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John Knowles: Good morning. My name's John Knowles from Investor Relations and welcome to Aurizon's briefing. I'd like to introduce [Helena] from the hotel to give you a safety briefing and she'll be followed by Lance Hockridge, Managing Director and CEO of Aurizon. Thank you.

Helena: Good morning ladies and gentlemen. My name is Helena; I am the conference and catering supervisor. Just a quick briefing about the fire evacuation procedure. [Unclear] alarm is beep, beep, beep, that means we might evacuate the building so please stay calm and wait for further instructions. Evacuation alarm whoop, whoop, whoop. That means we have to evacuate the building through the nearest fire exit door. This fire exit door takes you down to the Bligh Street; however our meeting point is on Phillip Street just outside the building, opposite Chifley Square. That's all. Thank you.

Lance Hockridge: Thanks for that. May I start by welcoming you all, particularly at this time of the year, as we run through this update. Particularly welcome to all of you here in Sydney but also to those of you who are listening on the line, some of you I know at less than palatable hours. So welcome to you all.

Can I acknowledge also the Aurizon executives that are here today as well as Keith and Mike who will do most of the talking. Alex is here, Andrew, Stevo and David Collins, so we're well-equipped to be able to interact with you today.

The emphasis is today of course about an update following on from our Investor Day in July. At that time you'll recall we stood on this very stage and went through a range of presentations with respect to our progress towards the goal of 75% operating ratio. We spoke about the corporate and support areas and what we intended to do in that area; we spoke at length about some of the operational things that we were working on. So our principal objective today, as you can see from the presentation, is to update you about progress around that. We will also give you a brief overview at the end of the presentation about how we're travelling both with respect to UT4 and the EA renegotiations as I know of course you're interested in how all of that is travelling.

We'll move through at a reasonable rate but make sure that there's plenty of time for questions at the end.

Some summary then. Firstly with respect to safety, albeit that this is not the time when we update the particular KPIs, I can tell you that the Company continues to improve its safety performance in accordance with all of our goals and that, as you know, is the number one value in our organisation, it continues on from the kind of performance that we spoke about at the full year with respect to the last full financial year and indeed the more than 90% improvement over recent years.

But our focus today really is about the current year and our drive to 75%. We'll talk with you today, Keith will give you some further detail about current market conditions, but as you've seen our volumes certainly remain strong, especially in coal and iron ore. We will, as I say, talk about the progress towards the achievement of the 75% operating ratio and in that respect how we're ticking up progress against the $230 million target that we expressed here in this room in July.

We will update you with respect to the corporate office and support functions and my summary of that would be that we have acted quickly, we've acted decisively, we have substantially rebased our corporate and support functions toward benchmark competitive levels internationally.

The bulk though of the exposition today will be from Mike about the integrated operating plan and the extent to which, as we can demonstrate, it is already delivering. We're not planning to deliver in either of these areas that I've just mentioned; we have in fact already begun delivering against those goals. How is it that we can do that? Well of course it's because there wasn't some metaphorical flag that dropped in July; this comes on the back of the transformation of the Company now that has been going on since IPO and before.

In particular, as we think about some of those things that we will discuss today, the importance of the change from the previous business unit model in our organisation to the functional model I think will be very much emphasised and underlined given that we started that reshaping of our Company in December of 2011 and in July, as you recall, we indicated that we had finalised with the full integration of iron ore and intermodal into, as it were, the business as usual functions in the business.

We also do the things that we're talking about today on the back of the success that we had in FY13 with respect to the re-contracting and contracting in our business - in other words the greater level of certainty around the volumes, not only in the short term but over time, that we will have to handle. But particularly this is an opportunity for Mike, having by contrast to July where he was relatively still new in the function, to be able to point to a much greater level of detail, of granularity as well as of progress in what we've been doing.

Indeed, we will also be talking as a result of all of those things of course about the financial impairments that you would have seen in our announcements this morning. My opening observation of course about that is that there in lots of respects can be no greater validation of the work that we've been doing in transformation. In the current half I can tell you we have set daily, weekly, fortnightly, monthly and quarterly throughput records in coal, all of which, as Mike will explain, we've done with less train consists and, even more importantly, with far less train starts, to be able to achieve those kinds of numbers.

So on the one hand we maintain an absolute focus on delivering for our customers, in particular being able to deliver the tonnes but being able to do so in a consistent fashion and with a high level of service performance.

But also of course this speaks to the intent that we have with respect to the owners of the business, of frankly speaking being able to do more with less and as a result of that drive toward our operating ratio goals but also continue to improve the returns out of the business.

But with that Mike will come and give you a more detailed and more flavour around a number of those operating changes.

Mike Franczak: Thank you Lance and good morning everyone. As Lance noted, we have made very serious progress against our transformation program and you will see this in some of the metrics I'm going to produce and as I go through the presentation I wanted to highlight in particular the work being done in our integrated operating plan space as well as our fleet plan.

Now many of you may recall on 18 July at our Investor Day I highlighted a need to establish the right programs and the right operating metrics to transform our operational space and to deliver the kind of value that we need at AZJ to drive to 75%. You'll recall that we identified five key transformation programs and we have a rigorous and balanced approach to deliver on key productivity targets, many of which you see here on this slide today.

In particular, asset productivity was one of the main areas of focus and the reason for that was that getting the mobile assets working at a much, much more productive rate has huge impacts right across the business with respect to maintenance, procurement, carrying costs for materials; the footprint that we need to manage either the maintenance or the processing of cars; certainly labour productivity is touched on. So asset productivity became a central focus.

Today I'd like to update you on the progress of the transformation and, as I said, in particular on our work on the integrated operating plan and our rolling stock fleet plans.

But first a little update in terms of how we are doing. As Lance noted, we have posted some I would say impressive metrics over the last many months. We've got examples here of key throughput metrics and I guess I would say from this perspective all of the key metrics that I look at are gaining traction. Many of them are setting new performance levels, as Lance noted, on a daily, weekly and quarterly - a monthly and a quarterly basis.

Now a lot of the metrics here that we're showing you are related to our coal business. This is one of the areas we went after first in terms of taking a look at our integrated operating plan and you'll see that driven by things like turnaround time or cycle time and coal payloads, this is the weight of the individual consists, we've handled record coal volumes in October 2013 with approximately 140 less train starts and, as Lance noted, fewer train sets in service.

