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EXPERT OPINION

ON THE COST OF INSURANCE PREMIUMS FOR THE
PURPOSES OF THE AURIZON NETWORK ACCESS
UNDERTAKING 2013

DATE OF REPORT:

ISSUED 9 OCTOBER 2012

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1. Introduction

Aurizon Network Limited (Aurizon Network) is a wholly owned subsidiary of Aurizon Holdings Limited. Aurizon Network operates and manages approximately 2,600km of largely dedicated and purpose built heavy rail infrastructure known as the Central Queensland Coal Network (CQCN) under a 99 year lease with the State (Queensland Treasury Holdings Pty Ltd, The Department of Transport and Main Roads and Queensland Rail) which commenced in July 2010. The CQCN principally provides freight services to Queensland's coal mines. The following lines make up the network:

- Goonyella
- Blackwater
- Moura
- Newlands

Aurizon Holdings Limited have in place a group insurance program for a number of different insurance policies direct with the Insurance market. These policies extend to cover Aurizon Network and its activities. The premiums charged each 12 month period to Aurizon Holdings are for the activities of Aurizon Holdings and all of its subsidiary companies - a specific premium is not allocated by Insurers to Aurizon Network or even more specifically to Aurizon Network for its management and operation of the CQCN.

1.1 Scope of Services

Willis Australia Limited (Willis) has been engaged by Aurizon Network to provide an Expert Opinion (Opinion) on the cost of insurance for stand alone insurance policies covering Aurizon Network in relation to the CQCN. We understand that our opinion may be provided to the Queensland Competition Authority in support of Aurizon Network's next Draft Access Undertaking (UT4).

Our scope of services, as outlined in our proposal dated 9 February 2012, are as follows:

- 1.2 (i) To provide annual insurance premium costings for Aurizon Network on a stand alone basis for the following classes of insurance specifically in relation to the CQCN:
 - Third Party Liability (General Liability) in accordance with the requirements of the Standard Access Agreement
 - Directors & Officers Liability
 - Employment Practices Liability
 - Civil Liability Professional Indemnity
 - Excess Professional Indemnity
 - Corporate Travel
 - Industrial Special Risks – property, buildings and nominated Rollingstock
 - Terrorism
- 1.2 (ii) Provide a forecast of insurance cost estimators (insurance premiums) for the UT4 period being financial years 2013/2014 to 2016/2017

It should be highlighted that the premium costings contained in this Report are provided by the insurance market on a non-binding basis.

2. Data Collection

Information was requested from Aurizon Network in the form of an Insurance Questionnaire specifically requesting underwriting information, which insurers would require, to enable them to provide premium costings specific to Aurizon Network in relation to the CQC. Further updated information was provided by Aurizon Network in an email of the 24 August 2012, and the nominated Rollingstock was provided by Aurizon to Willis on 7 March 2013. The specific underwriting information provided is detailed in this Opinion under our commentary for each insurance policy.

The premium levels obtained are based on levels of cover selected in consultation with Aurizon Network. In relation to deductible levels we obtained premiums from the insurance market based on market deductibles currently available for a risk of this nature. These are detailed under each insurance class.

We were not provided with any specific past claims data relating directly to the CQC and therefore all premium costings outlined in this Opinion are on the basis that there have been either nil or minor claims specifically relating to the CQC. If there have been any large losses in relation to the CQC this would need to be examined as it could increase either, or both, the premium and deductible levels.

We approached Insurance companies in both the Australian and London insurance markets. Our discussions were with insurance markets that we are aware underwrite business of this nature and therefore have an understanding of the specific risks and exposures relating to the activities of Aurizon Network.

3. Insurance Policies

3.1 General Liability (Third Party Liability)

The policy would provide cover for Aurizon Network in relation to the CQC for their legal liability to third parties, which results in personal injury or property damage.

Aurizon Network has in place Standard Access Agreements and the premium costings provided are for a policy that would include coverage (in accordance with standard policy terms and conditions) for Aurizon Network's exposures outlined in the Indemnity and Liabilities sections of the agreement. In this regard it is noted that Part 14 of the Standard Access Agreement for Coal Carrying Train Services includes the following liability and indemnity provision (this is a summary of a provision and not an exact replication of the clause from the Agreement)

- Both Aurizon Network and individual operators indemnifies the other party for any loss, damage or injury caused by (or to the extent contributed) the wilful default or any deliberate or negligent act or omission of the party or party's staff.

