

Start of Transcript

Chris Vagg: Good morning everyone. For those of you who don't know me I'm Chris Vagg, I'm with the investor relations team here at Aurizon. I'll just give you a quick rundown of today and then we'll just have [Simi] come up to give you the safety briefing. But today you'll see we've got presentations from Lance Hockridge first and then Alex Kummant, Clay McDonald, Lana Stockman and Pam Bains all from Network and then we finish up with Mike Franczak from Operations.

Once everything is finished we will then go to a Q&A so you'll have the opportunity to ask questions of everyone. You'll know there's a lot of other Aurizon people here in the audience, so you'll have your chance to talk to them too. Obviously people who are on the line, on the webcast and dialling in, will have the opportunity to ask questions as well. But before we get Lance up we'll just get Simi from the Christie Conference Centre to just give us the safety briefing. Thank you.

Simi: Good morning everyone, welcome to Christie Conference Centre. I'm Simi, the Operations Supervisor for Christie Conference Centre. We've got a two phased alarm system in the building, beep, beep and whoop, whoop. Beep, beep is just an investigation, you can stay in your room, on whoop, whoop you will leave an announcement in the room to leave. The nearest exit for your room would be just down on your right hand side. So you just get out on right, turn left and then turn left again. There are emergency stairs which will take you to Adelaide Street, which is just a street down on the left, and then go all the way to Adelaide, turn right to Creek Street. Our meeting points will be the corner of Adelaide and Creek Street in case of an emergency. Please do not use lifts in case of an emergency and smoking is allowed four metres away from the building.

Toilets on this level are located - just turn right and go all the way to the right - that's where the ladies and gents are.

Thank you very much and have a good day.

Chris Vagg: Thank you.

Lance Hockridge: Thanks Chris, thanks for the introduction. Could I welcome everybody this morning, as I necessarily need to change glasses these days. But other than the - one of at least - the world's most liveable cities letting us down this morning in terms of some of the people trying to get out of Melbourne. We certainly, as you can tell, have a very

wide range of participation today and so I welcome you all, particularly those that have come a long way, including from overseas.

This is, as Chris says, the start of two days. We will spend time together in presentation mode and then Q&A mode this morning and then, of course, a number of you are going to have the opportunity to go up and, again, experience the Central Queensland Network, some of our people, some of the assets and some of the operations. So we certainly look forward to being able to demonstrate to you the range of initiatives and the progress that's being made around that over that period of time.

Fundamentally the message today is about continuing to drive value and returns for the owners of the business. So I guess I should [unclear].

Starting then this morning as I say with the presentations which are essentially around the agenda that you see in front of you, the focus is around Network, particularly in the post-draft announcement and the opportunity though more broadly to talk about some of those key initiatives that are going on in our Network business. Similarly though to then invite Mike to talk about the above rail business and the continued progress around the reform initiatives, the efficiency initiatives in the above rail business as well.

So while that's our focus, again I emphasise what Chris said in his introductory interaction that we very much will ensure that there's time for a broad range of Q&A. So you should feel free to go anywhere that you like, both in terms of the Q&A session that we'll have here and then there will be opportunity as well over a light lunch to interact with a range of the management.

Again, as Chris observed you can see that there's a significant range of Aurizon management here. A number of the EVPs are here. A number of the vice presidents and, indeed, operational and commercial general managers. So once again you'll have that opportunity.

Stepping into it then, can we start where always we start - and that is around the safety performance of the Company. I guess there's two halves to the observations that I would like to make to you this morning, the first around continuing underlying performance and then the background to the incident - the tragic incident that we had at Stanwell a couple of weeks ago.

Firstly you've seen, of course, the FY14 numbers with respect to the continued improvement in the safety performance in the Company, especially as measured by the

lagging indicators in the Company. I can tell you that across the board, with the exception of the incident that I'll come to in a moment, that improvement has continued. Remarkably enough in September, for example, for the first time ever in the history of the Company we had a month in which there was neither a lost time injury nor a medically treated injury in the Company. A representation indeed, as I say, of the continued focus, the continued performance in the safety space in the Company.

By the bye, one difference in what we're showing you here - and it will continue to be the case - is that for reasons of greater transparency and ease of comparability between our performance and that of our customers on the one hand and a number of the overseas operators rather than showing you MTIFR we will consistently show total recordable injury frequency rate. That being the measure, as I say, that most of our customers and certainly the class 1s in the railroad industry generally quote more publically. So it will afford you the opportunity to be able to, more readily as I say, look at our progress and comparability of our performance.

If I can then pass in what for us, for the life of the Company, is a very sad note that - and a demonstration that the line between extraordinarily good safety performance and tragedy is indeed so thin. It's a couple of weeks ago that we unfortunately had this incident at Stanwell, which is about 25 kilometres west of Rockhampton, where a contract car driver driving an Aurizon vehicle was conveying to Aurizon train drivers to relieve a crew at a train about five kilometres west of Stanwell. We would be in speculation mode still to recount what happened, we simply don't know for sure. The facts of what we do know is that which I've said so far.

For whatever reason the driver of the car went past the turn to the designated crew change position, pulled over to the left hand side of the road and then tragically made a U-turn right into the face of an oncoming B-double tanker. Not to be too graphic about it but the Prada rolled some eight times and, unfortunately, the three occupants of the vehicle were killed immediately.

The reaction to an incident of that kind, as you can imagine, was immediate and widespread across the organisation. The impact most particularly in the initial stages around our train drivers, especially in the depots that are most associated with these drivers but, indeed, right across the Company and the morale impact right across the Company was profound.

I think whilst you would always hope that you're never put in a position to have to react to an incident of this kind that nonetheless, the very breadth, depth and quality of the response to the accident, the way in which the families were looked after, the way in which the colleagues of these people were looked after - and I should have observed that there's a family relationship even with the car driver in as much as he was the son of one of our supervisors. So in that sense all three occupants of the vehicle were part of the broader Aurizon family. Certainly the quality of the response, as I was saying, I believe was very appropriate and is a mark of the values in the organisation.

That said, the real take away is whatever it takes we have got to continue the safety journey. We have got to make sure that an incident of that kind - even of that kind - cannot happen.

Moving then to some of the overview that I would like to make with respect to the Company and our progress. The value creation fundamentals as the heading says remains strong. No doubt as we all know there are headwinds, in some areas significant headwinds, across the different parts of our business and the environment in which we operate, but our business remains strong, as I'll come to in a moment.

Certainly we acknowledge that there are a range of concerns that have weighed both on the market generally and on our stock and our Company in recent times. I'm here to say to you that whilst being balanced about all of that and hopefully being realistic about all of that we believe, for many of the reasons that we will share with you this morning and over the next couple of days, that a number of those issues are either misunderstood or overblown.

From a general market point of view rather than showing you some of the sorts of charts and demand profiles that often we do I would simply draw your attention to a range of the kind of presentations that our more significant customers have made in recent days, which in my view, again for all of the commentary that goes around that, when you look through it continues to demonstrate that demand remains robust in the medium and longer term. Again, we're not pretending that there aren't headwinds. We're not pretending that there aren't significant issues. But as we look through the cycle we remain very confident about the future of the resource sector and the future of our business.

In all of that though, particularly as we do think about those headwinds, you can be assured that the overwhelming focus of the management team of Aurizon is to continue to

drive the things that we can manage and influence and to continue to drive the improvement in every aspect of the business that we can control.

