Debt Investor Update 1HFY2017 Results

David Collins – VP Finance & Group Treasurer
Sean Burton – VP Network Finance

15th February 2017

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Agenda

Full year in review – Aurizon Group	› David Collins
Full year in review – Aurizon Network	› Sean Burton
Regulation	› Sean Burton
Funding and Capital Management	› David Collins
Outlook and summary	› David Collins

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Half year in review:

Aurizon Group

David Collins – VP Finance & Group Treasurer

About Aurizon

Aurizon (ASX: AZJ) is Australia's largest rail freight operator and a top 50 ASX company. Aurizon has four major product lines for customers: Coal, Iron Ore, Freight and Network.

Above Rail

› Aurizon transports more than 250 million tonnes of Australian commodities, connecting miners, primary producers, and industry with international and domestic markets.

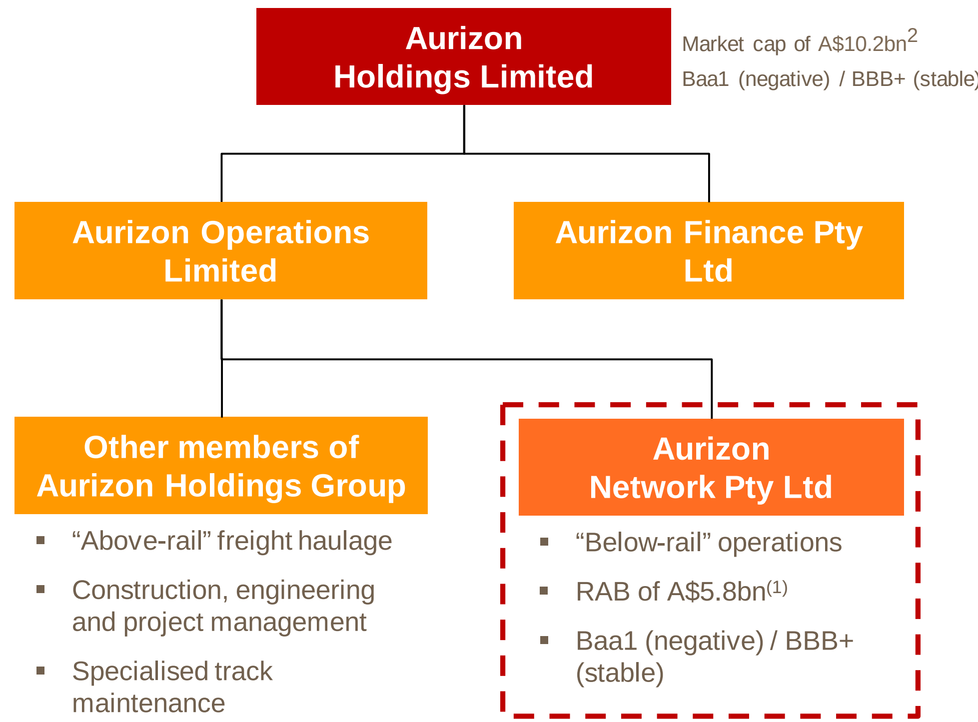
Below Rail (Network)

› Aurizon Network controls, manages, operates and maintains the fixed rail infrastructure "below rail" assets of the Central Queensland Coal Network (CQCN)
  › Regulated Asset Base (RAB) of A$5.8 billion[1]
  › Rated Baa1 (negative) / BBB+ (stable)
  › The CQCN is Australia's largest export coal rail network and is the vital rail link between Queensland's coal mines and the various ports used to export coal

› The CQCN is a natural monopoly infrastructure asset regulated by the Queensland Competition Authority (QCA)

› Aurizon Network's regulated revenue is protected through a combination of contractual and regulatory mechanisms which limit counterparty and volume risk

Aurizon Holdings legal structure



1. 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
2. As at 8 February 2017

Issuer under the A$ MTN Debt Issuance Programme dated October 4, 2013 and the EMTN Issuance Programme dated September 2, 2014 and May 13, 2016

Solid performance as commodity markets strengthen

Financial Results	› Revenue up 1% to $1.8bn - increase in Below Rail partly offset by volume driven decrease in Above Rail › Underlying EBIT up 21% to $488m, driven by transformation benefits in Above Rail and impact of finalisation of UT4 in Below Rail › Statutory NPAT of $54m reflects the impact of impairments and transformation costs › ROIC 9.6%
Transformation	› $64m of benefits delivered, $195m since 1 July 2015; on track to achieve $380m three-year target › Transformation scope to expand to improve long-term ROIC
Cash Flow	› Free cash flow (FCF) increased to $356m with stronger cash earnings and lower capital expenditure › Further free cash flow growth expected in FY2018 and beyond due to transformation savings and capex reductions
Customers	› All coal and iron ore customers estimated to be profitable due to stronger prices, improving industry health › Current coal price and time to market pressures presenting opportunities
Funding and Capital Management	› Board supports current credit ratings in light of market outlook (Moody's Baa1 (negative), S&P BBB+ (stable)) › Strategy remains to diversify funding sources and extend tenor › Debt maturity tenor stable at 5.3 years

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Group financial highlights

$m	1HFY2017	1HFY2016	Variance
Revenue	1,781	1,758	1%
Operating costs	(1,006)	(1,075)	6%
Depreciation & amortisation	(287)	(280)	(3%)
EBIT – underlying[1]	488	403	21%
EBIT – statutory	167	(23)	-
Operating Ratio (%)	72.6	77.1	4.5ppt
NPAT – underlying[1]	279	237	18%
NPAT – statutory	54	(108)	-
EPS (cps) – underlying	13.6	11.2	21%
EPS (cps) – statutory	2.6	(5.1)	-
DPS (cps)	13.6	11.3	20%

- Revenue growth includes timing differences in Network to reflect UT4 finalisation and bank guarantee for Bandanna
- Operating costs decrease reflects $64m in transformation benefits and $36m reduction in access charges
- Depreciation increase reflects Below Rail increase due to rail renewals and ballast undercutting partially offset by a decrease in Above Rail depreciation
- Pre-tax statutory results include $321m in redundancy costs and impairments
- Dividend based on 100% payout ratio

1. Refer following slide for details of underlying adjustments

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Improvements in key operating markets, too early to call volume impact

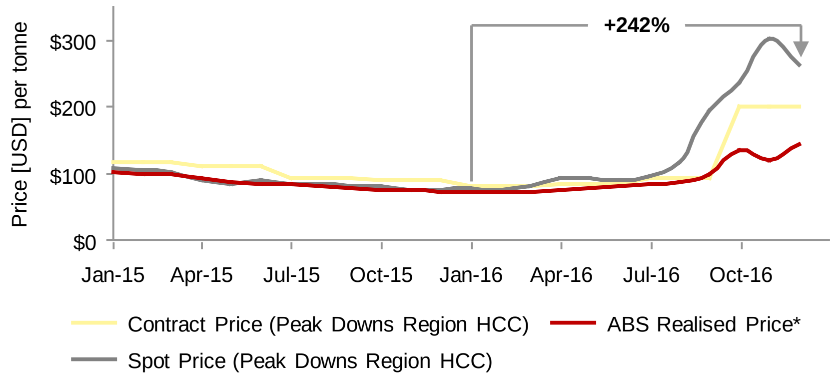
	Coal	Iron Ore

Markets	› Strong prices driven by supply restricting policy in China
	› Near term volume upside more apparent with mines operating at low utilisation
	› Met coal – Australian exports increased to 67% market share in 2016
	› Thermal coal – share dropped marginally to 22% due to expected increase in Indonesian exports
		› Price support driven by:
		  › Increase in Chinese crude steel production
		  › Demand for higher grade ores
		› Additional future supply likely to put some pressure on prices long term

