Aurizon Network – FY2018 Results
Debt Investor Update

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

AURIZON

29 August 2018

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Agenda

Full year in review – Aurizon Group	Chris Vagg
Full year in review – Aurizon Network	David Collins
Regulation Update	David Collins
Funding and Capital Management	Chris Vagg
Outlook and Key Takeaways	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.

Full Year in Review – Aurizon Group

Chris Vagg
Head of Investor Relations & Group Treasurer

Update on key priorities

$1bn returned to shareholders since March 2017. Three year transformation target of $380m has been achieved

CAPITAL MANAGEMENT

- $1bn returned to shareholders since March 2017, including $300m buy back in FY2018
- Final dividend declared at 13.1 cents - 100% underlying NPAT for continuing operations

NETWORK REGULATION (UT5)

- UT5 draft response strategy in execution across multiple pathways – regulatory, commercial and legal
- Actions to date include alignment of maintenance and operating practices to the UT5DD

TRANSFORMATION DELIVERED

- $380m[1] transformation target delivered
- Transformation to underpin long term value creation through continuous improvement in asset and labour efficiencies
- Major initiatives include Precision Railroading and restructure of support areas

INTERMODAL TRANSACTIONS

- Intermodal Interstate operations closed in line with plan, locomotives cascaded to NSW Coal
- ACCC has blocked the sale of Queensland Intermodal and Acacia Ridge Terminal
- Proceedings commenced in Federal Court of Australia, where Aurizon will with PN seek to clear the Acacia Ridge transaction and defend other allegations

1. Over FY2016-FY2018 including the benefit of removing Intermodal's FY2017 losses, which principally relate to Intermodal Interstate

FY2018 highlights[1]

Solid result with $941m EBIT, 10.9% ROIC and 69.8% OR

FINANCIAL RESULTS

- Underlying EBIT up 6% to $941m with earnings growth in Bulk
- Total Above Rail volumes up 4% - growth in Coal (7%) offsetting reduction (6%) in Bulk
- Network volumes up 9%
- Statutory NPAT $560m
- ROIC 10.9%
- Operating Ratio 69.8%

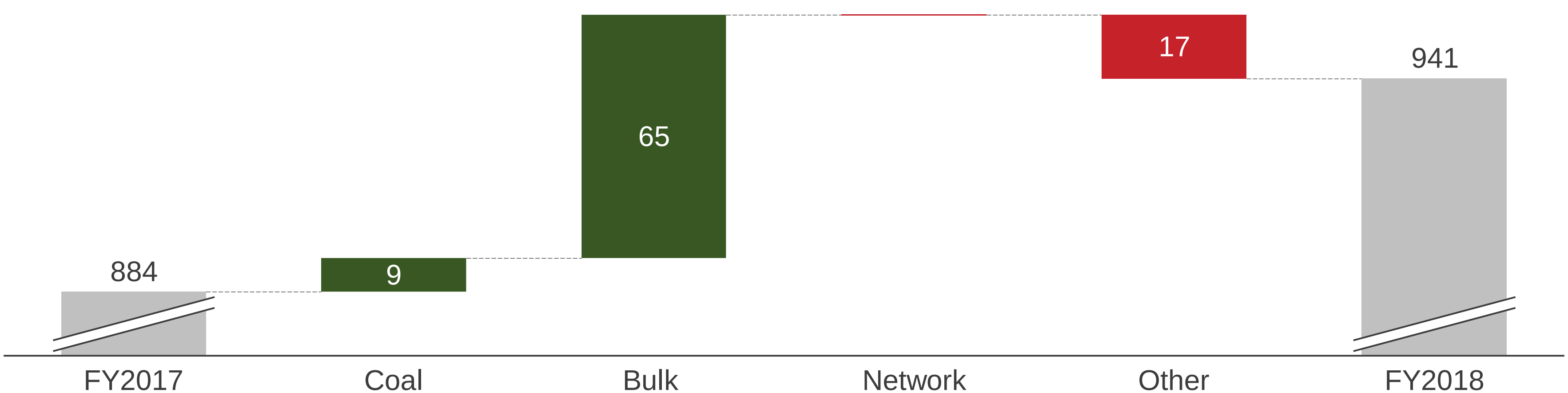
CASHFLOW

- Free cash flow (FCF) down 5% to $669m

SHAREHOLDER RETURNS

- Final dividend 13.1 cents declared on continuing NPAT, total FY2018 dividend 27.1 cents
- $300m buy back completed in FY2018

UNDERLYING EBIT BRIDGE – GROUP ($M)



1. Continuing operations

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Key financial highlights[1]

EBIT growth from transformation and improved earnings in Coal and Bulk

$m	FY2018	FY2017	Var
Revenue	3,113	3,143	(1%)
Operating Costs	(1,646)	(1,692)	3%
Depreciation & Amortisation	(526)	(567)	7%
EBIT – underlying	941	884	6%
EBIT – statutory[2]	966	124	677%
Operating Ratio (%)	69.8%	71.9%	2.1ppt
NPAT – underlying	542	495	10%
NPAT – statutory[2]	560	(37)	nm
EPS (cps) – underlying	26.9	24.1	12%
EPS (cps) – statutory	27.8	(1.8)	nm
ROIC (%)	10.9%	9.3%	1.6ppt
Final dividend per share	13.1	8.9	47%
Free Cash Flow	669	704	(5%)

- Revenue impacted by UT4 and FY2016 revenue true up in Network and lower volumes in Bulk, offset in part by higher coal volumes and prior year impact of Cyclone Debbie in 2HFY2017
- Operating costs benefited from $86m in transformation partly offset by wages and consumables escalation $28m and net incremental costs supporting new volumes $17m
- Statutory EBIT result improved with a reduction in significant adjustments in FY2018 (Bulk impairments FY2017)
- Free cash flow impacted by Moorebank sale in FY2017
- Dividend based on 100% payout ratio of underlying continuing NPAT

1. Continuing operations
2. Significant Items in FY2018 of $26m and includes Cliffs contract termination $35m, Bulk asset impairment ($32m) and Redundancy costs $23m. Significant Items in FY2017 of ($760m) which includes impairment for Bulk ($526m), FMT ($64m), Freight Review contracts ($10m) and other assets ($49m). It also includes ($111m) in redundancy costs.

Coal update

Operating in a supportive market environment, Coal is focussed on improving cost competitiveness, asset utilisation and delivery performance and achieved $47m in transformation in FY2018

COAL MARKET CONDITIONS

- Annual volume growth of ~2% over next 10 years
- Hard coking and thermal coal prices increased in FY2018 7% and 24% respectively driven by growth in steel production and thermal power generation in China and India
- In the 12 months to June 2018, China crude steel production increased 6% to a record 870mt
- India (Australia's largest metallurgical coal export market) in June 2018 recorded its 29th consecutive month of YoY growth in steel production

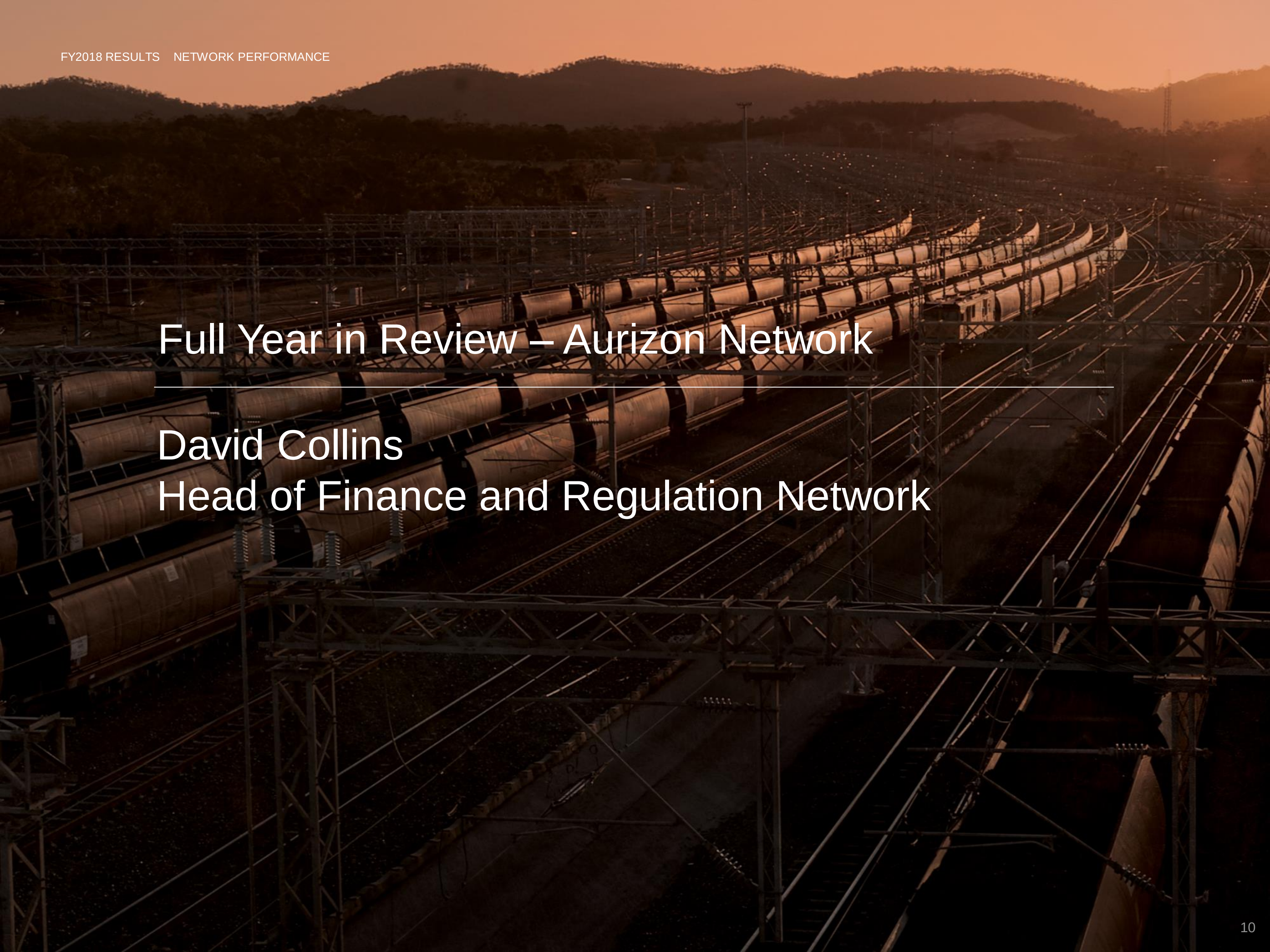
COAL CUSTOMERS

- Customer sentiment positive in NSW/SEQ system. Tension in CQCN over capacity constraints
- Coal remains focused on optimising service delivery and improving reliability for customers
- All customer mines estimated at positive cash margins

CONTRACT WINS

- **Qcoal**
  Byerwen Mine
  up to **10mtpa**[1] for 10 years
  Commenced January 2018
- **Bounty Mining**
  Cook Mine
  Commenced March 2018
- **Baralaba Coal Company**
  Baralaba North Mine
  2mtpa for 5+5 years
  Commencing 1HFY2019
- **MACH Energy**
  Mt Pleasant Mine
  8mtpa for 10 years
  Commencing late 1HFY2019

1. 5.0mtpa initially



Full Year in Review – Aurizon Network

David Collins
Head of Finance and Regulation Network

Network

Performance in line with expectation, cost reductions and higher volumes offset by UT4 adjustments from FY2017

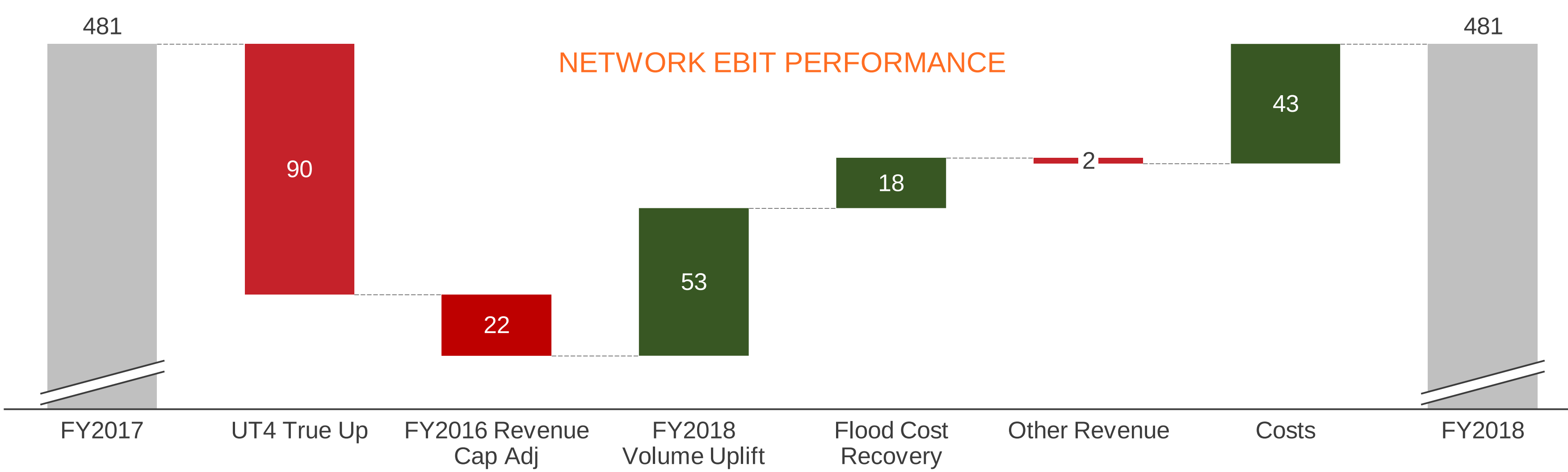
$m	FY2018	FY2017	Variance
Revenue	**1,219**	**1,262**	**(3%)**
Operating Costs	(430)	(481)	11%
Depreciation	(308)	(300)	(3%)
EBIT	**481**	**481**	**-**
Tonnes (m)	229.6	210.8	9%
NTKs (bn)	56.9	53.2	7%

Revenue

- UT4 one off true up (~$90m) in FY2017
- FY2016 revenue adjustment ($22m)
- Volume uplift FY2018 post Cyclone Debbie recovery ~$53m
- Flood cost recovery 2HFY2018 $18m

Costs

- Includes impact of UT4 corporate cost allocation $26m in FY2017



Network profit & loss (underlying)

$m	FY2018	FY2017	Variance
Tonnes (m)	229.6	210.8	9%
Access Revenue	1,167.1	1,199.9	(3%)
Services and other	51.6	62.2	(17%)
Total Revenue	**1,218.7**	**1,262.1**	**(3%)**
Operating costs	(430.1)	(481.7)	11%
EBITDA	**788.6**	**780.4**	**1%**
EBITDA margin	64.7%	61.8%	2.9ppt
Depreciation and amortisation	(308.0)	(299.5)	(3%)
EBIT	**480.6**	**480.9**	-
Operating Ratio	60.6%	61.9%	1.3ppt

Network Cash flow – free cash flow growth

$m	FY2018	FY2017
EBITDA - statutory	776	773
Working capital & other movements	6	(6)
Non-cash adjustments - impairment		8
Cash from operations	**782**	**775**
Interest received	-	1
Income taxes (paid) / received	(46)	(90)
Net cash inflows from operating activities	**736**	**686**
Net cash outflow from investing activities	**(332)**	**(282)**
Interest paid	(143)	(155)
Free Cash Flow (FCF)	**261**	**249**
Net proceeds/(repayments) from borrowings	316	(4)
Payment of transaction costs relating to borrowings	(4)	-
Capital distribution to Parent	-	(1)
Finance lease payments	-	(10)
Dividends paid to company shareholders	(592)	(216)
Net cash outflow from financing activities	**(423)**	**(386)**
Net (decrease) / increase in cash	**(19)**	**18**

- Free Cash Flow has remained steady in both half year periods
- Higher cash inflows from operating activities primarily driven by lower income taxes paid this year

Network balance sheet

As at $m	30 June 2018	30 June 2017
Total current assets	259	296
Property, plant & equipment	5,408	5,390
Other non-current assets	211	160
Total assets	**5,878**	**5,846**
Other current liabilities	(220)	(207)
Total borrowings	(3,353)	(2,929)
Other non-current liabilities	(846)	(877)
Total liabilities	**(4,419)**	**(4,013)**
Net assets	**1,459**	**1,833**
Gearing (net debt/net debt + equity)	**69.7%**	**61.3%**
Gearing (net debt/RAB excluding AFDs[1])	**62.4%**	**54.1%**

- Total current assets has decreased due to $19m lower cash holdings and $13m lower trade and other receivables.
- Slight increase in PP&E due to no major growth capital with focus on sustaining capital works program
- Other non-current assets has increased largely from revaluation of derivatives ($39m) and $14m increase in intangible software assets.
- Borrowings increased due to net $316m additional bank debt and the $108m mark-to-market revaluation of the Euro bonds
- Other non-current liabilities has decreased largely due to the release of income in advance to revenue ($20m), lower revaluation of derivative liabilities ($49m), offset by increase in deferred tax liabilities ($37m).