If I can turn then to some of those fundamentals as set out on this chart. Firstly, thinking about Network. This is, at the end of the day, in my view a terrific business. Especially in the context that I've just been painting, I would put to you it is an enormously defensive business for us to have. It is a very high quality business. As you'll hear from Alex and the team, the extent to which we're able to continue to provide the impetus around improvement in this business is of a high order.

In terms of that influence for Aurizon I would remind you that in FY14 even in the context of the transition tariff arrangements the Network business still provided around half the underlying earnings of this Company. So, again, high quality, defensive core business.

The business as you'll hear more about during those presentations in a moment has the advantage of an extraordinarily high quality of customers. Indeed, around 80% of the Network business is leveraged to the six global resource companies. Again, you'll hear more about that in Alex and the team's presentation. But once again, if you want to think about and focus on this defensive quality and the ability for a company to be able to hitch its future and its capacity to companies of this kind then I think the quality speaks for itself.

We will talk, of course, this morning in some detail around the draft decision and we continue to work with QCA but more than QCA we continue to work with our customers in order to what we would hope and believe will be improve the outcome that was announced a couple of weeks ago. As I say, more about that in a moment.

Turning then to the above rail part of the business. I'm assuming that by now you will have all had the opportunity to see our volume announcement this morning for the first quarter. If you strip out of the comparator period the loss of the Hail Creek contract and the closure of Wilkie, which both occurred after the end of the comparable period last year our volumes are up 5% in Queensland and by a similar amount in New South Wales.

As we look at the chart here we do continue to provide guidance consistent with what we've been saying since the full year, around that 210 million tonnes to 220 million tonnes for the full year. As we stand here today our volumes remain strong, robust and as we look forward all of the feedback from our customers continues to be that that level of throughput will continue. Now, we don't have a crystal ball and so as we make our way

through the wet season and as we make our way into the middle of next year obviously at the back end of the year we need to be cautious about those numbers. But, again, for the moment we are running flat out and all of the prognosis, as I say, from our customers is that that will continue to be the case.

It is on the back of the long-term demand to which I've referred. It is with respect to China and India, but the other significant influencing factor in what we're seeing at the moment, I believe, is the continuing improvement in the competitiveness of the Australian supply chains. Now we're part of that, of course, but particularly I refer to the ongoing initiatives especially of the big guys around their productivity efficiency cost effectiveness. So you're seeing both an absolute in terms of global demand and a relative in terms of the relative competitiveness of the Australian coal supply chains and, indeed, iron ore supply chains, compared to the other parts of the world. As I say, we're not here today to opine in a broad way about our views about all of that but happy to answer questions in that space.

We are then, if I can emphasise and emphasise again, about driving returns. This is about the continuing effectiveness of our transformation, productivity cost efficiency initiatives, right across the Company. Thinking back over the last few years we have delivered, and we've delivered strongly, on each of the promises that we've made with respect, most obviously of course, to operating ratio. We are building a culture of continuous improvement right across our organisation that will underpin that continued improvement. Indeed, our mindset is that we are, of course, in heavy-duty execution mode with respect to the delivery of OR 75% this year. But our thoughts, our planning, our initiatives are much more about getting to OR 70% and beyond, as we think about what the key initiatives are in this business.

As you'll hear reflected from both Alex and the team and Mike, we remain very optimistic, we remain very confident, about being able to maintain that kind of trajectory of improvement in the operating ratio in the business.

We continue to do things that are going to underpin that, many of which you'll hear about as I say, especially from Mike and Alex. Some of what you won't hear about today only for lack of time is the kind of continuing cultural change initiative in this organisation as we think about what that high performance culture looks like, what that culture of continuous improvement looks like in our business going forward.

One of those underpinnings of cultural change and capability, of course, are our enterprise agreements. So if I can digress for a moment just to give you a couple of thoughts in this space and once again, of course, happy to talk about that if you have any questions at the end.

The first observation that I would make is, again, about the frustration that we experience with the Australian industrial relations system generally. You've heard us on that, you've heard me on that in the past, but I can't go past an opportunity like this without again making the point that the level to which the system is tilted against the ability of a Company like ours to be able to make meaningful change is nothing short of extraordinary. It's an observation that I've made to the Prime Minister and anybody else who will listen.

Notwithstanding that, the key point here is the same point that I've made before. We are in the business of doing what has to be done within the boundaries of what's available to us.

Again, if you think back to what we've been able to do over recent years there are many sitting in this room who would say that we would never have been able to move out 2500 people out of the headcount of this business, for example. But we have done it and we have done it without losing one moment's lost time. So let me be very clear that as we go forward we will do what is necessary, no matter what the constraints are that are upon us.

Notwithstanding that, let's not be too cute. The changes that we are seeking in the industrial relations environment with our enterprise agreements will materially help. They will help in terms of being able to expedite many of the sorts of changes that, again, you will hear from Alex, Mike and co. about over the next day or so.

It is, therefore, overwhelmingly important that we continue to prosecute and follow through on achieving the changes in our EAs. Again, as a reminder we are not looking for blue-sky stuff. We are at its heart saying to our employees and the unions who represent them what we want is a level playing field. What we want is to benefit from the same conditions, the exact same conditions that our competitors already have. The exact same conditions that our competitors already have. In what planet, therefore, does it make sense for the unions simply to stand on history and refuse to allow us to go forward in that way when they've made those same agreements, as I say, with our competitors.

We are making progress. Outside of Queensland we have resolved the outstanding enterprise agreement negotiations that were on foot. You will be aware that within

Queensland we put the agreements to a vote of our workforce in recent days. We got the white-collar agreement up, as you would be aware. Now that's not the end of the story, let me hasten to add. Consistent with the kind of mindset that I was just describing it won't surprise you to know that the unions are fighting tooth and nail to ensure that we cannot have that white-collar agreement registered by the commission. So yet again we've got another process of having to roll through commission proceedings, in this case at the beginning of December, to argue our case about why that white-collar agreement ought to be registered.

We all know that more generally next week we are before the full bench of the Fair Work Commission around our application to call a halt if you will to this whole nonsense process by deregistering, cancelling, the existing enterprise agreements.

We have gone into that process eyes open. We have gone into that process with the most extraordinary level of preparation and with the best level of legal, industrial relations resource that is available to any company in the country. We have done a power of work. If you talk to the likes of Ed McKeiver he wanders around with six-inch thick lever arch files of material, of submissions, that we have prepared. We know this is a novel approach. We know that prima facie, at first instance, it would be a large hope to win this case in the first instance.

That's not the point. The point here goes back to where I started. There has got to be a circuit breaker. We have made and delivered on every one of our promises so far. We are taking what is the most extraordinary level of insight and application into the full bench, we have the momentum that that white-collar agreement represents and the objective here is to raise the temperature under the unions. This simply cannot go on at length. So whether we win, whether we in the alternative cause there to be a process supervised by the commission that sees real and genuine negotiations going forward, that's our objective.

If there is to be an arbitration out of all of this that holds no fears for us because of the level of preparation that we've done, because of the comparison, as I say, with the positions that already obtain for our competitors in this same market.

More generally with respect to our focus, again to reemphasise it is about driving shareholder value. It is about driving returns for the owners of the business. Very clearly the first and will remain the first priority for the Company is the transformation, the

efficiency drives within the core business of the Company. That is our overwhelming effort. Again, you will hear that in spades from Alex and the team and from Mike here very shortly.

