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ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

Aurizon Network UT4 submission

Please find **attached** a copy of a presentation to be made to analysts and investors on the UT4 submission to be made to the Queensland Competition Authority on 30 April 2013.

Yours faithfully
Aurizon

Dominic D Smith
SVP & Company Secretary

Analyst Briefing – Aurizon Network's UT4 Submission

Mike Carter, Chief Executive Officer – Aurizon Network

29 April 2013

Note: All information in this presentation is based on information available as at Friday 26 April 2013

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Overview

Aurizon's Network business

- Aurizon Network (Network) controls, manages, operates and maintains the fixed rail infrastructure "below rail" assets on the Central Queensland Coal Network (CQCN) – refer following slide
- Network also delivers rail infrastructure to the major mines in the Central Queensland coal regions and is the largest coal export rail network in Australia
- The CQCN is regulated by the Queensland Competition Authority (QCA) and provides open access to all accredited rail operators (currently only two prime rail operators - Aurizon and Pacific National)
- The Regulated Asset Base (RAB) is defined as the value of the asset base on which access pricing is determined by the regulator. The RAB includes the CQCN and expands with future expansion projects

Below rail infrastructure

Track

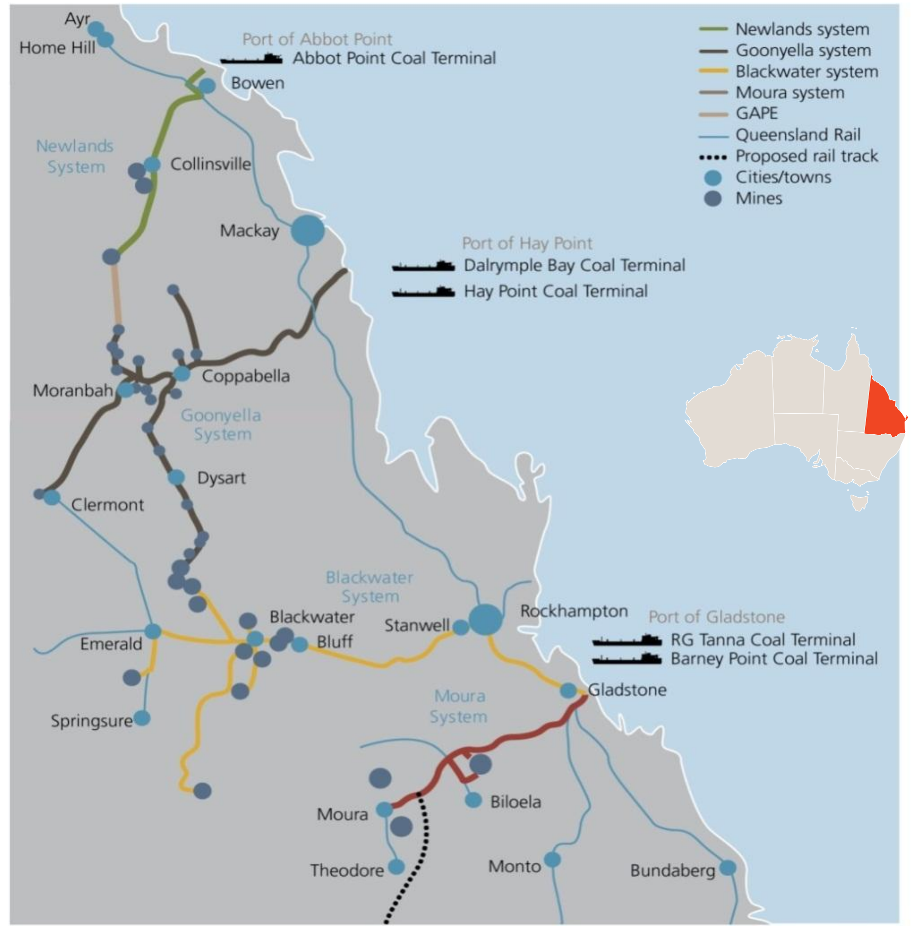
Signalling/ Overhead/ Telecoms

Structures

Facilities

Central Queensland Coal Network (CQCN)

- The CQCN comprises four major coal systems serving Queensland's Bowen Basin coal region: Newlands, Goonyella, Blackwater and Moura
- Network has held 99 year leases of the CQCN assets since July 2010. The term of the leases may be extended for rolling periods of 99 years following 20 years notice
- GAPE and WIRP are significant Network expansion projects and as such Network has negotiated additional returns from users to compensate for additional risks in construction, financing and capacity performance.



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Current regulatory framework for CQCN (UT3)

- The CQCN operates under a stable and well established regulatory regime.
- The present Network Access Undertaking (AU) expires on June 30, 2013. This is the third approved AU (UT3) covering the Central Queensland Coal Network
- The AU's fundamentals go back to the initial AU from 2001. The AU has evolved since this time as have the coal market and customer priorities and expectations. Some aspects remain unchanged from the original AU and some aspects are quite different
- The form of regulation is a conventional revenue cap - meaning Network can earn a set return on its asset base over the regulatory period i.e. Network's revenue is assured and independent of the tonnes hauled on the network (no volume risk)
- Over recent years, Network has taken a more proactive and innovative approach to regulatory matters that focuses on protecting value, responding to customer value drivers and retaining flexibility for the business, while recognising the legitimate role of the QCA as regulator
- It has been Network management practice to give a voluntary AU to the QCA which specifies the terms and conditions (including the price) for accessing the network
- Tariffs and access contracts are negotiated within the framework provided by the AU
- Transitioning arrangements will take effect from 1 July 2013 (refer slide 31)

Regulatory approach and methodology to Access Undertaking

The QCA takes a three step approach for determining the reference tariffs charged by Network to CQCN users

Step 1	Step 2	Step 3
• The Regulated Assets Base (RAB) is approved by the QCA on a Depreciated Optimal Replacement Cost basis – The approved RAB is rolled forward annually with adjustments for consumer price index (“CPI”) escalation, depreciation based on asset life, new capital expenditure proposed and asset disposals	• Standard ‘building block’ approach adopted to determine the CQCN’s notional revenue requirement – Capital costs—WACC return on RAB, and depreciation – Non capital costs—expenses relating to operating costs, tax and maintenance	• Reference tariffs determined, taking into consideration forecast volumes – Split between 6 reference tariffs reflecting the various cost recovery components – Future tariffs will be adjusted should actual volumes differ from forecast volumes

UT4 development

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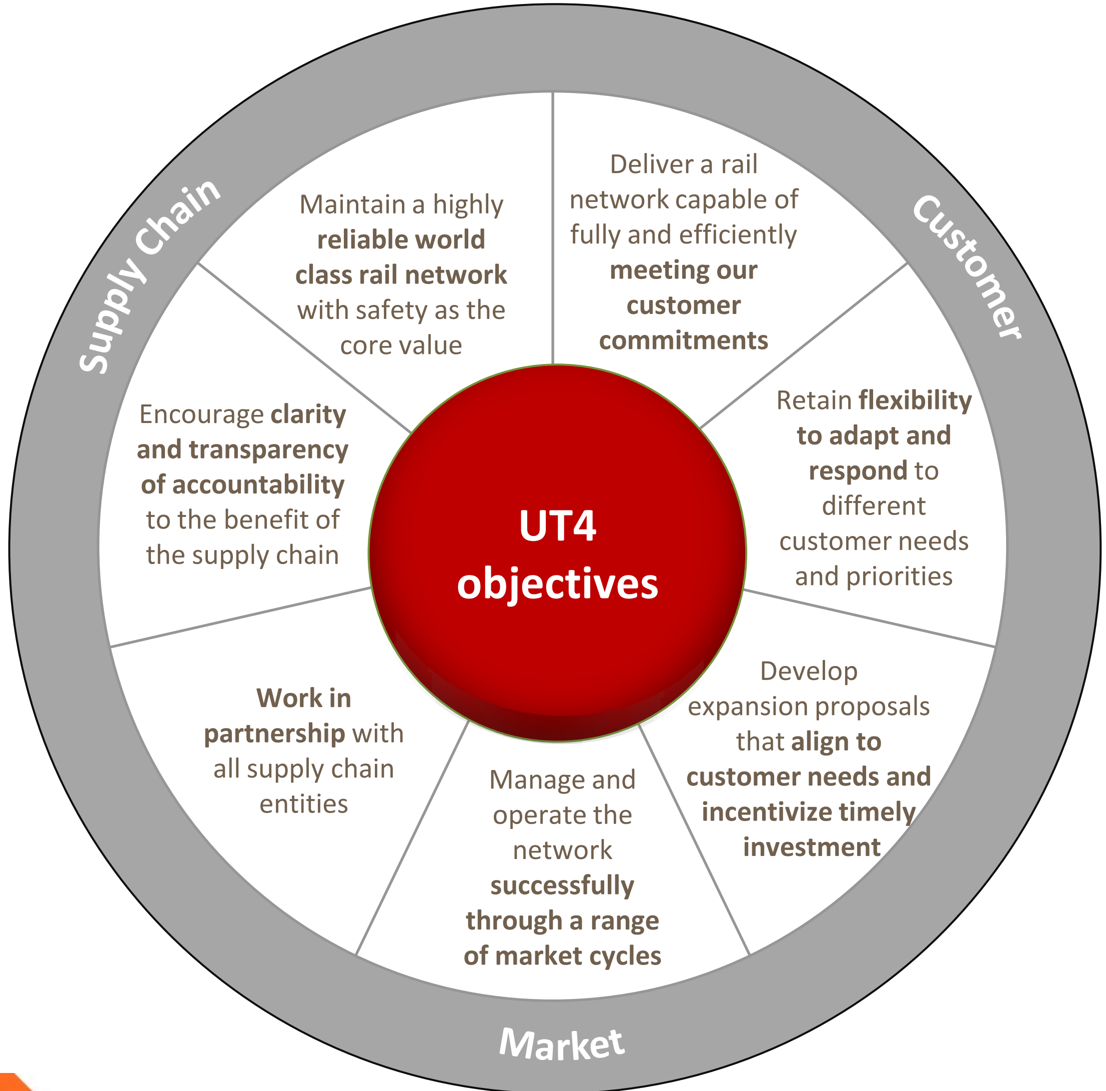
Aurizon's over-riding UT4 objectives



In developing the 2013 Access Undertaking, Aurizon Network has sought to:

– better promote the long-term competitiveness of the Queensland coal industry

– ensure efficient and timely investment in the network, and

– facilitate and strengthen its partnership with supply chain participants

While retaining the key elements of the 2010 Undertaking, Aurizon Network's regulatory proposal refines the framework in order to facilitate customer responsiveness and streamline commercial negotiations for access

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Contents of ~3,000 pages UT4 submission

CONTENTS OF THE 2013 UNDERTAKING	
Submissions	
Volume 1	Overview and Summary
Volume 2	The 2013 Undertaking Regulatory Framework
Volume 3	Maximum Allowable Revenue & Tariffs
Volume 4	Maintenance
The 2013 Undertaking	
Volume 1	The Access Undertaking and Schedules
Volume 2	The Standard User Funding Agreement
Volume 3	Other Standard Agreements
Appendices and Supporting Evidence	

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Key objectives of Aurizon's UT4 submission

