



**Aurizon Holdings Limited**  
ABN 14 146 335 622

ASX Market Announcements  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

**BY ELECTRONIC LODGEMENT**

7 October 2015

**Aurizon Investor Day presentation**

Please find attached Investor Day presentation for immediate release to the market.

The presentation will be made at 1:30pm (Sydney time) and will be available via webcast, accessible through the following link:

<http://edge.media-server.com/m/p/ifckb3wp>

Kind regards

A handwritten signature in black ink, appearing to read "D. Smith", with a horizontal line underneath the first part of the signature.

**Dominic D Smith**  
VP & Company Secretary

# ASX Announcement

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7 October 2015

## Next transformation phase to deliver \$310-380 million of benefits

Aurizon today announced the next phase of its transformation program to deliver further cost reductions and productivity benefits totalling \$310-380 million<sup>i</sup> for the three years from FY2016 – FY2018.

These benefits underpin Aurizon's target of delivering an Operating Ratio (OR) of 70% by FY2018.

Benefits will be delivered by ongoing reform and asset productivity initiatives in Operations (\$250-\$300m), and continuing cost reduction in Corporate Support areas (\$60-\$80m). Many initiatives are enabled by labour productivity improvements unlocked through the new Enterprise Agreements.

Details of these transformation initiatives, together with a business update, are being provided today in an Investor briefing by Managing Director & CEO Lance Hockridge and other company executives. The presentation and webcast link are available at <http://www.aurizon.com.au/investors>

Aurizon's target for a 70% OR (30% EBIT margin) by FY2018 follows delivery of an OR of 74.3% in FY2015. This was achieved through the realisation of \$252 million in transformation benefits in the two years to 30 June 2015, as well as continued improvement in both above and below rail financial performance.

"Subdued commodity prices, resulting in a lower volume and revenue growth outlook for Aurizon in the short to medium-term, means that more than ever we need to ramp up our transformation program," Managing Director & CEO Lance Hockridge said.

"After five sustained years of reform at Aurizon since IPO, we know the next wave of productivity improvement will be harder. We need to get leaner, smarter and more efficient in the services we provide our customers who are operating in an extremely tough environment.

"The recently implemented Enterprise Agreements in Queensland give us the confidence and ability to achieve the next phase of our transformation."

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<sup>i</sup> Before CPI/escalation costs

# Investor Briefing

7<sup>th</sup> October 2015



**AURIZON**<sup>®</sup>

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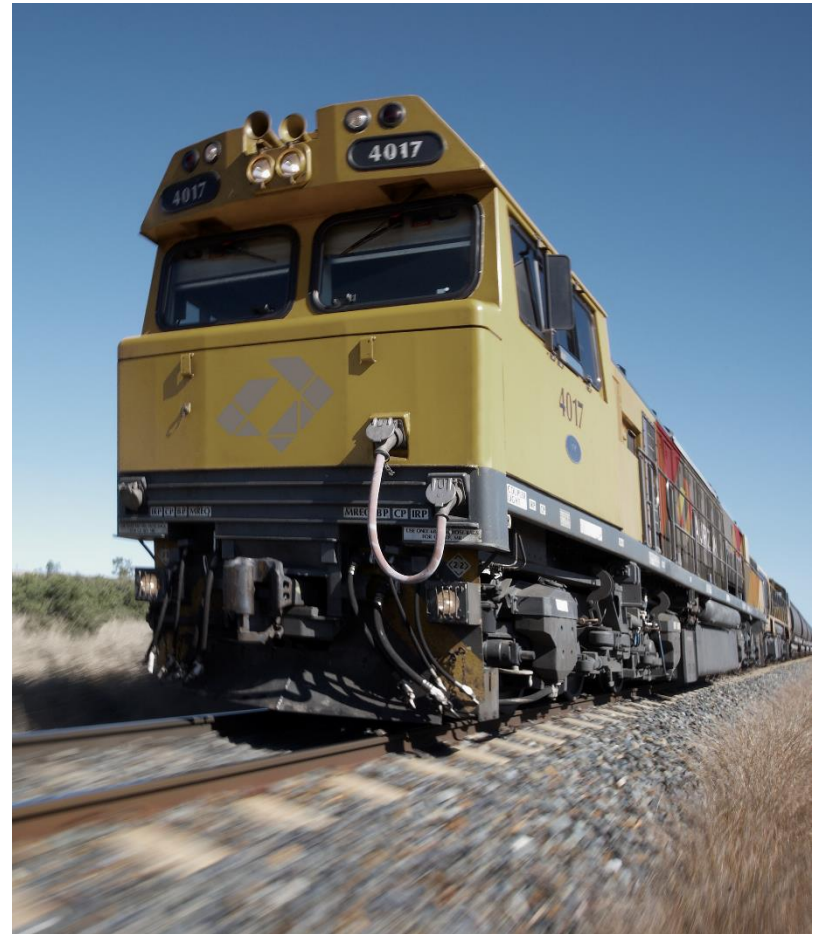
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# Welcome & Introduction

Lance Hockridge - Managing Director & CEO

# Agenda

- › **Welcome & Introduction**  
MD & CEO – Lance Hockridge
- › **Above Rail Operations – The next three years**  
EVP Operations – Mike Franczak
- › **Questions**
- › **Afternoon Tea**
- › **Support Cost Review**  
CFO & EVP Finance – Keith Neate
- › **West Pilbara Infrastructure Project**  
EVP Strategy & Business Development – Mike Carter
- › **Questions**



# We have delivered on IPO targets, through sustainable, replicable, continuous improvement

## › Achievements since IPO



### SAFETY

- › Improvement in LTIFR and TRIFR by > 90%
- › A measure of our cultural change



### OPERATIONAL

- › Delivered major growth projects e.g. GAPE and WIRP
- › Record coal tonnes - Above and Below Rail



### FINANCIAL

- › 15.8ppt improvement in Operating Ratio (OR)
- › 6.3ppt improvement in Return on Invested Capital (ROIC)
- › \$252m in transformation benefits for FY2014 and FY2015



### STRUCTURAL

- › Functional structure fully implemented
- › Successfully renegotiated EAs

# The priority remains to strengthen our existing business and create sustainable value for our shareholders

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- › Continue our journey towards ZEROHarm
- › Our momentum is underpinned by compliance, driven by culture
- › Remains core to everything we do



- › Operations targeting \$250-\$300m in additional benefits by FY2018
- › Support targeting \$60-\$80m in benefits between FY2016 - FY2018



- › 70% OR by FY2018
- › 10.5% average in ROIC for FY2016 – FY2018



- › Demand for Australia's high quality resources to remain strong
- › Regulatory and competitive landscape changing
- › Government policy needed in order to materially grow the Intermodal market (Road to Rail)



# Aurizon will build on its Enterprise-wide transformational achievements for the next phase of our journey

## › Aurizon's financial targets are challenging

- › FY2016 impacted by the removal of ~\$200m non-core revenue
- › No easy wins or "low hanging fruit"; stretch challenges exist in corporate budgets

### Aurizon Intermodal Operations example



#### Melbourne – Brisbane service

- › Improved schedules enabling modal shift from road to rail
- › 20% increase in services
- › 14% increase in capacity per service

## › Transformation is continuous, all-encompassing and benefits the Enterprise in multiple ways:



- › **Aurizon Network** a critical enabler for improved productivity and efficiency for Above Rail operators



- › **Aurizon Operations'** transformation is underpinned by six core programs which create value through an intense focus on safety, customer and productivity improvement



- › **Commercial & Marketing's** customer value proposition has improved as a result of the operational productivity improvements, creating revenue and market share opportunities in Coal, Iron Ore and Freight



- › **Shareholder value** through improved margins and returns

- › The Intermodal business has successfully been awarded work through Beneficial Freight Owners including Fonterra and Woolworths -



Woolworths  
Australia's fresh food people

- › Woolworths recently awarded Aurizon the prestigious "Carrier of the Year" award for 2015
- › Intermodal achieved Q1 FY2016 revenue forecasts for the business including growth volumes
- › 'Freight Availability' metric for FY2015 of 98%

# Wiggins Island Rail Project (WIRP) update

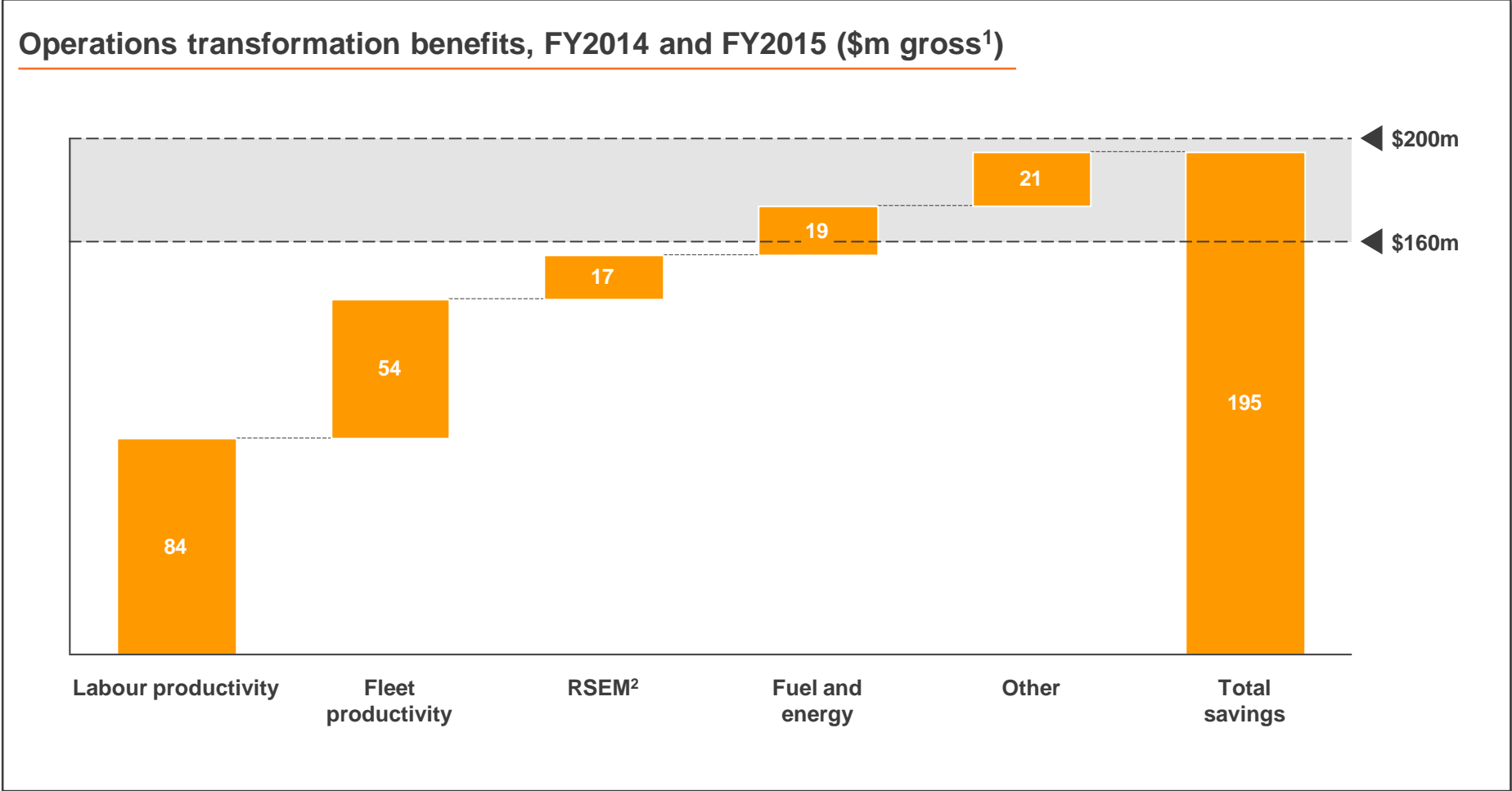
- › Aurizon Network (AN) has received notices from 7 of 8 WIRP customers in relation to the WIRP Deeds
- › AN disputes the validity of the notices, which could allow WIRP customers to reduce the above regulatory financial commitment (WIRP fee) they pay to AN
- › The dispute relates to the readiness of the port. If not resolved commercially, dispute goes to expert determination if parties agree, or otherwise to the Courts
- › Potential financial impact is range of \$0 - \$27m per annum of revenue and EBIT for 19.5 year duration of WIRP Deed, with no more than \$10m in FY2016
- › Notices do not impact regulatory earnings of WIRP with first rail delivered in April 2015 and on track for full commissioning by December 2015
- › WIRP Deeds contain confidentiality and dispute resolution provisions which are being followed and worked through
- › Discussions with customers are ongoing and although timing of resolution remains uncertain, rail operations are continuing and are not impacted

