

February 2021

# Aurizon Operations Limited – Debt Investor Presentation

George Lippiatt – CFO & Group Executive Strategy

Chris Vagg – Head of Investor Relations & Group Treasurer



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# Presenters

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**George Lippiatt**  
CFO & Group Executive  
Strategy

George was appointed Chief Financial Officer and Group Executive Strategy in June 2020.

He has been with Aurizon for seven years in a number of roles, most recently as Head of Strategy and Corporate Development. In this position he has played a key role in a number of major strategic reviews, transactions, structural changes and transformation programs.

George has fifteen years' experience in corporate finance, strategy and sustainability and prior to joining Aurizon gained extensive infrastructure and finance experience at KPMG and Suncorp Bank.

George holds a Bachelor of Commerce, is a Chartered Financial Analyst (CFA) Charterholder and a Certified Practising Accountant (CPA).



**Chris Vagg**  
Head of Investor Relations  
& Group Treasurer

Chris has more than 20 years' experience in the finance industry in both Australia and the United Kingdom.

For nine years, Chris has been in the Investor Relations team at Aurizon, building capability within the function since the Company listed on the ASX in November 2010.

During this time Chris has played a critical role in engaging with the investment community and articulating Aurizon's investment proposition.

Since July 2017, Chris has assumed responsibility for Aurizon's treasury and insurance functions.

Prior to his appointment at Aurizon, Chris worked for seven years as a sell side analyst for Citi in London and Sydney after commencing his career as a chartered accountant.

# Contents

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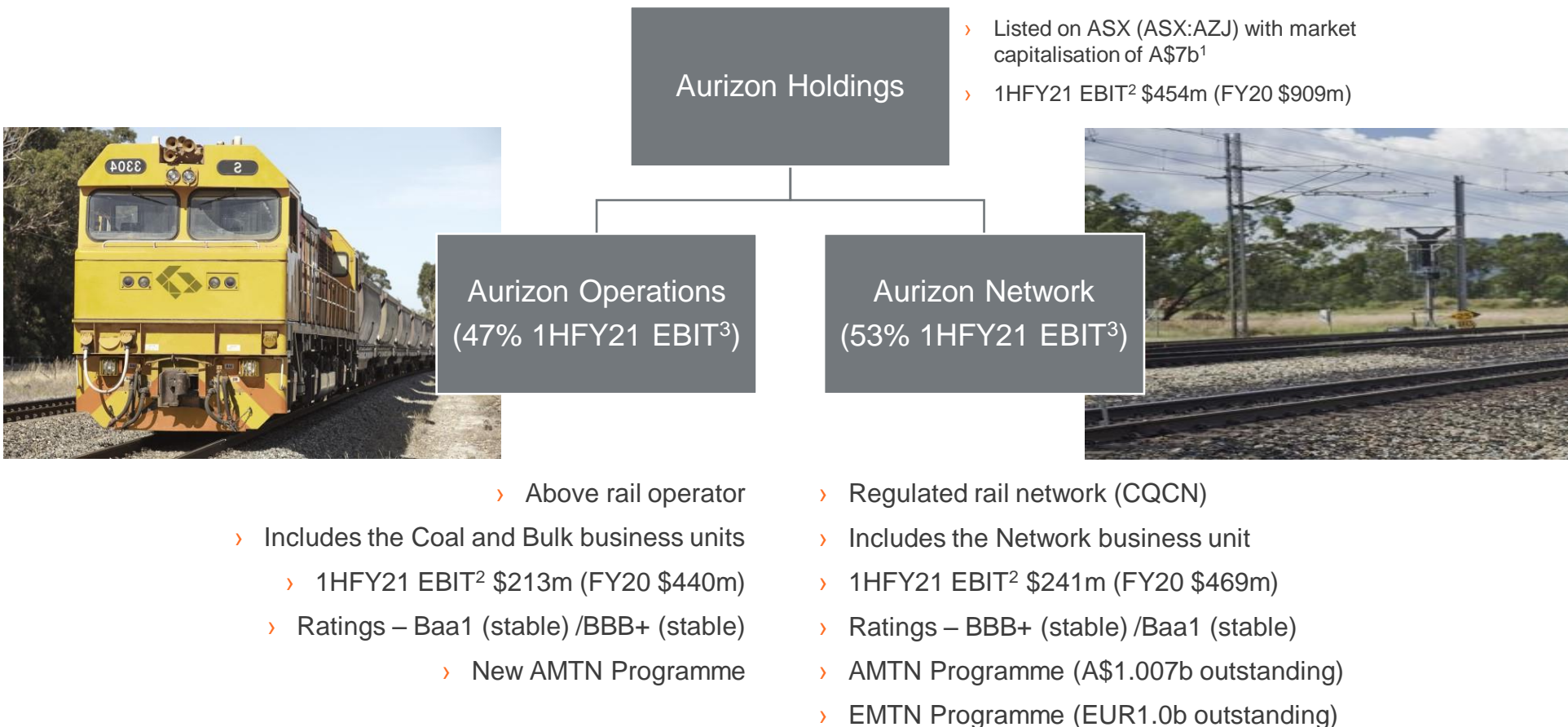
1. Aurizon Holdings Overview
2. ESG
3. Aurizon Operations Overview
4. Credit Highlights
  - › Solid demand for Australian coal and growth in key bulk commodities
  - › Strong position in competitive market as Australia's largest rail freight operator
  - › High fixed-revenue, long-term contracts with strong customers
  - › Stable financial performance through the business cycle (including COVID-19)
  - › Strong balance sheet with commitment to current credit ratings (BBB+/Baa1)
  - › Committed to long-term target of net-zero operational emissions (scope 1 and 2) by 2050
5. Transaction Overview
6. Additional Information

# 1. Aurizon Holdings Overview

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# Aurizon Holdings Overview

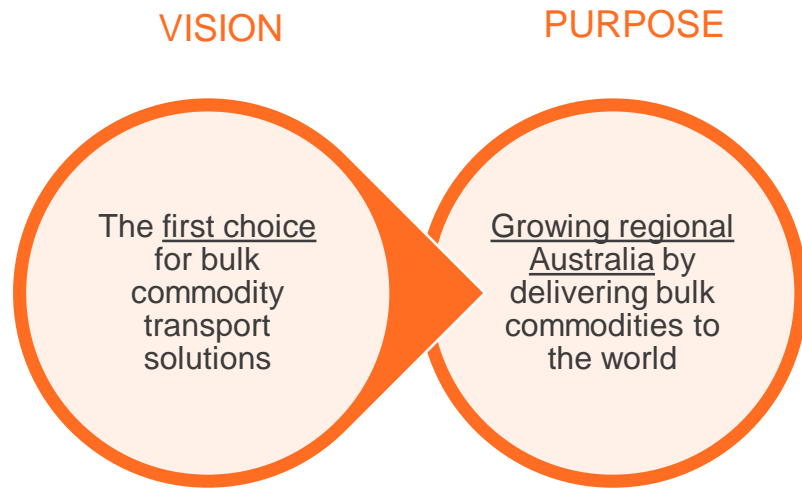
Aurizon has standalone business units for Aurizon Operations and Aurizon Network with independent credit ratings



1. Market capitalisation as at 15 February 2021  
 2. Underlying continuing operations.  
 3. Unaudited 1HFY2021 Financials

# Aurizon's Vision, Purpose, Values and Strategic Levers




Execution against the three strategic levers is aimed at driving differentiation, competitive advantage and sustainable performance



## Our values

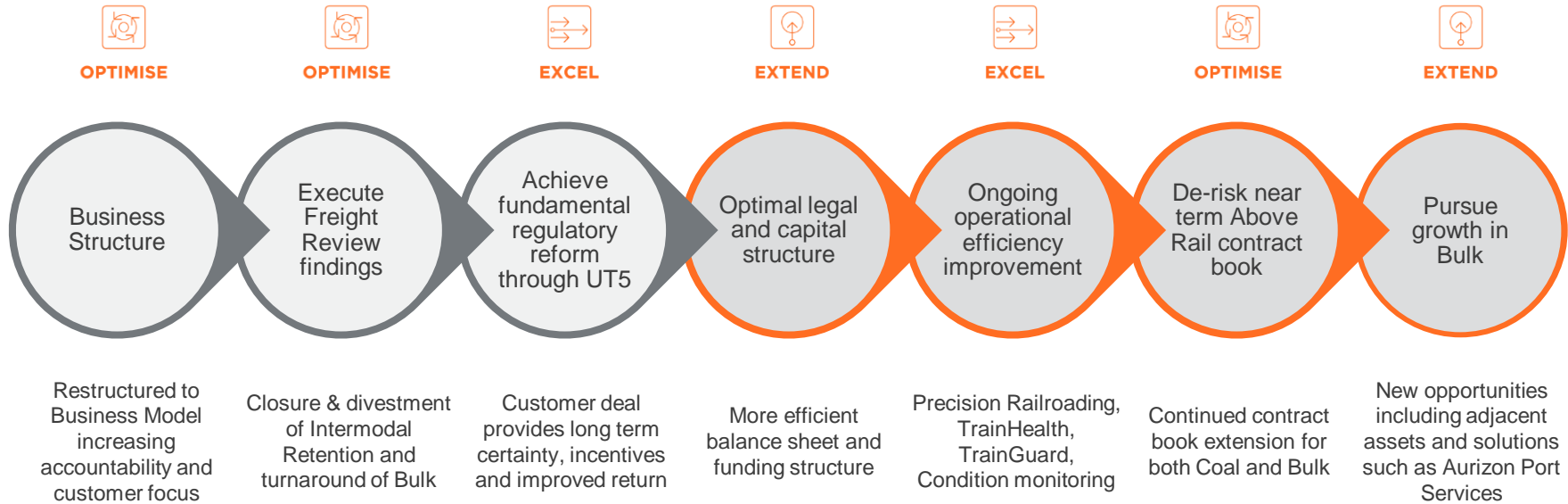
-  SAFETY
-  PEOPLE
-  INTEGRITY
-  CUSTOMER
-  EXCELLENCE

### STRATEGIC LEVERS

-  **OPTIMISE** Accelerate cost competitiveness of Aurizon
-  **EXCEL** Achieve regulatory reform and competitive advantage through asset efficiency
-  **EXTEND** Position Aurizon for growth

# Execution of Deliverables

Major achievements continue to be aligned with Aurizon’s three strategic levers



Delivered through an integrated structure

 Completed  Continued Focus

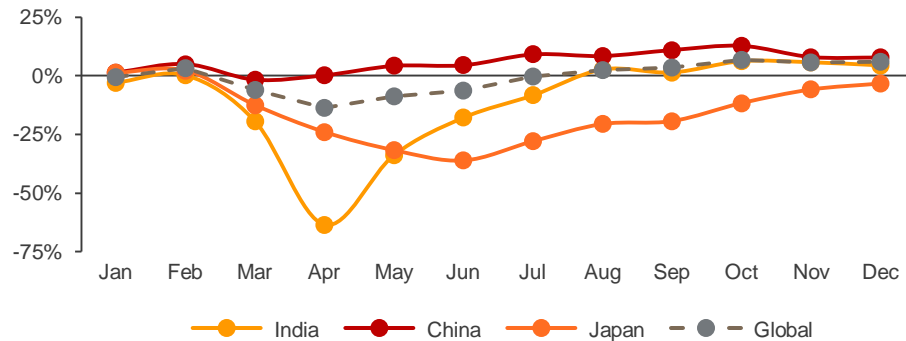


# COVID-19 / Coal – Market Update

Although steel production has resumed to a pre-COVID level, a challenging trade environment with China is impacting near term export volume

## CRUDE STEEL PRODUCTION: KEY NATIONS<sup>1</sup>

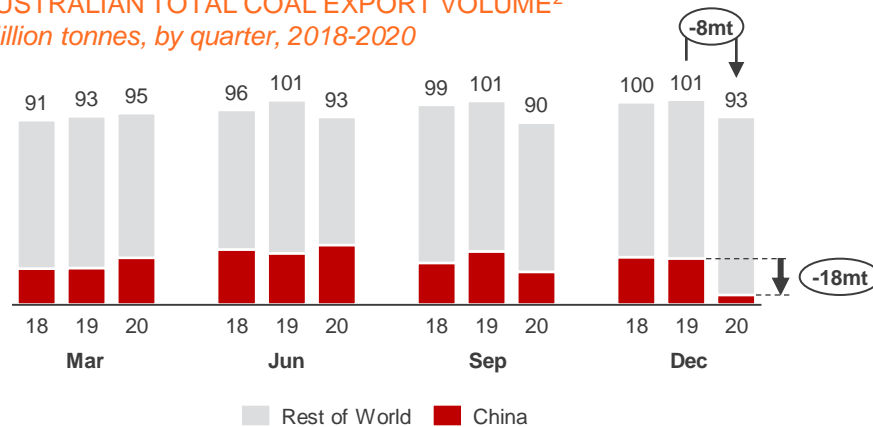
Year-on-year change



- › **Global steel production** – Returned to pre-COVID levels, including record crude steel production in China for 2020 (1.05 billion tonnes)
- › **China trade environment is challenged** – Australian total coal export volume to China was down by 18mt (-79%) in the December quarter with 53 vessels<sup>3</sup> holding Australian coal remain off the coast of China
- › **Alternative export destinations have been found** – However it has not completely offset the negative impact, with 10mt being redirected to markets outside China
- › **Fundamentals of Australian coal** – Despite longer-term expectation that China's participation in seaborne markets will reduce, export growth of ~1% per annum over next decade is supported by:
  - › Steel-intensive growth in India
  - › Prolonged coal-fired generation driven by a relatively young existing fleet in Asia

## AUSTRALIAN TOTAL COAL EXPORT VOLUME<sup>2</sup>

Million tonnes, by quarter, 2018-2020



1. World Steel Association  
 2. Australian Bureau of Statistics  
 3. As at 12 February 2021

## 2. ESG

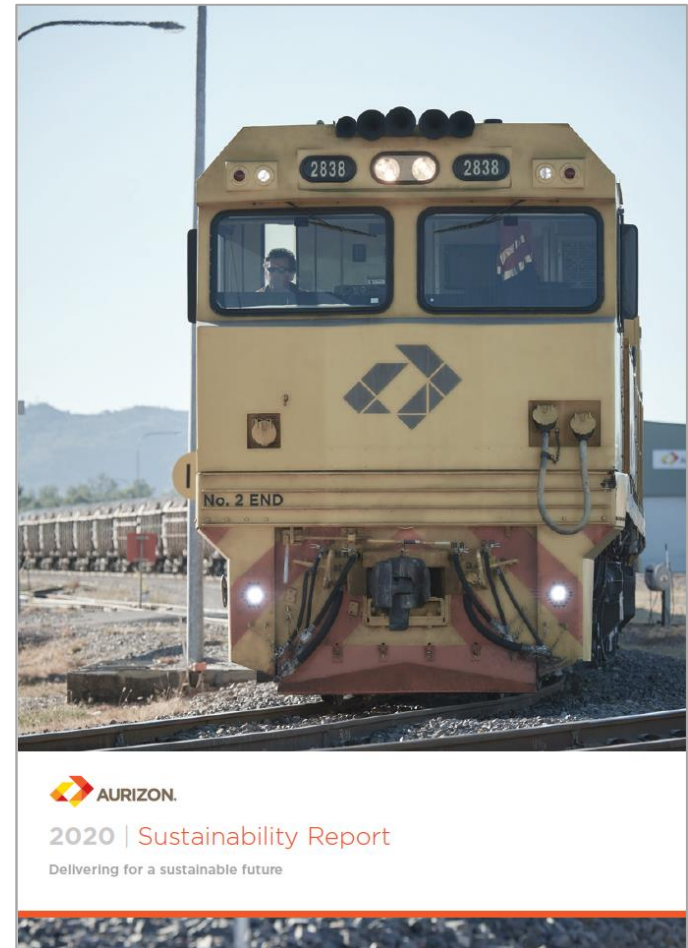
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# Sustainability

2020 was the fourth year of TCFD for Aurizon

## Reporting Approach

- › Aurizon takes a direct approach to reporting environmental, social and governance (ESG) disclosures with the publication of the annual Sustainability Report
- › In September 2020, Australian Council of Superannuation Investors (ACSI) rated Aurizon’s ESG disclosures as *Leading* for the sixth consecutive year
- › As at December 2020, Aurizon participates in FTSE4Good Index Series, MSCI ESG Ratings and Sustainalytics
- › During 2020, Aurizon released its first Modern Slavery Statement and Climate Strategy & Action Plan
- › **Aurizon’s FY2020 Sustainability Report was released in October 2020 and highlights our continued commitment to building a strong performing business that operates responsibly, and is available on Aurizon’s website<sup>2</sup>**



We report against the Task Force on Climate-related Financial Disclosures (TCFD) as recommended by the Financial Stability Board (FSB)



**FTSE4Good**

Aurizon Holdings remains a member of the FTSE4Good Index following the June 2020 index review



ESG rating of AA as at March 2020



ESG rating of "Medium Risk" as at April 2020



**2020 | Sustainability Report**

Delivering for a sustainable future

1. Australian Council of Superannuation Investor (ACSI), ESG Reporting by the ASX200  
 2. <https://www.aurizon.com.au/-/media/aurizon-media-library/sustainability/overview/sustainability-report-2020/sustainability-report-2020.pdf>

# Benefits of Rail Freight

Aurizon continues to advocate for the significant role that rail contributes in the transition to a low-carbon economy



## Rail Freight Policy

- › Our aim is to ensure that rail freight remains competitive and part of the solution as the economy transitions to a low-carbon future
- › We advocate for policy actions to increase the use of rail freight on key national freight corridors, recognising the broader environmental, social and safety benefits

## Benefits of Rail Freight

- › **Environment:** Road freight produces 16 times as much carbon pollution as rail freight per tonne kilometre<sup>1</sup>.
- › **Safety:** Rail transport is a far safer mode of transport than road, with the freight volume carried by one freight train equivalent to the volume carried by 150 semi-trailer trucks<sup>2</sup>. Over the course of a year, the freight task carried by one train removes the need for thousands of truck journeys on our roads, reducing congestion and improving safety.
- › **Productivity:** Significant economic and productivity gains are achievable where there are large volumes of freight and/or where the freight is carried over longer distances.