Overall intention of UT4	▪ Aurizon Network remains committed to the long term expansion and growth of the CQCN ▪ Aurizon needs a realistic rate of return to continue to justify forward investment ▪ The undertaking aims to be adaptive to market cycles, while maintaining high safety standards, service reliability and network efficiency ▪ UT4 is prepared on the basis of positively contributing to the competitiveness of the Queensland coal industry ▪ The undertaking aims to reflect the National Competition Principles and the QCA Act access regime with an objective to create an environment for commercial negotiation that aligns customer and Aurizon interests
A streamlined and updated undertaking	▪ The undertaking has been refreshed and simplified to facilitate customer responsiveness and ease of use ▪ It aims to reflect changing customer and market priorities
A Commercial Investment Framework	▪ UT4 aims to enable customers and Aurizon Network to interact on a commercial basis targeting aligned outcomes ▪ The negotiation process is simplified, and allows flexibility to align expansion interests and provide quicker decision making on a project and customer specific basis
Robust Maintenance and Asset Renewal Program	▪ Aurizon Network has developed a robust asset renewal and maintenance programme for UT4 aiming for world class standard of reliability and efficiency ▪ Improved planning is targeted to ensure maintenance delivery will occur on time, and deliver a reliable network

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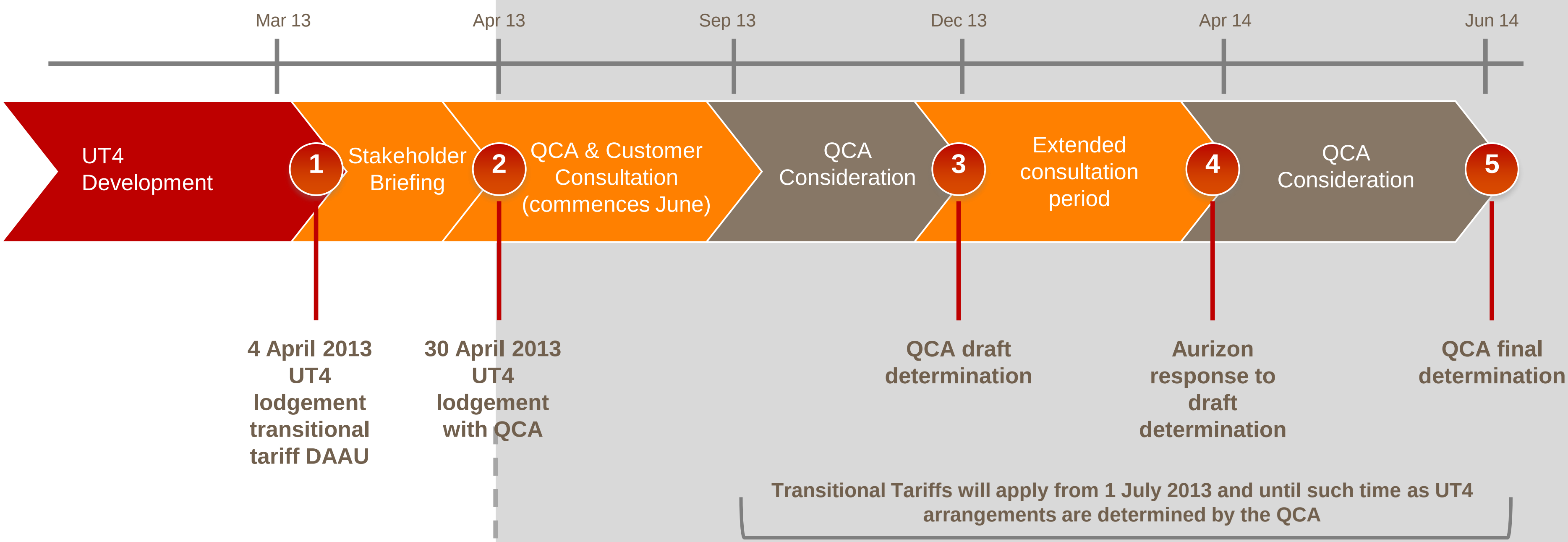
The UT4 consultation & negotiation framework



NOTE: TIMELINE IS INDICATIVE ONLY

Post lodgement consultation process

1 Network-led facilitation

Proposed topics:

- Capacity planning and allocation
- Asset renewals and maintenance
- Expansion process
- SUFA

2 QCA-led facilitation

Proposed topics:

- Reference tariffs
- Ring-fencing
- Depreciation
- Operating costs
- Tax

3 Technical analysis

- QCA-led consultation on WACC-related topics with panel of expert advisors:
  - Risk free rate
  - Beta
  - Market Risk Premium

- Note: The above proposed approach does not include legacy UT3 matters

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Volume 2: Changes to the Regulatory Framework

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A refined Access Undertaking

Aurizon Network considers the UT4 proposal to be more workable, flexible, and responsive to customer needs

1 Industry and market context	▪ Changes in the market cycle – high commodity prices and strong demand vs. price moderation and cost competitiveness/productivity concerns ▪ The predominance of private sector funding vs. historically Government funding ▪ Changing competitive dynamics in the haulage market ▪ The need for a world-class supply chain performance given the increasingly integrated and complex supply chain
2 Commercial process for negotiating access rights	▪ Increased flexibility through commercial negotiation rather than via a prescriptive set of processes will facilitate a timelier and more appropriately scoped response to access seekers
3 New framework for the negotiation of Network expansions	▪ One of the most significant issues in UT3 and UT4, balancing obligation with flexibility for different projects and customers whilst incentivising timely investment. ▪ Concentrated effort in consultation with industry on the development and agreement of the Standard User Funding Agreement (SUFA)
4 Commitment to supply chain co-ordination	▪ Need for sufficient flexibility to accommodate and adapt to changes in supply chain coordination and planning that may develop over time ▪ Must ensure that the contractual and pricing framework in the undertaking incentivises behaviour that is consistent with the efficient operation of the supply chain
5 Tariffs & Revenue	▪ Ensuring that tariff structures promote efficient use of and investment in the network ▪ Maintain the revenue cap form of regulation with modifications to address issues identified in UT3
6 Robust regime for addressing vertical integration	▪ Balancing the protection of access seekers from vertical foreclosure (Aurizon's above rail interests) with corporate governance requirements and commercial interests of the group

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Volumes 3 & 4: Revenue, Tariffs and Maintenance

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Maximum Allowable Revenue

- The return that Aurizon earns on its regulated assets is known as the Maximum Allowable Revenue or MAR
- Reference tariffs are developed under a 'building blocks' approach, whereby the QCA approves MAR for each individual rail system within the CQCN
- The individual revenue building blocks (listed in the following diagram) are calculated separately

MAXIMUM ALLOWABLE REVENUE
Building Blocks

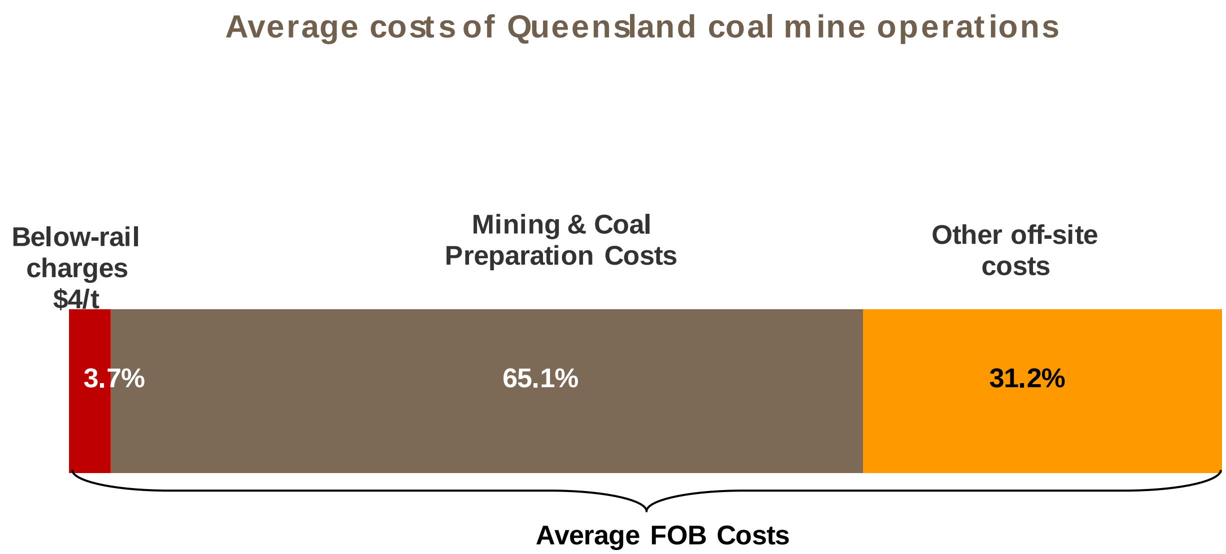
1. RETURN ON CAPITAL (Weighted Average Cost of Capital – WACC)
2. RETURN OF CAPITAL (Depreciation)
3. MAINTENANCE
4. OPEX
5. TAX

MAR set to recover efficient costs, plus return on and of capital, based on ‘building blocks’ approach = System Allowable Revenue (SAR) by system

- MAR is converted into **Reference Tariffs** through the application of a system tonnage forecast (refer slides 28 to 29)
- MAR is protected through the operation of take or pay provisions in Access Agreements and the Revenue Cap mechanism
- The Revenue Cap mechanism applies in the event that take or pay mechanisms do not recover a revenue shortfall or the revenue collected exceeds the MAR
- These mechanisms mitigate revenue risk of Aurizon Network if volumes fall below forecast (refer slide 52)

Proposed Reference Tariffs context

- The approved MAR is translated into Reference Tariffs based on approved volume forecasts
- The significant growth in coal demand that emerged in the UT2 period (2005-2009) has had a direct impact on costs for all resource sector participants
- While recognising these cost pressures, it is important to note that below-rail infrastructure charges continue to be a modest component in the overall costs of coal extraction and export
- Additionally, the infrastructure is critical to the coal industry's ability to deliver output to its customers in a timely and cost-effective way. This is highlighted in the following figure



Note:
- 'Other off-site costs' includes above rail, port and overheads.
- Below rail cost is sourced from Aurizon FY12 data, while all other costs are Wood Mackenzie CY12.