1. Access Facilitation Deed

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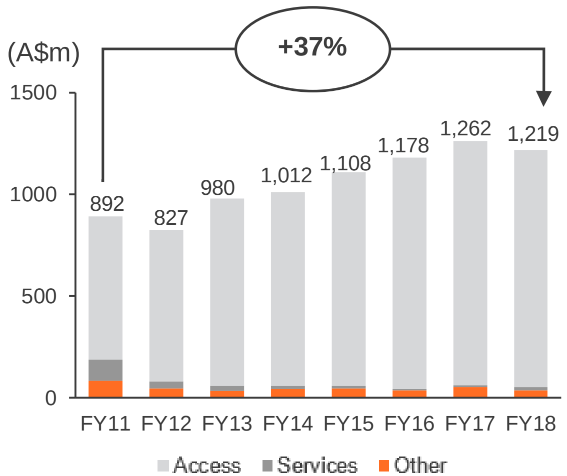
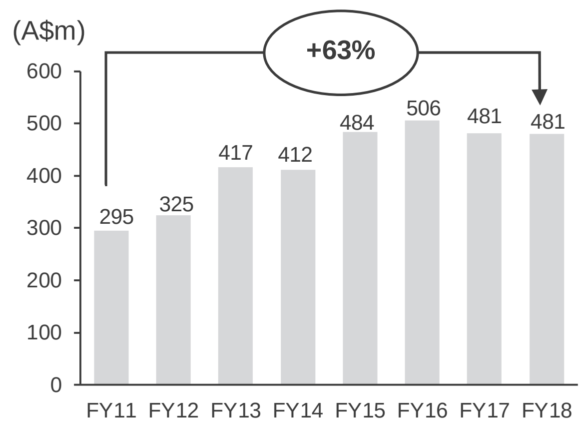
Network Key Financial Metrics

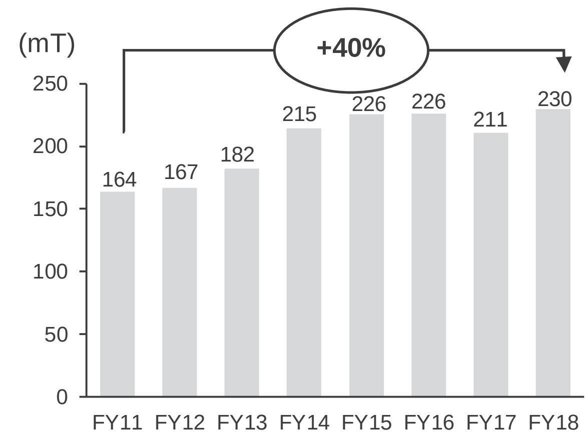
REVENUE



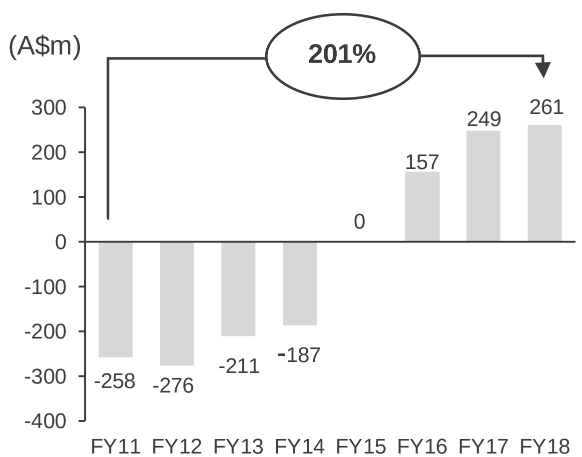
EBIT



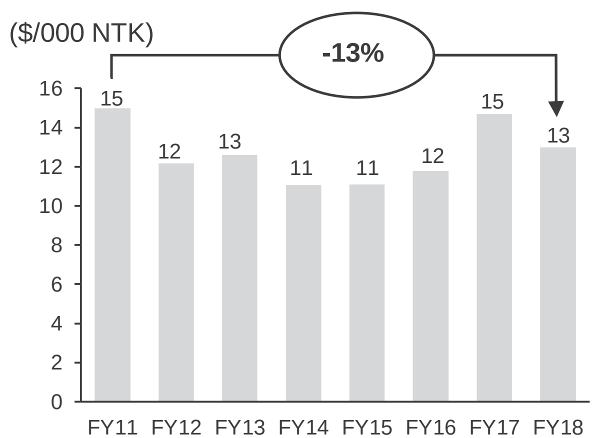
VOLUMES



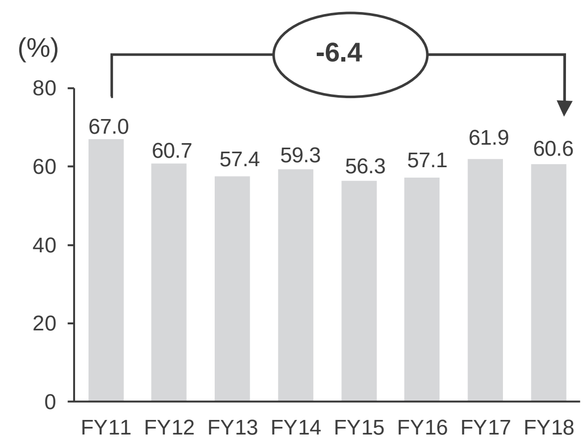
FREE CASH FLOW

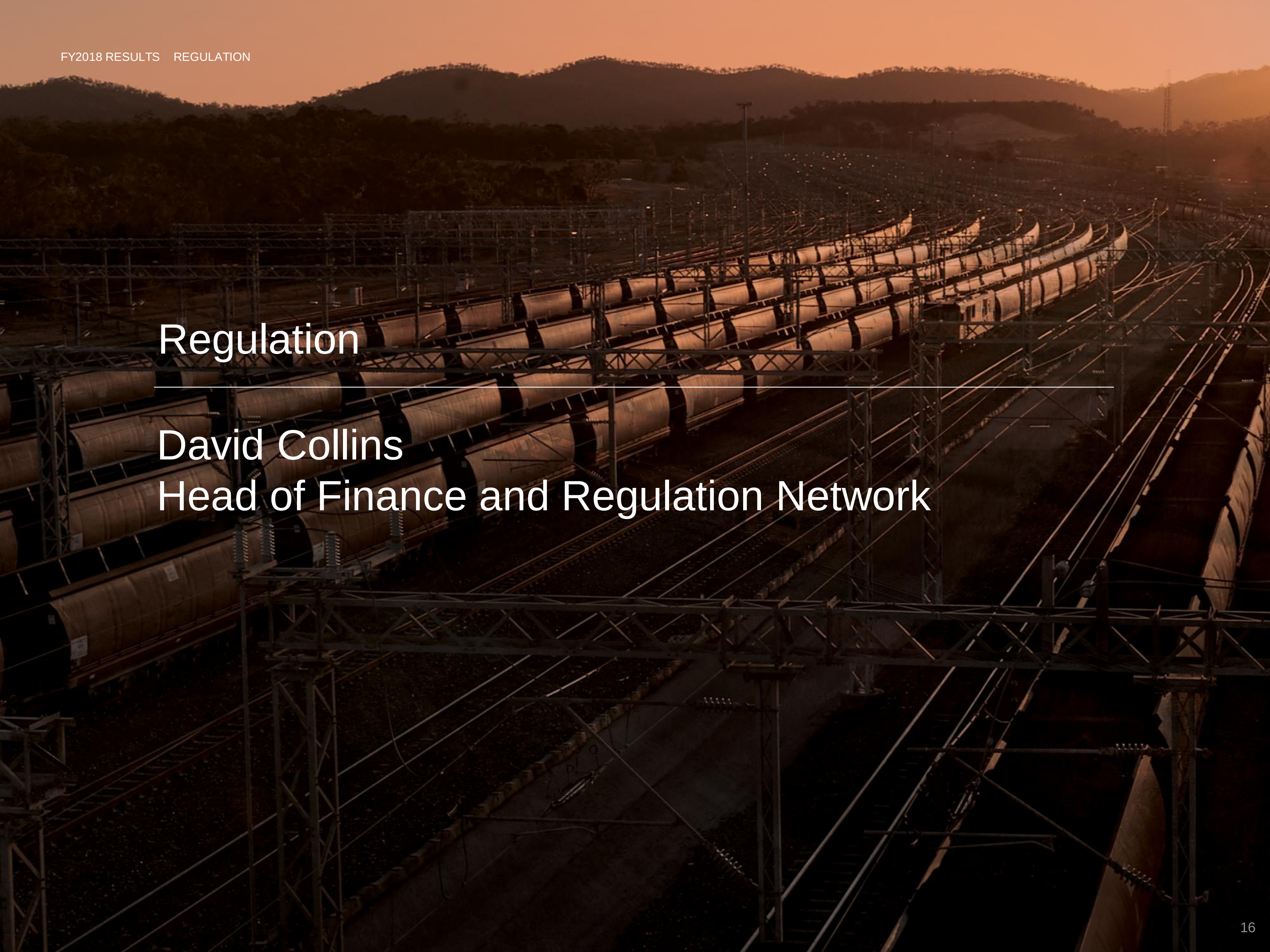


OPEX / NTK



OPERATING RATIO





Regulation

David Collins
Head of Finance and Regulation Network

Network context - UT5 draft decision recap

QCA's UT5 draft decision risks value erosion across the CQCN coal supply chain

	AURIZON NETWORK UT5 SUBMISSION	QCA DRAFT DECISION	AURIZON NETWORK'S RESPONSE TO DRAFT DECISION
Total Adjusted MAR	4,892	3,893	4,757
WACC (post tax nominal vanilla)	6.78%	5.41%	7.03%
Inflation	1.22%	2.37%	2.30%
WACC (post tax real vanilla)	5.49%	2.97%	4.62%
Blended tariff ($/net tonne)	$5.36	$3.86	$4.90

AURIZON'S RESPONSE TO THE DRAFT DECISION

- Aurizon has aligned maintenance and operating practices with the draft decision given retrospectivity to July 2017
- March 2018 Aurizon submitted its response to the draft decision – revised MAR $4.76bn. Submission addressed the fundamental errors and miscalculations made in the draft, especially in relation to maintenance
- Non safety capital expenditure has been reviewed
- Customer and other stakeholder engagement continues

Network update

Aurizon is pursuing multiple pathways to resolve UT5

UT5 DRAFT RESPONSE STRATEGY

- Regulatory
  - March 2018 response submitted on the UT5 draft decision
  - June 2018 submitted response on Maintenance consultation paper
- Commercial
  - Proposals put forward to customers and QCA around potential commercial resolution on terms acceptable to all stakeholders
- Legal
  - Judicial Review of UT5 draft decision lodged with Supreme Court of Queensland
  - Hearing date – 22 October 2018

OPERATIONAL RESPONSE TO THE DRAFT DECISION

- Aurizon has aligned maintenance and operating practices with draft decision given retrospectivity to 1 July 2017, including:
  - Adherence to the plan
  - Cessation of overlength train trials
  - Focus on permanent rectification work
  - Review of all non safety capital expenditure
- Customer and stakeholder engagement continues

Operational response to the UT5 draft decision

Operating and maintenance practices and risk tolerance have been aligned to those assumed in the draft decision due to the retrospectivity of UT5 to 1 July 2017

EXAMPLES OF CHANGES

Adherence to the plan

- No deviation from the plan (excluding emergencies)
- Where trains are not running to plan, planned maintenance activities will continue as scheduled and take priority

Overlength train trials

- 124 wagon Newlands and 120 wagon Blackwater trials have ceased
- Overlength trains require a high level of flexibility in the system which cannot be facilitated in the new environment

Track defects

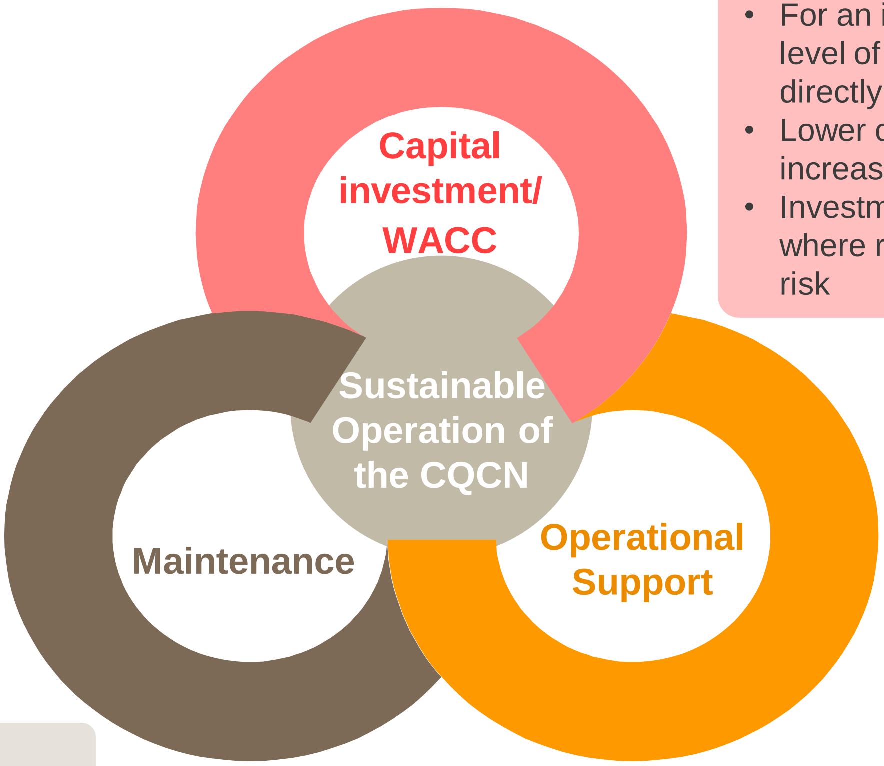
- Generally practice will focus on permanent rather than temporary rectification work, for example:
  - Rail breaks
  - Ballast and formation defects

