

A wide-angle photograph of a large railway yard at dusk. The sky is filled with soft, grey clouds, and the ground is illuminated by numerous tall, white light poles. In the foreground, a long, dark train is blurred as it moves along the tracks. The background shows a range of low mountains under the twilight sky.

# Aurizon Network Debt Investor Update June 2017

**Pam Bains – EVP & Group Chief Financial Officer**  
**David Collins – VP Finance & Group Treasurer**

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# Agenda

Introduction

Investment Highlights

Regulation

Coal Market Update

Questions & Answers

# Biographies



**Pam Bains**  
**Executive Vice President & Chief Financial Officer**

Pam has over 20 years' experience in finance and commercial roles working in the UK, India and Australia.

After completing a Bachelor of Economics and Finance and qualifying as a Chartered Accountant with Arthur Andersen (UK), Pam gained experience across a number of sectors including financial services (GE Capital - Global Consumer Finance), retail & distribution (Next plc) and telecommunications, (Teléfonoica O2).

Pam joined Aurizon in 2010, playing a critical role during Aurizon Holdings' initial public offering and listing on the ASX. After three years as Vice President Network Finance, providing insight through business partnering, strategic and financial planning and external stakeholder engagement, she was appointed Executive Vice President & Chief Financial Office in December 2016.



**David Collins**  
**Vice President – Finance & Group Treasurer**

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 Vice President Finance & Group Treasurer. David's role is responsible for Aurizon's Treasury, Procurement, Tax, Shared Services and Insurance functions, as well as Business Unit CFO responsibility for Aurizon's Above Rail, non-regulated business. David's previous roles at Aurizon include Group Financial Controller, VP Investor Relations and VP Finance & Regulation, Network.

# Introduction



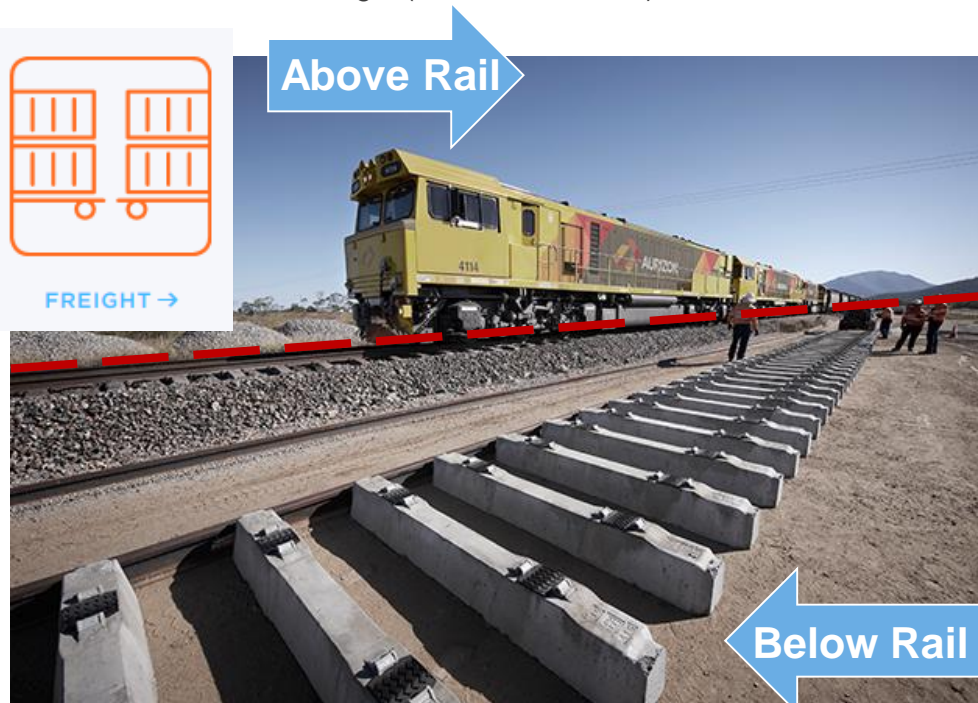
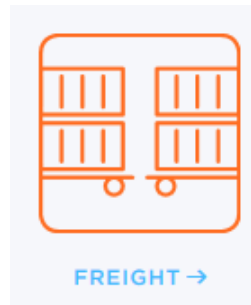
# About Aurizon Group

## WHO WE ARE

- › Aurizon (ASX: AZJ; market capitalisation of circa A\$11bn<sup>1</sup>) 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
- › Since privatisation and IPO in 2010 Aurizon has been on a transformation journey underpinned by an integrated operating plan that has delivered significant cost savings, operational productivity and efficiency improvements

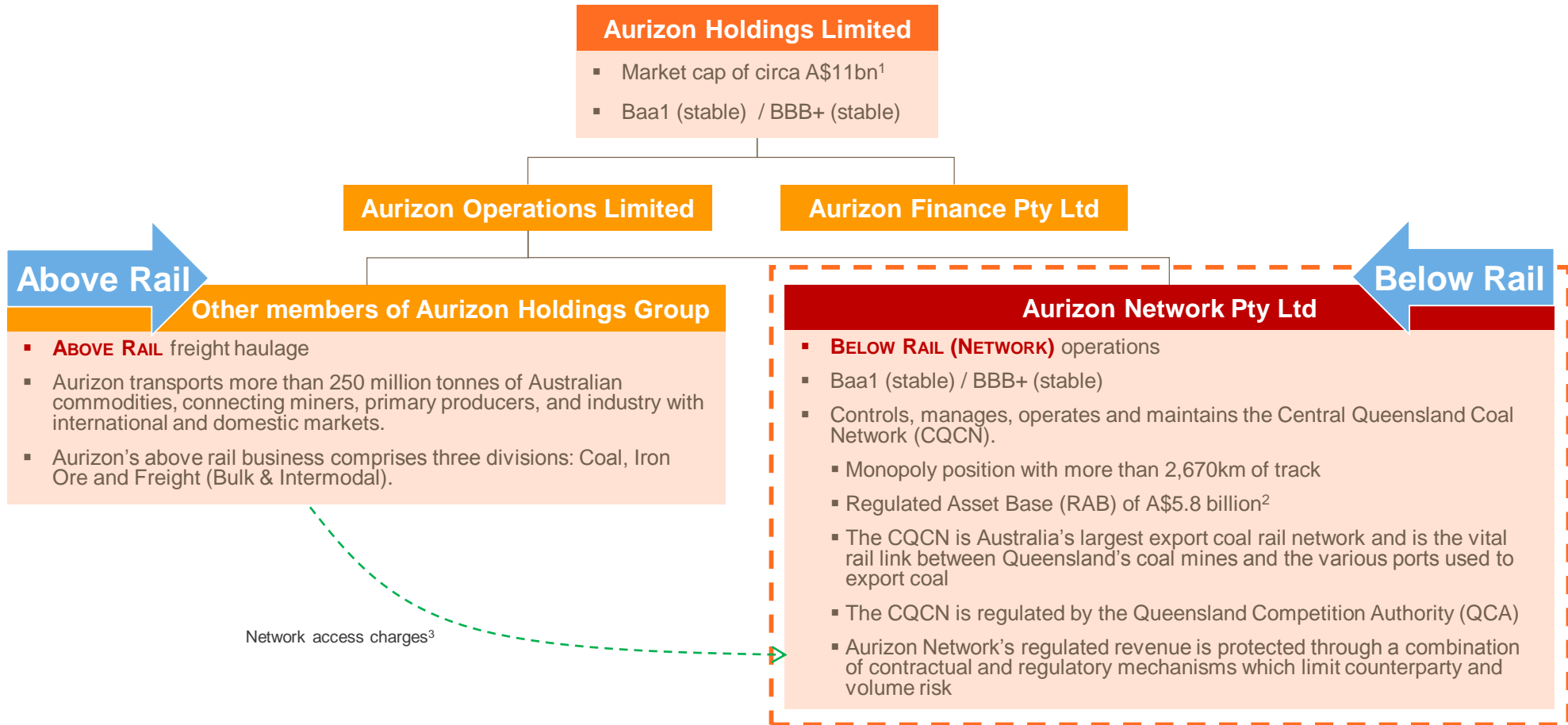
## WHAT WE DO

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



# Aurizon Legal Structure

Aurizon has two distinct businesses – Above Rail operations and Below Rail (Network) operations.



