Aurizon Network - Debt Investor Update
FY2017 Results

Chris Vagg – Head of Investor Relations and Group Treasurer
David Collins – Head of Finance and Regulation - Network

22 August 2017

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Agenda

Year in review – Aurizon Group	› Chris Vagg
Year in review – Aurizon Network	› David Collins
Regulation	› David Collins
Funding and Capital Management	› Chris Vagg
Outlook and summary	› Chris Vagg

Biographies

Chris Vagg
Head of Investor Relations & Group Treasurer

Chris has more than 20 years' experience in the finance industry in both Australia and the United Kingdom.

For six years, Chris has been in Investor Relations at Aurizon, building capability within the function since the Company listed on the ASX in November 2010.

During this time Chris has played a critical role in engaging with the investment community and articulating Aurizon's investment proposition.

Since July 2017, Chris has assumed responsibility for Aurizon's treasury and insurance functions.

Prior to his appointment at Aurizon, Chris worked for seven years as a sell side analyst for Citi in London and Sydney after commencing his career as a chartered accountant.

David Collins
Head of Finance & Regulation Network

David has over 20 years' experience in finance and commercial roles covering businesses in Australia, the UK, Germany and the Middle East.

After completing a Bachelor of Commerce and qualifying as a Chartered Accountant with Deloitte, David gained experience across a number of sectors including mining (BHP Billiton), construction, property development and property asset management (Brookfield Multiplex). David also holds a Master of Business Administration.

David joined Aurizon in 2010, and currently holds the role of Head of Finance & Regulation Network. David's previous roles at Aurizon include Vice President Finance & Group Treasurer and Group Financial Controller.

Year in review – Aurizon Group

Chris Vagg – Head of Investor Relations and Group Treasurer

About Aurizon Group

WHO WE ARE

- Aurizon (ASX: AZJ; market capitalisation of circa A$11bn[1]) is Australia's largest rail freight operator and a top 50 ASX company
- Each year, we transport more than 250 million tonnes of Australian commodities — connecting miners, primary producers, and industry with international and domestic markets. We provide our customers with integrated freight and logistics solutions across an extensive national rail and road network, traversing Australia
- Aurizon operates an integrated business model, combining transportation with management of the regulated track infrastructure in Central Queensland

WHAT WE DO

- Aurizon has four major product lines for customers: Coal, Bulk (inc. Iron Ore), Intermodal and Network

1. As at June 2017

Cyclone impacted underlying performance, strong cash flow delivers shareholder returns

FINANCIAL RESULTS	› Revenue flat at $3.5bn – Below Rail increase offset by Above Rail decrease › Underlying EBIT down 4% to $836m due to impact of Cyclone Debbie › Statutory NPAT ($188m) due to Bulk and Intermodal impairments › ROIC stable at 8.7%
TRANSFORMATION	› $129m of benefits delivered › Intermodal exit – sale of Acacia Ridge and Queensland business and shutdown of Interstate
CASH FLOW	› Free cash flow (FCF) up 86% to $634m
STRUCTURE	› Business Unit (BU) model implemented 1 July 2017, new reporting segments in FY2018 › All group executive appointments completed
CAPITAL MANAGEMENT	› Target gearing of ~40% › Moody's credit rating outlook lifted to Stable in February 2017 › Board supports current credit ratings - S&P BBB+ (stable), Moody's Baa1 (stable) › Strong investor support for second A$MTN issued in June 2017

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Above Rail impacted by cyclone and weak Freight results

REVENUE	› Coal Above Rail up 1% on revenue quality despite cyclone impacted volumes › Freight down 8% due to lower revenue quality and volumes › Iron Ore down 12%, with volumes down 4% and impact of rate relief
UNDERLYING EBIT	› Down 8% to $402m due to impact of cyclone and deteriorating Freight performance
MARKETS	› Coal: market conditions improved, stronger commodity prices, Australian export volumes impacted by cyclone temporarily restricting supply › Iron ore: price support from higher Chinese steel production and margins. Additional supply expected to put pressure on prices long term
CUSTOMERS	› Coal: all customers[1] at positive cash margins, weighted average contract life 9.9 years › Iron ore: majority of customers[1] positive cash margins, weighted average contract life 7.7 years › Contracts executed include Carborough Downs, Batchfire Resources, Yanzhou and QAL
VOLUMES	› Coal 198.2mt – down 4% due to ~11mt cyclone impact in Qld (down 8%), growth continues in NSW (up 9%) › Iron ore 22.7mt – down 4% due to lower customer production

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NOTE: Above Rail is a combination of Commercial & Marketing and Operations representing all Above Rail commercial and operational relationships with customers across all commodities (prior Coal, Iron Ore and Freight businesses)
1. Based on Aurizon analysis and Wood Mackenzie data

Group financial highlights

$m	FY2017	FY2016	Variance
Revenue	3,452	3,458	0%
Operating costs	(2,031)	(2,026)	0%
Depreciation & amortisation	(585)	(561)	(4%)
EBIT – underlying[1]	836	871	(4%)
EBIT – statutory	(91)	343	nm
Operating Ratio (%)	75.8%	74.8%	(1.0ppt)
NPAT – underlying[1]	461	510	(10%)
NPAT – statutory	(188)	72	nm
EPS (cps) – underlying	22.5	24.4	(8%)
EPS (cps) – statutory	(9.2)	3.5	nm
DPS (cps)	22.5	24.6	(9%)
Free Cash Flow	634	340	86%

- Revenue includes increased Below Rail from UT4 timing differences offsetting volume driven reduction in Above Rail
- Operating costs reflect increased fuel, energy and consumables costs offsetting transformation benefits
- Depreciation increase due to Below Rail increase
- Statutory results impacted by $927m significant items (asset impairments and redundancy costs)
- Dividend based on 100% payout ratio of underlying NPAT

1. Refer following slide for details of underlying adjustments

Transformation continues to generate value

HEADLINE BENEFITS	› $129m generated in FY2017
OPERATIONS ($94M)	› Labour productivity improved 10% › Changes to regional management structure › Increase in variable traincrew numbers › Fleet productivity[1] metrics impacted by cyclone, initiatives to note include › Longer trains commenced in Newlands and Goonyella › Active rollingstock numbers increased due to additional coal demand in NSW and Qld
CENTRALISED SUPPORT ($35M)	› New structure implemented with reduced management layers and positions › Continued focus on governance and discretionary spend
FUTURE STATE	› On target for $380m FY2016 - FY2018 commitment › Exit of Intermodal contributes to transformation by permanently removing financial loss › Benefits to be generated beyond FY2018 - closure of Rockhampton rollingstock workshop to be finalised CY2018, traincrew sourcing opportunities by end of FY2018

1. Defined as '000 NTK per active locomotive and active wagon day

Intermodal exit delivers value and certainty

Transaction Summary

Disposal of Acacia Ridge Terminal and Queensland Intermodal business for $220m

› Sale of Acacia Ridge freehold site including transfer of ~30 employee positions

› Sale of Queensland Intrastate business including transfer of ~350 employee positions

› Each transaction is conditional on ACCC and FIRB approval

› Deposit received of $30m is non-refundable if ACCC approval is not granted

Shutdown of Interstate business

› Business to be wound down through to June 2018

› Rollingstock fleet to be redeployed into NSW Coal

› Approximately ~250 employee positions to be affected by closure – the consultation process for affected employees will commence over time

› Redeployment of employees to Coal where possible

› Forrestfield terminal to be divested at later date

Strategic Considerations

1 Removes financial losses

› Historic losses despite TSC subsidies

› $56m EBIT loss in FY2017

2 Challenged operating market

› Market volume growth is sub-GDP

› Long term dynamics trending towards shorter hauls favouring road

› Aurizon is sub-scale and third player in most profitable east-west market

› Terminals, systems and capability disadvantages; significant time and investment required to compete