Capital Expenditure

- Reviewed capital expenditure to align with the risk tolerance assumed in the draft decision WACC and the delivery of a safe and reliable network

Risk, capital and maintenance

Operation of the CQCN to deliver optimal value to all stakeholders requires the appropriate balance of investment, maintenance and operational support



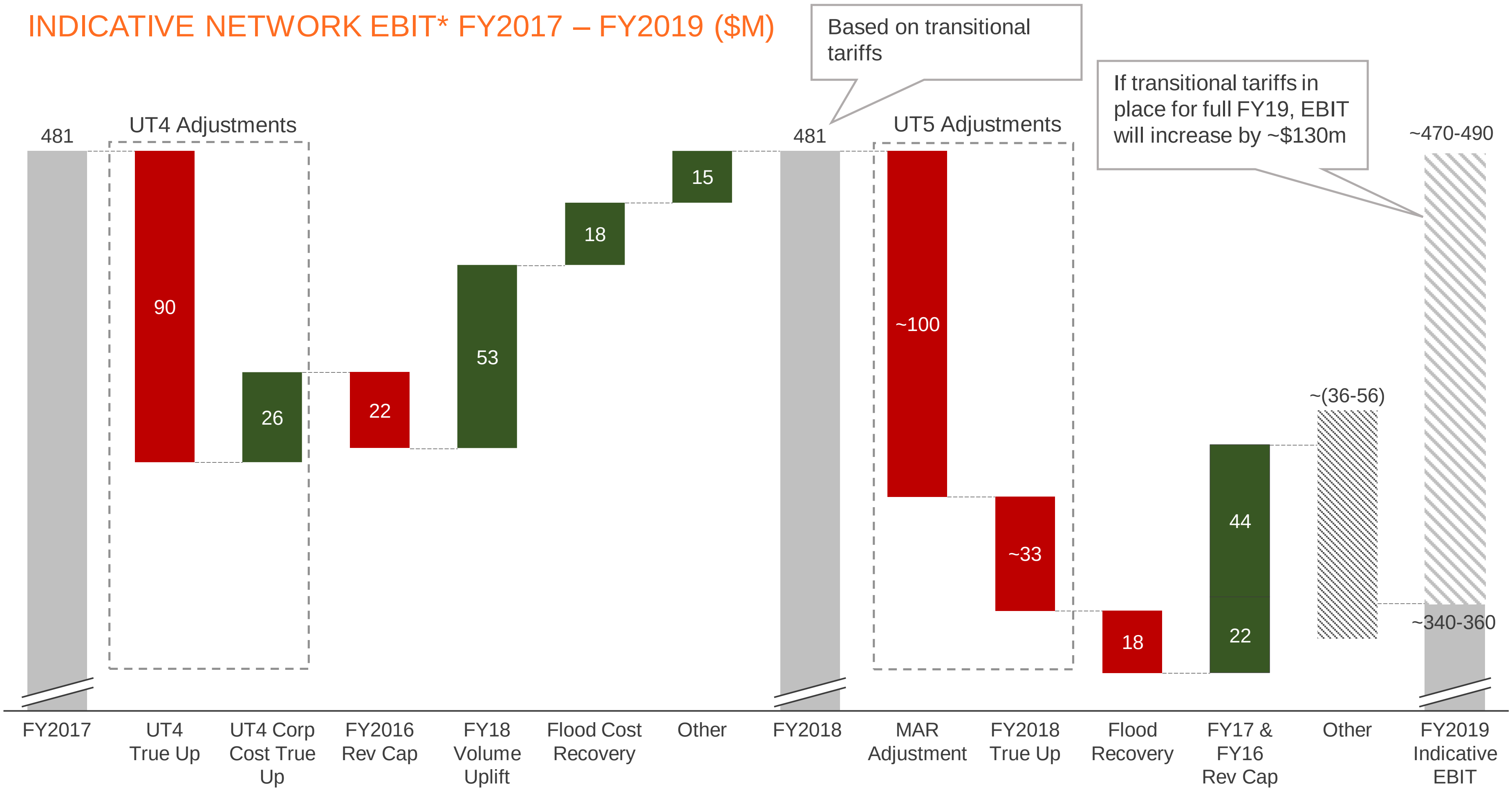
- For an infrastructure asset, the level of capital investment is directly related to its reliability
- Lower capex generally will result in increased maintenance
- Investment is incentivised only where return is commensurate with risk

- Where reduced investment results in increased maintenance, these activities will consume more resources in order to preserve reliability

Network EBIT Bridge

Worst case scenario assumes final UT5 decision equals the UT5 draft decision

INDICATIVE NETWORK EBIT* FY2017 – FY2019 ($M)



*This is not guidance. Based on TT volumes of 244mt for FY19

Funding and Capital Management

Chris Vagg
Head of Investor Relations & Group Treasurer

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Capital allocation strategy

Aurizon's capital allocation strategy remains unchanged with credit ratings and gearing to be reviewed once the UT5 final decision is released

PRIORITISATION OF CAPITAL

1. Non Growth Capital

2. Dividends (payout range 70-100%)

3. Surplus capital returned to shareholders | Growth Capex *only where* it maximises shareholder value

Credit rating

Gearing

UT5 DRAFT DECISION IMPACT

1. Moody's revised threshold lower (13 August) - UT5DD now supports Moody's Baa1 credit metrics for Network (Holdings – no change)
2. S&P metrics (BBB+) satisfied
3. Credit ratings and gearing to be reviewed once the UT5 final decision is released

Funding update

Interest costs reduced in FY2018. Strategy remains to diversify debt investor base and increase average tenor

UT5 DRAFT DECISION IMPACT

- UT5DD now supports Moody's Baa1 credit metrics for Network (threshold lowered to 13% on 13 August)
- S&P metrics (BBB+) satisfied

FY2018 FUNDING ACTIVITY

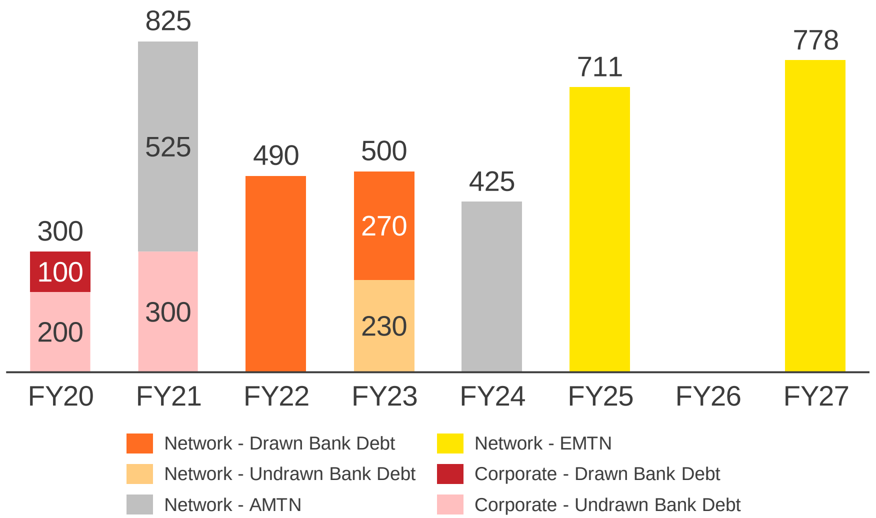
- Aurizon Network's $525m bank facility was repriced in November 2017 and maturity extended to FY2023 (facility size reduced to $500m)
- Aurizon Holdings FY2020 and FY2021 revolving bank debt facility (A$600m) to be refinanced by July 2019 (bank debt facility size reduced from $800m in June 2018)

INTEREST RATES

- Reduction in the cost of drawn debt and interest expense due to the replacement of hedges in June 2017
- Aurizon's debt is now approximately 84% fixed/hedged for FY2018-20 falling to 70% in FY2021

KEY DEBT METRICS	FY2018	FY2017
Weighted average maturity[1]	4.7 years	5.0 years
Group interest cost on drawn debt	4.5%	5.0%
Group Gearing[2]	42.3%	39.6%
Network Gearing[3] (excl AFDs[4])	62.4%	54.1%
Credit Rating (S&P/Moody's)	BBB+/Baa1	BBB+/Baa1

MATURITY PROFILE ($M)

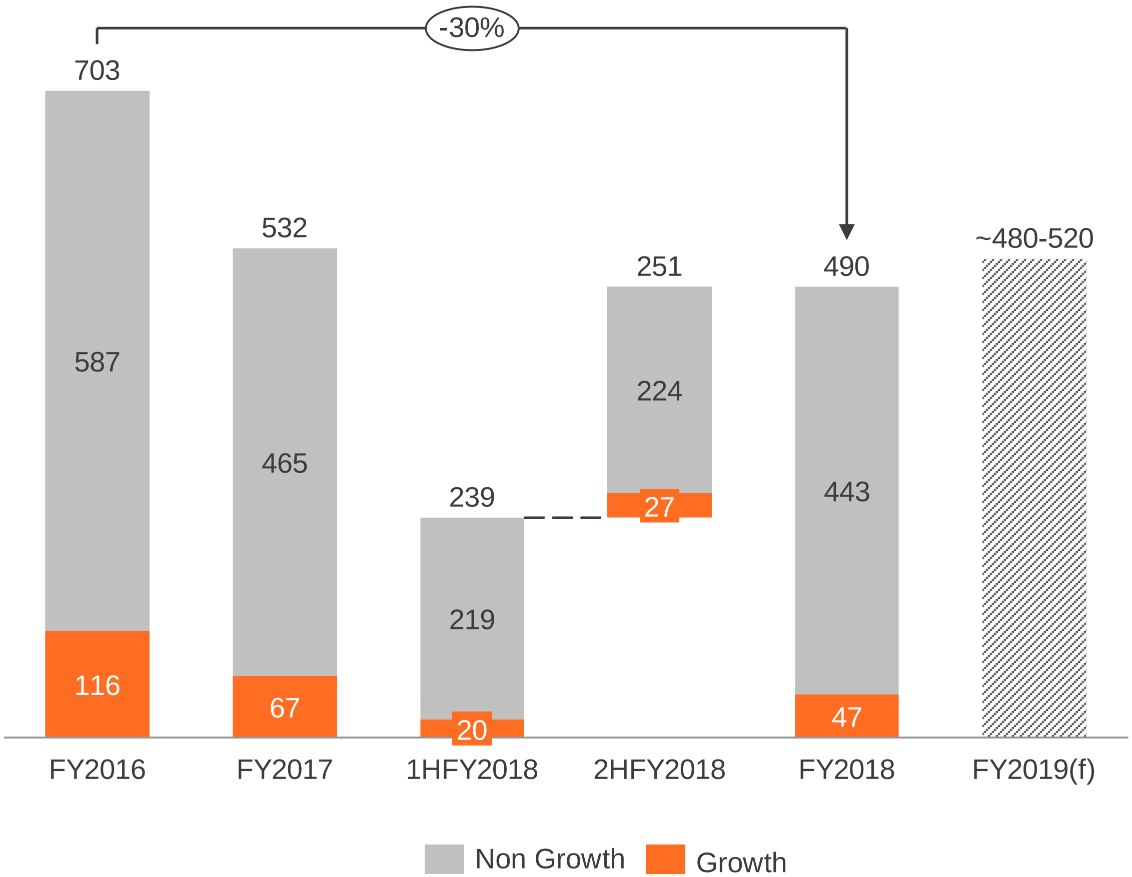


1. Calculated on drawn debt, excluding working capital facility
2. Group Gearing – net debt/net debt plus equity
3. Network Gearing - net debt/RAB
4. Access Facilitation Deed

Capital expenditure

FY2019 capital expenditure mix change with Network decrease offset by increase in Above Rail

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

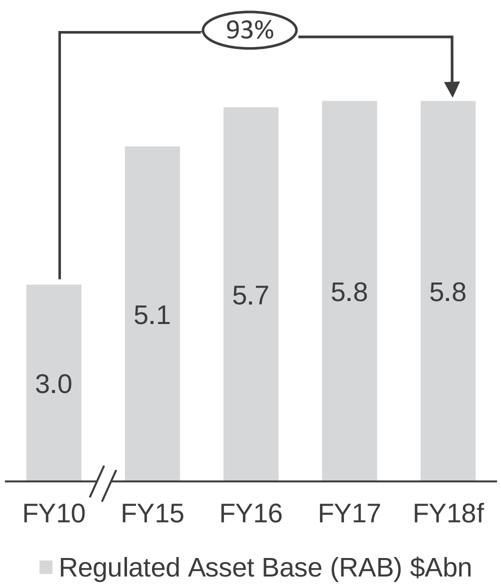


- FY2018 capex in line with guidance at $490m (guidance $485-495m)
- Capital expenditure guidance for FY2019 $480m – $520m
- Growth capital in FY2019 includes new coal wagons to support growth tonnes across CQCN and Hunter Valley
- Non growth capital in FY2019 forecast to increase against FY2018 as a result of:
  - Rollingstock overhauls due
  - Technology projects
  - Deferrals from prior years
  - Potential capital for replacement rail grinder

1. Total Group capital expenditure net of lease incentive payments and externally funded projects

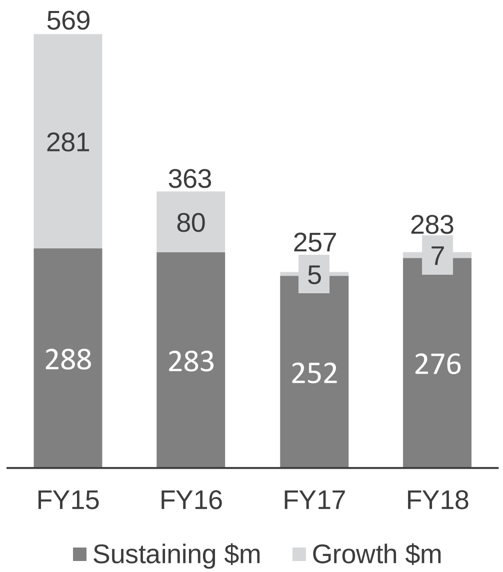
Network RAB, CAPEX and Depreciation profile

RAB ROLL FORWARD



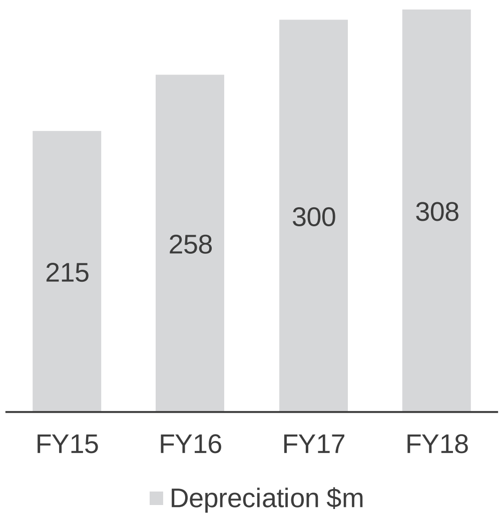
- RAB Roll-forward, indicative (closing balance) projection based on Aurizon Network's submitted UT5 RAB. Excludes assets operating under an Access Facilitation Deed (AFD) of c. $0.4bn and is subject to QCA approval of the FY18 capital claim which is yet to be submitted.