We wish to highlight that General Liability insurance policies protect the Insured Party for claims brought by third parties for personal injury or property damage where the Insured Party is found legally liable causing such injury or damage. It is generally a condition of such policies that the Insured shall take reasonable precautions to prevent personal injury and/or property damage. Wilful or deliberate acts therefore would be in breach of this policy condition.

Typically the insurance market bases their premium calculations for General Liability on a number of rating factors, including but not limited to, estimated turnover, payroll, wages, employee numbers and contractor/sub-contractor numbers. Set out below is the information provided by Aurizon Network specific to the CQC:

Estimated Number of Employees: 450

Estimated Payroll: \$72,450,000

Estimated Turnover: \$948,900,000

The premium has been based on a policy Limit of Liability of A\$350,000,000 any one occurrence and in the aggregate separately in respect of Product, Pollution and Bushfire Liability.

The London market was approached for premium indications based on the above underwriting information. We undertook discussions with insurers regarding a deductible level, which would be typical for a risk of this nature in the current market. Insurers advised that to write a risk of this nature on a standalone basis they would require a minimum excess of \$500,000 each and every occurrence.

The premium is based on a policy structure made up of the following layers to achieve the \$350,000,000 Limit of Liability:

Primary Policy:	\$15,000,000
Excess Layers as follows:	
	A\$30,000,000 ex A\$15,000,000
	A\$50,000,000 ex A\$45,000,000
	A\$150,000,000 ex A\$95,000,000
	A\$105,000,000 ex A\$245,000,000

A premium costing for an annual standalone policy for Aurizon Network in relation to the CQCN based on the provided underwriting information and on the assumption that there have been no or minor previous claims is \$633,262.

3.2. Industrial Special Risks

This policy would provide coverage for physical loss or damage to Aurizon Network's assets as declared. No cover is included for resultant business interruption. The following assets were declared for underwriting purposes in relation to the CQCN:

- Buildings - no assets declared
- Rollingstock – based on assets declared – totaling \$189,268,439
- Feeder stations - \$560,000,000
- Declared bridges - \$378,526,730
- Other network assets - \$97,127,767. Consisting principally of computer equipment, network control & monitoring equipment.
- Annual Revenue - \$Nil

In accordance with our brief from Aurizon Network the premium costings obtained for this cover are reflective of an insurance policy that would provide no cover for below rail assets, being rail track/infrastructure. The premium costings are for an insurance program that provides cover for the above declared assets only.

The premium has been based on a Policy Limit of Liability of A\$500,000,000 any one occurrence. This overall limit would be subject to sub-limits for certain risks, such as removal of debris, cost of re-writing records and accidental damage etc. To achieve this level of cover the premiums have been obtained based on the following structure:

Primary Layer:	A\$50,000,000
Excess Layer:	A\$300,000,000 ex A\$50,000,000
Excess Layer:	\$150,000,000 ex A\$350,000,000

Premium costings were obtained from the Australian insurance market from insurers who have experience in writing risks of this nature. They are based on the following policy deductibles, which were obtained from our investigations with the Australian insurance market, and are reflective of deductibles, which would be typical to a risk of this nature:

- All Physical Loss or Damage: \$250,000 each and very loss

- Rollingstock: Option 1 \$100,000 each and every loss
Option 2 \$1,000,000 each and every loss

A premium costing for an annual standalone policy for Aurizon Network in relation to the CQC based on the above declared assets, sum insured and deductible levels is \$2,276,277 (selecting option 1 deductible for Rollingstock), and \$1,897,740 (based on option 2 deductible for Rollingstock).

We were requested to include premium costings for Terrorism, which we assume, is Terrorism cover for your physical assets (excluding declared Rollingstock). The assets, which the premium has been based upon, would fall under an insurance contract which is an eligible insurance contract under the Terrorism Insurance Act 2003. Due to this eligibility, insurers of this policy would be able to reinsure its terrorism risk with the Australian Reinsurance Pool Corporation (ARPC) and thus cover would be provided under the policy. The above premium includes the statutory terrorism premium. Terrorism cover for Rollingstock cannot be covered under the Terrorism Act – the premium quoted above includes Terrorism insurance purchased from the Insurance Market.