3 Grow the core business

› Management focused on core competencies of Coal and Bulk

› Cascade rollingstock and people to growth markets including NSW Coal

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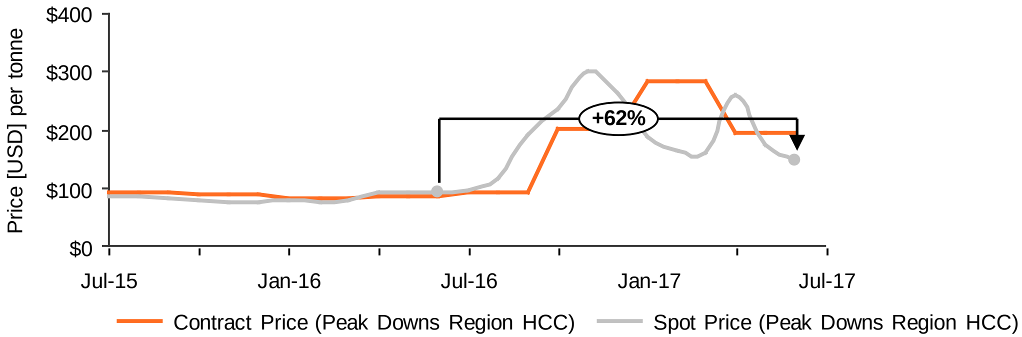
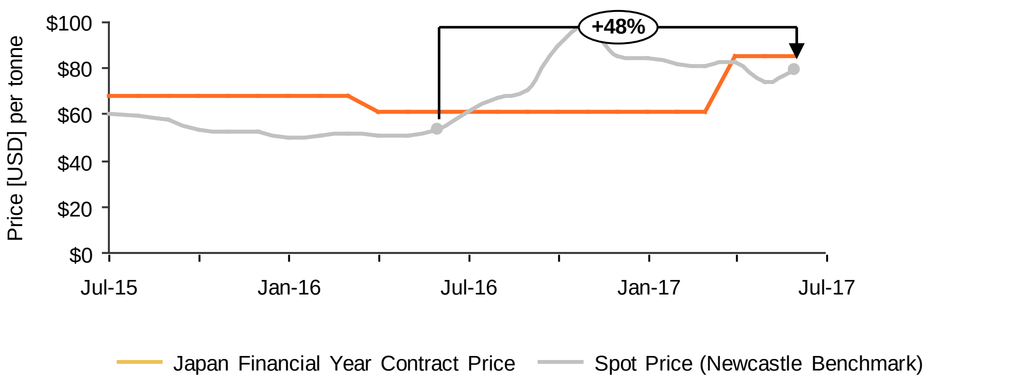
Coal market update: Market Fundamentals

METALLURGICAL COAL: CONTRACT AND SPOT PRICE (USD)
Month Average



THERMAL COAL: CONTRACT AND SPOT PRICE (USD)
Month Average

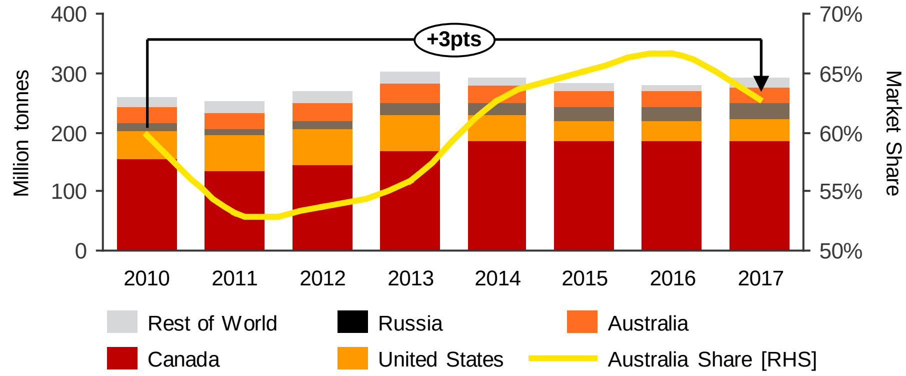


Source: Platts

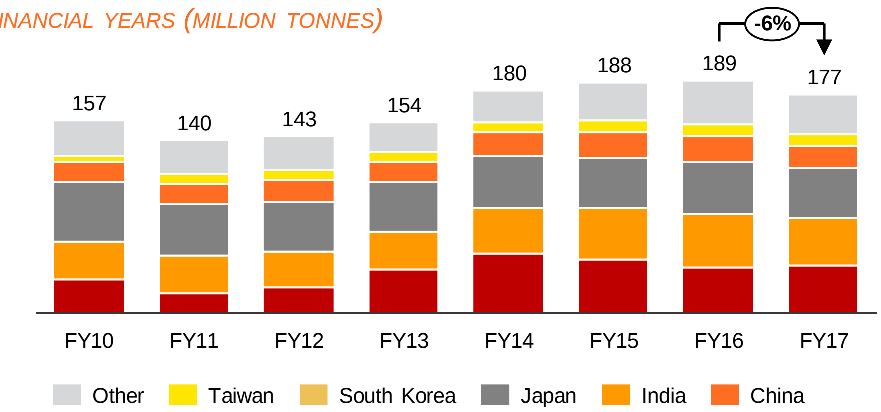
- Driven by the relaxation of policy that had previously limited domestic coal production in China throughout 2016, coal prices retreated at the start of January 2017 with the hard coking coal spot price (Peak Downs Region) trading in March at an average of US$160/t and the thermal coal spot price (Newcastle) trading at an average of US$81/t
- Short-term scarcity created by the impact of Cyclone Debbie pushed the daily hard coking coal spot price back above US$300/t in mid-April before the resumption of supply returned the price to pre-cyclone levels from around mid-May
- Australia metallurgical coal export volume is estimated to be down 6% in FY2017 (to 177mt) compared to the previous year with the reduction primarily driven by the impact of the Cyclone Debbie. Australian thermal coal export volume increased by 1% in FY2017 (to 202mt) compared to the previous year
- At a global seaborne level, downward pressure has been placed on the Australian market share in both the metallurgical and thermal coal markets as increasing coal prices over the past 18 months have incentivised a resumption of export volume from (higher cost) supply from competing coal producing nations

Coal market update: Australia

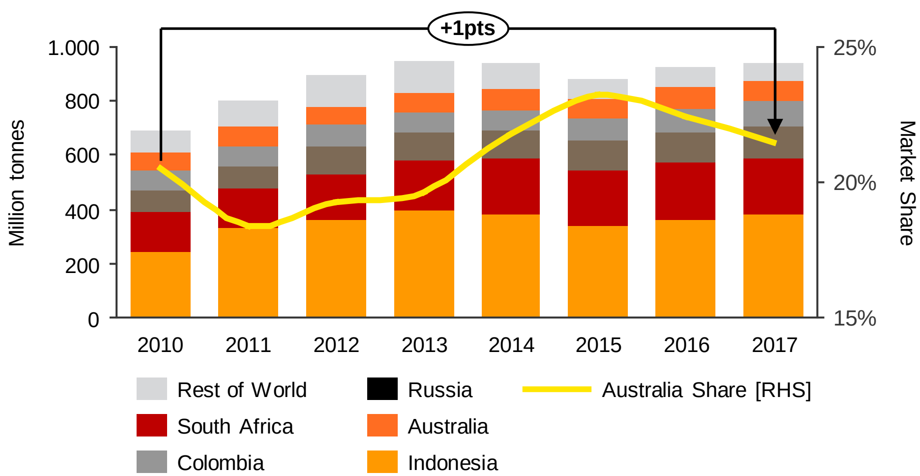
Global metallurgical coal seaborne export market
Volume and market share, calendar year



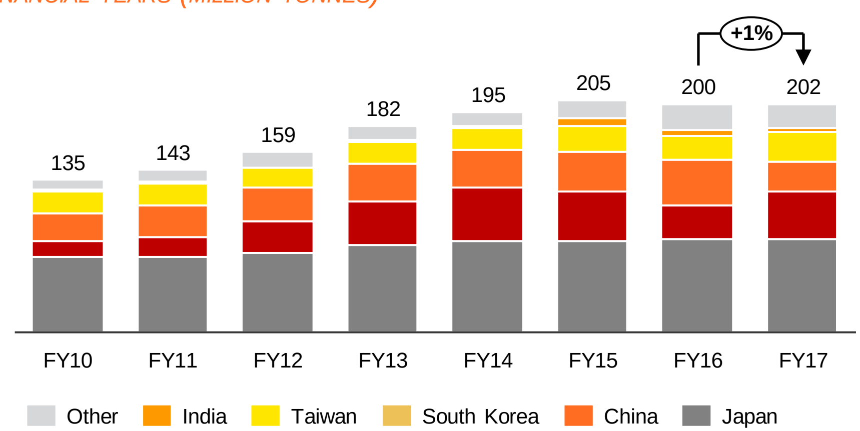
Australia metallurgical coal exports by destination
Financial years (million tonnes)