CAPEX

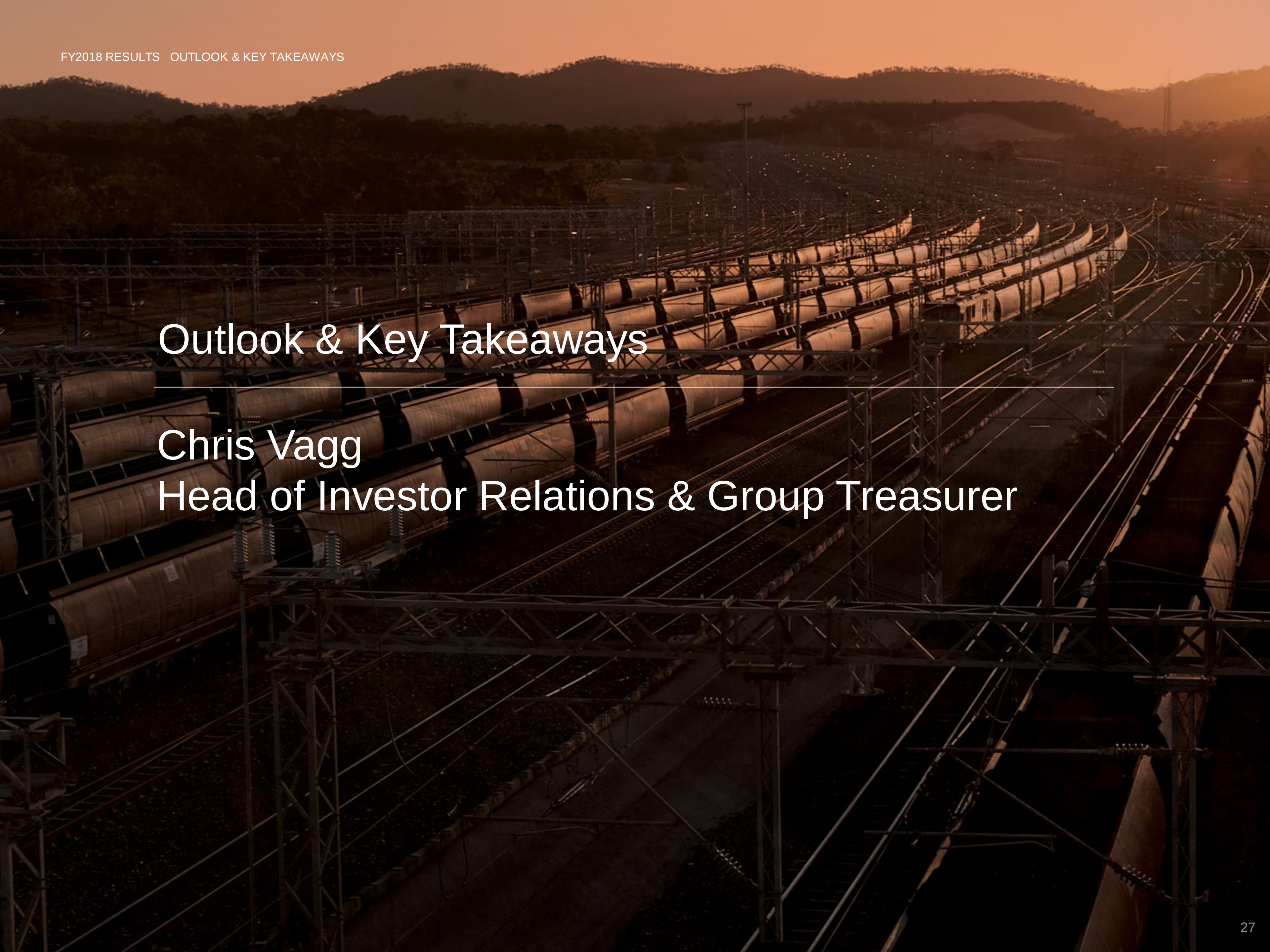


- Network sustaining capex is expected to be in the range of $240 - $300m (4% - 5% of RAB)
- Capex presented on a Functional basis

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
- FY17 figure restated to reflect the Company's re-organisation to a business unit structure effective 1 July 2017
- Depreciation for FY17 and FY18 is for Network segment and includes share of corporate assets.



Outlook & Key Takeaways

Chris Vagg
Head of Investor Relations & Group Treasurer

FY2019 outlook

Providing Group earnings guidance is challenging due to uncertainty around UT5 final outcome

- Underlying EBIT guidance for above rail business $390-430m
- Providing guidance for Network is challenging as transitional tariffs in place for only 1HFY2019 ($130m range of outcomes[1])
- Above Rail EBIT growth in FY2020 due to higher coal volumes and transformation driving value across the business

KEY ASSUMPTIONS

- Coal – flat outlook with 215 – 225mt volumes offset by increased maintenance and operating costs
- Bulk – $50m impact from cessation of Cliffs and Mt Gibson contracts
- Continued delivery of transformation in the remaining core business
- No major weather impacts
- Excludes redundancy costs

1. Refer slide 21

Key takeaways

Delivered to expectations in FY2018. Earnings headwinds in FY2019 with new strategic framework positioned to deliver long term earnings growth

EARNINGS

- Solid FY2018 performance with EBIT up 6%
- 47% increase in final dividend, maintaining payout ratio at 100% of underlying NPAT
- Earnings headwinds in FY2019 with additional investment in Coal to enhance reliability and cessation of iron ore contracts in Bulk
- Above Rail earnings growth from FY2020 with increased coal volumes and transformation driving value

UT5

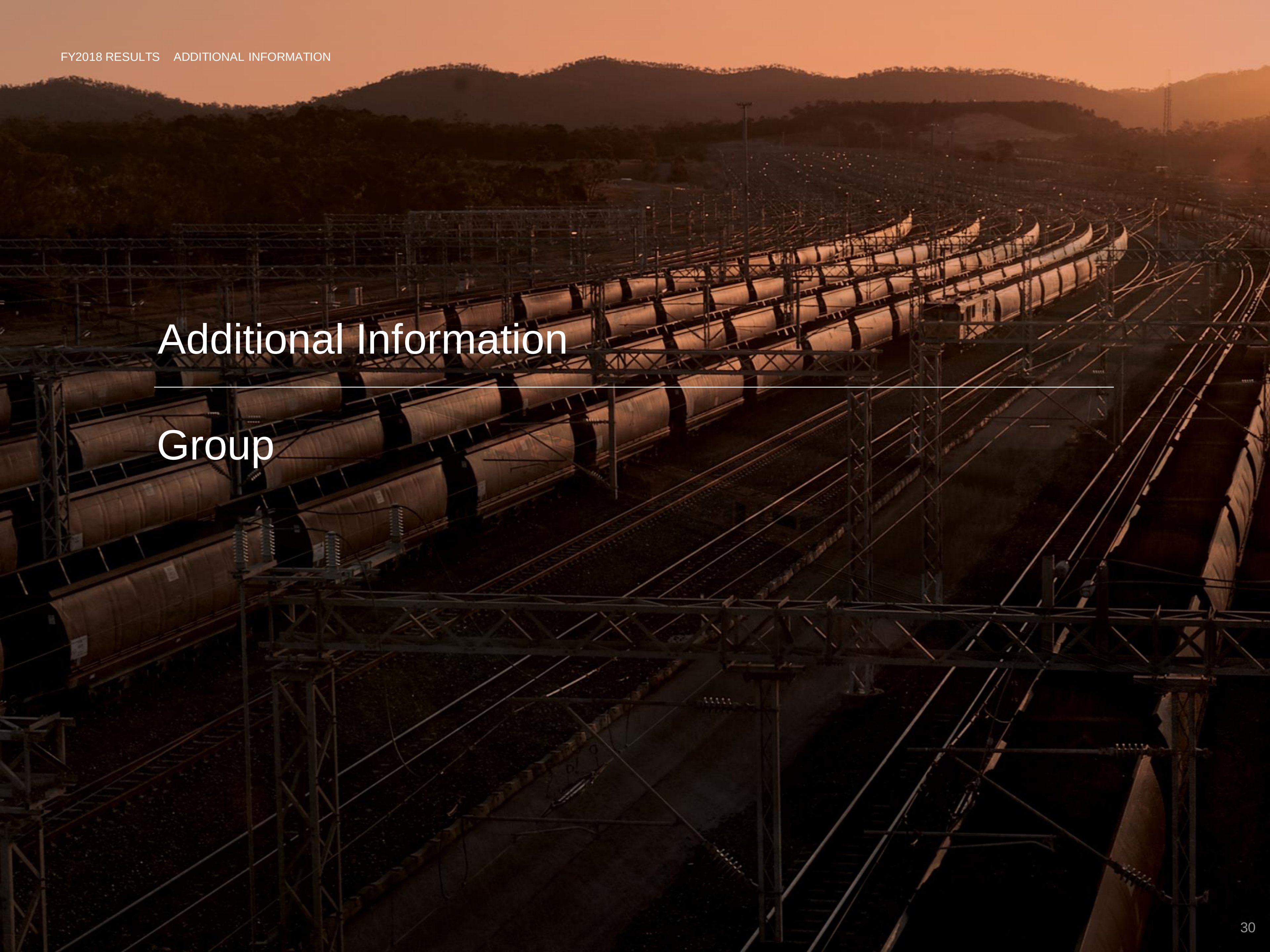
- UT5 draft response strategy in execution across multiple pathways – regulatory, commercial and legal
- Actions to date include alignment of maintenance and operating practices to the UT5DD
- Customer and key stakeholder engagement continues

INTERMODAL

- ACCC has blocked the sale transactions for Intermodal Queensland and the Acacia Ridge Terminal
- Currently before Federal Court of Australia, Aurizon will defend the proceedings
- Aurizon has today terminated the sale agreement for the Queensland Intermodal business and will exit that business subject to any orders of the Court

STRATEGIC FRAMEWORK

- New framework introduced to support enterprise objectives
- Execution against three strategic levers is aimed at driving differentiation, competitive advantage and sustainable performance



Additional Information

Group

Australia’s largest integrated freight rail network

RAIL HAULAGE

Multiple commodities, customers and integrated supply chains

COAL

- Services 40+ mines
- Moves 200 million tonnes annually
- Exports to markets including Japan, China, South Korea, India and Taiwan

BULK

- Australia’s leading bulk freight specialist
- Transports Iron ore, minerals, other commodities and agricultural products

RAIL NETWORK

Asset Maintenance, Network Management and Infrastructure Development

NETWORK MANAGEMENT

- Operates and manages Australia’s largest and most complex export rail network
- Connects more than 50 mines to 5 major export ports, plus many domestic consumers

ASSET MANAGEMENT AND MAINTENANCE

- Maintains and manages 2,670km multi-user track network cross four major coal systems in Queensland’s Bowen Basin

INFRASTRUCTURE DEVELOPMENT

- Delivers major railway infrastructure projects on-time and on-budget

Aurizon's rail haulage operations

KEY OPERATIONAL STATISTICS[1]

COMMODITIES
Coal, iron ore, bulk freight and intermodal

ROLLINGSTOCK
500+ active locomotives

OPERATIONAL FOOTPRINT
More than 160 operational sites

PEOPLE
More than 4,500 operational full-time employees

WAGONS
13,000+ active wagons

[1]Statistics as at 1 January 2018

Aurizon's vision, purpose and values

Focussed on customers and recognises its important role in both regional Australia and global supply chains

VISION

The first choice for bulk commodity transport solutions

PURPOSE

Growing regional Australia by delivering bulk commodities to the world

Achievement of vision represents:

- #1 in the market
- Strongest renewals and new business growth
- Increasing Australian share of seaborne coal and other bulk trade

VALUES

SAFETY | PEOPLE | INTEGRITY | CUSTOMER | EXCELLENCE

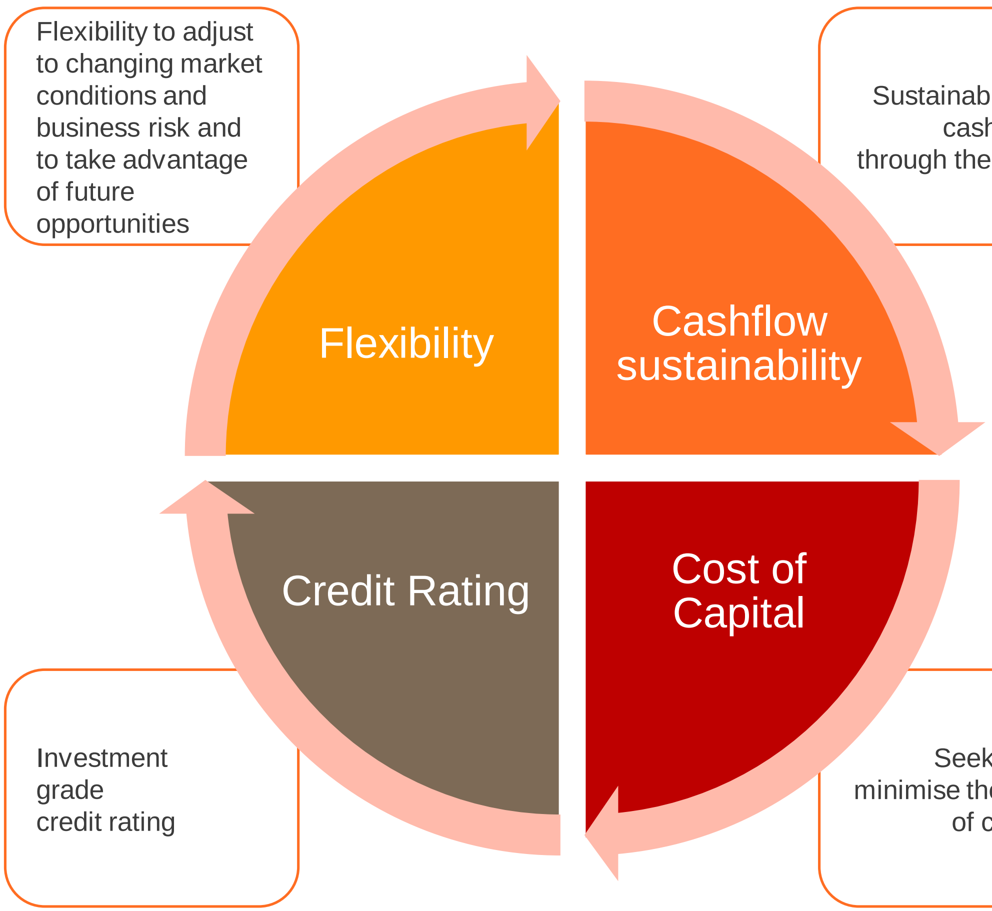
Strategic levers required to fulfil Aurizon's vision