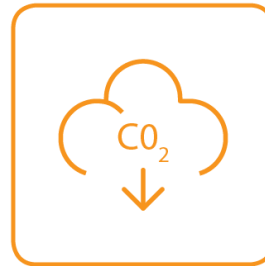
1. Deloitte Access Economics 2017, *Value of Rail: The Contribution of Rail in Australia*.  
2. NSW Government: *Consultation Paper: Clean Air for NSW*, 2016.

# Climate Strategy and Action Plan

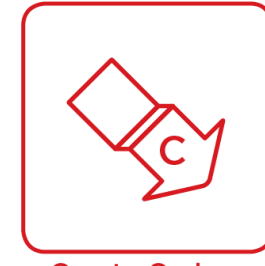
Aurizon is committed to a long-term target of net-zero operational emissions (scope 1 and 2) by 2050 through our Climate Strategy and Action Plan



**Manage Risk and  
Build Resilience**



**Deliver  
Decarbonisation**



**Create Carbon  
Abatement  
Opportunities**

We will continue to assess and enhance our processes for managing climate-related risk and leverage opportunities by:

- › Continuing to use scenario analysis to consider transition risks over short-, medium- and long-term time horizons
- › Continuing to enhance our capability to assess physical risk to key assets and operations
- › Embedding consideration of climate-related risk into risk frameworks and investment standards.

Achieving our operational decarbonisation goals will be driven by:

- › Achieving a short-term target to reduce greenhouse gas emissions intensity by 10% by 2030<sup>1</sup>
- › Establishing the \$50m *Future Fleet Fund*<sup>2</sup>
- › Implementing our *Tracking Towards Net-Zero Operational Emissions* initiatives (outlined on the following slide)
- › Establishing partnerships and forums for customer and industry collaboration
- › Continuing advocacy for the significant role that rail contributes in the transition to a low-carbon economy.

Our commitment to integrating carbon-neutral and carbon-negative solutions has been incorporated into our *Tracking Towards Net-Zero Operational Emissions* initiatives, and will prioritise:

- › Cost-effective renewable energy to augment supply to our electrified rail infrastructure and real estate portfolio
- › High-quality, credible, verified and co-beneficial carbon offset portfolio development.

1. From a 2021 baseline on a tonnes of carbon dioxide per net tonne kilometre basis  
2. To be dispensed over 10 years



# Climate Strategy and Action Plan

We are driving operational decarbonisation through our *Tracking Towards Net-Zero Operational Emissions* initiatives with 20% emissions intensity reduction achieved since 2010

## 2020-2030

Climate Strategy and Action Plan Implementation



### Minimising our Operational Emissions

- › Map and refine our operational decarbonisation pathway in line with our target of net-zero operational emissions by 2050



### Electricity Consumption on Aurizon's Electrified Network Infrastructure

- › Leverage existing energy efficiency capabilities and assets, such as electrified rail in the Central Queensland Coal Network



### Partnerships and Collaboration

- › Pursue partnerships and create forums for collaboration to lead a step change towards decarbonisation of the Australian freight sector

## 2030-2050

Technology Pathway



### Technology Investment Through the *Future Fleet Fund*

- › Invest in the development and adaptation of low-carbon technologies for the Australian rail-freight sector through the \$50m *Future Fleet Fund*



### Renewable Energy

- › Explore opportunities to integrate renewable energy into our current energy mix through direct investment in projects, power purchase agreements and/or behind-the-meter solutions



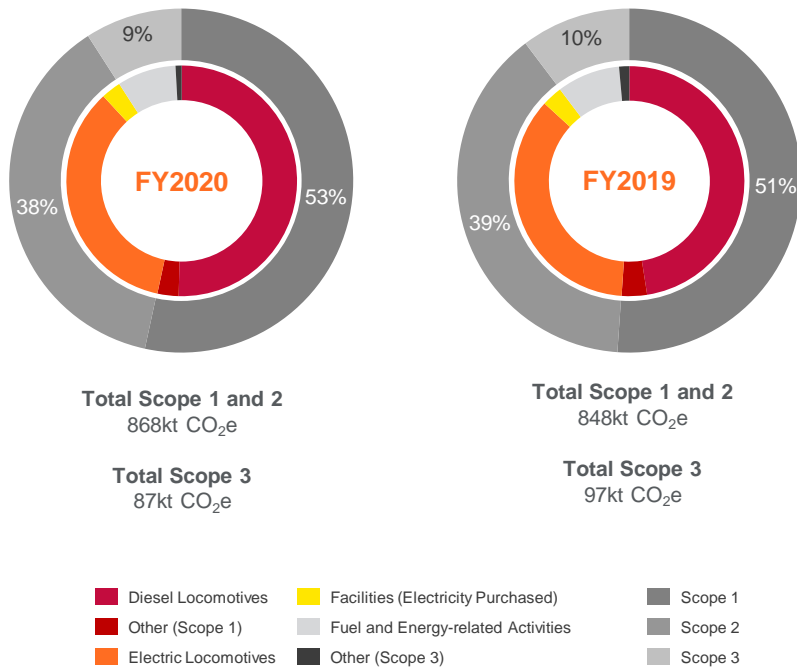
### Carbon Offsets

- › Utilise carbon offsets through project development/ investment and/or purchase, where required, and prioritise offsets with environmental and social co-benefits

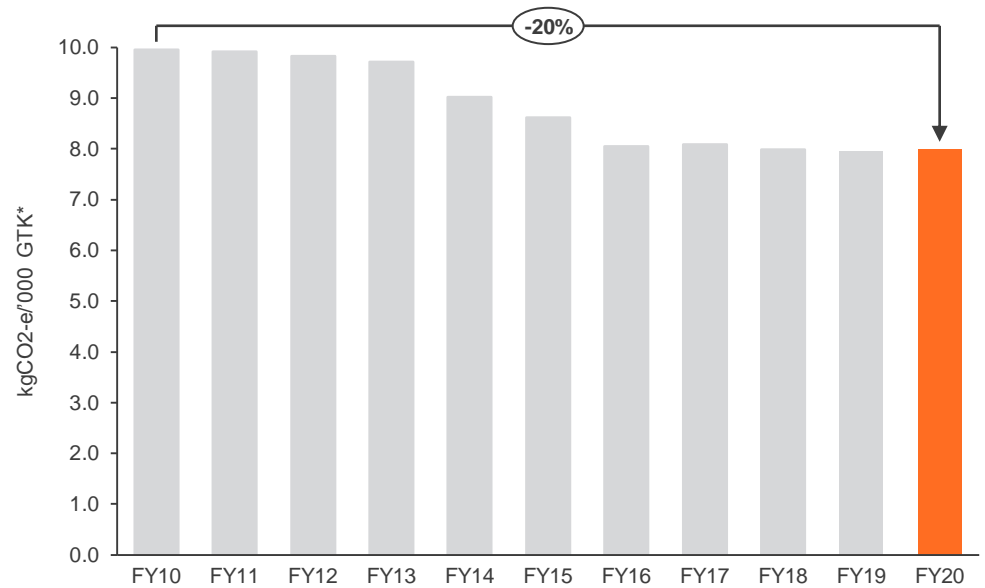
# Climate Strategy and Action Plan

The majority of our emissions are associated with the consumption of energy (fuel and electricity) in the day-to-day operation of our locomotive fleet

## AURIZON'S GREENHOUSE GAS PROFILE



## AURIZON'S LOCOMOTIVE EMISSIONS INTENSITY PERFORMANCE



\*GTK = Gross Tonne Kilometres.

Note: Aurizon's Scope 1 and 2 emissions are reported in accordance with the National Greenhouse and Energy Reporting legislation. The increase in Scope 1 and 2 emissions in FY2020 was driven by moderately higher output in FY2020, and increased grid-based electricity emissions factors in Queensland.

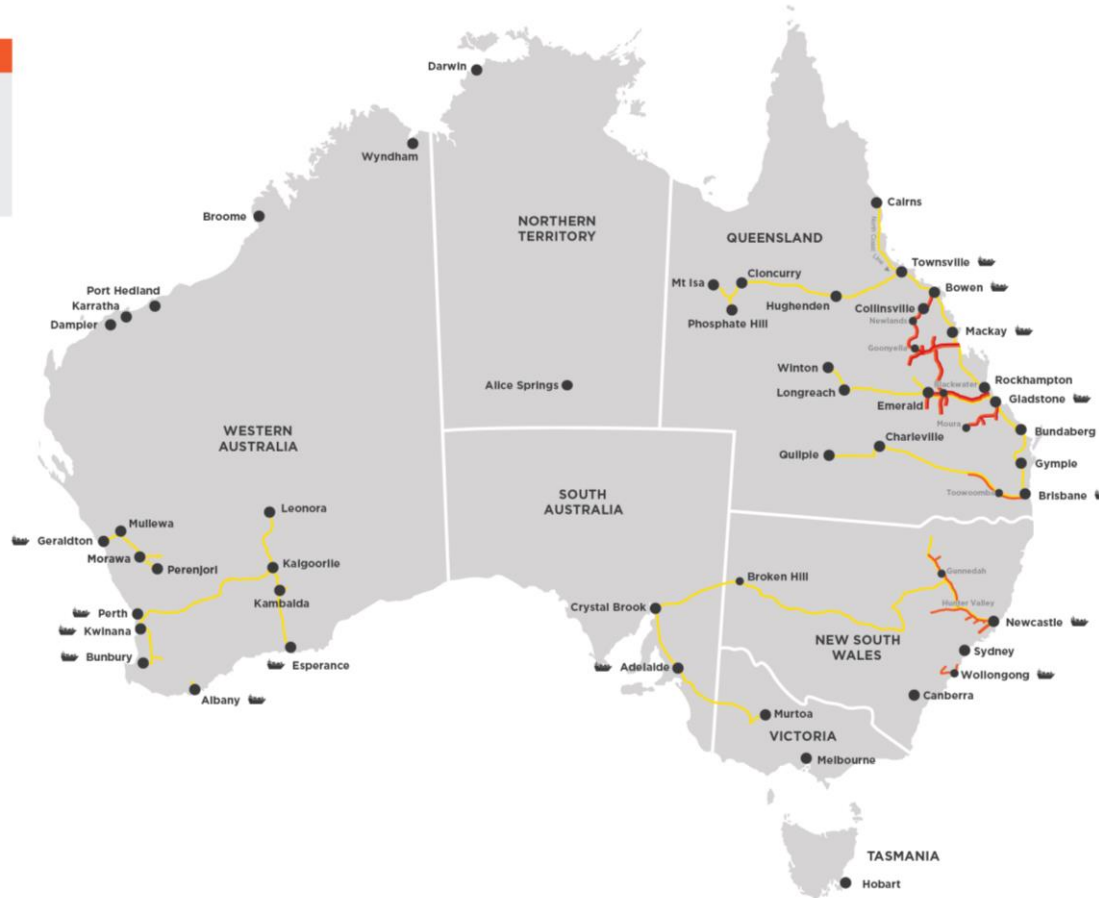
Aurizon's identification of relevant Scope 3 emissions activity sources is informed by the GHG Protocol Corporate Value Chain (Scope 3) Standard and includes: purchased goods and services (paper purchased and water consumption), capital goods, fuel and energy-related activities (including consumption and upstream transportation and distribution), waste generated in operations, business travel (air and ground-based travel and accommodation), employee commuting, and upstream leased assets. The reporting boundary for the Scope 3 emissions data for the FY2020 period includes the categories listed above, with the remaining activity sources excluded due to current data availability issues. Scope 3 emissions from employee commuting, which represent ~4% of the total reported Scope 3 emissions, have been excluded from the limited assurance over this dataset, however will be considered for inclusion in future reporting period once the methodology for calculation has been strengthened/formalised. A breakdown of Aurizon's emissions is provided in the 2020 Sustainability Report.

## 3. Aurizon Operations Overview

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# Key Operational and Financial Statistics

Australia’s largest rail freight operator transporting over 250 million tonnes of commodities, connecting miners, primary producers and industry with international and domestic markets



**EBIT:** \$213m<sup>1</sup> (FY20 \$440m)

**Tonnes Hauled:** 128mt

**Active Locomotives:** 505

**Active Wagons:** 11,883

**Number of Bulk Products**

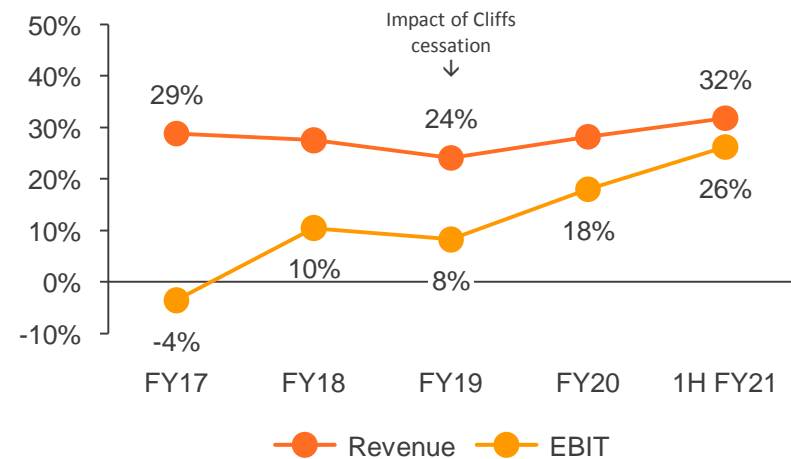
**Hauled:** >15

# Aurizon Operations Overview

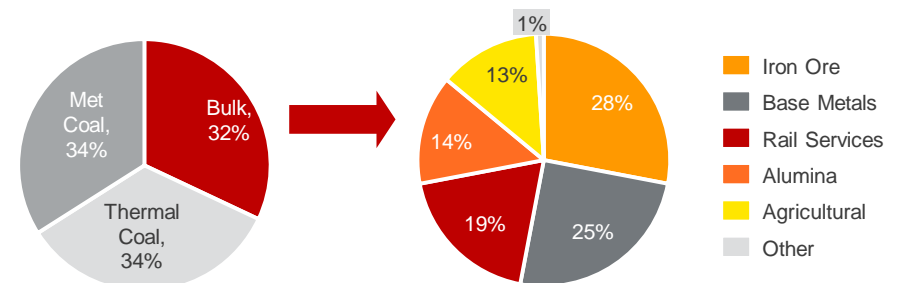
Aurizon Operations consists of Bulk, Coal and Other business units. Bulk is a growing share of revenue and EBIT

| \$m <sup>3</sup>            | 1HFY2021 <sup>4</sup> | FY2020  | FY2019  |
|-----------------------------|-----------------------|---------|---------|
| Revenue                     | 1,146                 | 2,422   | 2,306   |
| Operating Costs             | (933)                 | (1,621) | (1,633) |
| EBITDA - underlying         | 339                   | 696     | 673     |
| Depreciation & Amortisation | (126)                 | (247)   | (238)   |
| EBIT – underlying           | 213                   | 449     | 435     |
| Operating Ratio (%)         | 81.4%                 | 81.5%   | 81.1%   |
| NPAT – underlying           | 152.8                 | 307     | 299     |
| Free Cashflow <sup>5</sup>  | 72                    | 528     | 393     |