# **Above Rail Operations**

**Mike Franczak – EVP Operations**

# Operational transformation has delivered \$195m in gross savings in FY2014 and FY2015, against a target of \$160-200m

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1. Before costs of transformation e.g. Voluntary redundancy payments  
 2. Rollingstock Engineering & Maintenance Transformation

# Our operational transformation is underpinned by 6 fulsome, core programs



## Integrated Operating Plan

- › Rollingstock fleet planning across entire enterprise
- › Focus on improving payloads, velocity and dwell
- › Improved, integrated service plans
- › Reduction of variability and costs



## Rollingstock Engineering & Maintenance Transformation

- › Implementation of condition monitoring systems
- › Shifting from prescriptive to condition based maintenance
- › Shifting maintenance tasks to “on train”
- › Improvement in fleet materials and inventory management through Shopfloor application



## Operations Technology

- › Freight Management Transformation (FMT)
- › Driver Only Operations
- › Driver Advisory System (DAS) and Fuel Trip Optimiser (FTO) rollout



## Process Re-engineering

- › End to end contract to cash enhancement
- › Integrated supply demand planning
- › Scheduling and ordering optimisation
- › Maintenance planning and scheduling



## Footprint Rationalisation

- › Operations transformation and improvement continues to drive efficiencies and rationalisation opportunities
- › Townsville freight yard consolidation
- › Rollingstock maintenance depot reduction and consolidation



## Standardisation and Continuous Improvement

- › Implementation of new Enterprise Agreements
- › Standardisation of our wagon and loco fleet
- › Standardisation of safety and operational protocols
- › Focus on access management

# Aurizon Network performance is a critical enabler of Above Rail operators and customer service

## FY2015 operational highlights

- › **Safety**
  - › Zero LTIFR and 3.7 TRIFR
- › **Record CQCN volumes**
  - › 11 of 12 months setting new railing records
- › **Performance to plan**
  - › 89% performance to plan
  - › 11.2ppt improvement over two years
- › **Network Maintenance Program** delivered:
  - › 3% decrease in Network caused delays
  - › 5% decrease in Network caused cancellations
  - › 20% decrease in closure hours delivering 8mt increase in capacity

## Continuous improvement initiatives

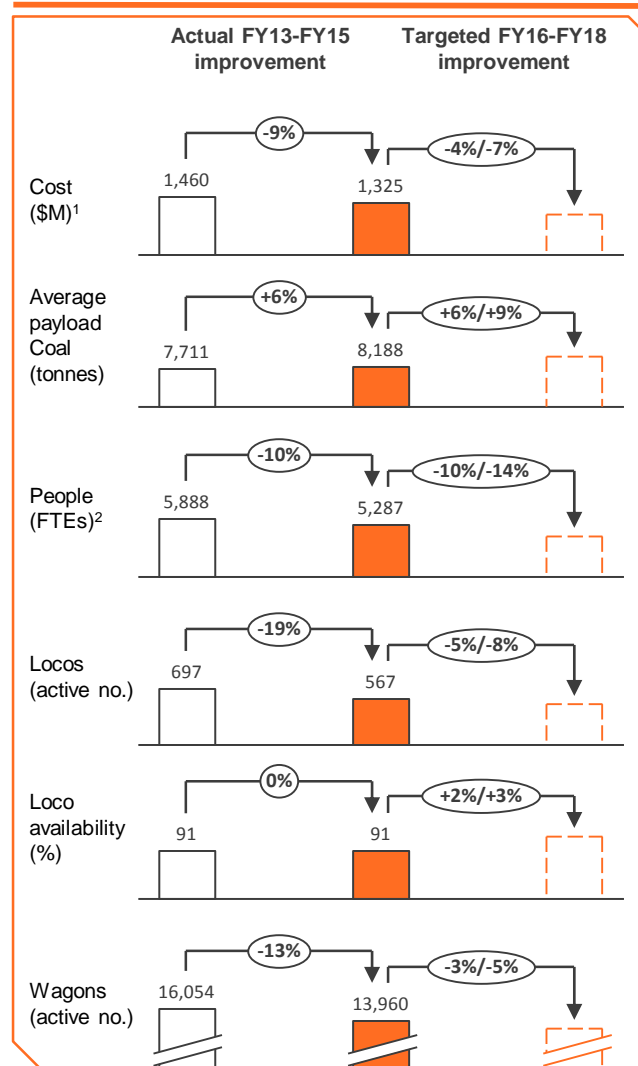
- › Significant technology investment delivering improved safety, service and productivity:
  - › More efficient and effective management of the CQCN infrastructure (e.g. NAMS<sup>1</sup>)
  - › More efficient management and delivery of train control services (e.g. APEX<sup>2</sup>/PACE<sup>3</sup>)
  - › Safer, more thorough inspections using drones
  - › New Track Maintenance Equipment delivering a 50% increase in the hourly production rate

# Key operational metrics and ratios have and will continue to improve as a result of our core Operations programs

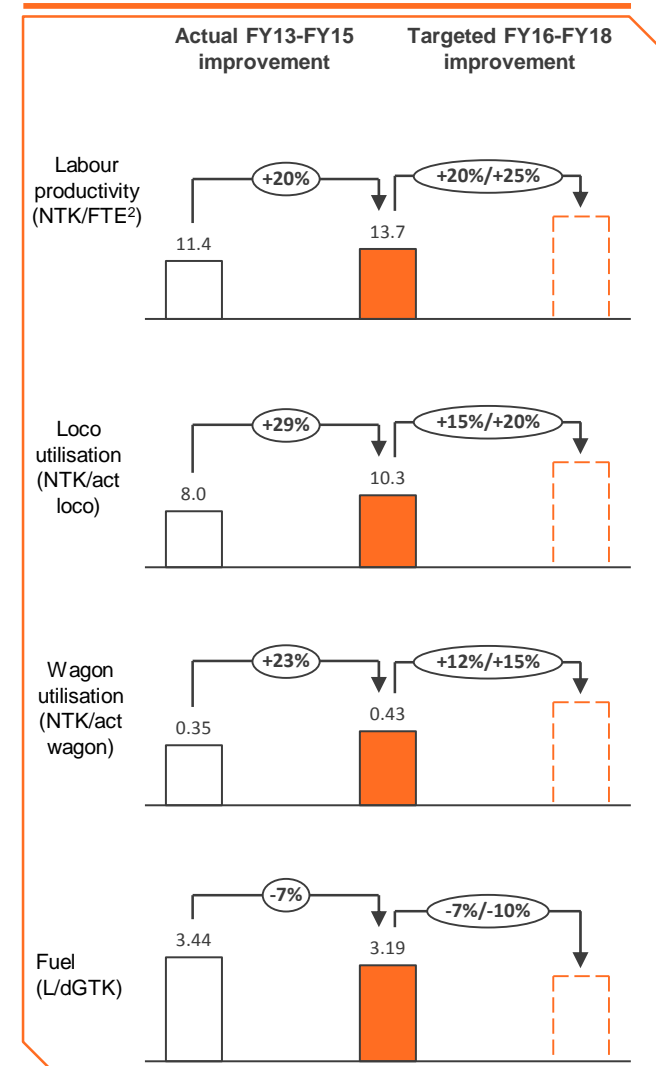
## Programs



## Key Metrics



## Productivity Ratios



1. Excludes Access and Electricity costs and allocated corporate costs including Safety Health and Environment (SHE)

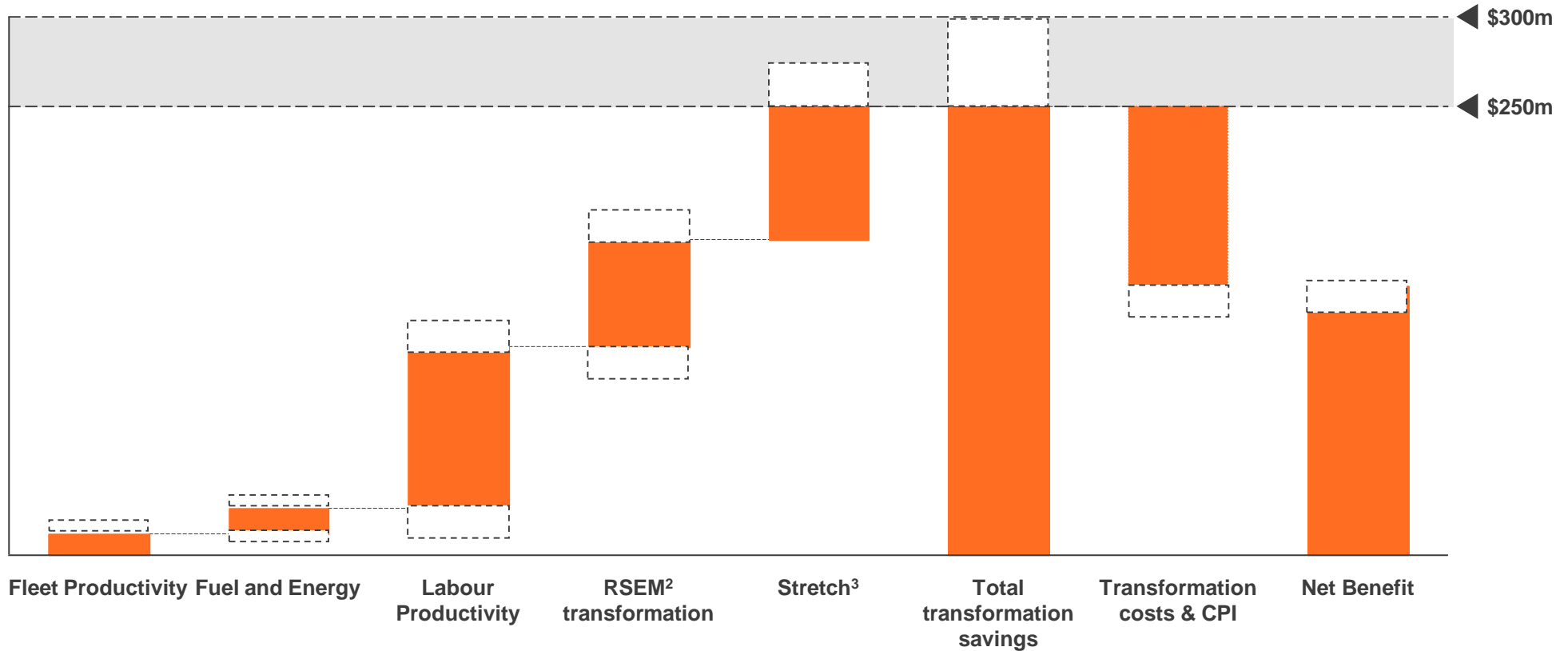
2. FTE numbers are an annualised average and exclude SHE

Note: All financial values are nominal; Waterfalls reflect the following years: FY2013 and FY2015 actuals; FY2018 targeted

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# Operations is targeting an additional \$250-\$300m in gross transformation benefits by FY2018

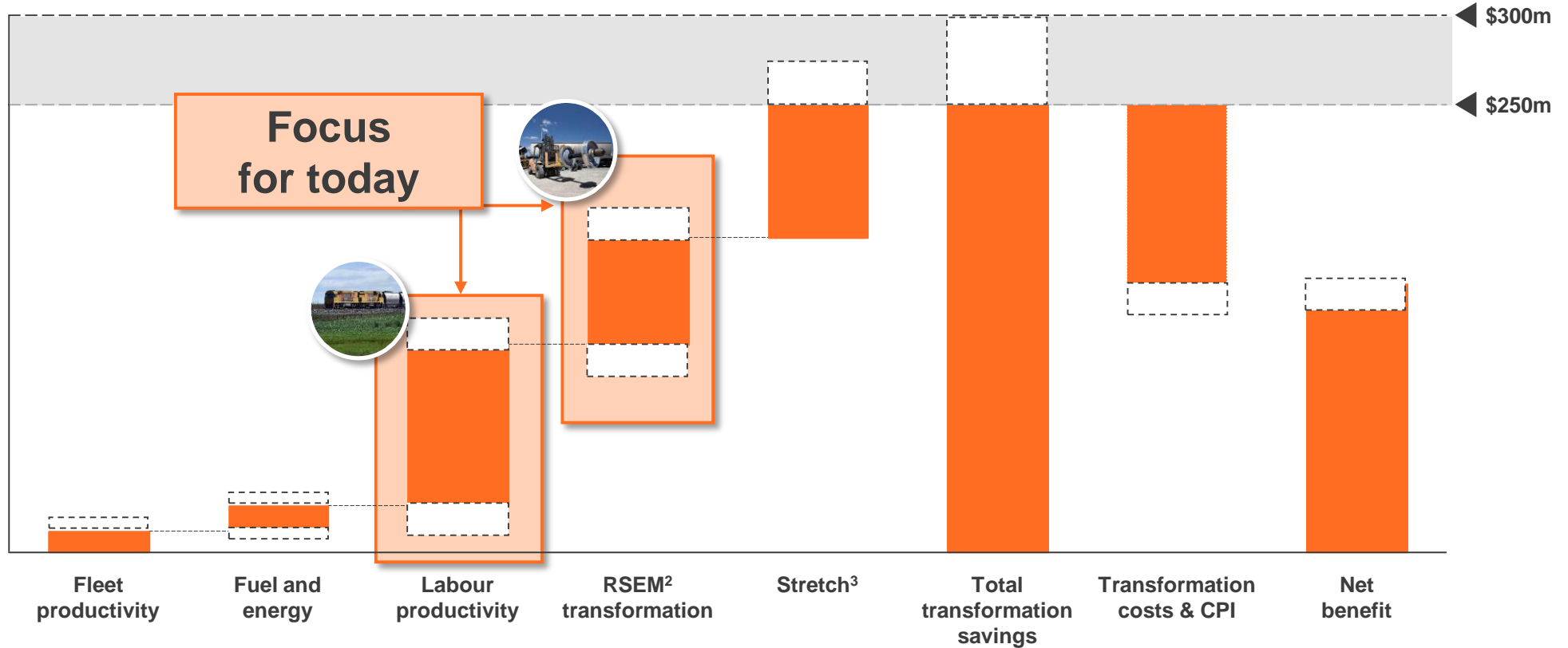
Operations transformation benefits, FY2016 - FY2018 (\$m gross<sup>1</sup>)