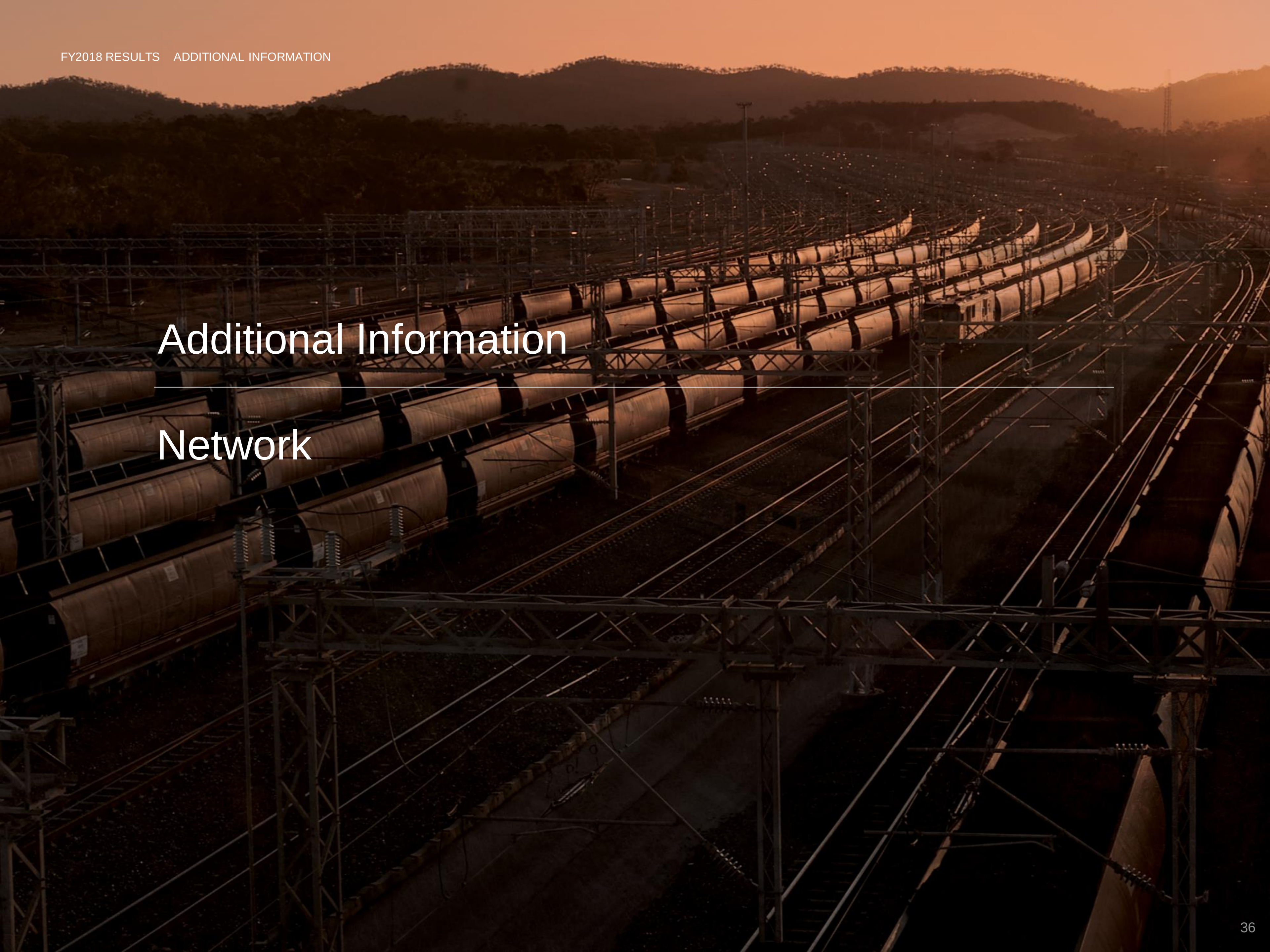
Execution against the three strategic levers is aimed at driving differentiation, competitive advantage and sustainable performance

STRATEGIC LEVERS	OPTIMISE	EXCEL	EXTEND
	Delivering a cost effective and customer aligned model Moving decisions closer to our operations and customers Delivering a portfolio of value adding businesses Allocating capital rigorously and efficiently	Labour and asset productivity through technology Regulatory reform Developing a safety and performance culture that is agile and innovative	Improving the competitiveness of supply chains we operate Leveraging expertise to adjacent assets and activities Bulk commodity supply chain manager of choice
OUTCOME	Accelerate cost competitiveness of Aurizon	Achieve regulatory reform, secure contract wins and gain competitive advantage through asset efficiency	Position Aurizon for growth, value creation and the next phase of Enterprise evolution

Capital structure objectives

Optimal capital structure to enable balance of shareholder returns and investment

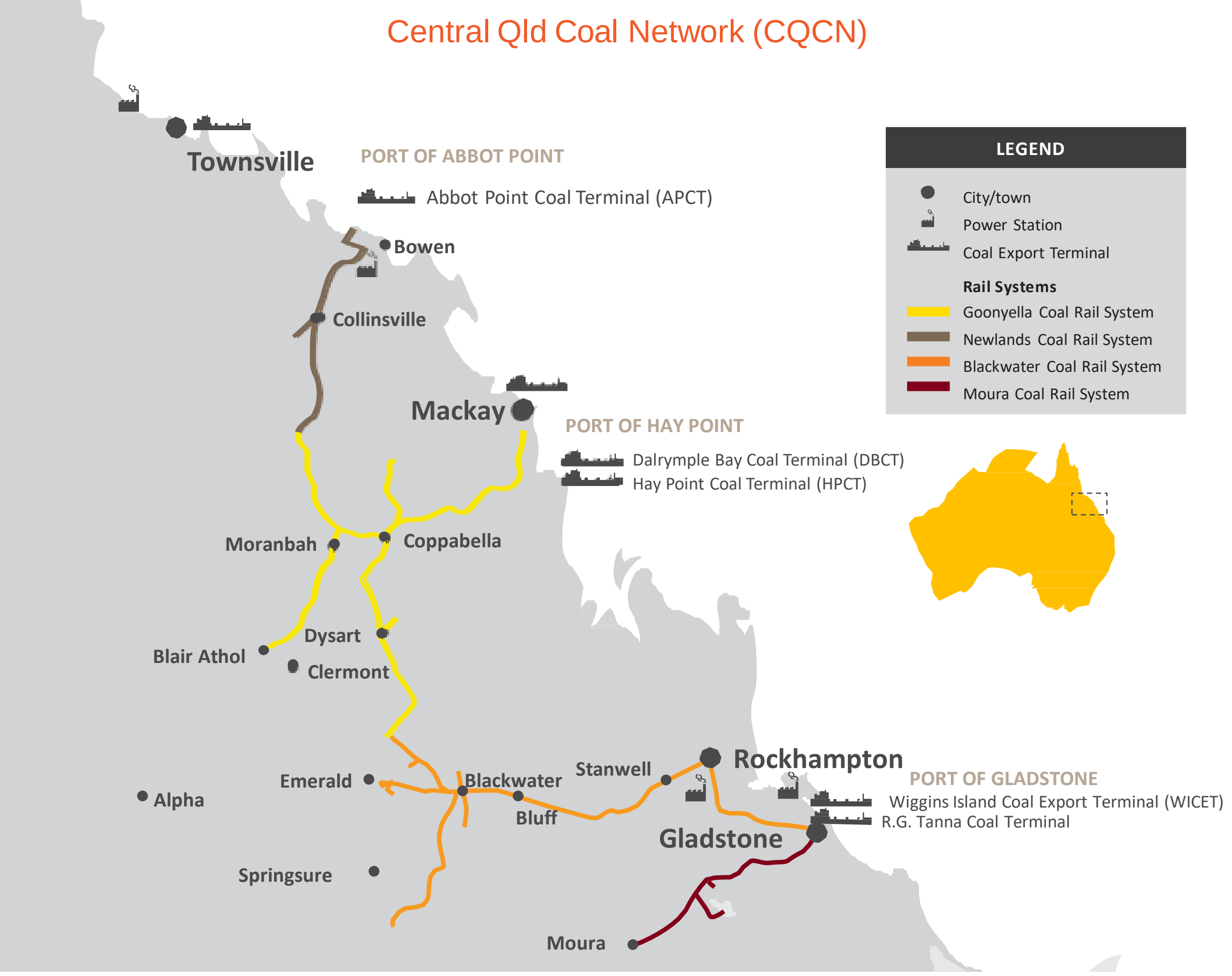




Additional Information

Network

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	
229.6mt coal moved in FY2018	
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[1] as at 1 July 2018	

1. Estimate as at 1 July 2018 - excludes $0.4bn in assets operating under an Access Facilitation Deed (AFD).

Network strategic levers

Priorities are focused on the development of a fit for purpose network that creates value and facilitates changing the regulatory environment for the benefit of all

OPTIMISE

UT5 solution | Fit for purpose operations | Capability

1. Alignment of resources to the UT5 draft decision
2. Supply chain productivity
3. Network cost efficiencies

EXCEL

Customer solutions | Regulatory framework

1. Regulatory reform
2. Tailored asset and capacity management
3. Build system and people capability

EXTEND

Existing customers | Adjacencies | New markets

1. Opportunistic expansion of CQCN
2. Supply chain alignment
3. Growth outside CQCN

AURIZON

Network Strategy

Getting closer to our customers will drive improved performance, better alignment of asset condition and management of long term requirements

THE PROBLEM TODAY

Customers & Regulator
Don't see value being delivered in the network

Pulling apart and not aligned

Aurizon
Has the levers to create value, but not the incentive

Regulatory environment does not align the interests of all players to maximise outcomes

THE PATHWAY TO A SOLUTION

Clearly defining services…

…provides clarity of propositions & opportunity to trade value…

…therefore driving collaboration & stronger alignment to seek regulatory change…

…for the benefit of all supply chain stakeholders

Services clearly defined and linked to tariffs

Customer Value Propositions
- Regulated services
- Tailored solutions as required

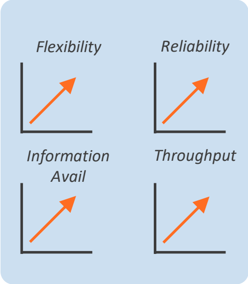
Joint value opportunity or 'tradeable value'

Operational Performance
- Fit for purpose asset management
- Supply chain capacity solutions

Greater collaboration & alignment

Coming together

Best practice regulation

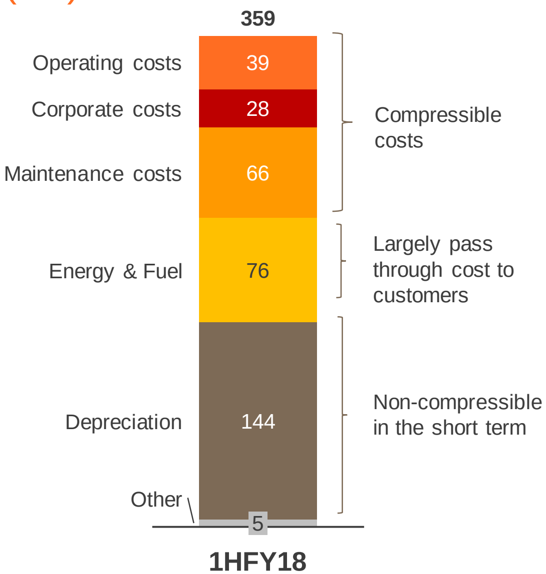


Transformation in Network

Progress has been made in transforming the cost base which drives value for the whole supply chain

OPTIMISE

NETWORK OPERATING COSTS ($M)[1]



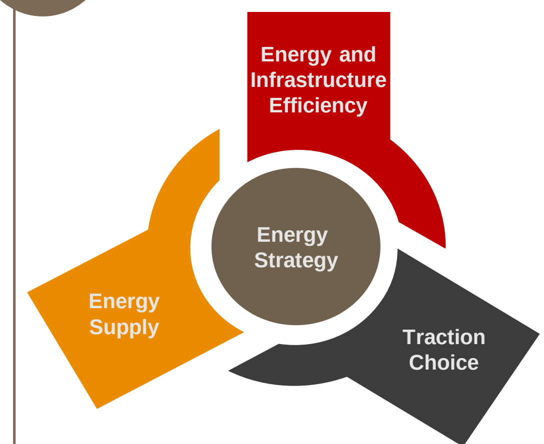
- ~40% of total Network operating cost base is compressible, with the remainder being largely pass through costs (i.e. energy and fuel) or costs that are non compressible in the short term due to their nature (i.e. depreciation)

TRANSFORMATION INITIATIVES

Footprint consolidation

- In FY2019 Network will significantly reduce its current footprint of 32 sites
- Expected to reduce real estate costs and increase operational efficiencies

Energy



- Infrastructure and procurement optimisation
- Regulatory measures (e.g. AT5 DAAU)
- Improving competitiveness of electric traction

1. Maintenance costs exclude ballast undercutting costs which are capitalised for accounting purposes. Maintenance costs also include some depreciation relating to plant used in maintenance and capital activities.

