Aurizon Network - Debt Investor Update
HY2018 Results

February – March 2018

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Agenda

Half year in review – Aurizon Group

Half year in review – Aurizon Network

Regulation

Funding and Capital Management

Outlook and summary

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Half year in review – Aurizon Group

About Aurizon Group

Who we are

- Aurizon (ASX: AZJ; market capitalisation of circa A$9bn[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


Coal


Bulk


Intermodal


Network

1. As at February 2018

FY2018 Half Year Highlights[1]

Solid financial result, strong shareholder distributions

Financial Results

- Underlying EBIT down 5% due to impact of UT4 true ups
- Volumes up 2%, growth in Coal (4%) offsetting reduction in Bulk (6%)
- Statutory NPAT up 52% to $282m
- ROIC 9.6%, to improve 2H due to lower capital base
- Operating Ratio 69.0%

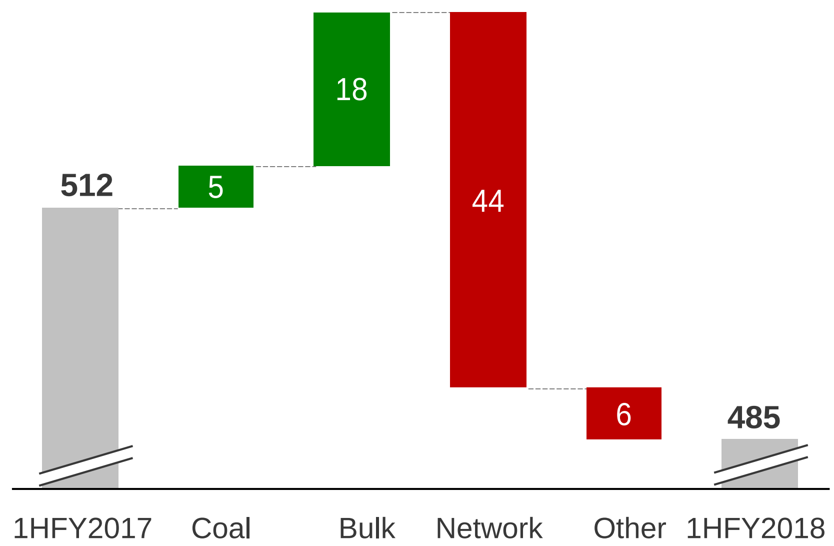
Cashflow

- Free cash flow (FCF) down 11% to $345m
- FCF decrease due to lower Network earnings and impact of Moorebank investment sale in FY2017

Shareholder Returns

- Interim dividend 14.0cps, paid on continuing NPAT – increase of 3%
- $226m of $300m buy back commitment completed

Underlying EBIT bridge – Group[1] ($m)



1. Continuing Operations only

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Update on key priorities

Focus remains on cashflow, capital discipline and value

Capital Management	› $688m in shareholder distributions since January 2017 › ~75% of $300m buy back complete, balance to be completed in 2HFY2018
Freight Review	› Intermodal Interstate operations closed in line with plan › Intermodal Queensland and Acacia Ridge transactions progressing, but subject to regulatory approval › Contract reform and cost out initiatives continue in Bulk
Transformation	› $302m transformation delivered to date, including $42m this half › On target to reach $380m target including removal of Intermodal losses
UT5	› Draft decision issued by QCA on 15 December 2017 is extremely disappointing, causing damage to Aurizon, customers and Queensland economy › QCA view of risk inconsistent with commercial reality – forces change to Aurizon's operating and maintenance practices and will impact volumes estimated at ~20mtpa

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Key financial highlights

EBIT[1] impacted by non recurrence of UT4 one offs in Network

$m	1HFY2018	1HFY2017	Variance
Revenue	1,565	1,621	(3%)
Operating Costs	(821)	(832)	1%
Depreciation & Amortisation	(259)	(277)	7%
EBIT – underlying	485	512	(5%)
EBIT – statutory[2]	485	356	37%
Operating Ratio (%)	69.0%	68.4%	(0.6ppt)
NPAT – underlying	282	295	(5%)
NPAT – statutory[2]	282	186	52%
EPS (cps) – underlying	13.9	14.4	(3%)
EPS (cps) – statutory	13.9	9.1	53%
Interim dividend per share	14.0	13.6	3%
Free Cash Flow	345	387	(11%)

- **Revenue** impacted by UT4 and FY16 revenue true up in Network
- **Operating costs** benefited from $42m in transformation, offset by redundancy costs ($15m), wages & consumables escalation ($11m) and net incremental costs supporting new volumes ($8m)
- **Statutory** EBIT result improved with no significant impairments 1HFY2018
- **Free Cash Flow** impacted by sale of Moorebank in FY2017 ($98m)
- **Dividend** based on 100% payout ratio of underlying continuing NPAT

1. Continuing operations
2. Significant Items in 1HFY2017 of $156m which includes impairment for FMT $64m, Freight Review contracts $10m and other assets $21m. It also includes $61m in redundancy costs.

Intermodal Update

Closure and divestment of Intermodal drives value

Interstate Business

- ✓ Closure of Interstate business on time and below budget with improved safety performance and no industrial disruptions
- ✓ 6 locomotives transferred to Coal in NSW to provide capacity for new contracted volume
- ✓ 9 locomotives transferred to Bulk to cascade out older locomotives and provide productivity uplift
- ✓ Approximately 40 employees have been transferred into Coal
- ✓ Focus now on redeploying rollingstock, including sale where appropriate
- ✓ Assignment of the Enfield lease is being progressed
- ✓ Divestment of Forrestfield terminal has commenced

Queensland Business

- › Operations continue for Intermodal Queensland with a continued focus on cost base optimisation, transformation and revenue opportunities
- › 30 June scheduled transaction close – subject to regulatory approval

Acacia Ridge Terminal

- › 30 June scheduled transaction close – subject to regulatory approval

ACCC Update

- › Decision date delayed to mid February 2018 due to requests for further information from Pacific National and Aurizon
- › ACCC can issue a Final Decision or release a Statement of Issues in mid February
- › If the ACCC does not ultimately approve the sale of Queensland Intermodal, it will be closed

Intermodal Closure and Sale

Result impacted by Interstate closures process

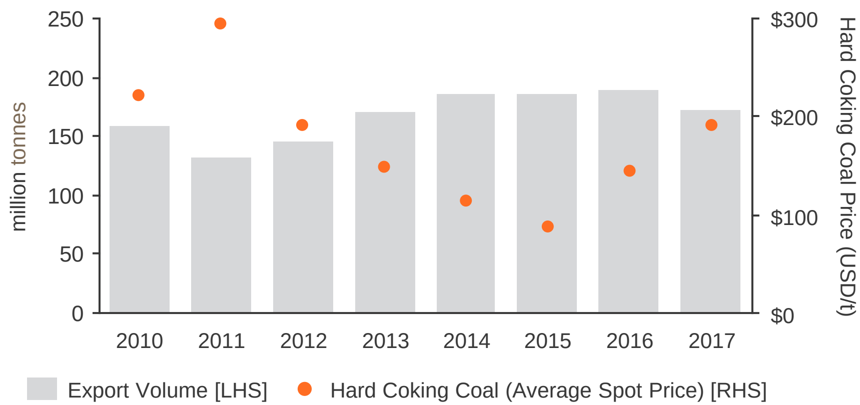
Discontinued Operations - Intermodal			
$m	**1HFY2018**	**1HFY2017**	**Variance**
Revenue	140	159	(12%)
Operating Costs	(162)	(173)	6%
Depreciation	(2)	(10)	80%
EBIT	**(24)**	**(24)**	**-**
Significant Items	(77)	(165)	53%
Income tax benefit	30	57	(47%)
NPAT	(71)	(132)	46%
Free Cash Flow	24	(31)	nm
TEU's ('000s)	187.3	212.2	(12%)

- **EBIT** flat driven by reduced revenues from the progressive Interstate closure, offset by reduced operating cost and depreciation
- **Significant items** of $77m relate to the accrual of closure costs for the Interstate business, including:
  - Costs including contract, lease and supplier exit costs $60m
  - Redundancy provisions $12m
  - Asset write offs $5m

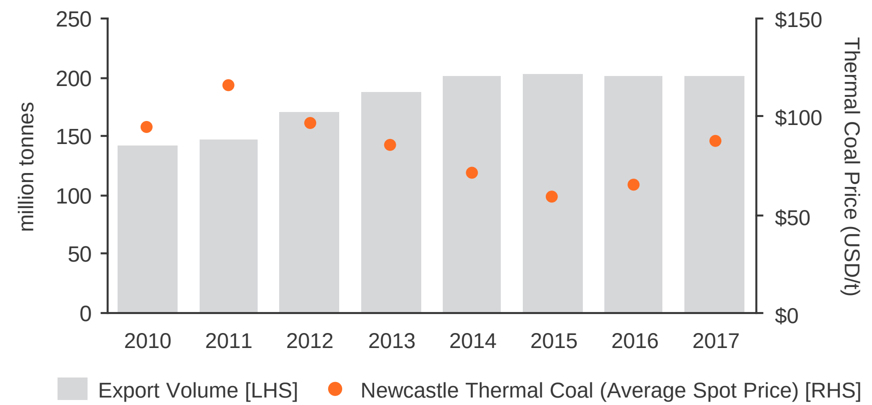
  Majority of these costs will be paid in 2HFY2018
- **Cashflow** benefited from the receipt of $40m deposit
- **2HFY2018 impact** - expectation is Queensland Intermodal operations will continue for the remainder of FY2018. Further cashflow upside expected with future sale of Forrestfield terminal
- **Disposal of Acacia Ridge Terminal and Intermodal Queensland** for total consideration of $225m (subject to regulatory approval). $40m deposit received