# Operations is targeting an additional \$250-\$300m in gross transformation benefits by FY2018

Operations transformation benefits, FY2016 - FY2018 (\$m gross<sup>1</sup>)



# ENTERPRISE AGREEMENTS



# The EAs grandfathered to Aurizon at IPO were not competitive and did not support Transformation

## The burning platform



### UNCOMPETITIVE COSTS

10-15%

less competitive  
in train crew



### RESTRICTIVE CORE CONDITIONS

- 14 separate agreements
- No forced redundancies
- No forced relocation
- ~ 900 pay points
- Rail passes



### LIMITED FLEXIBILITY

- Inflexible roster rules
- Limited ability to variabalise expenses with demand

“The current Enterprise Agreements have significant restrictions and built in inefficiencies which it regards as unsustainable for its business and which need to be removed to allow it to be successful in the competitive environment in which it operates.”

Submission to Fair Work Commission

# Key EA highlights - Core Conditions

(~3600 QLD based employees under the EA)

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Item	Impact of change
› No forced redundancy	<ul style="list-style-type: none"><li>› Reduction of up to 350-400 FTEs over the life of the agreement</li><li>› New EAs result in a significant cost avoidance in Employees in Transition (EiT) for any future redundancies</li><li>› \$14m of EiT costs incurred over the last 2 years</li></ul>
› Rail passes	› \$1.8m over 3 year life of agreement
› Direction to take leave	› Targeting reduction against leave liability balance (current total balance is ~\$240m for all AZJ)
› Disputes procedure and 'status quo'	<ul style="list-style-type: none"><li>› Reduced ability of unions to delay critical change initiatives</li><li>› Implementation previously could not commence until dispute resolved</li><li>› Now implementation can proceed after consultation has concluded</li></ul>



# Key EA highlights – Construction & Maintenance

(~1,300 QLD based employees under the EA)

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Item	Description	Impact of change
› No forced redundancy	› Majority of FTE reduction expected in targeted areas	› Up to 300-350 FTEs to exit by end of FY2018 › Target areas are Redbank, Townsville and Rockhampton, enabled by footprint consolidation and technology improvements
› Removal of rostering by agreement / ballot / committee	› Less onerous requirement for consultation on roster changes, leads to quicker and more flexible roster outcomes	› Improved alignment of labour with demand › Reduction in labour cost (shift and overtime payments) › Reduction in travel and Living Away from Home Allowance costs in Program Delivery
› Shift worker classification	› Restricted definition reduces entitlement to extra annual leave and overtime rate	› Reduction in leave accrual from 5 weeks to 4 weeks p.a. for >80 employees no longer classified as shift workers
› Removal of paid meal breaks	› No longer an entitlement	› Worth up to ~\$1m over life of agreement



# Key EA highlights – Train Crew & Transport Operators

(~1,100 QLD based employees under the EA)

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Item	Description	Impact of change
› Master roster diagrams	› Increase in availability through: <ul style="list-style-type: none"> <li>› Reductions in shift length</li> <li>› Rostered days off</li> <li>› Ability to make changes between master and daily roster</li> </ul>	› 5-10% increase in availability corresponding to a reduction in demand for up to 65 FTEs
› Day of operations flexibilities	› Lift up / lay back (bringing forward or deferring the start time of a shift) › Shift extensions (ability to extend the shift rather than relieving with a fresh crew)	› 3-6% uplift in Footplate (time on a shift spent actually driving trains)
› Reduction in overtime	› Incentives to work on weekends › Sick leave no longer contributes to calculation of fortnightly overtime reconciliation	› Up to 10% improvement in absenteeism › 15-20% reduction in overtime costs
› Car driving hours	› Removal of car driving restrictions	› 3-6% reduction in car kms and corresponding increase in safety › Corresponding improvement in Footplate
› Removal of artificial demarcations	› Ability to perform task if qualified and trained to do so	› Reduction in demand for ground support resources



# Direct and indirect benefits of the EAs is larger than incurred costs and directly enables the \$250-300m Operations transformation

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## SAFETY

- › AZJ fundamentally believes the new Enterprise Agreements keep our people safer
  - › Reducing exposures (e.g. less hours driving cars)



## SERVICE

- › The Agreements will deliver improved service levels for our customers
  - › Removal of crew constraints to ensure volumes are delivered



## PRODUCTIVITY

- › Implementation of the Agreements will drive greater productivity across key operational metrics
  - › Delivering more with less, and at reduced unit cost



## COST

- › The structural shift in our new Agreements has enabled strong value creation
  - › Reductions in overtime, penalties and allowances

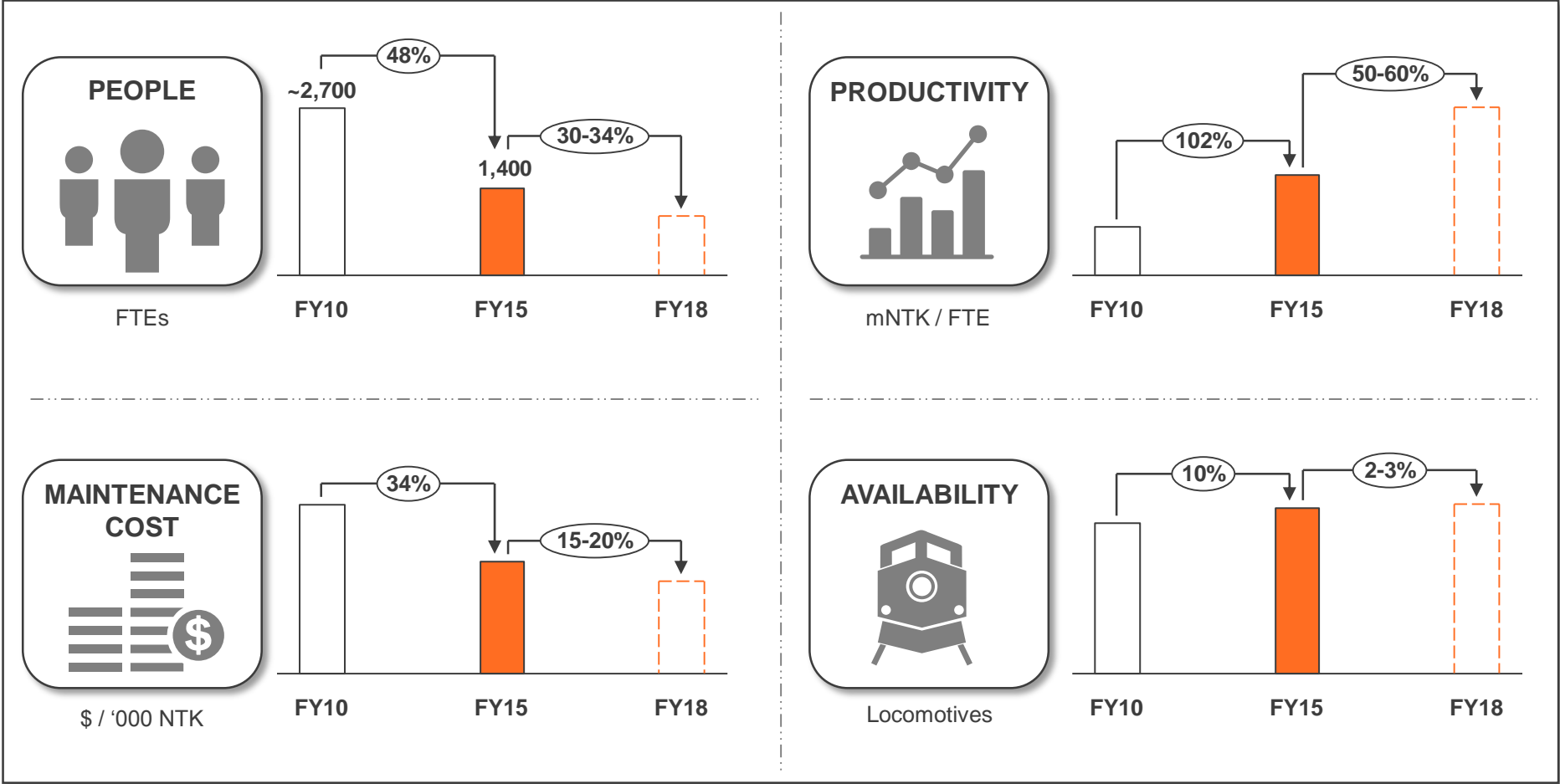
# ROLLINGSTOCK ENGINEERING & MAINTENANCE TRANSFORMATION





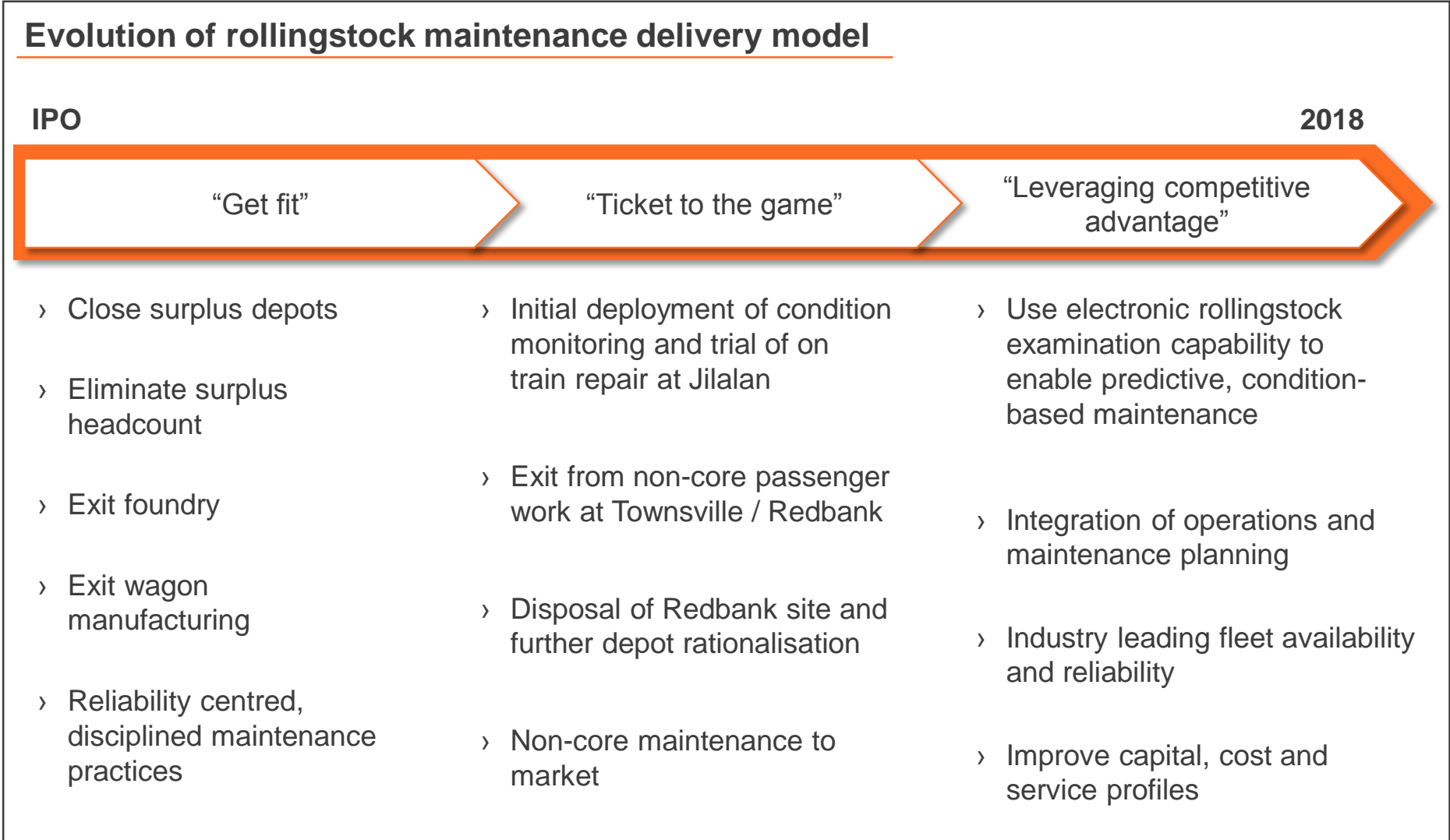
# The Rollingstock Engineering & Maintenance (RSEM) transformation is a core component of Aurizon's transformation