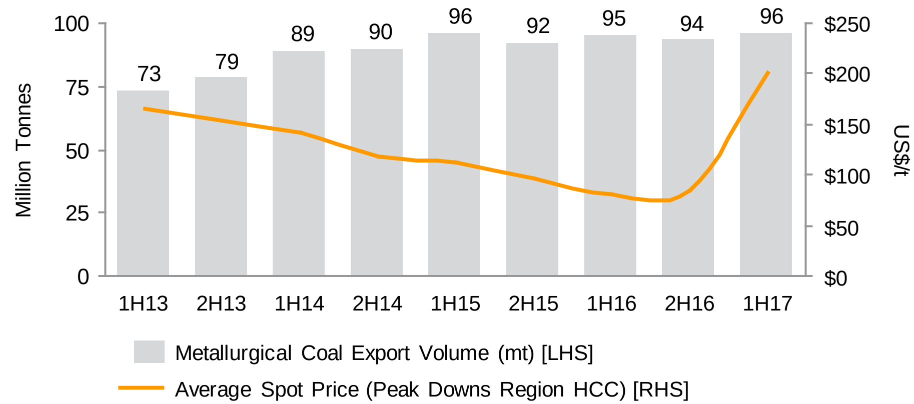
Customers	› All customers estimated at positive cash margins › New form contracts now 96% of volumes › Weighted average contract life 10.1 years › Recent moves include AGL win and Whitehaven increase › Sustained elevated coal prices may present future volume and growth opportunities	› All customers estimated at positive cash margins › Weighted average contract life 8.1 years after executing an extension with Karara › Mt Gibson production expected to be extended to align with December 2018 contract end following announcement of approval for Iron Hill mine

Coal market update: Market Fundamentals

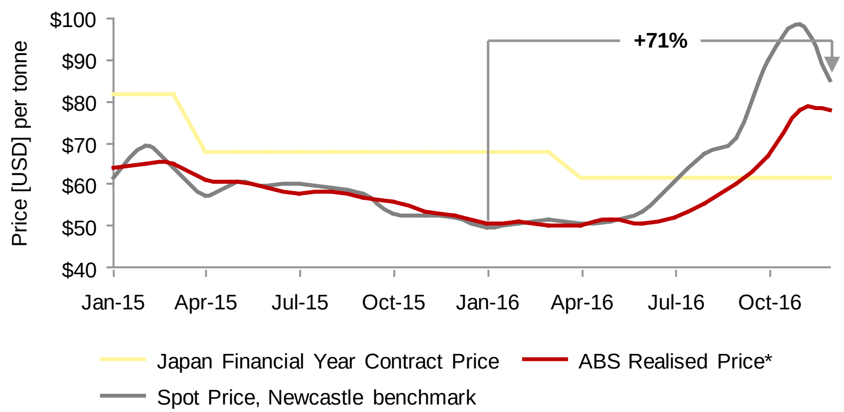
METALLURGICAL COAL: CONTRACT, SPOT AND REALISED PRICE (USD)
Month Average (January 2015 to December 2016)



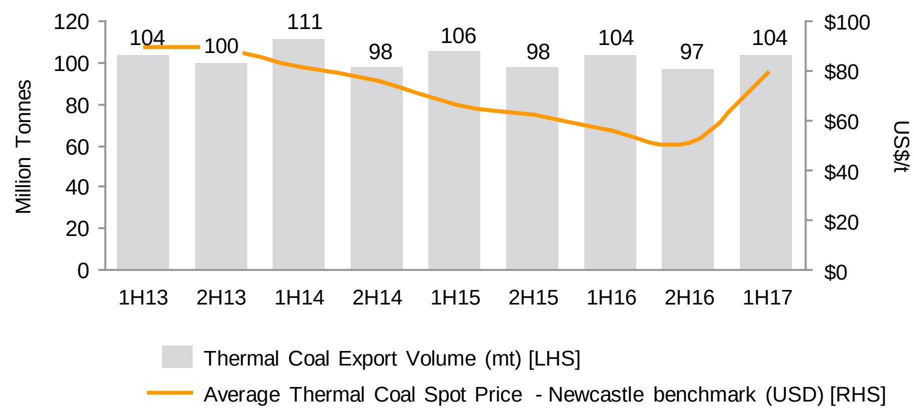
METALLURGICAL COAL: SPOT PRICE AND AUSTRALIA EXPORT VOLUME



THERMAL COAL: CONTRACT, SPOT AND REALISED PRICE (USD)
Month Average (January 2015 to December 2016)



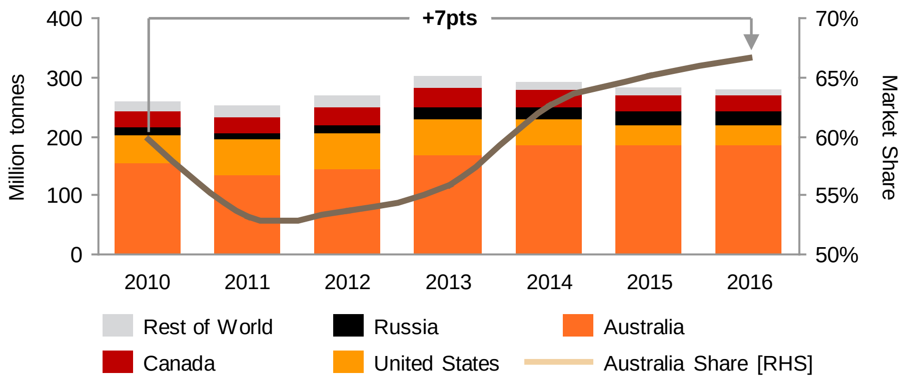
THERMAL COAL: SPOT PRICE RELATIVE TO AUSTRALIA EXPORT VOLUME



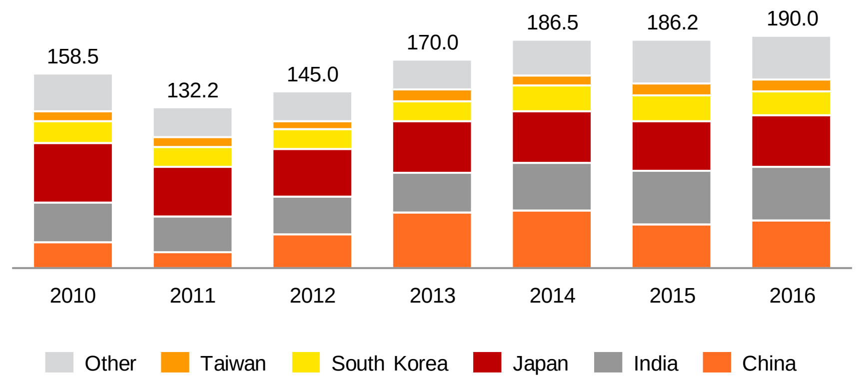
**Based on Australian Bureau of Statistics data reported in AUD and converted to USD using monthly average exchange rate*
Source: Australia Bureau of Statistics, Platts