AURIZON

Future of regulation

Moving to best practice regulation will improve regulatory outcomes aligned with our business operating model

EXCEL

STANDARDS	OBJECTIVES	CURRENT	BEST PRACTICE
Objective Standards	Adjusting statutory objectives to better align interests	Upstream and downstream competition the primary focus rather than customer value	**Customers at the heart of regulatory objectives**
Methodological Standards	Introduction of performance targets and incentive mechanisms	Limited incentive for out performance through cost mechanism	**Co-operative engagement** Co-operative engagement between regulated entity and customers with limited regulator involvement but with appropriate regulatory protections
	Definition of efficient framework for co-operation between the regulated entity and customers	No clear, consistent framework for collaboration	
Procedural Standards	Improving regulator's procedural standards	• Lack of timely decisions • No clearly defined framework	**Timely decisions** Decisions made before the regulatory period to provide certainty for customers and the regulated entity

AURIZON

Supply chain capability

The opportunity to create value for the whole of supply chain will be underwritten by regulatory reform

EXTEND

Network Today

Supply chain value

- Alignment of supply chain contracted capacity
- Collaboration for major outages and incident response

Below rail capacity management

Supply chain participants act separately

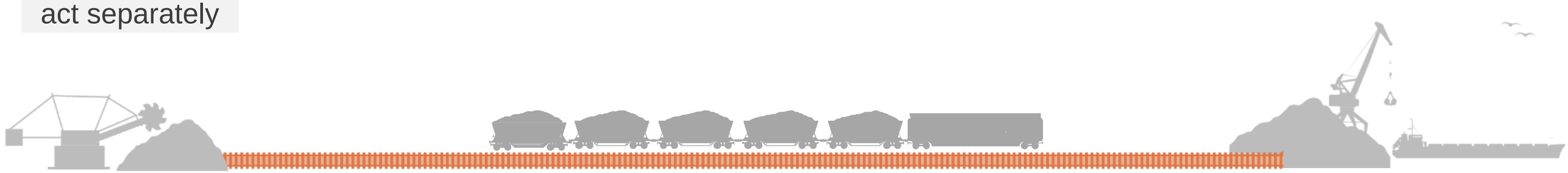
Supply chain alignment

Increased collaboration

Network Tomorrow

Supply chain value

- Optimisation of capital expenditure and increased availability and utilisation of infrastructure
  - Integrated planning
  - Managing variability
  - Performance analysis
  - Capacity and product offers



AURIZON

Network revenue adjustment amounts (revenue cap)

Financial Year	AT_{2-4} (diesel tariff) $m	AT_5 (electric tariff) $m	Total $m
2018[1]	~(13)[2]	~5	~(8)[2]
2017[3]	30.7	14.2	44.9
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 adjustment amounts (RAA) are the difference by system between Aurizon's Total Actual AT_{2-5} Revenue and Allowable AT_{2-5} Revenue
- RAA also includes adjustments for maintenance and consumer price index (MCI/CPI), rebates, energy connection costs and other costs recoverable in accordance with Schedule F of the Access Undertaking.
- The RAA amounts are collected or repaid through a tariff adjustment two years later
- All (except FY2018) revenue adjustment amounts include cost of capital adjustments. FY2016 and FY2017 RAA will be amended following the final decision on the UT5 weighted average cost of capital.

Note: AT = Access Tariff Revenue Adjustment Amount
1. Estimated, excludes cost of capital adjustment and only includes AT2-5 adjustments. This has not been submitted to the 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, FY2017 AT_{2-4} includes $0.5m return for GAPE

Reconciliation of billed MAR to reported access revenue

$m	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual
Billed Access Revenue (AT_1 to AT_5) (ex. GAPE)	794	787	924	892	940
Approved Adjustments to MAR					
Transitional tariff adjustment	(70)	-	-	-	-
Flood Claim recoveries[1]	-	12	6	-	18
WIRP Smoothing[2]	-	-	(15)	5	-
Revenue Cap (ex. GAPE and inclusive of capitalised interest)	17	34	8	(32)	(22)
UT4 MAR True-up	-	-	-	112	-
Regulated Access Revenue (ex. GAPE)	**741**	**833**	**923**	**977**	**936**
Total non-regulated Access Revenue (ex. GAPE)	5	11	12	18	38
Total GAPE Revenue (Regulatory + non-regulatory)	205	204	201	205	193
Total Access Revenue per Aurizon Statutory Accounts	**951**	**1,048**	**1,136**	**1,200**	**1,167**

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

1. FY2015 and FY2016 relates to the 2013 flood event. FY2018 includes amounts of $2.2m approved in respect of the FY2015 event and $16.2m (excluding the GAPE amount of $1.2m) approved for inclusion in the transitional allowable revenue for FY2018 emanating from the FY2017 Cyclone Debbie event. The QCA approved an amount of $16.9m (pre-escalation) on 23/5/2018, the difference between the approved amount and that included in transitional tariffs will form part of the UT5 true-up reconciliation.
2. 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

Network financial and operating metrics

	FY2018	FY2017	Variance
Tonnes (m)	229.6	210.8	9%
NTK (bn)	56.9	53.2	7%
Operating Ratio	60.6%	61.9%	1.3ppt
Maintenance/NTK ($/’000 NTK)	2.2	2.3	4%
Opex/NTK ($/’000 NTK)	13.0	14.7	12%
Cycle Velocity (km/hr)	23.5	23.5	-
System Availability	82.0%	83.7%	(1.7ppt)
Average Haul Length (km)	247.7	252.3	(2%)

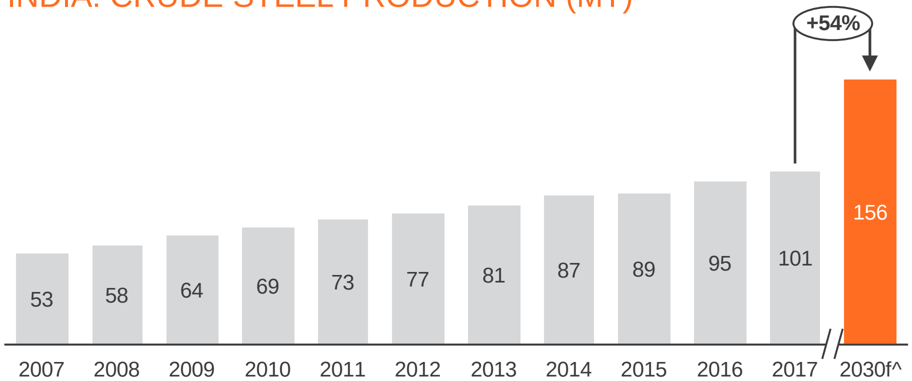
Additional Information

Coal market

Australian export coal demand

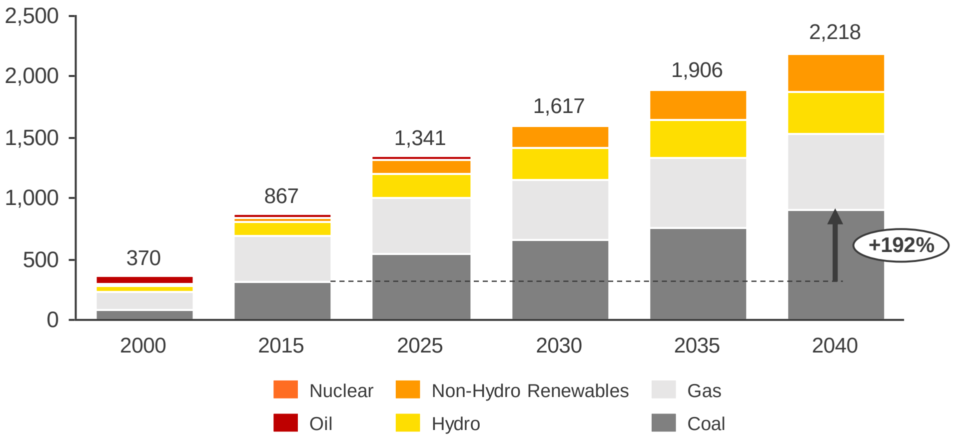
The fundamentals of metallurgical and thermal coal remain strong, driven by steel and energy demand growth in Asia, supporting growth in Australian exports of ~2% pa over the next decade

INDIA: CRUDE STEEL PRODUCTION (MT)



^*Wood Mackenzie Global Coal Markets (2018 1H)*

SOUTHEAST ASIA: ELECTRICITY GENERATION (TWh)



Source: India Crude Steel Production - World Steel (Steel Statistical Yearbook 2017), Wood Mackenzie Global Coal Markets (2018 1H). Southeast Asia Electricity Generation - International Energy Agency (World Energy Outlook 2017, New Policies Scenario).

Metallurgical Coal

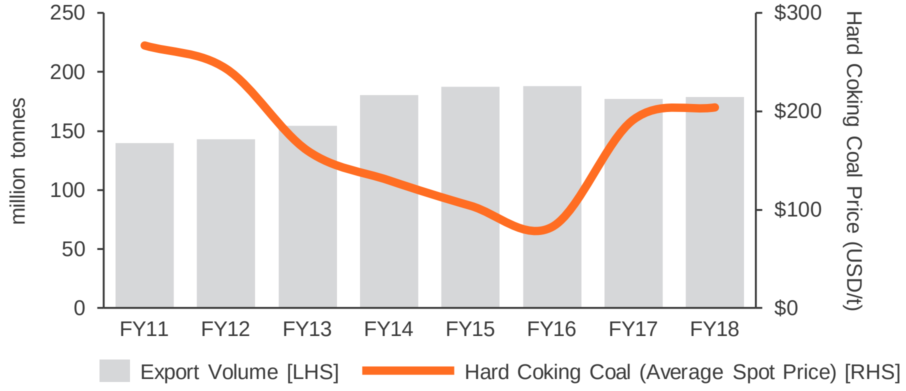
- Steel production drives demand
- India reached over 100 million tonnes of crude steel production for the first time in 2017 and was the largest export market for Australian metallurgical coal in FY2018
- Investment in infrastructure and manufacturing in India will continue to drive demand for steel and therefore metallurgical coal

Thermal Coal

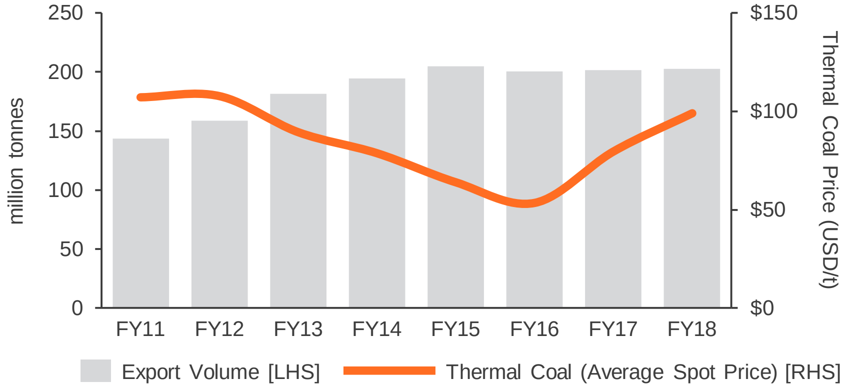
- Energy generation drives demand
- Over 95% of Australian thermal coal exports are destined for Asia. It is this region that continues to add energy generation capacity.
- The International Energy Agency estimates Southeast Asia's coal-fired electricity generation to increase by 192% between 2015 to 2040
- It is recognised that renewable energy will increase in the energy mix over the long term however, thermal coal will remain and is expected to grow in absolute terms, in key export nations such as Australia

Coal market: Australia

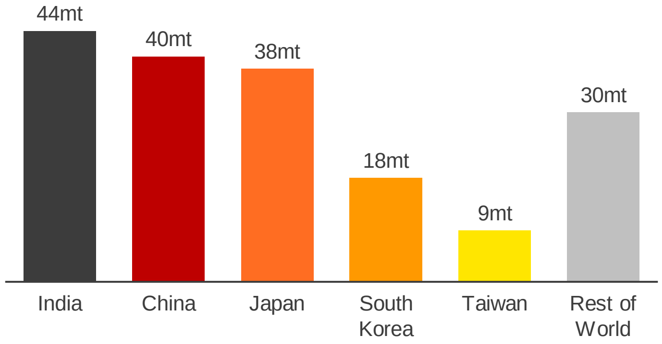
AUSTRALIA: METALLURGICAL COAL EXPORT



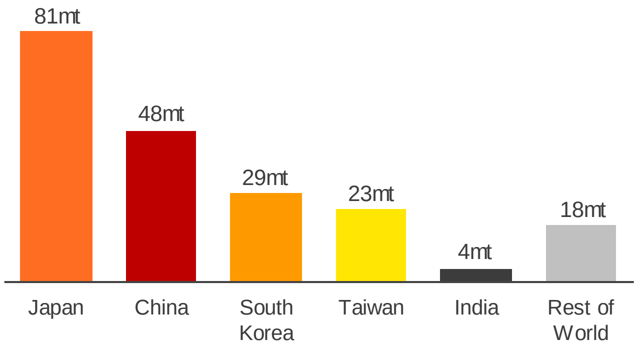
AUSTRALIA: THERMAL COAL EXPORT



AUSTRALIA: METALLURGICAL COAL EXPORT (FY2018)



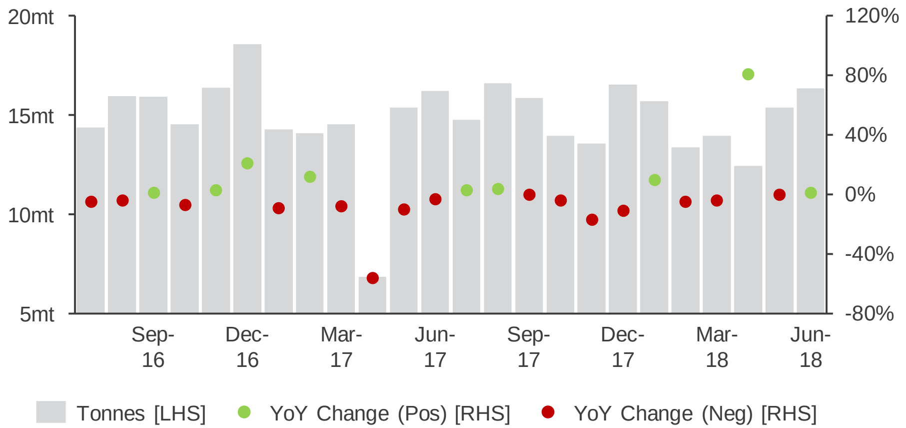
AUSTRALIA: THERMAL COAL EXPORT (FY2018)



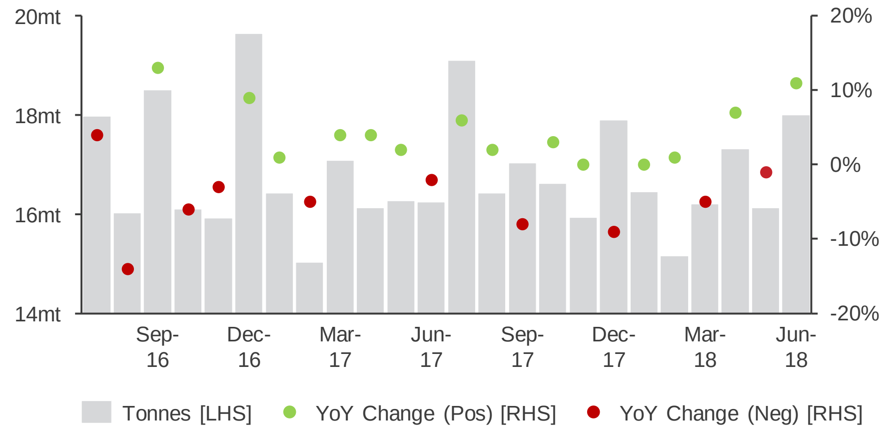
Source: Australian Bureau of Statistics, Platts, Intercontinental Exchange. Hard Coking Coal price refers to Peak Downs Region product. Thermal Coal price refers to Newcastle 6,300 Gross As Received product.