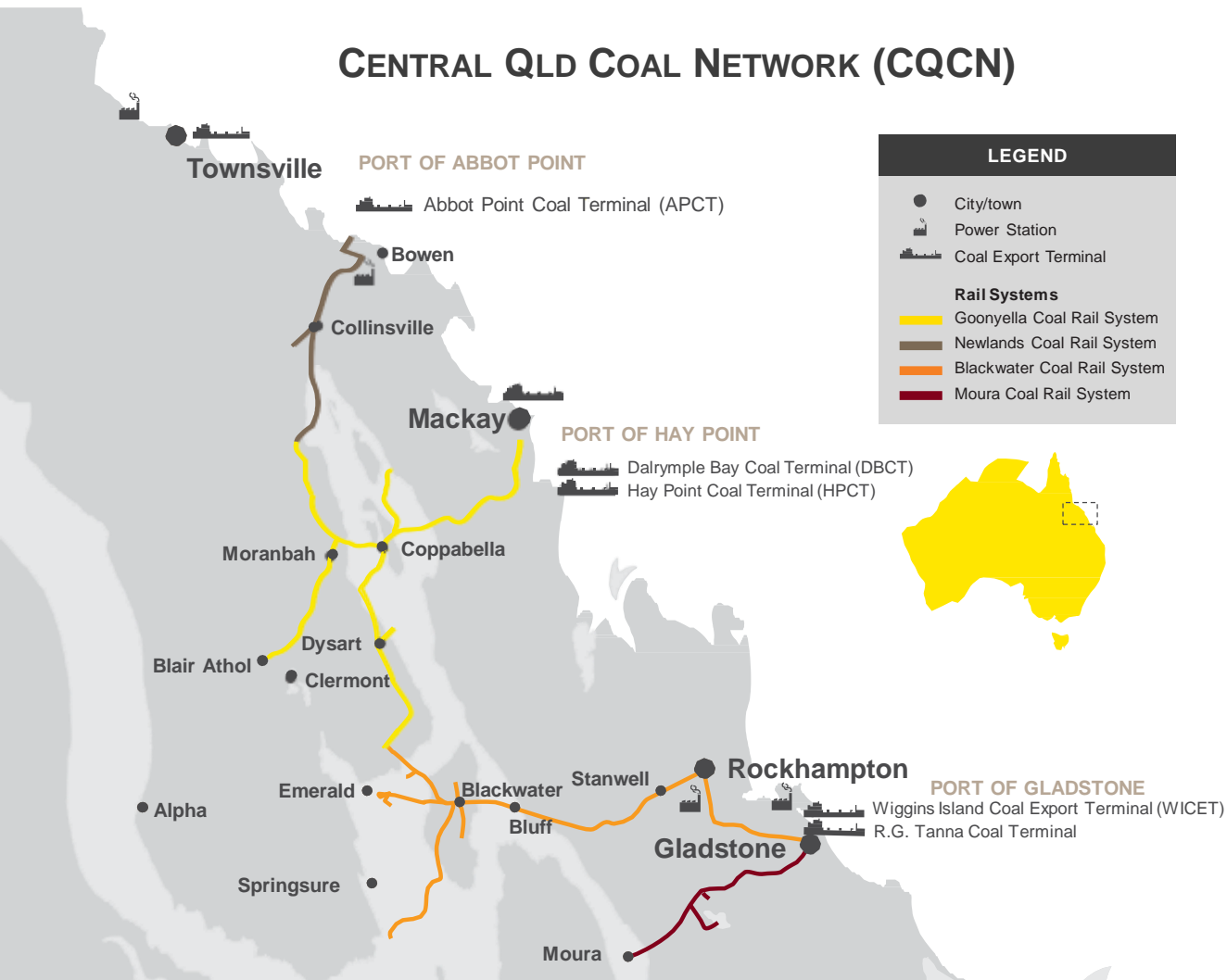
1. As at 24 May 2017

2. Estimate as at 30 June 2017 – includes deferred capital but 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

3. Network access charges where Aurizon Operations is the above rail operator. Aurizon Network also earns Network access charges from other above rail operators and miners who hold direct access agreements with Aurizon Network. Note there are also some services payments from Aurizon Network to Aurizon Operations.

# About Aurizon Network

## CENTRAL QLD COAL NETWORK (CQCN)



## KEY NETWORK FACTS

40 + operating coal mines serviced

Open access network with 3 above rail coal operators – Aurizon Operations, Pacific National and BMA Rail

70 services per day

+225mt coal moved each year

The CQCN comprises 4 major coal systems and 1 connecting system link serving Queensland's Bowen Basin coal region: Newlands, Goonyella, Blackwater and Moura with GAPE the connecting system link

5 export terminals at 3 ports

1 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<sup>1</sup> as at 30 June 2017

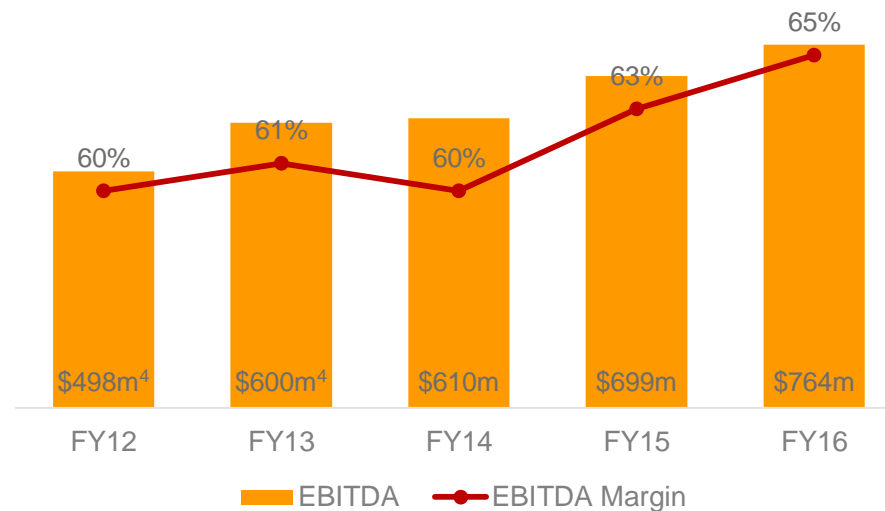
1. Estimate as at 30 June 2017 - excludes \$0.4bn in assets operating under an Access Facilitation Deed (AFD). Estimate subject to QCA Approval of RAB roll-forward and approval of the FY2016 and FY2017 Capital Claims.



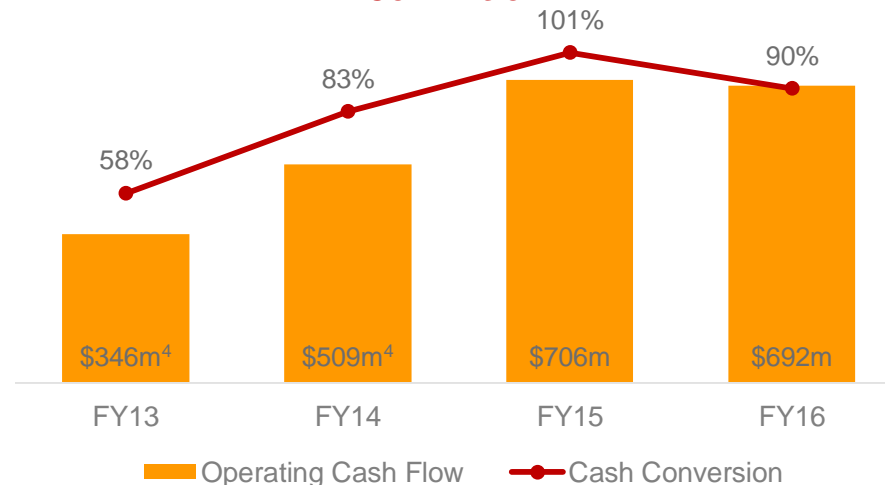
# Robust Financial Performance

- › Strong and stable free cashflow generation
- › Improvement in profitability metrics driven by higher revenue (access fees), including improving EBITDA margins to 65% in FY16
- › No major capex plans mean increased cashflow visibility
- › Sufficient liquidity to withstand unforeseen operational disruptions (e.g. Cyclone Debbie), with sources of funds expected to exceed uses by 1.2x over the next 12 months<sup>1</sup>
- › Track record of controlling operational efficiencies
- › No drawn debt maturities until FY19

5 YEAR EBITDA & EBITDA MARGIN<sup>2</sup>



NETWORK OPERATING CASH FLOW & CASH CONVERSION<sup>3</sup>



1. S&P estimate
2. Underlying EBITDA
3. Cash conversion calculated as operating cash flow less capital expenses as a percentage of EBITDA.
4. ASX market announcement, Aurizon Network – Segment Note restatement January 13, 2014.

