

Customer Partnerships

Helping Aurizon's customers to prosper and grow is our priority. Indeed, it is essential if we are to do the same.

At Aurizon we provide rail transportation services to a wide variety of customers across the country. We also operate and manage the Central Queensland Coal Network (CQCN) and service the needs of other rail operators and their respective customers. For many of our customers, global commodity market price reductions have increased pressure on their profitability, making it more important than ever for us to collaborate to improve supply chain efficiency and reduce costs.

A key focus of our Blueprint strategy is customer focus which means deeper relationships, great service and innovative commercial approaches.

WORLD-LEADING SERVICE

As outlined in the Future of Coal chapter, Australia has a globally competitive position in coal export infrastructure. This has been underpinned by a 10.4% decrease in the average above rail rate per tonne for our coal customers in the CQCN since FY2012 (in real terms). Our Network business has supported many of the above rail productivity improvements for the CQCN through increased capacity, availability and reliability while also enabling a 2.4% decrease in the average below rail rate per tonne since FY2012 (in real terms). This represents an overall above and below rail rate reduction of 7% from FY2012 to FY2016, as shown in Figure 28. A key driver of the above and below rate reduction is a number of operational (e.g. longer trains) and technology improvements that facilitate increased volume on the CQCN.

While the cost of our service is important to our customers, other factors such as reducing their costs of planning, ordering and managing supply chains are also relevant. We therefore seek to provide reliable services, flexibility to increase tonnes where available and tailored information via [customer portals](#), including live train and container tracking.

We also recognise the need to listen, act and respond to customer feedback. In the first quarter of FY2016 we undertook a Customer Pulse survey for this reason. An independent company facilitated a phone survey with our 50 largest customers across all of our business segments. The survey was repeated in the last quarter of FY2016 and encouragingly reflected a 6.3% uplift in the scores received. This external survey complements our monthly monitoring of supply chain performance metrics.

Finally, we cannot overstate the importance of our efforts to ensure our safety and that of our customers. We know that some of our customers have alternatives to using rail transport and we encourage them to choose the safest mode of freight transport in rail. To that end, we continue to improve our own safety performance, recording 12 months Lost Time Injury (LTI) free across our business and eight years LTI free in our Intermodal business through to FY2016.

PARTNERING WITH CUSTOMERS

We continue to build strong relationships with new and existing customers and contribute on matters affecting their industries. In particular, we are members of the Australian Logistics Council, Queensland Resources Council, NSW Minerals Council and World Coal Association. Through these industry associations we are able to better appreciate issues affecting our customers and the broader industry.

Our Network business also actively participates in the Capricornia Coal Chain Steering Committee, Integrated Logistics Group and Abbott Point User Group to improve supply chain performance.

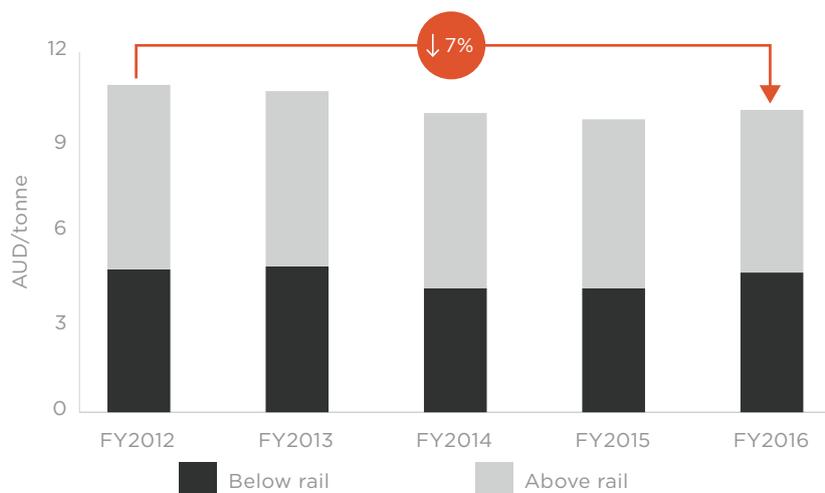


Figure 28: Average above and below rail coal rates per tonne in the CQCN (\$June 2016 real).

Source: Aurizon analysis. Nominal (\$A converted into June 2016 \$A using CPI as sourced from the Australian Bureau of Statistics).

