| | | 2H | 1H | | |
| Network | 484 | 266 | 218 | 412 | 17% |
| Commercial & Marketing | 3,079 | 1,484 | 1,595 | 3,134 | (2%) |
| Operations | (2,527) | (1,205) | (1,322) | (2,599) | 3% |
| Other[1] | (66) | (61) | (5) | (96) | 31% |
| **Group** | **970** | **484** | **486** | **851** | **14%** |

## Key drivers of Group performance:

- Network revenue uncapped, based on transitional tariffs and actual volumes
- Flat above rail volumes with marginal coal growth offset by lower freight and iron ore and lower fuel revenue
- Transformation benefits and lower fuel price offset by increase in access costs
- Net benefit on sale of Redbank $36m

1. Other reflects unallocated support costs

# Key FY2015 drivers

## Network

- Underlying EBIT up $72m (+17%)
- Revenue increased $96m or 9%, based on actual volumes and transitional tariffs (not capped)
- Opex increased $7m or 2% compared to volume growth of 5% due to cost control
- Depreciation increased $17m or 9% due to, asset renewals and part commissioning of WIRP
- Actual access revenues broadly consistent with draft UT4 revenue outcome
- Achieved record railings across the CQCN of 226mt, 5% increase

## Commercial & Marketing

- Underlying EBIT down $55m (-2%)
- Freight revenue (-$110m) – sale of CRT, lower fuel revenue and lower TSC payments partly offset by increased intermodal revenue (mix)
- Iron ore revenue (-$40m) – 14% volume decline due to end of two contracts
- Coal revenue (+$30m) – increase in below rail revenue due to uncapped Network volumes partly offset by lower above rail revenue (lower fuel and incentives)
- $65m improvement in operating costs and depreciation – CRT disposal

## Operations

- Underlying EBIT up $72m (+3%)
- Revenue decreased $4m with lower QR maintenance volumes partly offset by an increase in rollingstock sales
- Operating costs (excluding access but including depreciation) decreased $133m reflecting $115m of transformation benefits ($99m core operations and $16m from central support) and $70m benefit from lower fuel price partly offset by $30m in VRP costs and $22m in labour and consumables escalation
- Access costs increased $57m due to uncapped Network revenue

## Other

- Underlying EBIT up $30m (+31%)
- Revenue increased $29m due to net benefit from asset sales (Redbank and CRT)
- Operating costs and depreciation improved $1m with $8m of transformation benefits, $11m of lower project costs and tighter discretionary spend partly offset by $15m non-cash impairment of greenfield Galilee costs and $3m of VRP costs

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# Cash flow summary

| $m | FY2015 | FY2014 |
|---|---|---|
| EBITDA - statutory | 1,489 | 964 |
| Working capital & other movements | 7 | 342 |
| **Cash from operations** | **1,496** | **1,306** |
| Interest received | 9 | 9 |
| Income taxes received / (paid) | 11 | (124) |
| **Net cash inflows from operating activities** | **1,516** | **1,191** |
| **Net cash outflow from investing activities** | **(1,161)** | **(864)** |
| Net proceeds from borrowings | 103 | 343 |
| Payment for share buyback and share based payments | (81) | (24) |
| Interest paid | (128) | (90) |
| Dividends paid to company shareholders | (396) | (346) |
| **Net cash outflow from financing activities** | **(502)** | **(117)** |
| **Net (decrease) / increase in cash** | **(147)** | **210** |

- FY2014 impacted by non-cash impairments, FY2015 underlying EBITDA increased 10%
- Net cash received due to tax effect of FY2014 impairments
- Acquisition of Aquila ($225m)
- Free cash flow (ex interest paid) $355m, 9% increase
- Increase in payout ratio to 70% in FY2015