Q1 FY13 was in line with the previous record in 2010 at 53.5 million tonnes - sorry Q1 FY11 at 53.5 million tonnes but we delivered this with 385 less train starts. So this is all about leverage in terms of the number of assets we need in the system that drive all the associated expenses and even from a crew and labour perspective driving opportunities.

This really talks to how we're getting leverage in the business and driving the improvements we said we would get in terms of our unit costs over the coming years.

If I turn the page and look at some other key metrics, these continue to improve as well. Fuel consumption, we have a $230 million fuel spend every year. This drives towards improvements in that number. Labour productivity, things like moving more tonnes with the same or fewer crews, less overtime, less people involved in the maintenance of rolling stock and, as I noted, asset productivity as defined by our net tonne kilometres per active wagon or locomotive.

These are fundamental expense drivers and are ensuring that we remain on track to hit our targeted improvement of 10% per annum reduction in unit costs. As we realise new thresholds of performance of course we are raising the bar.

These results and others, as I noted earlier, are being driven in large part by our integrated operating plan which is the cornerstone of our operations transformation. As I noted, this is being used in both coal and in the freight business which includes bulk and intermodal and other businesses.

It takes a look at the entire supply chain; it looks across all of the revenue streams and corridors. All aspects of the operation are examined as part of this exercise, right from the traffic flows and origin destination points we serve to the schedules, the labour, the fuel, the track and equipment maintenance and of course all focusing on what we can do to reduce our rolling stock needs by driving productivity of that asset.

Some of the key principles and objectives that we strive to hit have to do with reducing the degree of operational variability by design. This plan is highly scheduled; it is intended to improve the consistency of service and with a heavy focus on velocity and asset productivity. It's designed to help variabilise our cost base and in fact reduce the fixed cost base by allowing us to go after yards, terminals, maintenance facilities, overheads that have been applied against the various lines of business we have. This is about finding a smaller footprint or creating a smaller footprint for our operations and driving those fixed costs out of our business.

Of course, as I mentioned, we're reviewing the IOP across every one of our corridors on a national basis. As I mentioned, we've done work first in CQCN, Central Queensland Coal Network, and we've got more to come. We have big plans being implemented in the North West and North Coastline corridors; we are already turning our focus to WA - I was out there the week before last, kicking the ballast and working with the team on some opportunities there - and as I said, the key of the integrated operating plan isn't just to look at the individual corridors but also the synergies between corridors, especially as it pertains to better uses of rolling stock or fixed assets.

Lance touched on this but previously, prior to the organisational change, in the line of business structure assets were often assigned to particular corridors or businesses. We had dedicated yards, terminals, even rolling stock maintenance facilities, and we certainly had management overheads that were unique to some of these lines of business.

We are now one national enterprise truly. I have accountability for the overall fleet; my job is to make sure we match demand and supply in the most efficient cost-effective and capital-effective manner possible.

If we take a look at little further at some of the examples of the benefits of going after an integrated approach to our operating plan, some of the things that we have started to move on, rationalisation of fuelling footprint. We have many, many locations where we fuel; it's not just about the cost of the fuel, it's about the storage, it's about the ownership of the footprint, it's about the transportation costs of fuel that we pay for.

We also have opportunities to rationalise our rolling stock maintenance and yard footprints as we shrink the fleet, as we standardise it and as we design for inherently leaner, more productive operations.

Same story goes with how we set up our crew bases and how we use our labour with respect to the train schedules and train starts.

We've also done a lot of work, especially with our network partners, on the type of track-work blocks that we have in Central Queensland. Many of you will recall I am now accountable for a lot of our program work in Central Queensland; this means track maintenance, overhead maintenance, things of that nature are now being better coordinated, better integrated to reduce the demand for track time and to reduce the number of big closures or shuts to perform work. It's all about smoothing that demand out, creating less variability in our operation and freeing up capacity which means more paths, more scheduling opportunities.

Again better asset productivity and reallocation of the fleet across the enterprise helps drive better productivity and efficiencies. Case in point - we had a number of different coal wagon types in the Blackwater system, some of them were 80-tonne wagons, light-loading wagons, very old, very high maintenance, a dedicated fleet. When you have dedicated fleets within a system like the Blackwater there are inherent inefficiencies that are created. Our team has found a way, working with Network to use the 106-tonne wagons in the Minerva branch. We will light-load them but the improvement in service and productivity of the fleet is substantial and as a result we've been able to remove some of the older kit from the fleet on a permanent basis and use the high capacity fleet.

We've done similar things with the locomotive fleet in the Blackwater by virtue of the productivity improvements we've made there; we've taken virtually all of the diesels out of the Blackwater and are able to cascade those north into the North West corridor where we can realise efficiencies in that operation by having newer, more reliable, more fuel-efficient locomotives that are equipped for distributed power operation.

The IOP not only gets at our variable costs but it really drives at reducing our fixed costs, footprints, overheads and, as I noted, creates a level of capital efficiency that only gets unlocked by looking on a more integrated basis, more national basis right across all of our lines of business.

Based on my background, and you can ask Alex about this as well, this is something that the Class Ones have done very, very well.

Moving on, you may say well why now, why are we only undertaking the fleet plan review? Lance touched on this earlier; there are really a couple of key drivers. One, we are much further along in the journey with respect to the development and implementation of the integrated operating plan and we're already seeing the results and we are already forecasting on a forward basis what those productivity improvements will look like in the coming years based on the work and the implementation plans that we have.

We also know that the change in organisation structure from a functional line of business structure to - sorry a line of business structure to a functional structure has enabled us to look at the fleet and the assets far differently. These things have allowed us now to move forward with a much more confident forward-looking plan that allows us not only to deliver value to our customers and grow the business but to do it far more cost and capital efficiently.

I'd like to talk a little bit about what the enterprise rolling stock master plan is. It is a fairly involved, I would say evergreen, process. Coupled with a national view of the fleet and the productivity improvements we've been able to take a look right across the breadth of everything that impacts the fleet. It's a multifaceted exercise which optimises between demand, our rolling stock maintenance strategy, fleet technologies, financial considerations and so forth.