3.3. Directors & Officers Liability

Consultation was undertaken with insurers in the Australian market who underwrite this class of insurance for risks of this nature. An annual premium costing for Aurizon Network in relation to the CQC is \$290,956.

Estimated revenue and ratio of declared assets to liabilities was taken into consideration to arrive at this costing.

The premium is reflective of a Policy Limit of [REDACTED] and deductible levels of:

Company Reimbursement: \$250,000
Securities Coverage: \$500,000

3.4. Professional Indemnity Primary and Excess

Whilst our brief was to include premium costings for this type of insurance the completed insurance questionnaire provided no details of Professional Services being undertaken in relation to the CQC and a nil annual income was therefore declared for such Professional Services.

Therefore, the only premium costing we can provide is a minimum premium, which would be required by the Australian insurance market, should Professional Services be being undertaken of a similar nature to those declared under the annual Aurizon Holdings coverage. The minimum premium would be \$27,062.

3.5. Employment Practices Liability

Discussion was undertaken with Australian insurance markets who underwrite risks of a similar nature.

We were advised that the number of employees in relation to the CQC is 450. Therefore, based on a Policy Limit of A\$5,000,000 with a policy deductible of A\$50,000 an annual premium costing would be \$3,033.

3.6. Corporate Travel

Corporate Travel insurance premiums are based on estimated trip declarations for the amount of travel to be undertaken over a 12 month period. We were provided with no such data. Therefore, to obtain premium costings the following assumptions and trip declarations were used for premium calculation:

Domestic Travel: 550 trips
 Overseas Trips: 5 trips
 Charter Flights: 2

The annual premium based on the below limits of cover would be \$3,355.

Schedule of Benefits:

CATEGORY 1 and 2		Per person \$
Section 1	Personal Accident and Sickness	
	Events 1 - 19:	
	- Lump Sum Benefits	7 x salary, max \$1,000,000
	Event 20	
	Temporary Total Disablement following injury (Excess Period 7 days)	\$5,000
	- % of Salary	85
	- Spouse/Partner	
	Events 1 – 19	\$250,000
	Event 20 – Temporary Total Disablement	\$2,000
	Children:	
	Event 1	\$20,000
	Events 2 – 19	\$250,000
	Event 20	Not Insured
Section 2 & 3	Medical Expenses, Emergency Assistance Company and Additional Expenses	Unlimited
Section 4	Baggage, Travellers' Cheques, Travel Documents, Money & Credit Cards	\$20,000
	Portable Business Equipment	\$10,000
	- Money / Credit Cards	\$5,000
Section 5	Loss of Deposits and Cancellation Charges	\$25,000
Section 6	Kidnap, Detention, Extortion and Ransom	\$1,000,000
Section 7	Extra Territorial Workers Compensation Cover	
	- Weekly Benefits	\$1,000
	- Common Law	\$1,000,000
Section 8	Hire Car Excess Expenses	\$10,000
Section 9	Alternative Employee Expenses	\$50,000
Section 10	Personal Liability	\$10,000,000
Section 11	Evacuation Cover and Personal Safety	\$50,000
Section 12	Life Insurance	\$50,000
Aggregate Limits of Liability		
	- Any one occurrence or accident	\$10,000,000
	Any one accident or occurrence for domestic commercial travel	\$15,000,000
	- Any one accident or occurrence Non-scheduled aircraft	\$5,000,000
	- Extra Territorial Workers Compensation (annual aggregate)	\$1,000,000
	- Political Evacuation and National Disaster (any one accident or occurrence)	\$250,000
	- Kidnap and Ransom (annual aggregate)	\$2,000,000

Deductible: Temporary Total Disablement weekly injury benefits: 7 days
 Portable Business Equipment \$250 per claim

4. Summary of Annual Insurance Premiums

The below table is a summary of annual premiums for stand alone insurance policies for Aurizon Network covering its activities in relation to the management and operation of the CQCN.

Table 1

General Liability	Industrial Special Risks	Directors & Officers Liability	Professional Indemnity	Employment Practices Liability	Corporate Travel	Total
\$633,262	\$2,276,277*	\$290,956	\$27,062	\$3,033	\$3,355	\$3,233,945

*premium based on deductible of \$100,000 for declared Rollingstock. The premium based on a \$1,000,000 excess for declared Rollingstock is \$1,897,740, bringing the grand total to \$2,855,408.