INNOVATIVE CUSTOMER SOLUTIONS

Greater understanding of our customers and innovation in supply chain operation allows us to enhance the customer experience with mutual benefit.

COAL

Aurizon is not alone in its need to transform its business. The coal sector has decreased employee numbers and some mines have closed. In this context, we strive to be more flexible, effective and innovative. In FY2016 we sought to deepen relationships with our coal customers through a number of contract extensions in the CQCN and the Hunter Valley, including:

- BHP Billiton (BHPB) — Mt Arthur mine
- Yancoal — Cameby Downs and Duralie mines
- Vale — Carborough Downs mine
- Sojitz — Minerva mine.

A number of innovative partnership solutions incorporated in these contracts are highlighted below.

Mt Arthur Mine

The Mt Arthur mine is the biggest coal mine in Australia, producing high-quality thermal coal. Balancing BHPB's requirement for flexibility with Aurizon's need for certainty, our teams worked together to agree an extension of the existing contract for the coal mine from 2020 to 2028. The haulage contract now includes flexibility to deliver under different future production scenarios, including increased volumes from 18 million tonnes per annum (mtpa) to 26 mtpa. The extension of this long-term contract demonstrates clear commitment and confidence by Aurizon and BHPB in the local coal industry.

Minerva Mine

Sojitz Coal Mining and Kores Australia Mining own the Minerva mine, which is connected to the Blackwater Rail System via the 40 kilometre Minerva branch line. To enable the operation of the branch line, Aurizon undertook significant infrastructure renewal and worked with Sojitz to optimise capital costs while still providing a safe and reliable network.

IRON ORE

Our iron ore customers are pursuing aggressive cost reduction programs in light of lower commodity prices. We continue to work with them to identify cost saving and productivity opportunities throughout the supply chain. For example, we implemented driver-only operations with Karara Mining Ltd in FY2016 to improve productivity and reduce costs.

DIVERSIFIED BULK FREIGHT

Lower commodity prices and greater competition from road have challenged the sector in the last 12 months. Against this backdrop, our strategy of introducing performance-based contracts remains, and we are on track to meet our target of 80% of bulk volumes on new form contracts by FY2017. Some recent contract wins include BHP Nickel West, Australian Gold Reagents and Cockburn Cement Limited. The key to winning these contracts has been collaboration and innovation with customers.

We continue to work with customers and innovate within their supply chains, as we demonstrated with our partnership with BHP Nickel West. Previously Aurizon only provided rail haulage for nickel dry concentrates. Under the new five-year contract Aurizon now operates an integrated supply chain of road haulage, silo operation and maintenance, as well as the rail haulage. This sees Aurizon take full control of the supply chain to increase efficiency and deliver new safety initiatives (by installing auto-roof hatches on road tankers, preventing people from climbing on top for loading).

INTERMODAL

While conditions in the Queensland market remain difficult, there was solid growth through the Melbourne to Brisbane intermodal corridor. Volume growth of 9% was supported by 175 new Aurizon intermodal wagons and opening of our Enfield depot in Western Sydney (pictured below). We recently announced a five-year contract with K&S Freighters as a foundation customer of the Port Botany rail shuttle service that will move imports daily from the Port to Enfield via rail. We also continue to pursue Beneficial Freight Owners such as Woolworths and Coles for our interstate intermodal services, with these customers now representing approximately three quarters of our intermodal revenue.



The new Aurizon Enfield depot in Western Sydney.

Increased competition from road, however, has restricted growth in the Intermodal rail market. We believe it is critical for the sustainability of freight transport within Australia to encourage the complimentary relationship between rail and road to improve freight transport efficiency. This is to cope with the growth in the national land freight task and also to limit the associated impacts from transport on the environment and society, as outlined in the Regulatory Environment chapter.

BUILDING RESILIENCE

The first priority of our customers, after safety, is getting their product to port. The costs of interruptions can escalate quickly and in a region where there are more frequent and extreme severe weather events, our actions to improve resilience to these events are of significant potential benefit to Aurizon and our customers.

Central to the resilience of Aurizon's CQCN is implementation of a Network Condition (NETCON) program. In our FY2014 Sustainability Report we outlined how we design (and construct) assets to minimise disruptions and financial loss to us and our customers. In this FY2016 Report we focus on the preparation and monitoring for severe weather events. Figure 29 illustrates the stages and relevant actions under NETCON.