BULK SHARE OF OPERATIONS REVENUE & EBIT<sup>1</sup>



REVENUE BY COMMODITY<sup>2</sup>



1. Ex-Access Revenue  
 2. 1HFY2021. Base metals includes associated mining inputs (and rare earths). Rail services includes hook and pull contracts. Revenue is net of Access.  
 3. Underlying continuing operations.  
 4. Unaudited 1HFY2021 Financials  
 5. FY19 Free Cashflow is based on the current corporate structure and thus excludes intercompany dividends received



## 4. Key Credit Highlights

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# Key Credit Highlights

- 
- 1 Solid demand for Australian coal and growth in key bulk commodities
  - 2 Strong position in competitive market as Australia's largest rail freight operator
  - 3 High fixed-revenue, long-term contracts with strong customers
  - 4 Stable financial performance through the business cycle (including COVID-19)
  - 5 Strong balance sheet with Board & Management commitment to current Baa1/BBB+ credit ratings
  - 6 Committed to long-term target of net-zero operational emissions (scope 1 and 2) by 2050

# 1. Solid Australian Export Coal Demand

Australia coal export volume is driven by steel-intensive growth in India and prolonged thermal electricity generation in Asia, supporting coal export growth of ~1%pa over the next decade

## METALLURGICAL COAL

- › Metallurgical coal (or coking coal) is primarily used to produce steel, an integral link with economic development
- › Crude steel production occurs primarily via the blast furnace-basic oxygen furnace (BF-BOF) route, which accounted for 1.3 billion tonnes of crude steel production (72% of total global crude steel production) in 2019<sup>1</sup>. In this process, metallurgical coal currently has no economically viable substitute
- › Australia's largest metallurgical coal export market<sup>2</sup>, India produced 100mt<sup>3</sup> of crude steel in CY2020, a decrease of 11% from (record high production in) the prior year. COVID-19 impacted in 1H, recovery took place in 2H with production +2% compared to 2HCY2019
- › The *Office of Chief Economist* projects crude steel production growth in India of 5.4% per annum (from 2019), reaching 153mt in 2025<sup>4</sup>
- › India coking coal import dependence was 91% for FY2020<sup>5</sup>

## THERMAL COAL

- › Thermal coal is primarily used as a heat source for energy generation, holding a 37% share of global generation in 2019<sup>6</sup>. Thermal coal is also used as a source of energy in cement production, where around 200 kilograms of coal is required to produce one tonne of cement<sup>7</sup>
- › Almost all Australian thermal coal export volume is destined for Asia (CY2020: 98%)<sup>2</sup>
- › For Southeast Asia (ex-Indonesia), over 12GW of coal-fired capacity has come online since 2017 with a further 14GW considered under construction<sup>8</sup>
- › The International Energy Agency projects an 82% growth in coal-fired energy generation in Southeast Asia between 2019 and 2040<sup>9</sup>
- › Vietnam is now Australia's fifth largest thermal coal trading partner (by volume) with record export volume of 14mt in CY2020<sup>2</sup>

1. World Steel Association, *World Steel in Figures 2020*

2. Australian Bureau of Statistics

3. World Steel Association, *Statistics*

4. Office of Chief Economist, *Resources and Energy Quarterly (March 2020)*

5. India Ministry of Coal, *Provisional Coal Statistics (2019-20)*. India financial year (April to March). Domestic washed coal (only) included in calculation

6. International Energy Agency, *World Energy Outlook (2020)*

7. World Coal Association, *Basic Coal Facts*

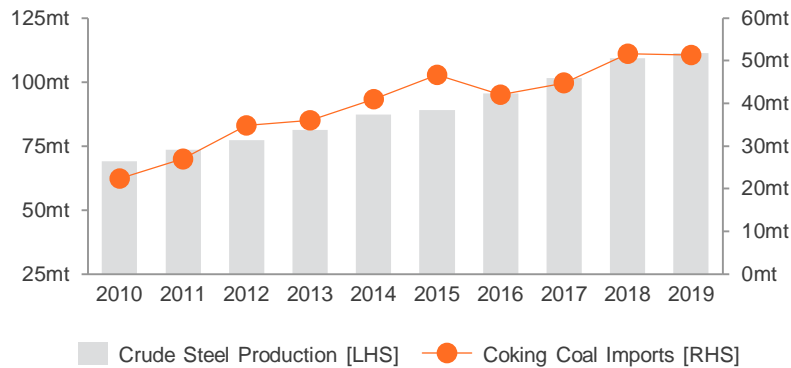
8. S&P Global Market Intelligence *World Electric Power Plants Database (December 2020)*. Indonesia excluded given domestic coal availability

9. International Energy Agency, *World Energy Outlook 2020 (Stated Policies Scenario)*

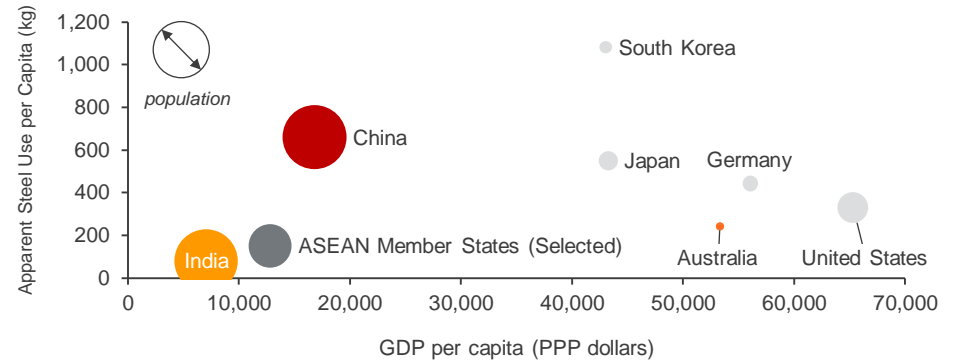
# Future of Coal | Metallurgical Coal

Driven by urbanisation and infrastructure development, the opportunity remains for India and Southeast Asian nations to increase steel usage

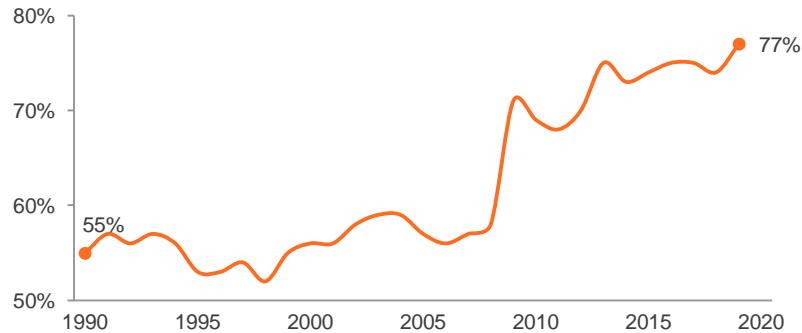
**INDIA: CRUDE STEEL PRODUCTION AND COKING (METALLURGICAL) COAL IMPORT VOLUMES<sup>1</sup>**



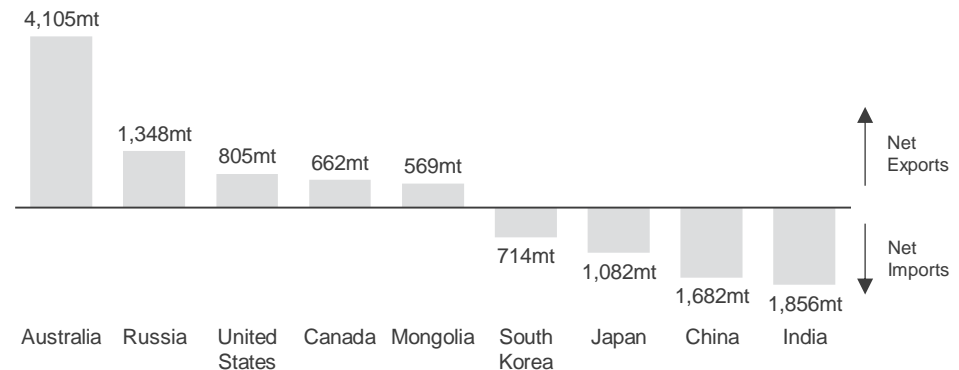
**APPARENT STEEL USE (CRUDE STEEL EQUIVALENT) PER CAPITA VS. GDP PER CAPITA BY KEY COUNTRIES<sup>2</sup>**



**ASIA: PROPORTION OF GLOBAL METALLURGICAL COAL IMPORT VOLUME<sup>3</sup>**



**AGGREGATE METALLURGICAL COAL TRADE BALANCE BY MAJOR COUNTRIES (2020-2040)<sup>4</sup>**



1. World Steel Association, Global Trade Atlas

2. GDP (Purchasing Power Parity; international dollars) – World Bank (2019 data), Population - World Bank (2019 data), Apparent Steel Usage & Apparent Steel Use per Capita – World Steel Association (2019 data). ASEAN Member States (Selected, based on data availability): Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

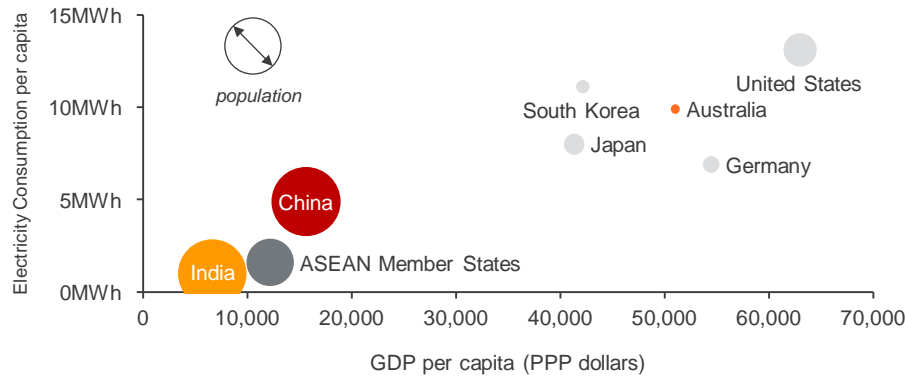
3. International Energy Agency, Coal Information 2020.

4. Wood Mackenzie Global Coal Markets Tool (2020 2H).

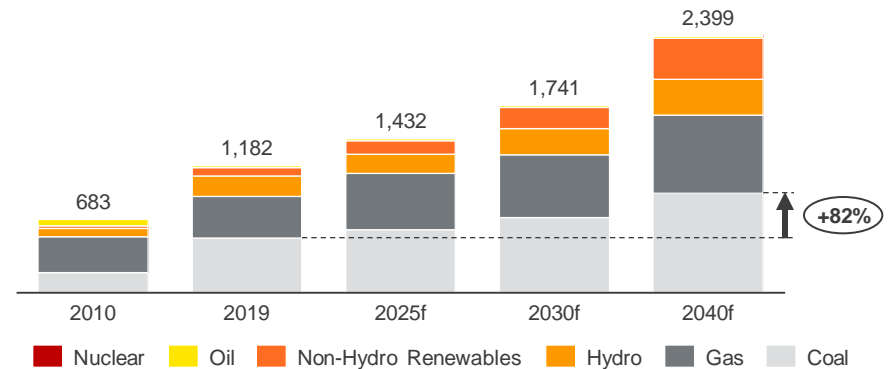
# Future of Coal | Thermal Coal

Although it is recognised that thermal coal generation will reduce as a percentage of global energy, Asia is projected to use coal-fired generation assets for an extended period

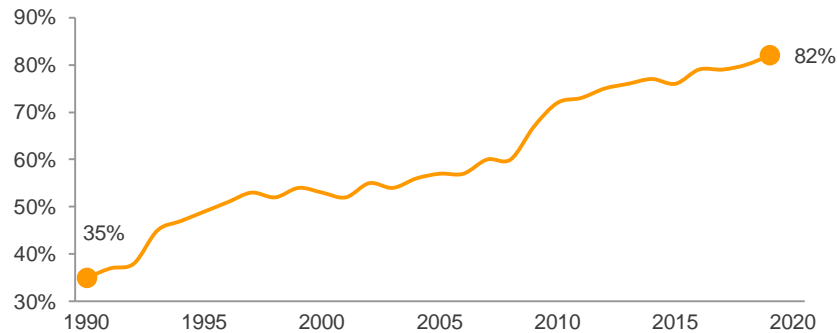
PER CAPITA ELECTRICITY CONSUMPTION VS. PER CAPITA INCOME BY KEY COUNTRIES<sup>1</sup>



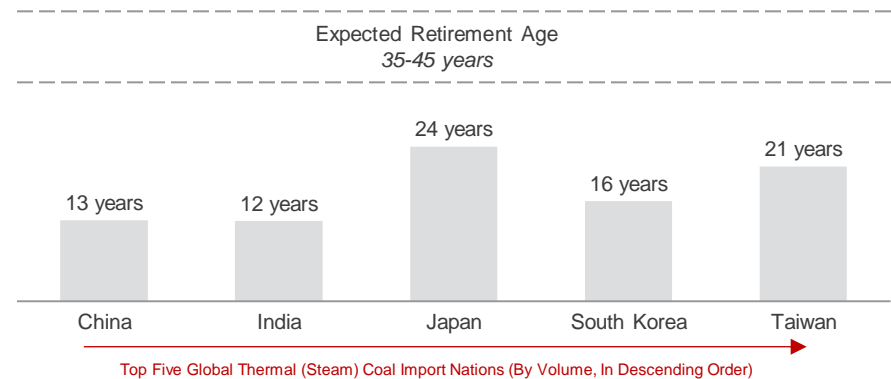
IEA WORLD ENERGY OUTLOOK (STATED POLICIES SCENARIO) FOR ELECTRICITY GENERATION IN SOUTHEAST ASIA, BY SOURCE (TWh)<sup>2</sup>



ASIA: PROPORTION OF GLOBAL THERMAL COAL IMPORT VOLUME<sup>3</sup>



AVERAGE AGE OF COAL-FIRED ELECTRICITY CAPACITY<sup>4</sup>

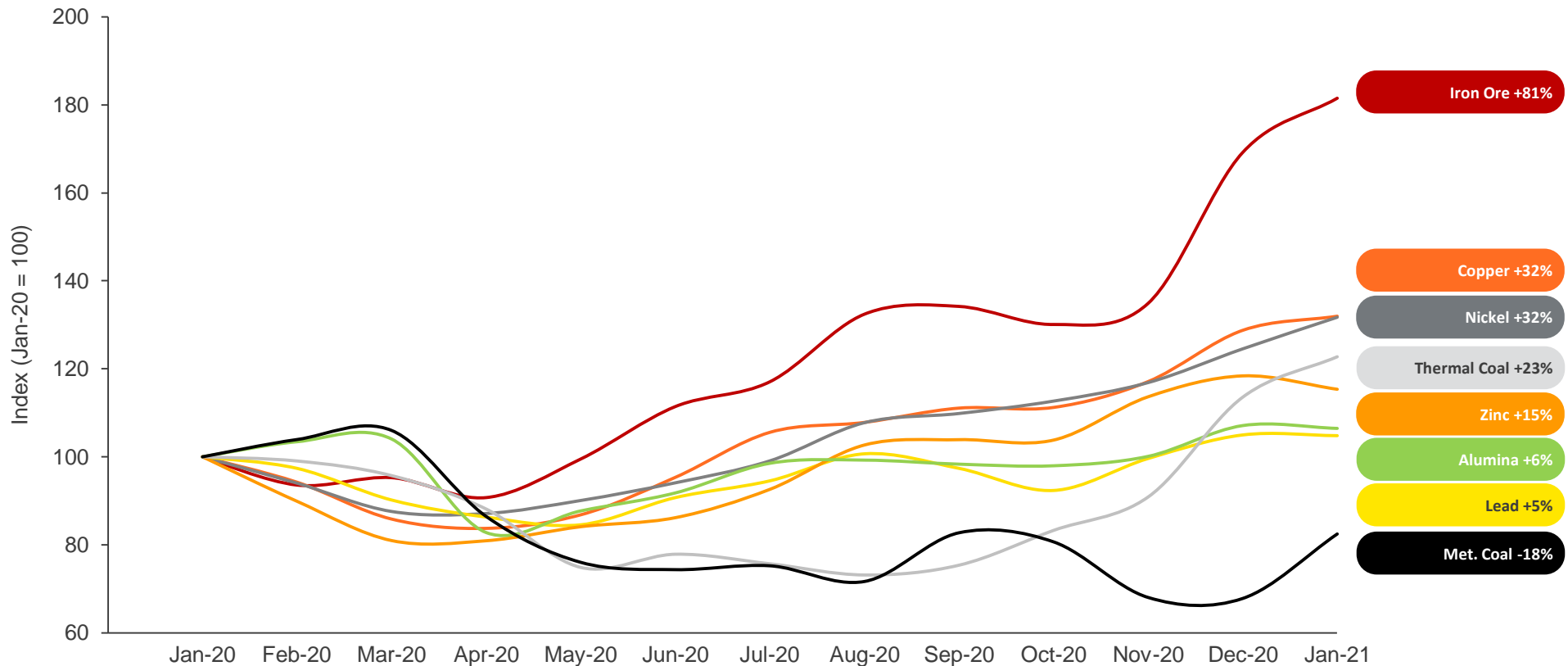


1. GDP (Purchasing Power Parity, current international dollars) – World Bank (2018 data), Population - World Bank (2018 data), Electricity Consumption (KWh) – International Energy Agency (2018 electricity consumption per capita data). ASEAN Member States: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.  
 2. International Energy Agency, World Energy Outlook 2020  
 3. International Energy Agency, Coal Information 2020  
 4. S&P Global Market Intelligence World Electric Power Plants Database (December 2020). Average age is capacity weighted and calculated as at December 2020.