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# The RSEM delivery model is evolving to create a strategic competitive advantage

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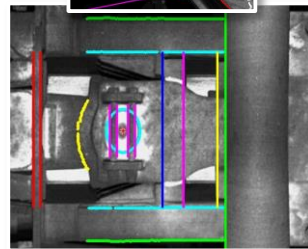
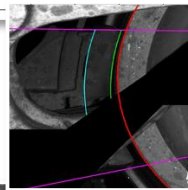
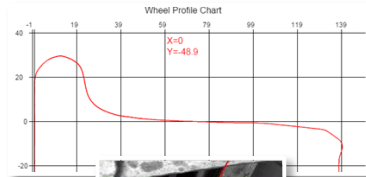


# RSEM procedures are being transformed by new technology and work processes

**More efficient, faster, safer, predictive, condition-based maintenance**



## WORK ORDER CREATION



## WAYSIDE CONDITION MONITORING

Automates rollingstock inspection...

## ON TRAIN REPAIR

Maintenance activities conducted "on train"



## Key benefits

- ↑ Safety and service
- ↓ Shunting movements
- ↑ Asset utilisation (faster return to active service)
- ↑ Asset reliability and availability
- ↓ Variability through unplanned failures and maintenance
- ↓ Materials and spares (inventory)
- ↓ Footprint required
- ↓ Costs (labour, materials, etc.)

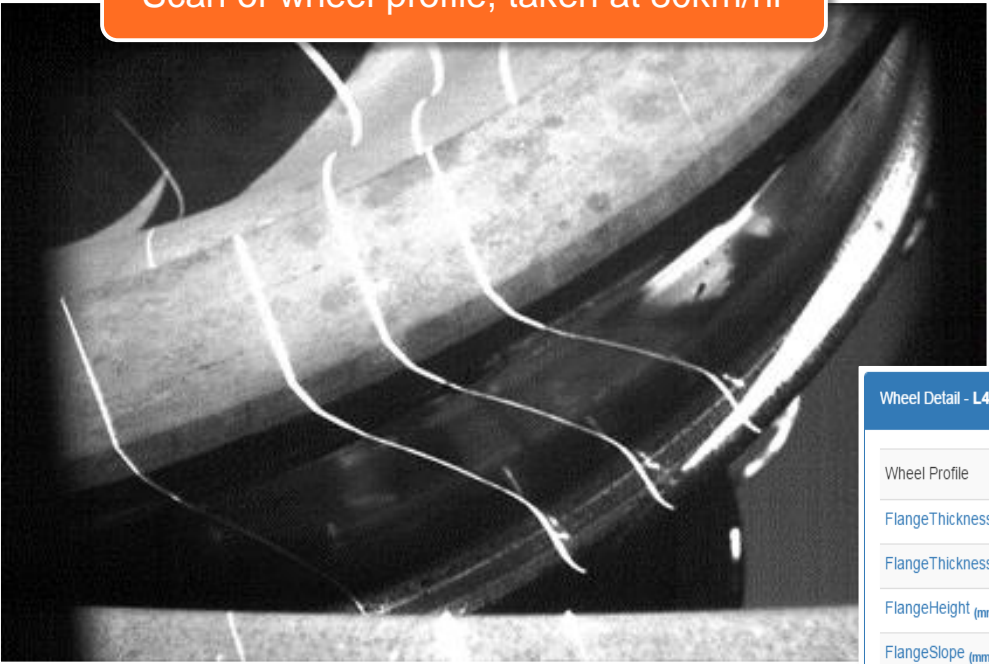
# Wayside condition monitoring is an example of our maintenance transformation



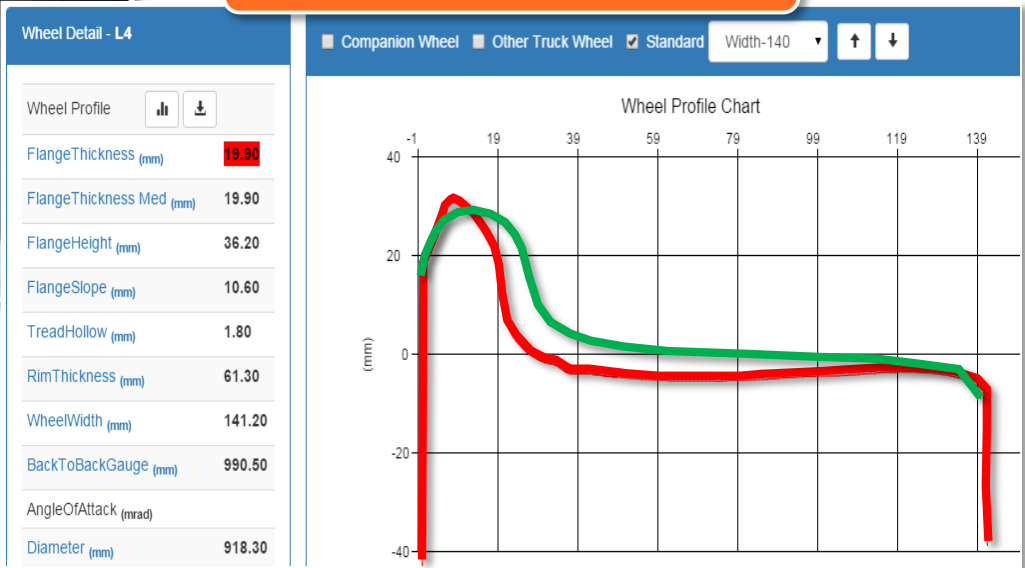
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# Wheel profiles are scanned by laser and infrared imaging and analysed to drive maintenance planning

Scan of wheel profile, taken at 80km/hr



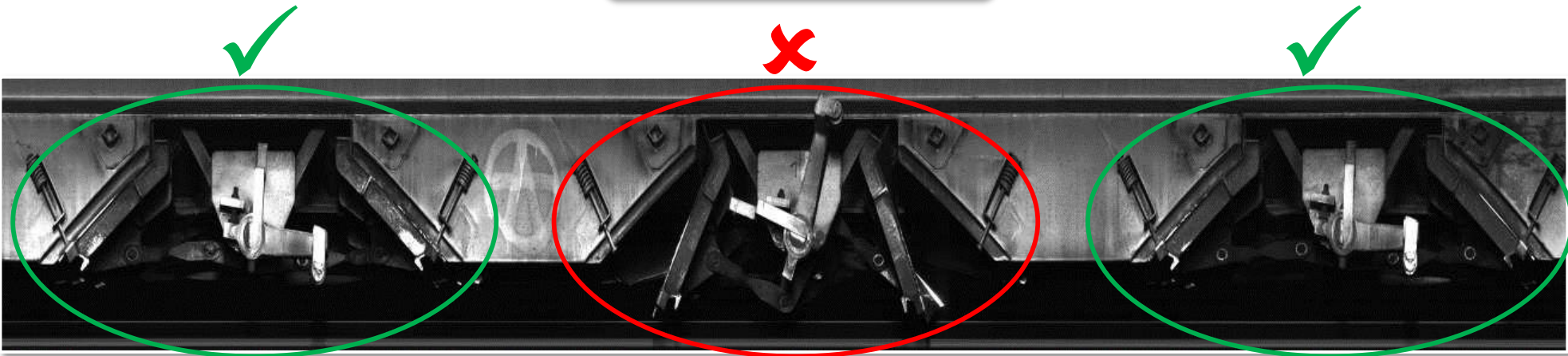
Wheel profile analysis results



# Scanning allows early identification of equipment issues, e.g. open wagon doors

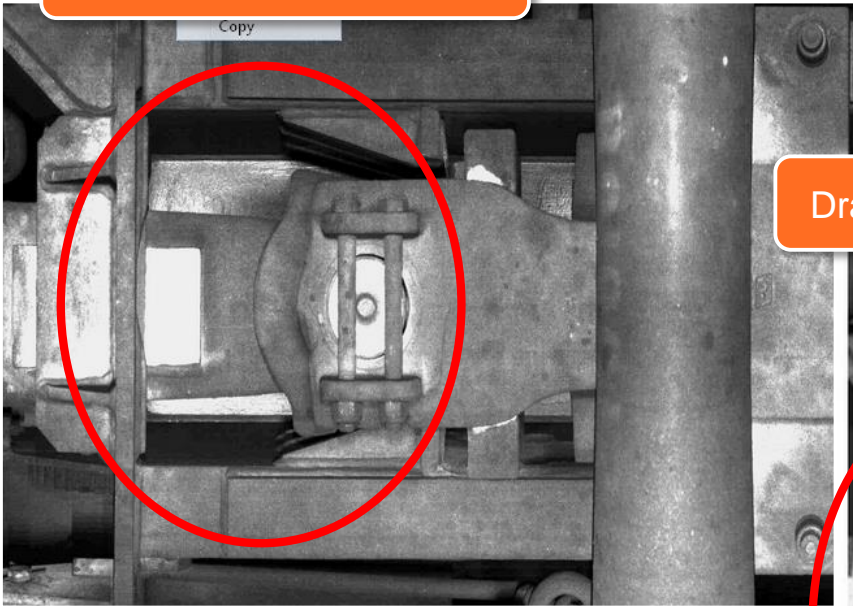
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Open wagon doors

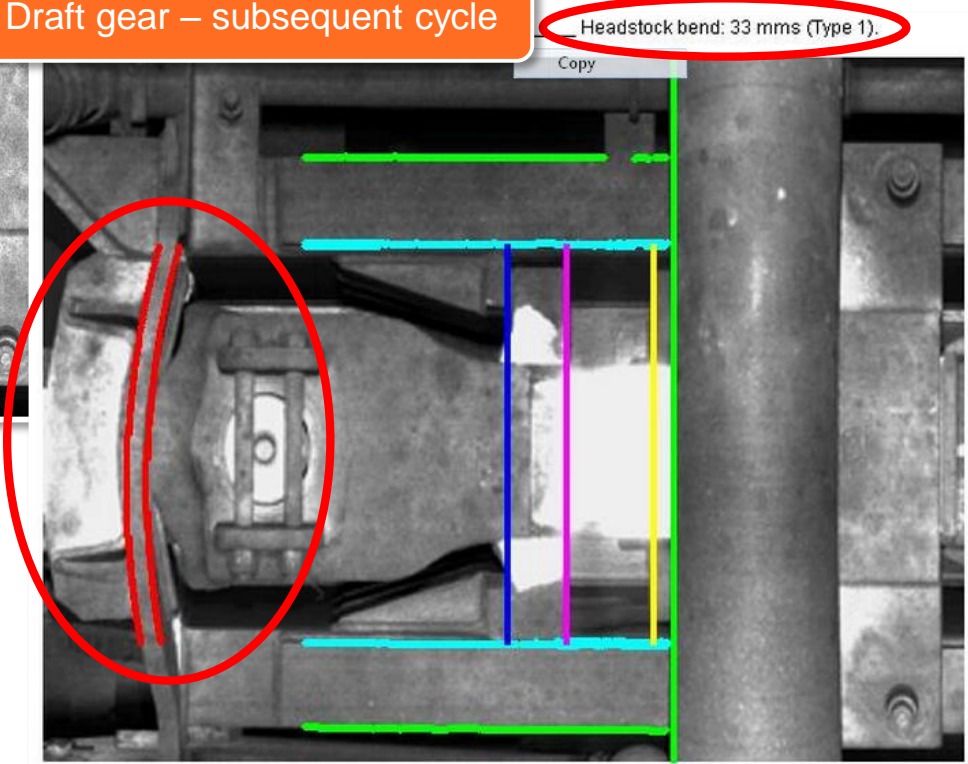


# Draft gear faults are now automatically detected and alarmed, preventing train parting

Draft gear - prior cycle



Draft gear – subsequent cycle



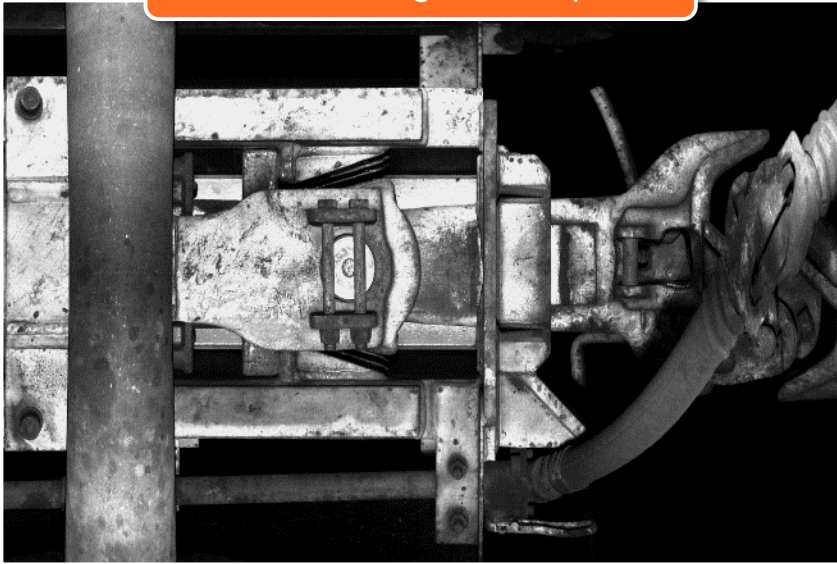
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Underside condition reviews, previously only possible during annual inspections in pits, can now be conducted while the train's in service