# Investment Highlights

# Summary of Key Investment Highlights

**1** Regulated revenues within a stable and well established regulatory regime

**2** Long term lease arrangements supported by the QLD coal mining sector

**3** Infrastructure network servicing well-established haulage customers and high quality mines predominantly operated by investment grade coal miners

**4** Revenue protection mechanisms limit exposure to patronage and volume risk

**5** Strong financial position and ratings stability

**6** Experienced Board

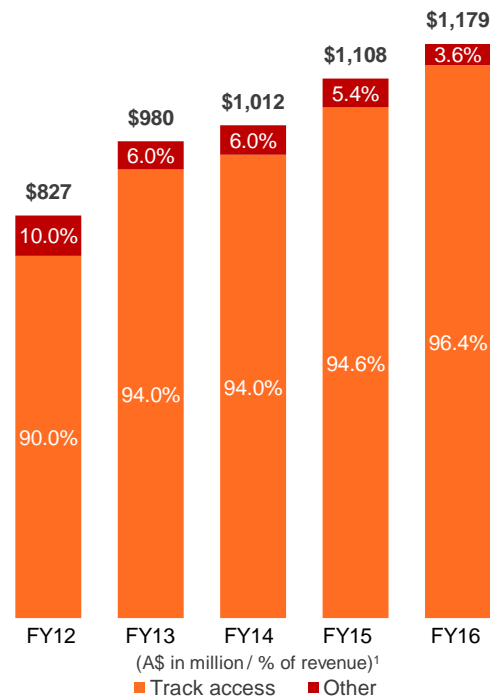
# 1 Regulated Revenues Within a Stable and Well-Established Regulatory Regime

## 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

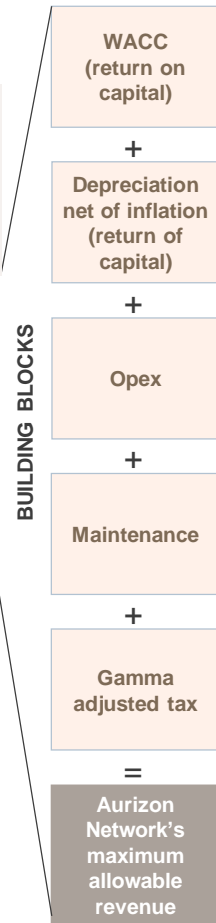
## STABLE REGULATED REVENUE BASE

- › 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

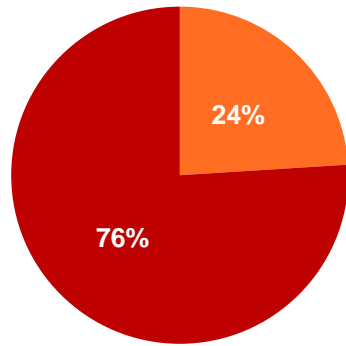
- › RAB is approved by the QCA on a Depreciated Optimal Replacement Cost (DORC) basis
- › “Building block” approach adopted to determine the CQCN’s maximum allowable revenue
- › Reference tariffs determined, taking into consideration forecast volumes and under and over recovery in prior periods



# 2 Long term lease arrangements supported by the QLD coal mining sector

## QUEENSLAND COAL RESERVES<sup>1</sup>

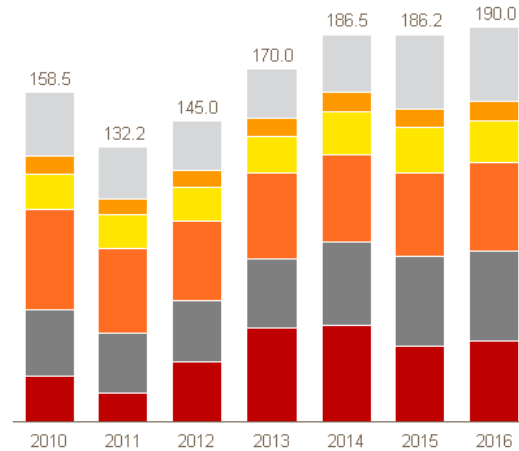
Metallurgical coal comprises approximately three quarters of the Bowen Basin's total coal reserves



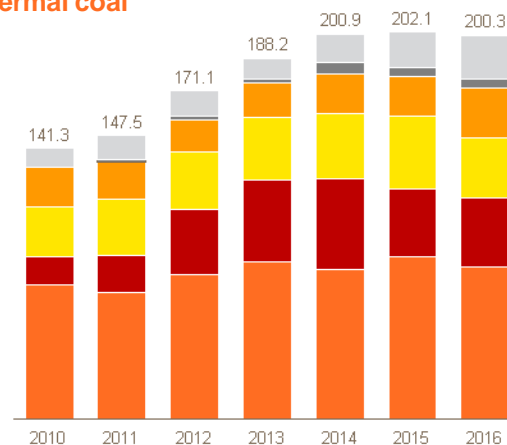
■ Thermal ■ Metallurgical

## AUSTRALIA'S COAL EXPORTS BY DESTINATION<sup>2</sup>

### Metallurgical coal



### Thermal coal



■ Other ■ Taiwan ■ China  
■ India ■ South Korea ■ Japan

- › Australia is the world's largest metallurgical coal exporter (~67% market share) and the world's second largest thermal coal exporter (~22% share)
- › 99 year lease arrangements in place with the State of Queensland to control, manage, operate and maintain the CQCN
- › CQCN is the optimal mode of transport between coal mines and export ports in Queensland and is the only viable rail option
- › Over 40 operating coal mines in the Bowen Basin are linked to the CQCN
- › Large reserves support production life in excess of 15 years on average for existing operations, with resources supporting an additional ~30 years of production
- › Aurizon Network is primarily exposed to Metallurgical coal which faces fewer structural challenges than thermal coal

<sup>1</sup> Export coal only. Source: Wood Mackenzie Coal Coast Benchmarking.

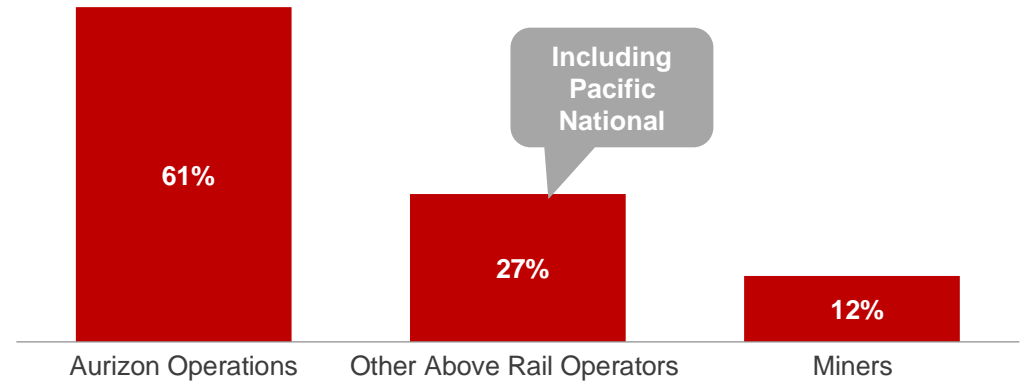
<sup>2</sup> Source: Australian Bureau of Statistics.



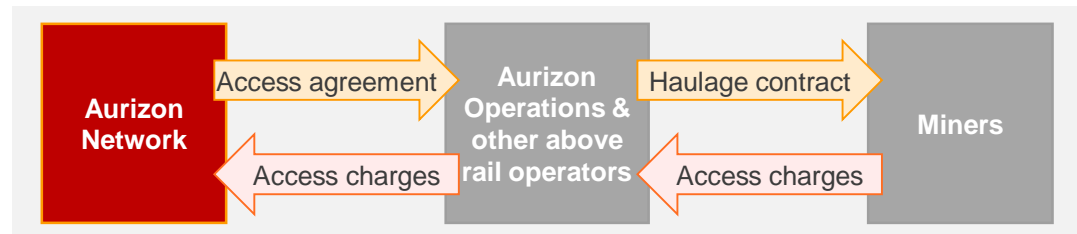
# 3 Infrastructure network servicing well-established haulage customers...