Coal market update: Australia

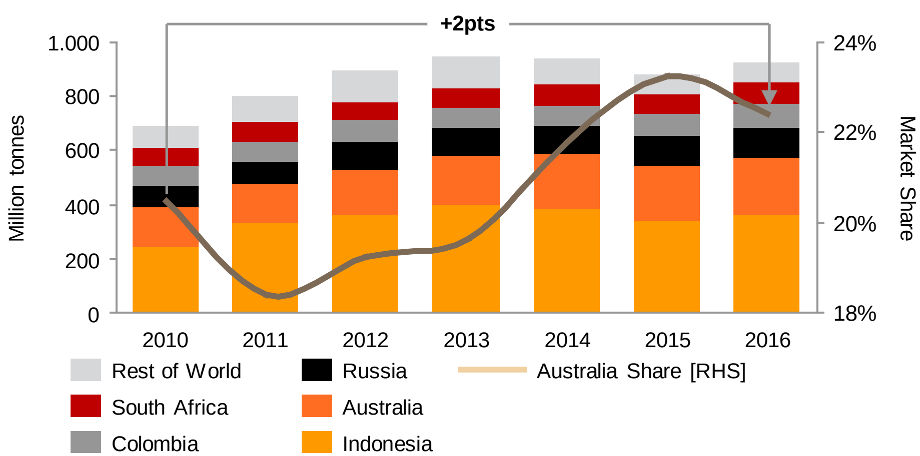
METALLURGICAL COAL SEABORNE EXPORTS
Volume and market share, calendar years



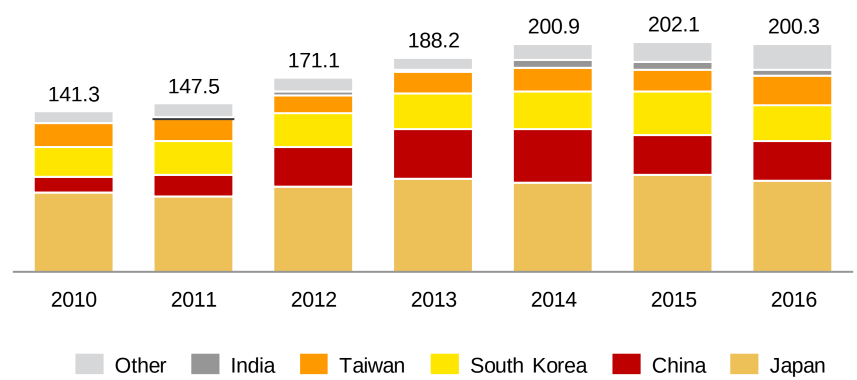
AUSTRALIA METALLURGICAL COAL EXPORTS BY DESTINATION
Calendar years (million tonnes)



THERMAL COAL SEABORNE EXPORTS
Volume and market share, calendar years



AUSTRALIA THERMAL COAL EXPORTS BY DESTINATION
Calendar years (million tonnes)



Source: Wood Mackenzie Coal Markets Tool (2H 2016), Australia Bureau of Statistics

Transformation continues to deliver real improvements

HEADLINE BENEFITS	› $64m generated in 1HFY2017
OPERATIONS ($52M)	› Labour productivity (NTK / FTE) improved 13%: › Continued benefits from new Enterprise Agreements (EA) including introduction of flexible crewing › Removal of management layer and implementation of new regional operational model › Further improvements from operational technology, process improvement and daily rostering consolidation › Fleet productivity[1] continued to improve, locomotives +5% and wagons +1%, despite flat velocity › National payloads +2% - over length Goonyella trains and additional WA volumes › Commencement of non-core heavy maintenance outsourcing deal with Progress Rail
CENTRALISED SUPPORT ($12M)	› Outsourcing of property maintenance facilities › Rationalising the supplier base through the procurement process
FUTURE STATE	› On target for $380m FY2016 - FY2018 commitment › Transformation scope to expand

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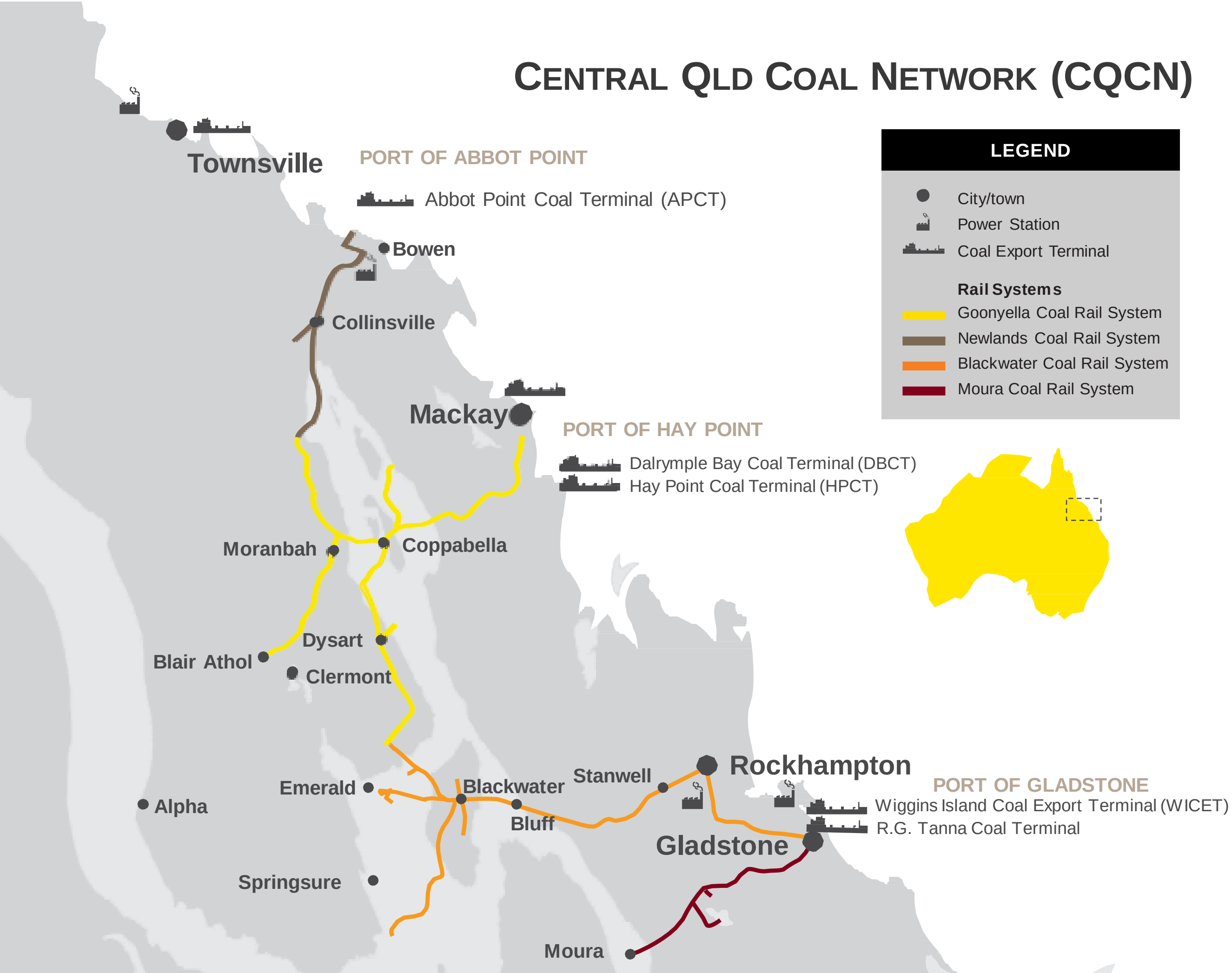
1. Defined as '000 NTK per active locomotive and active wagon day