The plan allows for four key elements of fleet management to be realised. It deals with growth, renewal of the fleet, cascading opportunities and retirement right across the entire enterprise footprint.

A few of the key objectives of the plan as well as the key principles that guide us in its formulation are things like making sure we're looking ahead at least five years.

Sometimes the lead time to acquire or upgrade or overhaul locomotives can be significant so we want to make sure we're looking out an appropriate length of time. As I noted, this is about the Australian fleet, not just the coal fleet, not just the intermodal fleet, the whole fleet.

It will be about right-sizing and right-typing the rolling stock. We have opportunity with the number of different classifications of equipment that we have to begin to standardise, make the fleet far more interoperable and match that supply and demand in a more cost and capital efficient manner.

We take a look at procurement opportunities. If we can buy in bulk in larger quantities than we have in the past we do get discounts on the unit cost for locomotives and wagons. Only by looking at the fleet nationally can we leverage that opportunity. Of course we look at disposals, new technologies, either locomotive technologies, on-board technologies, even, as we talked about in July, some of the new predictive condition-based technologies that allow us to monitor the health of the fleets.

We tie the plan always back to key operating metrics that allow us to determine where we can extract value in the P&L or in the capital plan.

When we look at some of the key principles, it is all about interoperability of the fleet. Notwithstanding standard, narrow gauge, electric and diesel I want to be able to move as much of the fleet between corridors as is possible. This allows us to drive - sweat those assets far more efficiently.

While it may not be possible to put electric locomotives into diesel territory, I can still move standard and narrow gauge back and forth if I have the right engineering design and foresight in terms of how I want to cascade the fleets.

I want to be able to operate in multiple networks and operations; I want to be able to buy from preferred minimum standard types of rolling stock - this gets back to the procurement opportunity - working with our OEMs for the type of locomotives and componentry that will take us into the next decade.

Defining standard wagon and locomotive componentry is important; we carry, by virtue of the size and complexity of our fleet, an inordinately big inventory and material stockpile and we are making moves to reduce that.

Let me talk a little bit now about the fleet itself and where we stand with respect to that. As of July 2013 we had almost 830 locomotives, just over 600 of which were active, and similarly on the wagon side about 18,500 wagons, about 15,000 of which were active. The age profile of the fleets was quite high by North American standards but what I would tell you within the numbers is that there was a significant tail of very old equipment that was either at, very close or beyond its life cycle.

If you were talking just about the coal fleet for example, you'd find that the average age of those locomotives is generally in the upper single digits as far as age so very young, very good fleet. The opportunity lay in a number of the other fleets.

So our revised enterprise rolling stock master plan gives us a new view of what we need for fleet in the years ahead. Our FY13 fleets are displayed here and you'll see that in terms of what we no longer require over the course of the multi-year plan, either presently or over the next three years, we're looking at a reduction of approximately 300 locomotives and 5000 rail cars or wagons. You will see that we have made some provision or estimates around what we believe we may need for basic replacement and growth. So while we are reducing the overall size of the fleet and getting rid of a lot of the old kit that will be life expired or is no longer needed, there will always be a need for some basic replacement of other fleets as well as some fleets for growth.

This is taking into account roughly a 3% to 5% CAGR, compounded annual growth, and our views on the productivity improvements and other benefits that we can get through things like the IOP.

Now Keith is going to speak a little bit later about the financial implications of this fleet plan so I won't cover that here but I did want to give you an overview of where we are going.

The revised rolling stock fleet plan will drive a range of productivity and efficiency benefits and I've touched on a number of these already but if you were to take a look at the reduction in classes across our rolling stock, these are significant, roughly 50% and 40% reduction in the number of classes in the locomotive and wagon fleets respectively.

In terms of the productivity of the fleets, a 30%, 15% approximate improved productivity. So we are doing more with less in the coming years and the benefits of this area significant. We are now able to take a look at further opportunities to rationalise our rolling stock footprint. Smaller fleet, less complex fleet.

We are able to standardise our maintenance practices which results in ease of training and certainly allows us to reduce materials, inventory and carrying costs. We will have a younger, more fuel-efficient fleet profile and we will reduce the maintenance and depreciation expenses overall, not least of which will - this will help us improve our capital efficiency.

So in summary my perspective, our transformation journey, things like the organisational and cultural changes, the integrated operating plan, disciplined operations, is delivering significant operational improvement as witnessed in the key operating metrics. These have now allowed us to revise our fleet disposal and procurement requirements on a multi-year basis based on our current view of demand.

We will have a surplus of 308 locomotives and just over 5100 wagons over the next five years and most importantly this smaller, simpler, more productive fleet profile will position Aurizon to more efficiently meet the growth and service requirements of its customers.

With that I will turn things over to Keith.

Keith Neate: Thanks Mike and good morning everybody. In my update I will touch briefly on the operating ratio, provide a little bit more colour as to how we're tracking. As Lance mentioned earlier, we remain confident that we will achieve the 75% target by FY15. We will have an update on the volumes, both in coal and iron ore and also in the bulk business where we're seeing a little bit of weakness. Lance will provide an update on UT4 later on but the third bullet point on here is a reminder that under the transitional arrangements the access revenues are actually a fixed revenue this year which is some $60 million less than we achieved last year.

Turning first to the rolling stock review though, as Mike has mentioned, the consequence of the integrated operating plan and the rolling stock master plan review is that we have identified a significant amount of surplus rolling stock, both locomotives and wagons, that will occur over the next five years as we've matched the rolling stock capability to the demand expectations going forward.

The impact will be in the order of $130 to $150 million this year and that reflects the write-off of that rolling stock that has been identified for immediate disposal. So that will occur during the course of the next six to 12 months. That rolling stock has been written down to its estimated net realisable value. As I'm sure you'll appreciate the second-hand market for narrow gauge rolling stock is quite limited; we will not be disposing of it in Australia, it will all be disposed of overseas and in terms of the wagons, generally all of those go for scrap.

Against the carrying value of the fleet the $130 to $150 million write-down which is pre-tax and is subject still to audit at the half-year, approximates 4% of the current asset value of the fleet.