Global thermal coal seaborne export market
Volume and market share, calendar year



Australia thermal coal exports by destination
Financial years (million tonnes)

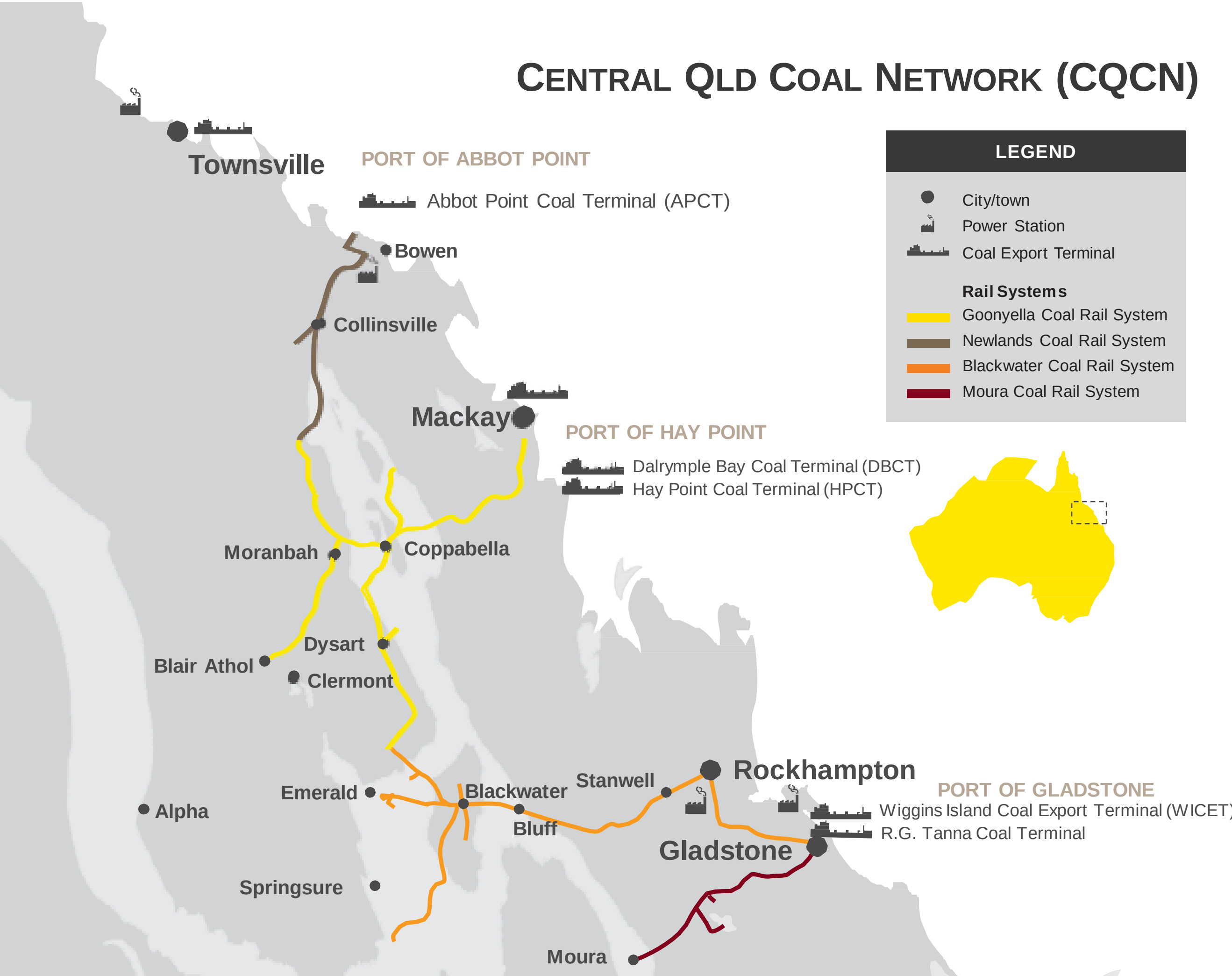


Source: Wood Mackenzie Coal Markets Tool (1H 2017), Australia Bureau of Statistics

Year in review – Aurizon Network

David Collins – Head of Finance and Regulation - Network

Below Rail (Network) snapshot



KEY NETWORK FACTS	
40 + operating coal mines serviced	
Open access network with three above rail coal operators – Aurizon Operations, Pacific National and BMA Rail	
70 services per day	
+225mt coal moved each year[(1)]	
The CQCN comprises four major coal systems and one connecting system link serving Queensland's Bowen Basin coal region: Newlands, Goonyella, Blackwater and Moura with GAPE the connecting system link	
Five export terminals at 3 ports	
One control centre	
Track	2,670 km
Electrified track	2,000 km
It is estimated the value of the regulated Asset Base (RAB) will be $5.8bn[(2)] as at 30 June 2017	

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1. During FY2017 210.8mt was railed over the CQCN with an estimated ~16mt of railings loss due to Cyclone Debbie
2. Estimate as at 30 June 2017 - excludes $0.4bn in assets operating under an Access Facilitation Deed (AFD). Estimate subject to QCA Approval of RAB roll-forward and approval of the FY2016 and FY2017 Capital Claims

Below Rail solid despite cyclone

REVENUE	› Increased 7% to $1.3bn despite impact of cyclone › $80m true-up from under recovery of UT4 revenue from prior years
UNDERLYING EBIT	› Down 3% to $490m with additional cyclone-related operating costs and increased depreciation › Regulatory mechanisms to recover $69m cyclone impact in future years[1]
OPERATIONAL PERFORMANCE	› Operational performance strong despite cyclone with four monthly railing records achieved › Metrics impacted by cyclone – performance to plan 86.8%, 90.6% excluding cyclone impact › Cancellations due to Network at 1.2%, below the five year average of 1.7%
RAB	› Estimated $5.8bn[2] value at start of UT5
REGULATION	› UT4 finalised October 2016, UT5 submitted November 2016 › Awaiting UT5 draft decision from QCA, transitional tariffs apply from 1 July 2017

1. Subject to QCA approval
2. Estimate as at 30 June 2017 – includes deferred capital but excludes $0.4bn in assets operating under Access Facilitation Deeds (AFD). Estimate subject to QCA Approval of RAB roll-forward and approval of the FY2016 and FY2017 Capital Claims

Below Rail profit & loss (underlying)

$m	FY2017	FY2017		FY2016	Variance
		2H	1H		
Tonnes (million)	210.8	97.9	112.9	225.9	(7%)
Revenue - access	1,199.9	571.4	628.5	1,135.9	6%
Services/other	62.2	19.6	42.6	42.5	46%
Total Revenue	**1,262.1**	**591.0**	**671.1**	**1,178.4**	7%
Operating costs	(484.3)	(249.9)	(234.4)	(414.8)	(17%)
EBITDA	**777.8**	**341.1**	**436.7**	**763.6**	**2%**
EBITDA margin	61.6%	57.7%	65.1%	64.8%	(3.2ppt)
Depreciation and amortisation	(287.4)	(145.7)	(141.7)	(257.7)	(12%)
EBIT	**490.4**	**195.4**	**295.0**	**505.9**	(3%)
Operating Ratio	**61.1%**	**66.9%**	**56.0%**	**57.1%**	**(4.0ppt)**