We will continue to turn over every rock and look for every possibility to be able to expedite the delivery of that kind of transformational change in the Company. I made the point a little while ago that in our mindset as a management team we are already thinking of what 70% and better looks like. We do not do this on the basis of - irregardless of the returns that are involved. Nothing that we do is done without regard for the target level of returns in the business. So up to and including the kind of transformational capital that again Mike will spend more time offering more insight into in a few minutes here. None of that will be done without it materially improving our ability to be able to expedite change on the one hand and our ability to be able to deliver or better than deliver on the target returns out of the business.

Equally that has to come and is coming with transformational change in the nature of our relationships with our customers. Self-evidently given the kinds of market conditions, given the kinds of headwinds that I've described before, we simply cannot be in a position where we are doing anything - that we are simply taking the kind of change as it were out of the hide of our customers. As we won't have the time as a matter of presentation today but we can give you all sorts of examples of the initiatives that are in place and the quality of the improvement in the relationships both from an above rail and a below rail point of view with our customers in our operating space. Value for them, of course, is most particularly about the ability to deliver and the ability to be able to deliver consistently.

We are, as I observed before, implementing formal and comprehensive arrangements to drive organisational health, to drive the improvement of a purpose built organisational culture. So it's not just about change for change sake, it is not just about what the latest stimuli is, but we have been through a process of actively designing what we believe the culture of this organisation should be. What we believe the must haves, the important, the nice to haves are in terms of a wide range of the elements of that culture going forward.

We do believe that there is, notwithstanding the circumstances that we're in at the moment, there is considerable risk appropriate growth opportunity that remains open for the Company. Only, however, where the fundamentals make good economic sense and, again, where those risk-weighted returns can be met and exceeded.

One can be forgiven, having regard to some of the bigger initiatives and projects that we've got on at the moment, to believe that there is a disproportionate amount of effort going in or resource being devoted to those initiatives. But to give you a little bit of a flavour - a single anecdote that will put a little bit of that, I think, in context - our broader executive team number 76 people. Of that 76 people five are associated with business development and major project development. In other words, the overwhelming majority of the resource, particularly the executive resource in this Company, remains focused on the transformation and return journey in the Company.

Equally, we continue to be focused about active capital management. We would reiterate that first and foremost our intent is to retain an investment grade credit rating. You would have seen that we have improved the payout ratio in the Company currently to 70%. We always have an eye to the option for a return of capital to owners in a circumstance where that represents the best value for the owners of the business.

I spoke about big projects a moment ago. Can I take the opportunity to give you an update and something of a comment with respect to the West Pilbara project, because I think it's important to understand with crystal clarity where we are, and indeed for that matter where we are not, with respect to this project. Therefore, what's set out on this sheet I think is fundamentally important in that regard.

Let me say up front we do believe as a Company from the Board, from the management of the Company, that prima facie the West Pilbara is a sound and an exciting opportunity for the Company. We can happily talk through all of the elements of why we believe that that is the case.

On the back of that though we've spent a little over \$200 million effectively buying an option to be able to prove up or disprove that hypothesis. We have not committed to anything at this point other than that expenditure as part of the Aquila acquisition. What we have done is to get heavily into a feasibility study. Our colleagues on the mine side are equally heavily into a feasibility study with respect to the mine, the mine quality and the mine economics - the same kinds of things that you would expect us to be focused on from an infrastructure point of view.

I would want to emphasise in terms of the things that are on this sheet that we are not trying, now will we at the end of the day attempt to defy gravity. In other words, it will only be in the circumstance that the fundamentals of this project stack up, stack up from

an operational point of view, an end market point of view, a product demand and cost point of view and, of course, most importantly from the point of view of achieving and exceeding the target returns for the Company that we would make a commitment to go ahead.

We have a number of stages through which we are going. We have in recent days been talking about pricing principles, which is two way of course, both infrastructure to mine and mine to infrastructure.

As you can see, early in the New Year we need to provide an indicative tariff. Let me again at the risk of being too slavish emphasise there is nothing which is in the nature of a commitment with respect to the provision of that data, it is simply to allow both sides to better work through the project economics and the feasibility studies.

The point at which we have to make a binding commitment is at its earliest in October of next year but more likely, frankly, I would suspect through until the early part of calendar 2016. Again, assuming the Company makes a final investment decision it will only be at that time. It will only be on the basis of the most exhaustive amount of work, it will only be in a circumstance where the fundamentals of the project make sense, from the perspective that I've described. But equally, that we have in place all of the appropriate risk mitigation elements.

That's where we are at the moment. We have a significant team working through those opportunities. We have what I would describe as an excellent working relationship, most obviously with Baosteel but equally with Posco and with AMCI. Of course, having regard to the nature and the significance of the project I would expect that we will continue to update you. The next opportunity I would imagine will be at the time of the announcement of half year.

Finally then as I invite Alex to come up there is this question of our capital and capital spend. I observed a moment or two ago that Mike in particular will talk through, as will Alex, further insight with respect to what that capital is, particularly what we're describing here as transformational and productivity capital. The observation that I would make is, again, a reminder that this is in the nature of looking under every rock for every opportunity to be able to expedite the delivery of the kind of goals that I've said. It is all about, however, not doing anything that does not meet and exceed the return targets of the Company. As I say, the team will talk more about that but this chart is here so that

right up front you can have that level of overview and transparency with respect to the numbers that we're talking about. Alex.

Alex Kummant: Thank you Lance and a third good morning to you, this time on behalf of Aurizon Network. We've truly looked forward to the moment here to be able to lay out our business to you in a little bit more detail, a little more granularity than we have in the past and perhaps most importantly, introduce our team. You will hear in a moment from Clay McDonald, our Vice President of Operations, Pam Bains, finance and Lana Stockman, regulation. We've got a great team and tomorrow you'll also meet more people in the field, particularly in our despatch centre where a lot of the weight of the operation comes to bear.

So, many of you are quite familiar with the high-level numbers. Aurizon Network manages, operates the rail infrastructure for the Central Queensland Coal Network, or the CQCN as we call it - I'll use that phrase a lot here, CQCN.

As you well know, we are a regulated business. Regulated by the Queensland Competition Authority.

The CQCN is Australia's largest export rail network with a regulated asset base of about A\$4.5 billion. We serve over 40 mines, railing to five export terminals at three ports. To give you a sense of the scope and scale of the operation that means about 70 services a day. You have much more of a sense of that when you look at all the boards of the network and the network operation centre in Rocky.

As most of you know as well, we reached \$1 billion revenue level last year, with an EBIT a bit over \$400 million and we railed an annual record of 214.5 million tonnes. Clay will talk a little bit more about that. We're currently ahead of that pace, at least in the first quarter.

As Lance spent some time on, we at Network truly represent stability and predictability in revenue and returns. Our customer base is fundamentally comprised of the large global miners, as Lance said. But also layered on top of that regulated revenue base we do have a segment of business with more commercial oriented returns, GAPE and WIRP.

Operationally, as you'll hear, we're very aligned to the continuous improvement roadmap laid out and really lived by the North Americans over the last 15 years. Given that model and the access to that technology we've demonstrated and continue to believe that we can move through that journey at a relatively fast pace. Obviously Mike, from the Operations point of view, is in the middle of that and we'll address more of that later.

As we've said in previous sessions our regulated business model and vertical separation is a different model than the North Americans but there are many, many parallels in the operational elements of the business. Clay will touch on many of these as he walks through the Operations story.