Coal Market: Metallurgical Coal & Thermal Coal Seaborne Markets

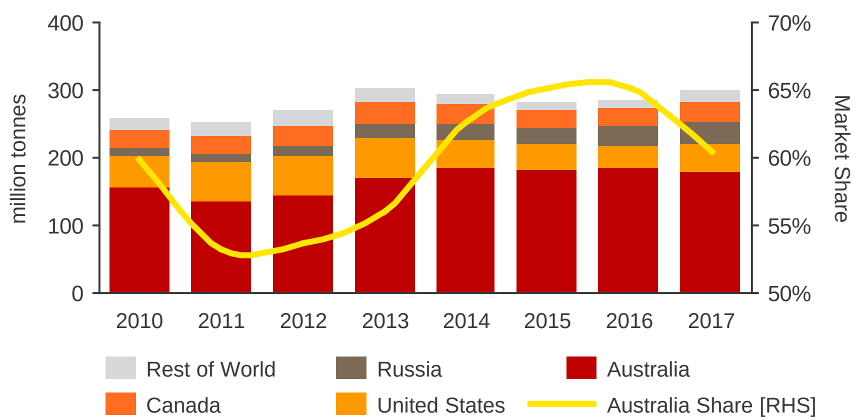
Australia: Metallurgical Coal Export



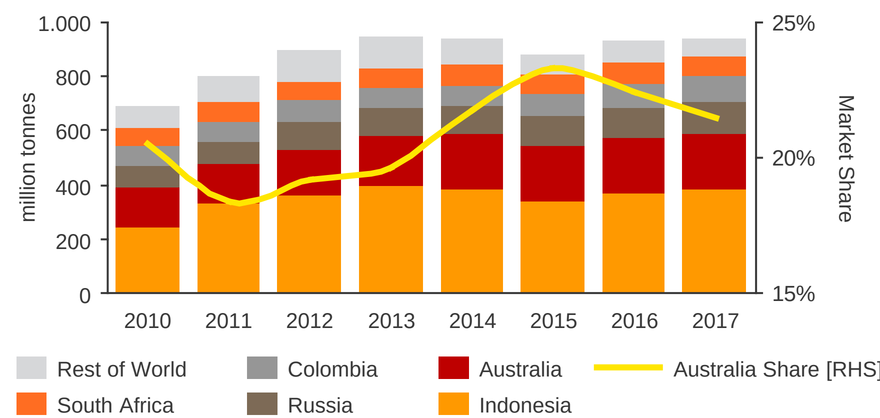
Australia: Thermal Coal Export



Global: Seaborne Metallurgical Coal Supply



Global: Seaborne Thermal Coal Supply



Source: Australian Bureau of Statistics, Wood Mackenzie Global Coal Markets (2017 2H), Platts, Intercontinental Exchange

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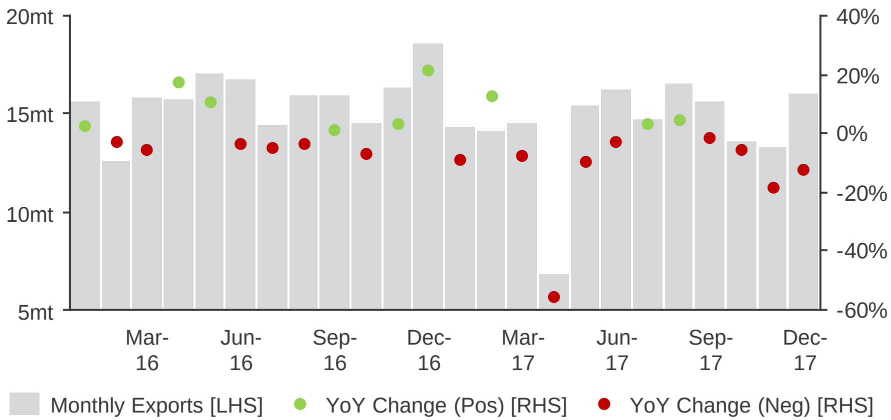
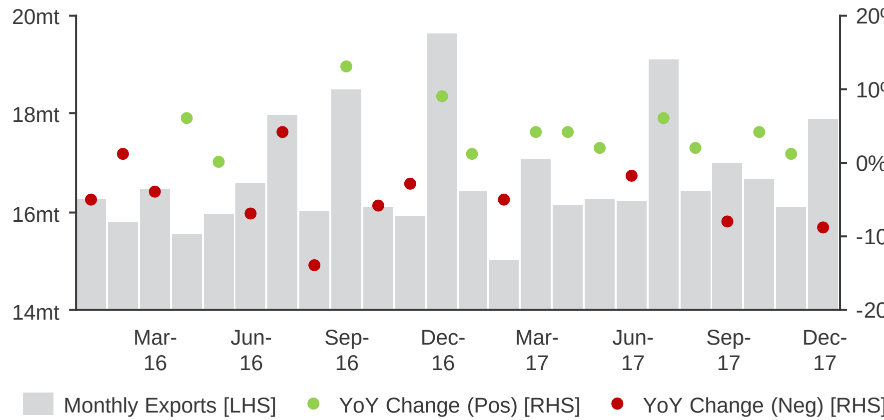
Coal Market: Monthly Seaborne Export Volume

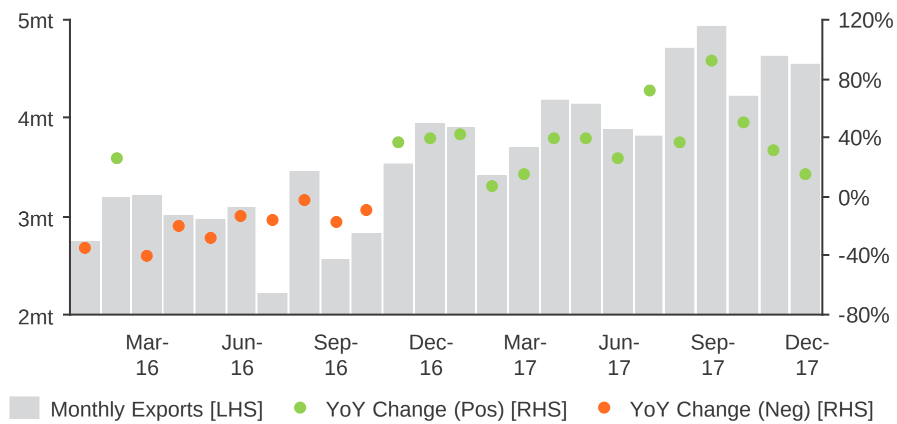
Australia: Metallurgical Coal Export



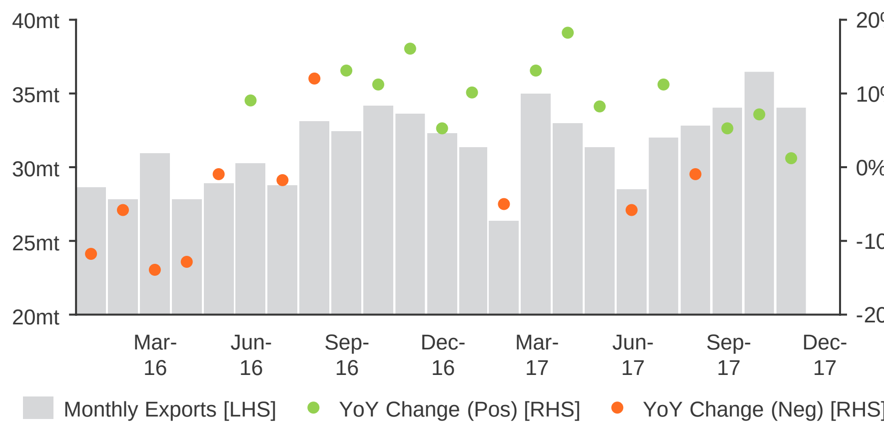
Australia: Thermal Coal Export



United States: Exports (Metallurgical Coal)



Indonesia: Exports (all coal types)



Source: Australian Bureau of Statistics, United States Import and Export Merchandise Trade Statistics., CEIC