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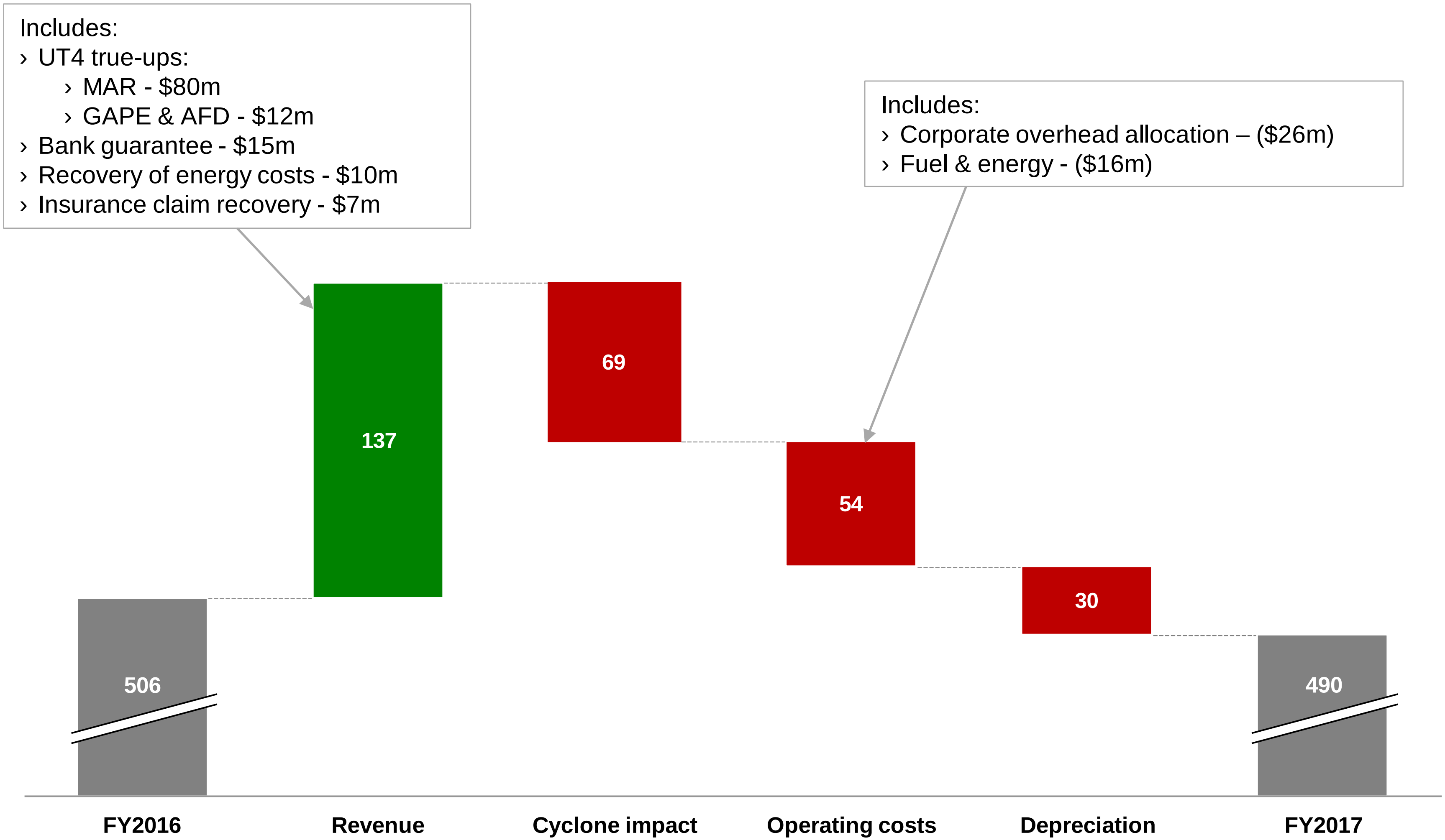
Underlying EBIT bridge – Below Rail ($m)



Cash flow – significant free cash flow growth

$m	FY2017	FY2016
EBITDA - statutory	773	756
Working capital & other movements	(6)	(21)
Non-cash adjustments - impairment	8	8
Cash from operations	**775**	**743**
Interest received	1	2
Income taxes (paid) / received	(90)	(53)
Net cash inflows from operating activities	**686**	**692**
Net cash outflow from investing activities	**(282)**	**(405)**
Free Cash Flow (FCF)	*404*	*287*
Net proceeds from borrowings	(4)	1
Capital distribution to Parent	(1)	(0)
Interest paid	(155)	(130)
Finance lease payments	(10)	(2)
Dividends paid to company shareholders	(216)	(269)
Net cash outflow from financing activities	**(386)**	**(400)**
Net (decrease) / increase in cash	**18**	**(113)**

- Free Cash Flow increased 41% to $404m due to the cessation of growth capex with the focus shifting to sustaining capex over the medium term
- Higher cash inflows from operations driven by higher regulatory access revenues, partially offset by the impact of Tropical Cyclone Debbie

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Aurizon Network Balance Sheet

As at ($m)	30 June 2017	30 June 2016
Total current assets	296	289
Property, plant & equipment	5,390	5,432
Other non-current assets	160	157
Total assets	**5,846**	**5,878**
Other current liabilities	(207)	(305)
Total borrowings	(2,929)	(3,003)
Other non-current liabilities	(877)	(778)
Total liabilities	**(4,013)**	**(4,086)**
Net assets	**1,833**	**1,792**
Gearing (net debt/net debt + equity)	**61.3%**	**62.6%**

Commentary

- Slight decline in PP&E due to no growth capital with focus on sustaining capital works program
- Borrowings primarily decreased due to the mark-to-market revaluation of the Euro bonds
- Increase in Other current liabilities primarily due to increase in Deferred Tax Liabilities
- Book Gearing decreased 1.3% due to decline in total borrowings

Below Rail volumes[1] (mt)

	FY2017[2]	FY2017		FY2016	Variance fav / (adv)
		2H	1H		
Newlands	12.0	5.8	6.2	12.1	(1%)
Goonyella	111.1	49.7	61.4	121.5	(9%)
Blackwater	52.6	25.1	27.5	56.3	(7%)
Moura	12.2	6.0	6.2	11.9	3%
GAPE	13.3	6.6	6.7	16.0	(17%)
WIRP	9.5	4.6	4.9	8.1	17%
Total	**210.8**	**97.9**	**112.9**	**225.9**	(7%)
Average haul length[2] (kms)	252	254	251	253	-

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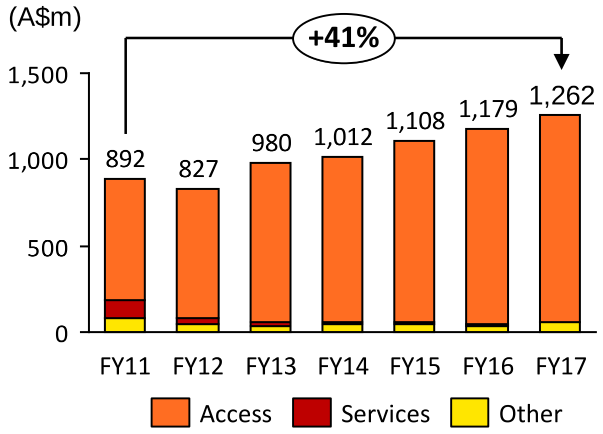
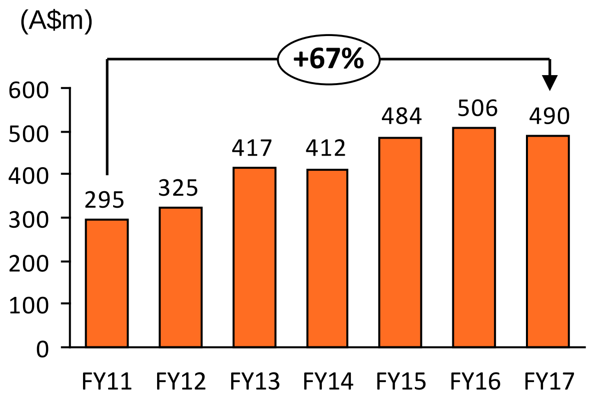
1. Table represents coal tonnes hauled on the CQCN by all operators
2. Defined as NTK/Net Tonnes