Again, getting back to the overall stability, the financial stability and the business stability of this, 90% of the Aurizon Network revenue is generated from track access payments. Okay, speaking of predictability, I'll tell you what - I'm just going to leave that here and not smash Lance's glasses. I'll just make sure that I'm on the right chart here. I'll keep rolling. All right. I think you'll hear about our maintenance practices - things like this never happen out on the network.

In a few minutes Lana will take you through how the regulatory building block process stacks up our revenue picture. She'll walk through how our annual revenue comes together from WACC depreciation, OpEx and maintenance. Pam will also talk a bit about how the commercial strictures in WIRP work.

So, again, stability driven by the regulatory process is one thing but the quality of our customer base, as Lance alluded to, is certainly the key point. I think, again, you all know the customers, the who's who of the natural resources world, Rio, Anglo, Glencore, BMA. 80%, as Lance said, of our revenue is generated from that base.

UT4. Obviously a long process. We have had a lot going on in that space. We are still a little bit limited in what we can say because of the pricing paper that as released it was, after all, just a draft, again, about a month ago on 30 September. We are nonetheless happy that the WACC figure began with a seven and not a five or a six, so that's certainly a positive.

The QCA has been genuinely forward leaning in really wanting a further detailed engagement in the maintenance space I think as everyone knows who follows this, but what I can tell you is that the engagement really has been very positive over the last year, both with the QCA and with the industry. I think everybody recognises we just have to get particularly this maintenance piece right - I mean that's critical for all. So we can't promise you an outcome but I think we can say that we believe we'll get a very real hearing on our issues and we'll be working this hard for the next 10 weeks or so.

Not to spend too much time making the case but let me leave you with a little bit of a sound bite, we have to make a bit of the case. We do want to emphasise that the RAB

value will be up between UT4 from UT3 over 30%. As is forecast as well the annual tonnage will be north of 30% increase on an average annual basis UT4 over UT3. Those are big numbers. You don't grow an asset - you don't grow volume that much without needing an uplift in almost every piece of the OpEx and maintenance space you get. So without presupposing or preaching, because I know our friends at the QCA will look at everything we have to say here today as well but all I want to say is that is an indicator that a reasonable revenue lift for Aurizon Network from UT3 to UT4 is certainly warranted.

So let me just double check to make sure I'm speaking to - oh here it is, we are up and running. Okay, very good. So what's the broader strategic framework? How do we think about this business? First and foremost you see at the first tranche we need to continue the journey with our customer base to a world-class operation. That is what we mean by optimising the current business. You'll hear a lot of this from Clay - how do we improve maintenance practices? How do we optimise capital use? How do we plan and schedule better? How do we improve our technology and our people skills? Overall, how do we drive down variability in this entire system? But in the end from a business point of view nothing succeeds like success. The CQCN and the smooth operation of this asset is a single best marketing tool that Aurizon can have.

I'm often asked so what motivation do you have? A network is a regulated business to improve - surely you can just sit there and enjoy these guaranteed revenue tranches that come in? I've never believed that. I never believed that when I ran Amtrak. But performance alone is a huge unlocking mechanism. After all, we want more accretive commercial opportunities like GAPE and WIRP, but we also want an ongoing constructive relationship with the regulator and furthermore, our performance will make all of Queensland Coal more efficient and will unlock market penetration opportunities for everyone. Regulated or not that means a stronger, more resilient and more profitable business for the entire supply chain in Queensland Coal.

So we also believe though post UT4 when you look at the current structure and you look at the current structure that we're wrestling with in the ongoing dialogue that there is value to be unlocked here in the central tranche from within the CQCN. Some of that is share performance as I said, but a regulatory and commercial evolution surely must be possible. Everybody agrees we can't go through this two or three year process again - no one benefits. But we can create some risk but there are questions out there that I think all of

us naturally ask. Can we create some risk return opportunities on top of the regulatory base?

Are there commercial motivators for the miners, for example, to reduce the variability that they bring to the system. There are a few, cancellations, mine load out performance, high numbers of SKUs I think, what it is, the Goonyella has 40 to 50 SKU coal types. That's complexity. That's variability. Can we come up with more creative structures for take or pay? That's on us. We think there's much to talk about here really at an interplay between the regulatory and commercial frameworks.

Finally, if you really look at so where do we go from here. Here I speak in terms of 10, 20-year outlook. As Lance alluded to our core focus is what you know it is today but I think we can ultimately grow in other markets from a network point of view and that is when the CQCN is truly a world-class operation. There may be other revenue opportunities for services in other rail spaces and our skills clearly come to bear in the current development activities that we're working. But in the end there may be longer-term follow the customer strategy as this operation in CQCN evolves.

From a performance point of view this chart as much as any shows how closely we're linked to the operation side of the business. Mike could probably put up a chart very similar to this one. It's really all about moving more tonnes at lower cost. It's about reducing variability. So it's all very closely aligned again with what you'll hear Mike say here in a moment. You've heard this in the past and will hear it again today.

In a nutshell we want to move heavier and longer trains faster and in an overall environment of lower variability. Again, that's good for everyone. It's more coal for less cost with better on time performance and predictability. The underpinning of the network performance, the excellence of the asset and how it's managed is, after all, the platform this all runs on.

Clay will step you through what that means on a day-to-day basis for Operations and tomorrow you'll hear from Sarah Dixon what that means from a planning, scheduling and dispatch point of view.

You'll hear a common thread of better maintenance planning, shorter maintenance windows, better condition monitoring and overall reduction of non-value tasks. So not only do you need great infrastructure, you need to maintain it in the least invasive way, which

is no small feat, and then you need to manage your planning and scheduling to get the most of out of your asset. We're working on all of those fronts.

So here we reflect on a lot of different ways we do spend capital. Big iron in the ground capital and smaller unlocking technology projects. You see on the right hand side is a representation of stepping up the capacity capability of the network. So where do we get most of our physical capacity? Obviously you see the hard iron in the ground projects here but the small unlocking projects are very significant. Clay will also spend more time on this.

We'll give you an example really of the unlocking projects. In the middle of Sarah's world APEX is a systems project with GE - I mentioned this to a few folks as we were gathering to come into the room. There's also a strong assist here from Norfolk Southern who've just implemented this system. It's a system called Movement Planner. This allows day-to-day operations of dispatch with complex decision making beyond really pure human capability. NS has seen significant gains here where the system can actually look at passes and meets and other decisions you need to make that far exceed what human dispatchers can do today. This will substantially help us get more out of the network on any given day.

Another example is the acronym - the project called PACE, possession and capacity evaluator, also core to doing CapEx and maintenance the least invasive way we can on the network. It's a clever tool that optimises shuts, answers questions like how does one plan the scope of a job. For example, one of the questions is, is it worth replacing some assets that may still have some life but you're already on site, you're adjacent to the current work, does it financially make sense to go after some of those assets. Economically you can prove that that's the right thing to do.

What else can be done in the window of a shut? There's always opportunities, there's always things that are recognised from a geometry car, from other inputs. Hey, we need to go fix this, let's do it now. So it's an ability to react.

How does this align with mine and port maintenance programs? Also a significant issue as you plan ahead. So we can manage all of these shuts better, and that's an evolving process.

So these are all terrific capacity unlockers and often variability reducers. These technology and smaller projects generally are delivered for about 25% per capacity unit is you will of the big iron projects.

Clay will spend quite a bit of time on this and show you some photos and some data on interesting programs.