- › Aurizon Network's largest customers are Aurizon Operations and Pacific National
- › Both Aurizon Holdings (Baa1 / BBB+) and Pacific National (Baa3 / BBB-)¹ are well-established haulage operators
  - Long term customer relationships and successful contract renewals with key miners underpinning haulage agreements
  - Investment grade credit ratings
- › Access charges are typically passed through Aurizon Operations and other above rail operators to the miners

**FY16 RAILED VOLUME SPLIT BY AURIZON NETWORK CUSTOMERS²**



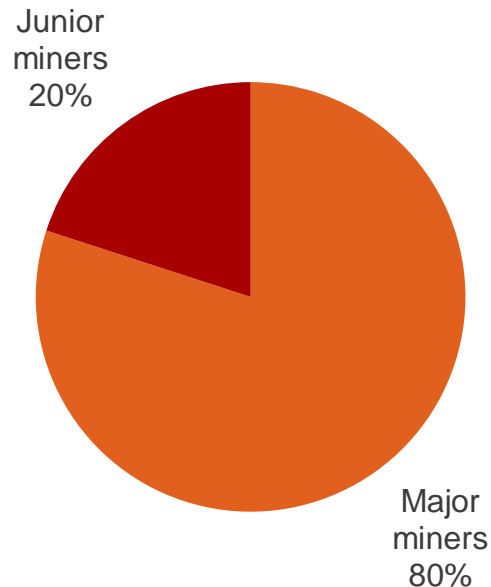
**ACCESS CHARGES PASSED THROUGH TO MINERS³**



1. Ratings shown are those of Asciano Limited, Pacific National's 100% owner.
2. Based on Access Agreement holder. 'Miners' hold access agreements directly with Aurizon Network rather than through an above rail service provider (e.g. Pacific National or BMA Rail).
3. Some Access Agreements may be directly held between Aurizon Network and Miners.

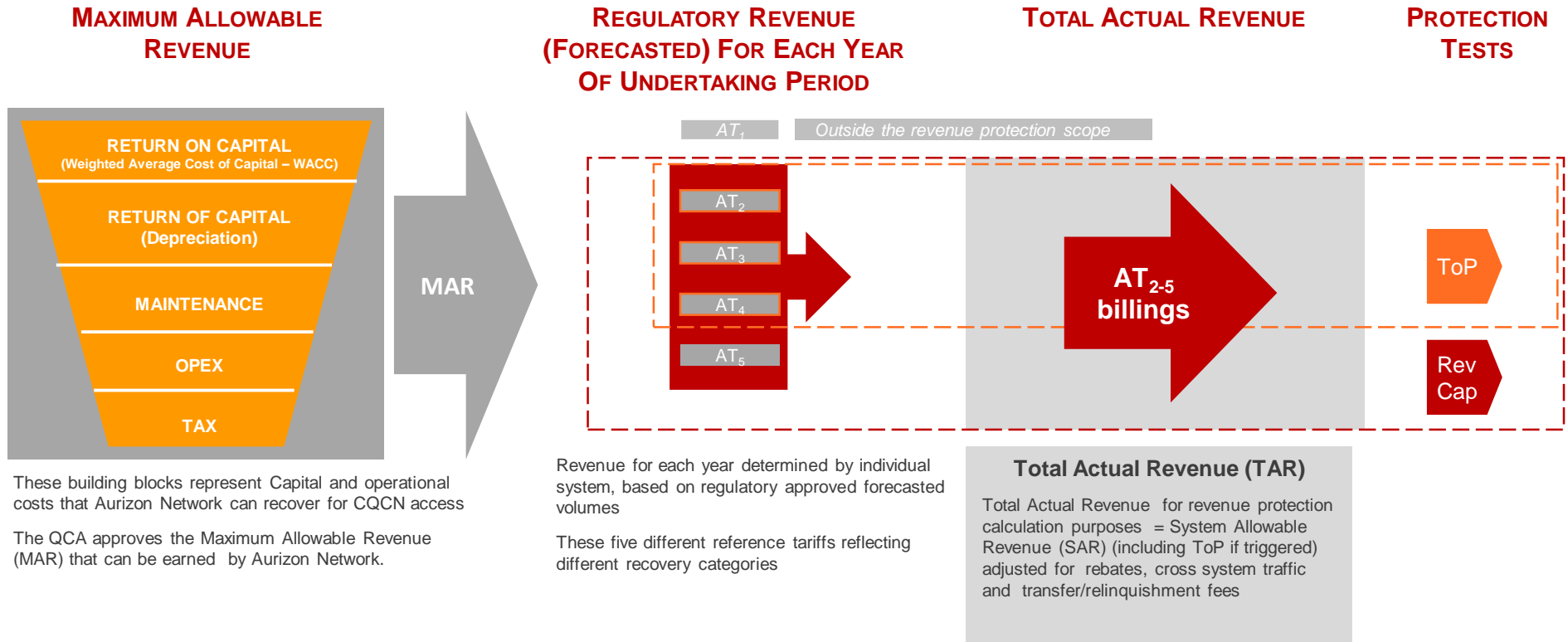
# ...and high quality mines predominantly operated by investment grade coal miners

## DIVERSIFIED COAL MINING CUSTOMERS THAT ARE PREDOMINANTLY LARGE GLOBAL COMPANIES



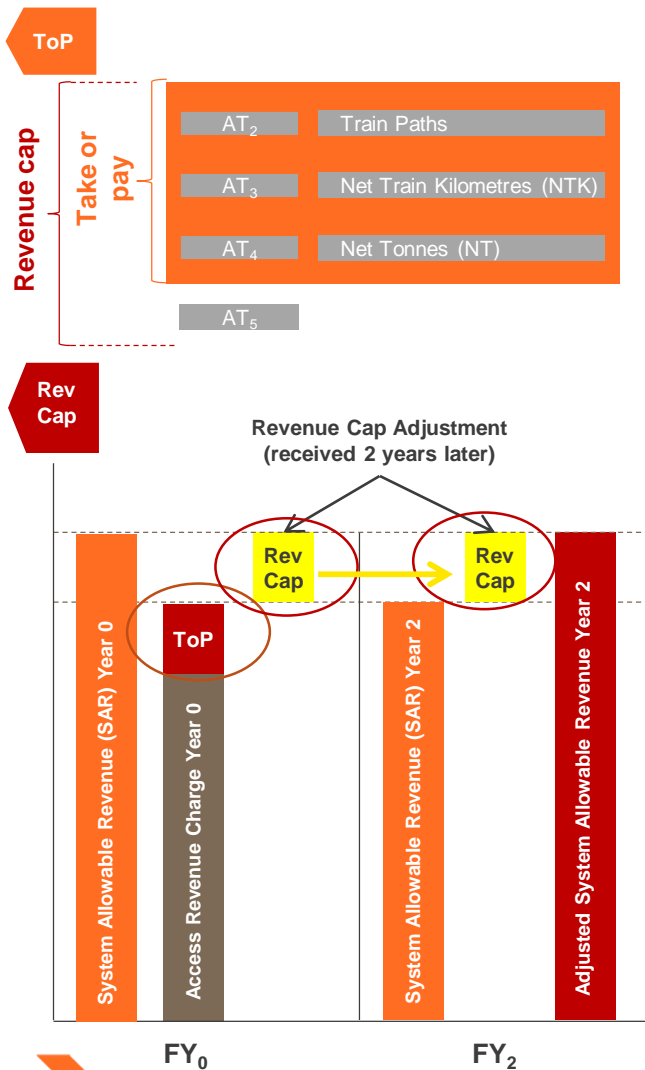
- › Mines on the CQCN are operated by a diversified group of coal miners
- › Customers are predominantly large investment grade companies including:
  - BHP / BMA
  - Glencore
  - Rio Tinto
  - Wesfarmers
- › Majority of mines produce premium hard coking coal and low-volatile Pulverized Coal Injection (PCI) coal
- › Premium products and achieved cost reductions place Queensland mines in the top two quartiles of the global seaborne metallurgical coal margin curve
- › Large majority of mines are incentivised to keep producing as they are earning in excess of rail and port take-or-pay liabilities

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



- › 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

# 5 Robust financial and capital position and ratings stability

- › Aurizon Network operates as a separate standalone entity to the Aurizon Group
- › Standalone debt facilities are in place at the Aurizon Network level, supported by the regulated infrastructure assets
  - › Strategy remains to diversify funding sources & extend tenor
- › Committed growth programs winding down (funded by current debt facilities)
- › Longer term non-growth capex remains ~A\$250m - A\$300m per year, funded through operating cashflows
- › Credit rating of Baa1 / BBB+ (stable / stable)
  - › Network was placed on review for downgrade by Moody's in January 2016, however the rating was subsequently affirmed at Baa1 (negative outlook)
  - › Moody's outlook was lifted to stable in February 2017
- › Aurizon Network is committed to maintaining investment grade credit ratings going forward
- › Improved coal industry pricing and outlook has lowered counterparty credit risk – all customers are now estimated to be cash positive.