Coal trade

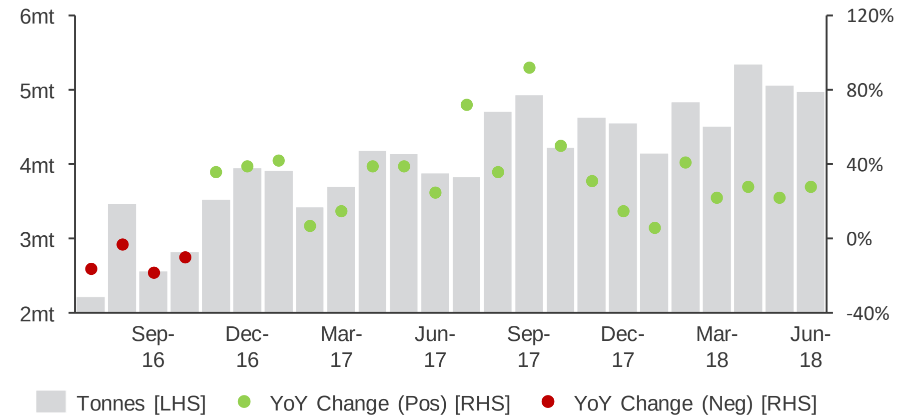
AUSTRALIA: METALLURGICAL COAL EXPORT



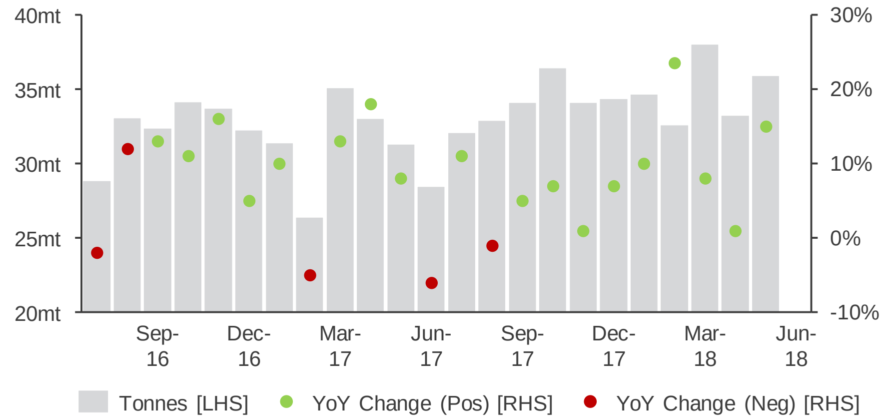
AUSTRALIA: THERMAL COAL EXPORT



UNITED STATES: METALLURGICAL COAL EXPORT



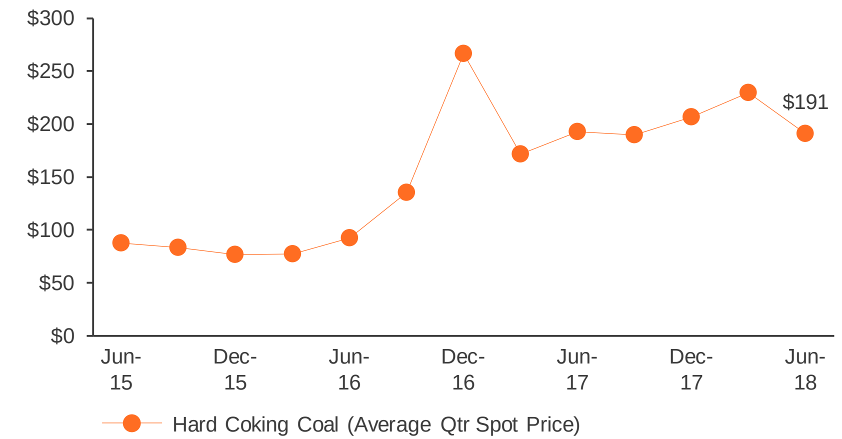
INDONESIA: ALL COAL TYPES EXPORT



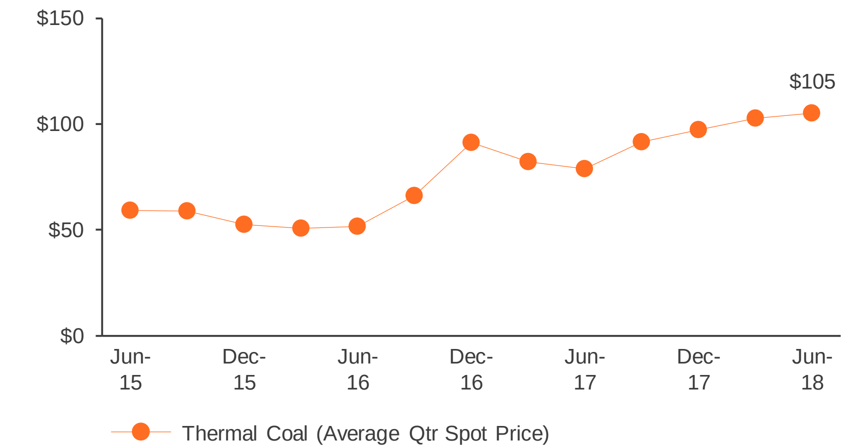
Source: Australian Bureau of Statistics, United States Import and Export Merchandise Trade Statistics, CEIC, Blank series indicates data not available

Coal Price | Coal Capital & Exploration Expenditure

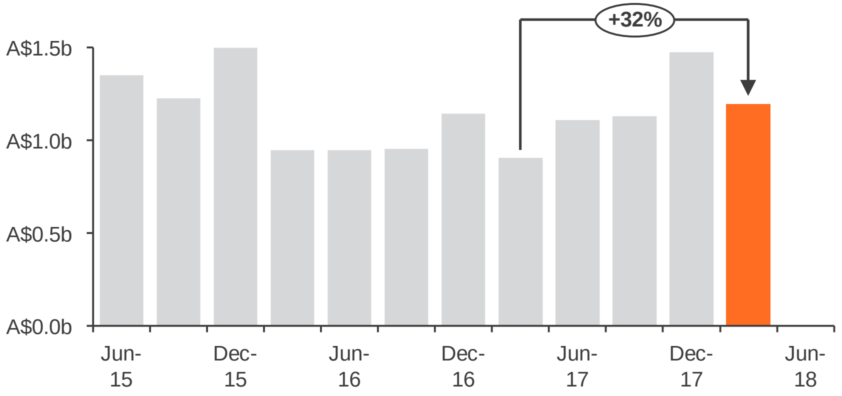
HARD COKING COAL SPOT PRICE (US$/t FOB)



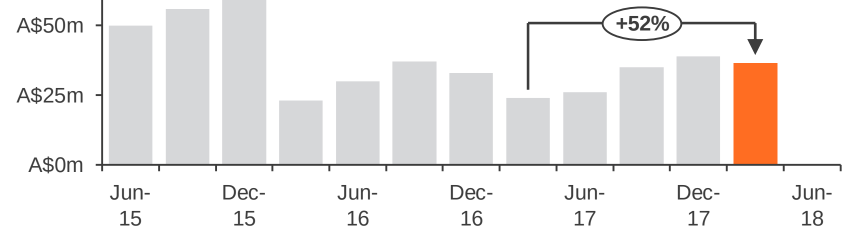
THERMAL COAL SPOT PRICE (US$/t FOB)



COAL CAPITAL EXPENDITURE



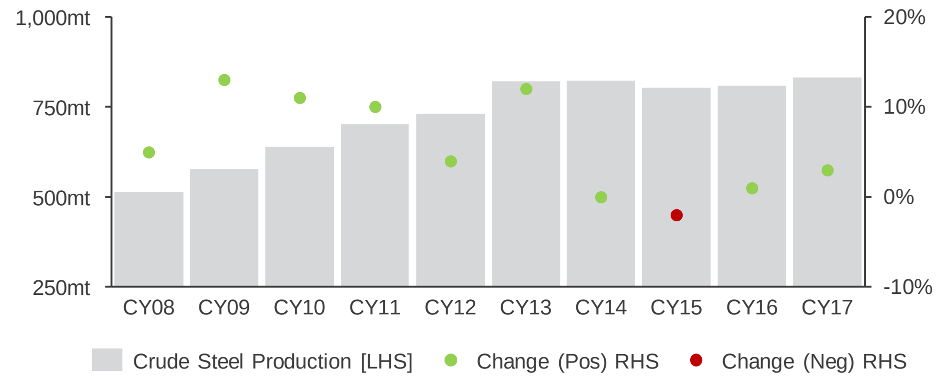
COAL EXPLORATION EXPENDITURE



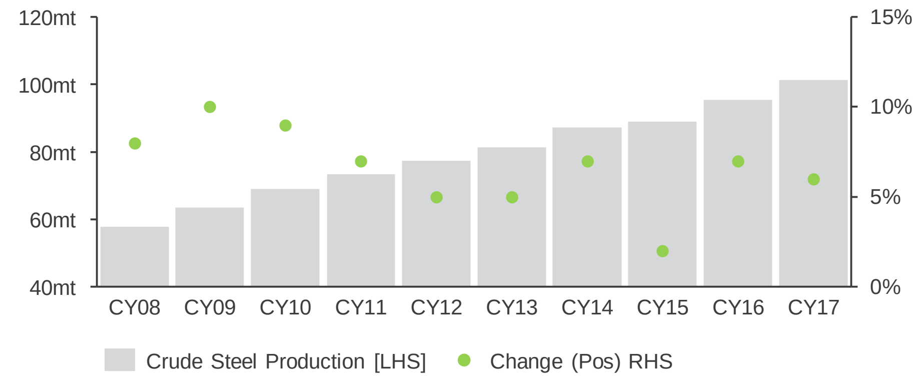
Source: Spot prices – Platts, Intercontinental Exchange. Hard Coking Coal price refers to Peak Downs Region product. Thermal Coal price refers to Newcastle 6,300 Gross As Received product., Coal Capital & Exploration expenditure – Australian Bureau of Statistics, Blank series indicates data not available

Coal demand

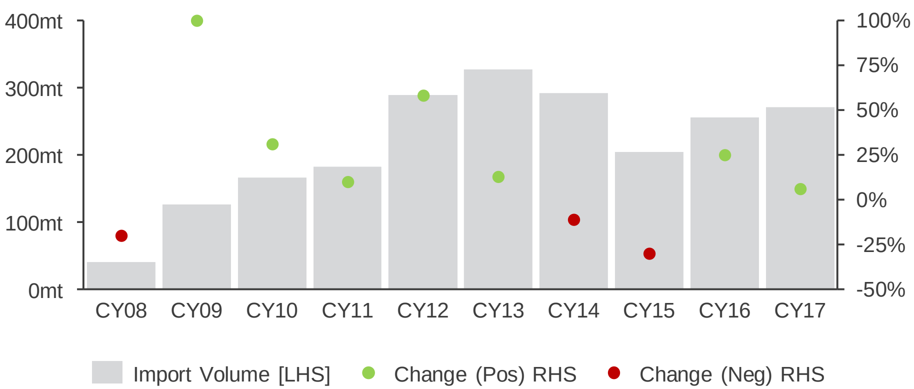
CHINA CRUDE STEEL PRODUCTION



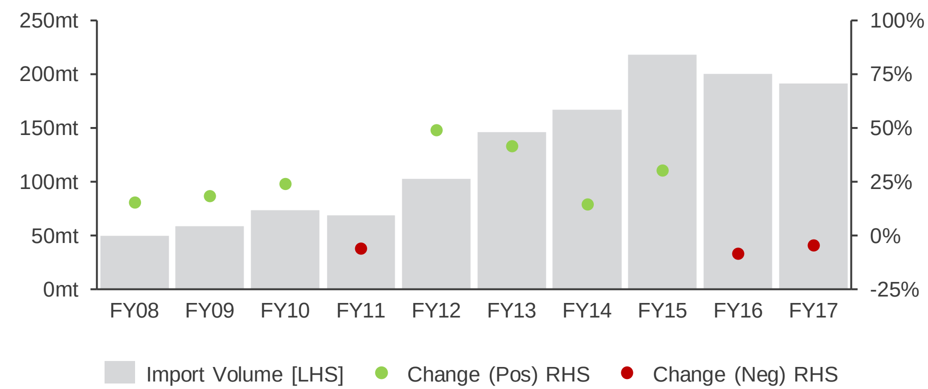
INDIA CRUDE STEEL PRODUCTION



CHINA TOTAL COAL IMPORTS



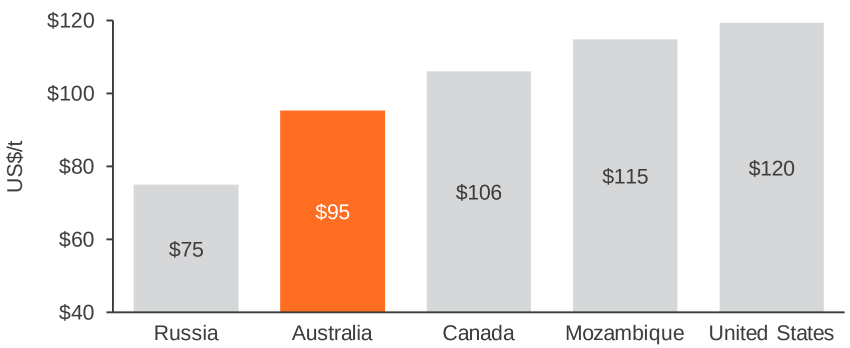
INDIA TOTAL COAL IMPORTS



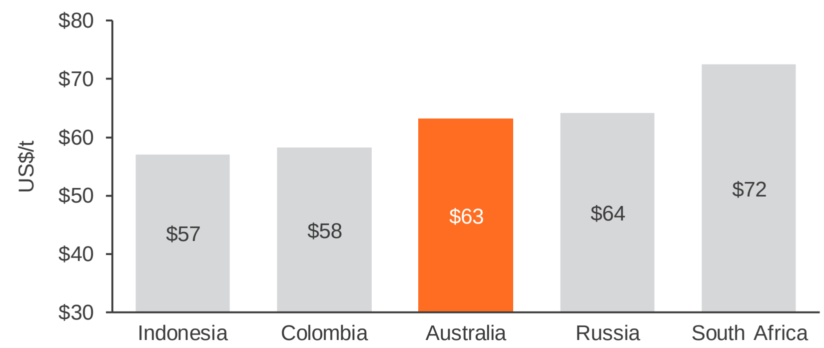
Source: CEIC, World Steel, India Ministry of Coal, Provisional Coal Statistics 2016-17. Note: Indian Financial year is April to March

Australia coal competitiveness

METALLURGICAL COAL CASH COSTS (US$/t, CFR INDIA, 2018)

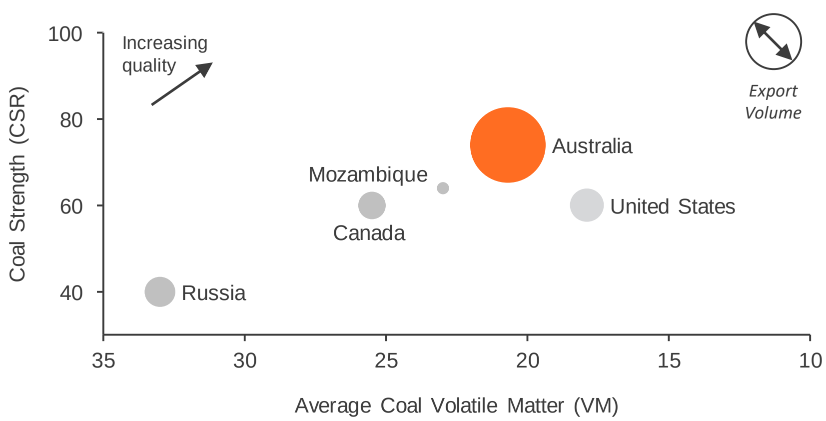


THERMAL COAL CASH COSTS (US$/t, CFR JAPAN, 2018)