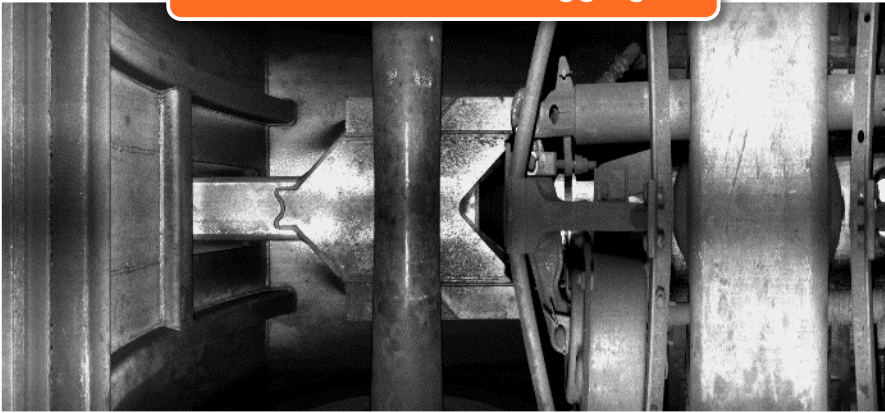
Detailed full scan



Axes, Draft gear, Coupler



Centre sill, Brake rigging

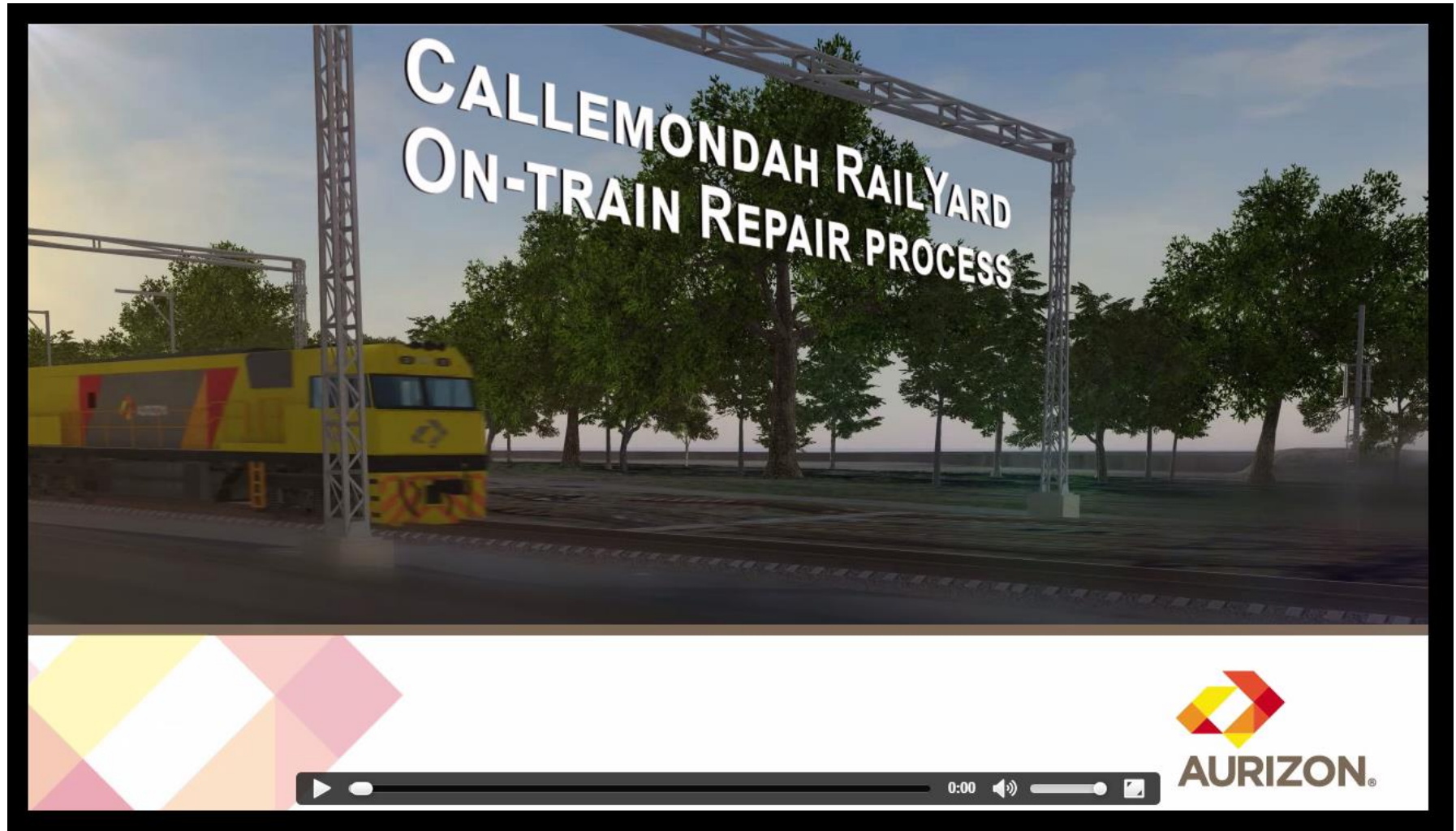


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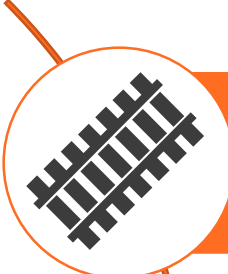


On train repair is an example of process re-engineering

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# Key messages from today



Operations is targeting an additional \$250-300m in gross transformation benefits by FY2018



Operations transformation is underpinned by six fulsome , core programs that are aligned to our strategy and core values



Operations has built a track record, has momentum and line of sight of the next tranche of improvements