Source:
- Wood Mackenzie Cost & Margin Tool, February 2013,
- Aurizon Network Financial reports, Aurizon analysis

Proposed mix of MAR sources under UT4

	BUILDING BLOCKS OF THE MAXIMUM ALLOWABLE REVENUE (MAR)
1. WACC (Return on Capital) 41%	▪ The proposed UT4 WACC is 8.18% (9.96% UT3 WACC) ▪ Risk free rate is proposed at the 10-year bond rate (3.15%) vs. 5-year bond rate in UT3 (5.19%)(1) ▪ Market risk premium increase from 6.0% to 7.0% ▪ Value of imputation credits to drop from 50% to 25%
2. Depreciation (Return of Capital) 13%	▪ Proposed increase in asset renewals as part of realigning proportion of preventative maintenance ▪ Apply weighted average life to assets (new and existing) to deliver volume and service over longer term with minimal difference to existing approach quantums ▪ After accounting for inflation the depreciation aims to reflect the real cost and is low as a percentage of the RAB
3. Opex 19%	▪ Allowance covers all non-direct asset costs including direct business costs (such as Network Control), business and corporate overheads as well as electric traction/connections costs ▪ Independent study of corporate overheads places Aurizon Network within the benchmark range expected of a stand alone business of similar size and in a similar industry
4. Maintenance 22%	▪ Maintenance program for UT4 focussed on world class measures of reliability and efficiency ▪ Increased maintenance costs are influenced by the expected increase in tonnes hauled ▪ Delivers a reducing cost per NTK in an environment of increasing volume over UT4 period
5. Tax 5%	▪ An increase in the Tax Allowance and consequently Aurizon Network's allowable revenue
Total 100%	▪ AURIZON NETWORK'S MAXIMUM ALLOWABLE REVENUE

1. Actual values set for an agreed reference period with QCA

1. Return on Capital - WACC

Background to the regulated rate of return

- The WACC is used by the QCA to determine the regulated rate of return. It is the largest building block component within Network's Maximum Allowable Revenue (MAR)
- The WACC is applied against the Regulated Asset Base (RAB) to determine the regulated revenue. NB: calculations assume the inclusion of GAPE and WIRP in RAB valuation
- The WACC is set based on the expected cost of capital for an efficient benchmark firm and thus may not represent Aurizon's actual cost of capital

UT4 Proposed WACC

- The Capital Asset Pricing Model is used to calculate the WACC. The key determinants for the UT4 proposal are as follows:

  a) **Risk free rate**[(1)] – Change the baseline rate from the 5 year government bond rate to the 10 year rate

  b) **Market risk premium** – increased to reflect additional market volatility and time variance

  c) **Equity beta** – Proposes an asset beta range of 0.5 to 0.6 for UT4. Assuming 55% gearing and debt beta of 0.12, this results in an equity beta range of 0.9 to 1.0

  d) **Debt margin**[(1)] - Based on difference between 10 year BBB+ yields and risk-free rate, set over the same period

FINANCIAL OUTCOMES	UT3 APPROVED	UT4 SUBMISSION
Risk free rate	5.19%	3.15%
Market risk premium	6.00%	7.00%
Equity beta	0.80	1.00
Cost of equity (post-tax)	9.99%	10.15%
Debt margin	4.75%	3.40%
Cost of debt (pre-tax)	9.94%	6.56%
Gearing	55%	55%
Vanilla WACC (post tax)	9.96%	8.18%
Nominal[(2)] WACC (post tax)	7.53%	6.65%

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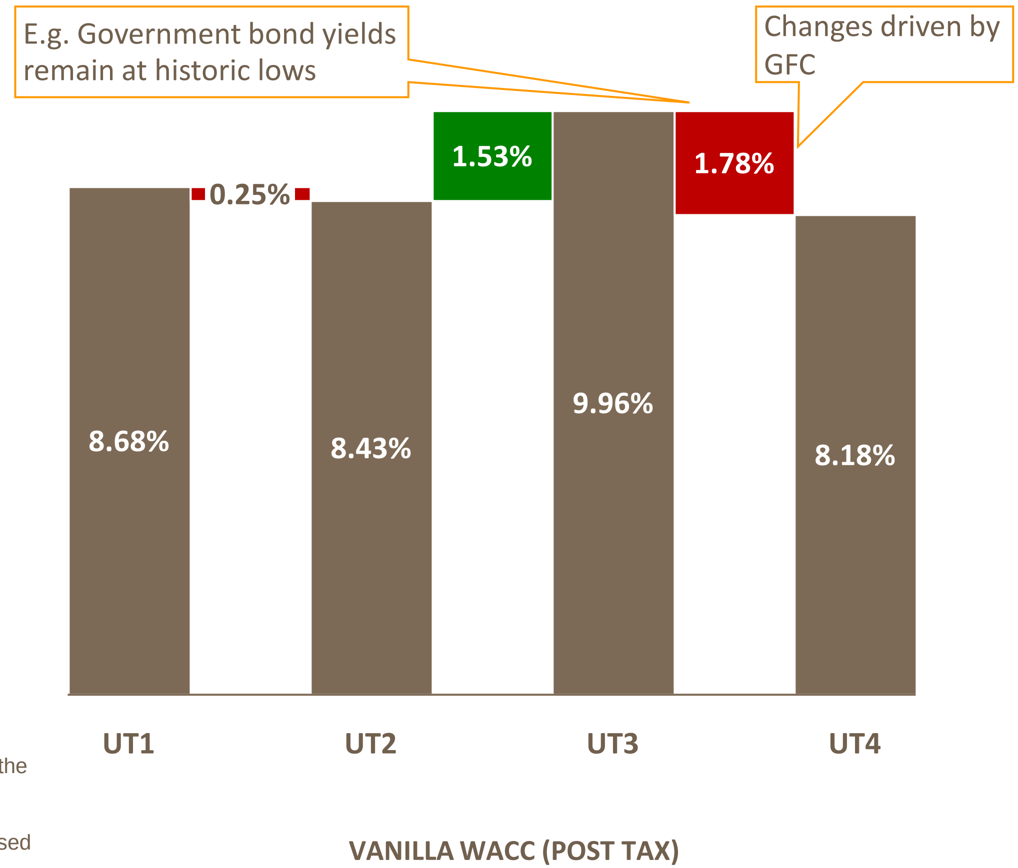
1. Calculated using 20-day average as at 30 November 2012, will be reset as part of QCA process
2. Reflects tax benefit of debt

WACC – UT3 9.96% vs. proposed UT4 8.18%

FINANCIAL OUTCOME WACC REVENUE ESTIMATES $M	FY14	FY15	FY16	FY17
Opening RAB(1) + Capex(2),(3) (8.18%)	5,173	6,328	6,411	6,381
Proposed UT4 8.18% WACC	**423**	**517**	**524**	**522**



NOTES:

1) The opening RAB for Rollforward varies from the Opening RAB used for revenue/pricing, due to the exclusion of the 'non-coal' Minerva capital allocation.

2) The RAB value differs slightly due to capital indicator discounted 1/2 year at WACC to be expressed as an opening asset value

3) It is important to note that this is a forecast of the Opening Asset Value to apply from 1 July 2013. This asset value will only be able to be confirmed once the QCA has reviewed and approved Aurizon Network's capital expenditure for 2011/12 and 2012/13. Consistent with the approach in UT3, differences between the forecast Opening Asset Value and the actual Opening Asset Value following the approval of the 2011/12 and 2012/13 RAB roll forwards will be reflected through the adjustment to System Allowable Revenue, as provided for in clause 3.1.3 in Part B, Schedule F of the 2010 Undertaking.

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1. Return on Capital - Capex

CAPITAL EXPENDITURE METHODOLOGY

- Key expansion projects included are WIRP ($910 million) the Goonyella Rail Expansion Project supporting HPX3 ($133 million) and Rolleston electrification ($194 million)
- During construction, interest is earned at the UT4 WACC rate, the asset is transitioned to the RAB and the regulated return is earned
- The capital is a pass through based on actual costs that is reconciled at the end of the undertaking
- RAB 29% increase during UT4 period – opening $4.8bn, closing $6.2bn (includes $2bn capex, CPI and depreciation)
- Asset Renewals increase due to:
  - Expanding volumes during the UT4 period; and
  - various components of the Network reaching the useful life threshold and realigning to greater preventative maintenance

FINANCIAL OUTCOMES MAJOR CAPEX[1] COMPONENTS $M	UT4
WIRP1	910
Asset renewals	585
Rolleston Electrification	194
Goonyella Expansion (Hay Point)	133
Power system upgrade	87
Other	93
Included in RAB over UT4 period	**2,002**

	FY14	FY15	FY16	FY17
RAB – Start of Year	4,842	5,080	6,195	6,226
UT4 Capex – Start of year[(2),(3)]	331	1,248	216	155
Total RAB + CAPEX	**5,173**	**6,328**	**6,411**	**6,381**

1) Excludes Interest During Construction (IDC)
2) Difference in Capex is due to difference between mid-year calculation and 'Start of Year" calculation used in submission
3) Includes Interest During Construction (IDC)

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2. Return of Capital (Depreciation)

DEPRECIATION METHODOLOGY

- Depreciation is a key component of the revenue allowance, providing a return of the capital Network has invested in regulated assets.
- Choice of depreciation policy does not affect Network's overall NPV, however, is proposed to be more closely aligned with the expected mine life profiles
- UT3 depreciation is a hybrid model: Pre-UT3 assets are depreciated straight line to an economic life not related to economics, and UT3 assets are depreciated on a 20 year rolling basis
- Proposed option objective – Weighted Average Mine Life – is to more closely align the recovery of the capital invested in rail infrastructure to the period where it is expected that the service provider has a reasonable prospect of fully recovering this capital
- Apply an economic depreciation of 25[1] years to all assets (new and existing), consistent with an analysis of weighted average mine line in the CQCN (consistent with ARTC in Hunter Valley)

FINANCIAL OUTCOMES DEPRECIATION ESTIMATES $M	FY14	FY15	FY16	FY17
Weighted average mine life to ALL assets	270	291	346	349
Inflation	(129)	(158)	(160)	(160)
Depreciation net of inflation	**141**	**133**	**186**	**189**
RAB – Start of Year	4,842	5,080	6,195	6,226
Net Depreciation % of RAB	2.91%	2.62%	3.02%	3.04%

1. **Determined by taking the mid-point of the weighted marketable reserve life and weighted production life of CQ coal mines**

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3. Maintenance

MAINTENANCE METHODOLOGY

- Network has developed a maintenance program for UT4 focussed on world class measures of reliability and efficiency
- Improved planning is targeted to ensure minimal delay will occur, at lower risk and deliver a reliable network for our customers
- The cost of maintenance is based on ensuring our ability to safely deliver volumes across a range of market cycles at a world class standard of performance
- A bottom up tool then quantifies the scope of effort which translates to costs for the mechanical and non-mechanical maintenance, corporate costs and non RAB asset return
- Ballast not capitalised per QCA regulatory requirements, but is capitalised per Accounts. Total ballast cost for UT4 period is $252m

Maintenance costs are linked to volume estimates and are projected to decrease on a cost/NTK basis over UT4

FINANCIAL OUTCOMES MAINTENANCE ESTIMATES $M	FY14	FY15	FY16	FY17
Mechanised Maintenance	87	97	100	102
Asset Maintenance	103	107	110	112
Total Direct Costs	**190**	**204**	**210**	**214**
Indirect Costs	23	25	25	24
Total Costs ($ real – no escalation)	**213**	**229**	**235**	**238**
Total Costs ($ nominal – with escalation)	**233**	**262**	**279**	**294**
Total system Net tonne Kilometres (million NTK)	50.59	56.69	60.98	65.22

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4. Operating expenditure

OPERATIONAL EXPENDITURE METHODOLOGY

Key drivers

- Volumes on the CQCN have continued to grow, as has the complexity of the operating and investment environment
- The corporate overhead figure represents the portion of non-operational functions of Aurizon that are allocable to Aurizon Network

Proposed Position

- Quantification of direct operating costs and corporate overheads that would be reasonably attributable to the provision of services if Aurizon Network operated on a stand-alone basis
- Aurizon Network's UT4 cost estimates for corporate overhead place it within an externally benchmarked range expected of a stand alone business of similar size and in a similar industry

Rationale

- An increase in proposed allowance driven mostly by an unrealistically low allowance in UT3, loss of economies of scale and scope in Aurizon Network business overheads with separation of the network between Queensland Rail and Aurizon Network, and changed cost allocations arising from the change to a functional structure

UT4 FINANCIAL OUTCOME OPERATING EXPENDITURE REVENUE ESTIMATES $M	FY14	FY15	FY16	FY17
Train Control, Safe working & Operations	31	33	34	36
Infrastructure Management	16	17	17	18
Business Management	11	11	14	13
Business Support & Corporate Overhead	66	69	71	74
Insurance & Adjustments	8	9	10	10
Other	5	5	7	8
Total Operating Expenditure Revenue ($ nominal)	**137**	**144**	**153**	**159**
Operating expenditure (Electric connection)	68	74	81	83
Total Unsmoothed Revenue: Operating Expenditure ($ nominal)	**206**	**218**	**234**	**242**