# Commodity Price Chart (12 months)

Commodity prices remain resilient despite impact of COVID related lockdowns



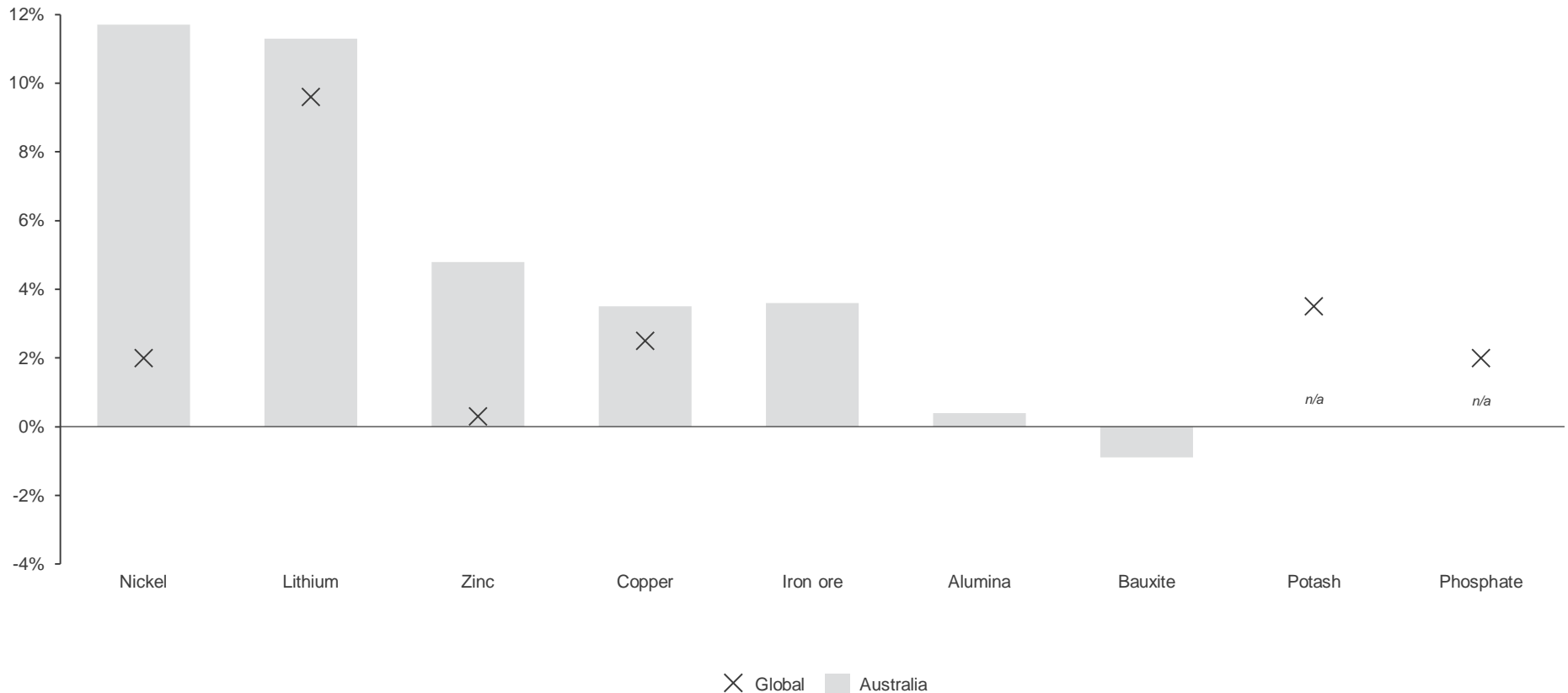
1. Source: Platts, UBS, CBA. Note: Index in US\$/t

# Growth in Key Bulk Commodities

Australia is a significant contributor to the growth in supply of bulk commodities

## Global & Australia supply growth (CAGR 2019-2025)

*Selected commodities*

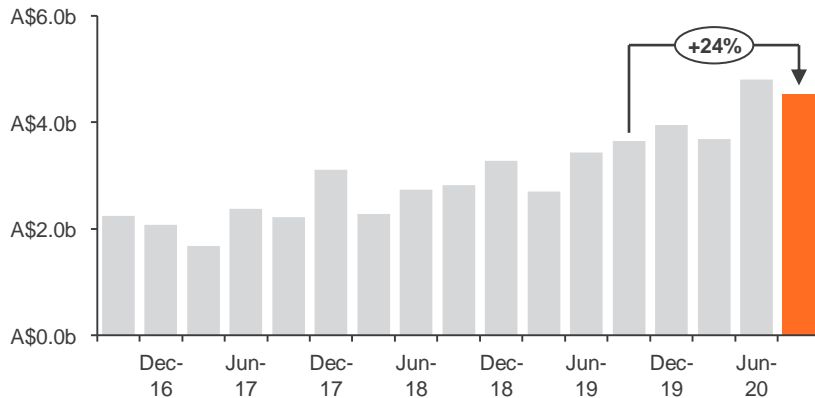


Notes/Sources: Lithium, Nickel, Bauxite, Iron ore, Alumina, Zinc, Copper: Office of the Chief Economist (Resources & Energy Quarterly March 2020), Potash and phosphate (Phosphate is represented by Phosphoric Acid): Food & Agriculture Organization of the United Nations – World fertilizer trends and outlook to 2022 (growth represents world supply between 2016-2022). No global growth figures stated for iron ore, alumina or bauxite.

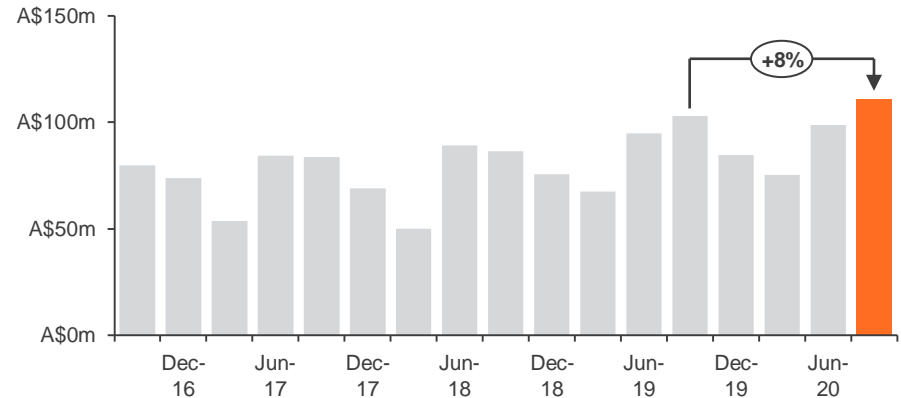
# Bulk – Australia Capital & Exploration Expenditure

Aurizon Operations is well placed to service customers within growing commodity markets

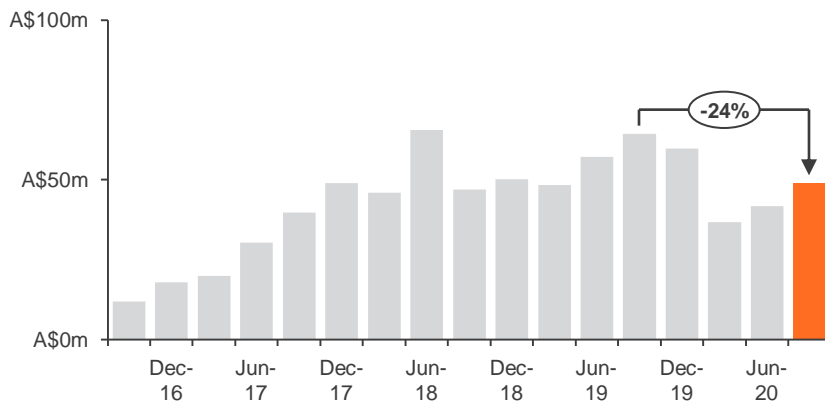
## CAPITAL EXPENDITURE: METAL ORE MINING<sup>1</sup>



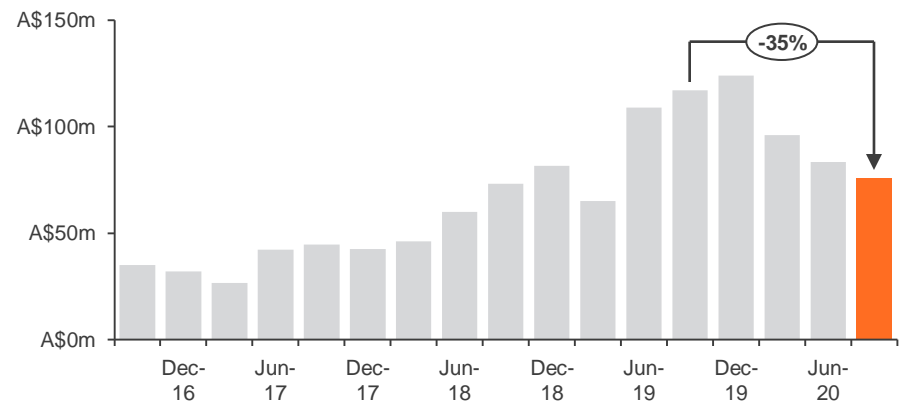
## EXPLORATION EXPENDITURE: IRON ORE



## EXPLORATION EXPENDITURE: NICKEL & COBALT



## EXPLORATION EXPENDITURE: COPPER

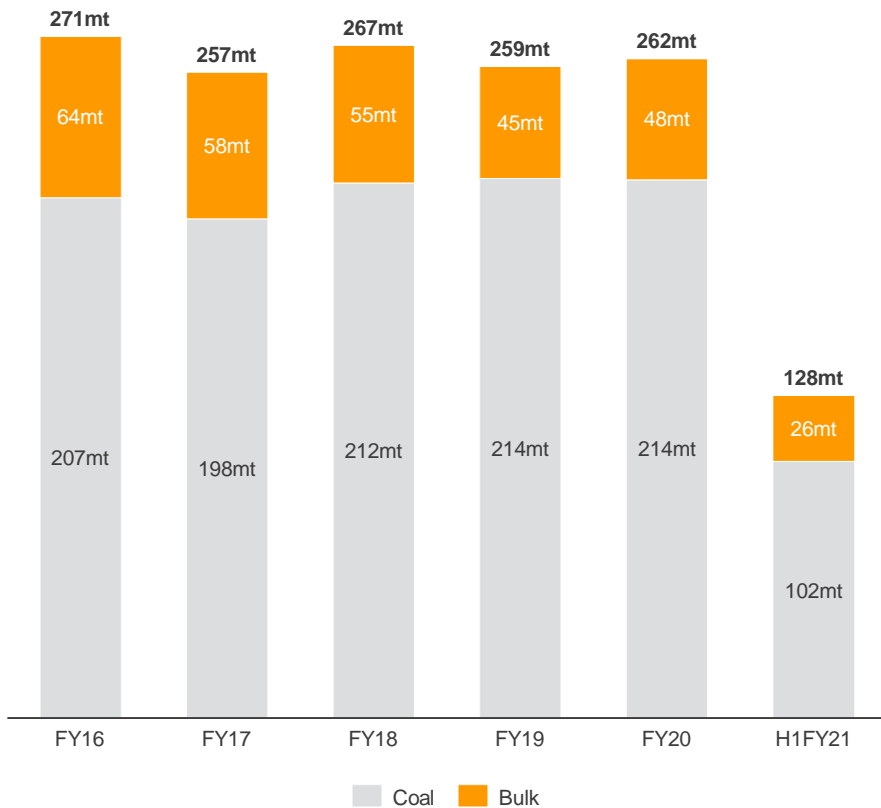


<sup>1</sup> Metal Ore Mining includes: Iron ore, Bauxite, Copper, Gold, Mineral Sand, Nickel, Silver, Lead, and Zinc ore mining  
Source: Australian Bureau of Statistics

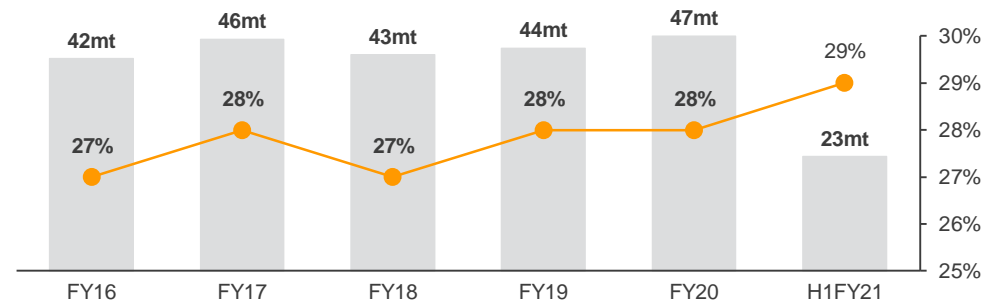
# 2. Strong Market Position

Aurizon is the largest independent rail freight operator within Australia

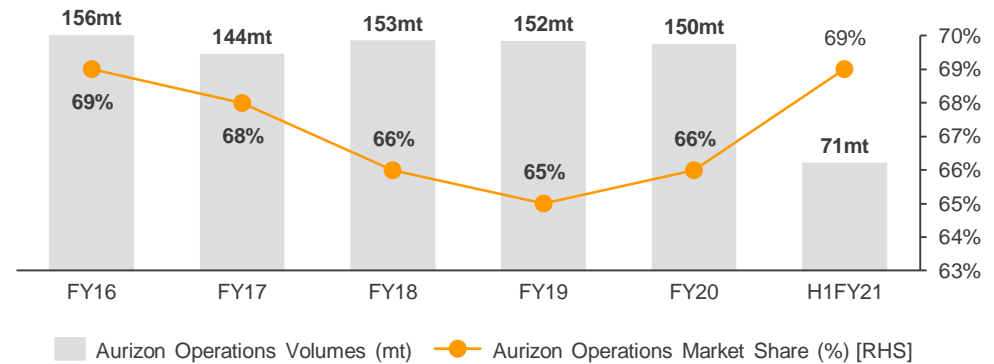
Historical Total Above Rail Volume - By Business Unit



Hunter Valley Coal Network - Export Haulage Volume (Only)



Central Queensland Coal Network - All haulage volume



Note: Bulk Volumes: FY2016 aggregate volumes include freight and iron ore tonnes which were historically reported separately. Market share figures are estimated based on Central Queensland Coal Network and Hunter Valley Coal Chain reporting. In addition to export volume, Aurizon also hauls the majority of Hunter Valley domestic volume (9.4mt in CY2020). Source: HVCCC Daily Performance summary reports (Coal Received tonnes (Achieved Excl Road)), HVCCC 2020 Annual Declaration report (30 September 2019), Aurizon financial year investor presentations and internal Aurizon haulage volume data.