The immediate benefits that arise from it, as Mike has referred to, there's two components. One is the immediate quantifiable amounts that we've been able to identify which average $20 million per annum over each of the next five years; obviously there is a ramp-up as that fleet is disposed of and there is also a significant component of as yet unidentified opportunity that comes from further standardisation of the fleet, further rationalisation over the five-year period and obviously the improvement in productivity that Mike has referred to.

In terms of the remaining locos and wagons, they'll be disposed of as they become surplus to requirements during the course of the five-year plan and as such we will be revising the depreciation in respect of that rolling stock so that it is written down to its estimated realisable value prior to disposal. That piece of work is still ongoing but is not expected to be a material impact on the annual performance.

Turning to the strategic projects, we undertake an ongoing review of all of our strategic projects, understanding what developments are occurring within each of the projects on a continual basis. Each half-year we undertake a detailed review in accordance with the accounting standards and our auditors to ensure that the various tests around the carrying value and the balance sheet remain relevant. It essentially goes to a probability test.

As part of that review this year and following a number of developments on two of our major projects, we've chosen to prudently write off a number of the costs. In terms of Surat, as you'll know, Xstrata Glencore have announced they have put the Wandoan mine on hold. Together with that we've seen the exclusive government mandate has expired during the course of the last six months. As a consequence we have written off the costs associated with the SBR joint venture and that joint venture was the one with Xstrata, ATEC and ourselves that was established back in 2006. Most of those costs, if not all, relate to various consulting, engineering and environmental impact studies that were done as part of developing the overall joint venture.

The other costs that we're impairing as at 31 December again relate to further developments that we've seen in the Galilee project, in particular around costs associated with corridors that we looked at and opportunities that we looked at involving other alternative developers. That's arisen as a consequence of the further consolidation of our program of work with GVK. I think in essence that one comes down to the probability test in terms of understanding what will and won't go forward.

In terms of the transformation and impact on the operating ratio, I won't go through all of the details on here, they're all fairly straightforward. The VR program that we talked about back on 18 July, we've seen about 120 people exit the business from the support functions and about 130 from the operational function. That conservatively will have an annualised benefit for the business of around $26 million and has cost the business in the period to 31 December something in the order of $23 million. Consistent with the full year last year the cash cost will be slightly higher as we pay out some accrued annual and long service leaves.

In terms of real estate, 220 sites have been identified in the portfolio as now being surplus to requirements; nine have already been sold, 14 are under offer and another 34 are currently part of a marketing program. The other properties will be disposed of during the course of the next 18 to 24 months.

In terms of corporate services, a significant reduction in discretionary spend in the first half of the year, that's driving an annualised benefit somewhere in the order of $40 million together with a whole series of other opportunities, not all listed here, but for instance credit cards have been reduced by 31% across the business, driving an 18% reduction in cost as an example.

Procurement opportunities, again we continue to drive down the number of suppliers to the business, rationalise those and drive better deals and there's a significant target in place for the procurement group over the next second half of the year.

One of the key outputs in terms of the operations group - Mike has referred to the initiatives that support this - is that we've seen the labour cost down 5%. That is against a 4% increase in rates and a 12% increase in volume. So you can see the scope and the scale of some of the productivity benefits that are now driving to the business.

In bold at the bottom, just to make sure it's well understood, all of these costs, the VR costs, the rolling stock impairment and the strategic project cost impairment, will be included in the profit outcomes in terms of measuring management performance and remuneration.

Turning to a volume update, Lance has already referred to the records that we've seen in the business over the last six to nine months. It's continued to the extent that we're seeing 14% up in Queensland and 10% in New South Wales on the coal volumes. I would urge a degree of caution there in that almost half of that is from one customer and that customer operates under a number of legacy contracts. So whilst we're seeing a very strong performance in terms of volumes, it is not necessarily translating directly into a bottom line upside for us.

Guidance for the full year currently remains at the $200 to $205 million previously given guidance; we will update the market in February at the half-year when we have a clearer view, both on the wet weather and the continued demand profile.

Iron ore is performing well and remains on track for the $30 million and within the freight business we have seen the intermodal business grow and that is up some 12% on prior periods in terms of volumes whilst the bulk business is off marginally as we see both production and operational issues arising in a number of our customers together with a weaker than expected grain harvest in the Queensland market.

With that I will hand back to Lance.

Lance Hockridge: Thanks Keith. So today is less about detailed discussion with respect to UT4 and the enterprise agreement but clearly, given the importance of all of that we didn't want to simply pass over it.

If I can turn first then to the UT4 update, Alex and the team, as you can imagine, are right in the middle of all of this at the moment, and we are working closely, I might say to you, with both our customers and with the regulator as we do make our way through what you all appreciate is the most extraordinarily complex set of negotiations. This though ultimately of course is work in progress for the reasons that I've said. Here though, without going through every detail, is a summary of where we're up to.

From a QCA point of view, having received those stakeholder submissions in response to our earlier submission, on 29 November we indeed responded proactively around a number of those areas. That whole process has included external review of the elements, particularly with respect to WACC.

I guess the next dot point though on this page is the most important update for you all with respect to both timing and process, and that is QCA has indicated that full approval, surprise, surprise, may well not be received by 30 June next year. However, they do intend to release a position paper on the pricing elements in March quarter in order for us to be able to determine the price outcomes for 2015. Keith has already mentioned the position with respect to the interim position and hopefully the remainder of all the UT4 outcomes will be determined during calendar '14 for implementation at 1 January 2015.

With respect to enterprise agreements, everybody's aware, I guess at a certain level at any rate, of the range of the agreements that are up for grabs. I guess we all tend to concentrate, for the obvious reasons, around those legacy contracts in Queensland, but this chart gives you a level of transparency with respect to all of the agreements in the Company. As you can see, some already having been sorted, some stretching out as far as 2015, but again as we all know and acknowledge, we are as we speak in the midst of the renegotiation of the '14 agreements in Queensland and that will be followed by some of the AWR agreements.

If I can touch then briefly on the Queensland agreement update, again without going through all of the detail of this as we've discussed this with you - and by way of reminder, back in July John went through a lot of this material in our update to you then, but the current environment is very much a legacy environment, in the same way that our above rail contracts that we inherited were very much a legacy environment, these are very old style agreements. It was interesting, anecdotally, reading the papers this morning about some of the observations, for example, about Toyota and the extent to which in some respects what was being complained about I'd have to say in those agreements represents things that we'd aspire to having regard to where we are in our agreements.