Half year in review:

Aurizon Network

Sean Burton – VP Network Finance

Below Rail snapshot



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(1) 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

Below Rail result benefits from UT4 finalisation

REVENUE	› Increased 15% to $671m due to true-up from under recovery of UT4 revenue from prior years
UNDERLYING EBIT	› Increased $50m (20%) to $295m due to higher revenue
OPERATIONAL PERFORMANCE	› Improving asset management leads to 20% reduction in system closure hours (planning and scheduling maintenance programs) › Performance to plan down 1.2ppts to 91.5% from previous record high (17% increase in services cancelled, mainly mine related)
RAB	› Estimated $5.8bn[1] value start of UT5
REGULATION	› UT4 finished October 2016, $89m true-up in FY2017 › UT5 draft submitted November 2016, industry comments due 17 February 2017 › Key issue remains appropriate return given level of risk

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

Below Rail profit & loss (underlying)

$m	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
Total Revenue	**671**	**581**	15%	**598**
Operating costs	(234)	(211)	(11%)	(204)
EBITDA	**437**	**370**	18%	**394**
EBITDA margin	65.1%	63.7%	1.4ppt	65.9%
Depreciation and amortisation	(142)	(125)	(14%)	(133)
EBIT	**295**	**245**	20%	**261**
Operating Ratio	56.0%	57.8%	1.8ppt	56.4%

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Below Rail 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
Total assets	**5,842**	**5,878**
Other current liabilities	(243)	(305)
Total borrowings	(2,790)	(3,003)
Other non-current liabilities	(855)	(788)
Total liabilities	**(3,888)**	**(4,086)**
Net assets	**1,954**	**1,792**
Gearing (net debt/net debt + equity)	**58.8%**	**62.6%**

Below Rail volumes[1] (mt)

	1H		Variance fav / (adv)	2H
	FY2017	FY2016		FY2016
Newlands	6.2	6.1	2%	6.0
Goonyella	61.4	59.8	3%	61.7
Blackwater[2]	27.5	30.8	(11%)	25.5
Moura	6.2	6.5	(5%)	5.4
GAPE	6.7	7.9	(15%)	8.1
WIRP	4.9	2.9	69%	5.2
Total	**112.9**	**114.0**	(1%)	**111.9**
Average haul length[3] (kms)	251	253	(1%)	252

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

Regulation

Sean Burton – VP Network Finance

Aurizon Network – Regulatory Update

UT4(1) Final Decision

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

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

UT5 – Submitted November 2016

Context

- Aurizon Network submitted to the Queensland Competition Authority (QCA) its Draft Access Undertaking (UT5 Draft).
- The UT5 Draft covers the period 1 July 2017 – 30 June 2021.
- It largely reflects the policy positions of the previous undertaking (UT4), approved by the QCA on 11 October 2016 and due for expiry on 30 June 2017.

Objectives

- UT5 recognises the significant investment by many stakeholders in the development of UT4.
- Aurizon Network considers that the inherent risks of the network business are higher than what the QCA has previously considered.
- If Aurizon Network is required to accept a lower return than proposed in the UT5 Draft, then the risk associated with ownership and management of the asset should reduce accordingly.
- Aurizon Network is working with customers to explore ways to improve utilisation of the existing network without the need for large-scale capital investment.

Revenue proposal

- Significantly larger Regulated Asset Base (RAB) of ~$6.2 billion(1) as a result of customer requested expansions.
- The roll-forward RAB now includes the majority of capital expenditure relating to Wiggins Island Rail Project (WIRP)(2).
- Proposes a Maximum Allowable Revenue (MAR) of $4,892 million over the four year regulatory period.
- Reduces WACC to 6.78% (from 7.17% in UT4).
- Includes a change in the inflation application and methodology that reflects a reduction in the inflation expectations for the period.
- The methodology for operating expenditure, maintenance and depreciation allowance is broadly unchanged.
- Results in an 11% increase in average CQCN tariffs.

Policy proposal

- Policy changes limited to matters addressing:
  - Issues with UT4 practicality, workability or efficiency;
  - Specific customer requests; and
  - The removal of UT4 positions that Aurizon Network considers are not within the QCA's powers and materially impact on Aurizon Network's legitimate business interests.

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

UT5 Draft: MAR(1) and forecast volumes

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

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

UT5 Draft: Allowable Return on Capital

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

(1) Debt margin includes debt transaction costs.

Funding and Capital Management

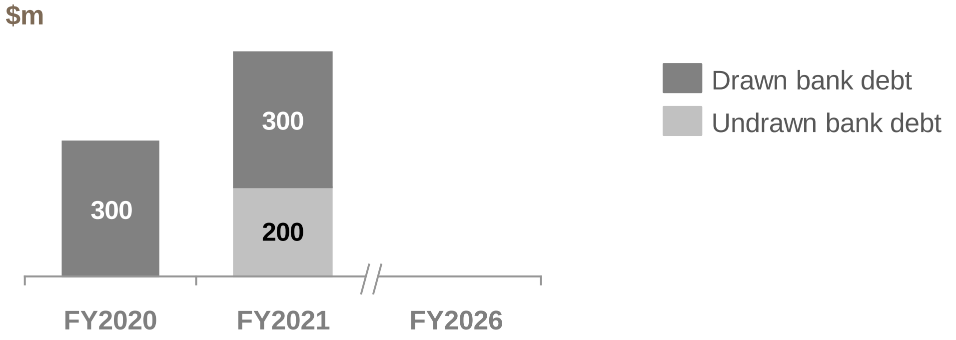
David Collins – VP Finance & Group Treasurer