So to close I'll just go to the last point on this chart and that really is success by Network provides, as we've said before, above rail performance benefits for all operators, for the whole supply chain, for all the customers. That will continue unlocking opportunities for us.

We make the point that best practice is a de facto competitor but more than that in the transparent, regulated world within which we operate it's our goal that our customers will see and understand our performance and our continuous improvement. We've partially achieved that but we have farther to go, I think, as we all know with the UT4 process, as is the case in our maintenance consultation with the QCA. Over the next 10 weeks we will work that hard. We have a good story to tell and we need to make that obvious to everyone.

Just to round out a little bit of what we've accomplished - so we've railed record volumes, we've reduced delays by over 30% year-over-year, we've reduced electrical faults by 50%, we've achieved full scope of our monthly maintenance programs while railing record tonnes. We've diligently closed high-risk crossings, reducing level crossing collisions by 43% since 2010 and in the last years we've delivered \$2.2 billion worth of major capital projects on time and on budget. I think we've demonstrated that we are very strong stewards of this asset.

On the bottom left you'll see how we measure ourselves in terms of process capability. How we stack up in 25 different categories. We're on a journey. We'll always have more work to do but that's life in Operations. I think that's a great lead into Clay. Clay.

Clay McDonald: Thanks Alex. Yes, my name's Clay McDonald and I'm the Vice President of Network Operations. I've been in the role for three years now. Previous role to this one was Group General Manager of Coal South, looking after the Blackwater, Moura and West Moreton system. So I've been in the business for six years.

I'd like to start with a view on the CQCN, the Central Queensland Coal Network which Network Operations manages, maintains and renews. What we have starting in the south, if you look at your map on the right hand side the Moura system, which is a non-electrified system contracted for just under 15 million tonnes. As we had north we go into the Blackwater system, 81 million tonnes contracted, Goonyella system just over 130 million

tonnes. Up into the north the Newlands system, currently 38 million tonnes in that system. All up 255 million tonnes of contracted capacity.

This is a complex supply chain. This has three above rail operators with diesel and electric trains. We have electrified network and un-electrified network. Five coal terminals, each with their own constraints. We have 40 mines, as Alex mentioned with different SKUs. You can't put different SKUs on the same train and you can't deliver them to the same stock bowl, they've got to be separate.

We've got trains now running from the Goonyella system down into the Blackwater system. We've got trains running from the Blackwater system into the Goonyella system, of course the Goonyella system into the Newlands system. It's a complex supply chain.

To manage that complexity we've got a number of continuous improvement programs and step change programs I'll take you through. But fundamentally we focus on three discrete areas; reducing variability, improving reliability and customer service and optimising capacity. You're going to see each of these programs and you're going to hear those sort of terms used quite regularly through this presentation and as you had up into balmy Central Queensland this afternoon and into tomorrow.

So over the last three years we've had two axis of improvement based around the following; structure, focus and capability, which has been our people focus. So my team, for example, has a mix of ex or long serving employees from QR that really know the asset and know the operation and we have quite a few new managers and new superintendents from places like Rio and BHP who have joined the team. So yes, a big focus on the structure capability and the focus of those teams.

The second area is what I call the enabling area. The enabling focus. Modernisation mechanisation, systems and technology. The output on the right hand side through these programs and through these streams is what I spoke about before - reducing variability, increasing capacity and unlocking or improving our customer service.

So how are we going, three years at it? On the top left hand corner is how we measure ourselves on what variability we create in the network. So that's below rail delays, unscheduled delays greater than 15 minutes. What that captures is any delay caused by our overhead signalling or track system, any delay we create on the network caused by an unplanned occupation or an overrun and any impact caused or additional dwell caused to trains by our activities. You can see from 2011 to 2014 we've seen a 44% reduction in

those unplanned delays. So from around - at the peak of it there you can see 43 minutes down to around 22 minutes.

As a team we recognise that 22 minutes still has a lot of opportunity in it. That means that every train that's travelling around the network, 500 trains a week, we impact by 22 minutes. So these programs are very much focused on reducing that 22 minutes and increasing the velocity of the trains that are running on the network.

So just to have a look at some of the figures that contribute to that below rail delay number. On the right hand side is our traction faults. You'll see a bit of this tomorrow - these are the overheads in the Blackwater and Goonyella system. So our cancellations and impacts caused by traction faults have been reduced from 33% from 2011 to 2014. Partially this goes back to the previous slide on what we're focusing on - an increased focus on corrective and preventative maintenance by our teams, a restructure of those teams - so we have tradespeople on 24/7. There's a focus on accountability at a line leader level for delivering corrective and preventative maintenance and they report on it every Friday. And some operational and equipment improvements that have assisted us in those statistics.

One, I'll show you later, an over height laser beam that we have in a couple of our critical crossings that have reduced dewirements where heavy machinery goes over - over height heavy machinery goes over our line and takes out the overheads - and I'll talk about that a little later. It's been very effective.

Bottom right hand corner we talk about mainline derailments. It would be of no surprise derailments cause impact to the network. Derailments cause damage. Derailments cause significant delays. So there's a big focus on our team on reducing below rail caused derailments. In fact there's quite a successful community of competence on reducing overall derailments and you can see that they're coming down, and our focus there on what we can contribute in the below rail space.

How do we do that? We've improved our condition monitoring, we've improved our speed and efficiency in removing speed restrictions - I'll demonstrate and show some photos tomorrow of what a speed restriction is and why it's important for us to remove it. But we've got better at identifying them and removing them. So we've gone from an average 20 days that a speed restriction would be on the network down to six.

We also work with the above rail operations on which are the most important speed restrictions to remove first to improve velocity and around safety.

As I mentioned, accountability at the local level on removing speed restrictions and network condition and finally rail husbandry. Rail husbandry, you'll learn a little bit about rail husbandry tomorrow when you feel the heat, in the heat the rail expands and obviously overnight it contracts. We've got to make sure that our rail is within tolerance to ensure it either doesn't buckle or it doesn't break. We've certainly got a far more rigorous program in managing rail husbandry.

So we've got some results. We've seen some decreases in below rail caused delays. This has enabled us to move more network tonnes by all operators across the system.

So if you can see on the right hand side 166.7 million tonnes or 74% of the network was utilised in 2012 up to what is today 214.5 million tonnes and 80%. To give you a feel for that it's an increase in our daily run rate of 130,000 tonnes per day or the equivalent of 14 trains.

I notice the figures came out today for tonnes. Our network tonnes are up 4 million on last year, so our daily run rate at the moment is 610,000 tonnes a day and yesterday we did 723,000 tonnes in a day. Our best ever is 770,000 tonnes. So the focus of the management team is definitely about moving the average towards the record. So we're at 610,000, shows you the upside at 770,000 and a year and a half ago we'd never hit 700,000 in a day and we hit it quite frequently today and we look forward to hitting it more frequently in the future.

How are we doing that? Left hand side, planned maintenance, reliability and, of course, working with the above rail operators closely.

Talk about innovation in our renewal practices, so we're reducing our closure times. Like-for-like at the end of September our closure times are down 39%. So the amount of hours that we take on the track where we completely close it is down by 39% on the previous period.

What's important there is the engineering project delivery team has also been able to renew or provide \$11.5 million of renewal for an example in a 60-hour closure that occurred last week in Blackwater and that's about twice as what we've done in previous closures. So not only are we using less time, the time that we are given is more productive and our delivery rates are up.