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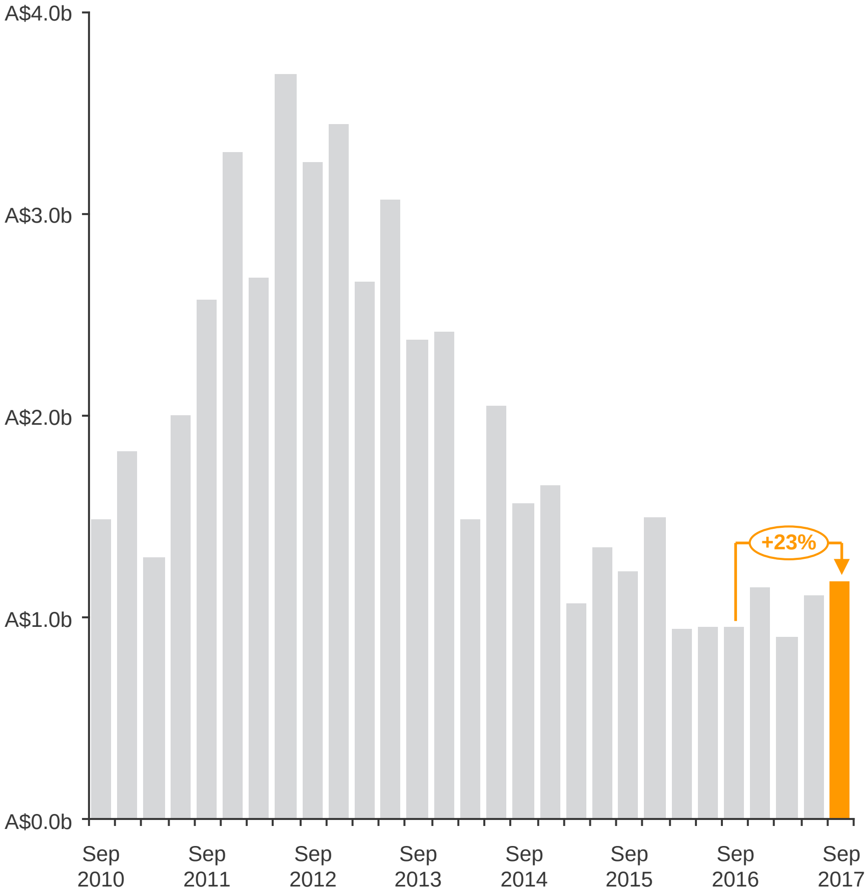
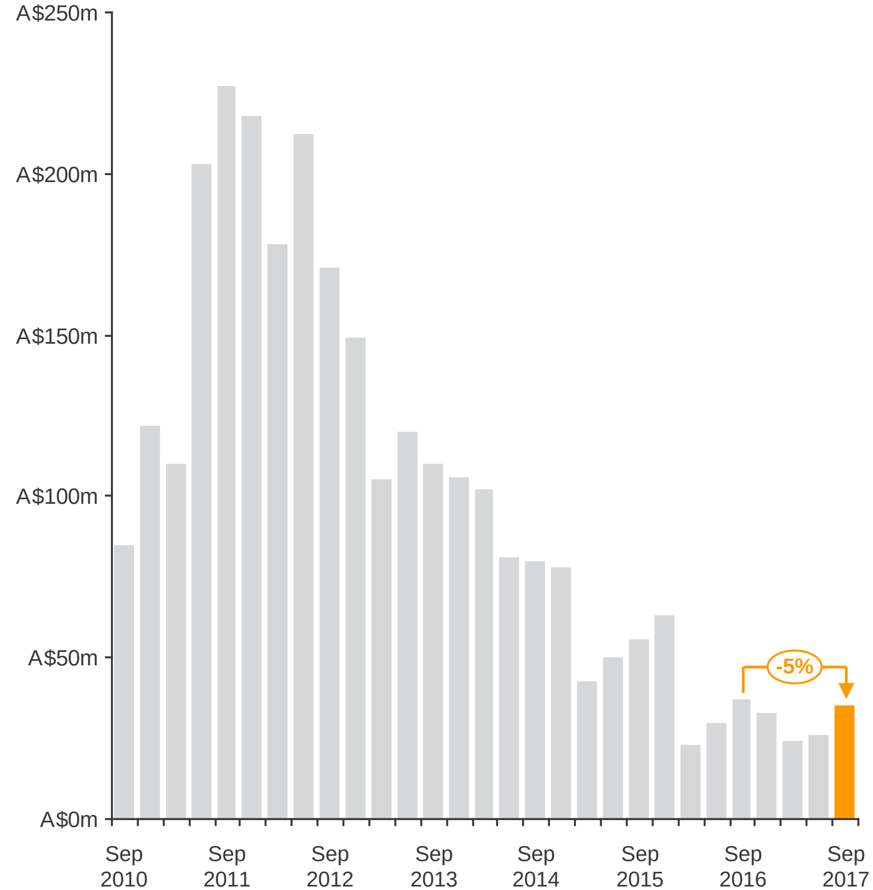
Coal Market: Australian Coal Investment

Aust. Coal Mining Capital Expenditure: Quarter



Aust. Coal Exploration Expenditure: Quarter



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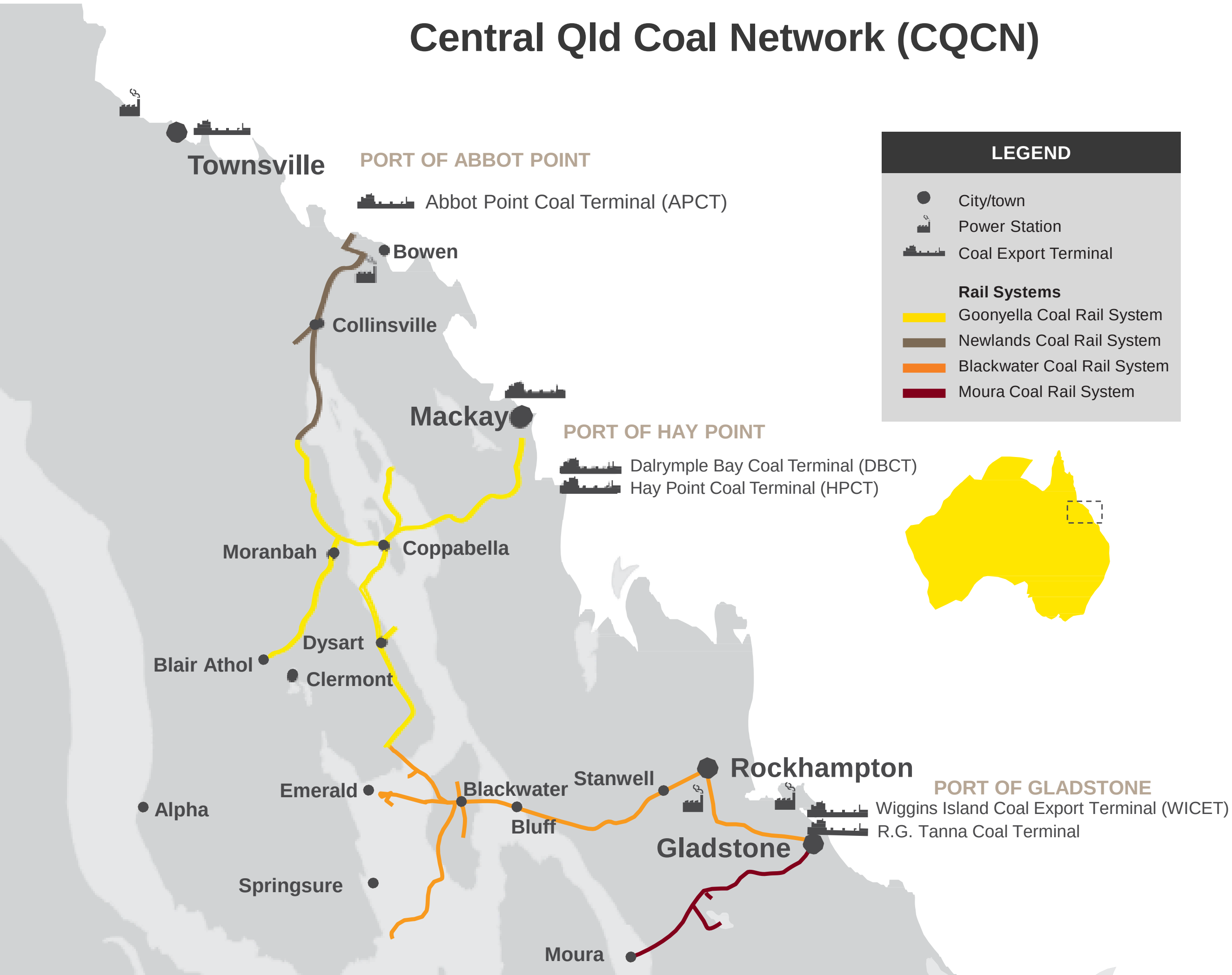
Source: ABS 5625.0 Private New Capital Expenditure and Expected Expenditure (Detailed Industries), ABS 8412.0 Mineral and Petroleum Exploration

Half year in review – Aurizon 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

+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 1 July 2018

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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 1 July 2018 - 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 FY2017 Capital Claims

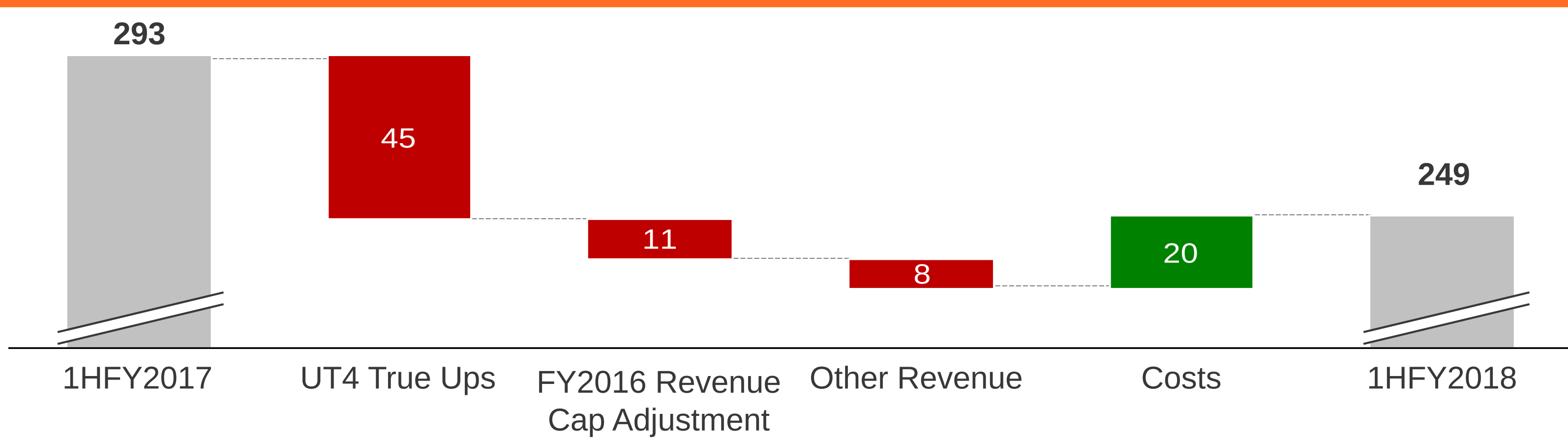
Network

Result impacted by UT4 true ups

$m	1HFY2018	1HFY2017	Variance
Revenue	**608**	**671**	**(9%)**
Operating Costs	(208)	(230)	10%
Depreciation	(151)	(148)	(2%)
EBIT	**249**	**293**	**(15%)**
Tonnes (m)	116.6	112.9	3%
NTKs (bn)	29.0	28.3	2%

- **Revenue**
  - UT4 one off true up ($45m) in 1HFY2017
  - FY2016 revenue cap adjustment ($11m)
  - 1HFY2017 true ups for GAPE and AFDs ($12m)
  - $17m higher electric charge revenue (offset with higher EC expense)
  - $10m for Caledon bank guarantee offset by 1HFY2017 one offs for Bandanna Bank Guarantee ($15m) and insurance recoveries ($6m)
- **Costs**
  - $27m reduction in consumables impacted by UT4 corporate cost allocation true up from FY2017
  - Partly offset by wages and consumables price escalation and additional depreciation