## OVERVIEW OF AURIZON NETWORK DEBT FACILITIES

Senior syndicated debt facilities	Maturity
A\$525m syndicated facility	Jul-18
A\$490m syndicated facility	Jul-21
A\$100m working capital facility	Jun-17

A\$ Medium Term Note programme	Maturity
A\$525m, 5.75% p.a. MTN	Oct-20

EUR Medium Term Note programme	Maturity
EUR 500m, 2.00% p.a. MTN	Sep-24
EUR 500m, 3.125% p.a. MTN	Jun-26

<b>Gearing<sup>1</sup> (FY16)</b>	<b>62.6%</b>
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# Aurizon Network: Experienced Board



**MICHAEL FRASER**  
NON-EXECUTIVE CHAIRMAN

Mr Fraser has more than 30 years' experience in the Australian energy industry. He has held various executive positions at AGL Energy culminating in his role as Managing Director and Chief Executive Officer for the period of seven years until February 2015. Mr Fraser is currently a Non-Executive Director of the ASX listed APA Group. Mr Fraser is a former Chairman of the Clean Energy Council, Elgas Limited, ActewAGL and the NEMMCo Participants Advisory Committee, as well as a former Director of Queensland Gas Company Limited, the Australian Gas Association and the Energy Retailers Association of Australia.



**ALEX KUMMANT**  
DIRECTOR,  
EXECUTIVE VICE PRESIDENT

Mr Kummant has more than 25 years' experience in the North American industrial sector, including various executive roles in the rail industry. Mr Kummant was appointed Executive Vice President Network in November 2013 having joined the Company as Executive Vice President Strategy in October 2012. Prior to joining Aurizon Mr Kummant was Chief Executive Officer of Amtrak and Vice President in several executive roles at Union Pacific, the world's largest freight railroad. Prior to joining Union Pacific, Mr Kummant held various executive roles at Emerson Electric Co. and SPX Corporation. Mr Kummant holds a Bachelors Degree in Science (Mechanical Engineering), a Masters of Engineering (Manufacturing) and a MBA (Stanford).



**JOHN COOPER**  
NON-EXECUTIVE DIRECTOR

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



**ANDREW HARDING**  
DIRECTOR

Mr Harding has more than 24 years' experience as an executive in the resources industry. He was appointed Managing Director & CEO of Aurizon in December 2016 to lead the Company into the next phase of its transformation program. Prior to joining Aurizon, Mr Harding was Global Chief Executive for Rio Tinto's Iron Ore business. He brings extensive operational experience in the resource industry and in managing supply chains for the world's largest integrated portfolio of iron ore assets. He is focused on leading performance improvement initiatives, and has championed a number of workplace initiatives including improvements in safety, a commitment to diversity, and the strengthening of indigenous and community relationships.



**SAM LEWIS**  
NON-EXECUTIVE DIRECTOR

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



**KATE VIDGEN**  
NON-EXECUTIVE DIRECTOR

Ms Vidgen began her career as a banking, finance and energy lawyer at Malleson Stephen Jacques and in 1998 started in the Infrastructure advisory team within the Macquarie Group. During her time at Macquarie, Kate has traversed a number of sectors with a focus on infrastructure, energy and resources. Kate has also held a number of roles including heading up Macquarie Capital's coal advisory team in Australia and being Global Co-Head of Resources Infrastructure. Ms Vidgen remains an Executive Director at Macquarie Capital and is currently the Global Head of Principal in Resources. Kate is also the Founding Chair of Quadrant Energy, a privately held oil and gas producer and explorer which is the single largest domestic gas supplier in the Western Australian market.

# Regulation

# Aurizon Network – UT4<sup>1</sup> Final Decision

<b>MAXIMUM ALLOWABLE REVENUE (MAR)</b>	<ul style="list-style-type: none"> <li>› Overall maximum revenue of \$3.933 billion over the period of the Undertaking</li> <li>› Weighted Average Cost of Capital (WACC) - 7.17%</li> </ul>
<b>TRUE-UP RECOVERY PROCESS</b>	<ul style="list-style-type: none"> <li>› 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)</li> <li>› In FY17, Aurizon Network will recover \$89m of True-up Revenue relating to FY14 and FY15, net of Revenue Cap</li> </ul>
<b>WIGGINS ISLAND RAIL PROJECT (WIRP)</b>	<ul style="list-style-type: none"> <li>› The QCA has continued to apply a revenue deferral for WIRP customers who are not expected to rail during the FY14 - FY17 regulatory period</li> <li>› 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</li> <li>› The deferral amount is Net Present Value (NPV) neutral</li> <li>› WIRP revenues remain socialised within the two existing System Allowable Revenues – the Blackwater and Moura systems</li> </ul>
<b>ASSET STRANDING</b>	<ul style="list-style-type: none"> <li>› The QCA believes each situation should be considered on a case by case basis</li> <li>› The QCA believes Aurizon Network is best placed to mitigate stranding risk</li> <li>› As in UT3, QCA can optimise however under UT4 they must first consider any alternative proposal and consult with Aurizon Network</li> <li>› Optimisation is a last resort and socialisation is an alternative</li> <li>› Optimisation reversed where conditions improve</li> <li>› Security under standard access agreement increased to six months (from three months under UT3)</li> </ul>

# 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

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.



## REVENUE PROPOSAL

- › Significantly larger Regulated Asset Base (RAB) of ~\$6.2 billion<sup>1</sup> 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)<sup>2</sup>.
- › 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.

# Coal Market Update

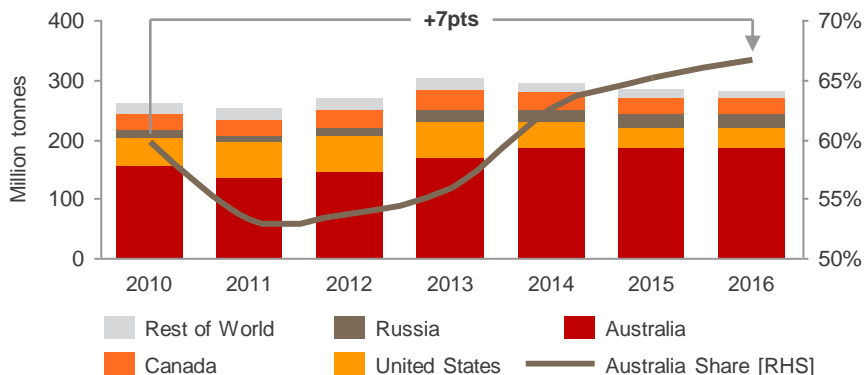


# Strong drivers support Queensland coal volumes

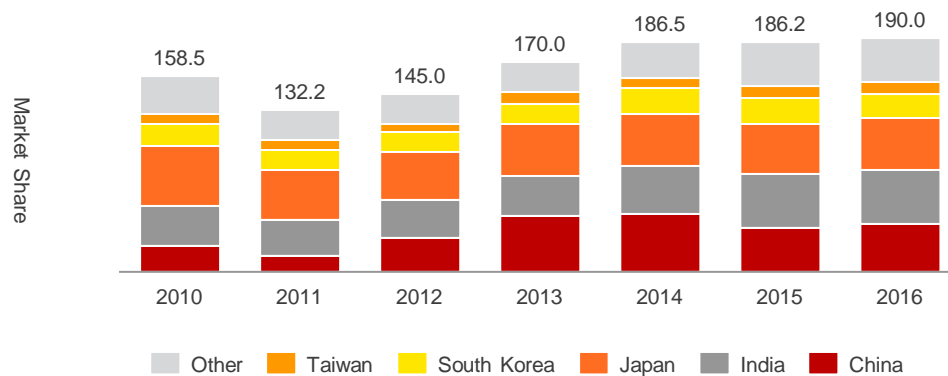
- 1 Australia is the world's largest exporter of seaborne coal
- 2 Proximity to Asia gives Australia a competitive advantage
- 3 Queensland has the largest coal resource in Australia with a long production life
- 4 High quality assets held by the major diversified miners operating at low positions on the global cost curve
- 5 Many of the end users of Queensland coal have specifically set up operations to use Bowen Basin coal