A practical example of that I guess is during that 60-hour closure 4.6 kilometres of track to the west of Rockhampton the formation of it was renewed. So we actually lift the track up, we lift the sleepers up, we take the ballast out, we take the top layer, the formation, off. We rebuild it, put it all back together. We did 4.6 kilometres delivered on our behalf by engineering project delivery, 4.6 kilometres in five days. In 2011 we did 900 metres in five days. It's a change in the type of equipment we use, the approach that we use and our execution practices.

Reliability. Significant increase in completion rates of our preventative and corrective maintenance, from high 60%s to low 70%s up to 98%, 99%, I'll show you a graph of that later in the presentation.

We've also got condition monitoring on some of our most critical infrastructure. We've installed 150 points monitors in critical pieces of infrastructure called turnouts. A turnout is where you change direction on a track from one track to the other. The turnout swings across and allows you to change direction. If the turnout doesn't function correctly it causes a delay through the UTC network where it says this turnout is not indicating to me that it's closed or open correctly and it stops trains. So on 150 of the most critical of those points, we've got condition monitors that tell us this is starting to fall out of tolerance, it sends a text to our trades people, they go out and they fix it in a planned way prior to it causing any delays.

Other areas of focus and improvement there, we've now got dual telemetry through Central Queensland, that is kind of like having two power points in your system rather than one so it's failsafe. We use non-destructive rail testing that indicates to us in the future that we need to do work rather than it occurring in an unplanned way.

What does that mean to the above rail operators and our customers down the bottom? Looking at running faster trains, stopping them less often, increasing velocity and we look at improving planned schedule run and recover operations.

Alex touched on this slide. Top right hand corner for us. There are those step change projects around the mechanical planned upgrades. So a complete upgrade of our on track equipment. These are our heavy maintenance pieces of equipment - what we call regulators, tampers and a ballast-cleaning machine. So we're getting new equipment out of Australia and we've already commissioned four of those pieces of equipment. I'll show you some photos of that a little bit later on.

Why do we do that? It improves our productivity. They have better performance rates. But primarily we looked at it and we went for the high productivity machines. You can see that we're suing half the time to do the same amount of work or we can do double the work in the same time.

PACE, Alex touched on and I'll talk a little bit about that as the end as we come into that complex environment again of delivering the renewals program, delivering the maintenance program and ensuring volume gets through but managing our cost. PACE is a program that we work together with the University of Newcastle on, so their optimisation centre. We've been going at it for two years. It goes into service in the Goonyella system for its first live trial later this year.

On the right hand side we talk about better planning and scheduling, and that's that planned schedule run and recover. Today we get a customer order from Operations and CNM on a Tuesday, two o'clock. We haven't completed the plan until late on a Thursday when we hand it over. So Operations can then plan what their train crew schedule's going to look like and how they're going to run and they can inform the customer.

The system that we're working with as part of Project Pluto, those orders will be received and plans will be generated within seconds. Then it gives us that opportunity between the time when we've done that to the time when we hand it over to Operations to harmonise it with other parts of the supply chain and to work on improving the plan. There is a fantastic opportunity and great volume that can be unlocked through this process.

I talked a little bit about the high production mechanised maintenance fleet and the advantages that are coming with those and the improved productivity or opportunity we have to either reduce track time or increase work completed. Down the bottom we talk about improved tools and processes in the field. Talking there about sat mobile for our maintenance team, so they've got a tablet with all the information they need to conduct the tasks they need more efficiently. It includes all sorts of information from OEM type equipment to ordering and assessment on who serviced it last and what the faults were.

We've also got a system called a Track Access System, TAS. We saw this in BNSF when we travelled over there. An effective system for our maintenance people to get on track. So they can see the live running of the train and the plan in the field and decide whether it's worth actually requesting to get on track or whether they can actually sequence their work differently to be more effective. BNSF told us they were getting about two hours a day

increased productivity from utilising that system. That's well in - it's not in execution phase, we haven't got it in the field, but it's being progressed very effectively.

So Alex touched on this slide on the right which is our asset management benchmarking statistics. So what this really shows to us is you can see the green line being best practice in rail in the world, you can see the blue line indicating where we were in 2010 and the red line indicating where we are in 2013. For us it's just a fantastic opportunity for improvement. It exposes us to best practice and it challenges our approach to asset management. You can see that in some particular areas around demand analysis or CapEx evaluation we're quite strong, although still opportunities for us, where in other areas around weather and climate change and sustainable development we need to work on and focus on to improve.

This really is about us understanding our asset. Knowing our asset so that we can have a laser like focus on where the renewal spend needs to go.

This is where it goes. So on the right hand side you can see the allocation into the renewal spend by type from formation all the way through to tele and sig. See the largest area there is in track - that's where steel meets steel. So that's track upgrade. We talk about sleeper and rail upgrade in that area. Structures - sleepers - we renewed or replaced 66,000 sleepers last year. We're doing a little over 40,000 this year. We're replacing a lot of timber with concrete. So with a timber sleeper you've got a 15-year life, with concrete you have a 50-year life. Also with the timber sleepers you have to do a maintenance renewal at the half way mark, replace some of the fastenings, with concrete you don't have to do that generally.

I want to tell a little bit of a story on the right hand side there around structures and around the integrated business. A lot of people say can you quantify what the integrated business means to Network, Operations and other parts of the supply chain. Well here we had a situation in one of our branch lines in the southern system where we had a bridge that needed to be renewed prior to the wet season. So you can imagine we'd plan and had a package for execution on this particular bridge for some time and we went to the customer and said this work has to be done prior to the wet season.

The customer had a very aggressive shipping schedule so with CNM, the key account manager, ourselves, Operations and with logistics we got together, and our engineering department got together, and we worked on a plan that would see both the shipping

schedule met, Operations move the tonnes and the bridge get renewal prior to the wet season. So we broke that work down, we did trade-off was we could do it in one block which had the most impact. We broke it down into blocks so that Operations could then match the shipping schedule. Like I said, the customer met its shipping requirements, the bridge was done in four pieces instead of one continuous job and Operations got to move the coal and the bridge stayed up in the wet season.

On the left hand side you can see the growth in sustaining capital for us. This is that targeted spend I spoke about previously. Really the increase is just reflective of the age of some of the asset and the increased volume and wear rates we're seeing through CQCN. I'm going to touch on that a little bit later on where that's been.

So 74% of that money that we indicated this year, \$125 million, 74% of that is spent on end of life replacement. That's the no choices, no regret type spend. That is renewing - you can see on the right hand side, culverts that need replacement or timber sleepers that might be - or other concrete sleepers where fastenings may have failed. That's an example. But really it's 74% of end of life replacement.

We don't go like-for-like replacement here. We have a look at - obviously the technology we've got today is far more advanced than the technology when those culverts were put in 50, 75 years ago. So what we do, we get hydrology studies and we say yes, that culvert needs to be renewed or not it doesn't or we need to double the size of it to harden the network for particular rain events. So there's not a like-for-like replacement exactly, it's an improved replacement.

You can see up there obsolescence - and this is technology, operational technology - generally around our tele area. That 5% spend you can see, that's an old telemetry system we've got there. Still got the press dial phone on it. That's been replaced throughout our Central Queensland Network. As I mentioned before, we've now got dual telemetry giving us redundancy in that system.