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# Questions and Discussion

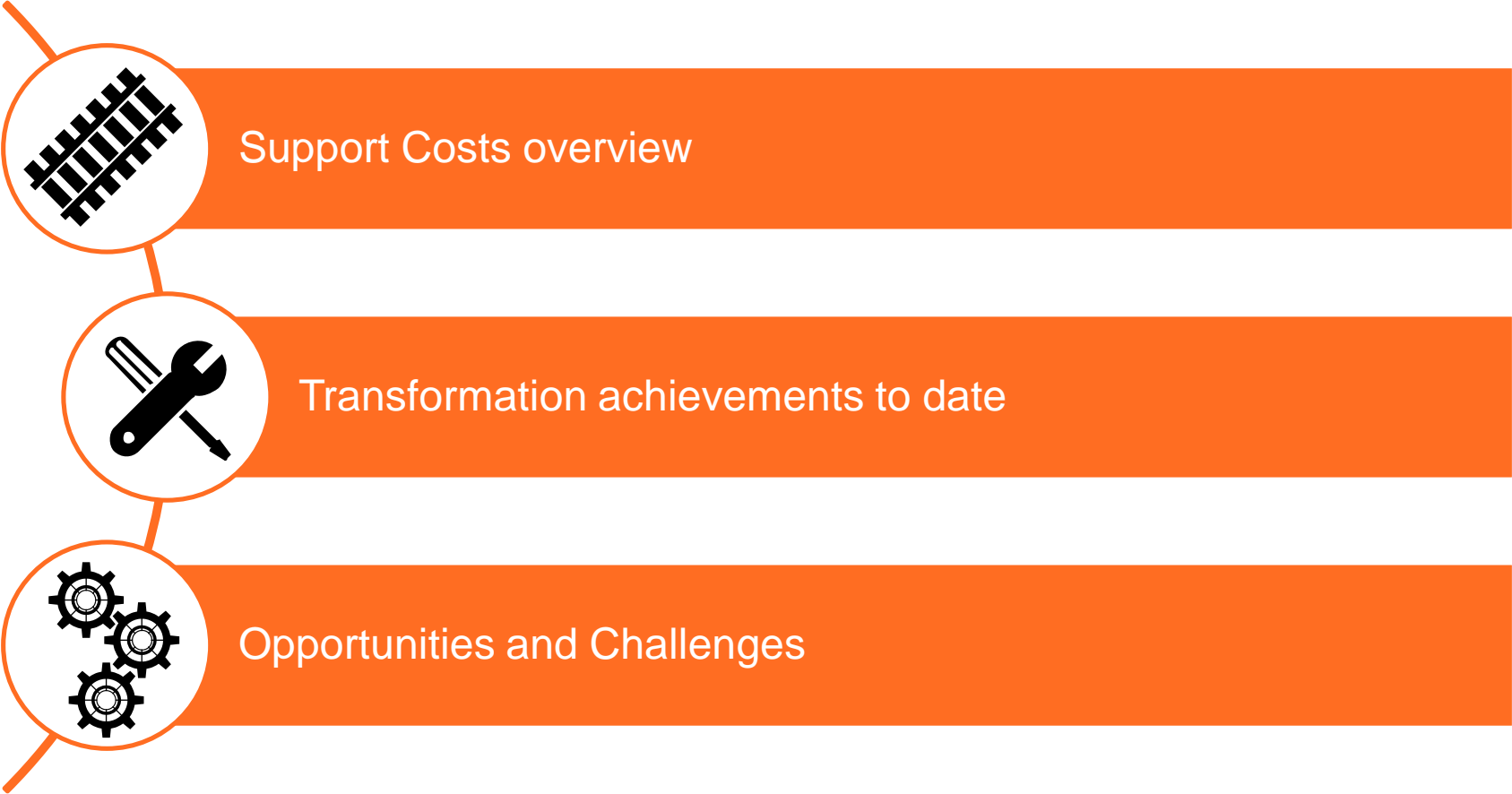


# AFTERNOON TEA

# Support Cost Review

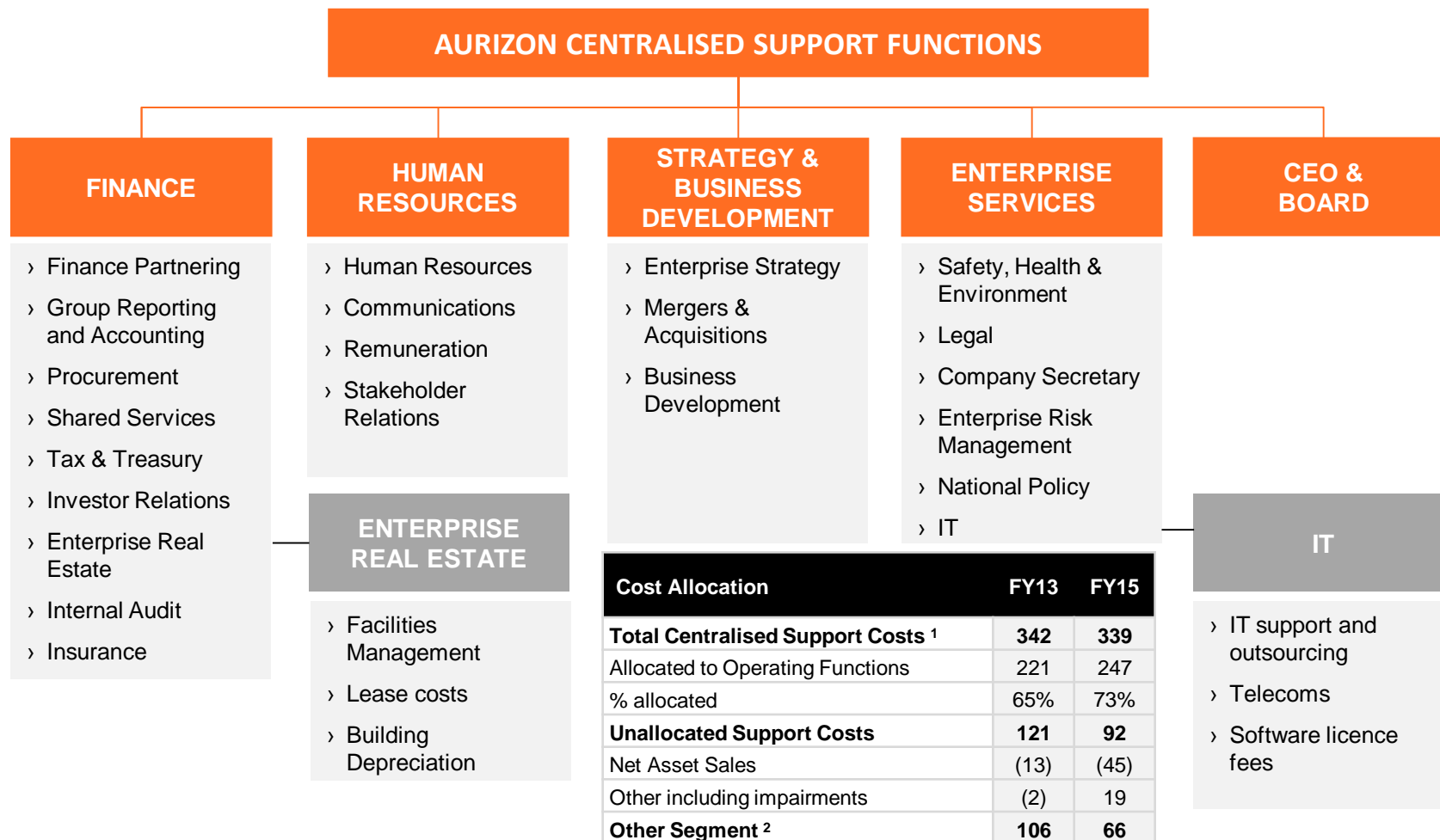
Keith Neate – CFO & EVP Finance

# Support Cost review



# Centralised Support costs overview

- › Centralised support costs represent direct and indirect costs attributable to supporting the Enterprise's operating and commercial functions



1. Total centralised support costs for the period FY2013 to FY2015 includes the impact of restructuring costs, escalation, further centralisation of property costs and the impact of non-cash provisions  
 2. As per financial statements

# Centralised Support costs transformation has delivered \$57m in gross savings in FY2014 and FY2015

## Achievements



### STRUCTURAL

- › Reduction in layers and increases in spans of control (6 Support functions consolidated into 4)
- › Centralisation of administrative and support resources
- › Increased transparency over the support cost base of the business
- › Right sizing of remuneration levels



### FINANCIAL

- › \$24m reduction in labour costs with FTEs in Support functions reduced from 825 to 639
- › \$26m reduction in professional services and discretionary spend
- › \$7m reduction in other costs including rationalisation of the property portfolio and improved procurement practices:
  - › Fleet assets under management reduced from 2,500 to ~1,500 (40%)
  - › Corporate credit cards reduced from 2,500 to 710 (72%)



### TECHNOLOGY

- › Initiated upgrade of systems to support functional model (vs. redundant Business model)
- › Delivering new capability in transportation scheduling and execution, improving capacity and productivity
- › Scoped and specified an Enterprise data model to integrate and standardise processes enabling data driven continuous improvement



# Targeting \$60-\$80m in gross transformation benefits over FY2016 to FY2018

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## STRUCTURAL

- › Further restructures implemented during FY2016 in the key support functions of Human Resources, Finance, Enterprise Real Estate and Safety, Health & Environment
- › Headcount reduction in Q1 FY2016 - 36 FTEs



## PROCUREMENT

- › Restructure and refocus of the Procurement function, with key initiatives as follows:
  - › Implementation of Centre led procurement model, combining central management of corporate spend and overall systems and governance support with Business Embedded resources to facilitate technical procurement.
  - › Improved Business Intelligence Capability supporting operational and commercial functions
  - › Streamlining of Standard Operating Agreements
  - › Reduction and consolidation of supplier base (6,500 to 5,700)



## OTHER

- › Continued Real Estate consolidation and rationalisation
- › Ongoing implementation of technology projects will unlock efficiencies in both support cost and Operations functions (refer slide 42)
- › Continuing review of potential alternative delivery models for support services, including further centralisation and outsourcing
- › Relentless focus on key discretionary expenditure items, with key examples including travel and accommodation, professional services and contractor costs

# Current market presents challenging environment for delivery of savings

- › The following timing challenges are being managed in pursuit of Support cost reduction:



## PROPERTY

- › Key objective is to rationalise the property footprint in alignment with Operations
- › Weak commercial and residential property market in regional areas is impacting divestment progress
- › Historical Repairs and Maintenance backlog proving costly
- › Legacy property portfolio highly fragmented with many inefficient and outdated facilities



## TECHNOLOGY

- › 5 major systems development and implementations in progress ~\$200m capex
- › Efficiencies will emerge incrementally through the progressive implementation throughout FY2016 – FY2018 of the IT projects
- › Average payback of 5 years post steady state implementation, offsetting increased operating costs and depreciation charges

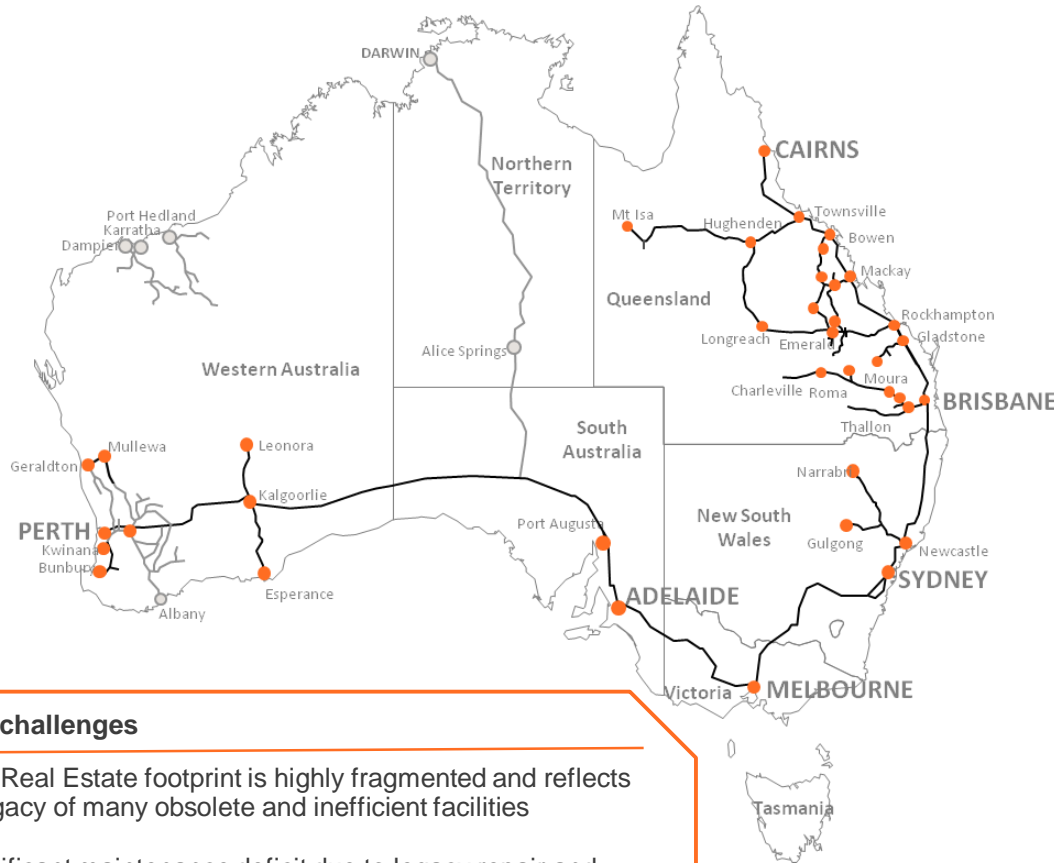


## OTHER

- › Ongoing escalation with respect to labour and consumables which represents the highest proportion of support cost base cost ~\$9m p.a.
- › Costs of implementation including redundancy payments expected to increase

# Aurizon's Real Estate Portfolio

## Real Estate Portfolio as at 30 June 2015



### Portfolio Value<sup>1</sup>

~\$1bn



- › 800+ Land parcels
- › 196 Operational sites
- › 122 Terminals/Depots
- › 29 RSEM<sup>2</sup> facilities
- › 42 Staff Locations

### Opex

~\$100m p.a.



- › Maintenance
- › Utility charges
- › Property holding costs (tax and rates)
- › Lease expenses

### Key challenges

- › The Real Estate footprint is highly fragmented and reflects a legacy of many obsolete and inefficient facilities
- › Significant maintenance deficit due to legacy repair and maintenance requirements – contrary to our ZEROHarm value
- › Incremental maintenance costs of \$15m-\$20m for the next few years due to the downturn in the regional property market

### Sustaining Capex



- › Safety compliance
- › Legislative and Statutory requirements

\$24m-\$30m

### Depreciation



\$24m p.a.

# Aurizon's real estate transformation journey and future opportunities

- › Aurizon continues to pursue transformation initiatives to unlock sustainable value, right size the footprint, eliminate waste, duplication and promote cultural change

## Achievements

- › Focus has been on addressing legacy issues and commercialising the portfolio

- › Major assets re-positioned to align with future business intent e.g. Redbank

- › Key Brisbane corporate office accommodation footprint reduced from 9 to 2 locations

- › Several surplus, redundant sites and houses divested

- › Land holding, occupancy, labour and facilities management costs rationalised and significantly reduced

## Opportunities

- › Unlock opportunities for consolidation and rationalisation, development, leasing and divestment including fewer surplus assets – focus areas:

### Site Consolidations, Rationalisation and Optimisation

- › Footprint consolidation and rationalisation of major operational sites
  - › *For example:* One Brisbane Location - 900 Ann Street - a custom-built facility due in 2018 which will deliver cost reduction and a more productive way of working
- › Housing Portfolio Review to commercialise the portfolio

### Unlock development opportunities to support Intermodal business growth

- › Moorebank – New South Wales
- › Forrestfield – Western Australia

### Facilities Management Optimisation and Service Definition

- › Developing a service delivery model that balances the corporate safety, compliance and statutory obligations with enterprise enterprise requirements and service expectations
- › Right sizing of the portfolio to reduce waste and duplication and adoption of an efficient, cost effective data and asset management platform are key outputs

# Aurizon's information technology journey

- › Aurizon is investing in process and system transformation to improve customer service and unlock the next wave of productivity improvements

## Drivers for technology investment

- › **Technology designed under government ownership for a line of business operating model**

› Customer facing technology inferior to competition

› Processes and systems localised and duplicated

› Knowledge and data local and fragmented

› Performance reporting manual with inconsistencies

› Aging systems built under government ownership

## Building the foundations

- › **Foundational investment in IT to enable functional model**

### Freight Management Transformation

- › Standardised above rail commercial and operational processes
- › Supported by a tightly integrated, real time system based on SAP
- › Scheduled to complete in CY2016

### Advanced Planning and Execution solution (APEX)

- › Deploying advanced scheduling and execution solution into CQCN provided by GE and Quintiq
- › Standardising processes from long term planning through to day of operations
- › Staged deploying into the control centre through CY2016 and CY2017

### Shopfloor

- › Standardise planning, scheduling, and execution of rollingstock maintenance
- › Tightly integrated with inventory and financials based on SAP
- › Complete by November 2015

### Network Asset Maintenance System

- › Standardise planning, scheduling, and execution of track maintenance
- › Tightly integrated with inventory and financials based on SAP
- › Initial deployment through Q1 CY2016

### Finance Systems Project

- › Simplify and streamline financial systems
- › Full integration of business drivers, reporting and financials analysis to provide granular performance reporting - reducing duplication of efforts and supporting business decision making
- › Rollout complete by Q4 CY2016

# **West Pilbara Infrastructure Project**

**Mike Carter – EVP Strategy & Business Development**

# Executive Summary / Key Messages

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As a developer and operator of rail-based supply chains, Aurizon continues the staged assessment of the West Pilbara Infrastructure Project (WPIP)

West Pilbara Iron Ore (Mining) Project (WPIOP) is a unique model that has the potential to deliver a sustainable competitive development