Network EBIT Performance



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Network profit & loss (underlying)

$m	1H		Variance	2H
	FY2018	FY2017		FY2017
Tonnes (m)	116.6	112.9	3%	97.9
Access Revenue	577.0	628.5	(8%)	571.4
Services and other	30.5	42.6	(28%)	19.6
Total Revenue	**607.5**	**671.1**	**(9%)**	**591.0**
Operating costs	(208.0)	(230.5)	10%	251.2
EBITDA	**399.5**	**440.6**	**(9%)**	**339.8**
EBITDA margin	65.8%	65.7%	0.1ppt	57.5%
Depreciation and amortisation	(151.0)	(147.9)	(2%)	(151.6)
EBIT	**248.5**	**292.7**	**(15%)**	**188.2**
Operating Ratio	**59.1%**	**56.4%**	(2.7ppt)	**68.2%**

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Cash flow – free cash flow growth

$m	HY1 F18	HY1 FY17
EBITDA - statutory	393	432
Working capital & other movements	31	(1)
Non-cash adjustments - impairment	-	1
Cash from operations	**424**	**432**
Interest received	-	1
Income taxes (paid) / received	(28)	(73)
Net cash inflows from operating activities	**396**	**360**
Net cash outflow from investing activities	**(158)**	**(130)**
Free Cash Flow (FCF)	*238*	*230*
Net proceeds/(repayments) from borrowings	301	(104)
Capital distribution to Parent	-	-
Interest and finance costs paid	(75)	(77)
Finance lease payments	-	(10)
Dividends paid to company shareholders	(483)	(15)
Net cash outflow from financing activities	**(257)**	**(206)**
Net (decrease) / increase in cash	**(19)**	**24**

- 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 half

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Aurizon Network Balance Sheet

As at ($m)	31 Dec 2017	30 June 2017
Total current assets	212	296
Property, plant & equipment	5,402	5,390
Other non-current assets	192	160
Total assets	**5,806**	**5,846**
Other current liabilities	(187)	(207)
Total borrowings	(3,284)	(2,929)
Other non-current liabilities	(860)	(877)
Total liabilities	**(4,331)**	**(4,013)**
Net assets	**1,475**	**1,833**
Gearing (net debt/net debt + equity)	**68.0%**	**61.3%**
Gearing (net debt/RAB excluding MSIs and WIRP deferral)	**61.1%**	**54.1%**
Gearing (net debt/RAB including MSI and WIRP deferral)	**56.7%**	**50.2%**

- Slight increase in PP&E due to no major growth capital with focus on sustaining capital works program
- Borrowings increased due to net $301m additional drawn debt, and the mark-to-market revaluation of the Euro bonds
- Decrease in Other current liabilities primarily due to a reduction in external trade creditors as well as release of bank guarantee as revenue
- Book Gearing increased 7.7ppts primarily due to increase in total borrowings and reduction in equity from payment of FY17 final dividend

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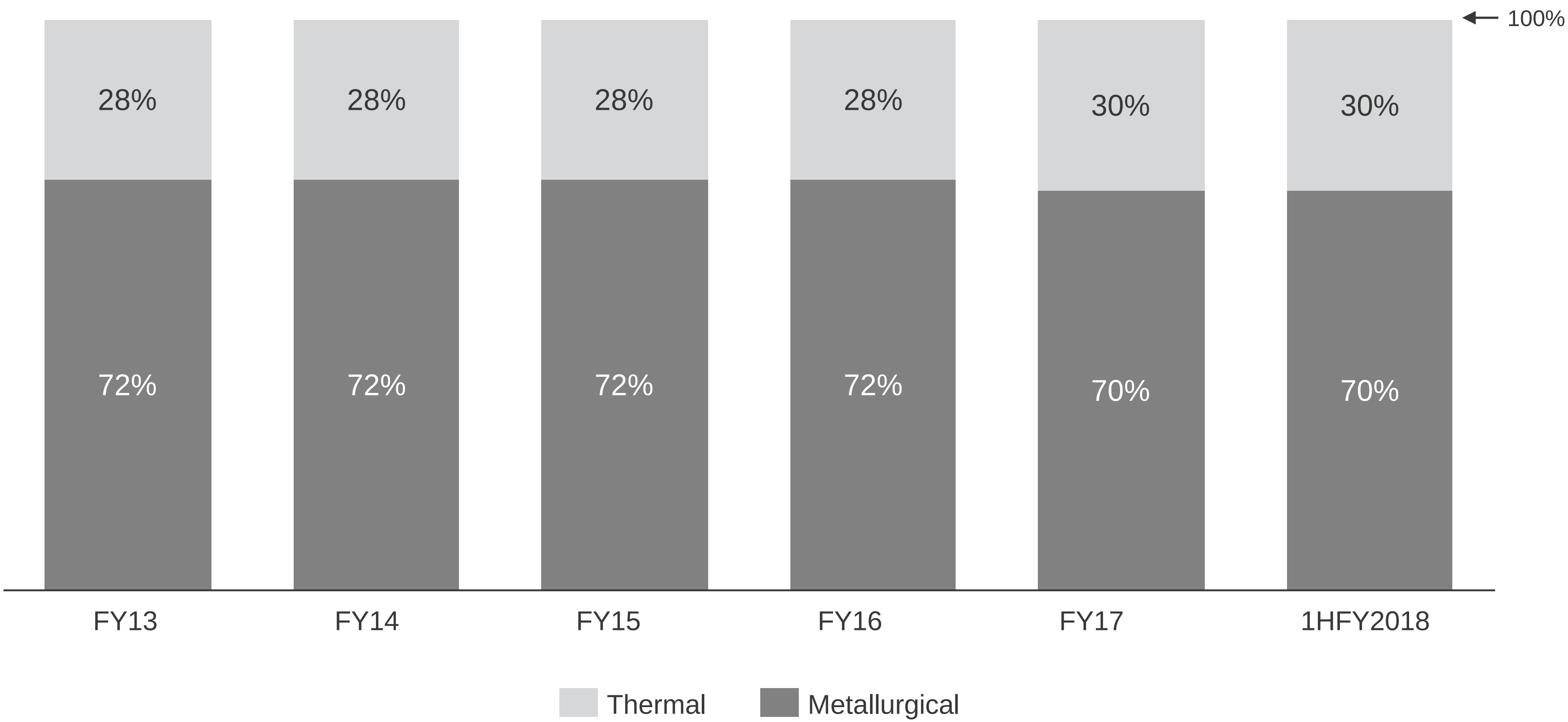
Network volumes[1] (mt)

	1H		Variance	2H
	FY2018	FY2017		FY2017
Newlands	6.8	6.2	10%	5.8
Goonyella	63.9	61.4	4%	49.7
Blackwater	28.3	27.5	3%	25.1
Moura	5.7	6.2	(8%)	6.0
GAPE	7.4	6.7	10%	6.6
WIRP	4.5	4.9	(8%)	4.6
Total	**116.6**	**112.9**	3%	**97.9**
Average haul length[2] (kms)	248	251	1%	254

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

Network volumes[1] (mt)

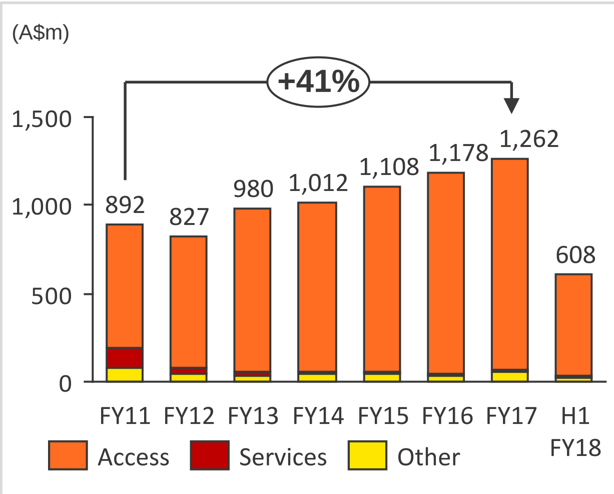
Aurizon: Network Coal Type Split



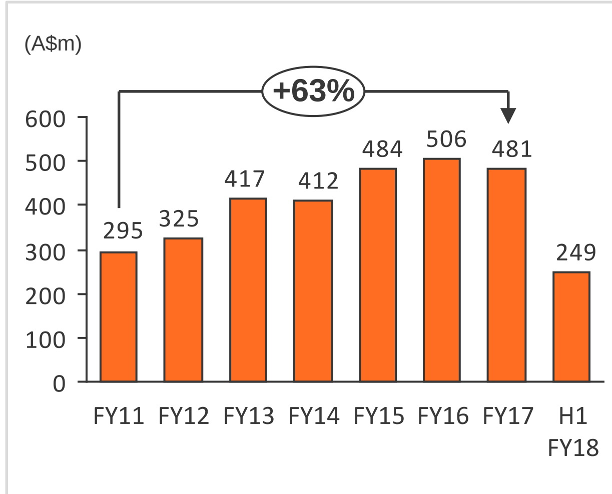
1. Represents coal tonnes hauled on the CQCN by all operators
2. Source : Wood Mackenzie Coal Supply Data Tool (2017 Q4), Aurizon analysis