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5. Tax

TAX METHODOLOGY

- An allowance is given for Aurizon Network's tax costs within the building blocks
- A value is attributed to franking credits ("gamma"). The impact of gamma is to reduce the cost of equity by the value attributed to franking credits in the hands of shareholders
- Gamma was valued at 50% in UT3, which resulted in the tax revenue building block being based on an effective tax rate of 15%.
- The UT4 submission proposes a gamma of 25%, with expert supporting evidence provided
- The Tax building block is determined as "Tax Payable" less the value of Imputation Credits, where:
  - Tax Payable = [Building Block Revenue less Tax Expenses] x 30% Corp. Tax Rate (TC)
  - Tax expenses include: Tax depreciation, Opex and Maintenance costs and Interest (return on debt)

FINANCIAL OUTCOMES TAX ($M)	FY14	FY15	FY16	FY17
UT4 Submission G = 25%	56	58	69	75

- Aurizon Network's effective tax rate is determined by the value of Gamma (G), and as such, G has a direct impact on Aurizon Network's allowable revenue
- **Effective Tax Rate = TC x (1 – G)**
- The change in the value of imputation credits (gamma) to 25% results in an increase in the effective corporate tax rate to 22.5% from 15%. The combined effects of the increase in the RAB and the value of the assets in the RAB that are close to or fully depreciated for (regulatory) tax purposes increases the pass through tax allowance

Financial outcome summary

BUILDING BLOCKS ($M)	FY14	FY15	FY16	FY17	Total UT4	% of MAR
Return on Capital	423	517	524	522	**1,986**	**41%**
Depreciation (return of capital)	270	291	346	349	**1,256**	**13%**
Less Inflation[1]	-129	-158	-160	-160	**-607**	
Maintenance Costs	233	262	279	294	**1,068**	**22%**
Operating Expenditures (Non-electric & electric assets)	206	218	234	242	**900**	**19%**
Tax	56	58	69	75	**258**	**5%**
Total unsmoothed Allowable Revenue	1,058	1,187	1,293	1,323	**4,861**	**100%**

[1]Inflation is subtracted from the building blocks as it is allowed for in both the rate of return and the RAB

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Volume estimates for UT4 pricing

UT4 volume forecast (million tonnes)

VOLUMES FORECAST	FY14	FY15	FY16	FY17
Blackwater	51.3	51.6	48.5	49.0
Goonyella	100.4	109.4	114.8	119.7
Moura	12.5	11.0	10.4	11.3
Newlands (excl GAPE)	14.8	14.0	13.5	14.6
GAPE	20.6	25.4	27.1	29.0
NAPE	0.0	1.8	3.5	4.1
WIRP Stage 1	0.0	9.0	18.7	24.3
Total UT4 Volumes for pricing	**199.6**	**222.2**	**236.5**	**252.1**
GAPE / NAPE	20.6	27.2	30.6	33.1
WIRP Stage 1	0.0	9.0	18.7	24.3
Volumes excl GAPE/WIRP	**179.0**	**186.0**	**187.2**	**194.7**

Forecast vs. Contracted Volumes for the UT4 period

	FY14	FY15	FY16	FY17
Forecast volumes (mtpa)	199.6	222.2	236.5	252.1
Contracted volumes (mtpa)	268.0	290.4	308.9	310.7
% below contract	(25.5%)	(23.5%)	(23.4%)	(18.9%)

- Volumes are based on actual contracts that exist and the assumption that all contracts will be renewed at their current value
- Volumes used for UT4 tariff calculation are adjusted to account for the variance that occurs between contracted tonnes and actual tonnes
- Forecast volumes and tariffs will be updated annually and so forecasts are indicative

Note: FY14 forecast may change as part of agreement on transition tariffs

Annual Allowable Revenue expressed as $cost/net tonne

SYSTEM	UT4			
	AT1 – AT4 ($/NT)			
	FY14	FY15	FY16	FY17
Blackwater	5.71	5.91	6.56	6.76
GAPE	6.80	5.69	5.50	5.30
Goonyella	3.46	3.30	3.26	3.26
Moura	4.01	4.39	4.63	4.37
Newlands	2.87	3.20	3.18	3.08
Average CQCR	**4.57**	**4.50**	**4.63**	**4.55**
	AT5 ($/per electric NT)			
Blackwater	1.54	1.63	1.72	1.77
Goonyella	0.79	0.76	0.77	0.78
Average CQCR	**1.16**	**1.20**	**1.25**	**1.27**

PRICING EXPECTATIONS

- Some customers are expecting a drop in tariffs, assuming this will be generated by the large drop in WACC from UT3 to UT4
- Unit prices will not reduce because:
  - RAB increases due to capital investment in new projects, i.e. WIRP, asset renewals, Rolleston Electrification, Goonyella expansion (Hay Point) and power system upgrade
  - Increased maintenance costs with higher volumes
  - Benchmarked Operating Cost allowance
  - greater tax allowance (driven by the Gamma assumption)
- GAPE tariff reduction from UT3 to UT4 driven by asset renewals, increasing volumes over GAPE as utilisation ramps up, and lower actual capex costs compared to UT3
- Blackwater AT5 tariff decreases in UT4 due to forecast impact and AT5 deferral DAAU

Note:
- Maximum Allowable Revenue (MAR) is the sum of the unsmoothed building blocks
- Annual Allowable Revenue (AAR) is the smoothed allowable revenue upon which tariffs and allowable revenues in a given year are based

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Transitional tariffs

Transitional Tariff DAAU Lodged 5 April 2013

- For systems other than GAPE, tariffs will be adjusted for negotiated outcome with industry depending on tonnage forecast. (Expected revenue approximately $720m)
- GAPE pricing will be aligned with the GAPE re-submission and will ensure 2014 allowable revenues are not substantially over-recovered due to significantly higher tonnages
- Transitional tariffs to apply from 1 July, 2013 to 30 June 2014 or when the QCA approves the UT4 document
- Difference between transitional System Allowable Revenues (MAR by system) for 2014 to be in adjustment charge in FY14

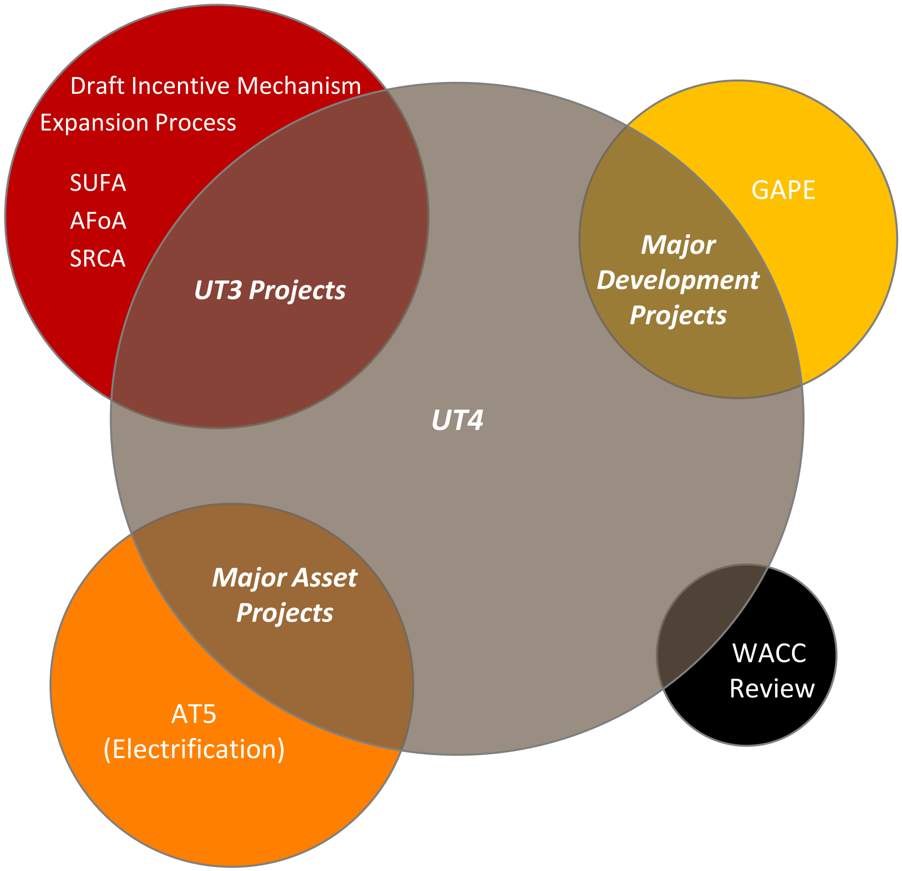
Implications

- Reference Tariffs for 2014 are fixed for the entire year (i.e. no retrospective adjustments in tariffs)
- Revenue cap calculations will be based on the difference between actual revenues (including Take or Pay) and System Allowable Revenues, with any difference repaid/recouped via an adjustment charge in the 2013/14 financial year
- Adjustment charge in FY14 aims to keep Network whole for approved revenue in FY14
- Aim is to finalise UT4 in FY14 and adjust to this outcome

Following close consultation with Queensland Resources Council, the 2010 Extension DAAU was withdrawn 26 April and will be resubmitted in early May

Other UT3 issues in progress

UT4 includes the drafting of these separate projects, but is mindful that the processes will continue parallel to UT4

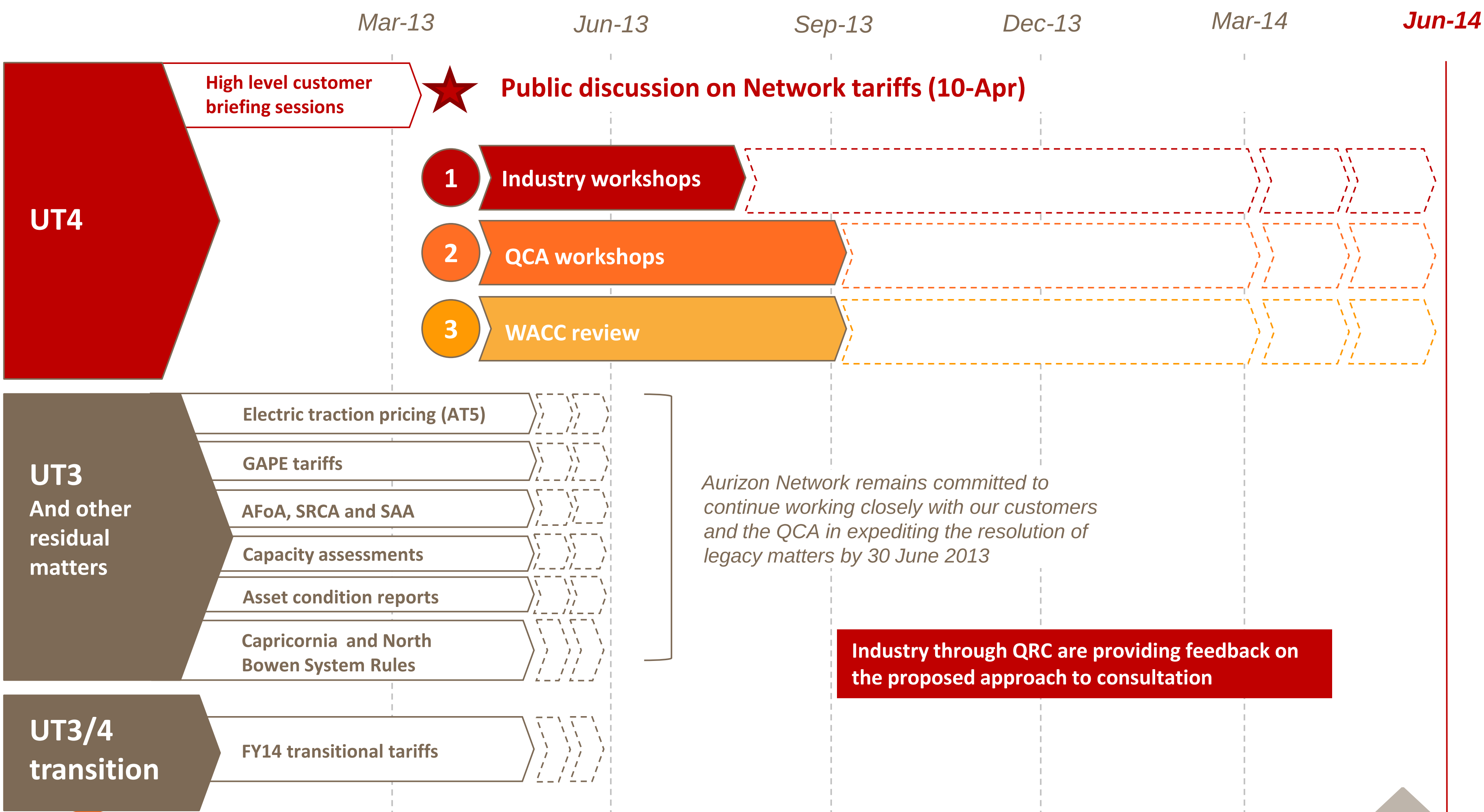


Implications

- Content developed in different projects such as the UT3 Projects, GAPE and AT5 informs and influences the content developed for UT4
- The approach adopted for each of these projects should form a consistent strategic intent for Aurizon regulatory approach and objectives in relation to the QCA
- UT4 represents the position as at 30 April 2013, positions may still be under development or consultation