Funding update

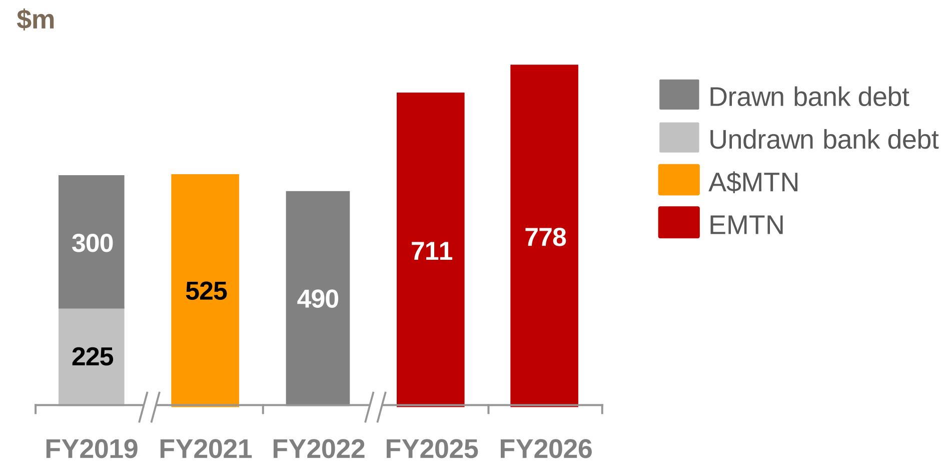
CURRENT RATINGS ARE APPROPRIATE

- Board supports current credit ratings in light of market outlook (Moody's Baa1 (negative), S&P BBB+ (stable))
- Strategy remains to diversify funding sources and extend tenor
- Debt maturity tenor stable at 5.3 years
- Interest cost on drawn debt increased 40bps to 5.1% due to impact from longer term debt
- Approximately 76% of interest rate exposure is fixed or hedged to align with regulatory undertaking
- Group gearing now 37.1% (from 37.4% at 30 June 2016)

ABOVE RAIL $0.6BN MATURITY PROFILE



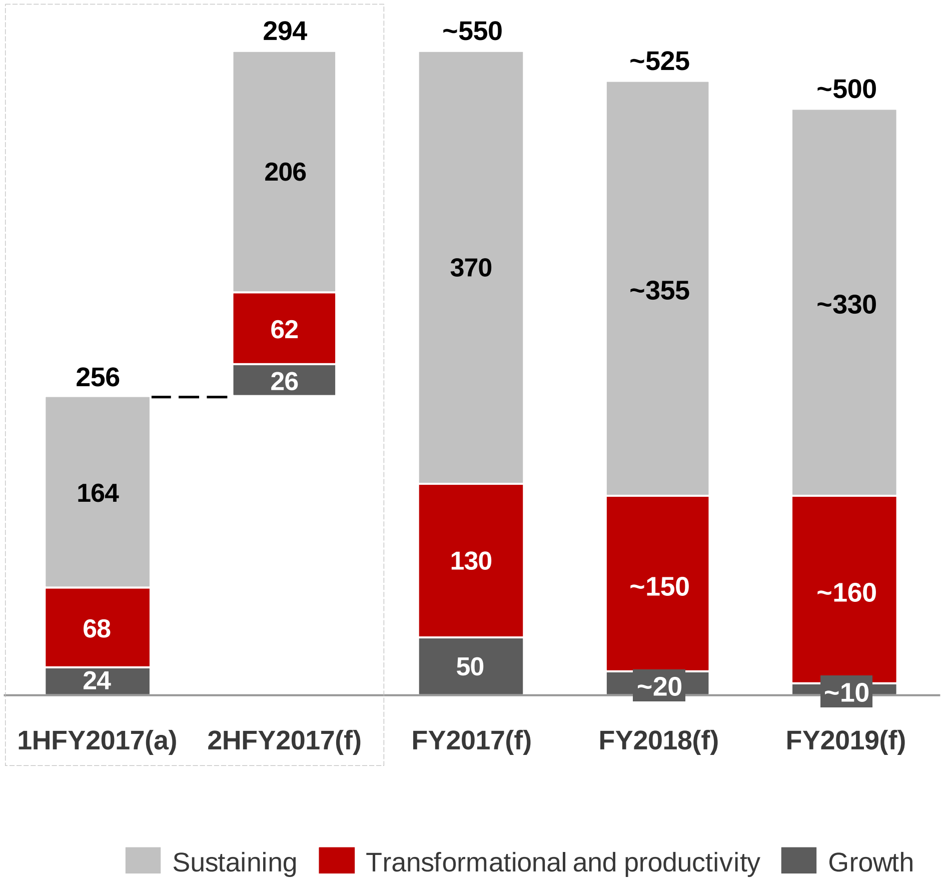
BELOW RAIL $2.8BN[1] DEBT MATURITY PROFILE



1. Excludes working capital facility

Capital spend continues to reduce

CAPITAL EXPENDITURE FORECAST(f) FY2017 – FY2019 ($M)[1]



- FY2017 capex forecast down $50m ✓
- Growth capital in 1HFY2017 fully committed ✓
- Transformation capital for 1HFY2017 has focussed on operational technology programs including:
  - Wayside condition monitoring (WCM) and On Train Repair (OTR)
  - Driver Advisory System (DAS)
  - Network Asset Management System (NAMS)
  - Advanced Planning and Execution (APEX) software

1. Includes capitalised interest but excludes strategic projects

Strong FCF generation helped by Moorebank

$m	1H FY2017	1H FY2016
EBITDA - statutory	454	257
Working capital & other movements	33	(47)
Non-cash adjustments - impairment	266	426
Cash from operations	**753**	**636**
Interest received	2	1
Income taxes paid	(130)	(115)
Net cash inflows from operating activities	**625**	**522**
Net cash outflow from investing activities	**(182)**	**(396)**
Net (repayments) / proceeds from borrowings	(31)	388
Payment for share buyback and share based payments	(7)	(168)
Interest paid	(87)	(63)
Dividends paid to company shareholders	(273)	(295)
Net cash outflow from financing activities	**(398)**	**(138)**
Net increase / (decrease) in cash	**45**	**(12)**
Free Cash Flow (FCF)[1]	***356***	***63***

- Strong growth in FCF due to stronger earnings and lower capex
- FCF exceeded dividend payments
- Result includes $98m proceeds from disposal of Moorebank investment

1. Defined as net cash inflow from operating activities less net cash outflow from investing activities less interest paid

Balance sheet summary

As at ($m)	31 Dec 2016	30 Jun 2016
Total current assets	756	844
Property, plant & equipment	9,454	9,719
Other non-current assets	257	305
Total assets	**10,467**	**10,868**
Other current liabilities	(596)	(732)
Total borrowings	(3,388)	(3,490)
Other non-current liabilities	(940)	(932)
Total liabilities	**(4,924)**	**(5,154)**
Net assets	**5,543**	**5,714**
Gearing - net debt / (net debt + equity)	**37.1%**	**37.4%**

Outlook & summary

David Collins – VP Finance & Group Treasurer

FY2017 guidance range unchanged

FY2017

- Revenue $3.35 - $3.55bn
- Underlying EBIT $900 - 950m, assumptions:
  - Above Rail
    - Moderate growth from prior year – transformation and stronger coal offset weaker Freight
    - Volumes of 255 – 275mt, including Coal 200 - 212mt
  - Below Rail
    - EBIT expectations increased – UT4 true-up at higher end of range, additional $10m energy recovery (year earlier than expected) and GAPE and AFD true-up
  - Group
    - 1H results include benefit of non-recurring items from prior year
    - Excludes transformation related restructuring and redundancy costs (at least $100m)
    - No major weather impacts