The project has high quality partners

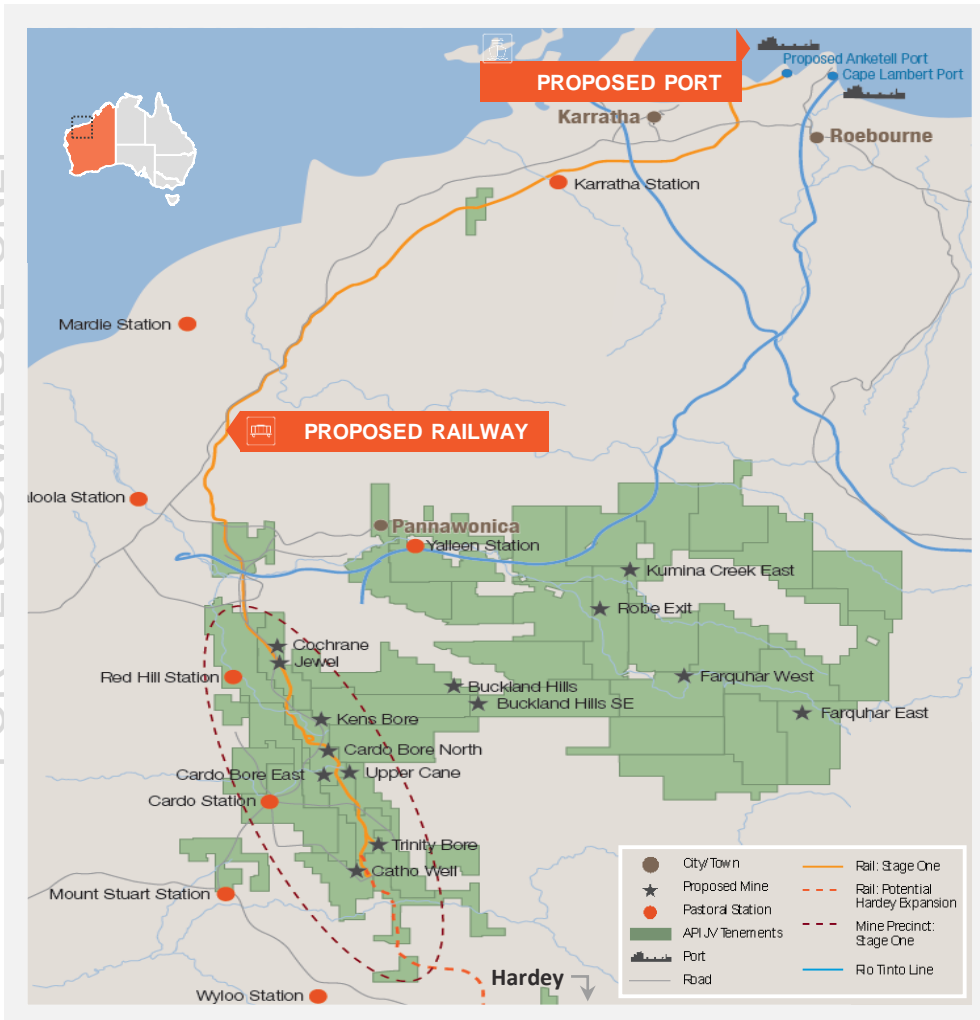
Macroeconomic conditions in resources sector are more challenging than when Aquila investment was first made

Project supply costs continue to improve

A structured development assessment schedule with defined review points is in place

# WPIOP's unique model has the potential to deliver a sustainable competitive development in the world's leading iron ore basin

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**The Pilbara**  
A tier one iron ore basin with world class mining operations

**The West Pilbara**  
Currently undeveloped with government policy support to progress the region (through Anketell Port)

**A Different Model**  
First independent multi-customer rail and port supply chain in the Pilbara with separate mine and infrastructure vehicles and direct involvement of steel mills (Baosteel and Posco)



# The project has high quality partners, including two of the world's leading steel manufacturers and a leading global trading house

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**4<sup>th</sup> largest global steel maker and 2<sup>nd</sup> largest in China**

- Chinese State owned enterprise
- Credit rating – highest credit rating amongst iron and steel enterprises globally
- Focus of high-margin segments, innovation and supply chain strength
- WPIOP key platform for Baosteel's sourcing strategy



**5<sup>th</sup> largest global steel maker**

- Involved in development and investment in multiple geographies
- Currently operates two integrated steel mills in South Korea, one in Indonesia and 47 global processing centers
- Named most competitive steel maker in the world for 5 years
- Investment partner in the Roy Hill project
- Investment grade credit rating



**Leading privately owned natural resources company**

- One of the world's leading, privately owned natural resources company
- Global trading network
- Mining operations in USA, China, Chile, Colombia and Australia, including an interest in Whitehaven and a number of high quality coal mines
- Global shipping operations

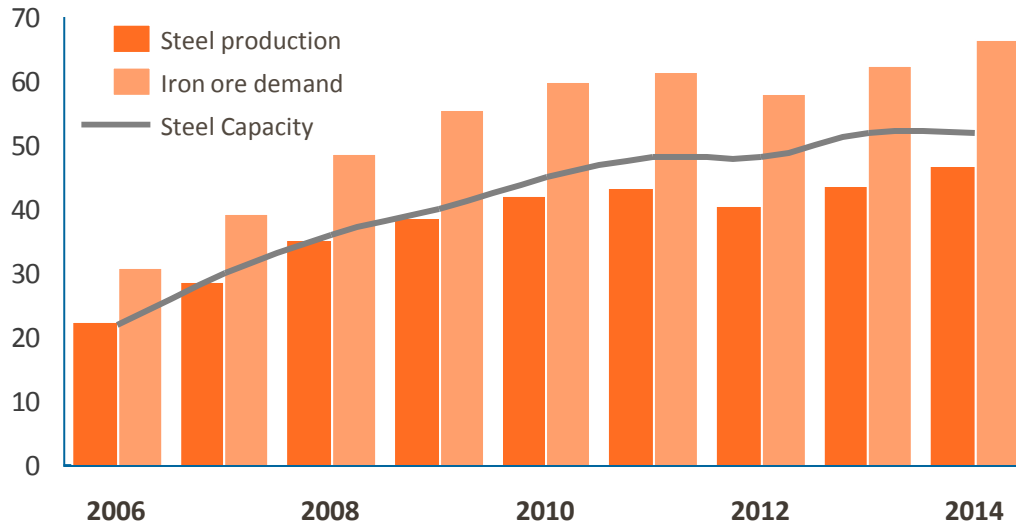
**FOCUS TODAY**



Source: 1: World Steel Association, 2014 Global rankings by crude steel production volumes – all other information company websites and Aurizon internal research and analysis

# WPIOP aims to facilitate greater self sufficiency and consistency of supply for Baosteel

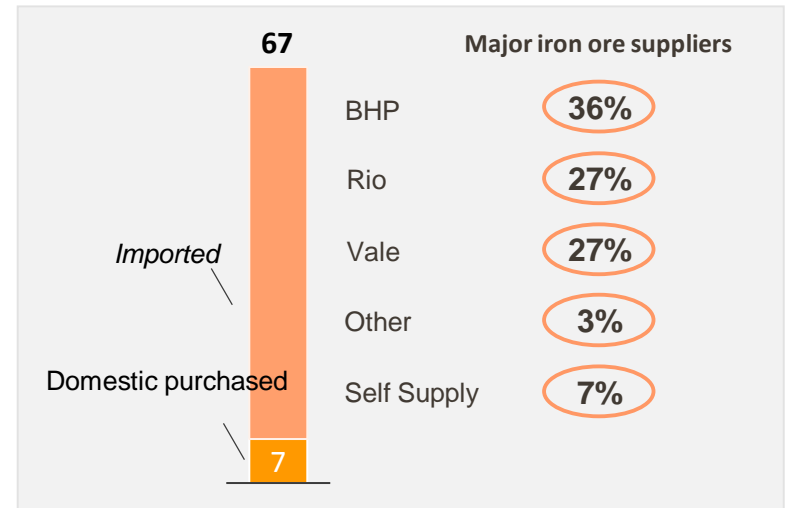
**Baosteel Crude Steel Production<sup>1</sup>**  
Mt



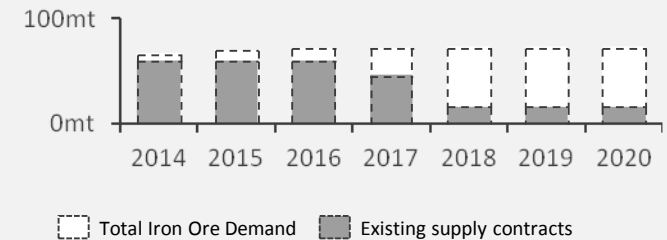
Currently, up to 80% of Baosteel's iron ore, 90% of coking coal contracts are long-term in order to secure stable and consistent supply

Baosteel optimises its blast furnaces through blending ores

**Baosteel's indicative raw material purchasing – Iron ore<sup>1</sup>**  
Mt, 2014



**Indicative offtake expiry profile as at October 2015<sup>2</sup>**



**Notes:**

1. Total production from Baosteel Group including all its subsidiaries. Steel capacity does not include Zhanjiang Stage

1 ~8.5mt (or proposed Stage 2&3 of ~8mt each)

2. Offtake profile may change over time due to Baosteel's decisions around contract renewal or replacement sources

Source: Baosteel and Aurizon Internal Analysis

# WPIOP aims to support Baosteel's efforts to build a competitive advantage in flat steel

Baosteel is focusing high-end high-margin segments in flat steel...

...specifically through newly commissioned Zhanjiang plant

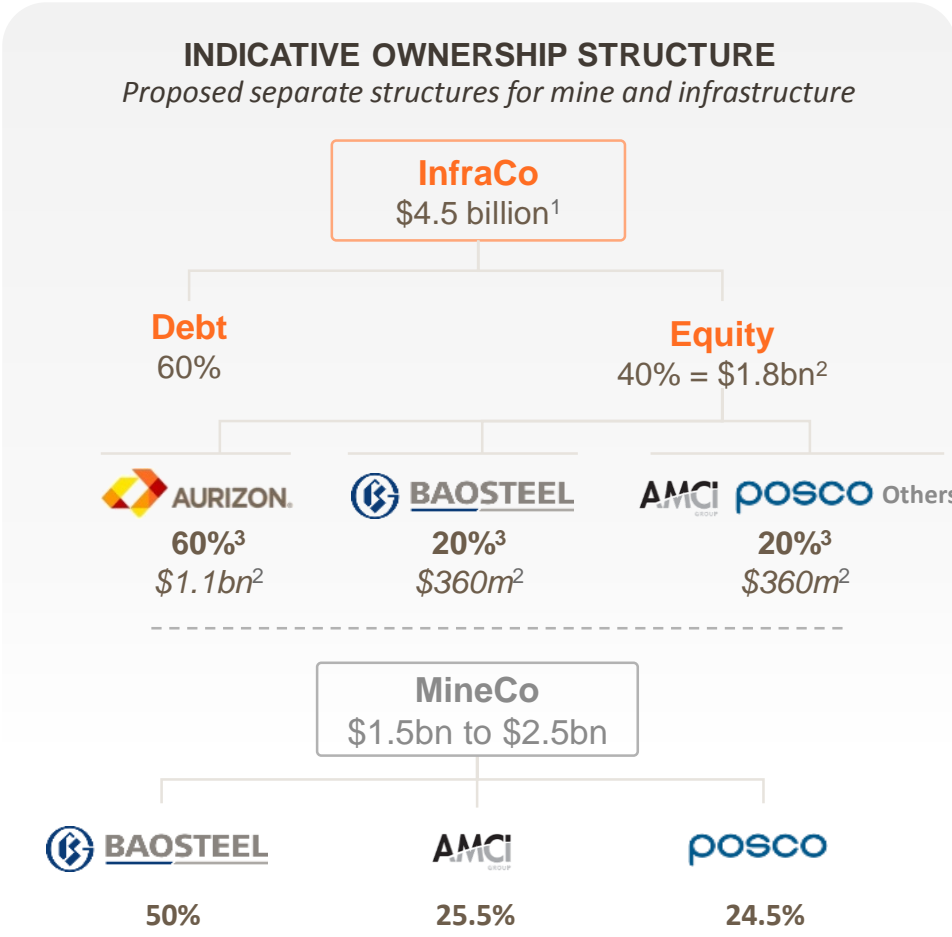
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- \$US8bn Zhanjiang steel mill project in Southern China
- Stage 1 to produce 9mt crude steel
- Targeting another 2 stages of ~8mtpa each (total c.20-30mt long term)
- Lowest steel production cost in China (leveraging low cost of labour)
- Major products include HRC, CRC, galvanised sheet and heavy plate for use in home appliances, machinery, construction, shipbuilding and auto
- The mill will be optimised by the use of a blended 56% - 57% Fe feed product

