

# Melbourne Mining Club speech

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## Aurizon Managing Director & CEO, Andrew Harding

Thank you for the warm welcome here today. It's great to re-connect with many colleagues from the mining and business community.

I joined Aurizon in December, moving from a wintery London to sub-tropical Brisbane.

After 24 years at Rio, it was a big change.

A new location; a new organisation; and, new ways of doing things.

At Aurizon, I am still probably seen more as the miner than a railroader.

I've already met many employees with 30 plus years' service. Some top 50 years.

Generally, they are men with weathered skin and hardened hands. Good people and loyal workers. A fair chance their father drove trains or fixed the track or locomotives. And perhaps their grandfather as well.

Aurizon has a long and proud history. It was the lifeblood of colonial Queensland, linking agricultural and mining communities with regional ports and processors.

It started in 1865, 20 years before the Big Australian turned dirt in Broken Hill.

It has its idiosyncrasies and, likewise, many misconceptions.

When thinking about Aurizon, like some I suspect in this room today, I had many pre-conceived ideas.

A company that sits at the heart of one of Australia's largest export supply chains.

I expected an unsophisticated and clunky operation; an outfit lacking technology and innovation. One that had barely separated from government: brimming with bureaucracy, silos and duplication.

Unremarkably, I've found traces of all this. But more so, I found great momentum for change, a whole lot of talent and a thirst for excellence.

I've seen a changing culture. There's plenty of Gen Ys and Millennials, and a growing, yet under-represented, number of women. This is a major work in progress.

And ALLin, the grassroots employee group that champions LGBTIQ inclusiveness within Aurizon. They have done a remarkable, and perhaps unique thing, by championing inclusiveness without proving to be divisive.

And there are plenty of other things that Aurizon does as well or better than other places.

## Cyclone Debbie response

I have seen this capability over the last month during the massive weather event that was Cyclone Debbie.

The storm killed at least twelve people in Queensland and New South Wales, primarily as a result of flooding. This makes Debbie the deadliest cyclone to hit Australia since Cyclone Tracy in Darwin in 1974.

In locations west of Mackay, at the heart of Aurizon's operations, 48 hour rainfall totals exceeded 1,000 millimetres or 39 inches in the old scale.

In all, Cyclone Debbie touched communities covering around 4,000 Aurizon employees. Our Central Queensland coal network bore the brunt of the storm.

What impressed most in the incident management was the primacy of safety and welfare. Systematically, all employees were contacted and supported where needed. Company-funded Natural Disaster arrangements were triggered, giving affected employees three days' leave and up to \$500 in emergency payments.

Post-event recovery has been equally effective. All four coal systems were impacted and closed for varying periods of time. Our infrastructure teams scoped more than 520 pieces of recovery work. The repair bill will be 40 to 50 million dollars.

A large part is being spent restoring track on landslips on Black Mountain, west of Mackay – the same spot that got a metre of rain in 48 hours. I flew over that section after the cyclone and can assure you this has been a major civil engineering exercise. Yesterday, the first 12,000 tonne train ran over the rebuilt track, taking customers' coal to Dalrymple Bay.

We understand the criticality for customers and Australia's economy of restoring these export supply chains quickly and efficiently. Our infrastructure crews have worked relentlessly on a disciplined and well-executed recovery plan. It is as impressive as any recovery work I've seen in mining over a quarter of a century.

While some employees have suffered property damage, there were no injuries at home or in the workplace in four weeks since the event to the re-opening of services yesterday.

The net impact on earnings is \$30 - \$35 million (EBIT), when taking a three-year position which factors in expected recoveries. That demonstrates a commercially and operationally resilient business in the face of Category Four cyclone that struck around 70 % of our asset base.

Ladies and gentlemen, Aurizon is in its infancy as a private company, eight years out from privatisation. Management so far has done a very good job in transforming this company and giving employees self-belief in what can be achieved. I acknowledge the roles in this change program of former CEO Lance Hockridge and former Aurizon Chairman, John Prescott AC. John is with us today.

I have come to Aurizon with confidence and determination to deliver sustained improvement to our operational and commercial performance, and to our culture. My job is to find Aurizon's 'sweet spot' in the value chain, not only for shareholders, but also for customers, for communities, and, for regional economies.