FY2018

- Achievement of 70% OR target remains dependent on:
  - Delivery of $380m transformation target
  - Above rail volume growth
  - UT5
  - Outcome of freight review

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Aurizon fundamentals on a page

ENTERPRISE

IMPROVE RETURNS

- Effective allocation of capital to ensure optimum portfolio mix and achievement of future enterprise ROIC targets
- Growth capital to be benchmarked against share buy-backs

CASH FLOW GENERATION

- Increased focus on capital spend, especially in lower growth environment

DISTRIBUTIONS

- Maintain dividend payout ratio in 70-100% range, subject to business and market conditions

ABOVE RAIL

- Core business characteristics:
  - Long life assets supported by long duration (10+ years) contracts
  - New form contracts deliver greater revenue and cash flow certainty through higher fixed charges (~70% of tariff)
  - High quality customers with high quality mines

BELOW RAIL

- Defensive, regulated asset supporting major export industry with RAB of $5.8bn

Transformation delivers value to supply chain, customers and shareholders through improved productivity, lower cost and increased capacity

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Questions & Answers

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Appendix

Network revenue cap adjustments

Year	$AT_{2\text{-}4}$ (diesel tariff) $m	AT_5 (electric tariff) $m	Total $m
2016[1,3]	(23.3)[2]	2.7	(20.6)[2]
2015	(29.0)[2]	(2.7)[2]	(31.7)[2]
2014	17.9	(9.8)[2]	8.1
2013[3]	32.8	12.7	45.5
2012	3.2	13.4	16.6
2011	23.2	36.3	59.5

- Revenue cap is the difference by System between Aurizon's Total Actual Revenue (TAR) and System Allowable Revenue (SAR) and also includes rebates and energy cost variations. This is collected through a tariff adjustment two years later
- All (except FY2016) revenue cap amounts include cost of capital adjustments aligned to the QCA Final Decision

Note: AT = Access Tariff Revenue Adjustment Amount

1. Submission made to QCA but not approved
2. Return to access holders
3. FY2013 $AT_{2\text{-}4}$ includes $11.6m recovery for GAPE, FY2016 $AT_{2\text{-}4}$ includes $1.7m return for GAPE

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Reconciliation of MAR to reported access revenue

MAR to reported access revenue	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017[1,3] Estimate
Access Revenue (AT_1 to AT_5) (ex. GAPE)	794	787	924	932
Approved Adjustments to MAR				
Transitional tariff adjustment	(70)	-	-	-
Flood Claim recovery from 2013 Event	-	12	6	-
WIRP Smoothing[2]	-	-	(15)	5
Revenue Cap (ex. GAPE and inclusive of capitalised interest)	17	34	8	(32)
UT4 MAR True-up	-	-	-	121
Regulated Access Revenue (ex. GAPE)	**741**	**833**	**923**	**1,026**
Total non-regulated Access Revenue (ex. GAPE)	5	11	12	19
Total GAPE Revenue (Regulatory + non-regulatory)	205	204	201	202
Total Access Revenue* per Aurizon Statutory Accounts	**951**	**1,048**	**1,136**	**1,247**

Net true-up $89m

* **Actual access revenues reported in FY2017 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. FY2017 estimate excludes the impact of Take-or-Pay and volume volatility
2. FY2016 & FY2017 WIRP Smoothing reflects the ramp up of Regulatory Revenue in line with the Regulatory Volumes and the removal of revenue attributable to WIRP Moura
3. FY2017 estimate increased primarily from increase MAR (ex GAPE) from increased Connection Cost Allowance, +$17m UT4 MAR True-up and +$11m from UT4 True-up of GAPE Deed

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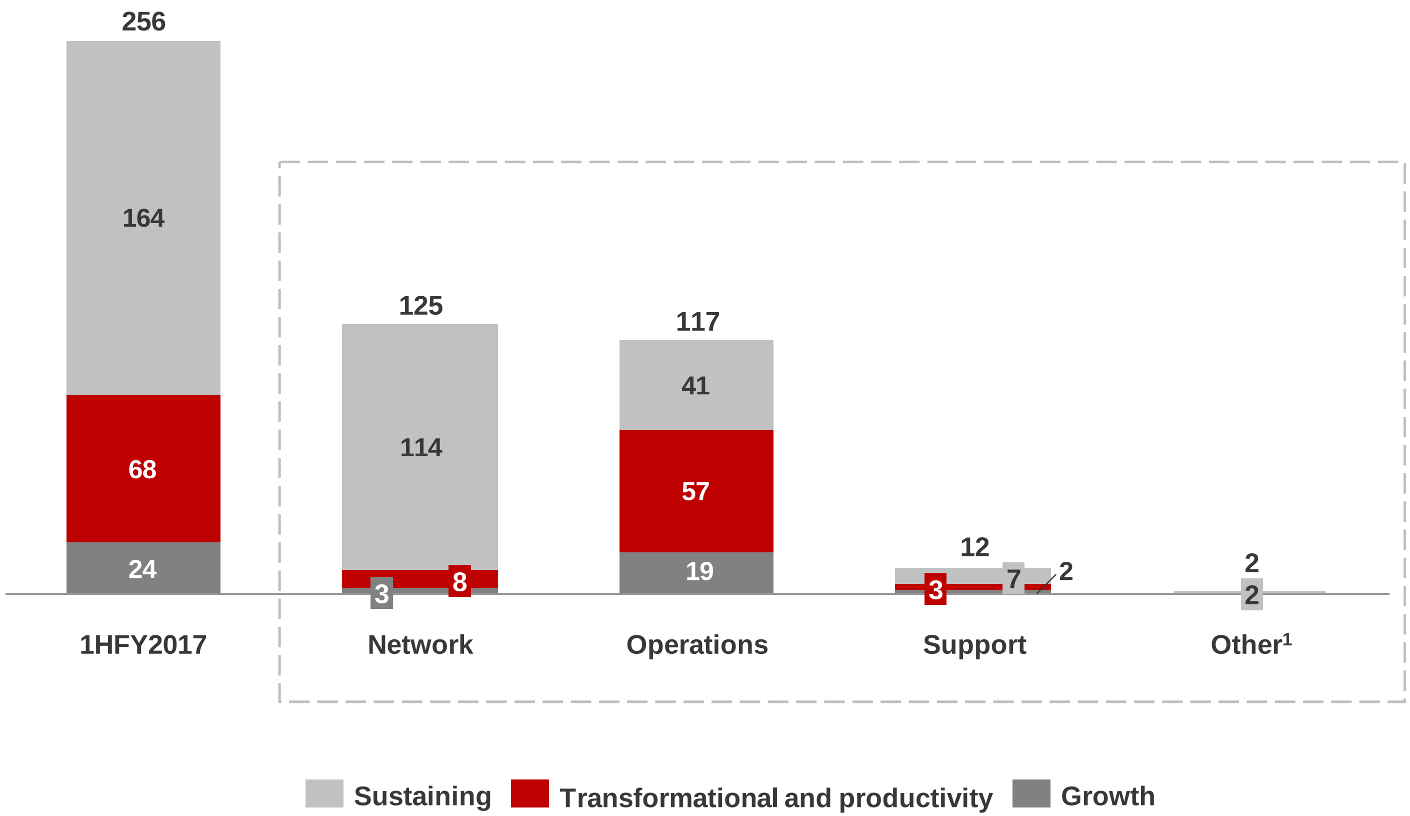
1HFY2017 group and functional capital expenditure ($m)