For further details please refer slides 54 - 58

Engagement process on the access undertaking



To be aligned with agreed consultation schedule

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Questions

Analyst Briefing – Aurizon Network's UT4 Submission

Mike Carter, Chief Executive Officer – Aurizon Network

29 April 2013

Note: All information in this presentation is based on information available as at Friday 26 April 2013

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UT4 additional information

Summary of items that are unchanged under UT4

Regulatory Issue	UT4 Position	Rationale
Form of regulation	• Form of regulation remains revenue cap	• Optimal balance between risk and reward in current environment
	• Tariff structure unchanged	• Simpler structure could provide some benefit, but requires more granular cost information than currently available and may require a large increase in the number of tariffs
Revenue protection mechanisms	• Take or Pay • Revenue cap adjustments • Pass through events (i.e. floods)	• Reduce risk of under compensation
Operations	• System rules and scheduling are not changing	• System rules in particular are being developed through an inclusive industry process which will continue.
Forms of contracting	• Standard agreement remains substantially as in UT3	• While we intend to simplify the agreements, content will not change significantly - the intention is to retain the same risk allocation • UT3 based developments incorporated into UT4, eg. Alternative form of access, Standard Rail Connection Agreement

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Summary of key changes in the 2013 Undertaking

Issue	Description	Rationale
Ringfencing (Part 3)	▪ Stronger and clearer obligations in relation to functional, management and employee separation. ▪ A more workable and reasonable approach to the management of confidential information, that ensures access seeker information is tightly controlled to those in Aurizon Network that require that information. ▪ A broadening of the scope of complaints handling.	▪ Results in a more robust yet workable regime, which will give third parties greater confidence in their negotiations with Aurizon Network.
Capacity allocation (Part 7)	▪ Replacement of the queuing framework with a more practical and flexible approach to allocating capacity, recognising that the primary way that capacity will be allocated in future is via expansions.	▪ Aligns the capacity allocation process to the dynamic commercial environment underpinning expansions, including maximising efficient investment in, and utilisation of, the network infrastructure.
Funding of expansions (Part 8)	▪ Removal of the voluntary arrangement in the 2010 Undertaking for Aurizon Network to fund extensions under $300 million. ▪ Incorporation of a framework to facilitate user funding of network extensions where Aurizon Network is determined not to do so (the Standard User Funding Agreement).	▪ Promotes an environment that clearly acknowledges the obligation on management to promote shareholder value. ▪ Promotes choice in funding efficient and timely investment in the network. ▪ Supports Aurizon in determining the use of its own balance sheet
Extension process (Part 8)	▪ The provision of a clear, transparent framework for the development and progression of network extensions, including the conduct and funding of studies. ▪ A standard Studies Funding Agreement has also been developed and will be annexed to the 2013 Undertaking. ▪ Robust and transparent decision-making criteria, together with appropriate dispute resolution provisions, have been included.	▪ Maximises efficient and timely network investment, that is driven by customer needs and priorities.

Summary of key changes in the 2013 Undertaking (continued)

Issue	Description	Rationale
Capacity planning (Part 8)	▪ Replacement of the CRIMP with the Network Development Plan and extension process.	▪ Enhances visibility across the supply chain and greater involvement in planning of future network developments for customers.
Customer endorsement of capital expenditure (Part 8)	▪ Improvements to the customer voting process to make it more workable and responsive to the circumstances of particular projects by providing detailed, project-specific information, including in relation to tariffs. ▪ Expansion of the matters to be considered under the customer voting process to include the standard of works and the allocation of costs. ▪ The provision of specific and targeted working papers to inform participants in the voting process.	▪ Provides customers with more opportunity to provide timely and effective input into the project assessment and approval process. ▪ Provides Aurizon Network and the QCA with greater confidence that an investment is prudent and supported by customers.
All	▪ Streamline the Access Undertaking to focus on provisions governing negotiations between Aurizon Network and access seekers, with provisions relating to users of the network that have already entered into a contract (access holders) being appropriately addressed in the Standard Access Agreements, rather than the undertaking.	▪ Aligns Access Undertaking to its key purpose and ensures that matters that have been subject to commercial agreement are addressed under the relevant contract. This also encourages open and effective commercial negotiations (rather than prescribed regulatory outcomes) in the first instance.

Current pricing framework (UT3)

CQCN Regulatory history

- Rail access regime commenced in 1997
- Queensland narrow gauge rail network declared by ministerial discretion (under QCA Act) with reference to asset description but excludes above rail facilities
- Queensland Competition Authority (QCA) is economic regulator under state access regime
- As rail access regulator in Queensland, the QCA administers the open access regime which regulates Aurizon Network as the access provider for rail transport infrastructure in the CQCN
- Ownership of central Queensland coal network separated from remainder of Queensland narrow gauge network in 2010
- In January 2011, the Queensland Rail Access Regime was certified under the Trade Practices Act (TPA) as an effective access regime for 10 years. This protects the CQCN from becoming declared under the National Access Regime

CQCN regulatory timeline

1997	• QCA enacted
1998	• Rail network declared an asset under the QCA
2001	• Undertaking 1 (UT1)
2006	• Undertaking 2 (UT2)
2010	• Undertaking 3 (UT3)
2011	• Queensland Rail Access Regime was certified under Part IIIA of TPA as an effective access regime for 10 years
2013	• Undertaking 4 (UT4) – to be determined

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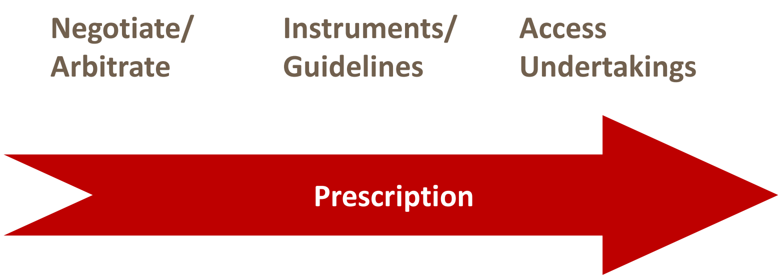
Objectives of Access Undertakings

Purpose of an Undertaking

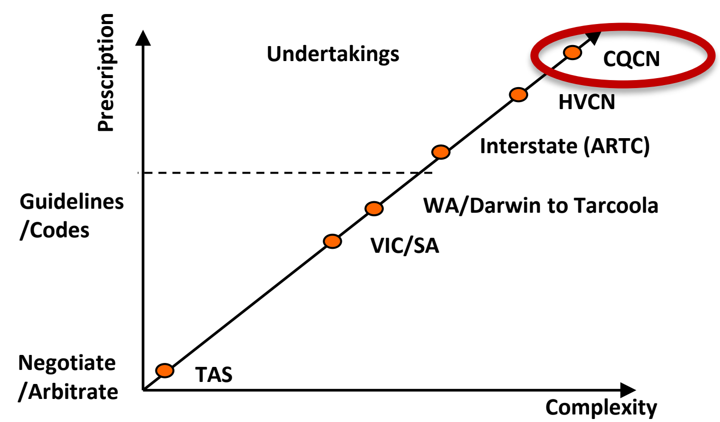
- An Access Undertaking is a legally enforceable instrument which governs how access is to be provided.
- An undertaking may provide a service provider with longer term certainty over access
- Provides a balance between commercial flexibility and prescribing terms to reduce prospects of dispute



- Prescription increases with market power and the number of access seekers

Contents of an undertaking

- Negotiating framework (information, timing and processes)
- Pricing (tariffs, limits and differentiation)
- Connections and network expansion
- Capacity management (transfers, resumption and relinquishment)
- Reporting
- Revenue management (Caps, pass-through and variations)
- Operational separation and non-discrimination obligations



CQCN access regulation overview

- Access to the CQCN is regulated by a Queensland-based Third Party Access regime established under the *Queensland Competition Authority Act 1997 (Qld) (QCA Act) (Queensland Access* Regime) and administered by the QCA
- Third party access supports competition by enabling competitors (i.e. "third parties") to access essential infrastructure which cannot be economically duplicated, enabling competitors to use essential infrastructure on commercial terms
- Aurizon Network (Network) must provide access to the network subject to the rules and negotiation framework of each applicable access regime
- Network generates revenue in the form of Access Charges. The provision of access to users of the CQCN, and the Access Charges that Network is permitted to impose, are regulated by the QCA
- For this purpose, Network submits an Access Undertaking to the QCA at regular intervals (usually between 3–5 years) to seek approval for components of pricing and other terms for the following regulatory period
- Aurizon Network's 2013 Undertaking (UT4) sets out the terms upon which access to the Central Queensland Coal Network (CQCN) is made available to third parties

Network regulation stakeholders

Key Issues

Network will propose some issues for direct consultation with stakeholders:

- Investment framework
- Access conditions
- Maintenance costs regimes
- Capacity allocation & throughput
- SUFA and the Extension Process
- Integration between rail and port

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Functions of the QCA

Members

Malcolm Roberts – Chairman
David Watson – Deputy Chairman
Justin Malbon – Member
Sally Pitkin - Member

Chief Executive Officer

TBC

Corporate Services
Robyn Farley-Sutton

Electricity & Gas
Gary Henry

Rail & Ports
Paul Bilyk

Water
Rick Stankiewicz

- The QCA has recently appointed a new Chairman, Dr Malcolm Roberts, effective from 29 January 2013
- Dr Roberts was formerly Chief Executive of Energy Networks Association
- New CEO search underway to replace the former CEO John Hall following his resignation