Aurizon Network: Key Financial Metrics

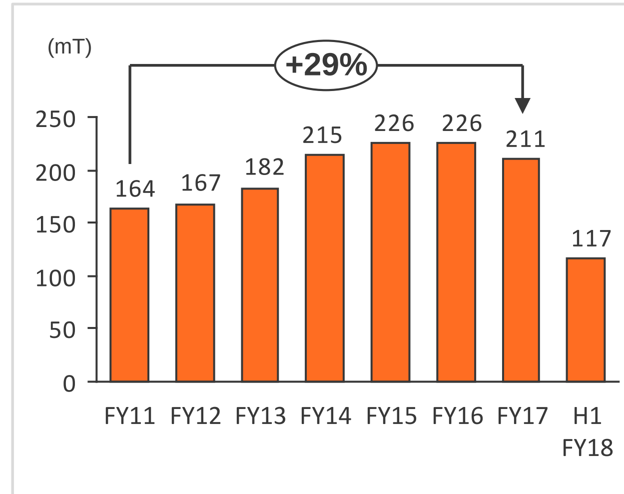
Revenue



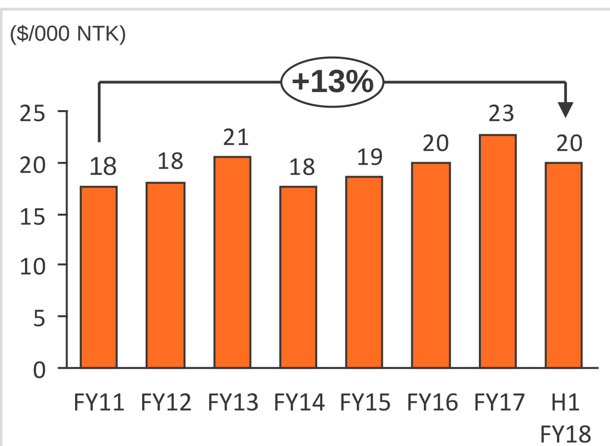
EBIT



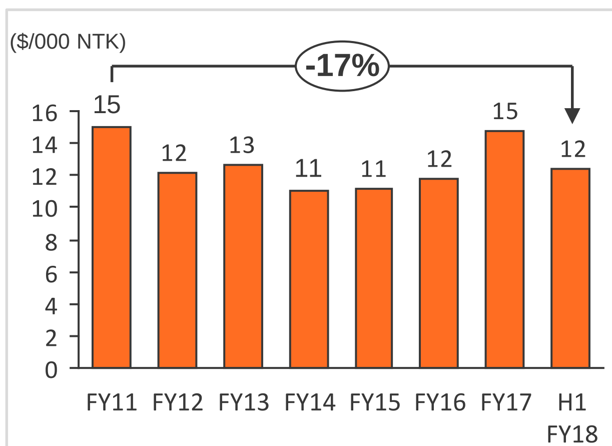
Volumes



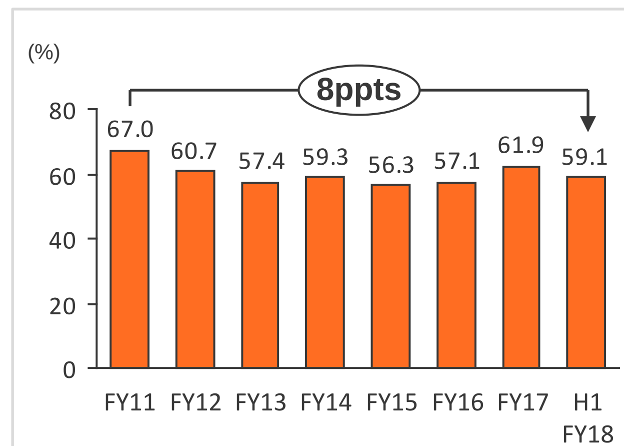
Access Revenue / NTK



Opex / NTK



Operating Ratio



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Note: FY17 figures have been restated to reflect the Company's re-organisation to a business unit structure effective 1 July 2017
Source: http://www.aurizon.com.au

Regulation

Network update

QCA's UT5 Draft Decision risks value erosion across the CQCN coal supply chain

UT5 Draft Decision

- Maximum allowable revenue (MAR) $3.9bn, $1bn lower than Aurizon's submission
- Aurizon's risk for investing (WACC) determined at 5.41% - compared to 6.3% the ACCC determined for Hunter Valley coal network
- No real growth in maintenance, despite $1bn larger asset base and forecast additional volumes of ~130mt from UT4 period

Our immediate response

- Operating practices will now be assessed against a risk tolerance consistent with the QCA Draft Decision
- Revised maintenance regime is being progressively implemented, inline with QCA view of "efficient" practices
- All non safety critical capex being reviewed
- Customer and other stakeholder engagement continues

Potential value erosion

- Investors have reacted strongly to QCA's views on risk, returns and cost recovery
- Necessary changes to operating and maintenance practices to align with UT5 Draft Decision expected to impact Network availability, industry throughput and reliability of Australian met coal globally
- Net reduction in network throughput estimated at ~20mtpa, with potential to increase, as operating practices and business decision processes are changed to align with the Draft Decision

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UT5 Draft Determination

QCA published UT5 draft decision on 15 December 2017

- QCA's proposed Maximum Allowable Revenue (MAR) is $3.893bn, $999m below the Aurizon UT5 submission
- QCA proposed a weighted average cost of capital (WACC) of 5.41% against the 6.78% proposed by Aurizon
- Material anomalies exist in the draft decision, including:
  - Providing a maintenance allowance which is same as UT4, but on an asset base that is $1bn larger
  - Deciding that Aurizon's risk for investing (WACC) should be 5.41%, compared to 6.3% recommended by the ACCC in 2017 for the government owned Hunter Valley Coal Network, an almost identical asset serving Australia's coal industry
- Given Aurizon's level of concern and the implications for the Queensland coal supply chain, Aurizon will consider the full range of potential responses to the draft decision

Table 1: MAR breakdown by financial year and component versus QCA UT5 draft decision and Aurizon Network's UT5 submission

AR $M	UT5 DD FY2018	UT5 DD FY2019	UT5 DD FY2020	UT5 DD FY2021	UT5 DD	UT5 proposed by Aurizon
Return on Capital	325	324	321	319	1,289	1,592
Depreciation (less inflation)	217	217	229	236	899	1,141
Maintenance costs	202	203	207	205	817	921
Operating costs	179	184	188	192	743	855
Tax net imputation credits	31	33	38	38	140	329
TOTAL MAR	954	961	983	990	3,888	**4,838**
Capital carryover	1	1	1	2	5	54
TOTAL ADJUSTED MAR	955	962	984	992	3,893	**4,892**

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UT5 Draft Determination (cont'd)

Table 2: WACC breakdown by component

PARAMETER	UT5 DRAFT DECISION	AURIZON NETWORK UT5 PROPOSED	UT4 FINAL OUTCOME
Risk free rate*	1.90%	2.13%	3.21%
Risk free rate term	4 years	10 years	4 years
Gearing ratio	55%	55%	55%
Benchmark credit rating	BBB+	BBB+	BBB+
Asset beta	0.42	0.55	0.45
Equity beta	0.73	1.0	0.8
Market risk premium**	7.0%	7.0%	6.5%
Debt risk premium	2.00%	2.47%	2.72%
Debt raising costs	0.108%	0.129%	0.108%
Interest rate swap costs	0.125%	0.033%	0.113%
Cross currency swap costs	0.000%	0.100%	0.000%
Gamma	0.46	0.25	0.47
Return on equity	6.99%	9.13%	8.41%
Return on debt	4.13%	4.86%	6.15%
WACC (post tax nominal vanilla)	**5.41%**	**6.78%**	**7.17%**

* The risk free rate as proposed by Aurizon Network was based on the 20 day average to 30 June 2017.

** On 29 September 2017, Aurizon Network submitted to the QCA an updated estimate of its proposed market risk premium from 7.0% in its original submission to 7.5% due to an increase in updated sub-estimates.

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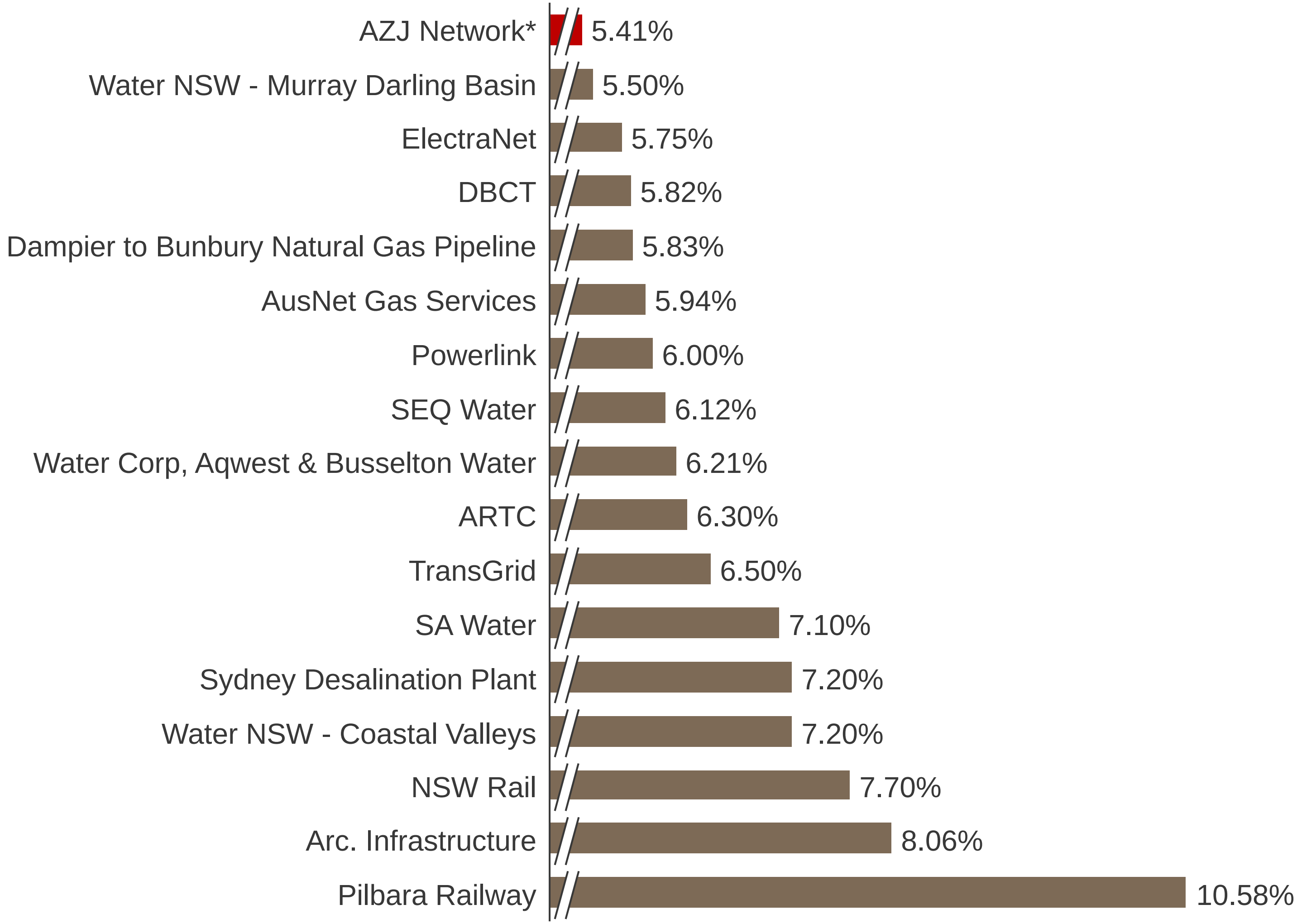
Regulatory Decisions