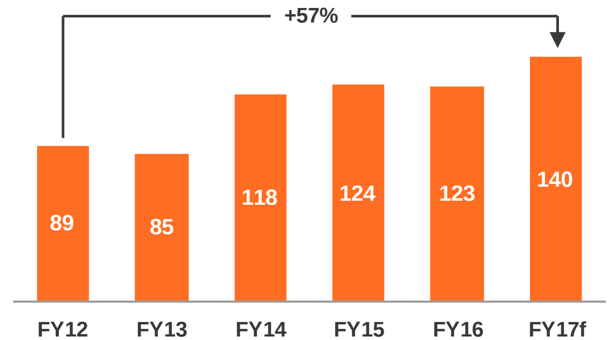
1. Capitalised interest

Ballast undercutting – a critical supply chain efficiency driver

Ballast Undercutting Machine in Operation

New Spoil Management Wagons

Undercutting scope (kms)



Ballast

- Ballast supports the sleepers; and dampens & spreads the train load to the underlying formation
- Ballast also provides a drainage layer to keep moisture from pooling on the formation, whereby water seeps between the stones or evaporates, keeping the formation dry; extending the life of the formation
- The ballast layer also provides a means to recorrect the track alignment, whereby pot holes can be removed by packing sleepers with ballast using resurfacing machines as well as adjust horizontal alignment

Undercutting

- Excavation of fouled and eroded ballast from beneath the sleepers by a dedicated ballast cleaning consist
- Fresh, rescreened or recycled ballast is added to the track and then resurfaced to restore the track to the correct height and ballast depth
- Scope has been increasing over time to reflect the requirements of the network and the increased tonnage being delivered
- Scope has been optimised by using Ground Penetrating Radar (GPR) to more accurately determine the most essential areas for undercutting

Transformation Benefits

Efficiencies in the ballast undercutting program have been achieved across the program through a number of initiatives:

- Increased screening and reclamation of Spoiled Ballast – greater recycling, resulting in improved sustainability
- A more effective resourcing model that combines the skills of Operators and Trade Maintainers
- Reduced material costs from revised ballast procurement contracts
- Increased scope enabled by more efficient Mechanised Undercutting Machinery and 24 new spoil wagons
- Overall, unit costs have decreased by over 20% since FY12

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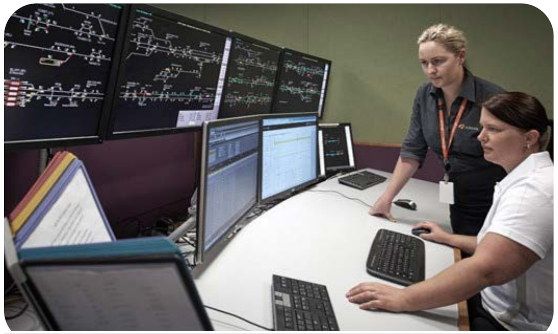
Network Control improvement project

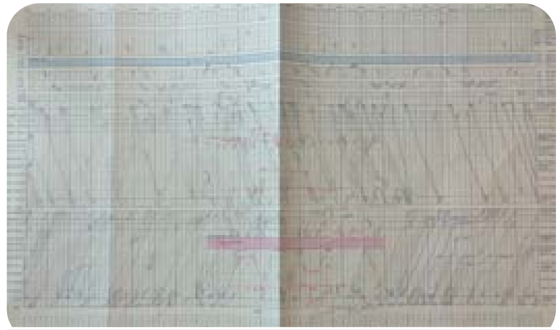
Rockhampton Control Centre



APEX

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

Train Control Diagram – paper based (pre July 2016)



INNOVATION

MOVEMENT PLANNER (FOUNDATION)

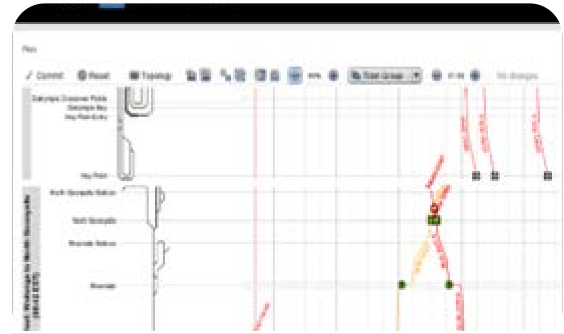
- Paper Train Control Diagram replaced with real time electronic train graphs that provide train controllers with a system-wide view of train movements 12 hours into the future – Completed July 2016
- Partnering with GE to implement to adapt and implement for several US Class1 railways

ADVANCED PLANNING & SCHEDULING (FOUNDATION)

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

Further deployments in CY2018 & 2019

Interactive Train Graph – electronic (post July 2016)



TRANSFORMATION BENEFITS

KEY BENEFITS

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

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Regulatory Revenue Protection

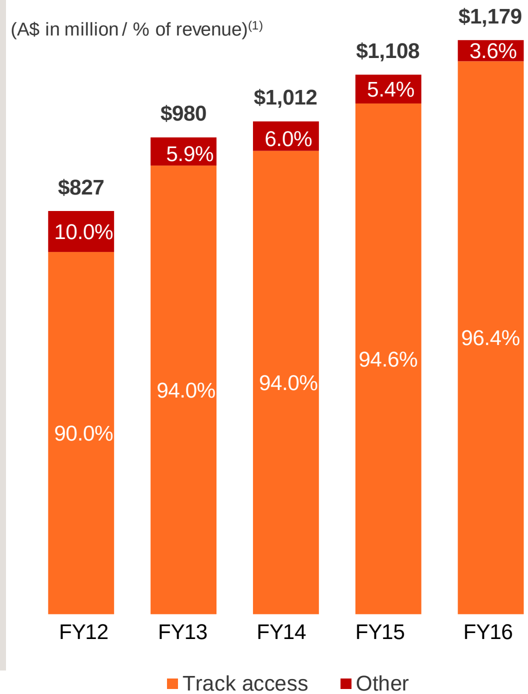
Regulated revenues within a stable and well-established regulatory regime