Aurizon Network: Key Financial Metrics

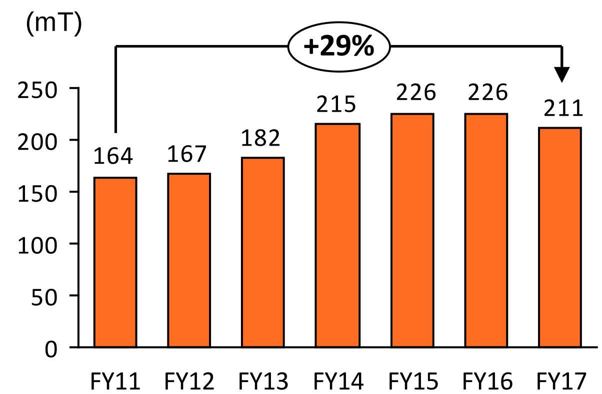
Revenue



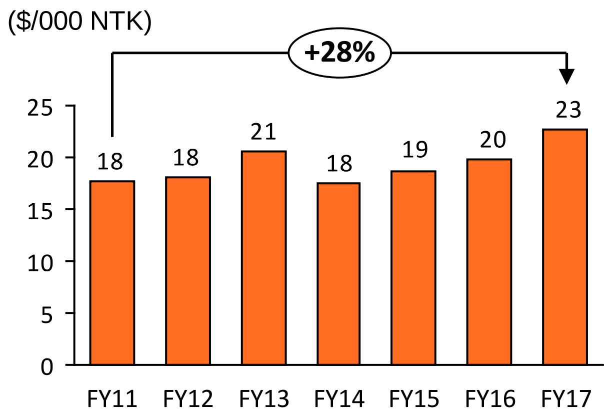
EBIT



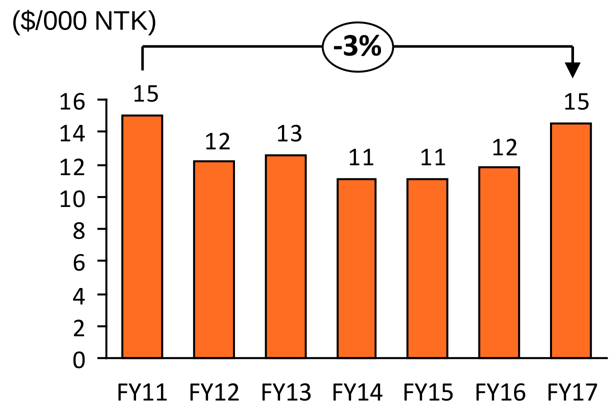
Volumes



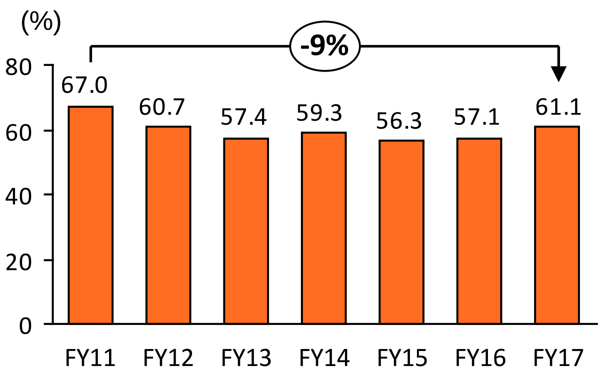
Access Revenue / NTK



Opex / NTK



Operating Ratio



Source: http://www.aurizon.com.au/investors/overview/ Historical Financials to 30 June 2016

Regulation

David Collins – Head of Finance and Regulation - Network

Aurizon Network – UT4[1] Final Decision

MAXIMUM ALLOWABLE REVENUE (MAR)	› Overall maximum revenue of $3.933 billion over the period of the Undertaking › Weighted Average Cost of Capital (WACC) - 7.17%
TRUE-UP RECOVERY PROCESS	› The Final UT4 Decision highlighted a net under recovery of Regulatory Revenue in FY14 and FY15 (representing the difference between transitional revenues and the final Allowable revenue) › In FY17, Aurizon Network will recover $89m of True-up Revenue relating to FY14 and FY15, net of Revenue Cap
WIGGINS ISLAND RAIL PROJECT (WIRP)	› The QCA has continued to apply a revenue deferral for WIRP customers who are not expected to rail during the FY14 - FY17 regulatory period › The QCA has recognised the ability for Aurizon Network to seek QCA approval to reduce the scope of the revenue deferral as WIRP volumes increase › The deferral amount is Net Present Value (NPV) neutral › WIRP revenues remain socialised within the two existing System Allowable Revenues – the Blackwater and Moura systems
ASSET STRANDING	› The QCA believes each situation should be considered on a case by case basis › The QCA believes Aurizon Network is best placed to mitigate stranding risk › As in UT3, QCA can optimise however under UT4 they must first consider any alternative proposal and consult with Aurizon Network › Optimisation is a last resort and socialisation is an alternative › Optimisation reversed where conditions improve › Security under standard access agreement increased to six months (from three months under UT3)

1 Access Undertaking 4 (UT4) applies for the period 1 July 2013 to 30 June 2017.

UT5 – Submitted November 2016

- **CONTEXT**

› Aurizon Network submitted to the Queensland Competition Authority (QCA) its Draft Access Undertaking (UT5 Draft)

› The UT5 Draft covers the period 1 July 2017 – 30 June 2021

› It largely reflects the policy positions of the previous undertaking (UT4), approved by the QCA on 11 October 2016 and due for expiry on 30 June 2017

- **OBJECTIVES**

› UT5 recognises the significant investment by many stakeholders in the development of UT4

› Aurizon Network considers that the inherent risks of the network business are higher than what the QCA has previously considered

› If Aurizon Network is required to accept a lower return than proposed in the UT5 Draft, then the risk associated with ownership and management of the asset should reduce accordingly

› Aurizon Network is working with customers to explore ways to improve utilisation of the existing network without the need for large-scale capital investment

REVENUE PROPOSAL

› Significantly larger Regulated Asset Base (RAB) of ~$6.2 billion[1] as a result of customer requested expansions.

› The roll-forward RAB now includes the majority of capital expenditure relating to Wiggins Island Rail Project (WIRP)[2].

› Proposes a Maximum Allowable Revenue (MAR) of $4,892 million over the four year regulatory period.

› Reduces WACC to 6.78% (from 7.17% in UT4).

› Includes a change in the inflation application and methodology that reflects a reduction in the inflation expectations for the period.

› The methodology for operating expenditure, maintenance and depreciation allowance is broadly unchanged.

› Results in an 11% increase in average CQCN tariffs.

POLICY PROPOSAL

› Policy changes limited to matters addressing:

  › Issues with UT4 practicality, workability or efficiency;

  › Specific customer requests; and

  › The removal of UT4 positions that Aurizon Network considers are not within the QCA's powers and materially impact on Aurizon Network's legitimate business interests.

TRANSITIONAL TARIFFS

› In May 2017, the QCA approved Aurizon Network's DAAU to extend UT4 to 31 December 2017 and impose transitional tariffs based on a MAR of $1,162m for FY18. The transitional tariffs remain in place until the approval of UT5.

1. Estimated UT5 opening RAB including $0.4 billion of mine specific infrastructure.
2. Estimated subject to QCA approval. Blackwater capital expenditure is included whilst Moura remains deferred.

UT5 Draft: MAR[1] and Forecast Volumes

MAR $m	UT4		UT5				
	Total	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**Total**
Return on capital	**1,526**	420	409	402	395	386	**1,592**
Depreciation (less inflation)	**771**	218	284	281	289	287	**1,141**
Maintenance costs	**805**	207	221	225	235	240	**921**
Operating costs	**815**	223	206	211	217	221	**855**
Tax net imputation credits	**144**	41	78	81	85	85	**328**
Total MAR	**4,062**	1,109	1,198	1,201	1,220	1,219	**4,838**
Capital carryover	**(129)**	(34)	13	13	14	14	**54**
Total Adjusted MAR	**3,933**	1,074	1,211	1,214	1,233	1,233	**4,892**
Forecast Volumes		**221.4**	**225.7**	**228.4**	**228.4**	**228.4**	

1. Maximum Allowable Revenue that Aurizon Network is entitled to earn from the provision of coal carrying train services on the CQCN.