Investment framework under UT3

UT3	▪ The QCA approved an 'Investment Framework' that governs the process for developing expansions to the CQCN. Aurizon Network is obliged to fund rail expansions (in addition to renewal capex) up to a value of $300 million
Funding Aurizon Network Extensions	▪ Under UT3, Aurizon Network must fund the following: – replacement capital expenditure – expansions (i.e. extensions that are not a Customer Specific Branch Line (spur line)) valued at less than $300m – capital expenditure needed to respond to a capacity shortfall resulting from certain circumstances – up to 30% of a partially user funded Significant Investment if it is requested to do so by a smaller user that is unable to raise debt to fund its own share of the required project funding. Aurizon Network's commitment in this regard is limited to $300m in any one regulatory period
Investment Framework	▪ The QCA has the power under the QCA Act to require Aurizon Network to extend or permit the extension of the declared facility provided all of the following criteria are met: – the expansion is technically and economically feasible – Aurizon Network is not required to pay the cost of the expansion – Aurizon Network's legitimate business interests are protected – UT3 requires Aurizon Network to develop SUFA to allow users to fund expansions of the CQCN
Evolution of investment framework	▪ The Aurizon Network investment framework has evolved over time and is likely to remain a key focus given Queensland coal miners will seek to ensure that rail expansions are procured as required

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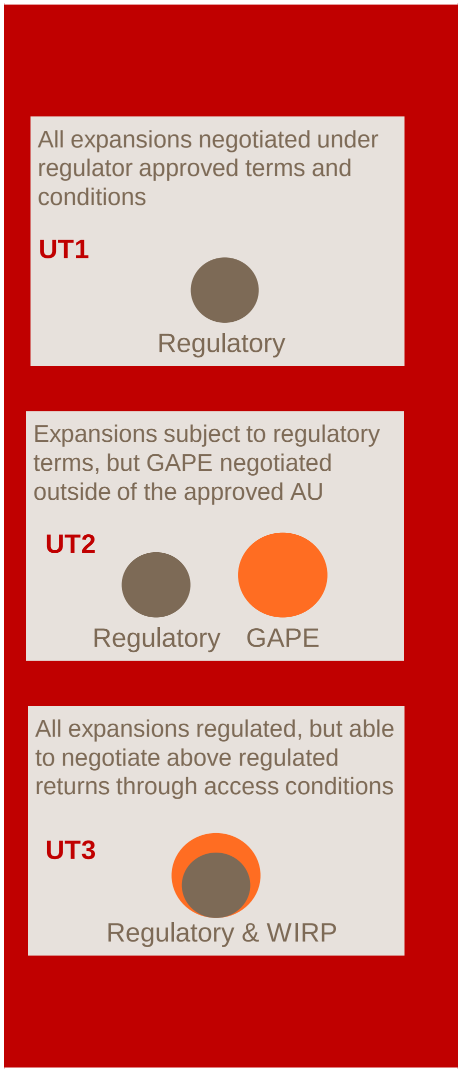
Price regulation - above regulated returns



Network can earn a return on capital that exceeds the Regulated WACC for providing access to the CQCN

- The main source of such returns is major network expansions that are negotiated by Network directly with end-users, and then approved by the QCA
  - The GAPE & WIRP projects are major examples of two key expansion projects that Network has negotiated with industry which will derive a return greater than the regulatory return
  - The GAPE & WIRP assets are declared (regulated) assets and form part of the RAB. The regulated return from these assets is supplemented through access conditions which provide additional revenue
- Under UT3, the QCA will approve the commercially agreed above regulated returns unless any of the following apply
  - they are not in the public interest, including the public interest in having competition in markets
  - it is reasonably expected that the access conditions may disadvantage future access seekers, or the interests of stakeholders who are not parties to the agreement
  - Network has failed to provide the required information to access seekers regarding risk and return
  - the access conditions would contravene a provision of the QCA Act or UT3

The Regulated Asset Base (RAB)

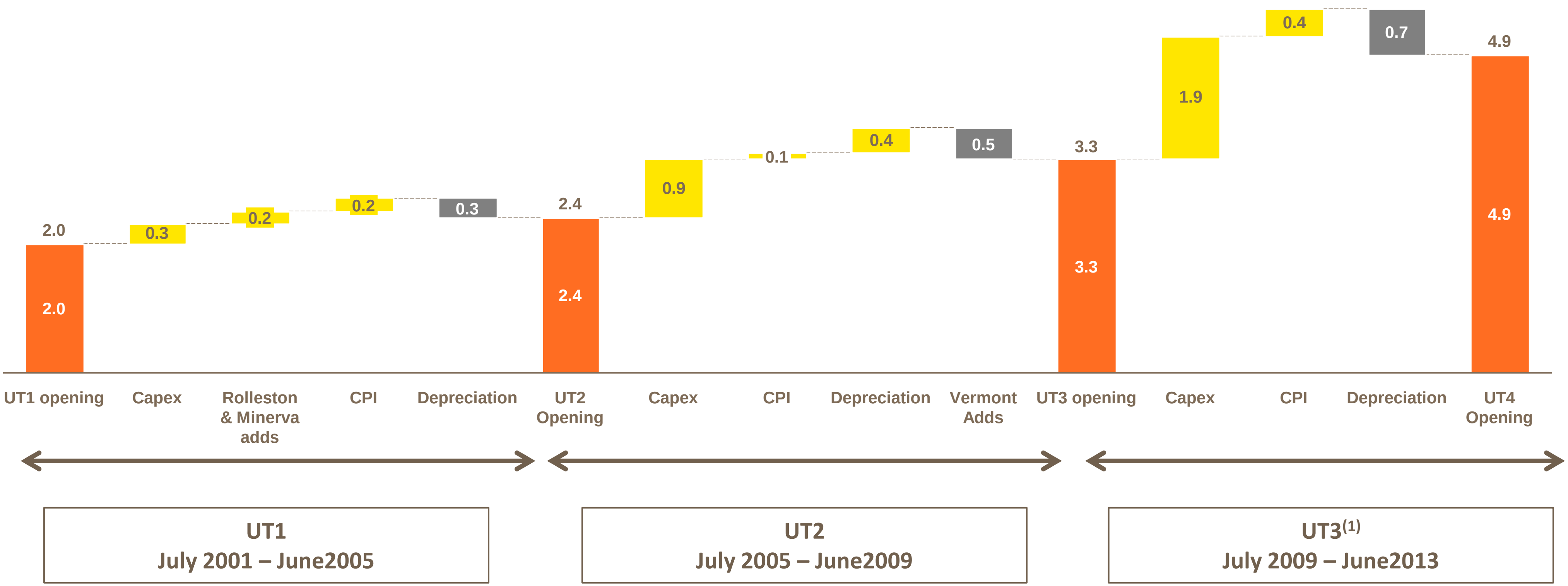
The RAB is approved by the QCA on a Depreciated Optimal Replacement Cost basis

DORC	▪ The QCA applies the **Depreciated Optimised Replacement Cost ("DORC")** methodology to the valuation of existing assets
	▪ The DORC methodology determines the RAB through the following steps
	  ▪ Replacement Cost ("RC"): based on current cost of replacement
	  ▪ Optimisation: reduction of the replacement cost if required, to reflect the cost of an asset that matches the standard required, giving an optimised replacement cost ("ORC")
	  ▪ Depreciation: the ORC is depreciated to reflect the actual remaining service potential of the existing assets

'Optimisation' Risk	▪ UT3 currently provides that the QCA will not require the RAB to be reduced unless
	  ▪ expenditure has been included in the RAB on the basis of information that was false or misleading
	  ▪ demand has deteriorated to such an extent where regulated prices on an un-optimised asset would result in a further decline in demand
	  ▪ there is a possibility of actual (not hypothetical) bypass
	  ▪ the rail infrastructure has deteriorated more than would have been the case had good operating practice and effective maintenance policies been pursued
	▪ Regulatory precedent is that, when considering a new undertaking, the QCA will accept the closing value of the prior undertaking with no write downs

Historical change in RAB valuation

The approved RAB is rolled forward annually with adjustments for CPI escalation, depreciation based on asset life, new capital expenditure and asset disposals



1) UT3 does not include capex associated with GAPE and WIRP

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WACC calculation inputs

WACC
Weighted Average Cost of Capital

The QCA uses the post tax nominal 'vanilla' approach. This means tax is dealt with in the cash flows, not the WACC. The value of gamma therefore impacts the tax allowance in the MAR. It only has a very minor impact on the WACC, which is why it is not seen here.

Cost of debt x **Debt/ value** + **Cost of equity** x **Equity/ value**

This is the 'benchmark efficient' gearing level for a stand-alone network. Regulatory gearing 55%.

Cost of debt = **Risk-free rate** + **Debt margin**

Cost of equity = **Risk-free rate** + **Equity margin**

Equity margin = **Equity beta** x **Market risk premium**

Risk-free rate: QCA based on 5 year CGS bond rate as benchmark

Debt margin: Based on difference between 10 year BBB+ yields and risk-free rate, set over the same period. QCA adds 'refinancing allowance'. Also includes transaction costs of managing existing debt

Equity beta: Measure of non-diversifiable (economy-wide) risks. Estimated by examining similar listed firms and adjusting for Network's risk profile. Average equity beta of market is 1.

Market risk premium: Measure of the 'average market price' of non-diversifiable risk. If MRP is 6%, means that firm with an equity beta of 1 will earn risk-free rate + 6%.

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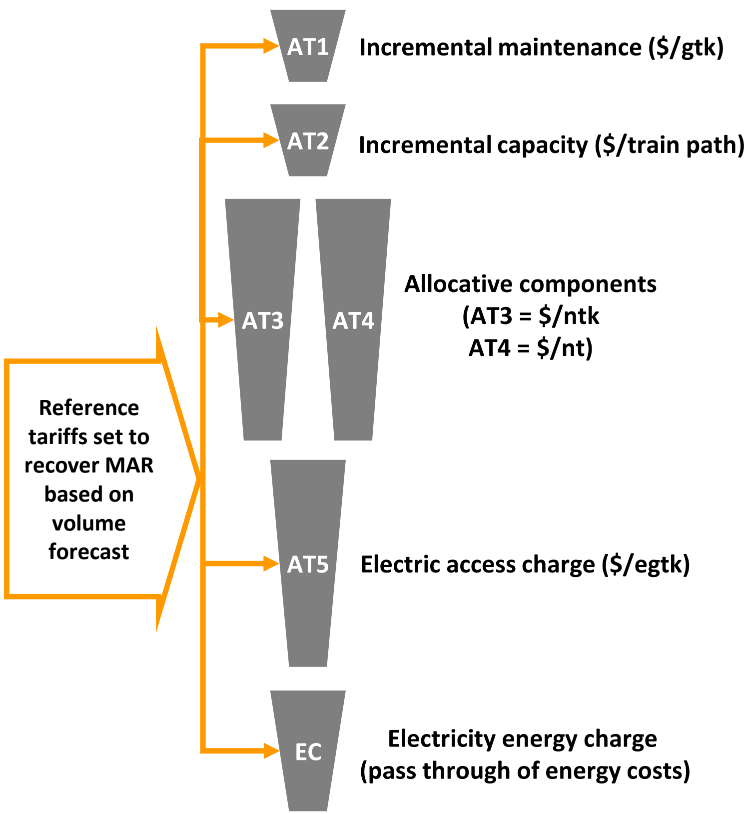
Cost to users – “Reference tariffs”



REFERENCE TARIFFS

- Under UT3, reference tariffs are determined to recover costs on an individual coal system basis
- Reference tariffs are calculated for each system by dividing MAR by system forecast volume
- There are six different reference tariffs which reflect different cost categories
- The units on which reference tariffs are charged is the way that costs are incurred
  - AT1—Gross Tonne Kilometre ($/1000gtk)
  - AT2—Reference Train Paths ($/rtp)
  - AT3—Net Tonnes ($/nt)
  - AT4—Net Tonne Kilometre (ntk)
  - AT5—Electric Gross Tonne Kilometre ($/egtk)
  - EC—Electric Gross Tonne Kilometre ($/egtk)

Revenue Protection under UT3

TAKE OR PAY (CONTRACTUAL)	▪ Calculated first and allows Network to recover revenue shortfalls directly from the access holder ▪ These agreements result in a charge levied on Aurizon or Pacific National by Aurizon Network, if either customer does not rail a minimum volume of coal
REVENUE CAP (REGULATORY)	▪ In the event that take or pay mechanisms do not recover a revenue shortfall, the remaining shortfall is recovered two years later through a CPI adjusted tariff ▪ In the event that revenue collected exceeds the MAR, the revenue cap mechanism will return the surplus revenue two years later through an adjusted tariff
SYSTEM ALLOWABLE REVENUE (SAR)	▪ Annual adjustments made to System Allowable Revenue (SAR) for: – Revenue cap adjustments; – Updated volumes; – Maintenance difference between actual and forecast maintenance cost index; – Opex difference between actual and forecast CPI; and – EC costs and electricity network charges.
TARIFFS REVIEWED MID-PERIOD	▪ Tariffs reviewed mid-period in specific (limited) circumstances, e.g.: ▪ Change in law or taxes; ▪ Material change (>2.5%) in approved and efficient maintenance costs; and ▪ Material force majeure costs (>$1m).