# Bulk Is Expanding Its Product Offering Through Recent Acquisitions

Bulk expands product offering with Aurizon Operations' acquisition of Townsville Bulk Storage and Handling in Newcastle and ConPorts in Newcastle

Townsville Bulk Storage and Handling (1HFY20):

- › Storage and stevedoring services at Townsville Port
- › Land and assets adjacent to Aurizon owned rail lines



ConPorts (1HFY21):

- › Bulk export terminal and ship-loading facility located at the Port of Newcastle
- › Adjacent berth and rail lines
- › Primary exports: Copper and Zinc concentrate

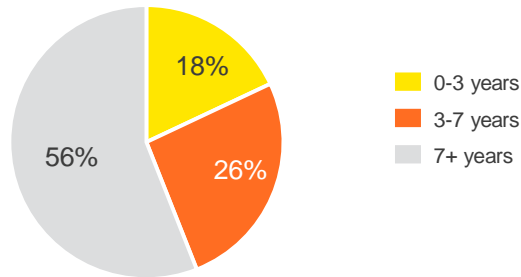




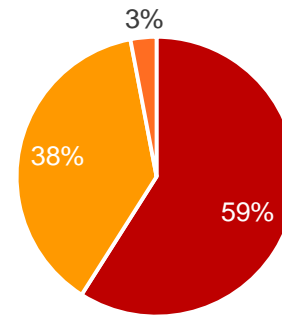
# 3. High Fixed Revenue Long-Term Contracts

Contracts for both Bulk and Coal are > 50% fixed revenue, with the majority of coal contracts locked in for > 7 years

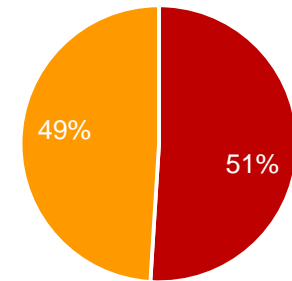
COAL CONTRACT PORTFOLIO EXPIRY<sup>1</sup>  
AS AT 31 DECEMBER 2020



COAL FIXED REVENUE<sup>3</sup>

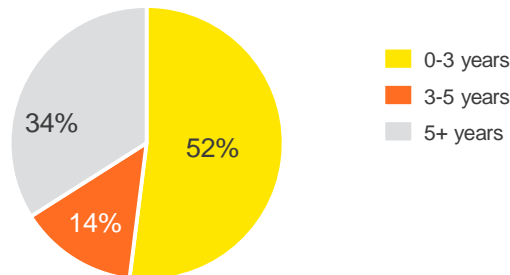


BULK FIXED REVENUE<sup>3</sup>

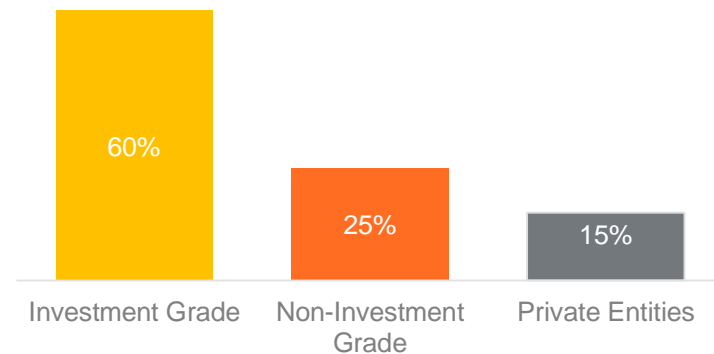


■ Fixed Capacity Charge ■ Usage Charge ■ Fuel Charge

BULK CONTRACT PORTFOLIO EXPIRY<sup>1</sup>  
AS AT 31 DECEMBER 2020



CUSTOMER RATING<sup>2</sup> BY REVENUE



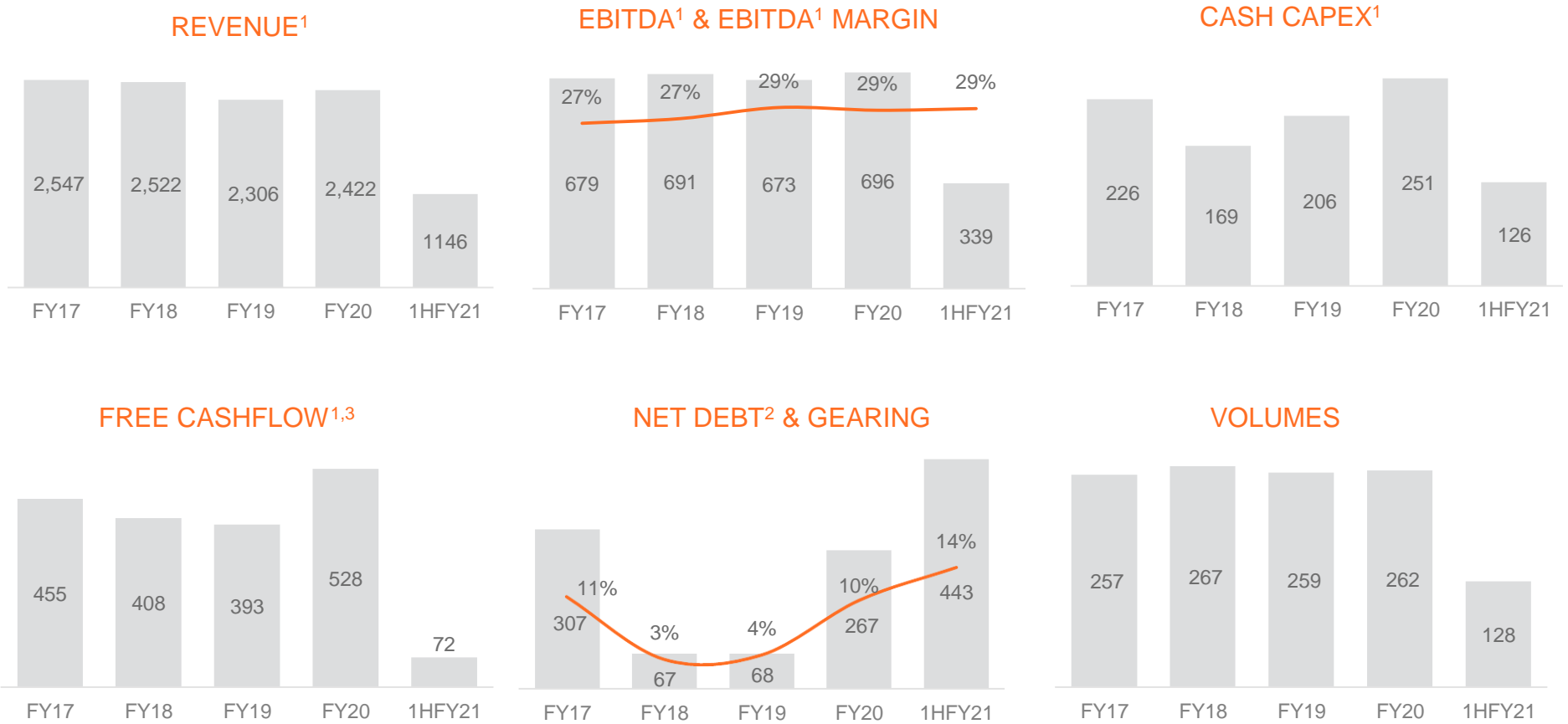
1. Announced contract tonnages may not necessarily align with current contract tonnages. Incorporates contract extension options where applicable. Includes immaterial variations to volume/term not announced to market.

2. Source: S&P, some ratings are implied by S&P. If listed, then listed entity credit rating used. If listed but no S&P credit rating or if not listed, then parent comp any or majority shareholder rating used. If no single majority shareholder but multiple shareholders (equalling >50%) have either investment or non investment grade ratings, then that grade is used. If no majority credit rating, then considered a private entity.

3. 1HFY2021

# 4. Strong Financial Performance<sup>4</sup>

Aurizon Operations has stable operating cash flows and EBITDA through the cycle



1. Underlying continuing operations

2. Net debt = Total borrowings less cash and cash equivalents.

3. FCF as per the current corporate structure, thus exclusive of intercompany dividend received. Also noting FY20 is inclusive of \$165m proceeds relating to sale of Rail Grinding partially offset by \$21m TBSH acquisition and FY21 is inclusive of \$63m worth of acquisitions (Conports and OxMountain)

4. FY17-FY19 and 1HFY21 represent unaudited proforma balances reflecting the current group structure. In August 2019, Aurizon Holdings undertook a company reorganisation to create a standalone funding structure for Aurizon Operations, unlocking \$1.2b of debt capacity to be added progressively over time and within its BBB+/Baa1 rating'

# 5. Strong Balance Sheet and Commitment to Rating

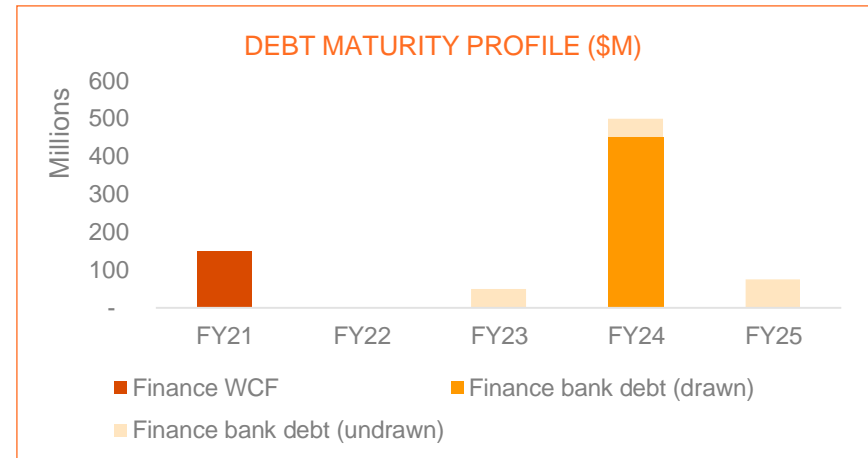
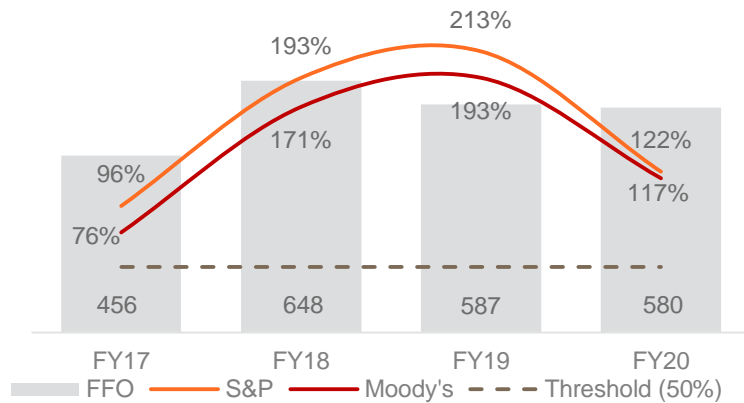
Aurizon Operations is currently funded entirely through bank debt, with significant additional debt capacity available within it’s rating thresholds (Baa1/BBB+)

## OVERVIEW

- › Aurizon Operations is rated by Moody’s (Baa1 / stable) and S&P (BBB+ / stable)
- › Board & Management are committed to maintaining current credit ratings
- › Consistent with strategy, leverage will increase over time

| KEY DEBT METRICS                        | H1FY2021  | FY2020    |
|---|-----------|-----------|
| Weighted average maturity <sup>1</sup>  | 3.1 years | 3.4 years |
| Interest cost on drawn debt             | 1.98%     | 2.4%      |
| Gearing                                 | 14.3%     | 10.2%     |
| Operations Credit Ratings (S&P/Moody’s) | BBB+/Baa1 | BBB+/Baa1 |

### FFO & FFO/DEBT<sup>2</sup>



1. Excluding working capital facility  
 2. Operations rating issued in August 2019, thus FY17-FY19 metrics are unpublished estimates

## 5. Transaction Summary

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# Transaction Overview

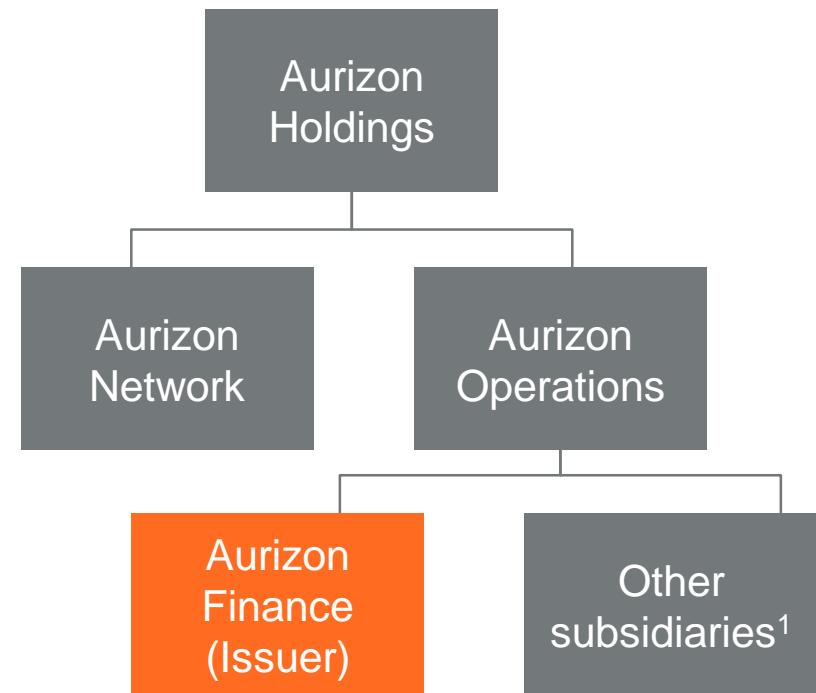
## Key Transaction Parameters

|              |                               |
|--------------|-------------------------------|
| Issuer       | Aurizon Finance Pty Ltd       |
| Format       | Senior unsecured A\$MTN Notes |
| Issue Rating | Baa1/BBB+ (Moody's / S&P)     |
| Format       | Fixed                         |
| Tenor        | 7 years or longer             |
| Programme    | A\$MTN Programme              |
| JLMs         | MUFG, NAB, SMBC Nikko         |

## Key Dates

| Date                                   | Activity  |
|--|---|
| 15 <sup>th</sup> Feb                   | Half Year Results   |
| 23 <sup>rd</sup> /24 <sup>th</sup> Feb | Investor Roadshow via NetRoadshow (Group Call and 1-1 meetings) |

## Summary Corporate Structure



1. Direct or indirect subsidiaries

# Glossary

| Metric                | Description   |
|-----------------------|---|
| Access Revenue        | Amounts received by Aurizon Network for access to the Network infrastructure under all Access Agreements  |
| AFD                   | Access Facilitation Deed  |
| 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  |
| ESG                   | Environment, Social & Governance  |
| Footplate hours       | A measure of train crew productivity  |
| Free cash flow (FCF)  | 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   |
| FWC                   | Fair Work Commission  |
| GAPE                  | Gooniyella 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)   |
| GTKs                  | Gross Tonne Kilometres  |
| Maintenance           | Maintenance costs exclude costs associated with traction, telecommunication, ballast and undercutting, rail renewals, flood repairs and derailments   |
| MAR                   | Maximum Allowable Revenue that Aurizon Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN   |
| Mtpa                  | Million tonnes per annum  |
| NTK                   | Net Tonne Kilometre. NTK is a unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons   |
| Operating Ratio       | 1 – EBIT margin. Operating ratio calculated using underlying revenue which excludes interest income & significant items   |
| Opex                  | Operating expense including depreciation and amortisation   |
| Payload               | The average weight of product hauled on behalf of Aurizon customers per service, calculated as total net tonnes hauled / total number of services   |
| PIA                   | Protected Industrial Action   |
| QCA                   | Queensland Competition Authority  |
| ROIC                  | ROIC is defined as underlying rolling twelve-month EBIT divided by the average invested capital. The average invested capital is calculated as the rolling twelve-month average of net assets (excluding cash, borrowings, tax, derivative financial assets and liabilities)  |
| TCFD                  | Task Force on Climate related Financial Disclosures   |
| ToP                   | Take-or-Pay. Contractual ToP provisions entitles Aurizon Network to recoup a portion of any lost revenue resulting from actual tonnages railed being less than the regulatory approved tonnage forecast   |
| Underlying            | Underlying earnings is a non-statutory measure and is the primary reporting measure used by Management and the Group's chief operating decision making bodies for the purpose of managing and determining financial performance of the business. Underlying results differ from the Group's statutory results. Underlying adjusts for significant/one-off items |
| Velocity              | The average speed (km/h) of Aurizon train services (excluding yard dwell)   |
| WACC                  | Weighted average cost of capital  |
| WIRP                  | Wiggins Island Rail Project   |



## Contact and further information

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[Chris.Vagg@aurizon.com.au](mailto:Chris.Vagg@aurizon.com.au)