UT5 Draft: Allowable Return on Capital

Financial Outcomes	UT4 Final	UT5 Submission
Decision Date	28 Apr 2016	n/a
Risk-free Rate	3.21%	2.13%
Averaging Period	20-Day to 31 Oct 2013	20-Day to 30 Jun 2016
Term of Risk-free Rate	4-year	10-year
Gearing Ratio	55%	55%
Benchmark Credit Rating	BBB+	BBB+
Asset Beta	0.45	0.55
Equity Beta	0.8	1.0
Market Risk Premium	6.5%	7.0%
Debt Margin[1]	2.94%	2.732%
Gamma	0.47	0.25
Return on Equity	8.41%	9.13%
Return on Debt	6.15%	4.86%
WACC (post tax nominal vanilla)	**7.17%**	**6.78%**
Inflation	2.50%	1.22%

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1. Debt margin includes debt transaction costs.

Below rail regulation

UT5 strategy

CONTEXT

- Record volumes[1] for four years in a row, with improved operational metrics
- RAB value now $5.8bn[2] with ~300mt capacity – as requested by industry
- Maintenance regime underpins performance, which benefits the entire supply chain
- Stable regulatory regime in the face of a volatile coal market, being critical for all stakeholders to provide certainty and to ensure continued investment

ENGAGEMENT PLAN

- Engagement with key stakeholders at all levels, including QCA Board
- Ongoing industry engagement with both producers and operators

KEY FOCUS AREAS

- Revenue
  - WACC must provide for a return that reflects the risks faced by Aurizon Network
  - WACC must reflect commercial requirements for a BBB+/Baa1 rated entity
  - Maintenance allowance must ensure safety compliance, continue to support ongoing productivity improvements whilst allowing coal tonnage throughput
  - Recovery of other allowances consistent with efficient costs as approved by the QCA in UT4
  - Recovery of revenue associated with capital investments that were deferred during the term of UT4
- Policy
  - Agreement with industry reached on a number of policy matters, seeking an improved outcome for the supply chain
  - Other major policy items to be addressed as required in the future

1. During FY2017 210.8mt was railed over the CQCN with an estimated ~16mt of railings loss due to the impact of Tropical Cycle Debbie
2. Closing RAB FY2017 estimate, excludes $0.4bn in assets operating under an Access Facilitation Deed (AFD) and is subject to QCA approval

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Funding and Capital Management

Chris Vagg – Head of Investor Relations and Group Treasurer

Group gearing targeted at ~40%[1]

Target gearing based on the following considerations:

Cash flow sustainability	Flexibility	Credit Rating	Cost of capital
› Sustainability of cash flows through the business cycle	› Flexibility to adjust to changing market conditions and take advantage of future growth opportunities › Business risk – UT5 outcome, freight performance, transformation targets	› Board supports current credit ratings - Moody's Baa1 (stable) and S&P BBB+ (stable) › Facilitates access to a broader range of capital markets	› Seeking to minimise cost of capital

Capital is prioritised as follows

1. Sustaining and transformational capital
2. Dividends (maintaining the dividend payout range of 70-100% of Underlying Net Profit After Tax (NPAT))
3. Surplus capital – growth and/or capital returns

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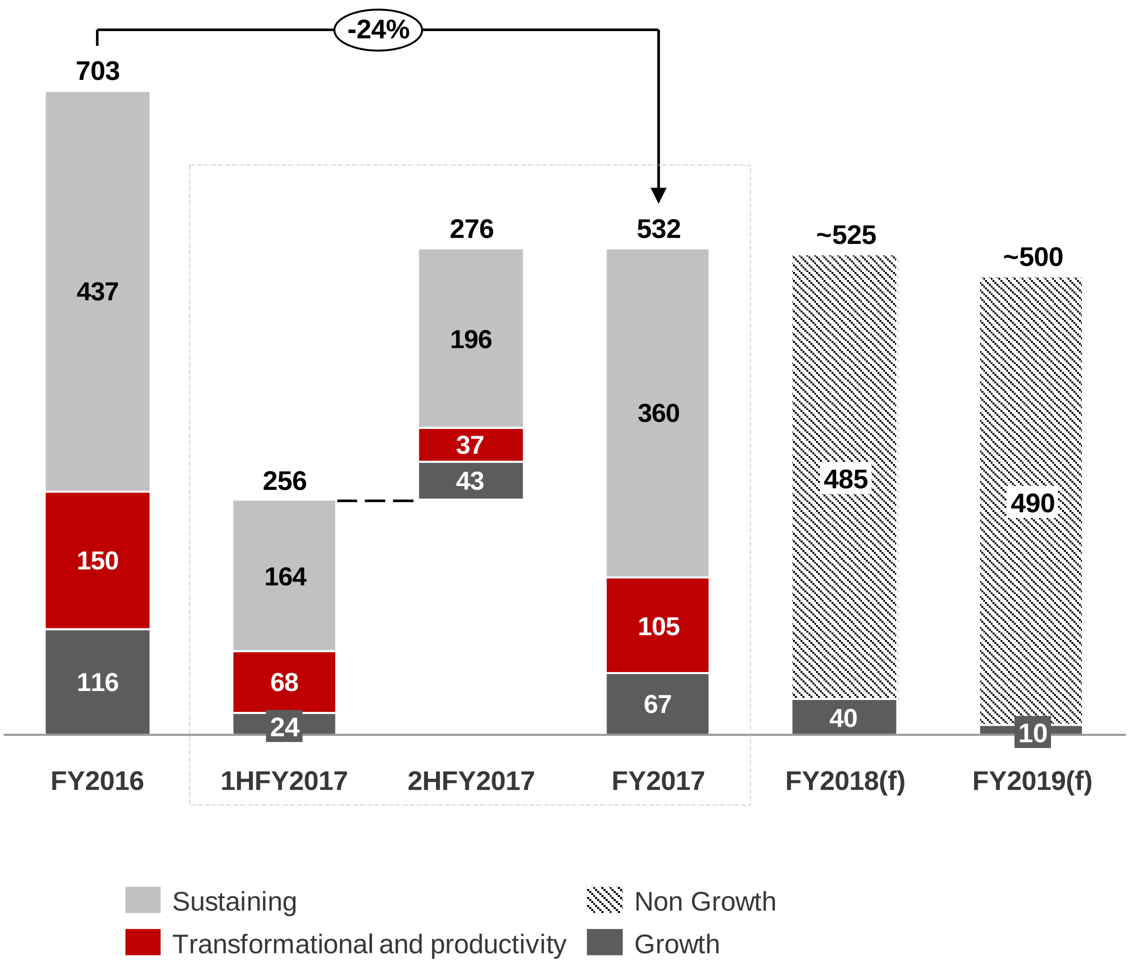
1. Net Debt / (Net Debt + Equity)

Capital spend continues to reduce

CAPITAL EXPENDITURE FY2016 – FY2019 ($M)[1]

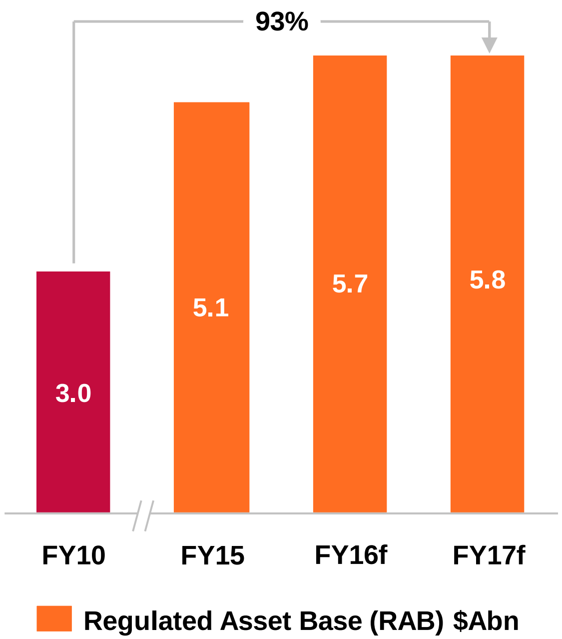


- FY2017 capex ~$20m below forecast
- Growth capital increase from previous expectations in FY2017 & FY2018 due to NSW growth volumes
- Transformation capital spend dependent on timing and prioritisation
- Non growth capital expenditure for FY2018 & FY2019 remains ~$500m per annum
- Forecast capital is evenly split between above and below rail