Left hand side, safety. What we'd had in Central Queensland was a whole number of overhead events where the electrical wire was brought down by over height trucks. We tried the education and we tried the enforcement and, of course, the large opportunity was engineering. So this is a real innovative solution here where we use a laser beam. As you approach those crossings the laser beam triggers a screen that is in front of the driver that tells the driver you're over height, you need to pull over.

So it might be an aerial that's been left on an excavator or for some other reason that particular vehicle is over height and that system indicates to them that they need to make an adjustment. With live footage of this system we could see all these trucks pulling over and actually lowering their load. This is despite the permitting process, despite the education process. We saw a significant improvement in performance around those level crossings. We have seen a number of events still in Central Queensland but only one at those crossings.

Just to give you a feel for the impact of that, in 2012 alone we had three incidents in six weeks that stopped that network.

Bottom left hand corner, reliability. Improved asset performance through new technology - that's a photograph of our latest track lubricators. So we've seen a replacement program where we now have solar powered lubricating systems that have replaced previous manual lubrication systems, pump system. The numbers have gone from 380 to 160. So we've got half as many because they actually do both sides of the track, they've got a better spread rate.

We can see from the depot using the remote system which ones need to be serviced, which ones are actually working and which ones aren't. There's still some fine-tuning and improvement to be made there but the upside for us is instead of sending around maintenance staff to check out the 360-odd lubricators they go to the ones that need to be serviced. This is incredibly important for our rail wear and is important for the wheel wear for operators.

All right. Just digging in quickly to some of the ways we do standard work. I guess the saying within our business would be if it's on track and it's repeatable we're looking for a machine to do it, because it's going to be faster, it's going to be safe, it'll be more effective. So on the left hand side there I referred to the Network Asset Management System. That's that SAP integrated platform that we'll deploy into the field. Where the jobs and the standard of work can actually be sent out to the team and they complete that work in the field.

On the right hand side is a track recording vehicle. Today we use three separate types of track recording vehicle technology that occupy [unclear]. You can see it there ground penetrating radar, ultrasonic recording and our track recording car. Then every 96 hours we have eyes on path, that is one of our inspection team from the maintenance crews run

out on a path doing 40 kilometres an hour and occupying a bunch of capacity from the network to do an eyes on inspection.

What we're looking at doing there is replacing all four of those inspection techniques onto one single vehicle that runs at high speed - 80 kilometres an hour. So you're using one path instead of numerous paths.

It also enables us to send that information directly from that track recording car to our new [plaster] machines on what work needs to be done on the network.

Roughly we think there's about 1000 paths to be unlocked by that process and that's being conservative. Even if you use half those paths as revenue generating trains it's unlocking about 4 million tonnes to 4.5 million tonnes.

Otherwise we do standard work. At the moment if you're inspecting the overheads there's two primary ways of inspection the overheads, or traditional ways of inspecting the overheads, we inspect them from roadside using a set of binoculars and looking up with a piece of paper and we say yes, we can see that component or those particular components appear to be in good order. Or we use on track equipment, elevated work platforms, and we get up into the overheads during an isolation and we consume track capacity.

What we've done is purchased two UAVs, or drones and they're better known, and we've deployed one to the north and one to the south. Alex and I got to fly them the other day up in Rockhampton. They offer us high definition imagery as you can see on the top photo, in infrared analysis on the bottom. So what we're looking for is hot spots. So that would indicate to us that there's a potential failure in that system. The high definition imagery is then taken and we analyse it back in the depot and then we adjust our - or set our renewal and maintenance program based on those findings.

Significant decrease in track occupancy, significant increase in quality of inspection.

Bottom of that is our ongoing focus on that dewirement and earthing failures that this all be part of and the program that this relates to. You can see the progress we've made so far. When an earth wire comes down the system stops, again, causing that variability that I spoke about at the start. You'll get to see some further footage and some more detail on these systems up in Central Queensland.

So what are our maintenance teams doing? Definitely we've - as I said in the first slide the structure had changed, the focus has tightened up and we've brought in capability both in a supervisor and superintendent level capability that's seeing delivery improvements.

So bottom right hand you can see in 2010 that is work not done. So 29.9% of our preventative maintenance was not completed for the Goonyella system in 2010. There's a whole bunch of reasons for that; there was a huge drain on labour from the mine system, the way that our business was structured - there was a whole bunch of reasons. But the fact was around 30% of preventative maintenance wasn't being completed.

Today you can see on the right hand side we've got that down to 1.7%. Quite often that's just a timing issue rolling from one month to the other. Very much in the 98% to 100% type execution levels there.

Above that I go back to our beloved speed restrictions and our ability to focus on improving the quality and condition of the network by removing speed restrictions as efficiently as we can. I'll show you some photos tomorrow of equipment we now use to improve that process. Previously we'd have an excavator just digging out a certain amount of the track, now we've got high productivity undercutters that we deploy. They do it in part of the time and the quality of the product is a lot better. That's been a significant contributor to the increase in velocity in the network that we're seeing with the above rail operators.

As far as structure goes we have six regional centres for maintenance and they're based on the amount of infrastructure they have to manage in deployment times. We're broken down into maintenance and response teams, being predominantly our trades people around signalling, our overhead system and mixed in there are some civil skillsets and then our traditional civil and track teams.

Again, step change in how we do standard work. Previously we would dig out - you can see on the bottom right hand slide - sorry, I'll give some context on this slide. This is about better ballast management. Ballast is the rock that sits underneath the track and ballast is required to ensure drainage and stability of the track. So what we do is previously we were using an old sampling method where we have an excavator dig out every kilometre and tell us what work had to actually be executed on the track. You can imagine, it took quite a significant track occupancy. It was open a little bit to interpretation and the skill of the

actual operator. There was a whole bunch of reasons why that wasn't the most efficient way to tell us where the ballast cleaner had to be deployed.

The left hand side is the way we do it now. So we use an on track machine with a ground penetrating radar running at 80 kilometres an hour and it indicates to us the amount of contamination within the ballast and assists in developing out undercutter program. We've done a number of runs, although we'll get improved results as we layer that data over a period of time and build up the information we have.

We calibrate that ground penetrating radar using a specific track. You can see it up on the right hand side. So we know that the results that we're getting on that track which we've actually established ourselves and we know what those results should be correlate with what we're getting out on the main line. This has definitely allowed us to be more specific and pinpoint the work that we need to conduct.

So while we're cleaning it we're also part of the supply chain that's looking at reducing the amount of ballast failing that occurs. How we're doing that here is you can see our coal fouling prevention, one of the systems there that we work with - the miners and our customers is veneering and garden bed profile. So the veneering is like a sticky polymer that gets sprayed onto the coal as it goes through the load out so it removes the fouling caused by dust. You can see there, our veneering can reduce coal dust by up to 75%, the coal dust that's coming off the top of the wagons.

How do we know that? The top right hand, opacity dust monitoring results you can see and in this case it's Rolleston. You can see the dotted line that says install complete, that's when the veneering system was in. You can see the level of opacity reading going down significantly from the left hand side to the right hand side. So not only are we cleaning it but we're reducing it coming back into the system by some of these methods.

Talk about modernisation and mechanisation and increased productivity from our on time or our track time. We've got four of the new units already in and deployed and what we're showing there is through the commissioning process a lift in performance but as we get used to these machines we see additional increase in performance coming through.

To give you a feel, on the right hand side one of the biggest users of capacity in our system is the ballast-cleaning machine. It's a big unit. It's a big operation. Our current machine travels at about 250 metres an hour cleaning that. It lifts the track, takes the ballast out, cleans it, puts it back in.