# The proposed structure involves separate mine and infrastructure vehicles, with InfraCo being majority owned by Aurizon

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**PROPOSED COMMERCIAL ARRANGEMENTS**

InfraCo is proposed to be majority owned and operated by Aurizon (~60%), with minority shareholders including Baosteel

The requirements of InfraCo Lenders could impact structure and delivery

The InfraCo tariff would be underpinned by a series of commercial agreements reflecting the risk allocation between parties (including take or pay; and MineCo offtake agreements)

InfraCo is expected to operate the entire infrastructure system with the majority of the services proposed to be subcontracted to Aurizon

Source: Aurizon Internal Analysis

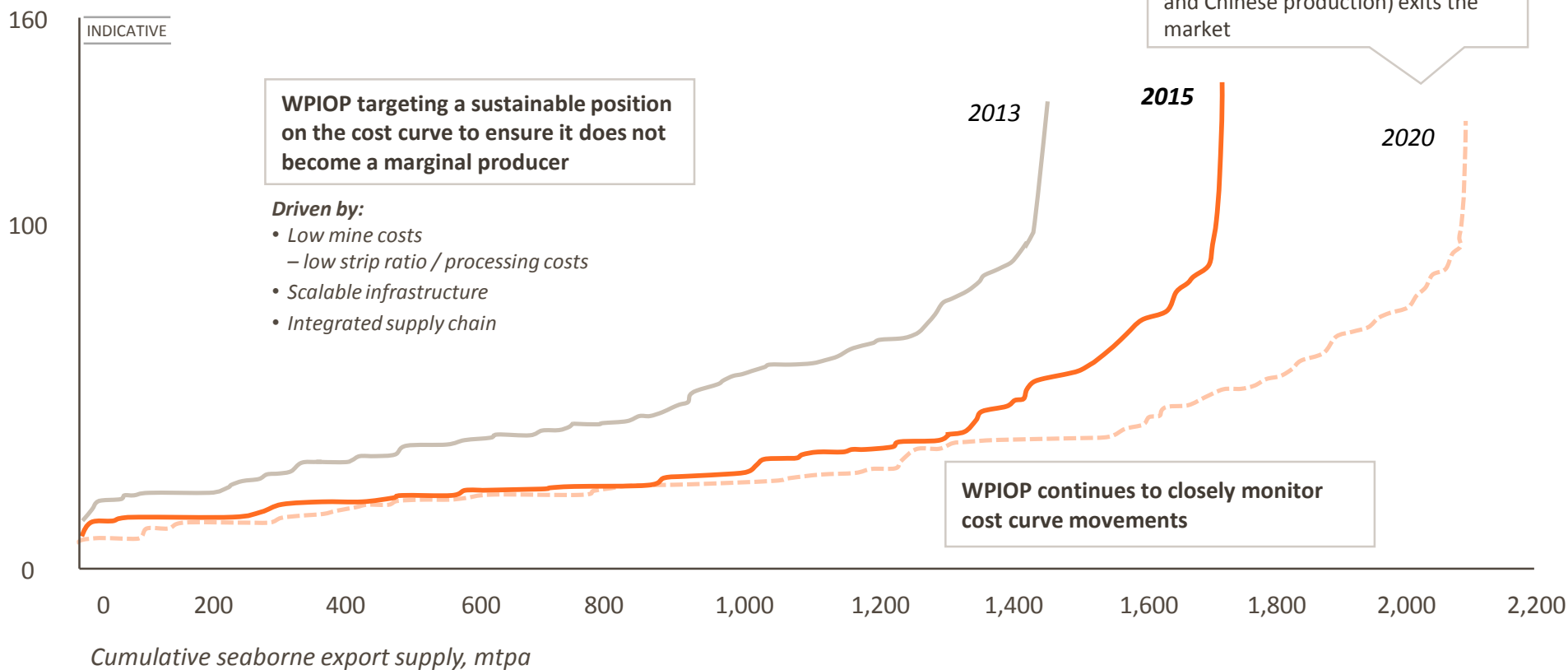
1. Indicative estimate based only on capital cost estimates as at March 2015, excluding funding costs. Both the capital cost and funding structure / costs continue to be refined 2. In addition to that equity, the shareholders are expected to fund their portion of the finance related cost including Interest During Construction, Establishment and Commitment Fees 3. Actual ownership interests may vary



# WPIOP is targeting a long term sustainable position on the global cost curve

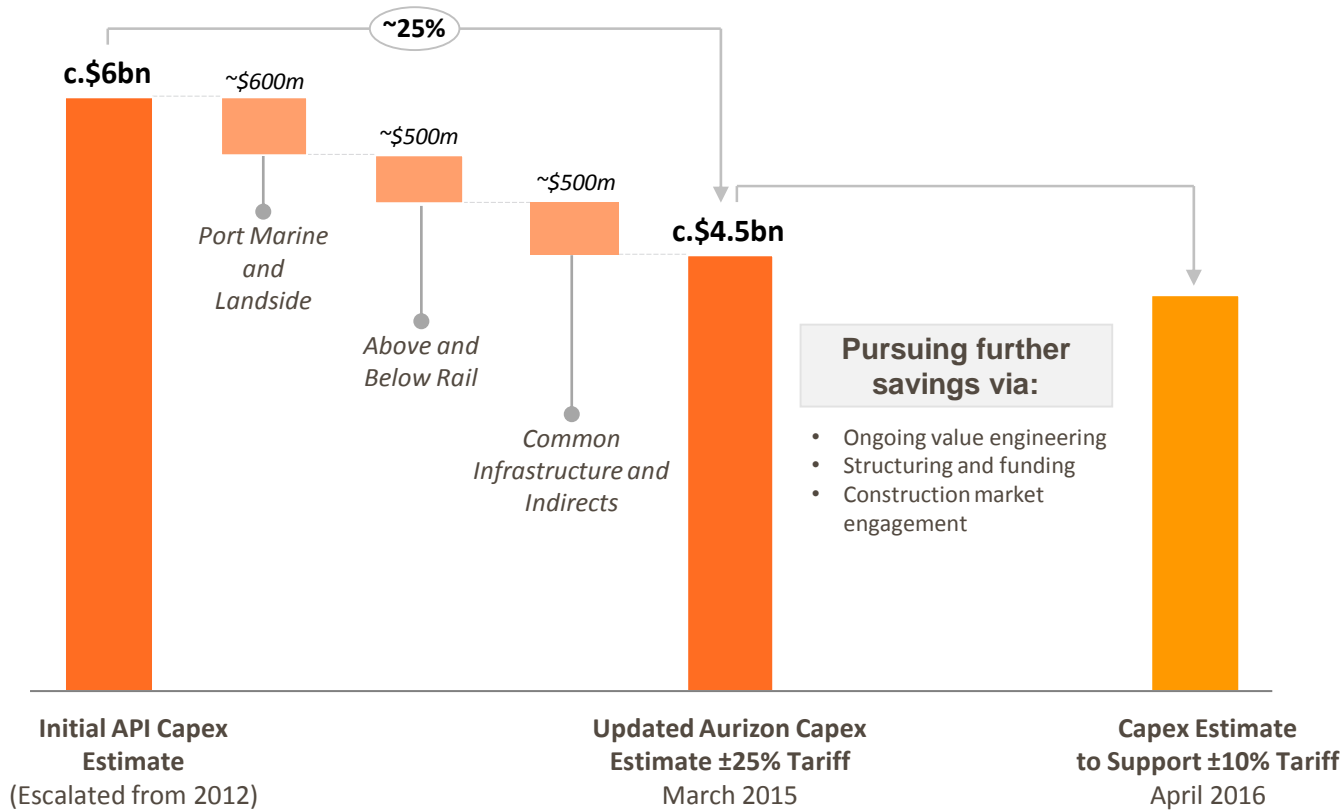
**Global Iron Ore Cost Curve – Historical and Projected**  
 FOB, US\$/dmt 62% Fe fines equivalent

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# The supply costs of the project continues to improve though capex and opex savings

## Capital Cost Reductions \$AUD 2015



## Operational Cost Reductions

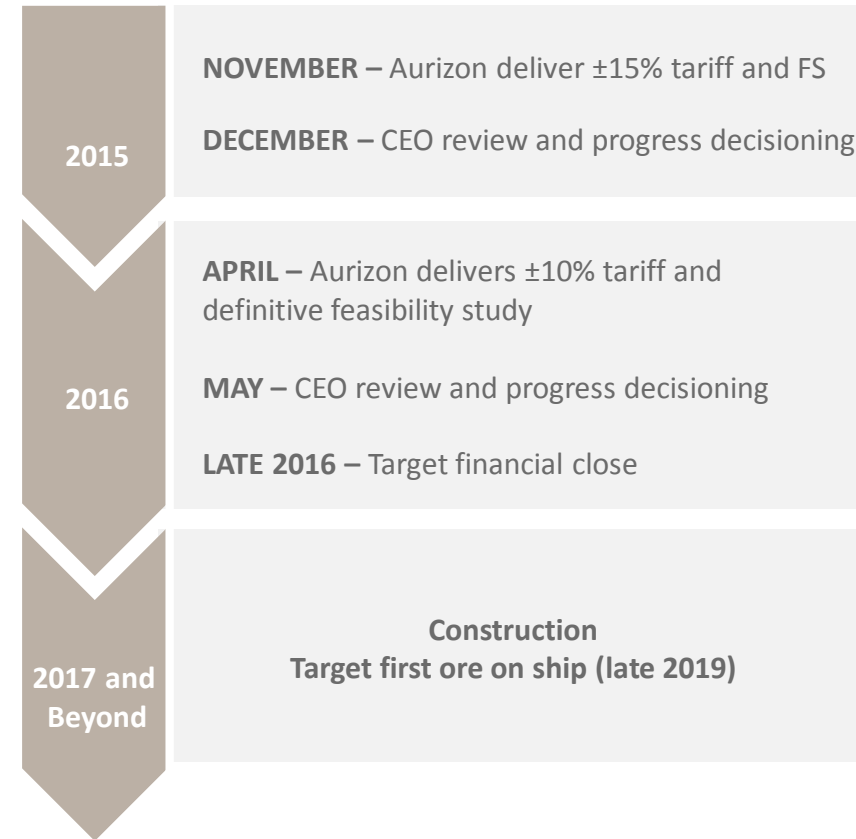
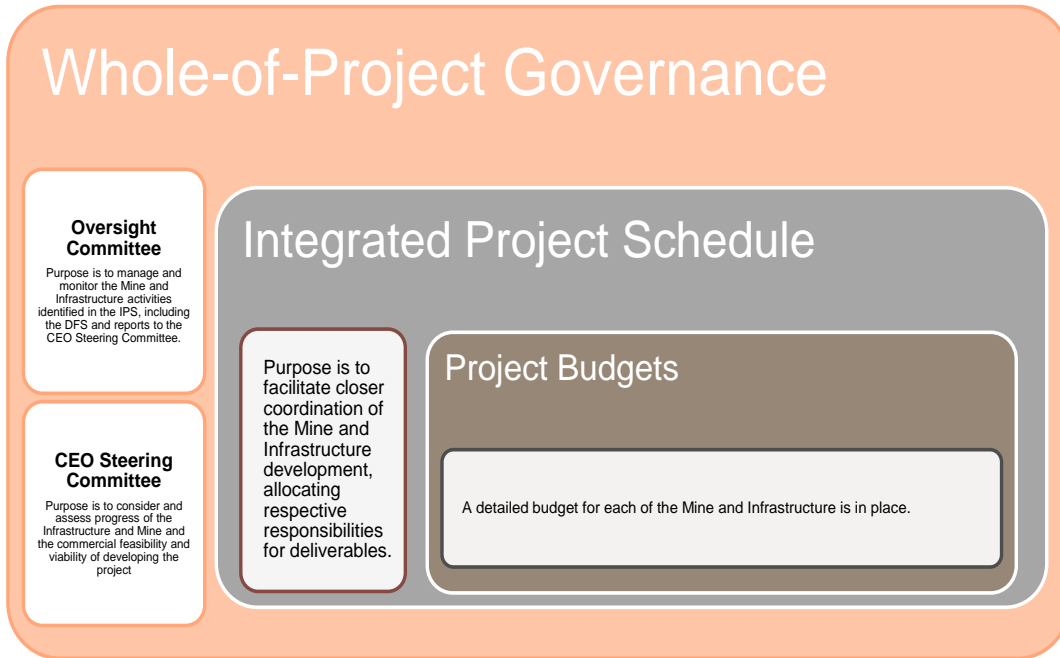
Aurizon's operating capabilities expected to drive a circa 16% operating cost reduction from the ±25% Tariff submission

# Whole of project governance structure

Commercial decisions are supported by a strong governance framework

Current project timeline

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# Questions and Discussion