1. Includes capitalised interest but excludes strategic projects

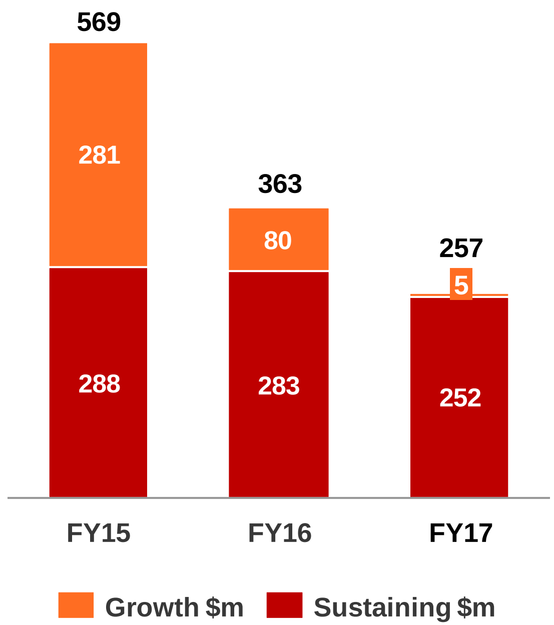
Network RAB, capex & depreciation profile

RAB roll forward



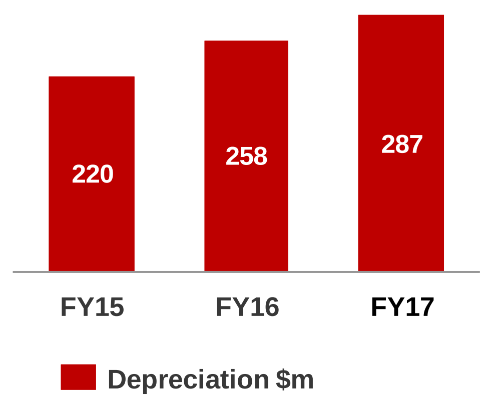
- RAB Roll-forward, indicative (closing balance) projection based on QCA Final Decision, April 2016. Excludes assets operating under an Access Facilitation Deed (AFD) of $0.4bn and ~$260m WIRP capex and FY16 & FY17 are subject to QCA approval

Capex



- Network sustaining capex is expected to be in the range of $250 - $300m (4% - 5% of RAB)

Accounting depreciation



- Increase reflects conclusion of WIRP and capitalisation of rail renewals – includes all WIRP capex (no deferral for accounting purposes)
- Long-term to approximate sustaining capex

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Capital allocation framework

Operating
Cash flow
&
Net borrowings
(at ~40% targeted gearing)

Sustaining
&
Transformational
Capital

Dividends
(70-100%
payout ratio)

Surplus capital
Returns
(e.g. Buy-backs)

Growth capital

FY2018 OUTCOMES

- Group gearing target of ~40%
- Final FY2017 dividend maintained at 100% payout of underlying NPAT
- $300m on-market buy-back announced

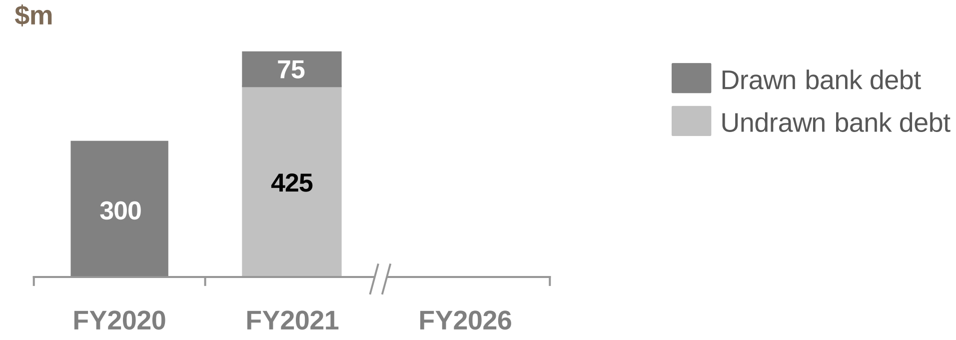
Funding update

Current ratings are appropriate

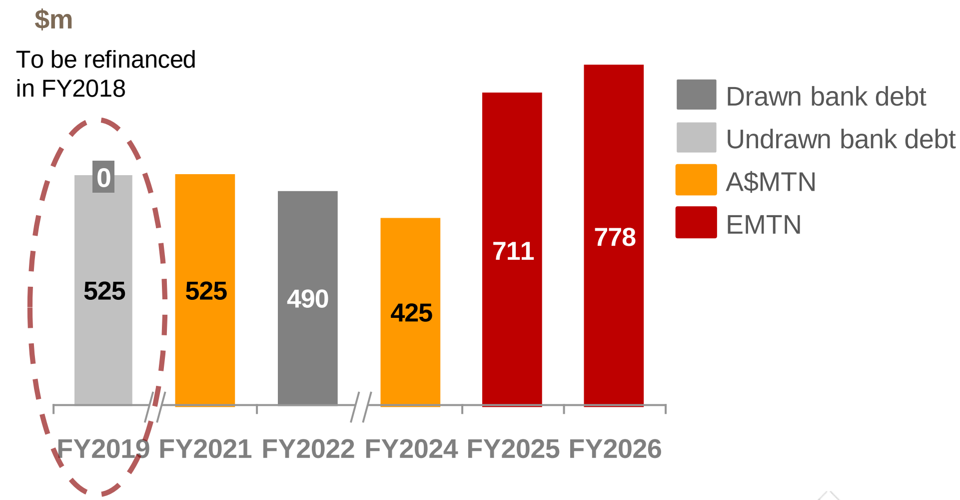
- Moody's credit rating outlook was lifted to stable in February 2017
- Aurizon Network issued second bond in the Australian debt capital markets (7yr A$MTN Medium Term Note) in June 2017. Proceeds used to repay bank debt
- Strategy remains to refinance in advance of debt maturities (and diversify funding sources / extend tenor where possible)

	FY2017	FY2016
Gearing	39.6%	37.5%
S&P credit ratings	BBB+ (stable)	BBB+ (stable)
Moody's credit ratings	Baa1 (stable)	Baa1 (negative)
Interest cost on drawn debt	5.0%	4.7%

Above Rail $0.4bn[1] maturity profile



Below Rail $2.9bn[1] debt maturity profile



1. Excludes working capital facility

Outlook and Summary

Chris Vagg – Head of Investor Relations and Group Treasurer

New business unit structure implemented 1 July 2017

Benefits of new structure

- Enables the enterprise to drive transformation, improve customer service and deliver sustainable productivity improvements
- Greater management accountability
- Retains benefits of central support areas
- Regional focus for key leadership positions in Coal and Bulk

Progress and delivery on focus areas informs future strategy

Freight Review	• Focus on Bulk freight • Intermodal exit announced
Capital management	• Target gearing ~40% • Dividends maintained at 100% underlying NPAT • $300m buy-back announced
Structure	• Business unit structure implemented 1 July 2017 • Management team refresh
Transformation	• Delivers value at all stages of the cycle, transition to continuous improvement • Technology and innovation will be key drivers • Improving employee capability to deliver future value
UT5	• Need to ensure appropriate return given risk level • Continue collaborative approach with industry
Strategy	• Addressing current value drivers • Enabling and determining future value drivers

FY2018 guidance excludes Intermodal

PROVIDING EARNINGS GUIDANCE CHALLENGING DUE TO UNKNOWN UT5 OUTCOME[1]

- Underlying EBIT $900 – 960m
- Operating ratio 69.5% - 71.5%
- Key assumptions:
  - Below Rail
    - Transitional tariffs assumed for full year FY2018
    - FY2016 revenue cap ($24m to be repaid to customers)
    - $21m cyclone repair costs recovery
  - Above Rail
    - Coal volumes 215-225mt
    - Bulk losses reduced
    - Intermodal losses and associated costs excluded due to exit process
  - Group
    - Continued delivery of transformation in remaining core business
    - No major weather impacts