But there are some examples here, over 900 classifications, dozens of pay points, you can imagine the number of people that Keith has to have and the complexity of just keeping on top of the payroll in an organisation like this. You can understand the implications around the level of operating discipline that Mike has been describing to you of having to at every turn make sure that we negotiate our way through the complexity of the agreement, the inability that we have to change a number of these things without the active engagement and beyond that consent of our unions.

This is then the first position of bargaining since privatisation. We are very much focused on the need to modernise our agreements. Equally though I might say to you, in the current environment we're very much focused on the needs of our customers, both the long term needs and of course being able to contribute to the competitiveness of the coal industry in Queensland and Australia, but equally in the short term having that measured approach around our customers' needs to be able to achieve throughput in the current and coming periods. As we've worked our way through that we have already sought the assistance and have the active assistance of the Fair Work Commission.

We've done as you would expect - and Stevo highlighted back in July - a huge amount of operational and legal contingency working. Fundamentally from my point of view we have been talking very directly with our employees. We have been painting the picture that is in essence represented by the italics at the top of this page. What we are looking for is the ability to be able to take our business to the next level. What we are looking for specifically though is agreement to no more than has already been achieved by others in our business.

So in no sense is this ground-breaking or looking for that next level of outcomes of concessions from our employees. In return we have put on the table what I would believe is a more than fair wage offer. We have been though extraordinarily specific that we will only pay against the achievement of the productivity outcomes that we're seeking and that we will only pay once an agreement is reached. There will not be any kind of backdating around these arrangements.

Clearly as we stand here today this is work in progress. There are a range of possible outcomes, as we set out on the bottom right of this chart, we could see - let us be specific and clear - we could see protected industrial action from the early part of the new calendar year as the remainder of these agreements roll off. We could see - and increasingly we see this as a potential outcome - that the unions go into stalling mode, if you will, of not wanting to reach any or certainly any early resolution of these bargaining outcomes, and we could see therefore the conditions under the existing EAs rolling forward for some period of time.

That, to be clear and to restate, would come at the price for our employees of no wage increases and certainly no retrospectivity, and of course we could reach agreement. It is very much - again I emphasise - work in progress at the moment, it is within the Company receiving the absolute utmost of attention. It's unfortunate that in my view it's not receiving the same level of seriousness of attention by our union colleagues.

Indeed I'd make the observation that it's regrettable that despite the fact that we're not looking for anything that our competitors don't already have, and to be clear about that, that these self same unions have therefore already conceded with respect to other operators, together with the broader contextual evidence in Australia at the moment of the consequences of maintaining these kinds of outdated, ineffective and costly practices, that the unions in our business show little interest in playing their role in underpinning the future of this Company and of the Australian coal industry. Frankly speaking it remains for this management team therefore to proceed on the basis that we will make that happen, as we have done as you know ever since IPO, irrespective of the agreement of the unions.

Finally then, by way of summary, I would hope that the takeaway from our presentation, our messaging and our data to you today is that we are actively getting on with the job. We are not in the mode of planning about what we're going to do so much as we are by way of execution. This is about a sustainable future, this is about sustainable change, this is about the level of confidence that you ought to have in the ability of the Company to be able to continue to transform and to achieve the goals and objectives that we've regularly set out without relying, for example, on volumes or on price, all those kinds of things. Those things represent upside to the kind of recitation that we have been giving you this morning.

We continue to be focused first and foremost on safety in our business and continued safety improvement, I think, demonstrates our capability as well as our desire. We continue to be focused on the customer, and through all of this let there be no doubt that none of these changes are as it were being taken out of the hide of our customers, quite the reverse. Here is the capability of an organisation to be able to meet the demands of growth, to be able to serve our customers well, particularly in the current sort of circumstances that we all understand that they are facing.

In that regard we have seen and we've shown you by way of updates this morning, that the business is from a volume point of view especially in coal and iron ore running very strongly, albeit in coal with caveat that Keith reminds us about in terms of the continued impact of legacy contracts. But of course that represents opportunity, as we go forward and we all understand the benefit of those contracts and renegotiations in FY13 as those legacy contracts roll off over the next few years.

We have picked up the ball from the sort of observations that were made earlier in the year and we've moved decisively with respect to our corporate costs, with respect to the support costs in the business, and already have achieved traction in those areas in a sustainable way, as Keith has mentioned.

And in terms of an operating plan, as we foreshadowed when first I was talking about why I wanted the sort of capability in this organisation that you now see in front of you with Mike and with Alex and the broader team, this is about what the future looks like, this is about operating discipline, this is about our ability to be able to continue to drive to 75% in the first instance, but certainly beyond 75% in the medium term.

As we've executed against those kinds of strategic imperatives, then we have shared with you this morning the impact certainly as it relates to the impairment in the business. That though is very much a function of validation, as I said at the start, in my view of the continued transformation of this organisation and our confidence in the future of being able to do more with less, of being able to drive those operating ratios and of being able to drive those improved returns for the owners of the business.

Thanks then for the opportunity of being able to update you. We will of course continue to do this and certainly as the picture, for example, both with UT4 unfolds and with the enterprise agreements unfolds in the early part of next year, we would very much intend to have the opportunity to be able to provide the same kind of background and emphasis from Alex and John as we make our way through that, but for now with respect to today, we'd all be happy to take your questions.

Anthony Moulder: (Citigroup, Analyst) Good morning, Anthony Moulder from Citi. To start with, I guess the $20 million in savings that's a per annum figure, can you update me on how that sits within the $230 million? It looks like the briefing given back on 18 July suggested $10 million to $20 million was the totality of the savings over the next two years. Can I just get an update on how I'm seeing that? That $20 million per year seems over and above what you detailed back on 18 July.

Keith Neate: To a large extent, Anthony, it is, but it's difficult to break it out completely, but certainly there will be some overlap between the productivity benefits that were identified back in July and the consequences of the fleet review that we've undertaken now.

Anthony Moulder: (Citigroup, Analyst) And so the other details as per slide 24, though I think about those as being ahead of budget or in line with the expectations as given on 18 July?

Keith Neate: Sorry, slide 24?