# 1 Australia is the world's largest exporter of seaborne coal

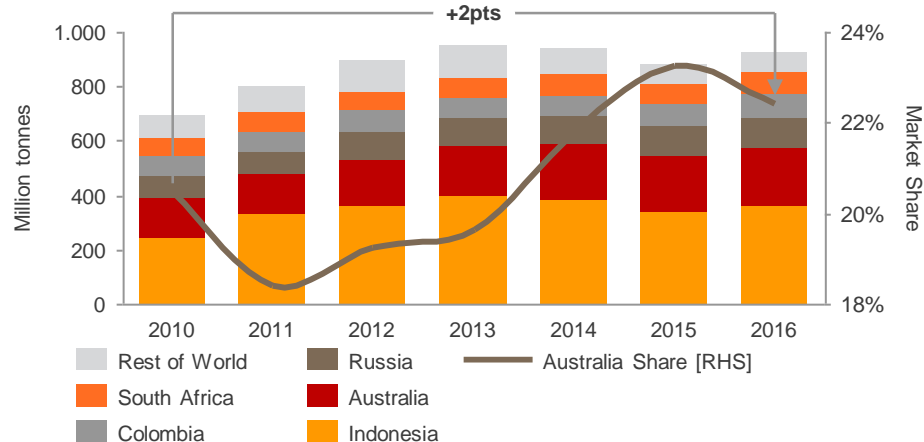
**METALLURGICAL COAL SEABORNE EXPORTS**  
VOLUME AND MARKET SHARE, CALENDAR YEARS



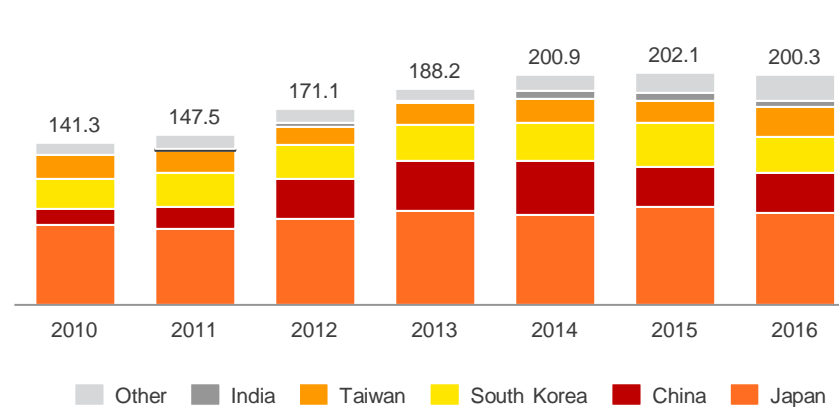
**AUSTRALIA METALLURGICAL COAL EXPORTS BY DESTINATION**  
CALENDAR YEARS (MILLION TONNES)