The following systems in the rail network provide data and protection during extreme weather events:

- Slip detection monitors measure the slope stability above the track section and warn of landslip or significant rockfall.
- Flood monitors provide early warning and measure flood height progression over time giving a prediction as to when waters will affect the operation of the railway.
- Automated power shut-off systems isolate equipment from power if water reaches signal control rooms to help recovery post a flood event.

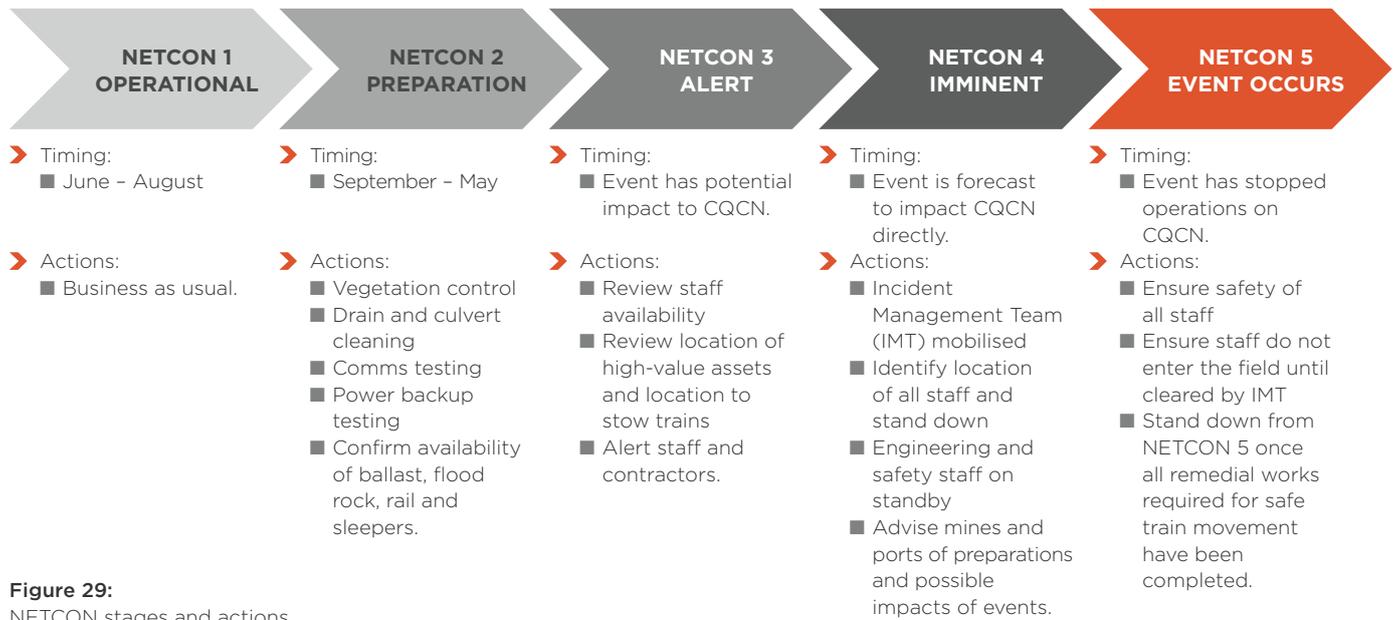


Figure 29: NETCON stages and actions.

NETWORK HEAT MAP

Aurizon Network has estimated the financial implications of extreme temperatures in Central Queensland that have contributed to track buckling, broken rails, pull aparts and cracked rails being in the order of \$4-5 million per annum. These cost estimates are principally associated with train delays and cancellations. Additionally, it is estimated that the impact on Aurizon's above rail business of speed restrictions placed on locomotives relating to high temperatures is \$6-10 million per annum.

Recognising that rail infrastructure is vulnerable to extreme temperatures, Aurizon has recently invested in real-time data heat monitoring in our CQCEN. Figure 30 illustrates this 'heat' map, which can be used to apply targeted heat restrictions to track sections affected by extreme heat, thus reducing the application of blanket system heat restrictions.