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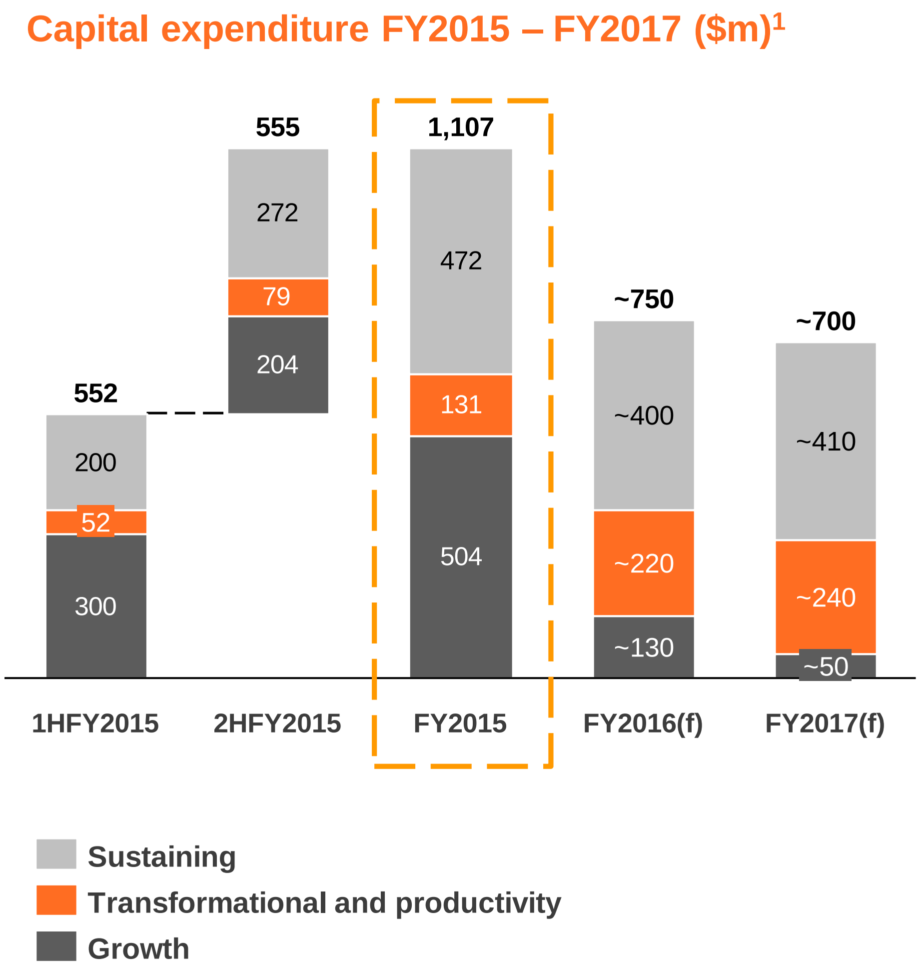
# Capex update




- Capex spend for FY2015 in line with forecast at $1.1bn
- Forecast for FY2016 and FY2017 remains at $1.45bn, with marginal change in categories reflecting development of IOP and fleet planning
  - Growth spend deferred in line with slower ramp up of contracted Whitehaven tonnes
  - Transformation spend enhanced following strong initial results from Operations integrated technology roll out
  - Sustaining spend increased in FY2015 with delivery of high performance track maintenance equipment accelerated into FY2015 – this equipment enhances Network's ability to deliver increased volumes with a reduction in closure hours
- FY2018 capex expected to be lower than FY2017 reflecting slightly lower transformation and growth capex
- **Longer-term non-growth capex ~$500m - $600m per annum**

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1. Includes capitalised interest

# Balance sheet summary

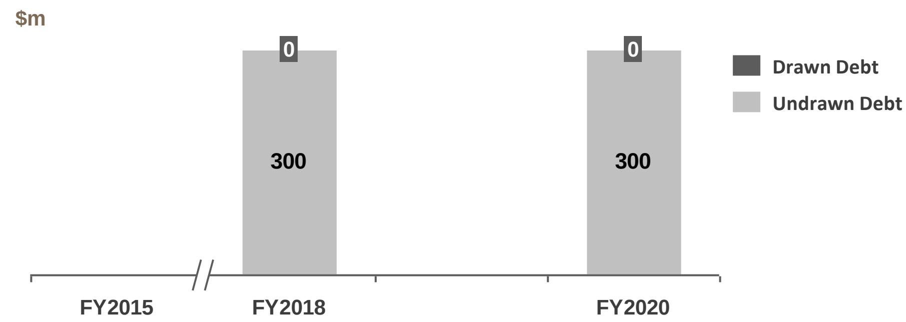
| As at ($m) | 30 June 2015 | 30 June 2014 |
|---|---|---|
| Total current assets | 934 | 1,314 |
| Property, plant & equipment | 9,900 | 9,441 |
| Other non-current assets | 502 | 193 |
| **Total assets** | **11,336** | **10,948** |
| Other current liabilities | (845) | (852) |
| Total borrowings | (2,983) | (2,841) |
| Other non-current liabilities | (1,002) | (882) |
| **Total liabilities** | **(4,830)** | **(4,575)** |
| **Net assets** | **6,506** | **6,373** |
| **Gearing (net debt/net debt + equity)** | **30.2%** | **28.4%** |