## 6. Additional Information

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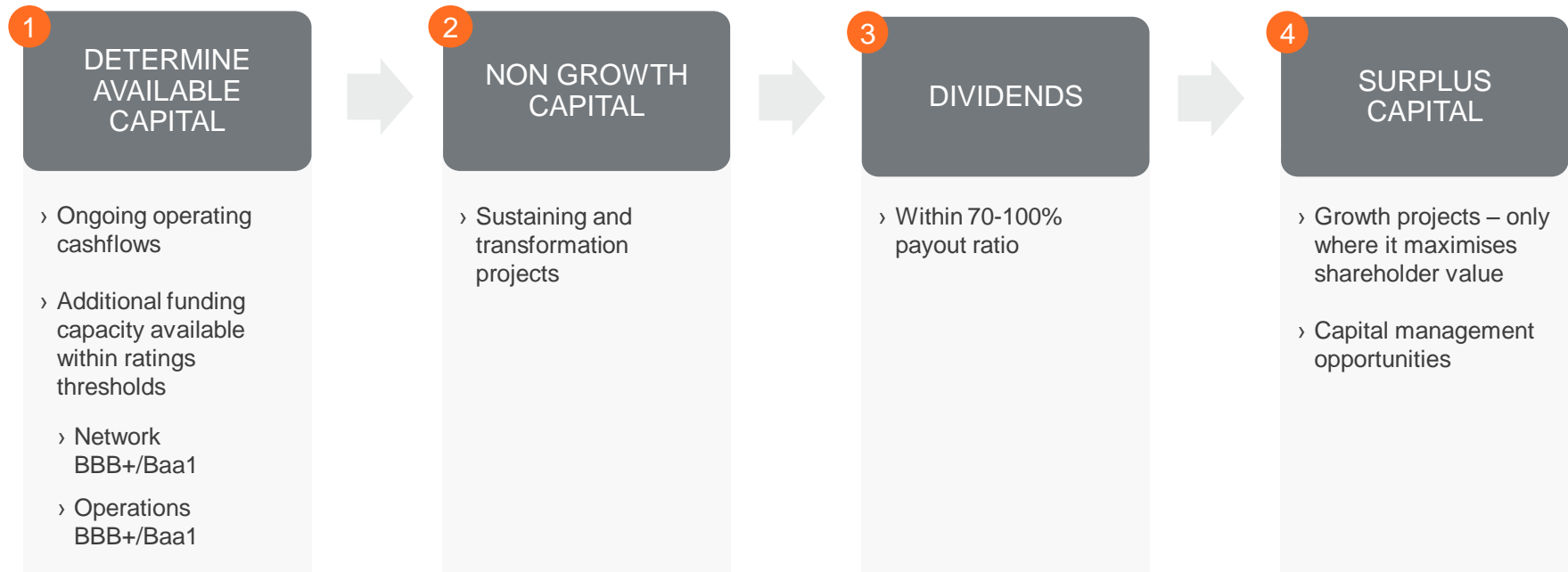
- i. Capital Allocation Hierarchy
- ii. Financials
- iii. Coal
- iv. Aurizon Network Update

## 6 (i) Capital Allocation Hierarchy

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# Prioritisation of Capital

## CAPITAL ALLOCATION HIERARCHY



Capital management options influenced by low franking and share capital account balance

## 6 (ii) Financials

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## Balance sheet summary – Aurizon Operations Limited

| \$m                                       | 1HFY2021 <sup>1</sup> | 30 June 2020   |
|---|-----------------------|----------------|
| <b>Assets classified as held for sale</b> | <b>67.2</b>           | <b>65.1</b>    |
| Other current assets                      | 395.9                 | 507.7          |
| <b>Total current assets</b>               | <b>463.1</b>          | <b>572.8</b>   |
| Property, plant and equipment (PP&E)      | 3,273.8               | 3,267.5        |
| Other non-current assets                  | 256.4                 | 235.1          |
| <b>Total non-current assets</b>           | <b>3,530.2</b>        | <b>3,502.6</b> |
| <b>Total Assets</b>                       | <b>3,993.3</b>        | <b>4,075.4</b> |
| Liabilities classified as held for sale   | (0.8)                 | (0.7)          |
| Other current liabilities                 | (553.0)               | (597.0)        |
| Total borrowings                          | (471.2)               | (354.5)        |
| Other non-current liabilities             | (212)                 | (203.1)        |
| <b>Total Liabilities</b>                  | <b>1,214.0</b>        | <b>1,155.3</b> |
| <b>Net Assets</b>                         | <b>2,779.3</b>        | <b>2,920.1</b> |

# Summary Statement of Cash Flows<sup>1</sup>

## – Aurizon Operations Limited

| \$m  | 31 December 2021 <sup>2</sup> | 30 June 2020   |
|--|-------------------------------|----------------|
| <b>Cash flows from operating activities</b>          |                               |                |
| Receipts from customers                              | 1,329.4                       | 2,889.6        |
| Payments to suppliers and employees                  | (995.1)                       | (2,187.6)      |
| Interest / income tax / other                        | (75.4)                        | (65.9)         |
| <b>Net cash inflow from operating activities</b>     | <b>258.9</b>                  | <b>636.1</b>   |
| <b>Cash flows from investing activities</b>          |                               |                |
| Proceeds from sale of business / PPE                 | 8.5                           | 180.5          |
| Payments for acquisition / PPE                       | (188.8)                       | (275.2)        |
| Dividends received / Distributions received / Other  | 0.4                           | (1.6)          |
| <b>Net cash outflow from investing activities</b>    | <b>(180.7)</b>                | <b>(96.3)</b>  |
| <b>Cash flows from financing activities</b>          |                               |                |
| Proceeds / Repayments of borrowings / ICOY           | 212.8                         | 284.0          |
| Interest / Transaction costs / Lease payments        | (15.2)                        | (26.1)         |
| Dividends paid                                       | (191.7)                       | (403.6)        |
| Payments for reduction in share capital              | (104.1)                       | (403.6)        |
| <b>Net cash outflow from financing activities</b>    | <b>(98.2)</b>                 | <b>(549.2)</b> |
| <b>Net increase / (decrease) in cash equivalents</b> | <b>(20.0)</b>                 | <b>(9.4)</b>   |

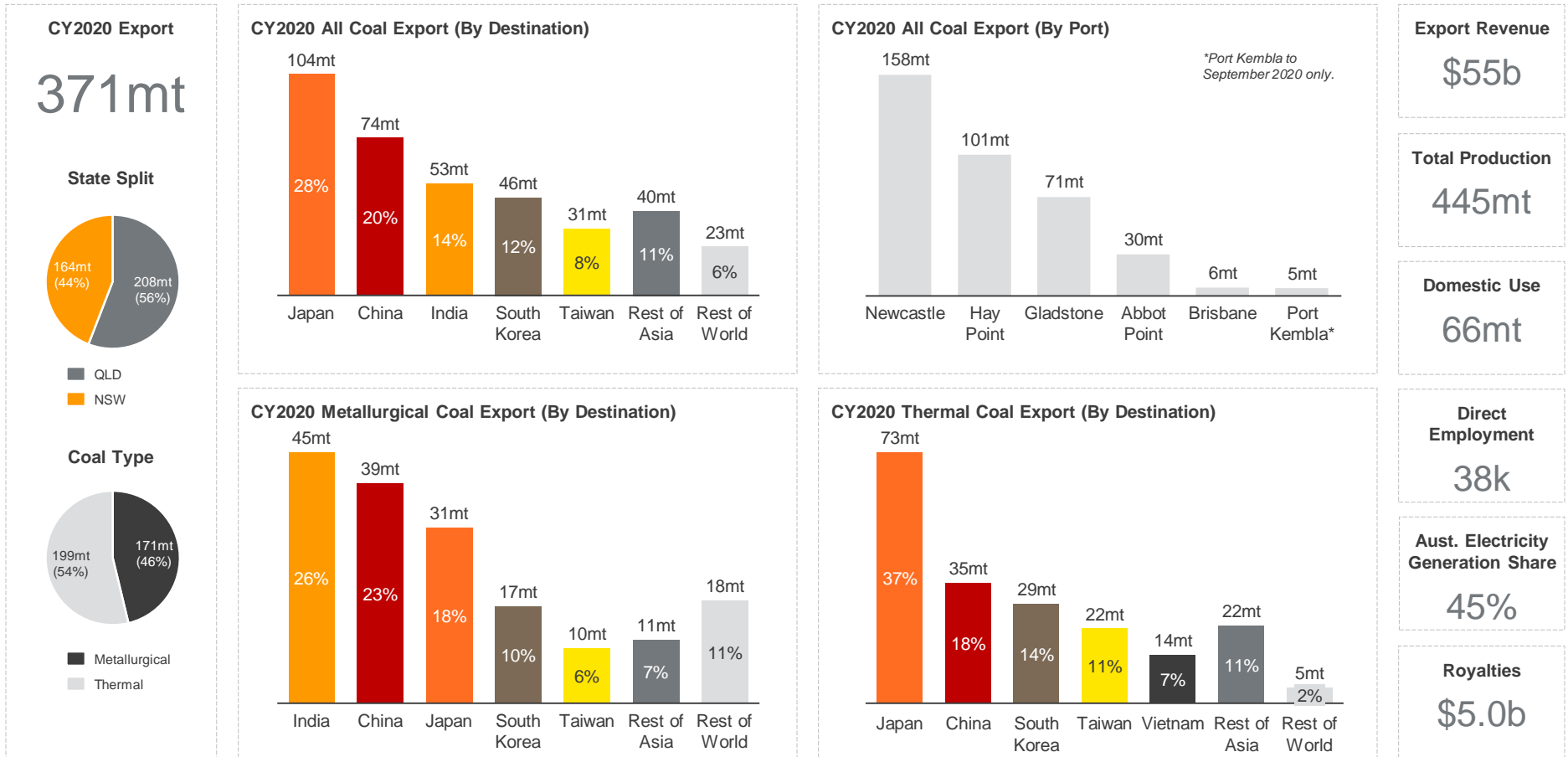
1. Continuing operations  
2. Proforma unaudited



## 6 (iii) Coal

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# Australian Coal Summary

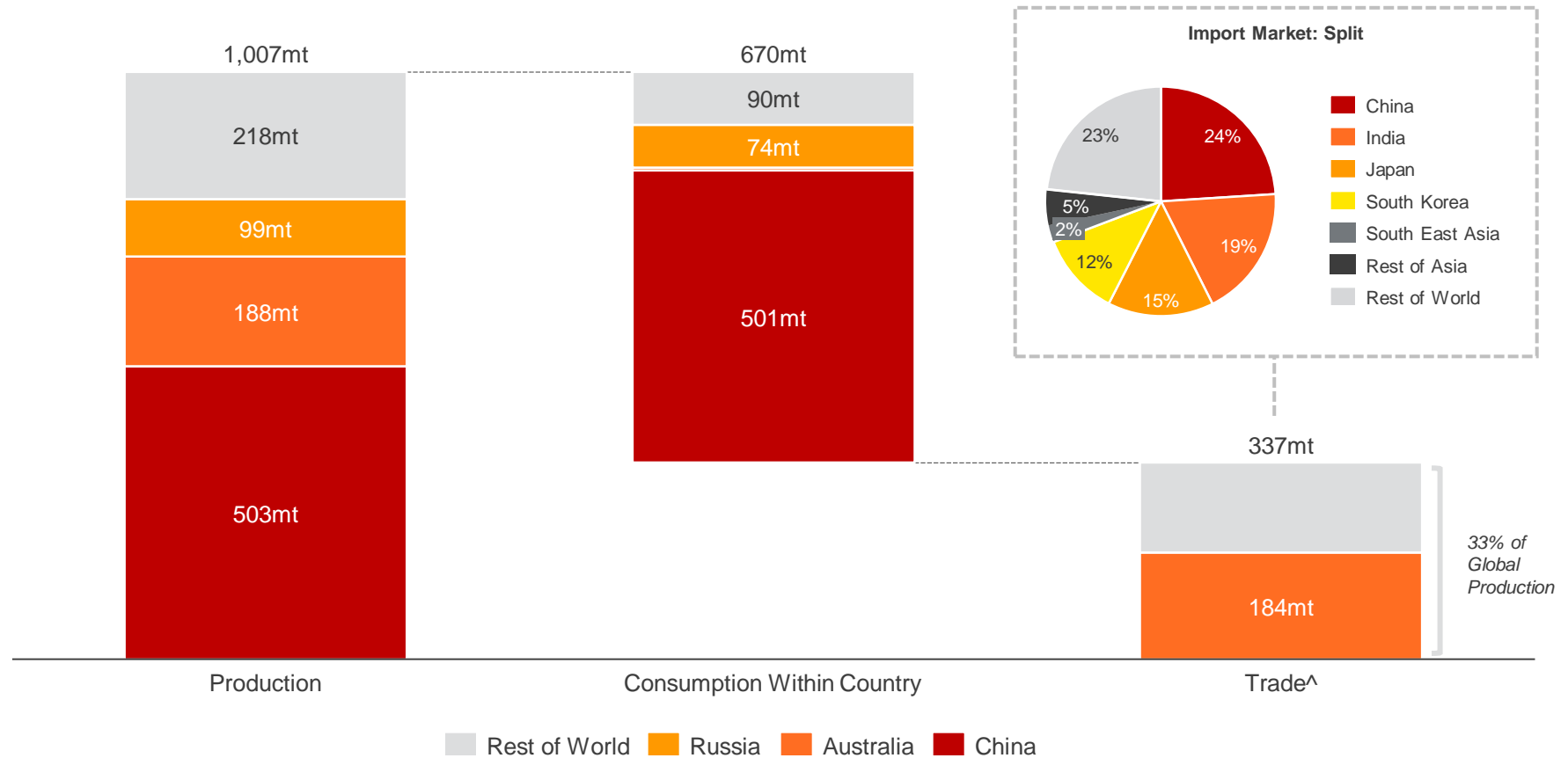


1. Note: Due to different sources and rounding, the sum of individual elements may not equal the corresponding aggregate figure. Sources – Export: CY2020 National export volume and coal type sourced from Australian Bureau of Statistics (ABS). CY2020 Export state split sourced from port/terminal reporting. CY2020 All Coal Export (By Destination): Includes anthracite volume, sourced from ABS. CY2020 All Coal Export (By Port): Sourced from respective port/terminal reporting. Hay Point includes both Hay Point Coal Terminal and Dalrymple Bay Coal Terminal. CY2020 Metallurgical/Thermal Export (By Destination): Sourced from ABS. Export Revenue: Sourced from ABS. Total Production: (12 months to September 2020) - Volume (saleable coal), sourced from Office of Chief Economist (OCE) Resources and Energy Quarterly December 2020. Domestic Use: (12 months to September 2020) - National consumption calculated using production (OCE) less exports (OCE). Employment: FY2020 ABS Labour Account Australia. Australian Electricity Generation Share: Data for FY2019 (GWh, black coal only), sourced from Department of the Environment & Energy, Australian Energy Update 2020. FY2020 Royalties include QLD and NSW Royalties. QLD Royalties: Sourced from QLD Treasury Budget Strategy and Outlook (2020-21) – Budget paper No.2. NSW Royalties: Sourced from NSW Department of Planning & Environment.

# Global Metallurgical (Coking) Coal Landscape

Around one-third of global metallurgical coal demand is met through the global traded export market with Australia commanding over half of this market

2019, million tonnes



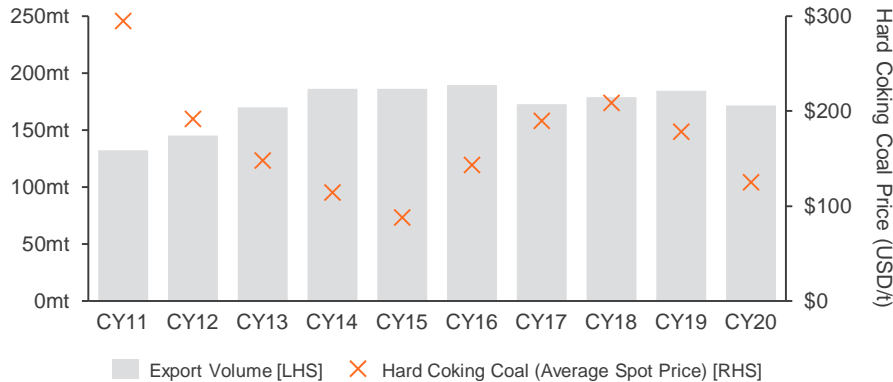
<sup>^</sup>Trade includes both seaborne and landborne volume. Metallurgical coal seaborne market was 88% of total trade in 2019 (IEA Coal 2020).

Source: International Energy Agency (IEA) Coal Information 2020 (data). Production includes both primary extraction in addition to recovered product from slurries, middlings and coal dust. Consumption Within Country is defined as production less exports. No energy-adjustment applied.