The temperature standard states that blanket temporary speed restrictions (TSRs) are to be applied to the full maintenance district when temperatures exceed 35 degrees.

However, with the heat map, we're able to limit the boundaries of the TSRs to only those that are above 38 degrees. Additionally, TSRs can be wound back as individual sites fall below 38 degrees.

There have been increasing days of extreme heat and our view is that this trend is likely to continue. As a result, the 'heat' map has the potential to reduce the weather impact on the Company and the associated costs to our customers. >>

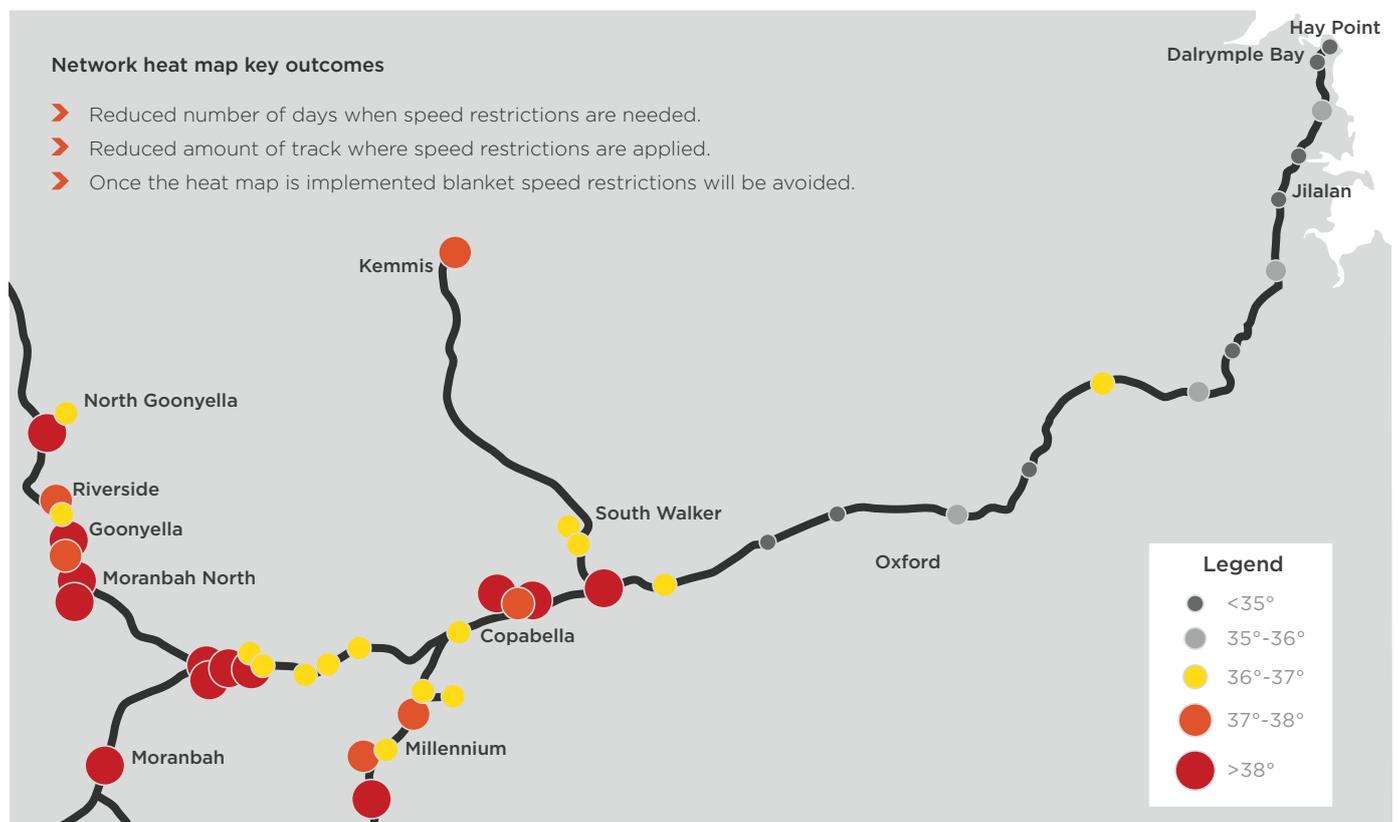


Figure 30: Network heat map.