Recent decisions made by regulators in the Infrastructure and Utilities sectors

Weighted Average Cost of Capital[1] (WACC)



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1. Nominal vanilla post tax WACC
* WACC as determined in the UT5 Draft Decision

Regulatory Decisions – Infrastructure & Utilities

Examples of recent decisions made by regulators in the Infrastructure and Utilities sectors

Water		Aurizon Network	SeqWater	South East Water & Yarra Valley Water	East Gippsland Water & Westernport Water	Water Corp, Aqwest & Busselton Water	Sydney Desalination Plant	WaterNSW – Coastal Valleys	WaterNSW – Murray-Darling Basin	SA Water
	Regulator	QCA	QCA	ESVic	ESVic	ERAWA	IPART	IPART	IPART	ESCSA
	Decision Date	Dec 2017	Dec 2017	Dec 2017	Dec 2017	Nov 2017	Jun 2017	Jun 2017	Jun 2017	Jun 2017
	Asset beta	0.42	0.41	NA	NA	0.41*	0.38*	0.38*	0.38*	0.38*
	Gearing	55%	60%	60%	60%	55%	60%	60%	60%	60%
	Equity beta	0.73	0.77	NA	NA	0.70	0.70	0.70	0.70	0.70
	Nominal Vanilla Post-tax WACC	5.41%	6.12%	5.86%	5.70%	6.21%	7.2%	7.2%	5.5%	7.10%

Rail and Port		Aurizon Network	Arc Infra.	Pilbara Railways	NSW Rail	ARTC	DBCT
	Regulator	QCA	ERAWA	ERAWA	IPART	ACCC	QCA
	Decision Date	Dec 2017	Oct 2017	Oct 2017	Aug 2017	April 2017	May 2016
	Asset beta	0.42	0.73*	1.1*	0.47*	0.55*	0.45
	Gearing	55%	25%	20%	60%	52.5%	60%
	Equity beta	0.73	0.90	1.3	0.9	0.94	0.87
	Nominal Vanilla Post-tax WACC	5.41%	8.06%	10.58%	7.7%	6.30%	5.82%

*Derived by deleveraging equity beta using the QCA formula

Regulatory Decisions – Infrastructure & Utilities

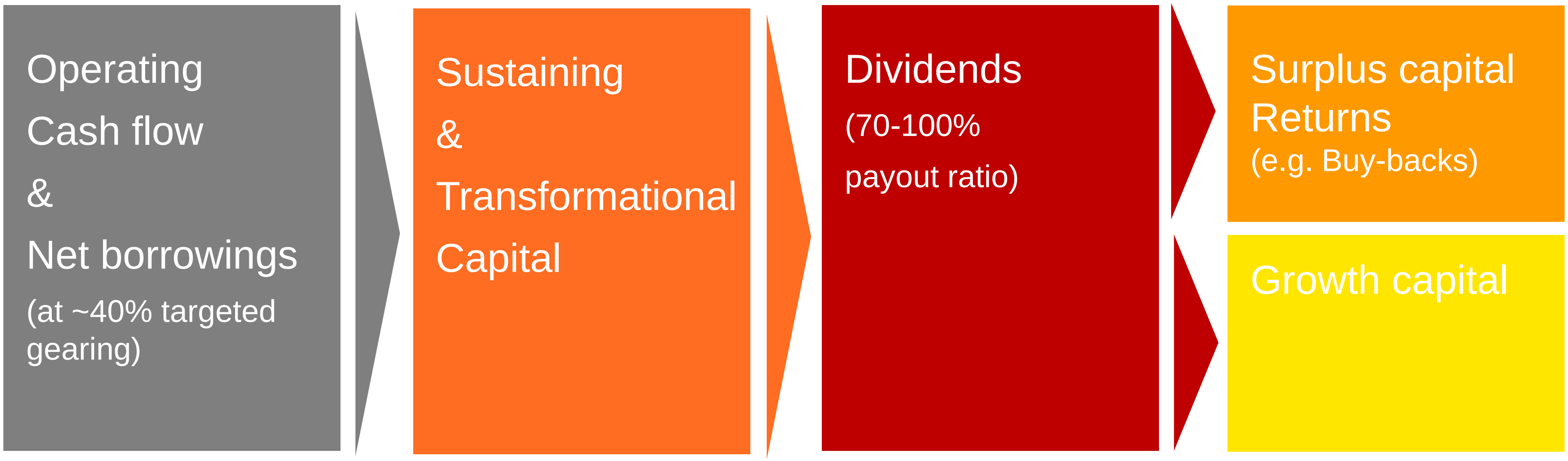
Examples of recent decisions made by regulators in the Infrastructure and Utilities sectors

Electricity & Gas		Aurizon Network	AusNet Gas Services	APA VTS Australia	ElectraNet	TransGrid	Powerlink	Dampier to Bunbury Natural Gas Pipeline
	Regulator	QCA	AER	AER	AER	AER	AER	ERAWA
	Decision Date	Dec 2017	Nov 2017	Nov 2017	Oct 2017	Sep 2017	Apr 2017	Jun 2016
	Asset beta	0.42	0.38*	0.38*	0.38*	0.38*	0.38*	0.38*
	Gearing	55%	60%	60%	60%	60%	60%	60%
	Equity beta	0.73	0.70	0.70	0.70	0.70	0.70	0.70
	Nominal Vanilla Post-tax WACC	5.41%	5.94%	5.75%	5.75%	6.5%	6.0%	5.83%

*Derived by deleveraging equity beta using the QCA formula

Funding and Capital Management

Capital allocation framework



1HFY2018 outcomes

- Group gearing target of ~40%
- 1HFY2018 dividend maintained at 100% payout of underlying NPAT for continuing operations
- On-market buy-back announced and $226m completed during 1HFY2018

Funding update

Strategy progressing but potential future impact from UT5

UT5 Draft Decision

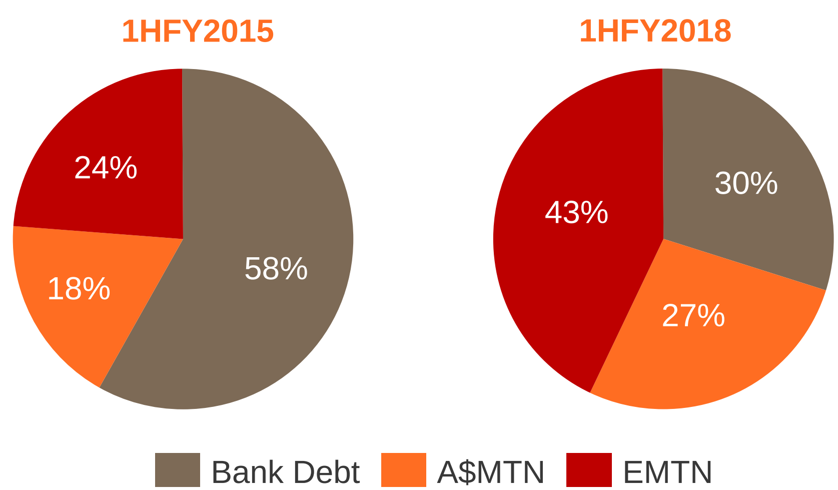
- QCA recognises that the credit metrics would fall below the BBB+ threshold under the regulatory cash flows expected as a result of the UT5 Draft Decision
- Board to consider appropriate response and rating post final decision

1HFY2018 funding activity

- Aurizon Network's $525m bank debt facility was repriced in November 2017 and maturity extended to FY2023 (facility size reduced to $500m)
- Group gearing target remains ~40% (based on book value of equity)
- Strategy remains to refinance in advance of debt maturities (and diversify funding sources / extend tenor where possible)

