



Aurizon Holdings Limited
ABN 14 146 335 622

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

3 May 2019

Aurizon reaches agreement with customers on revised UT5 Access Undertaking

Please find attached an ASX announcement for release to the market.

Kind regards

A handwritten signature in black ink, appearing to read "D. Smith".

Dominic D Smith
Company Secretary

ASX Announcement

Date: 3 May 2019

Aurizon reaches agreement with customers on revised UT5 Access Undertaking

Aurizon Holdings Limited today announced agreements have been signed with customers on a proposed revised Access Undertaking for the Central Queensland Coal Network (CQCN).

The break-through agreements follow months of negotiation and will provide greater commercial and operational certainty for all users of the CQCN.

Customers signed to the agreements represent more than 90% of railed tonnes in the Central Queensland Coal Network and include Anglo American, BHP, Coronado, Glencore, Idemitsu, Jellinbah, Kestrel, Middlemount, Peabody, QCoal and Yancoal.

Key points in the proposed revised Access Undertaking include:

- Extending the term of the Access Undertaking to ten years (1 July 2017 to 30 June 2027);
- A Weighted Average Cost of Capital (WACC) of 5.9% increasing to 6.3% (subject to a reset on 1 July 2023) on completion of specified milestones, as compared to the WACC of 5.7% in UT5; and
- Development of mechanisms to provide supply chain value through improved supply chain stability and improved maintenance and asset renewal programs.

Further detail on the proposed revised Access Undertaking is provided in the Investor Presentation pack.

A Draft Amending Access Undertaking will be submitted to the Queensland Competition Authority (QCA) to amend the current UT5 Access Undertaking. The above-named mining companies will be submitting agreed letters of support to the QCA.

Aurizon Network and customers will engage with the QCA for it to fully consider, and if appropriate, approve the Draft Amending Access Undertaking in accordance with its standard procedures including consultation with stakeholders.

Aurizon MD&CEO Andrew Harding said at the encouragement of the QCA, Aurizon has been working constructively with customers to address respective concerns regarding the Access Undertaking.

“Today’s announcement is an important step in the development of an Undertaking that better addresses customer needs and provides longer term certainty for the Queensland resources sector,” Mr Harding said.

An analyst and investor teleconference will be held at 1.30pm Brisbane time (AEST) today. For quick access to the teleconference, please pre-register here [link](#) or use these participant dial-in details with passcode 802585:

Location	Number	Location	Number
Australia Local	+612 9007 8048	US/Canada	1855 624 0077
Australia Toll Free	1800 908 299	UK	800 051 1453
Singapore	800 101 2702	Hong Kong	800 968 273

For more information:

Investors:

Chris Vagg
+61 409 406 128

Media:

Mark Hairsine
+61 418 877 574

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UT5 – Commercial agreements reached with customers

Andrew Harding – MD & CEO
Michael Riches – Group Executive Network

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Overview

Aurizon Network (Aurizon) has signed implementation deeds with customers, representing more than 90% of total railed coal tonnes in CQCN, to submit a DAAU¹ to the QCA Final Decision. If approved, this will deliver a range of material benefits to Aurizon and its customers and provide greater long term certainty for the industry

KEY REVISIONS TO THE UT5 ACCESS UNDERTAKING

Term extended to 10 years (1 July 2017 to 30 June 2027)

UT5 Final Decision (UT5FD) applies from July 2017 until DAAU is approved by QCA

WACC increases to 6.3% on completion of a capacity assessment review – expected to occur within 12 months. Certain time based parameters reset on 1 July 2023

Process to pre-agree annually future maintenance costs with customers which are then pass through

Independent expert (IE) determines existing network capacity and assesses Aurizon's delivery of contracted capacity

Rebate payable to customers where Aurizon performs below target levels. Targets commence after the capacity assessment has been completed

Aurizon will fund expansions to address any network capacity deficits identified in the initial capacity assessment up to \$300m². If funding above \$300m is required for such expansions, this could be provided by Aurizon at its election

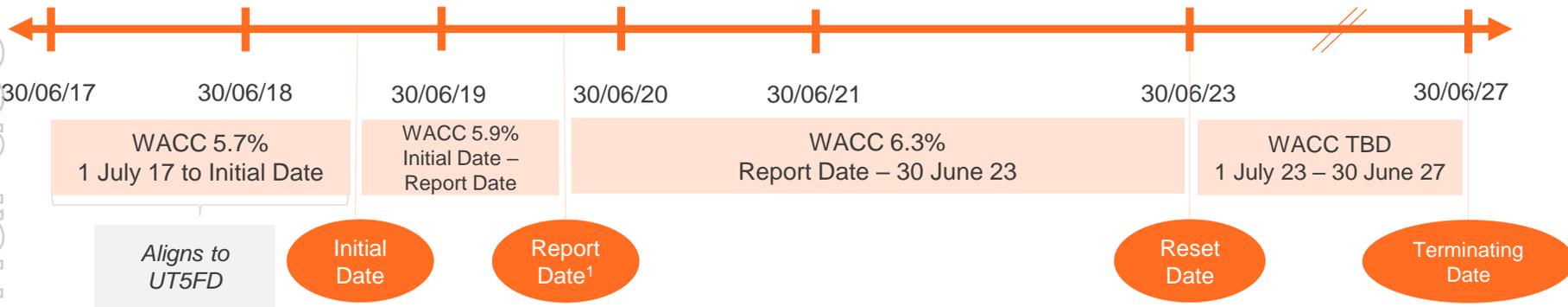
Aurizon will be obliged to fund up to \$30m² annually for expansions to create new capacity where it would benefit more than one access seeker or holder