Anthony Moulder: (Citigroup, Analyst) It's regards the...

Keith Neate: No, they're consistent generally, the savings on there, excluding the operations comment on the bottom which is separate, but in general the VR program, the discretionary cost savings, the real estate program, they're in line. Some are slightly ahead, some slightly behind, but they're broadly in line with driving to the 75% OR.

Anthony Moulder: (Citigroup, Analyst) Thank you and one final one, if this is a five year review of the fleet, just a comment as to how intermodal sits within that. Obviously it's not earning the return on investor capital that potentially that fleet could be redeployed for, so let's just get a comment over how that was reviewed across the team, but also this fleet plan please.

Lance Hockridge: Maybe it would be illustrative, Mike, for you to talk to some of this.

Mike Franczak: Yes, I will. It was included as part of the overall fleet plan and again, just to reemphasise the point, when we talk about a national fleet plan I'm talking about every line of business. Locomotives are locomotives, other than gauge and maybe electric versus diesel, so we looked at the intermodal fleet plan, more importantly the intermodal operating plan, and we're looking at terminals, we're looking at locomotives wagons. There are opportunities and synergies to combine some of the intermodal services and flows and yards and terminals that we have with other lines of business. That's the synergy of looking at it on an integrated basis.

So we've been able to look ahead and say based on the service changes we will make, based on where we will operate from in terms of those original destination pairs, we're able to rationalise the locomotive fleet. In fact in a number of places we're putting better locomotives into those services because we're getting fundamental improvements in the productivity of that core fleet, so very much in scope. The five year plan is our view of the fleet over the next five years. We will continue to come back at that as we get further informed on growth, on other service or efficiency opportunities, so it is an ever growing process.

But intermodal was very much in scope on this as well and I guess to take it to the next level, in terms of making those businesses better, back to my comment about fixed costs and overheads, when you start to take a look at those businesses differently, I had - I think I mentioned this in July - dedicated intermodal terminals, dedicated bulk terminals. I don't need dedicated terminals in all cases, I can have a multipurpose terminal, so I now spread less overhead over those lines of business. That's getting at the fixed costs and some of the challenges with respect to some of those lines of business. That's how you get leverage, that's how you get the cost base in line but also in fact create opportunities for growth with a lower cost base.

Anthony Moulder: (Citigroup, Analyst) Just a follow on from that for Lance, that's effectively the management committing to intermodal for the next five years, best way to look at it?

Lance Hockridge: That's consistent, I think Anthony, with what we said in July. I look to Mike in the way that's described, from a market point of view we have continued to have success, as I think there was an observation on the way through about the volumes of being able to increase the volumes in the business, even in what is a difficult contextual environment, as I don't need to underline here.

I think more generally in a nation in which in my view at least and the view of the Company, the market share of rail is underrepresented and in an increasingly green world, in an increasingly congested world in capital cities, we continue to have a fundamental belief that provided - and I emphasise provided - there are no free rides here, we have to achieve the same kinds of outcomes and returns in this part of our business as elsewhere. But that is the view of this management team that we can do that and in the way that we have over the last few years continued to build value as a result.

Matt Spence: (Merrill Lynch, Analyst) Lance, Matt Spence at Merrill's. Just a question on UT4, looking at the QCA releases thus far it looks like the decision will come somewhere in the range of 7%, 7.5% WACC. Is that an acceptable rate of return for additional investment over the UT4 period?

Lance Hockridge: It depends whether you mean, Matt, is it acceptable in the sense of we don't have any choice, what they come up with is what they come up with. Look, that's a very hypothetical question. We have certainly made the point to the QCA as you know through our submissions and in all of the discussions that Mike and more latterly Alex have had about the need to incentivise investment, and that we are not going to put our balance sheet to work in what we consider to be a sub-optimal way. Now, that's a very complex question because of course it goes to issues of risk and where and how risk is born, the scale of the investment, the interoperability of the investment with the existing infrastructure, for example. But at its core, as I say, that's the position, Matt, that we've put and that we maintain.

Matt Spence: (Merrill Lynch, Analyst) Okay and just one last one, just with reference to Surat Basin Rail, can you just give us an update on wicket, where your CapEx is at, I guess, and where you think the underlying miners are at with their projects.

Lance Hockridge: Yes, good question, Matt. We're on schedule from both the point of view of timing and CapEx from that which we've advised from the start and consistently updated. That will see the rail component of wicket completed towards the end of next calendar year. As you know, the miners have said that the portside of Wiggins Island is six months delayed. I think there's a fair amount of speculation that that would be a pretty optimistic outcome, quite frankly. So our guess is that it's more likely to be in the back end of Q1 calendar or Q2 2015 before we see first rail links.

Phillip Wensley: (Paradice Investments, Analyst) Guys, [Phillip Wensley] from Paradice Investments. I'm wondering if you can tell us whether you contemplated any sale and lease back of equipment as well in the process as part of the fleet review, and I guess in particular could that provide an enhanced flexibility to the business as well.

Keith Neate: Certainly we're looking at all of the funding opportunities for the asset base. I think it's probably fair to say within Australia, unlike the aviation industry, there isn't a deep leasing market for locomotives or wagons, but it is a funding strategy that we're looking at. It was not per se a part of Mike's fleet review, which was more around matching the size of the fleet to the task at hand.

Lance Hockridge: Can we go to the telephone? Andrew Gibson from Goldman Sachs, you have a question for us.

Andrew Gibson: (Goldman Sachs, Analyst) Yes, hi guys, just a couple of quick ones. Can you provide a split between depreciation and maintenance savings, and also how much of that will come into fiscal '14?

Keith Neate: Off the top of my head I can't, Andrew, it is - that's an average over the five years. Some of it will come into '14 but it'll ramp up very much more in FY15 and '16.

Andrew Gibson: (Goldman Sachs, Analyst) Okay and then just on the fleet that's not immediately going to be divested or scrapped, can you give a rough sense as to how much cash you might generate from the balance that's to be exited, I guess, over the five year period?

Keith Neate: You mean in terms of proceeds?

Andrew Gibson: (Goldman Sachs, Analyst) Yes.