- High FY2014 cash on hand balance to fund purchase of Aquila in July 2014
- Capex spend on WIRP, Hexham, Rolleston
- Investment in Aquila ($225m)

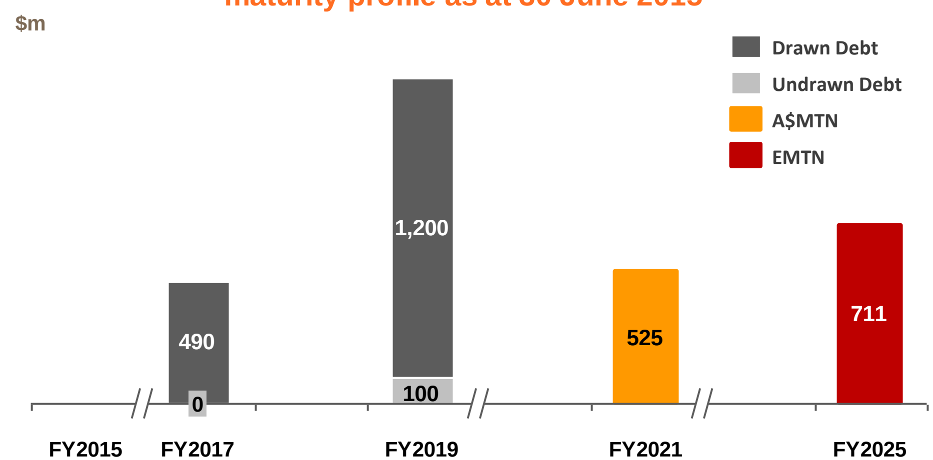
# Debt summary

- Strong cashflow resulted in repayment of Group level revolving debt facilities, with all long term debt currently held in Aurizon Network
- Debt maturity profile average tenor increased to 4.3 years (FY2014 - 3.5 years)
- Liquidity at 30 June 2015 $1bn (undrawn facilities+ cash + working capital)
- Credit ratings unchanged at BBB+/Baa1
- Aurizon Network debut issuance in the European capital markets (10 year EUR 500m Medium Term Note, 2.0% coupon) in October 2014. After swapping into A$, proceeds were used to repay bank debt
- Bank debt facilities repriced in December 2014 at reduced margins and maturity extended
- Further debt restructuring opportunities to be pursued as appropriate
- Interest cost on drawn debt was flat at 4.9%
- Group gearing increased to 30.2% (FY2014 – 28.4%)

**Aurizon Group maturity profile as at 30 June 2015**




**Aurizon Network $2.926bn[1] long term debt maturity profile as at 30 June 2015**




1. Cash basis disclosed above ($2,926m) excludes debt drawn under working capital facilities ($103m for Aurizon Group and $6m for Aurizon Network)

# Other key matters

## Queensland Enterprise Agreements (EA) update

- Significant achievement in restructuring EAs after more than two years of protracted negotiations
- Fair Work Commission (FWC) made an order to terminate remaining legacy Queensland EAs on 22 April 2015. Subsequently, bargaining re-commenced for two proposed EAs covering Train Crew and Transport Operations and Construction and Maintenance employees
- Successful ballot outcomes achieved post year end, with approval from FWC expected in the coming weeks
  - Positive ballot outcome for Construction and Maintenance EA on 15 July 2015 (~1,500 employees)
  - Positive ballot outcome for Train Crew and Transport Operations EA on 27 July 2015 (~1,700 employees)
- Staff EA was approved and implemented effective 28 January 2015 (~1,400 employees)
- EAs to enable next phase of continuous improvement journey for Aurizon e.g. removal of potential costs associated with up to 170 EIT[1] due to Redbank closure in FY2016
- EAs deliver to employees 4% pa base pay increases over three years in exchange for significant improvements in productivity

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1. Employees in Transition