1. Draft Amending Access Undertaking
 2. Any amounts spent on expansions under these provisions will form part of the RAB and earn the applicable rate of return

Components of the Undertaking – Return on Capital

Under the DAAU there is a step up in WACC subject to achievement of predefined milestones. Certain variable components of WACC will be reset on 1 July 2023 to take account of prevailing market conditions at that time

INDICATIVE WACC TIMELINE¹



MILESTONE

DETAILS

Initial Date	Being the date on which the DAAU is submitted to QCA for approval
Report Date	<p>Date on which the later of the following events occur:</p> <ul style="list-style-type: none"> › IE provides Initial Capacity Assessment Report (ICAR); and › Aurizon notifies relevant parties of proposed options to address Existing Capacity Deficits identified in ICAR. <p>Where ICAR does not identify any Existing Capacity Deficits the Report Date is the date on which the IE provides the ICAR</p>
Reset Date	1 July 2023 (Reset of risk free rate, debt risk premium and inflation – methodology agreed)

1. Best estimate of the milestone date – subject to change

Note – While the UT5FD will apply until the DAAU is approved, once it is approved the WACC will be adjusted retrospectively as per the indicative timeline detailed above

Components of the Undertaking

UT5FD will apply until the DAAU approval date. From the DAAU approval date building blocks under the agreements are outlined below

TERM / BUILDING BLOCK	UT5FD	CUSTOMER AGREEMENTS
Term of undertaking	FY2018 – FY2021	<ul style="list-style-type: none"> › UT5FD – FY2018 to DAAU approval date › DAAU – DAAU approval date to FY2027
Return on Capital	5.70% over undertaking period	<ul style="list-style-type: none"> › 5.70% to the Initial Date › 5.90% to the Report Date (expected 2HFY2020) › 6.30% to 30 June 2023 › WACC reset 1 July 2023
Maintenance ¹	FY2018 \$213m FY2019 \$220m FY2020 \$152m FY2021 \$155m	<ul style="list-style-type: none"> › UT5FD – FY2018 to FY2019 › FY2020 \$166m › FY2021 \$168m › Pass through of pre-approved costs › Costs are approved annually by customers through consultation from FY2021 or failing agreement, by QCA prior to commencement of each year

1. Reduction in maintenance from FY2019 to FY2020 is due to the transition of ballast undercutting from a maintenance cost to a capital cost.

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Components of the Undertaking

UT5FD will apply until the DAAU approval date. From the DAAU approval date building blocks under the agreements are outlined below

BUILDING BLOCK	UT5FD	CUSTOMER AGREEMENTS
Operating Expenditure	FY2018 \$190m FY2019 \$191m FY2020 \$205m FY2021 \$209m	<ul style="list-style-type: none"> › FY2020 & FY2021 – allowance is equal to the UT5FD › From FY2022 – allowance uses FY2021 as base + uplift for increases in CPI above 2.37%
Return of Capital (Depreciation)	<ul style="list-style-type: none"> › RAB roll forward \$5.7bn¹ › Capex FY2018 \$225m FY2019 \$195m FY2020 \$251m FY2021 \$249m <ul style="list-style-type: none"> › Inflation – 2.37% 	<ul style="list-style-type: none"> › RAB roll forward as per UT5FD › FY2020 \$239m › FY2021 onwards, capital is determined on an annual basis in consultation with customers. If agreement is not reached then QCA will assess prudence of capital as per current process › Inflation – no change from UT5FD with a reset to occur at 30 June 2023 applying the same methodology as used in UT5FD

› Tax allowance on the same basis as UT5FD

1. As at 1 July 2018 - Includes all deferred capital but excludes AFDs – Access Facilitation Deeds of \$0.4bn

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Customer engagement

Negotiations with customers have been ongoing over an extended period, culminating in the execution of implementation deeds covering more than 90% of total railed coal tonnes in CQCN

Aurizon has been working with customers to understand their key objectives. The DAAU aims to deliver on these objectives in a balanced way to achieve benefits for both customers and Aurizon

The DAAU contains the right mechanisms to provide greater collaboration between industry and Aurizon to ensure the network delivers to customer needs

The extended term to 30 June 2027 provides greater certainty for all stakeholders and allows for long term investment decisions

The DAAU provides greater customer involvement in assessing and preapproving strategies and annual budgets for asset renewals and replacement (capital expenditure) and maintenance expenditure

The DAAU incorporates a rebate mechanism to customers where Aurizon performs below target levels. The effectiveness of the rebate mechanism can be reviewed by the QCA in 2023 and measured against limited and defined objectives

Aurizon supports declaration and regulation by the QCA until 2040

Next steps in the process

Aurizon will lodge a DAAU with the QCA

- › Customers to lodge agreed letters of support with QCA within the next week

- › QCA to issue DAAU for consultation with stakeholders
- › Expected time period 4 to 8 weeks

- › QCA to issue either a Draft or Final Decision depending on the nature of stakeholder comments and review of DAAU

- › Decision on the amended undertaking by the QCA

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Contact and further information

Chris Vagg
Head of Investor Relations & Group Treasurer
chris.vagg@aurizon.com.au
+61 7 3019 9030

Kath Clapham
Manager Investor Relations
kath.clapham@aurizon.com.au
+61 7 3019 9044

ASX: AZJ
US OTC: AZNNY



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