This is the broader and universal economic benefit that I believe large companies like Aurizon can deliver. Where we sustain a long-term transformation process and enhance Australia's global competitiveness through the supply chains serving our customers.

## Capability and role in Australian supply chains

By any measure, Australia's iron ore and coal supply chains in the west and on the east coast are among the world's biggest and best. I've experienced them from a number of perspectives – as an operator, in joint ventures and now, as a supplier.

We remain however in fierce competition with the supply chains of other countries and they are not standing still. Some great work has been done in recent years to drive down unit costs and lift productivity, especially in the low-price phase in years just gone.

The Aurizon-owned Central Queensland Coal Network includes 2700 kilometres of open-access infrastructure used by three competing rail operators. The operators deliver coal for about 30 customers from 40 plus mines to five terminals. The trains that run across this network are a little smaller than in the Pilbara but the network is inherently more complex. A long-established regulatory process governs the rules of access and regulates the revenue Aurizon can earn.

My early observation is the process works okay but is infinitely more convoluted than it needs to be. At last count, the Access Undertaking – the rule book if you like - runs to more than 450 pages.

It goes without saying, that I see this a major opportunity for the coal supply chain participants in Queensland. The mines, the rail operators, the ports and Aurizon as the infrastructure owner and manager.

We need a simpler process. We need to reduce regulatory over-burden and endless rounds of cross-examination, consultation and negotiation. Millions of dollars spent on lawyers, accountants and competition experts, in my opinion, could be better invested in productive infrastructure, logistics capability and technology.

Aurizon is now deeply-engaged with miners, rail operators, the Queensland Resources Council, and the regulator, the Queensland Competition Authority, to find a better way for the next Access Undertaking. The Aurizon Board and leadership team see this as a priority.

We are encouraged by interactions to date with more enlightened and pragmatic leadership at the Competition Authority Board, and hope this flows through to a more sensible outcome.

There are however annoying elements of inconsistency that stick out to me as the new kid on the block. It goes like this. Mining companies, as key stakeholders, rightly put in response submissions to the regulatory process in the relevant jurisdiction. This happens in Queensland and, also the Hunter Valley, under a separate regulator, the ACCC.

What is incredibly surprising is that the same miners are prepared to support a materially higher return in the Hunter Valley than Queensland. It gets better: the same consultants the miners hired to do both calculations, and by definition the miners themselves, acknowledge the investment risks in Queensland are higher.

And as we all know if the risks are higher you would expect a higher return. However, under the current regulatory process the miners, contrary to this logic, have proposed a 1.2 % lower return in Queensland – a differential that would represent more than a \$300 million revenue for Aurizon over the four year regulatory cycle.



After 24 years in the mining industry, I am reasonably qualified to understand commercial realities. Yet I struggle immensely with this type of gaming of the system. Given the high-quality of our resources in Australia, all participants in the supply can enjoy good commercial returns provided there's a sensible regulatory framework and a genuine willingness to work on delivering the most efficient export supply chains possible.

The Central Queensland network has a nameplate throughput of 308 million tonnes per annum, after significant miner-requested investment in new track over the past five years. Last financial year, 226 million tonnes was hauled. Concurrently, Aurizon has delivered significant improvements in safety, reliability and system availability.

What perhaps has not been clearly articulated is the opportunity for miners to decrease their infrastructure tariffs significantly by using all the available capacity. Under the new undertaking we are proposing, the FY2018 tariffs would fall by 26% per tonne should miners use all 308 million tonnes of capacity rather than the 226 million tonnes that is forecast.

What I am aiming to demonstrate here is the collective opportunity for Australia's second largest export industry, coal. An industry that in 2015/16 delivered \$34 billion in export earnings for Australia and \$5.7 billion in wages for about 44,000 Australians.

Aurizon's role in Australia's export-oriented economy – one of the key reasons for Australia's high living standards – is one we understand well and are well invested in. Here we have a long-run, productive infrastructure asset that delivers for the sector, supports global competitiveness, and promotes healthy competition among coal producers and rail hauliers.

Before leaving this topic, I did want to complete the picture by touching on Aurizon's scale in the haulage of coal and iron ore. Together with our infrastructure capability, it does offer considerable scope for supply chain innovation.