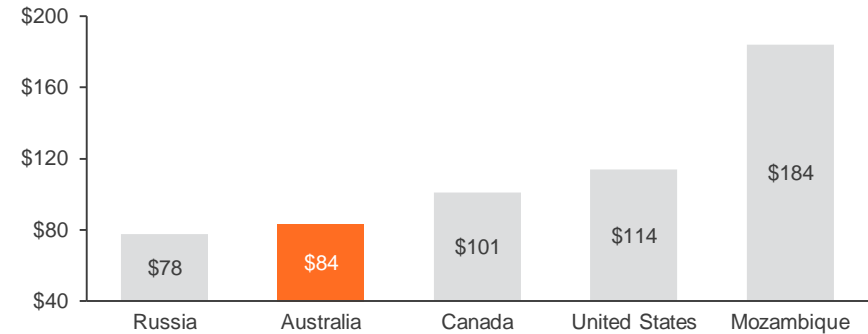
# Metallurgical Coal Market | Australia

Driven by quality, cost-competitiveness and proximity to Asian markets, Australia holds a unique position in the seaborne market

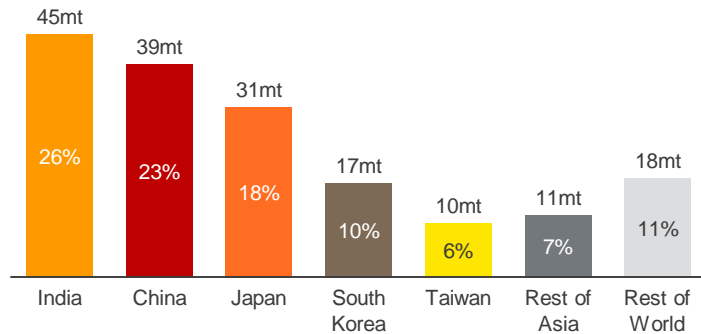
AUSTRALIA: METALLURGICAL COAL EXPORT VOLUME AND PRICE<sup>1</sup>



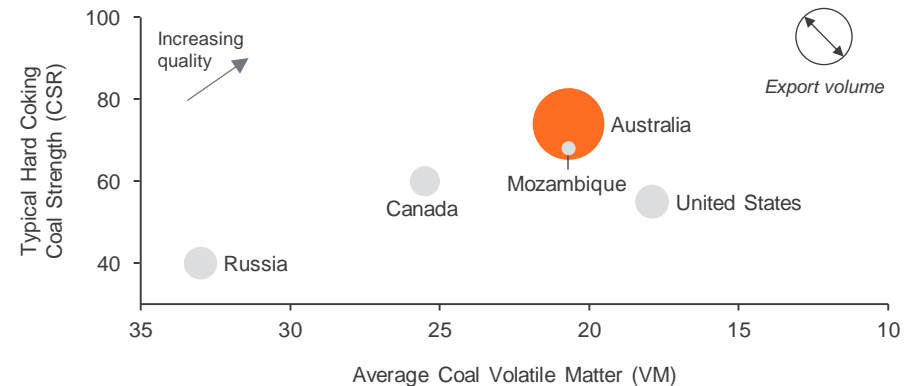
METALLURGICAL COAL CASH COSTS (US\$/t, CFR INDIA, 2020)<sup>2</sup>



AUSTRALIA: CY2020 METALLURGICAL COAL EXPORT (BY DESTINATION)<sup>3</sup>



METALLURGICAL COAL QUALITY<sup>4</sup>



1. Export Volume – Australian Bureau of Statistics. Hard Coking Coal Price – Platts (Peak Downs Region product).

2. Wood Mackenzie Coal Cost Curves (Data: August 2020, Reference Year: 2020), Wood Mackenzie Global Coal Markets Tool (Data: 2020 2H, Reference Year: 2020), Sea freight export terminal assumptions: US – East Coast, Canada – West Coast, Australia – Hay Point (Metallurgical), Russia - East.

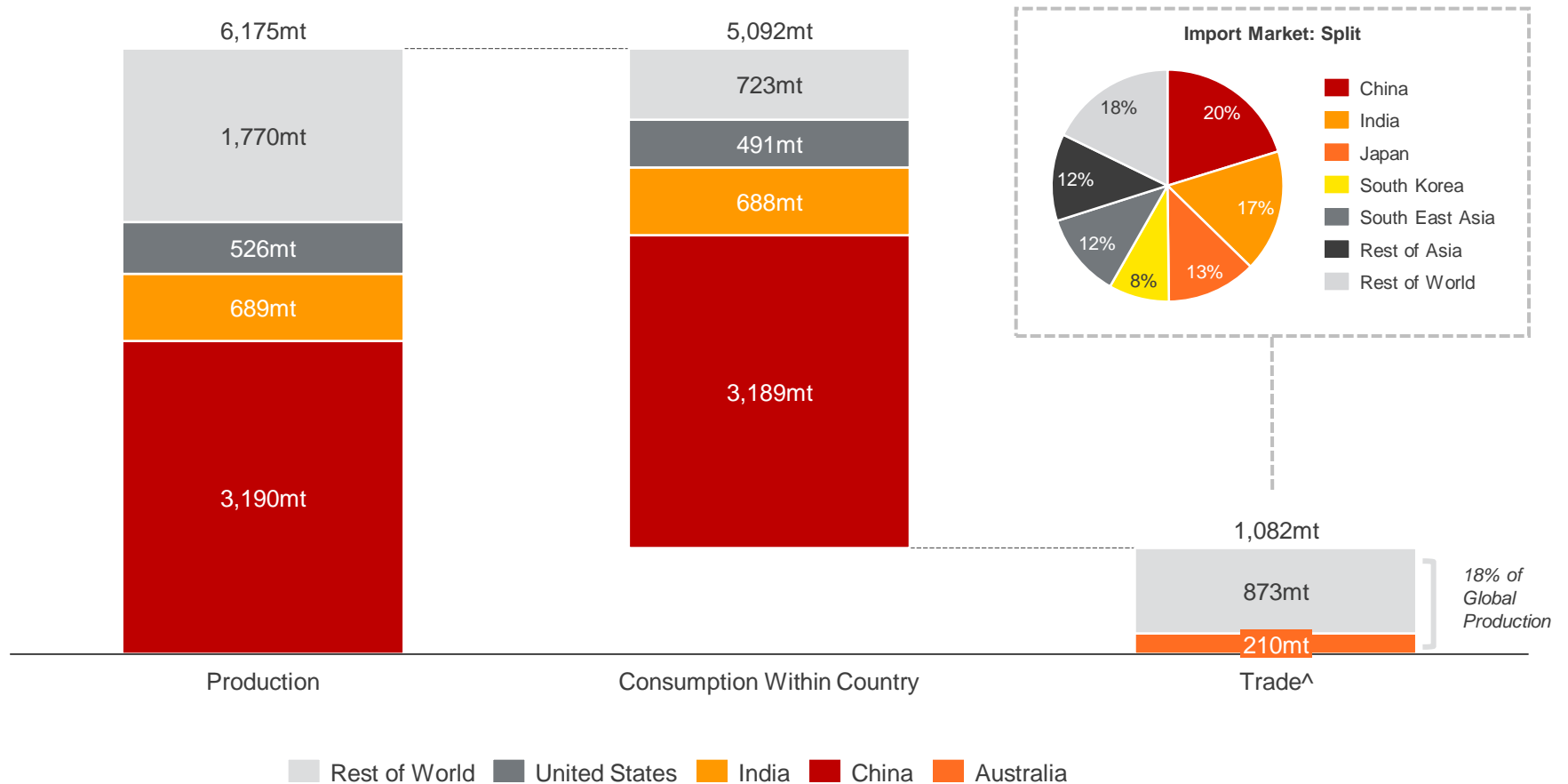
3. Australian Bureau of Statistics

4. Wood Mackenzie Global Coal Markets Tool (2020 2H), Wood Mackenzie Coal Cost Curves (Data August 2020, Reference Year: 2020), AME Research.

# Global Thermal (Steam) Coal Landscape

Over 80% of global thermal coal demand is produced and consumed within country. Australia holds around one-fifth of the global trade market that is dominated by Asian demand

2019, million tonnes



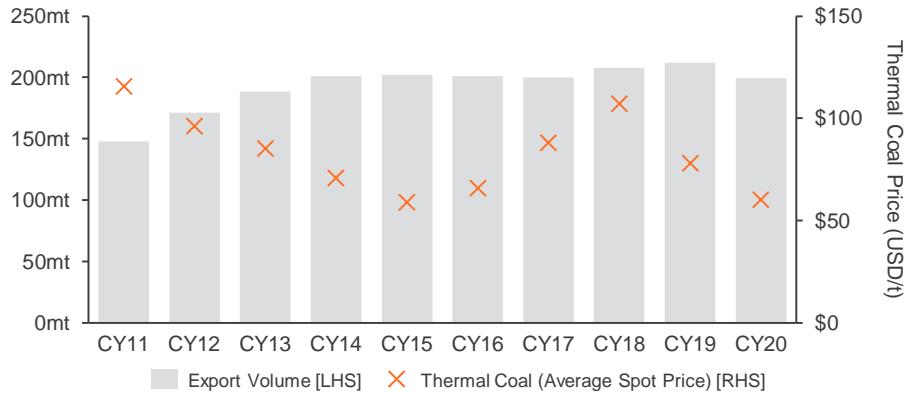
<sup>^</sup>Trade includes both seaborne and landborne volume. Thermal (Steam) coal seaborne market was 94% of total trade in 2019 (IEA Coal 2020).

Source: International Energy Agency (IEA) Coal Information 2020 (data). Steam Coal includes all anthracite and bituminous coals not considered coking coal and also includes sub-bituminous coal. Production includes both primary extraction in addition to recovered product from slurries, middlings and coal dust. Consumption Within Country is defined as production less exports. No energy-adjustment applied.

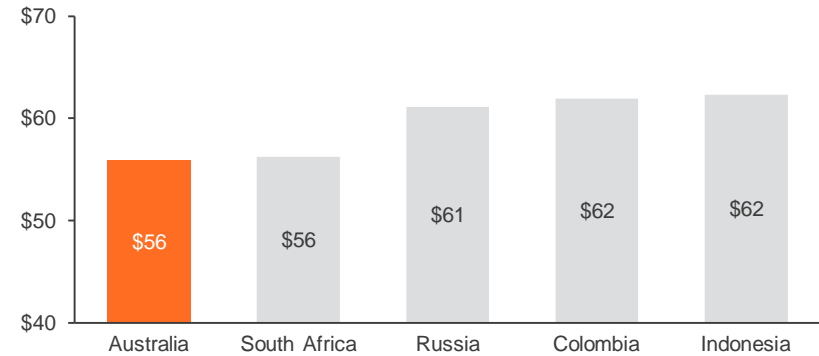
# Thermal Coal Market | Australia

Australia’s thermal coal competitiveness is driven by coal quality characteristics and geographic proximity to Asia. Around 98% of Australian exports are destined for Asia

AUSTRALIA: THERMAL COAL EXPORT VOLUME AND PRICE<sup>1</sup>

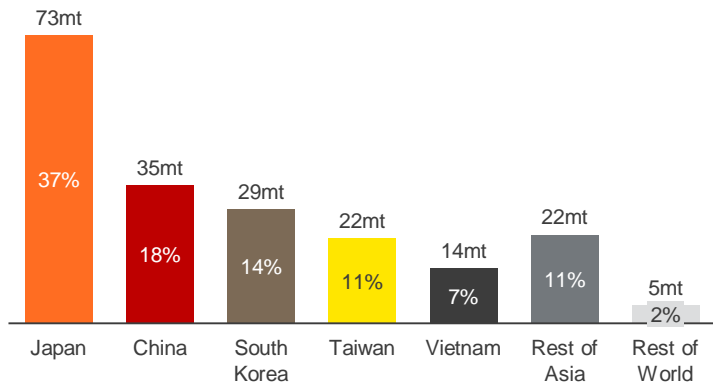


THERMAL COAL CASH COSTS (US\$/t, CFR JAPAN, 2020)<sup>2</sup>

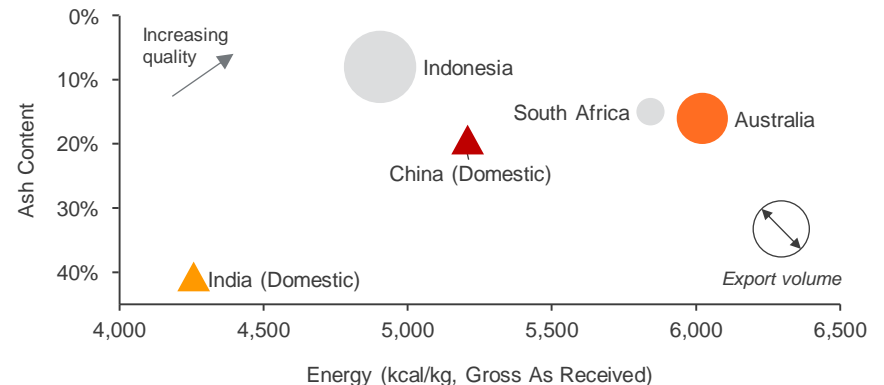


Note: Thermal Cash Costs (FOB) are energy-adjusted to 6,300 kcal/kg (Gross As Received)

AUSTRALIA: CY2020 THERMAL COAL EXPORT (BY DESTINATION)<sup>3</sup>



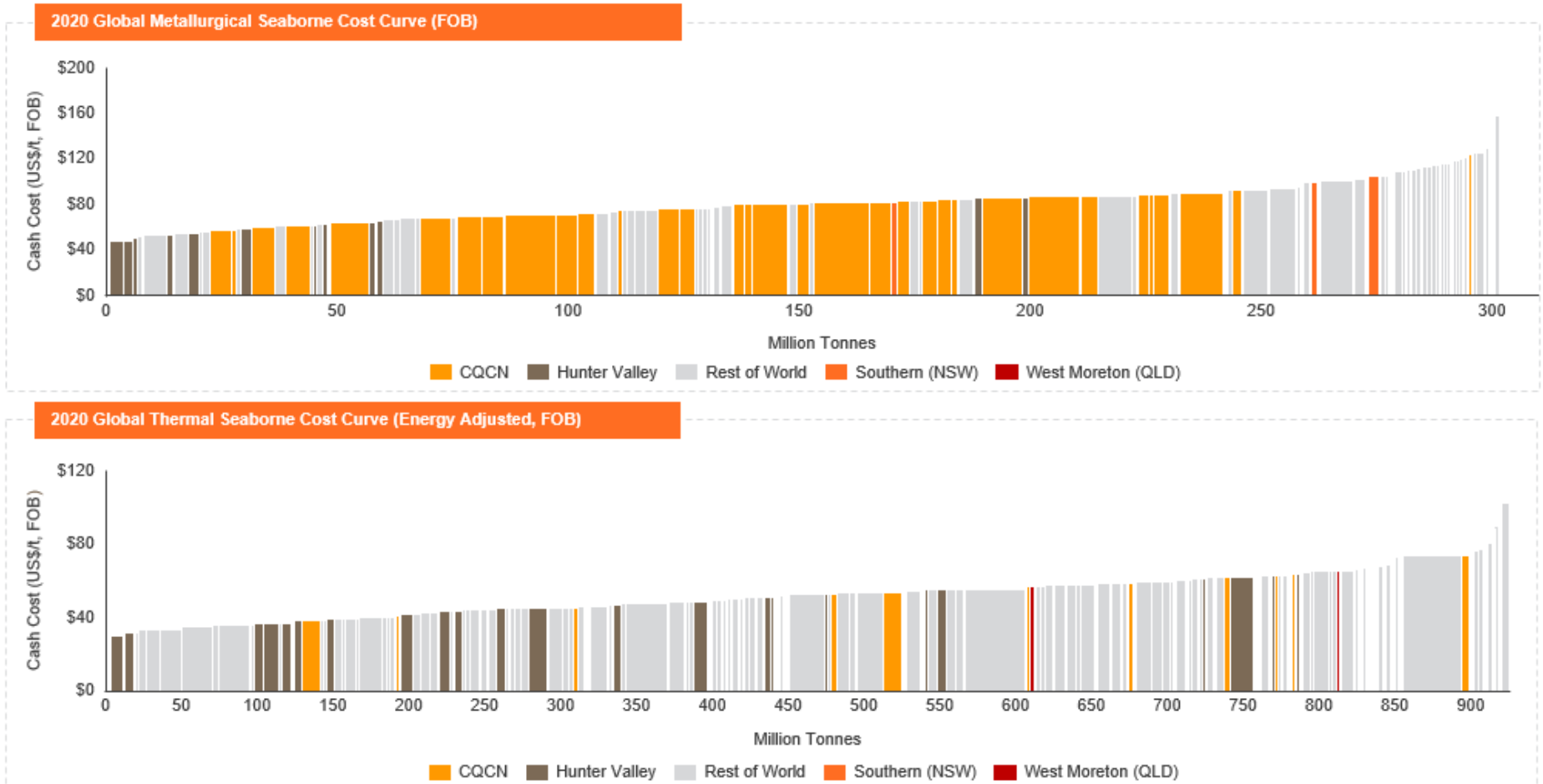
THERMAL COAL QUALITY<sup>4</sup>



Notes/Sources: 1 & 3 .Export Volume (and country split) - Australian Bureau of Statistics. Thermal Coal Price - Intercontinental Exchange (Newcastle 6,300 kcal/kg Gross As Received product). Rest of Asia: India & ASEAN Member States (excl. Vietnam – shown separately) 2. Wood Mackenzie Coal Cost Curves (Data: August 2020, Reference Year: 2020), Wood Mackenzie Global Coal Markets Tool (Data: 2020 2H, Reference Year: 2020), Sea freight export terminal assumptions: Australia – Newcastle (Thermal), Russia - East. 4. Wood Mackenzie Coal Cost Curves (Data: August 2020, Reference Year: 2020), Wood Mackenzie Coal Supply Data Tool (Q3 2020, Reference Year: 2020), India Ministry of Coal, Coal Directory of India (multiple years), 2018-19 Coal Statistics, IEA Coal Medium-Term Market Report 2016, Argus - Argus Coal Daily International, Methodology and Specification Guide (October 2020).