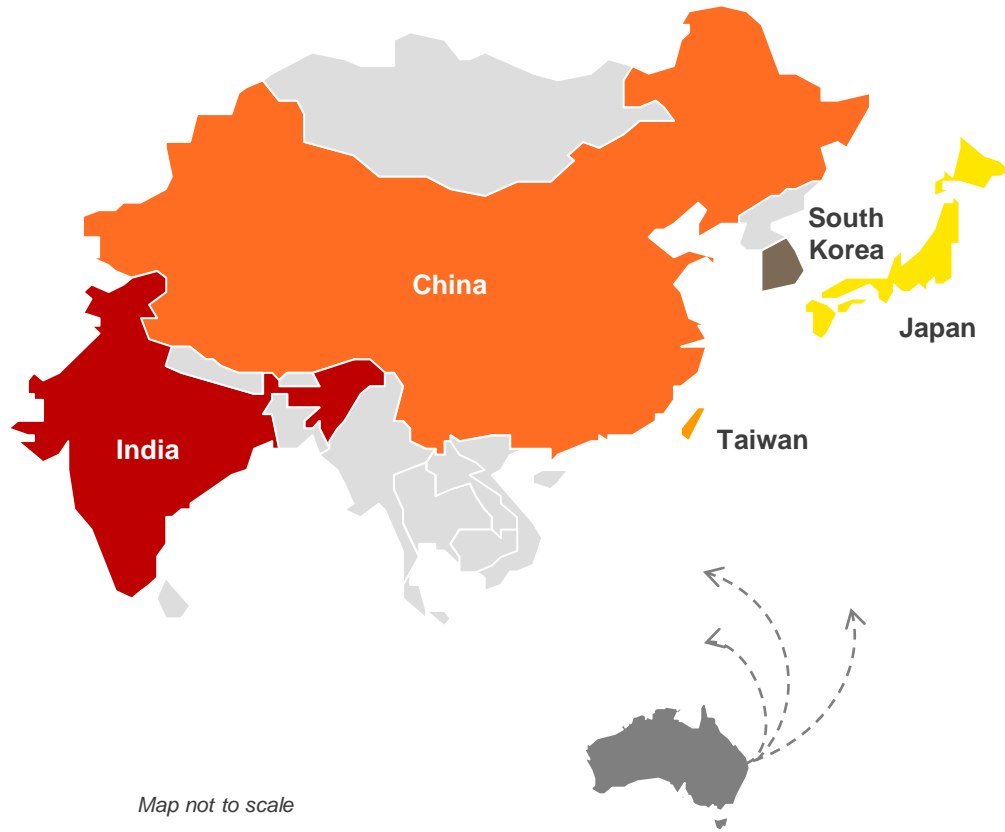
**THERMAL COAL SEABORNE EXPORTS**  
VOLUME AND MARKET SHARE, CALENDAR YEARS



**AUSTRALIA THERMAL COAL EXPORTS BY DESTINATION**  
CALENDAR YEARS (MILLION TONNES)

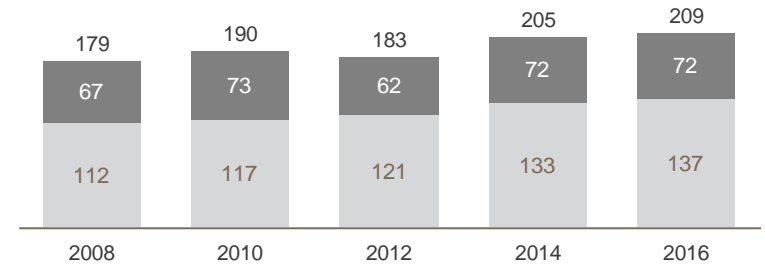


# 2 Proximity to Asia gives Australia a competitive advantage

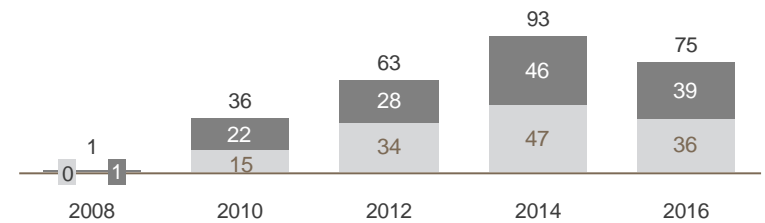


**AUSTRALIAN COAL EXPORTS BY DESTINATION**  
CALENDAR YEARS (MILLION TONNES)

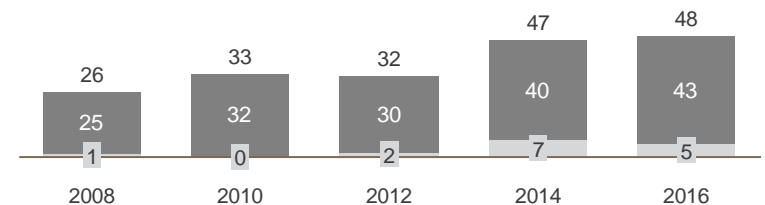
**Japan | South Korea | Taiwan**



**China**



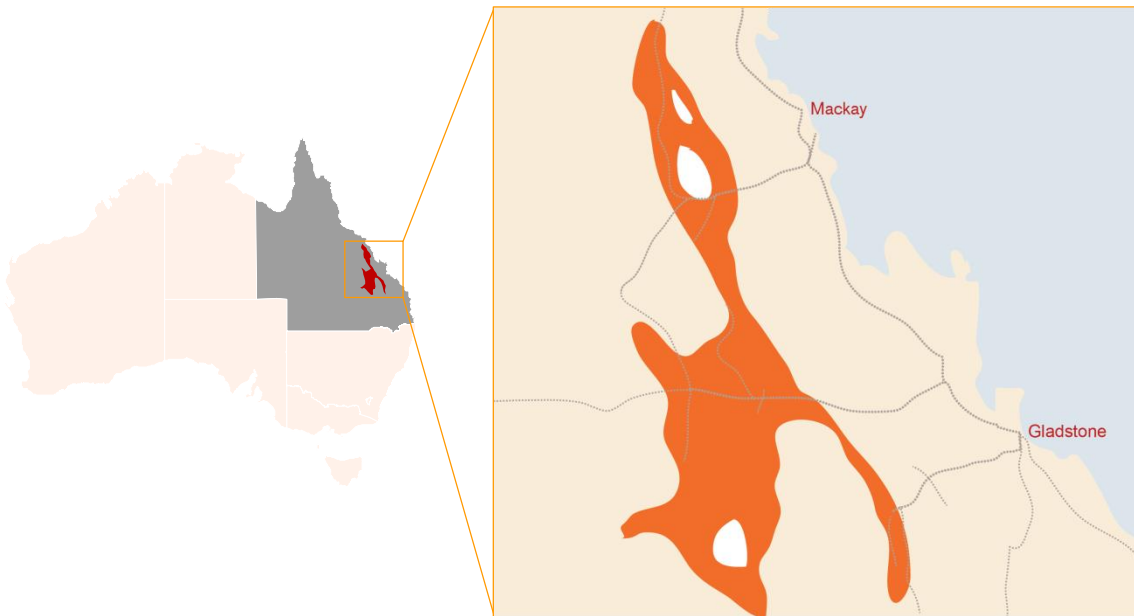
**India**



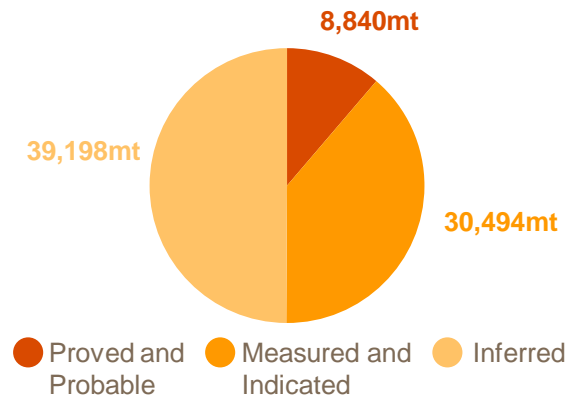
■ Metallurgical ■ Thermal

# 3 Large Bowen Basin reserves support production life in excess of 30 years

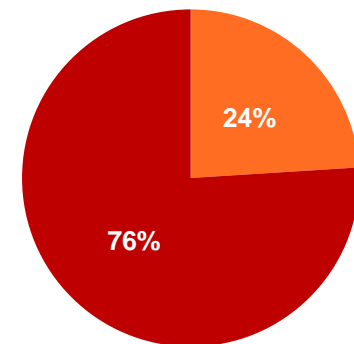
- › The CQCN services the Bowen Basin region in Queensland, which supplies over 67% of the world's metallurgical coal
- › Premium hard coking, LV PCI and semi-soft coking coal supply major steel-consuming nations and there is limited ability to substitute in the steel-making process
- › Large reserves support production life in excess of 30 years on average for existing operations, with resources supporting an additional 100+ years of production



Bowen Basin reserves and resources<sup>1</sup>

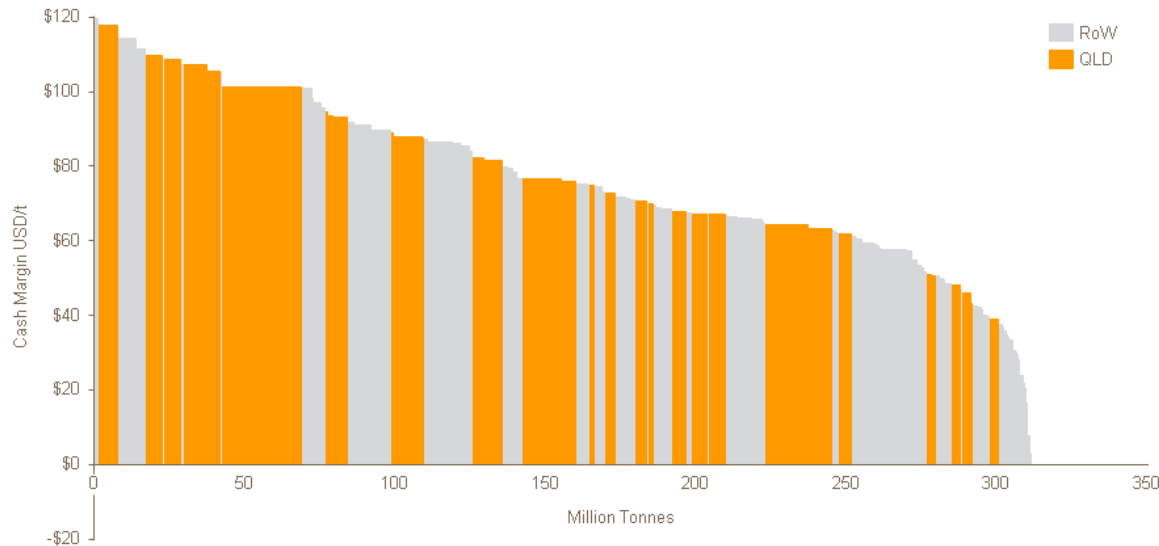


Split of Bowen Basin coal reserves<sup>2</sup>



# 4 Queensland's assets are high quality and held by the major diversified miners

2017 global seaborne metallurgical coal margin curve<sup>1</sup>

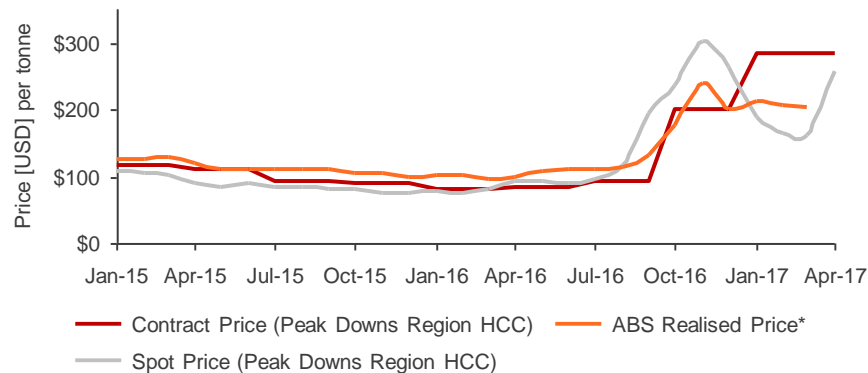


- › The recovery in the metallurgical coal spot price from lows in CY15 has improved cash margins significantly across all producers
- › Queensland metallurgical coal production remains highly competitive, positioned amongst producers with the highest cash margins

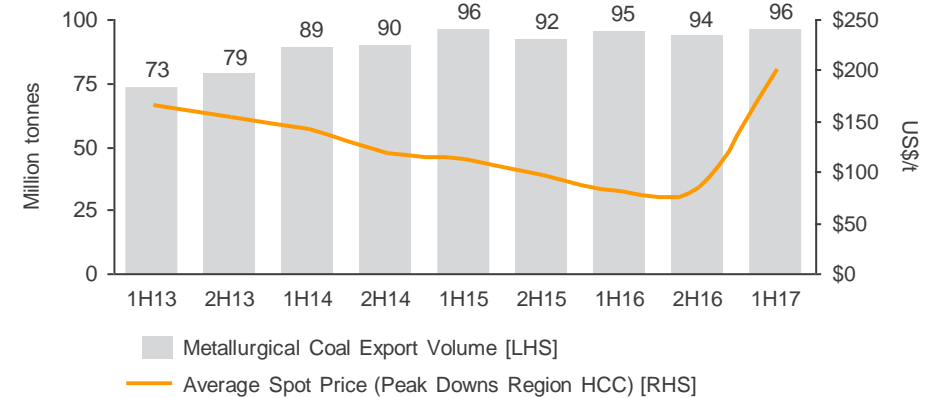
# Coal Market Update: Market Fundamentals