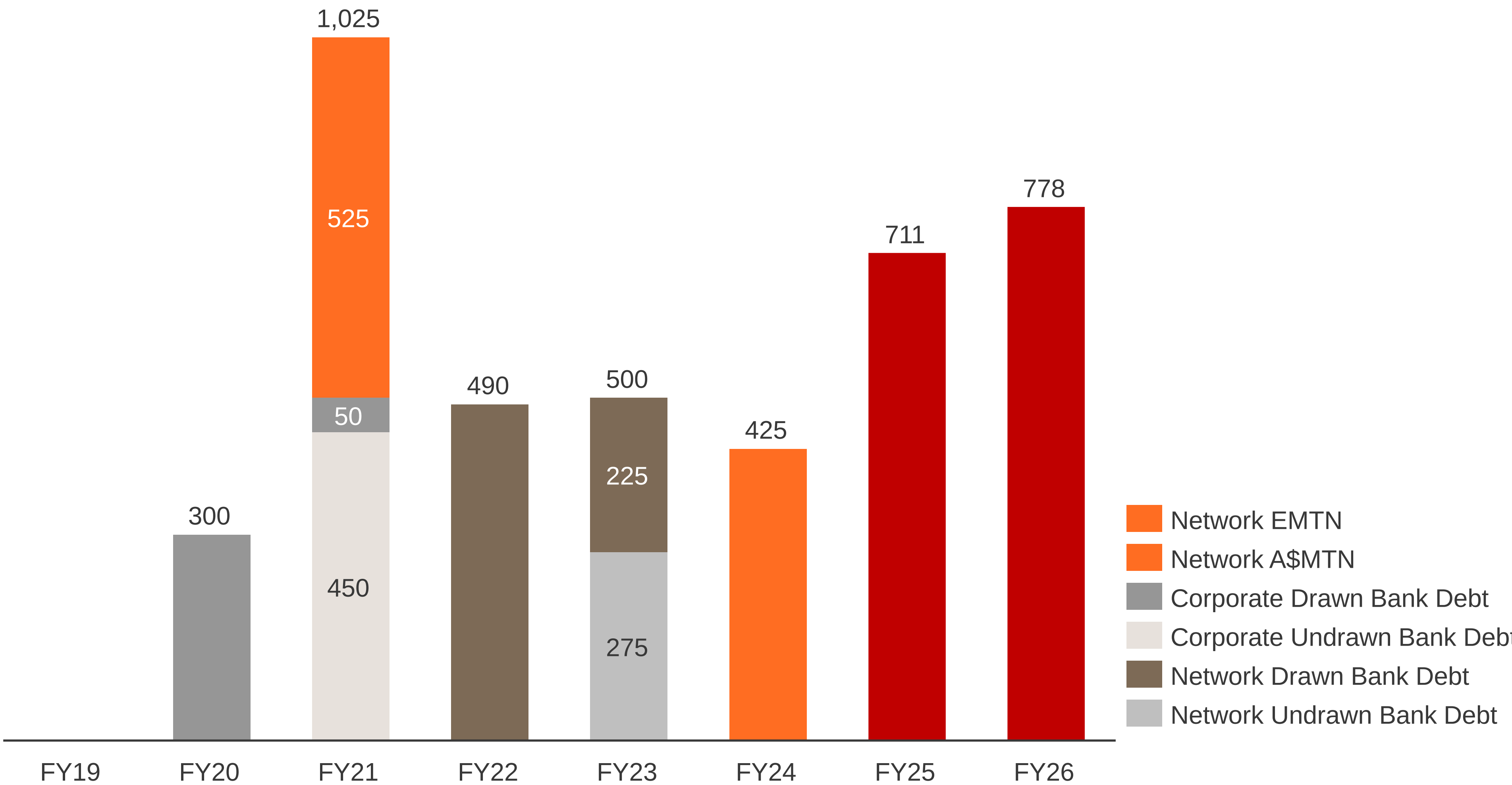
Key Debt Metrics	1HFY2018	1HFY2017
Weighted average maturity	5.1 years	5.3 years
Group interest cost on drawn debt	4.5%	5.1%
Group Gearing[1]	41.2%	37.1%
Network Gearing[2] (excluding AFDs[4])	61.1%	51.9%
Network Gearing[2] (including AFDs[4])	56.7%	48.2%
Credit Rating (S&P/Moody's)	BBB+/Baa1	BBB+/Baa1

Diversification of funding sources[3]



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

Aurizon Debt[1] Maturity Profile ($m)

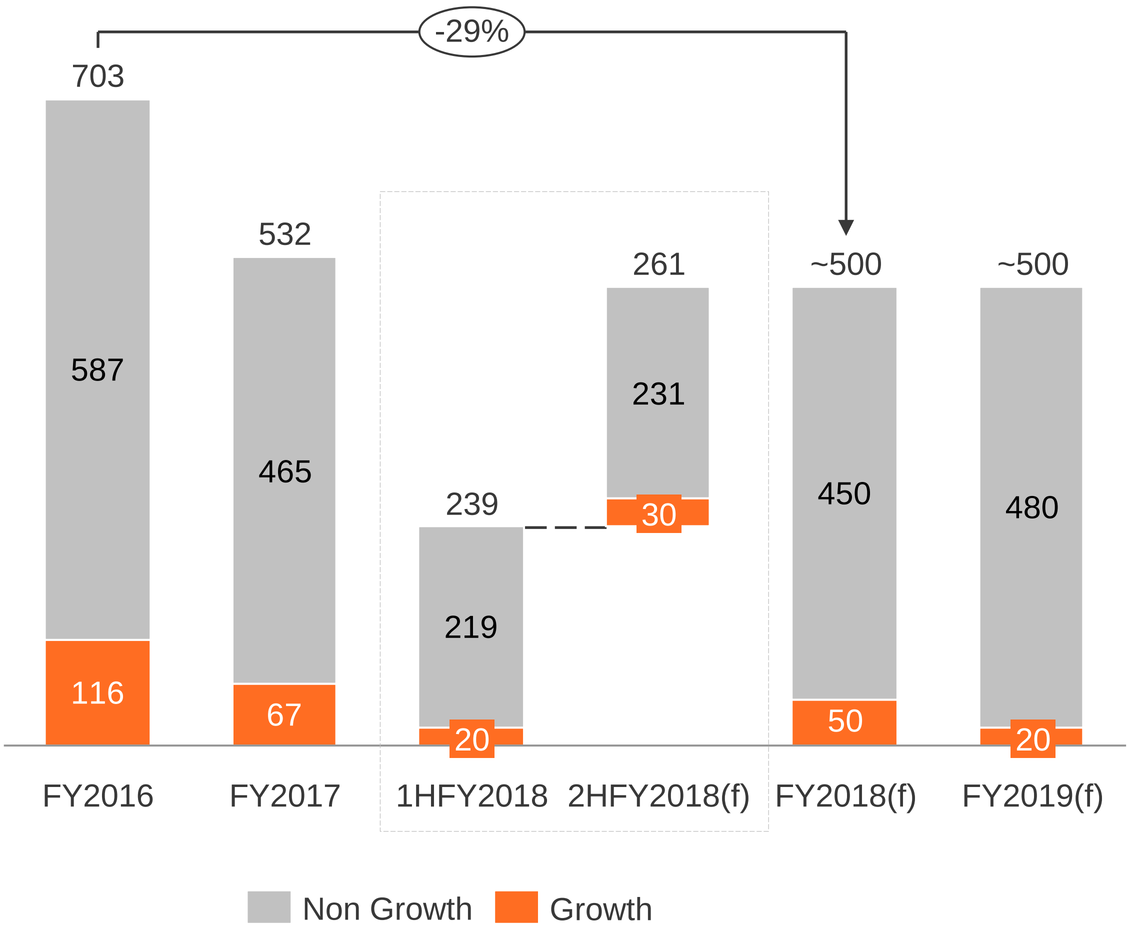


1. Calculated on drawn debt, excluding working capital facility

Capital Expenditure

Disciplined capital allocation results in reduced spend

Capital expenditure FY2016 – FY2019 ($m)[1]



- FY2018 capex reduced to ~$500m
  - Lower than forecast 1H spend
  - Lower Network spend in 2H likely due to UT5 Draft Decision
  - Increase in growth capital due to additional rollingstock for NSW Coal
- Non growth capital expenditure for FY2019 ~$480m, however under review due to UT5 Draft Decision

1. Includes capitalised interest and net of lease incentive payments

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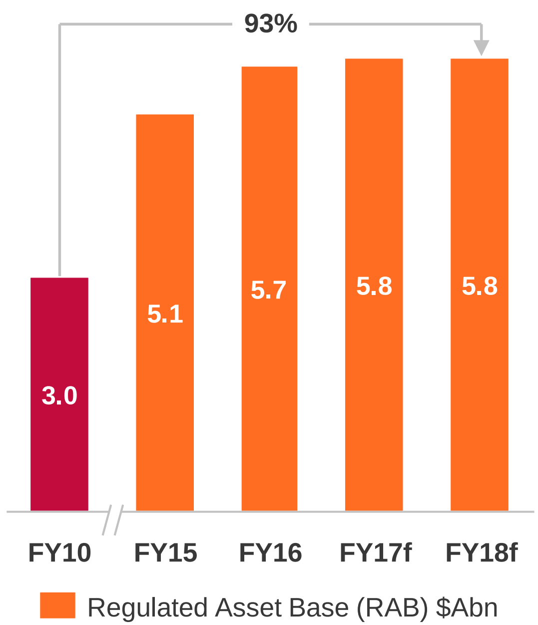
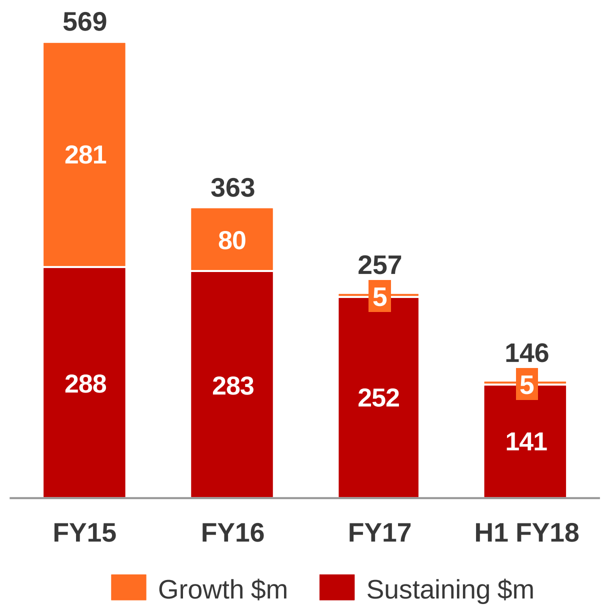
Network RAB, capex & depreciation profile

RAB roll forward



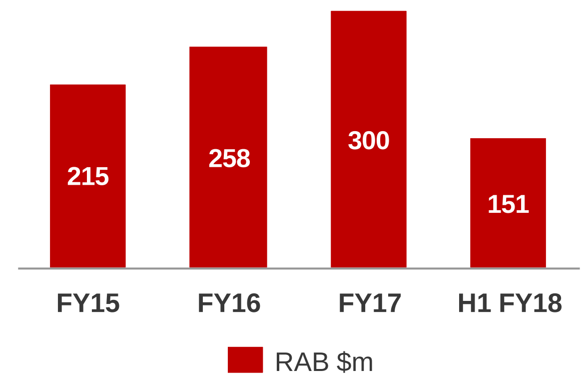
- RAB Roll-forward, indicative (closing balance) projection based on Aurizon Network's submitted UT5 RAB. Excludes assets operating under an Access Facilitation Deed (AFD) of c. $0.4bn and is subject to QCA approval of the FY17 capital claim. FY17 forecast RAB is repeated for FY18.