1. UT5 variables impacting financial outcome include inflation, cost allocations and WACC. A movement of 50bps on WACC equates to ~$30m EBIT impact based on ~$5.8bn RAB value

FY2017 Results

Additional information

Network revenue cap adjustments

Year	AT_{2-4} (diesel tariff) $m	AT_5 (electric tariff) $m	Total $m
2017[1]	~29	~13	~42
2016[3]	(26.7)[2]	3.1	(23.6)[2]
2015	(29.0)[2]	(2.7)[2]	(31.7)[2]
2014	17.9	(9.8)[2]	8.1
2013[3]	32.8	12.7	45.5
2012	3.2	13.4	16.6
2011	23.2	36.3	59.5

- Revenue cap is the difference by system between Aurizon's Total Actual Revenue (TAR) and System Allowable Revenue (SAR) and also includes MCI/CPI, rebates and energy cost variations. This is collected through a tariff adjustment two years later
- All (except FY2017) revenue cap amounts include cost of capital adjustments aligned to the QCA Final Decision on UT4

Note: AT = Access Tariff Revenue Adjustment Amount

1. Estimated, excludes cost of capital and not submitted to QCA
2. Return to access holders
3. FY2013 AT_{2-4} includes $11.6m recovery for GAPE, FY2016 AT_{2-4} includes $2.0m return for GAPE

Reconciliation of billed MAR to reported access revenue

$m	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual
Billed Access Revenue (AT_1 to AT_5) (ex. GAPE)	794	787	924	892
Approved Adjustments to MAR				
Transitional tariff adjustment	(70)	-	-	-
Flood Claim recovery from 2013 Event	-	12	6	-
WIRP Smoothing[1]	-	-	(15)	5
Revenue Cap (ex. GAPE and inclusive of capitalised interest)	17	34	8	(32)
UT4 MAR True-up	-	-	-	112
Regulated Access Revenue (ex. GAPE)	**741**	**833**	**923**	**977**
Total non-regulated Access Revenue (ex. GAPE)	5	11	12	18
Total GAPE Revenue (Regulatory + non-regulatory)	205	204	201	205
Total Access Revenue per Aurizon Statutory Accounts	**951**	**1,048**	**1,136**	**1,200**

Approximately $80m of the $89m Net True-up collected in FY2017

Note: Access Revenue excludes other revenue which primarily consists of Access Facilitation Charges (AFC) paid by customers to Aurizon and other services revenue

1. FY2016 & FY2017 WIRP Smoothing reflects the ramp up of Regulatory Revenue in line with the Regulatory Volumes and the removal of revenue attributed to Cockatoo Coal

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Movement in Network MAR FY2016 to FY2017

	$m[1]
Regulated Access Revenue FY2016	**923**
Revenue Over Recovery FY2016	(17)
MAR FY2016	**906**
MAR Step-up (FY2016 to FY2017)	24
Flood (FY2015 recovered FY2017)	5
True Up FY2014 / FY2015	89
WIRP Revenue Ramp-up FY2017	20
Uplift in MAR FY2016-FY2017	**138**
Flood (FY2013 recovered FY2016)	(6)
Revenue Cap (FY14)	(8)
One-off MAR Adjustments FY2016	**(14)**
MAR FY2017	**1,030**
Revenue Under Recovery FY2017	(53)
Regulated Access Revenue FY2017	**977**

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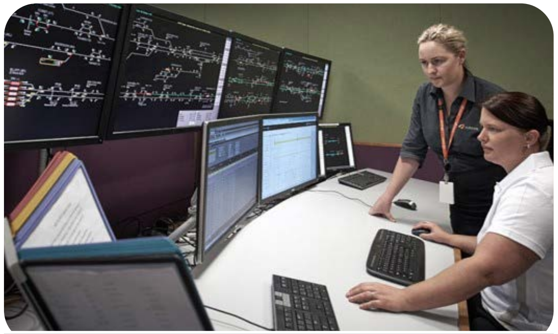
1. All amounts exclude GAPE
2. Revenue under recovery is AT[1-5] Access Revenue

Network Control improvement project

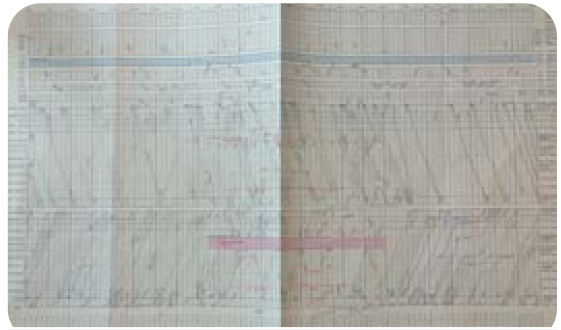
Rockhampton Control Centre



APEX

- APEX - Advanced Planning & Execution
- Software solution to support faster, more responsive planning and scheduling of trains from two years out to ‘Day of Operations’
- APEX represents a step change in technology for network schedulers and controllers by introducing automation, optimisation and standardisation of systems and processes
- Improvements are being rolled out over multiple phases – see Innovation

Train Control Diagram – paper based (pre July 2016)



Innovation

MOVEMENT PLANNER (FOUNDATION)

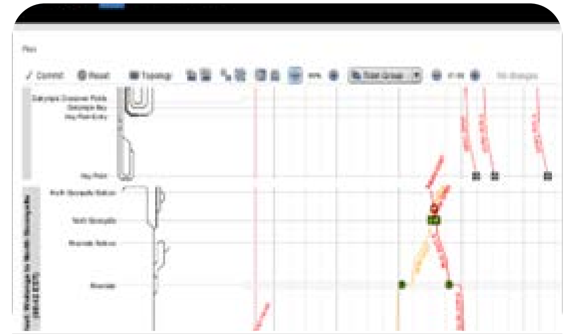
- Paper Train Control Diagram replaced with real time electronic train graphs that provide train controllers with a system-wide view of train movements 12 hours into the future – Completed July 2016
- Partnering with GE to adapt and implement this product for several US Class1 railways

ADVANCED PLANNING & SCHEDULING (FOUNDATION)

- Replace multiple existing tools into a single system, provide scenario planning, and integrate with Movement Planner – Go Live planned in second half of CY2017

Further deployments in CY2018 & 2019

Interactive Train Graph – electronic (post July 2016)



Transformation Benefits

KEY BENEFITS

- Improved On Time Port Arrivals
- Increased Network Velocity
- More economical means of increasing network capacity compared to investing in track infrastructure
- Other operational efficiencies including:
  - Improved safety
  - Decreased Delays
  - Improved Scheduled Adherence

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Glossary

Metric	Description
Access Revenue	Amounts received by Aurizon Network for access to the Network infrastructure under all Access Agreements
Average haul length	NTK/Total tonnes
Contract utilisation	Total volumes hauled as a percentage of total volumes contracted
CQCN	Central Queensland Coal Network
dGTK	Diesel fuel used per Gross tonne kilometre. GTK is a unit of measure representing the movement over a distance of one kilometre of one tonne of vehicle and contents including the weight of the locomotive & wagons
DTC	Deficit Tonnage Charge. A form of protection for the Above Rail Coal business, whereby the Group is able to recover extra charges where the revenue receivable, based on tonnage hauled and agreed price, falls below minimum levels set in contractual arrangements with customers
Footplate hours	A measure of train crew productivity
Free cash flow	Net operating cash flows less net cash flow from investing activities less interest paid
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
New Form contract	New form contracts provide substantial improvements in commercial terms including pricing (minimum weights and escalation), capacity charges, fuel and access pass through provisions as well as performance bonuses & penalties
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
Payload	The average weight of product hauled on behalf of Aurizon customers per service, calculated as total net tonnes hauled / total number of services
QCA	Queensland Competition Authority
ROIC	Return on Invested Capital. Rolling 12-month underlying EBIT/(Net PP&E including assets under construction + Investments accounted for using the equity method + current assets less cash, less current liabilities + net intangibles)
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
TSC	Transport Services Contract entered into between the Queensland State Government and Aurizon for the provision of regional freight and livestock services
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
Velocity	The average speed (km/h) of Aurizon train services (excluding yard dwell)
WACC	Weighted average cost of capital
WIRP	Wiggins Island Rail Project


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