# Metallurgical and Thermal Cost Curve

Australia is well position on the cost curve for both Metallurgical and Thermal Coal



Cost Data Source: Wood Mackenzie Cost Curve 2020 (Dataset: August 2020). Note: FOB = Free On Board (includes transport cost to export terminal (only) and does not include shipping to destination. Please note that metallurgical coal cash costs may not fully adjust for product qualities. The thermal coal energy adjustment normalises thermal coal cash costs based on a Newcastle energy benchmark of 6,322 kcal/kg (gar) and may not fully adjust for product qualities (ash quality or sulphur).



## 6 (iv) Aurizon Network Update

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# Aurizon Network Update

WIRP fees commenced during the period, with potential upside from appeal of Expert's Determination. UT5 capacity assessment expected September 2021 quarter

## WIGGINS ISLAND RAIL PROJECT (WIRP)

- › Queensland Court of Appeal dismissed customers' appeal on payment of WIRP fees
- › WIRP fees of \$55m recognised including \$49m relating to FY2016-FY2020. Ongoing WIRP Fees (~\$11m) payable until Aug 2035
- › Appeal of Expert's Determination commenced in December – outcome along with finalisation of cost variation factor will determine final amount payable



*Wiggins Island Rail Loop*

## UT5 UPDATE

- › Finalisation of Initial Capacity Assessment by Independent Expert expected in September 2021 quarter
- › UT5 tariffs assumed 1 March 2020 Report Date (triggering WACC uplift from 5.9% to 6.3%)
- › FY2022 maintenance and capital submission due to Rail Industry Group 28 February 2021

## VOLUMES / REVENUE

- › Based on 1HFY2021, annual volumes will be lower than the approved tariff forecast of 239mt resulting in revenue under-recovery
- › Expected Take-or-Pay recoveries in FY2021 will reduce revenue cap in FY2023
- › Revenue cap for FY2023 will include an adjustment for WACC (due to delayed Report Date)

# Aurizon Network

## EBIT growth from commencement of WIRP fees offsetting lower volumes

| \$m                   | 1HFY2021   | 1HFY2020   | Variance    | 2HFY2020   |
|-----------------------|------------|------------|-------------|------------|
| Track access          | 569        | 565        | 1%          | 567        |
| Services & other      | 24         | 31         | (23%)       | 26         |
| <b>Revenue</b>        | <b>593</b> | <b>596</b> | <b>(1%)</b> | <b>593</b> |
| Energy & fuel         | (51)       | (54)       | 6%          | (55)       |
| Other operating costs | (135)      | (147)      | 9%          | (134)      |
| Depreciation          | (166)      | (163)      | (2%)        | (167)      |
| <b>EBIT</b>           | <b>241</b> | <b>232</b> | <b>4%</b>   | <b>237</b> |
| Tonnes (m)            | 103.7      | 116.6      | (11%)       | 110.3      |
| NTKs (b)              | 26.0       | 29.0       | (10%)       | 27.2       |

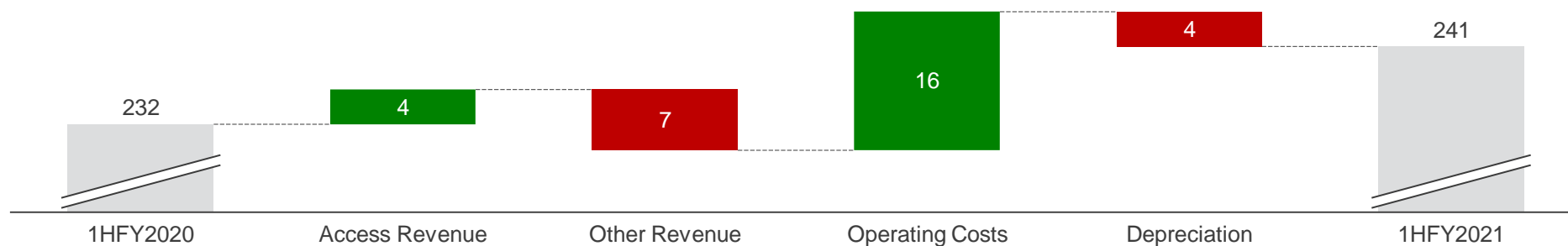
### Revenue

- › Commencement of WIRP fees including retrospective amount offset by access revenue under recovery due to lower volumes

### Costs

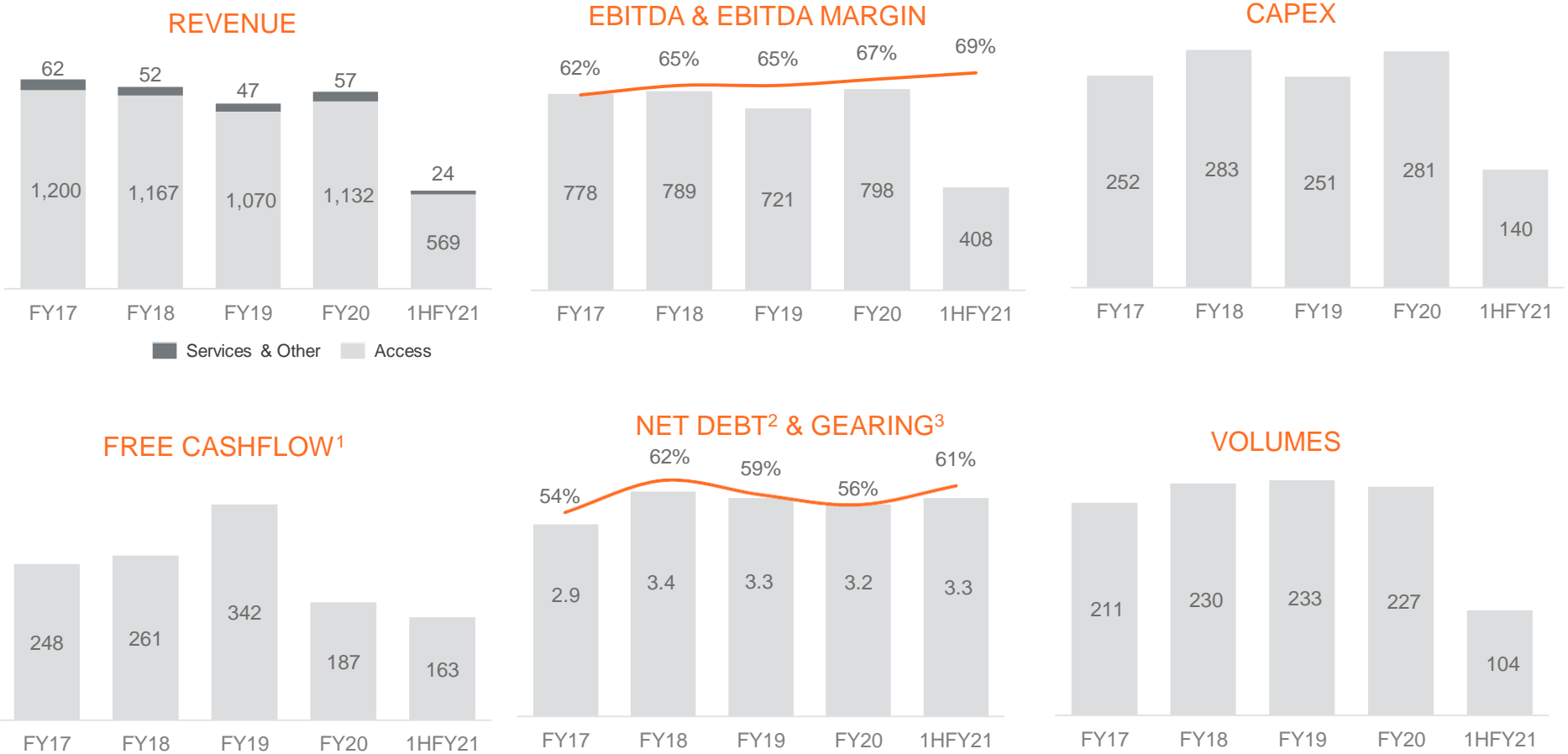
- › Improvement in operating costs from lower external construction costs, electric traction charges and employee costs driven by cost saving initiatives
- › Depreciation increased due to increased levels of asset renewals and ballast undercutting

### NETWORK EBIT PERFORMANCE (\$M)



# Aurizon Network Strong Financial Performance

Network has stable operating cash flows and EBITDA through the cycle



1. FY20 FCF impacted by FY18 UT5 Final Decision true up  
 2. \$bln. Net debt = Total borrowings less cash and cash equivalents  
 3. Network Gearing - net debt/Regulated Asset Base

# Funding Update

## Re-financing activities to reduce interest costs over time

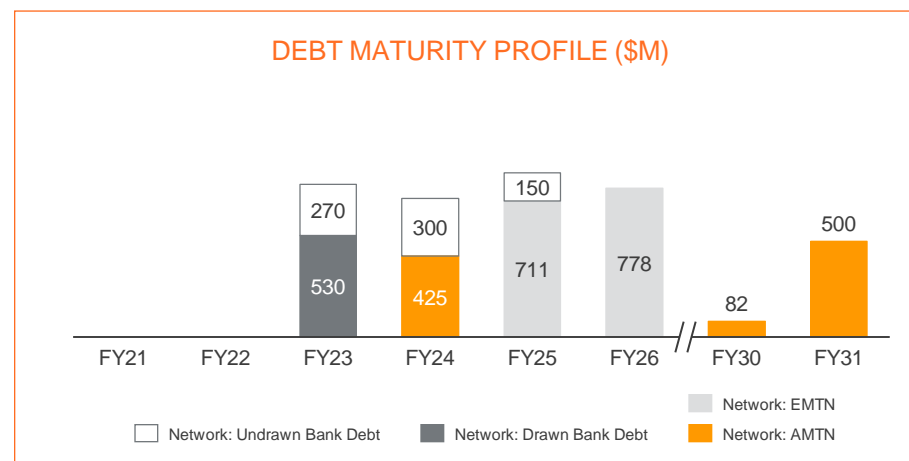
### 1HFY2021 FUNDING ACTIVITY

- › **Aurizon Network** – issued a 10-year, \$500m A\$ Medium Term Note (AMTN) in September 2020, with a coupon of 2.9% per annum. Proceeds were used to repay AMTN maturing in October 2020

### INTEREST RATES

- › Aurizon Network debt is 96% fixed until end of FY2021 and 92% for FY2022 and FY2023
- › Floating exposure beyond FY2023 to align with Network WACC reset
- › Interest costs expected to trend lower consistent with hedging profile

| KEY DEBT METRICS   | 1HFY2021  | 1HFY2020  |
|--|-----------|-----------|
| Weighted average maturity <sup>1</sup>                     | 5.8 years | 4.4 years |
| Interest cost on drawn debt                                | 4.6%      | 4.7%      |
| Network Gearing <sup>2</sup><br>(excl. AFDs <sup>3</sup> ) | 61%       | 58%       |
| Network Credit Ratings (S&P/Moody's)                       | BBB+/Baa1 | BBB+/Baa1 |

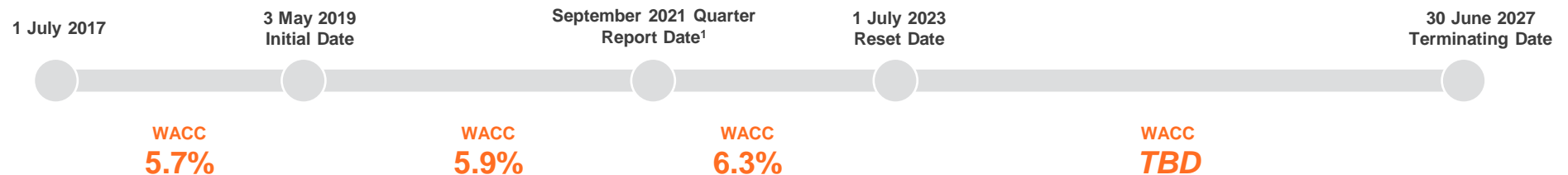


1. Calculated on drawn debt, excluding working capital facility  
 2. Network Gearing - Net debt/Regulated Asset Base  
 3. Access Facilitation Deed

# UT5 Undertaking

Aurizon Network's access undertaking establishes the framework for access to the coal rail infrastructure in central Queensland

## UT5 TIMELINE



### Initial Date

- › The date on which the draft amending access undertaking (DAAU) was submitted to QCA for approval

### Report Date

Date on which the later of the following events occur:

- › Independent Expert provides Initial Capacity Assessment Report (ICAR); and
- › Aurizon Network notifies relevant parties of proposed options to address Existing Capacity Deficits identified in ICAR.
- › Where ICAR does not identify any Existing Capacity Deficits the Report Date is the date on which the Independent Expert provides the ICAR

### Reset Date

- › Reset of risk free rate, debt risk premium and inflation

1. Estimate as at February 2021

# UT5 Undertaking

## Revenue Protection Mechanisms

The **Maximum Allowable Revenue (MAR)** is the total revenue Aurizon Network is permitted to earn each year, determined in accordance with the *Regulatory Asset Base (RAB)* and *Building Block Methodology*

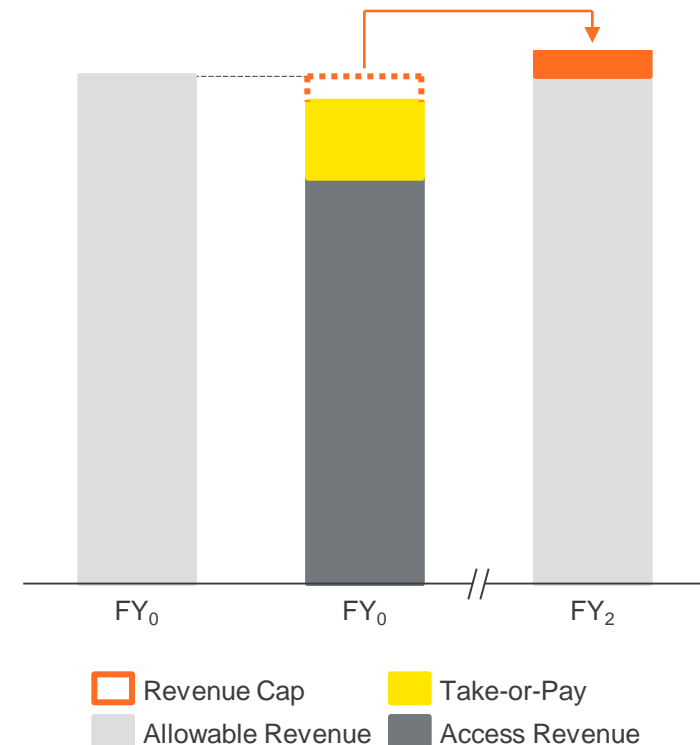
The MAR forms the basis for calculating reference tariffs<sup>1</sup> and determining *Allowable Revenue AT<sub>2-5</sub> (AR)*

Where system volume is less than the regulatory approved volume forecast, protection mechanisms come into effect to address the revenue shortfall<sup>2</sup>

- › **Take-or-Pay** is the primary mechanism whereby lost revenue is recovered from access holders in the current financial year (capped at available capacity)<sup>3</sup>
- › **Revenue Cap** is the secondary mechanism and comes into effect in the event that *Take-or-Pay* does not recover a revenue shortfall<sup>4</sup>. This shortfall is recovered two years later

**Patronage risk** occurs when certain mines are no longer in operation. Under the QCA regime, Network will continue to earn its aggregate regulated revenue from the remaining mines that continue to use the system

### INDICATIVE SYSTEM REVENUE PROTECTION MECHANISM



1. Tariffs (All Systems): AT<sub>1</sub> Incremental Maintenance (Gross Tonne Kilometre-based), AT<sub>2</sub> Incremental Capacity (Path-based), AT<sub>3</sub> Allocative (Net Tonne Kilometre-based), AT<sub>4</sub> Allocative (Net Tonne-based). Tariffs (Electric Systems only): AT<sub>5</sub> Electric Access (Electric Gross Tonne Kilometre-based), EC Electric Energy (Electric Gross Tonne Kilometre-based).

2. In the event that revenue collected exceeds the Allowable Revenue, the protection mechanisms will return the surplus revenue to access holders

3. Excludes AT<sub>5</sub> tariff

4. Such an outcome has historically been driven by adverse weather events leading to force majeure, lowering available capacity. Revenue Cap only applies to AT<sub>2</sub>, AT<sub>4</sub> and AT<sub>5</sub>