Capex



- Network sustaining capex is expected to be in the range of $250 - $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

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Outlook and Summary

FY2018 Outlook

Earnings guidance unchanged, above rail coal volumes reduced

- Underlying EBIT $900 – 960m (continuing operations)
- Operating ratio 69.5% - 71.5%

Assumptions

Coal Bulk	› Coal volumes 210 – 220mt (previously 215 – 225mt) due to likely impact from implementing revised maintenance and operating practices in Network to align with UT5 Draft Decision › Growth in Bulk EBIT from turnaround plan

Network	› Approved transitional tariffs, based on UT4 FY2017 MAR adjusted for:
	  › $90m true-ups relating to prior years
	  › $24m revenue cap (FY2016 over collection repaid to customers)
	  › $17m cyclone repair costs recovery in 2H

Group	› Continued delivery of transformation in remaining core business › No major weather impacts

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Key takeaways

Continue to focus on key priorities in FY2018

UT5 response	› Revised operating and maintenance to align with the UT5 Draft Decision › Customer engagement continues › Detailed response to QCA – 12 March 2018
Delivering on promises	› Complete sale of Intermodal Queensland and Acacia Ridge (subject to regulatory approval) › Complete remaining buy back › Deliver incremental coal volumes and operationalise new contracts
Strategy	› Safety remains a core value › Continue to transform and improve productivity in all business units › Appropriate growth opportunities to be explored – e.g. WICET

Investor update – June 2018

HY2018 Results

Additional information

Network revenue cap adjustments

Year	$AT_{2\text{-}4}$ (diesel tariff) \$m	AT_5 (electric tariff) \$m	Total \$m
2017[1, 3]	26.7	12.4	39.1
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 $AT_{2\text{-}5}$ Revenue and Allowable $AT_{2\text{-}5}$ 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 FY2017) revenue cap amounts include cost of capital adjustments aligned to the QCA Final Decision on UT4

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Note: AT = Access Tariff Revenue Adjustment Amount

1. Approved by QCA, excludes cost of capital adjustment
2. Return to access holders
3. FY2013 $AT_{2\text{-}4}$ includes \$11.6m recovery for GAPE, FY2016 $AT_{2\text{-}4}$ includes \$2.0m return for GAPE, FY2017 $AT_{2\text{-}4}$ includes \$0.5m return for GAPE

Reconciliation of billed MAR to reported access revenue

$m	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Estimate**
Billed Access Revenue (AT_1 to AT_5) (ex. GAPE)	794	787	924	892	932
Approved Adjustments to MAR					
Transitional tariff adjustment	(70)	-	-	-	-
Flood Claim recoveries[1]	-	12	6	-	19
WIRP Smoothing[2]	-	-	(15)	5	0
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**	**929**
Total non-regulated Access Revenue (ex. GAPE)	5	11	12	18	43
Total GAPE Revenue (Regulatory + non-regulatory)	205	204	201	205	192
Total Access Revenue per Aurizon Statutory Accounts	**951**	**1,048**	**1,136**	**1,200**	**1,164**

****Actual access revenues reported in FY2018 may differ due to actual volumes not aligning to regulatory system forecast volumes and other adjustments****

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. FY2017 includes amounts $2m approved in respect of the FY15 event and $16m(excluding GAPE) approved for inclusion in the transitional allowable revenue for FY2018 pending QCA approval of the submitted claim relating to the FY2017 flood event emanating from Cyclone Debbie.
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

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Network Financial and Operating Metrics

	1H			2H
	FY2018	FY2017	Variance	FY2017
Tonnes (m)	116.6	112.9	3%	97.9
NTK (bn)	29.0	28.3	2%	24.9
Operating Ratio	59.1%	56.4%	(2.7ppt)	68.2%
Access Revenue/NTK ($/’000 NTK)	19.9	22.2	(10%)	22.9
Maintenance/NTK ($/’000 NTK)	2.0	2.1	5%	2.4
Opex/NTK ($/’000 NTK)	12.4	13.4	7%	16.2
Cycle Velocity (km/hr)	23.6	23.8	(1%)	23.1
System Availability	80.6%	85.1%	(4.5ppt)	82.1%
Average Haul Length (km)	248.3	250.8	1%	254.1

Regulation

Additional information

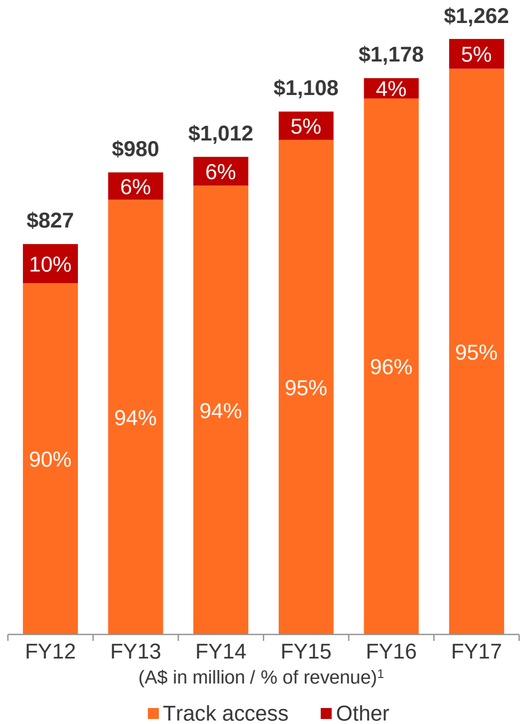
Regulated Revenues Within a Stable and Well-Established Regulatory Regime

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

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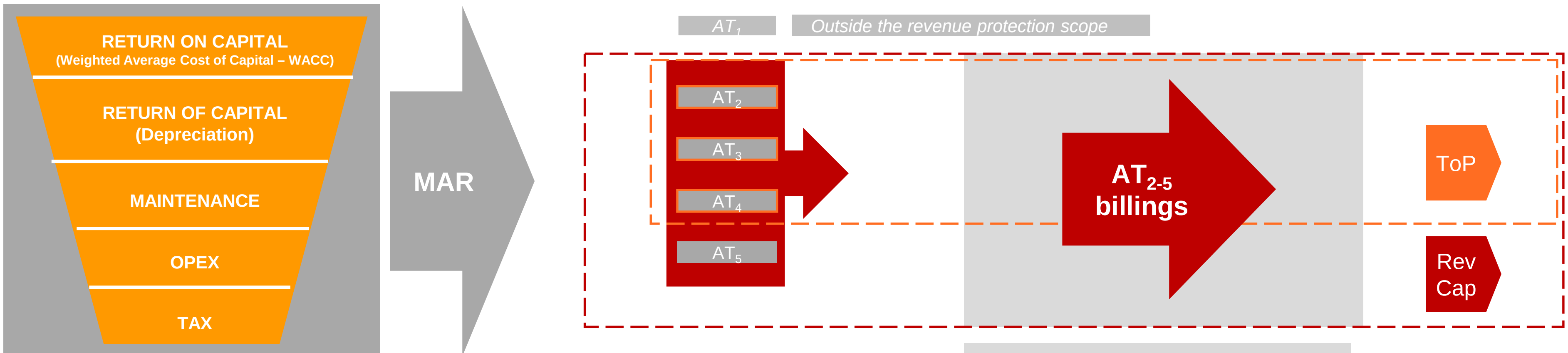
The CQCN Regulatory Framework Provides Revenue Protection Through a Building Block Approach

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

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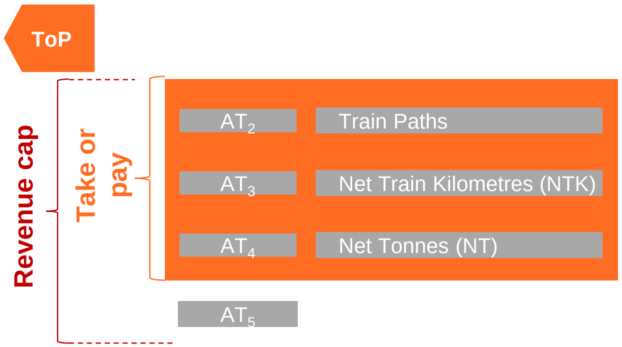
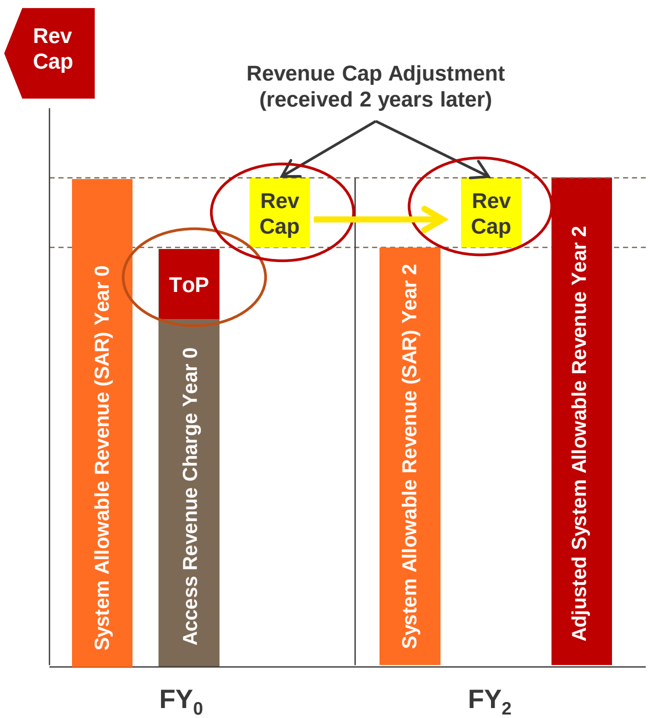
… with Take-or-Pay Protection Should Revenues Fall Short (With a Revenue Cap)





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

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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
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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