## Metallurgical Coal: Contract, Spot and Realised Price (USD)

Month Average (January 2015 to April 2017)

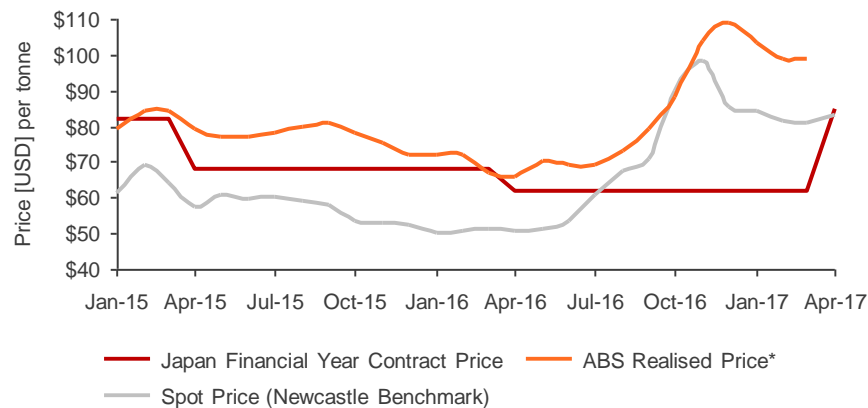


## Metallurgical Coal: Spot Price and Australia Export Volume

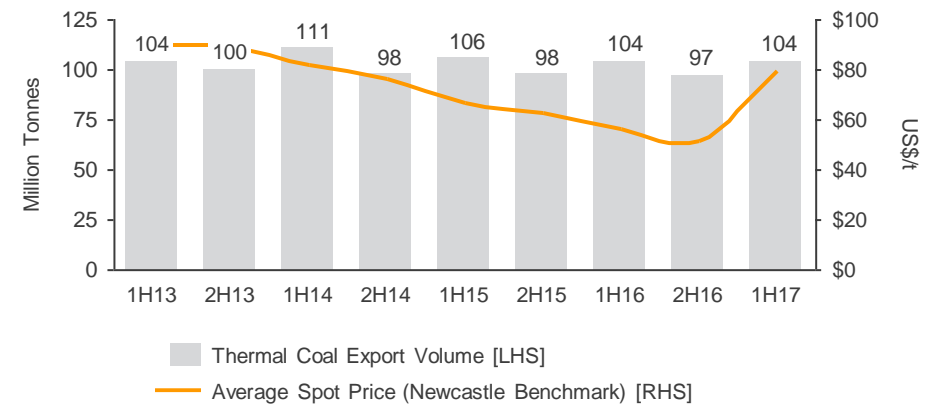


## Thermal Coal: Contract, Spot and Realised Price (USD)

Month Average (January 2015 to April 2017)



## Thermal Coal: Spot Price Relative To Australia Export Volume



# Questions & Answers

# Appendices



# Appendix 1

## UT5 Draft Revenue & WACC

# UT5 Draft: MAR<sup>1</sup> 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
<b>Total MAR</b>	<b>4,062</b>	1,109	1,198	1,201	1,220	1,219	<b>4,838</b>
Capital carryover	(129)	(34)	13	13	14	14	54
<b>Total Adjusted MAR</b>	<b>3,933</b>	1,074	1,211	1,214	1,233	1,233	<b>4,892</b>
<b>Forecast Volumes</b>		<b>221.4</b>	<b>225.7</b>	<b>228.4</b>	<b>228.4</b>	<b>228.4</b>	

# 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 <sup>1</sup>	2.94%	2.732%
Gamma	0.47	0.25
Return on Equity	8.41%	9.13%
Return on Debt	6.15%	4.86%
<b>WACC (post tax nominal vanilla)</b>	<b>7.17%</b>	<b>6.78%</b>
Inflation	2.50%	1.22%



# Appendix 2

## Financial Information

# Network Profit & Loss (Underlying)

\$m	1H		Variance fav / (adv)	2H
	FY2017	FY2016		FY2016
Tonnes (million)	112.9	114.0	(1%)	111.9
Revenue - Access	629	560	12%	576
- Services/Other	42	21	100%	22
<b>Total Revenue</b>	<b>671</b>	<b>581</b>	<b>15%</b>	<b>598</b>
Operating costs	(234)	(211)	(11%)	(204)
<b>EBITDA</b>	<b>437</b>	<b>370</b>	<b>18%</b>	<b>394</b>
EBITDA margin	65.1%	63.7%	1.4ppt	65.9%
Depreciation and amortisation	(142)	(125)	(14%)	(133)
<b>EBIT</b>	<b>295</b>	<b>245</b>	<b>20%</b>	<b>261</b>
<b>Operating Ratio</b>	<b>56.0%</b>	<b>57.8%</b>	<b>1.8ppt</b>	<b>56.4%</b>

## COMMENTARY

- › Revenue Access increase primarily attributable to UT4 True-up ~\$45m
- › Revenue Other includes the recognition of Bandanna Group's bank guarantee held as security for their WIRP Deed that was terminated due to insolvency ~\$15m
- › Operating Costs increase driven by Energy Costs +\$10m and UT4 Corporate Cost True-up \$13m
- › Depreciation increase from WIRP and Asset Renewals

# Network Balance Sheet

As at (\$m)	31 Dec 2016	30 June 2016
Total current assets	272	289
Property, plant & equipment	5,417	5,432
Other non-current assets	153	157
<b>Total assets</b>	<b>5,842</b>	<b>5,878</b>
Other current liabilities	(243)	(305)
Total borrowings	(2,790)	(3,003)
Other non-current liabilities	(855)	(778)
<b>Total liabilities</b>	<b>(3,888)</b>	<b>(4,086)</b>
<b>Net assets</b>	<b>1,954</b>	<b>1,792</b>
<b>Gearing (net debt/net debt + equity)</b>	<b>58.8%</b>	<b>62.6%</b>

## COMMENTARY

- › Decrease primarily attributable to a reduction in Trade and Other Receivables from lower accruals for FY16 adjustments and GAPE Fees
- › Increase in Other current liabilities primarily due to interest rate swaps maturing in FY17 from non-current liabilities
- › Borrowings decreased due to the revaluation of the Eurobonds and payment made to the revolving loan facility
- › Non current Liabilities increased due to increased deferred tax liability and increases associated with the mark-to-market valuation of Cross Currency Swaps Interest Rate Swaps associated with the Eurobonds

# Network Cashflow Statement

\$m	1H	
	FY2017	FY2016
EBITDA - statutory	432.3	362.5
Working capital & other movements	(1.7)	7.7
Non-cash adjustments - impairment	1.4	7.7
<b>Cash from operations</b>	<b>432.0</b>	<b>377.9</b>
Interest received	0.7	0.9
Income taxes paid	(73.0)	(40.9)
<b>Net cash inflows from operating activities</b>	<b>359.7</b>	<b>337.9</b>
<b>Net cash outflow from investing activities</b>	<b>(129.5)</b>	<b>(235.6)</b>
Net (repayments) / proceeds from borrowings	(131.2)	(4.5)
Capital distribution to Parent	(0.6)	(0.4)
Loans from/(to) related parties	27.0	(33.0)
Finance lease payments	(9.6)	(1.0)
Dividends paid to company shareholders	(14.5)	(113.7)
Interest paid	(77.5)	(62.4)
<b>Net cash outflow from financing activities</b>	<b>(206.4)</b>	<b>(215.0)</b>
<b>Net increase / (decrease) in cash</b>	<b>23.8</b>	<b>(112.7)</b>
<b>Free Cash Flow (FCF)<sup>1</sup></b>	<b>152.7</b>	<b>39.9</b>

- › Strong growth in FCF due to stronger earnings and lower capex due to cessation of growth capex
- › FCF exceeded dividend payments