These premiums have been formulated based on the current insurance market conditions.

5. Premium Costings for Forecast UT4 period

We have been requested to provide an estimate of insurance premiums for the UT4 period being financial years 2013/2014 to 2016/2017.

In practice this is difficult to estimate as insurance premiums are subject to a number of factors, which include but are not limited to:

1. Insurance market conditions at the time
2. Individual claims history for a specific risk
3. Loss history for category of risk
4. Reinsurance costs
5. Appetite of Insurers to underwrite a specific risk
6. Changes to the risk including fluctuations in assets and liabilities
7. Capacity of Insurance Market

The annual premiums indicated in this Opinion by insurers are based on the current insurance market conditions. Insurers were unable to provide premiums for the forecast period as impacting factors are still unknown. For example, the Australian market advised in relation to the Industrial Special Risk policy that future premiums are dependant on market constraints regarding appetite for both risks in the North of Australia and with exposure to mining in the Bowen Basin. The 2008 and 2010/2011 weather events have developed a cautious underwriting approach in this area which could be expected to continue for at least the next two years. If no further natural catastrophe events occurred, premium

costs could ease slightly however, any further large events could result in a withdrawal of underwriting capacity or an upward pressure on premium ratings.

Therefore, in the absence of the insurance market being able to estimate for the forecast period we would suggest that the annual premium indications provided be increased by the current Consumer Price Index. The latest data released by the Australian Bureau of Statistics as at 24 April 2012 showed the annual percentage increase for Insurance and Financial Services as 4%. Based on a 4% increase per annum premiums for the UT4 period are summarised below.

Note the premiums for Rollingstock have been calculated based on the estimated Capital Expenditure advised by Aurizon for the period through to 2017.

Table 2

(a) Based on deductible of \$100,000 for declared Rollingstock

Annual Premium – 2012	2013-2014	2014-2015	2015-2016	2016-2017
\$3,233,945	\$3,325,249	\$3,773,497	\$3,998,971	\$4,137,335

(b) Based on deductible of \$1,000,000 for declared Rollingstock

Annual Premium – 2012	2013-2014	2014-2015	2015-2016	2016-2017
\$2,855,408	\$2,946,712	\$3,253,644	\$3,428,430	\$3,552,530

6. Summary

We have been requested to provide an Expert Opinion outlining insurance premium costings for Aurizon Network on a stand alone basis for the following classes of insurance specifically in relation to the Central Queensland Coal Network. We were to also address premium costings for these insurance policies for the UT4 period:

- Third Party Liability (General Liability) in accordance with the requirements of the Standard Access Agreement
- Directors & Officers Liability
- Employment Practices Liability
- Civil Liability Professional Indemnity
- Excess Professional Indemnity
- Corporate Travel
- Industrial Special Risks – property, buildings and nominated Rollingstock
- Terrorism

A summary of our premium costings is detailed below. Annual Premium costings for Aurizon Network for the CQC are summarised in Table 1. These premiums have been set based on the current market conditions. Table 2 summarises the inflated annual premiums for the forecast UT4 period:

Table 1

General Liability	Industrial Special Risks	Directors & Officers Liability	Professional Indemnity	Employment Practices Liability	Corporate Travel	Total
\$633,262	\$2,276,277*	\$290,956	\$27,062	\$3,033	\$3,355	\$3,233,945

*premium based on deductible of \$100,000 for declared Rollingstock. The premium based on a \$1,000,000 excess for declared Rollingstock is \$1,897,740, bringing the grand total to \$2,855,408.

Table 2

(a) Based on deductible of \$100,000 for declared Rollingstock

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\$3,233,945	\$3,325,249	\$3,773,497	\$3,998,971	\$4,137,335

(b) Based on deductible of \$1,000,000 for declared Rollingstock

Annual Premium – 2012	2013-2014	2014-2015	2015-2016	2016-2017
\$2,855,408	\$2,946,712	\$3,253,644	\$3,428,430	\$3,552,530

7. Conclusion

We look forward to any further instructions you may have and also we would be available to undertake a review/presentation of our Expert Opinion if required.