Keith Neate: It won't be a material number. As I say, there isn't a deep market, certainly isn't a market within Australia for us to dispose of locomotives. The wagons will be scrapped and will realise something in the order of $5000 per unit at the most, and in terms of locos, the market is South Africa or South America and it is not deep.

Andrew Gibson: (Goldman Sachs, Analyst) Okay, thanks.

Unidentified Participant: Ian [unclear], you changed the depreciation policy back in FY12, you extended the lives of your assets and you said that they were pretty good, and now 18 months later we're copping our write-down on these assets. How appropriate is that depreciation policy and why shouldn't we go back to the old one?

Keith Neate: Different issue, Ian, this is about fleet that's been identified as surplus, not necessarily at the end of its economic life. Within the locos that are being written off, there are about 70, 75 locos that are approaching end of life and the average written-down value of those is well sub-$1000 each. So the reality is the depreciation policy is proving up to be pretty accurate in terms of the impairment we're seeing on the overall balance sheet.

Unidentified Participant: In terms of the fleet which you've actually written off, how much is actually really just centred around the bulk and the regional freight businesses? Because you're looking at previous statements, iron ore fleet's pretty new, intermodal fleet is relatively new as well. Your colleague went through a renewal program, is this really cleaning up that large amount of tail which has been arising in QR for the last 50 years, and it's actually a relatively straightforward program, it's now hauling within the existing fleet for those businesses?

Mike Franczak: I can take that. It's a bit of both quite frankly, and I would emphasise one of the big changes back to the change in organisational structure and outlook moving away from that line of business focus and the improvements in productivity are right across all fleets. So yes, we are going to address a tail of older equipment that was related to the bulk area of our business, but we are also going after some of the older fleet, stuff that will be coming up over the next two, three years in the coal business, as well as looking at cascading opportunities in intermodal and iron ore.

So this is unlocking a very different view than we might have had 18 or 24 months ago, again based on productivity, looking at the fleet more fungibly right across all the lines of business and again, all based on fundamentally different operating plan and levels of productivity quite frankly that the fleets haven't seen before.

Lance Hockridge: Mike, you might make an observation that extends to no longer having a mindset about unit trains, of multiple products on...

Mike Franczak: Yes, just getting back to the earlier point I was making on the intermodal, for example. I mean it's interesting, just as a bit of an analogy perhaps, someone once described recently as we were going out a lot of our services are custom designed for individual customers, individual terminals. It's like building a subdivision of homes; we built the homes very well but we really didn't think through the streets and the infrastructure required, the utilities, to knit it all together to make it more efficient, more effective.

We're doing that now, so it generates a very different view of how we're going to operate and what Lance is referring to is that we have origin destination pairings where I've got business that wants to move between those points, yet I have separate train services, separate dedicated fleets, separate dedicated terminals when I don't need to. I can combine those things. It's a very different approach to what we've had in the past.

Unidentified Participant: Can you just explain - expand on the fungibility point, given you have two gauges, or three gauges in Australia, you've got electric diesels and the two narrow gauges sit probably 5000, 6000 kilometres apart. How fungible is this network and what do you see as realistically fungible?

Mike Franczak: Quite fungible, there will be limitations, I mean we're not standard gauge everywhere and we're not electric or diesel everywhere, but if I look at what we're doing already with the fleets, some key examples, we have a lot of diesels in the Blackwater, the change in turnaround times, the change in consist sizes, focusing on horsepower tonne, for example, has allowed us to move those narrow gauge assets up into the Mount Isa line, North Coast line, as an example. We would not have done that before by virtue of the way we looked at that line of business, those assets were essentially assigned. There's one example.

Another one is with respect to narrow gauge standard gauge. With the right engineering we can re-bogie narrow gauge locomotives, diesels, for standard gauge operation. We've already started to do that, in fact we can do that and move those locomotives into WA, and that's part of our multiyear fleet plan and cascading, that's part of the thinking that's allowing us to revisit this idea of bespoke kit or bespoke fleets. So again, a huge opportunity when you break down those old paradigms and you look at the fleet very differently.

Simon Mitchell: (UBS, Analyst) Simon Mitchell from UBS. Just on the CapEx going forward, in the waterfall charts for the fleet there's obviously some purchases there you're expecting to make in locos and wagons from FY16 onwards. How should we be thinking about CapEx in the operating business, so excluding network, going forward over that five year period, assuming that 3% to 5% volume growth is actually achieved, so including maintenance and growth?

Mike Franczak: Let me speak to the fleet productivity, Keith can talk about the dollar impact. A couple of things, when we look out, for example, there'll always be a need for some basic replacements. When we look into the fleet, for example, we see situations where we've got older DC electrics. These are coming up towards the end of their life, call it two, three-plus years out. We can replace these with new AC electrics on a three for five basis. So as these things hit end of life, liability, availability, cost to maintain, components and so forth, puts us into a return that now allows us to justify getting the next level of locomotive and with that all the operating efficiencies that we get.

The new ACs not only are more cost effective to maintain, they use less electricity and by virtue of going three for five we can actually get more cars per consist, we can actually get tractive effort, even go bigger with some of our trains. In some of the areas like wagons, for example, similar story; we'll be able to go for higher capacity wagons, better fleet, easier to maintain. If you were going to look at hoppers, for example, for coal, again new designs, lighter loadings, better payload, so all part of the equation from a productivity standpoint.

Keith Neate: In terms of the CapEx profile, it's very difficult to provide a definitive number at the current point of time. We don't know what the demand profile's going to do over that period. We've made an assumption 3% to 5% CAGR, which has highlighted the numbers that are in the presentation. We've also taken a conservative view of the productivity improvements so there may be an opportunity to reduce those numbers going forward.

The other point I'd make is that our procurement of both locos and wagons is significantly enhanced over what it has been historically, so you can expect to see quite a dramatic reduction in the unit cost, both for locos and for wagons. Much of that growth I would anticipate we would pick up in the sustaining CapEx profile, having taken out of it the fleet that is required for those contracts that we already have secured and for which we know we will require new rolling stock, in particular Whitehaven.

Simon Mitchell: (UBS, Analyst) We're talking at least depreciation, I would have thought, in the [unclear] business?

Keith Neate: That's where we'll end up getting to, I think, yes.