1 Well established regulatory regime

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

2 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



3 Well developed building block approach to revenue determination

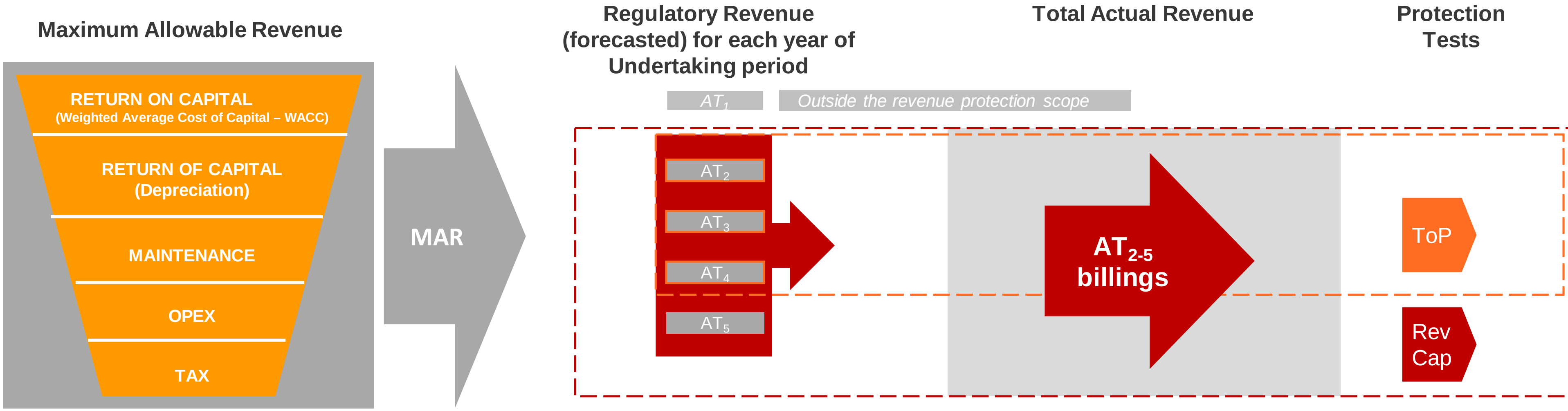
1. RAB is approved by the QCA on a Depreciated Optimal Replacement Cost basis
2. "Building block" approach adopted to determine the CQCN's maximum allowable revenue
3. Reference tariffs determined, taking into consideration forecast volumes and under and over recovery in prior periods

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. ASX market announcement, Aurizon Network – Segment note reinstatement January 13, 2014

The CQCN regulatory framework provides revenue protection through a building block approach



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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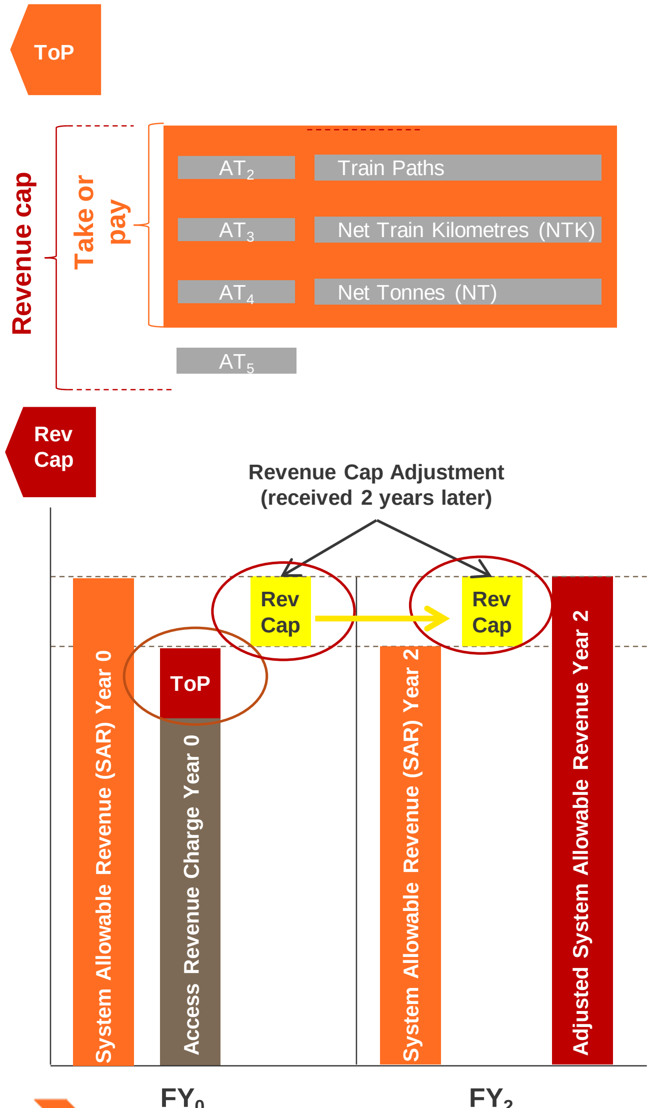
… with Take-or-Pay protection should revenues fall short (with a revenue cap)



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 and so Aurizon Network will continue to earn its aggregate regulated revenue

Definitions

Metric	Description
Access Revenue	Amount received for access to the Network infrastructure under the Access Agreement
Average haul length	NTK/Total tonnes
Contract utilisation	Total volumes hauled as a percentage of total volumes contracted
CQCN	Central Queensland Coal Network
dGTK	Diesel fuel used per Gross tonne kilometre. GTK is a unit of measure representing the movement over a distance of one kilometre of one tonne of vehicle and contents including the weight of the locomotive & wagons
DTC	Deficit Tonnage Charge. A form of protection for the Above Rail Coal business, whereby the Group is able to recover extra charges where the revenue receivable, based on tonnage hauled and agreed price, falls below minimum levels set in contractual arrangements with customers
Footplate hours	A measure of train crew productivity
Free cash flow	Net operating cash flows less net cash flow from investing activities less interest paid
FTE	Full Time Equivalent - The number of unique employee positions filled by all Aurizon employees (excluding contractors/consultants) as at period end. The NTK/Employee metric for the half year is annualised for comparative purposes and uses period-end FTE
GAPE	Goonyella to Abbot Point Expansion
Gearing	Net debt/(net debt + equity)
Gross Contracted NTKs	Gross contracted tonnages multiplied by the loaded distances (calculated on a contract by contract basis)
Maintenance	Maintenance costs exclude flood repairs, mechanised ballast undercutting, derailment repairs and electric traction maintenance
MAR	Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN
Mtpa	Million tonnes per annum
New Form contract	New form contracts provide substantial improvements in commercial terms including pricing (minimum weights and escalation), capacity charges, fuel and access pass through provisions as well as performance bonuses & penalties
NTK	Net Tonne Kilometre. NTK is a unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons
Operating Ratio	1 – EBIT margin. Operating ratio calculated using underlying revenue which excludes interest income & significant items
Opex	Operating expense including depreciation and amortisation
Payload	The average weight of product hauled on behalf of Aurizon customers per service, calculated as total net tonnes hauled / total number of services
ROIC	Return on Invested Capital. Rolling 12-month underlying EBIT/(Net PP&E including assets under construction + Investments accounted for using the equity method + current assets less cash, less current liabilities + net intangibles)
ToP	Take-or-Pay. Contractual ToP provisions entitles Aurizon Network to recoup a portion of any lost revenue resulting from actual tonnages railed being less than the regulatory approved tonnage forecast
TSC	Transport Services Contract entered into between the Queensland State Government and Aurizon for the provision of regional freight and livestock services
Underlying	Underlying earnings is a non-statutory measure and is the primary reporting measure used by Management and the Group’s chief operating decision making bodies for the purpose of managing and determining financial performance of the business. Underlying results differ from the Group's statutory results. Underlying adjusts for significant/one-off items
Velocity	The average speed (km/h) of Aurizon train services (excluding yard dwell)
WACC	Weighted average cost of capital
WIRP	Wiggins Island Rail Project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