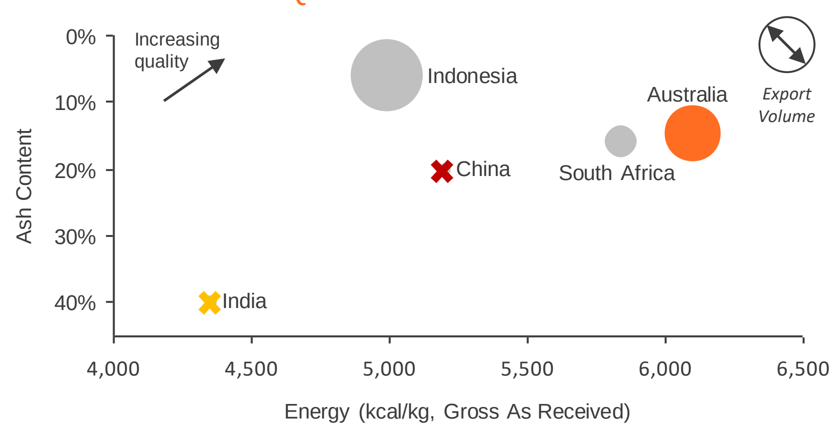


Note: Thermal Cash Costs are energy-adjusted to 6,300kcal/kg (Gross As Received)

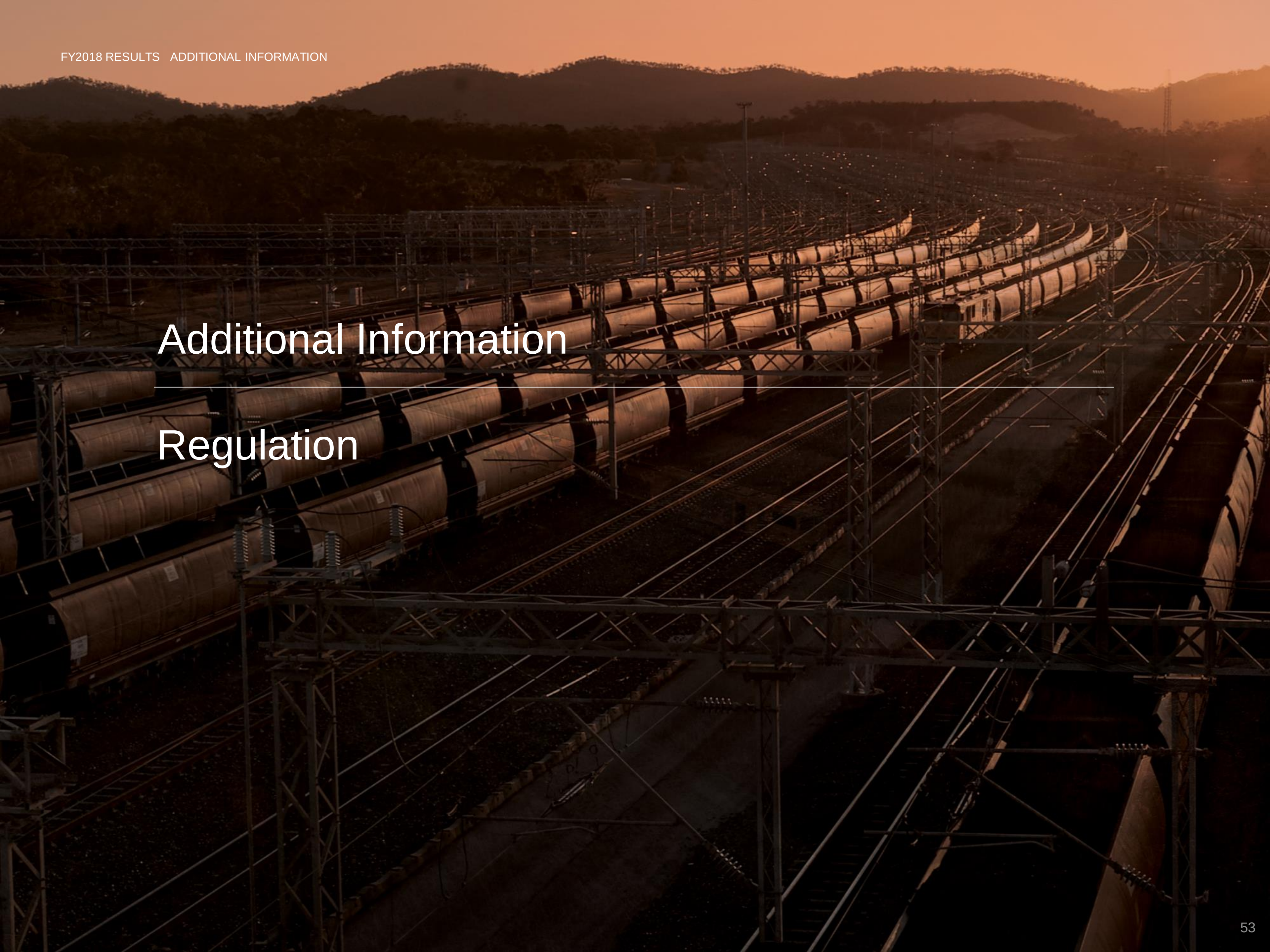
METALLURGICAL COAL QUALITY



THERMAL COAL QUALITY



Cost Curves Source: Wood Mackenzie Coal Cost Curves (May 2018), Wood Mackenzie Global Coal Markets Tool (2018 1H), Sea freight export terminal assumptions: US – East Coast, Canada – West Coast, Australia - Hay Point (metallurgical) & Newcastle (Thermal), Russia - East. Metallurgical Coal Quality Source: Wood Mackenzie Global Coal Markets Tool (2018 1H). Thermal Coal Quality Sources: Wood Mackenzie Coal Cost Curves (2018, May 2018 data), Wood Mackenzie Coal Supply Data Tool (Q2 2018), India Ministry of Coal Provisional Coal Statistics 2016-17, IEA Coal Medium-Term Market Report 2016, Indonesia Coal Mining Association, Richards Bay benchmark specifications (Platts)



Additional Information

Regulation

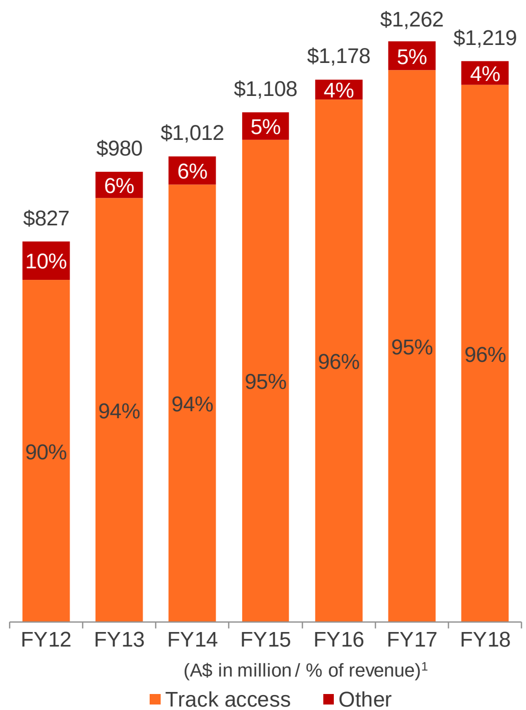
Regulated Revenues within a stable & well-established Regulatory Regime

WELL ESTABLISHED REGULATORY REGIME

- The provision of transportation services by rail on the CQCN is regulated by the Queensland Competition Authority (QCA)
- The CQCN is a vital part of the Central Queensland coal supply chain
- The form of regulation is a conventional revenue cap

STABLE REGULATED REVENUE BASE

- Over 90% of Aurizon Network revenue is from track access payments
- Access revenue growth and contribution have remained stable over time



WELL DEVELOPED BUILDING BLOCK APPROACH TO REVENUE DETERMINATION

1
- RAB is approved by the QCA on a Depreciated Optimal Replacement Cost (DORC) basis

2
- "Building block" approach adopted to determine the CQCN's maximum allowable revenue

3
- Reference tariffs determined, taking into consideration forecast volumes and under and over recovery in prior periods

BUILDING BLOCKS

WACC (return on capital)
+
Depreciation net of inflation (return of capital)
+
Opex
+
Maintenance
+
Gamma adjusted tax
=
Aurizon Network's maximum allowable revenue

[1] FY12 and FY13 re-stated to reflect the internal restructure of Aurizon Network – refer ASX release 13 January 2014

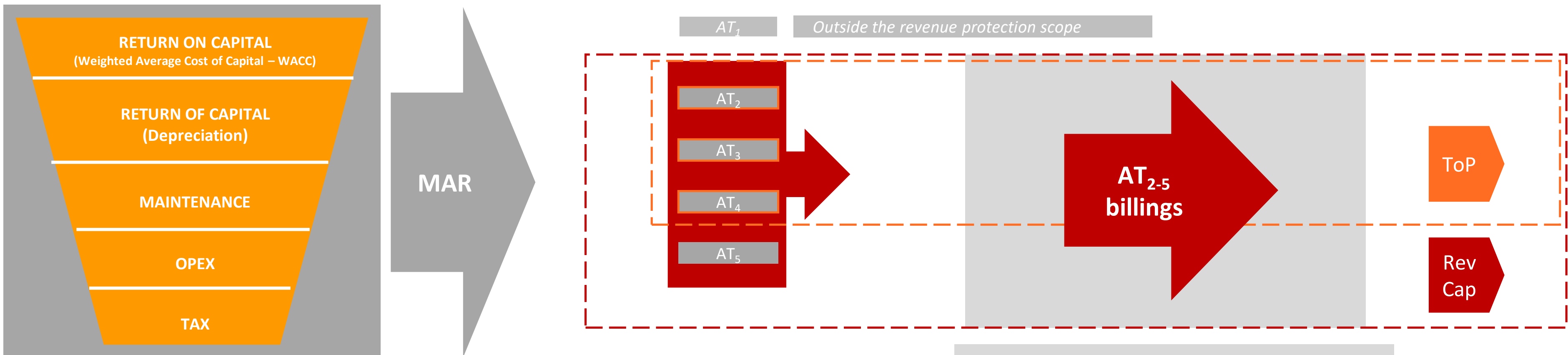
The CQCN Regulatory Framework Provide Revenue Protection Through a Building Block Approach

MAXIMUM ALLOWABLE REVENUE

REGULATORY REVENUE (FORECASTED) FOR EACH YEAR OF UNDERTAKING PERIOD

TOTAL ACTUAL REVENUE

PROTECTION TESTS



These building blocks represent Capital and operational costs that Aurizon Network can recover for CQCN access

The QCA approves the Maximum Allowable Revenue (MAR) that can be earned by Aurizon Network.

Revenue for each year determined by individual system, based on regulatory approved forecasted volumes

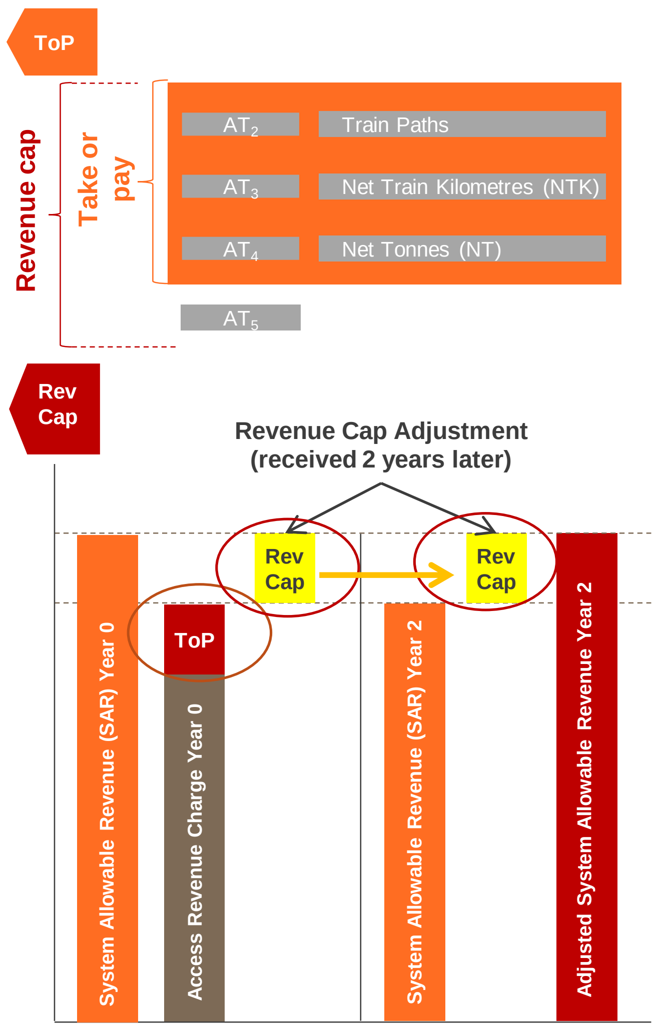
These five different reference tariffs reflecting different recovery categories

Total Actual Revenue (TAR)

Total Actual Revenue for revenue protection calculation purposes = System Allowable Revenue (SAR) (including ToP if triggered) adjusted for rebates, cross system traffic and transfer/relinquishment fees

- Aurizon Network's regulated revenue is protected through a combination of contractual and regulatory mechanisms that are included in the Access Undertaking and access agreements
- These mechanisms come into effect when revenue shortfalls occur due to actual tonnage railed being less than regulatory approved tonnage forecasts

… with Take-or-Pay Protection Should Revenues Fall Short (With a Revenue Cap)



1 Take-or-pay mechanisms

- Primary revenue protection mechanism available to Aurizon Network
- Allows Aurizon Network to recover revenue shortfall directly from the access holder

2 Revenue cap mechanism

- Comes into effect in the event take or pay mechanisms do not recover a revenue shortfall
- Revenue cap mechanism allows for remaining shortfall to be recovered two years later through a WACC adjusted tariff
- In the event that total allowable revenue collected exceeds the Maximum Allowable Revenue (MAR), the revenue cap mechanism will return the surplus revenue two years later through an adjusted tariff

3 Socialisation of counterparty risk

- Counterparty risk occurs when certain mines are no longer in operation
- If a counterparty fails, the total allowable revenue will be shared among the remaining users within each system, therefore Aurizon Network will continue to earn its aggregate regulated revenue

AURIZON

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
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 costs associated with traction, telecommunication, ballast and undercutting, rail renewals, flood repairs and derailments
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
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
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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