- Under the Access Undertaking, the Maximum Allowable Revenue is governed by a revenue cap, which means Aurizon does not bear volume risk
- In the event the MAR is not achieved for a fiscal year resulting in a shortfall, the revenue is protected through a combination of take or pay provisions and the revenue cap mechanism

Other key features of Access Undertaking

OPERATING AND MAINTENANCE COST RISK	▪ The Reference Tariffs approved by the QCA incorporate an allowance for an efficient level of operating and maintenance expenditure. Accordingly, operating and maintenance costs exceeding the amount allowed for and approved in the MAR calculation are not recovered.
CAPITAL EXPENDITURE CARRY-OVER ACCOUNT	▪ Aurizon is required to maintain a capital expenditure carry-over account so that it can calculate the difference in revenues it earned (based on forecast capital expenditure) compared to revenues it should have earned (based on actual capital expenditure). Revenues under or over-recovered in each year are rolled forward to the end of the regulatory period using the approved WACC rate. The balance is then cleared by an adjustment to Reference Tariffs over the next regulatory term.
ACCELERATED DEPRECIATION	▪ Aurizon is allowed to apply accelerated depreciation to new investments over a 20 year life.

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Other matters currently before the QCA

Standard User Funding Agreements (SUFA)

Background

- Under UT3, the QCA required:
  - Aurizon Network to fund each expansion with a capital cost below $300m at regulated rates
  - implementation of a framework to allow access seekers to fund each expansion over $300m at their option
- SUFA was constructed to ensure there was no 'operational severance' of user funded assets from Aurizon Network's network because
  - operational severance would result in two unusable sets of rail infrastructure
  - any possibility would pose large risks for Aurizon Network, user funders and other customers
- Therefore SUFA ensures that user funded assets are to form part of an integrated rail system managed by Aurizon Network for the life of a SUFA transaction
  - Aurizon Network is project manager for the project delivery phase
  - Aurizon Network is lessee for the operational phase
- SUFA documentation substantially eliminates any risk of operational severance and Aurizon Network bears no risk over the construction costs of SUFA assets (to the extent hybrid funding arrangements are not used)
- SUFA framework offers access seekers:
  - funding alternatives
  - greater competition in negotiation of expansion on Aurizon Network
  - Direct relationship between Aurizon Network and access seekers
- SUFA is available only to access seekers

Features of model

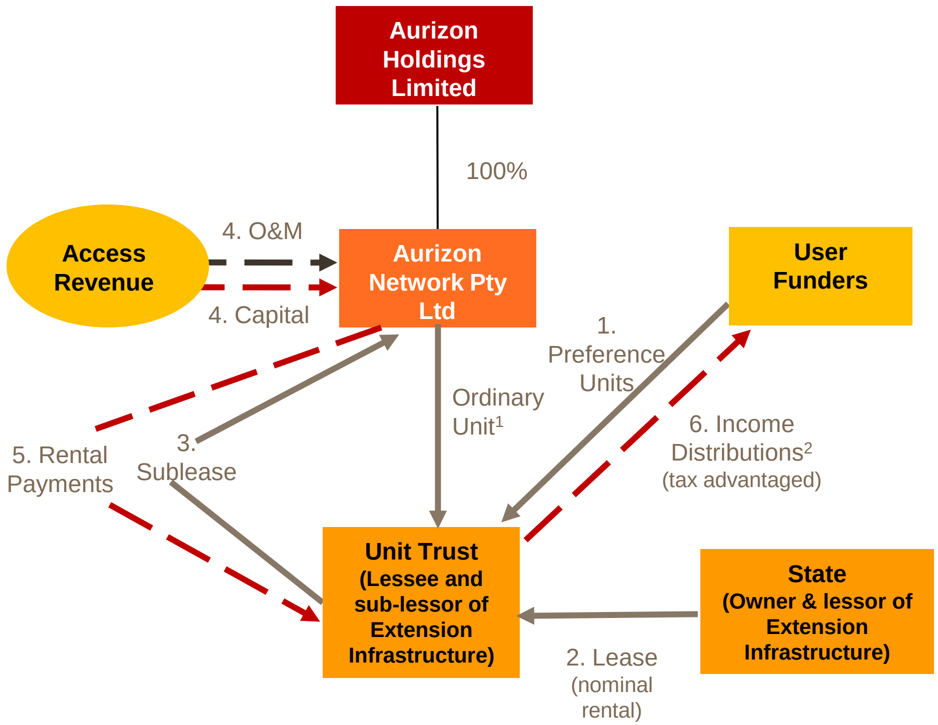
- Tax efficient as user funders receive their access revenue entitlement and tax depreciation benefits
- No franking credit issues for Aurizon & user funders (i.e. user funders receive a pre-tax distribution)
- Private rulings to address any tax risk to be obtained prior to first transaction
- Flexible, as suitable for hybrid funding (i.e. funding by both access seekers and Aurizon Network on the same transaction)
- Fully consistent with AU provisions on tax & financial benefits
- No joint venture between Aurizon Network and user funders
- Although the trust is the principal of construction contracts, Aurizon Network as the project manager manages the contracts

Process update

- Aurizon Network lodged its SUFA submission with the QCA on 20 December 2012
- The QCA has subsequently placed the submission on its website and requested comments from interested parties by 3 May 2013
- In parallel with the QCA process, Aurizon Network is working with a customer group to resolve key outstanding issues related to the proposed SUFA documentation
- It is expected that this parallel process will assist in accelerating the QCA's review and ultimately in finalising an approved SUFA arrangement

SUFA Framework

Unit Trust Model Overview



1. Aurizon Network subscribes for preference units if hybrid funding
2. Aurizon Network receives tax advantaged income distributions on its preference units if hybrid funding

The SUFA framework is based on an innovative unit trust model under which the trust (the "Trust") develops the SUFA assets ("Extension Infrastructure"), which are to be incorporated into the relevant railway system and become owned by the State. The State leases these assets to the Trust, which sub-leases them to Aurizon Network to operate as a part of its rail network

Flow of funds

1. Preference Unit Subscription
   - User funders contribute subscription funds to the Trust that are used to construct Extension Infrastructure[1]
2. Lease
   - Extension Infrastructure transferred by the Trust to State lessor upon construction and leased to the Trust for nominal rental
   - Trust holds and depreciates Extension Infrastructure for tax purposes
3. Trust subleases Extension Infrastructure to Aurizon Network
4. Access Revenue
   - Aurizon Network receives access revenue (capital and operational & maintenance components) from system users (including user funders)
5. Rental payments
   - Aurizon Network makes rental payments under sublease to the Trust for use of Extension Infrastructure
   - Rental payments = user funders' share of capital component of aggregate access revenue on upgraded railway system
6. Income distributions
   - Trust distributes its income (essentially rent receipts less administration costs) to user funders[2]
   - Income distribution to user funders is tax advantaged (i.e. full tax depreciation pass through)

Electrification

- Over several decades, Aurizon Network has made substantial investment in electric traction infrastructure assets. The investment has been consistently endorsed by both customers and the QCA
- Aurizon Network has undertaken a thorough review of the issue, both in the context of developing a more appropriate pricing mechanism for past investments as well as in the context of considering potential future investments in electric traction infrastructure
- In late 2011, Aurizon Network submitted a Draft Amending AU ("DAAU") to the QCA to address the issue by proposing a mechanism that enhanced price signals to promote the use of electric traction infrastructure. The philosophy underlying the DAAU was that a regulated business like Aurizon Network should reasonably expect to recover investments made to meet the demands of customers and that the regulator would act to mitigate any hold-up risks. The customer pre-approval mechanism used to gain approval for the past investments was specifically designed to give Aurizon Network confidence that any sunk investments would be recovered
- In mid-2012, the QCA issued a draft decision rejecting Aurizon Network's DAAU. However, the QCA acknowledged that the current price structure for electric traction sends inefficient price signals - effectively discouraging use of the infrastructure through a higher price in times of underutilisation. The QCA requested comments on its draft decision by September 2012. Aurizon, the Queensland Resources Council and the QCA have run a series of workshops in 2013 to explore appropriate solutions
- The QCA has advised Aurizon Network that it is not seeking to have the value of the electric traction infrastructure assets impaired and wishes to develop an effective pricing mechanism that resolves the issues associated with the current AT5 tariff
- AT5 DAAU lodged 24 April 2013

Other

Matter	Status
SRCA Standard Rail Connection Agreement	Final approval 24 April 2013
SUFA Standard User Funding Agreement	Lodged 20 Dec 2012 Consultation post lodgment is ongoing
Extension process	Consultation commenced March 2013 UT4 concepts to be included in consultation from April
Draft Incentive Mechanism	QCA decision pending
AFoA (SAA) Alternate Form of Access	final decision to reject 24 Apr, with QCA amendments largely acceptable to Aurizon Network Conforming resubmission form Aurizon Network to QCA due 29 May 2013
GAPE tariffs	QCA decision pending
WACC review	Extension approved to 31 October 2013

Addendum

Glossary

National Competition Council

An independent Commonwealth body established to administer the national competition policy objectives. Its main role was to assess Government performance in implementing the Competition Principles Agreement (CPA) and making recommendations regarding competition payments to state governments.

The NCC now focuses primarily on reviewing applications for declaration or revocation of services and assessing applications for certification of state based access regimes as achieving the objectives of the competition principles agreement (it is an ‘effective regime’)

The NCC also separate the decision of whether a service should be regulated from regulation of the service (Australian Competition and Consumer Commission).

Declaration

Involves the consideration by the relevant regulator as to whether the nominated service is provided by a natural monopoly (is more efficient to be provided by 1 facility than 2). In order to be declared a facility must meet all of the following criteria

- access or increased access would promote a material increase in competition in an upstream or downstream market
- the facility is not economic to duplicate
- the facility is of state significance
- access can be provided safely
- access is in the public interest

The regulator makes a recommendation to declare to the relevant state or Commonwealth minister who either accepts or rejects the regulator’s recommendation.