Simon Mitchell: (UBS, Analyst) Just to clarify an earlier question on proceeds, you said the last two years you've averaged I think $50 million a year in proceeds from disposal. From what you're saying, the rolling stock disposals aren't expected to be material. What about the real estate disposals? I would have thought there'd be some more materiality in that.

Keith Neate: I think it's fair to say we would expect more from the real estate, but also bear in mind much of our real estate is in fairly remote or in unique locations within Australia, so demand might not be that strong. Hence the fact that it'll take us probably the best part of two years to market them in a responsible and cost effective manner.

Simon Mitchell: (UBS, Analyst) And just one last one. The 10% reduction annually in operating unit costs which was mentioned at the last more expansive briefing, can somebody be a bit more definitive in what the base year or number for that is and how inflation is treated?

Mike Franczak: Yes, the inflation is inclusive and that was a year-over-year number. So when I spoke to that in July, that would have been the year-over-year improvement of FY13 to FY14, FY14 to FY15 and so forth, and as I noted, we're right on the mark.

Lance Hockridge: I guess we're drawing down, but there's one or two, I think, last questions here, but can we go to Scott Ryall on the telephone first?

Scott Ryall: (CLSA, Analyst) Thanks Lance, I just have two questions today. This first one's probably for Mike, and I don't know if you can give me a black or white answer, but what have these locos and rolling stock been doing for the last couple of years? Have you got like a proportion of them that have been parked up, or has the whole network just been running inefficiently?

Mike Franczak: The answer is both. First I would declare I really am not in a position to speak to anything prior to February of this year. If Lance wants to jump in he can, but I would offer that there was a segment of fleet that was tied up, we have continued to tie up since I arrived and as I say, with the productivity improvements that we've created and the ones we anticipate, you'll see us continue to increase those numbers, and that's the increase from approximately 180 this year through to the just over 300 number for locomotives in the coming years. So productivity and some number already idle.

Scott Ryall: (CLSA, Analyst) Yes, okay, that makes sense, and then in terms of - this is a question for Lance definitely. A lot of what you talked about is very, very sensible in terms of increasing efficiency and things like this. What do you expect when the customer comes knocking and says I'm not earning a lot from my coal operations at the moment, can you share some of your efficiency gains with me?

Lance Hockridge: You won't be surprised to know, Scott, that those sorts of conversations are a regular part of the dialogue that we have with our customers and essentially we talk, as we've said all along, about value. Now, there have been examples of our willingness to accede to some of the kind of requests that customers have made to us. We're certainly open to thinking about those things, but in a circumstance where we expect that it's a value conversation, in other words there might be a short term trade-off against a longer term benefit, for example.

Other than that, in a circumstance particularly at the moment, where our customers are focused on the value of every tonne, from their own cost and efficiency point of view, it is really about being able to maintain and enhance the levels of throughput, consistency and quality that I spoke about in my remarks.

Scott Ryall: (CLSA, Analyst) Okay, thank you.

Lance Hockridge: Thanks Scott.

Carolyn Holmes: (JP Morgan, Analyst) Carolyn Holmes, JP Morgan. Can you hear me?

Lance Hockridge: Yes.

Carolyn Holmes: (JP Morgan, Analyst) A couple of questions just for Keith, I just want to clarify in terms of there's been numbers for abnormal items in the current year. So the $130 million to $150 million, that's pre-tax, the strategic number of $47 million and then also the $23 million for redundancies, are they all tax effective?

Keith Neate: Yes they are, they're all pre-tax in the disclosure, so there's full tax effect on all of them.

Carolyn Holmes: (JP Morgan, Analyst) And do we assume that given that the $130 million to $150 million relates to only the ones that you're dealing with now, so there's probably another $100 million of impairment on further assets to come or no?

Keith Neate: No, there isn't. What will happen on the remaining rolling stock is they'll be amortised over their remaining use for life. There will be a change obviously as a consequence in the depreciation chart, but it will not be material.

Sorry, just going back to your previous question, I'll correct myself, on the strategic projects it's not fully tax effective.

Carolyn Holmes: (JP Morgan, Analyst) Okay, so what average interest - tax rate?

Keith Neate: We're working through those numbers at the moment, but we can come back to you with that.

Carolyn Holmes: (JP Morgan, Analyst) Okay and just to understand the $60 million in terms of the excess revenue, is that pretty much like an EBIT as well as a revenue type of number?

Keith Neate: Predominantly, yes. There are some recoveries but most of it will fall through.

Carolyn Holmes: (JP Morgan, Analyst) Cool. All right, thanks.

Lance Hockridge: All right, well - no, one more, one last.

Entcho Raykovski: (Deutsche Bank, Analyst) Yes, I might go to the last question. Entcho Raykovski, Deutsche Bank. Firstly just a housekeeping matter, the impairment redundancy costs in the current year, presume you'll be trading those as one-off?

Keith Neate: Yes, they'll be disclosed in the same way as VR costs were disclosed last year.

Entcho Raykovski: (Deutsche Bank, Analyst) Okay sure, and given the asset base is going to be reduced, well not substantially but by the 4%, are you able to give us some guidance as to what sort of target you're looking for in terms of return on capital on that reduced asset base? Obviously you've talked about it in one of the slides, just how should we think about that?

Keith Neate: I think we'd be looking for a ROIC consistent with what the class 1's achieve, which is certainly into double digits but below mid-teens.

Entcho Raykovski: (Deutsche Bank, Analyst) Sorry, if I can sneak one last one in there, in terms of the guidance for the full year you've obviously spoken about it being - some of those volumes linked to legacy contracts. Are you taking into account at the moment any potential for wet weather and industrial action in there, in those numbers?

Lance Hockridge: I think the answer is clearly we haven't in the first half numbers, in the observations that we've made in the paper, but it goes to the comment that we made that beyond that we'll update the market in February and that's very deliberately as a result of the kind of issue that you raise, that by then we'll understand what the weather impacts look like and we'll be by definition a lot further down the track with respect to the EA negotiations.

All right, I think that people are voting with their feet. That effectively takes us out. Thanks again very much for coming today. Can I, given the time of year, take the opportunity on behalf of myself, the team and the Company to thank you for your support during the year, but particularly of course being very politically incorrect, to wish you a merry Christmas and a happy new year and we look forward to catching up early in the new year. Thanks everybody.

End of Transcript