In 2015/16, Aurizon trains delivered 270 million tonnes of freight for customers nationally, including 230 million tonnes of coal and iron ore in Queensland, New South Wales and Western Australia.

These are being delivered more efficiently than ever before, enabled by improved asset and labour productivity, new operating discipline and some clever technology. Like everyone, there's a big push towards being leaner, smarter and faster.

As an aside, the company that carries the biggest rail tonnages in Australia is the business I previously ran, Rio Tinto Iron Ore. In 2015/16, it railed 320 million tonnes of iron.

But the engineer in me got thinking about mineral densities and the like, and how tonnages, a measure of weight, might compare to volumes carried. Our Market Intelligence team crunched a few numbers. Aurizon does apparently haul more bulk volume than any other customer-owned and independent rail operator in Australia. Our volumetric coal and iron ore haulage was more than 250 million cubic metres for FY16, ahead of Pacific National at around 200 million cubic metres and Rio at 150 million.

But back to the main game. In the months and years ahead at Aurizon, I plan to build heavily on this platform of performance in rail infrastructure and train operations. Here's a business that can deliver sustained, long-term improvement across key safety and operating metrics. While much has been achieved, there's plenty of juice left in the tank.

It does highlight supply chain capability and the even greater role we could play. I reflect on my earlier comment that Aurizon is already doing many things better than others.



It's not inconceivable that in years to come, we could challenge the current business model for the Australian resource sector. With Aurizon providing discrete, super-efficient rail and port services to resource companies and allowing them to focus on their core activities.

I can already see the heads shaking in disbelief. Andrew has now turned from miner to railroader! But at the heart of this, I am in the business of creating value for customers and for shareholders, nothing more. My door is always open.

### **Strategic importance of trading relationships**

I would like to change gears a little and talk to another important dimension of the work done by many people in this room today.

And that is the business of building trade and cultural relationships with our Asian neighbours. In my view, the importance of strengthening Australia's economic base and our regional trading relationships cannot be over-estimated.

Last month, I participated in the fifth National Meeting of policy think-tank, China Matters, with a range of people from Australian defence, corporate Australia and academia. It included dialogue on the nuanced relationship between economic strength and regional security.

I could not help reflecting on this discussion in light of recent events to our north. In a world where regional tensions have re-surfaced, the strength of our economic relationships in Asia remains one of Australia's greatest assets.

Our big trading partners of China, India, Japan, South Korea and Taiwan depend on us to provide a secure, reliable supply of the high-quality commodities to sustain domestic growth.

Australia plays a vital role in the supply chain that supports these nations' development, but it's a role we cannot take for granted. Imports of Australian food, energy and resources could be replaced by others, and they would leap at the chance.

So when we're talking about what Australia should do to influence regional geo-political matters, then protecting and strengthening our economic and cultural ties should be one of the priorities for Australian business.

That involves domestic reform to help Australian business remain competitive, and strong support for free trade. For a nation that depends on exports for economic growth, Australia will suffer more than most if we lose the momentum that has been achieved with the free trade agenda in recent years.

Trade with our Asian neighbours has been nurtured over more than half a century by hard work by business people and strong support from successive governments. There is no reason to think it will not flourish for the next 50 years. It is a high-value commodity in the broader context of regional stability.

### **Future of coal and energy security**

A few related comments then about Australia's role, and indeed great economic opportunity, in meeting the energy needs of rapidly-growing economies in Asia and the Indian sub-continent.

I support a pragmatic, commercial approach to meeting the demand that is driven by the demographics of population growth and a burgeoning middle class. This should not be confused with relative wealth in Australia: there remains, for example, about 300 million Indian people without access to electricity.



The energy debate, in our markets and in Australia, must be technology-agnostic. It's not a binary discussion of coal or no-coal.

We must remain focussed on energy security, price and reliability to ensure we keep a lid on spiralling costs that are hurting, in equal amounts, Australian consumers and business. This in turn goes to maintaining our living standards, keeping jobs in Australia, and creating income in regional communities.

Yet, until recently, we've been failing to effectively prosecute our case.