Glossary

Queensland Rail Access Regime (QRAR)	Comprises the Queensland Competition Authority Act, the declarations made under that Act and the Aurizon and Aurizon Network Access Undertakings. The QRAR was certified as an effective regime for a period 10 years in January 2011. The certification may be reviewed if the regime does not continue to meet the objectives of the CPA or the CPA is amended.
Depreciated Optimised Replacement Cost (DORC)	Is the theoretical value of an asset that would be required to be installed to duplicate the service which is being provided. It is intended to reflect the price which would prevail in a market if bypass of the service was feasible (as this is all a party should be prepared to pay). Determining DORC is a complex exercise and regulators have ‘locked-in’ initial valuations to provide regulated businesses investment certainty from changes in technology and construction costs.
Binding Ruling (or fixed principles)	May be sought and obtained from an economic regulator to increase certainty to the regulated business. Once obtained a binding ruling must be consistently applied in subsequent Access Undertakings for the period of the ruling. No rulings have been sought under the QCA Act or the Competition and Consumer Act.
Access Codes	Developed to provide a more prescriptive industry based access framework than applies more generically under the Act. Codes have previously been developed in the electricity and gas industries which have now been converted into legislative instruments. Access codes are developed by relevant industry bodies (national access regime) or by the Minister (QRAR). The Western Australian rail access regime is an example of a Code.

Glossary

Judicial Review	The only form of legal remedy for regulatory decisions under the QRAR. Under the QRAR a decision made by the regulator which is in error is not appealable unless the regulator has not exercised procedural fairness in making that decision. Procedural fairness follows principles of natural justice and requires the regulator to have proper regard to the arguments presented to it.
Standard User Funding Agreement (SUFA)	The template contracting model which allows a third party to fund an expansion of the network where Aurizon Network is not prepared to do so at the regulatory endorsed terms; or the access seeker does not consider the alternate terms proposed by Aurizon Network are reasonable. The Standard User Funding Agreement is intended for application to mainline expansions and provides for an equitable reconciliation of revenue generated by assets funded by both Aurizon Network and Users between those parties.
Margin Squeezing	Refers to circumstances where the below rail returns are sufficiently material that a related operator engages in the conduct of pricing its services below its avoidable costs in order to obtain an unfair or unreasonable competitive advantage in the relevant downstream market. The Access Undertaking includes an obligation on Aurizon Network to <u>not</u> engage in conduct which has the purpose of, results in or creates, or is likely to result in or create this outcome.
Undertaking 3 (UT3)	Network's current Access Undertaking (UT3) was approved by the QCA in October 2010 and applies to 30 June 2013. Under the terms of the QCA Act and UT3 which relate to Network, the QCA is chiefly responsible for approving the Access Undertaking and related activities, approving standard access agreements and related arrangements, approving annual capital expenditure and roll forward of the RAB, approving annual tariffs, enforcing the provision of monthly and annual detailed performance reports and dispute resolution if referred by a party

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CQCN—Newlands System

- The Newlands coal system is located in the Northern end of the Bowen Basin and connects to the Abbot Point Coal Terminal.
- In December 2011, a link from the Goonyella System, known as the Goonyella to Abbot Point Expansion ("GAPE") was opened, increasing capacity on the Newlands system to Abbot Point by 33mtpa to 50mtpa

Key statistics[1]	
FY13 Contracted Tonnages (including GAPE)	31.4mt
Coal Mines Serviced (2013)[2]	4
Coal Export Terminals	1
Coal Domestic Terminals	2
Export Coal (FY12)	97%
Port Capacity (2012)	50mtpa
Network Length (including GAPE)	320km
Traffic Type	Diesel Consists

GAPE	
Capex	A$1.2bn
First railings	Dec 2011

1. Aurizon analysis
2. Wood Mackenzie, November 2012

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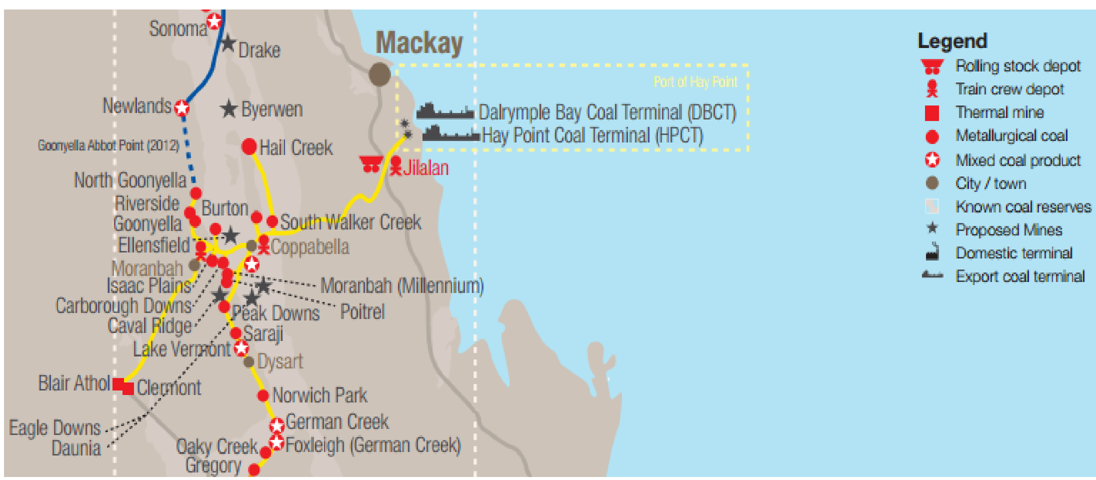
CQCN—Goonyella System

- The Goonyella coal system is located in the central Bowen Basin and is the largest coal system in Queensland by tonnage hauled.
- It links to the Port of Hay Point, which is one of the world's largest coal export ports by volume throughput



Key statistics[1]	
FY13 Contracted Tonnages	131.1mt
Coal Mines Serviced (2013)[2]	25
Coal Export Terminals	2
Coal Domestic Terminals	0
Export Coal (FY12)	100%
Port Capacity (2012)	129mtpa
Network Length	978km
Traffic Type	Predominantly Electric Consists

1. Aurizon analysis
2. Wood Mackenzie, November 2012

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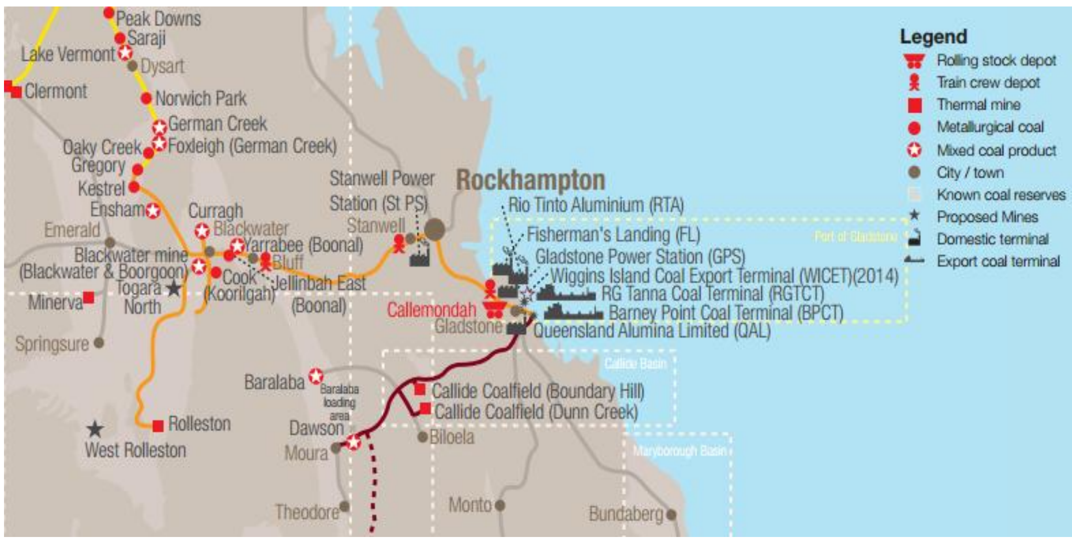
CQCN—Blackwater System

- The Blackwater coal system carries the second highest tonnages in Queensland (after the Goonyella system), and transports export coal to the RG Tanna and Barney Point coal terminals in Gladstone.
- Domestic coal is transported to domestic end users, including the Stanwell and Gladstone power stations, Rio Tinto Alcan and Cement Australia



Key statistics(1)	
FY13 Contracted Tonnages	71.4mt
Coal Mines Serviced (2013)[2]	12
Coal Export Terminals	2
Coal Domestic Terminals	5
Export Coal (FY12)	90%
Port Capacity (2012)	78mtpa
Network Length	1108km
Traffic Type	Electric & Diesel Consists

1. Aurizon analysis
2. Wood Mackenzie, November 2012

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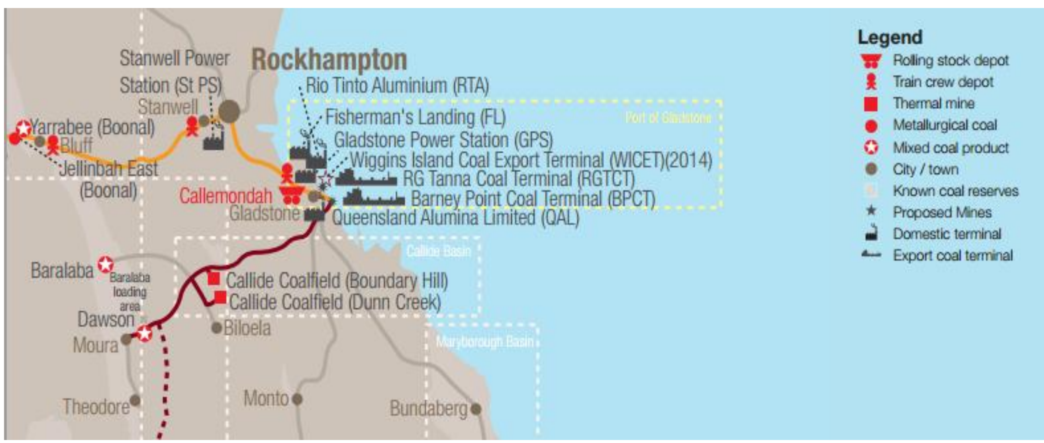
CQCN—Moura System

- The Moura coal system is coupled with the Blackwater system to service the industrial and rural communities of the Dawson and Callide valleys in central Queensland.
- Coal is transported from mines to domestic customers including Gladstone power station, Queensland Alumina Ltd, Rio Tinto Alcan, Cement Australia and the RG Tanna and Barney Point export coal terminals in Gladstone



Key statistics(1)	
FY13 Contracted Tonnages	16mt
Coal Mines Serviced (2013)[2]	3
Coal Export Terminals	2
Coal Domestic Terminals	5
Export Coal (FY12)	82%
Port Capacity (2012)	78mtpa
Network Length	261km
Traffic Type	Diesel Consists

1. Aurizon analysis
2. Wood Mackenzie, November 2012

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Historical WACC determinations

	UT1	UT2	UT3
Date	Jul 01-Jun 05	Jul 05-Jun 09	Jul 09-Jun 13
Risk free rate	5.97%	5.21%	5.19%
Mkt risk premium	6.00%	6.00%	6.00%
Equity beta	0.76	0.90	0.80
Cost of equity (post-tax)	10.53%	10.61%	9.99%
Debt margin	1.20%	1.43%	4.75%
Cost of debt (pre-tax)	7.17%	6.64%	9.94%
Gearing	55%	55%	55%
Vanilla WACC	8.68%	8.43%	9.96%

Note: Vanilla WACC includes the cash flows associated with the tax benefit of debt financing and the benefits to equity holders of imputation credits

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Analyst Briefing – Aurizon Network's UT4 Submission

Mike Carter, Chief Executive Officer – Aurizon Network

29 April 2013

Note: All information in this presentation is based on information available as at Friday 26 April 2013

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