We're pushing up hard against a well-funded, politically-savvy anti-coal lobby, determined to tie business up in knots through the legal system. They have harnessed the power of social media in attacking those wanting to engage in sensible dialogue on climate change.

The campaign of untruths though has signs of unravelling. Witness the recent stunt claiming 'coal pollution' on the shores of Abbot Point when it was naturally occurring black sand that's probably been there for millenniums.

In business we do need to make our case more effectively, using an evidence-based approach that shows the value of efficient supply chains and lower-emission coal energy.

Recent campaigns by the Mining Council have been useful but it is tough to get the message to stick. Some policy makers are also making their views loud and clear, particularly a very committed and welcome contribution by Resources Minister Matt Canavan.

We need to show how we can contribute to a realistic transition to more renewable energy sources. And how new-generation coal-fired power, fuelled by high-quality Australian coal, can reduce emissions by 40% or more compared to existing energy.

Recently, Aurizon again become the target of well-organised activists rallying against development of the Galilee coal basin in Queensland. This followed our application for a concessional loan from the Northern Australia Infrastructure Facility to facilitate construction of rail infrastructure for proposed Galilee mines.

Within hours of our application becoming public, social media was swamped with vitriol on Aurizon and demonising our potential role in the Galilee. Within days, we had protestors in our head office. I expect the anti-Aurizon campaign to continue while we are part of seeking a viable infrastructure solution for the Galilee.

Our message won't change. We acknowledge that climate change is human-induced, that action needs to be taken to reduce carbon emissions, and that a growing proportion of renewables will be part of that solution. However for the foreseeable future, the world's energy needs will be served through a baseload of coal and gas, supplemented with the intermittent power of renewables.

Indian company Adani has also applied for a government-funded loan for a similar project. Of course, they've been fighting the same anti-coal activists through the courts for years.

We estimate that construction costs of our proposal would be at least \$1 billion less than the alternative of a standalone 'greenfield railway' running 380 kilometres from the Galilee to Abbot Point. Aurizon's proposal would significantly reduce the number of land acquisitions and have less impact on the natural environment and agricultural land.

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While the process for our NAIF application is confidential, it's well known that Aurizon has continued to support the development of the Galilee for the better part of a decade. This has included discussions with key proponents including Adani and GVK-Hancock.

Aurizon has consistently advocated an open-access railway for all miners and rail operators, and integrated into the existing network that works well.

Yet when I brought a new lens to the challenge of developing and funding rail infrastructure for the Galilee, I again struggled with some of the constructs.

There's no question in my mind about the merits of liberating high-quality thermal coal from the Galilee. The question is how.

We have a proposal to build a new and expensive railway adjacent to an established network with spare capacity. The Aurizon and proposed Adani corridors are so close that drivers could wave to each as trains crossed.

The Adani proposal would cost more than \$1 billion than the Aurizon option of tapping into an installed and efficient infrastructure asset. I can only ponder the parallels with the massive investment in triplicate of LNG trains in Queensland, now under-utilised, and the source of angst for Australian gas consumers.

Adani's proposal, through the NAIF process, also seeks Australian taxpayer funding. I've got to say that doesn't make a lot of sense to me. Should this happen, then incredibly, I might find myself siding with the activists, albeit for entirely different reasons.

## Closing remarks

In closing, a few brief reflections from a relatively new "railroader".

I often get asked why Australian railways don't contribute more to the national freight task, when everybody generally agrees they should. They are safer, more efficient for bulk loads over long distances, and reduce the number of heavy-vehicles on publicly-funded roads.

There's lot of reasons but one of the main ones is the failure to have a strong voice. Like coal in the energy debate, at times we've become somewhat silent.

Unable to articulate well our role and our economic contribution; and in informing and influencing communities and government in policy-making.

I am determined that Aurizon will play its part in this dialogue. To ensure our voice has more clarity and gets better traction with the constituencies that count.

Certainly in the resource sector, rail has demonstrated its value to the export supply chain. And there's much more we can do to enhance our global competitiveness.

There are many more opportunities out there for rail in other supply chains such as agriculture and bulk freight.

These go to the heart of national productivity and enlivening economic opportunity. But that's another discussion for another day.





In the interim, be assured that Aurizon will stepping up its transformation efforts and don't be surprised if I come knocking on your door.

Thank you.

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