New system - a new RM-802 that we would look at purchasing runs at 550 metres an hour but has the capacity if you want to wind it up - we saw it in the US going at 800 metres an hour if you need to burn through your work and you need to unlock additional capacity. It's got some real upside.

For us that's a \$200 million spend in total on these new track machines, the entire fleet upgraded for the maintenance side of the business.

All right, I'll go back to where we started, around complexity and dealing with complexity. Alex touched on this and you'll get a good overview from Sarah Dixon who is responsible for the implementation of this system into her business, the Central Queensland Network Control. What you've got is you've got a situation where that complexity - if we look at it from a train controller's perspective they've got a - you'll see a screen tomorrow, they cover about 250 kilometres on average. There's 12 screens you'll see. So we're covering the 2600 kilometres of network with 12 screens.

That controller is making the best decision that they can make for their screen. What they can't predict and what their bandwidth doesn't allow them to do is project eight hours forward or understand other decisions being made on the other 11 screens throughout the Central Queensland Coal Network that may impact the operation. So through an incredibly innovative solution that NS and GE worked on called Movement Planner, that decision-making is updating the plan and updating what's happening to bring you back onto that scheduled operation that we talked about. Reducing the variation, all the time giving the controller some decision support saying let train A go in front of train B. Slow train C down, give preference to train D, so that it all interlocks across the four systems and we get the right trains in the right place.

What NS have seen is a 20% increase in velocity, they've seen significant reduction in double up crews - that is a crew that needs to be deployed onto a train because we haven't got the train in the right place. They've been - from the corridors that are - it's fully implemented in they've gone from minus 20, so 20 minutes late, to eight minutes early on the corridors where it's fully implemented. We're very excited about that project - a significant step change for that part of the business. Probably the biggest thing that's happened since the automatic or the UTC which you'll see tomorrow, the unified train control system.

I think Alex covered PACE. PACE will fit into this at the front end of that system, so it already tells us what is the possessions that we need to consider and what order we would consider in and what other work we could get done. Then we talk very much about integrated planning and the opportunity that provides with our above rail operations partners with the mines and back into the port.

With that I'd like to welcome Lana to the stage.

Lana Stockman: Thanks Clay. Thank you for the presentation on maintenance. I'm still waiting for my invitation to fly a drone - this is about my 10th hint. But I'm sure this audience would much rather hear about regulation because it's such an exciting topic.

I'm Lana Stockman; I'm the Vice President for Regulation for Aurizon Network. My primary responsibility is, of course, managing our regulatory affairs. Given the fact we are - network is regulated business and most of our revenue is regulated it's a fairly critical function. It has quite a lot of oversight from Alex, Keith and Lance.

Our fundamental document that we operate under is an access undertaking, or an undertaking for short. We're currently operating an undertaking which is known as UT3, which is the third undertaking, as we're currently negotiating or working through with the Queensland Competition Authority on UT4.

An undertaking provides, in our instance, four main areas that are important. Firstly it sets what our maximum allowable revenue is and how that revenue is broken up into tariffs for customers. It provides a framework for users wanting to access our network and importantly for our above rail operators who are competitors to Aurizon Operations it ensures that we have a ring-fencing framework in place so we cannot discriminate and favour an above rail operator.

Finally, the undertaking provides a framework for future investment in Central Queensland Coal Network. The remainder of my presentation today will cover the revenue cap and take or pay. I'll talk about the regulated asset base and investment options. I'll cover the UT4 process today and how that should play out in the next few months. We'll cover the recent decision from the Queensland Competition Authority around our maximum allowable revenue. Just to really get you excited and before we go onto Pam we'll talk about beyond UT4.

There is many different forms of regulation as there are regulators. The form of regulation in Central Queensland is a revenue cap. This ensures that a network is allowed to achieve

a certain predefined level of revenue in any one particular year. This is - if we over or under recover in any one year there is a true up mechanism to ensure that our revenues remain stable. You can compare this to a price cap type of regulation which sets the maximum price. If the volumes sold in any one particular year vary the revenue for that organisation will also vary under a price cap regulation.

The Queensland Competition Authority, or the QCA, determine the amount of revenue that we can make based on an economically efficient model. It is built up of five building blocks, the WACC, the weighted average cost of capital, depreciation, operating allowance - clearly Clay needs a sizeable allowance for all of his activities, so that's the maintenance allowance, and my favourite allowance - well, Joe Hockey's favourite allowance, which is tax.

What Aurizon Network does is we provide a submission to the QCA; in this case it's UT4. This sets out our expectations around what we would like to receive for maximum allowance revenue. The QCA undergoes a process where they consult with stakeholders, get their own independent experts who actually come into our business to review our submission and then they make a draft decision and then a final decision.

The revenue cap provides revenue for Aurizon Network that covers an aggregate, all the miners in any particular system. Take or pay by contrast is for one individual access holder. Take or pay is a standard contractual arrangement across many industries; it is not specific to rail. However, it provides benefits to both parties to the contract.

Firstly, it ensures that Network is able to get some form of revenue certainty over the long term to reflect the long dated nature of our assets. If we didn't have the certainty we would probably be unable to achieve funding to build the assets in the first place, or if we did receive the funding it would probably come at a much higher cost. This would result in higher access charges for all users.

Secondly, a take or pay contract firms up access rights for end users. It would be really unfortunate if a mine had made a long dated investment in mining infrastructure and coupled that with a short-term access right that expired during a period of economic boom. I can assure you with my dealings with the miners that their competitors would be very happy to snag those access rights.

Finally, a take or pay contract protects against moral hazard. Consider this example. Assume there is a 30 million tonne rail system and it costs \$1 billion to build. Assume

there are six miners and they all have say 5 million tonnes of rights for that expansion. But assume there is a free option and they can walk away from a take or pay contract, or they can walk away from their access rights. Now if we're in a period of economic decline and one mine wants to shut up shop for three years, well the money that they would have paid would then be socialised against all the remaining miners in that system. I don't think those miners would be too happy taking on someone else's credit risk or operational decisions.

If instead that risk was transferred to Network we would also be seeking a greater rate of return or a higher WACC and this would also result in higher access charges. So even though I understand the miners are undergoing some particular pressure with take or pay at the moment there is a fundamental financial structure that underpins the viability not just of the rail network but of the mines and the port infrastructure in Queensland.

Let's talk about the regulated asset base or RAB. As you can see, the RAB has almost doubled since the IPO. This is partly due to the number of major projects coming online - and Pam will talk to you about those - but you've already noted that Clay has talked about the size of capital investment around asset renewals that we also have in the CQCN and this also has driven a large part of the RAB price.

Each year we make a submission to the Queensland Competition Authority that seeks to have the RAB increased by the value of the CapEx work we've undertaken in that year. The QCA reviews the claim, they will get expert advice, they will have auditors come in to our business and review our processes and they will also send it out for stakeholder comments. The QCA will assess whether or not our capital expenditure in that particular year was prudent and that the scope of work was prudent.

If it is demonstrated that we have not operated prudently we run the risk of not having the full value of the claim included in the RAB. This is a risk to us and there is an alternative approach that is currently in use under UT3 and will be in use in UT4, which allows the customers to vote, which effectively will preapprove our claim.

How do we fund the RAB? Under UT3 and what is proposed for UT4 Aurizon Network funds asset renewals at the regulated WACC. In terms of expansion processes, expansion projects, there are three main ways this can be funded. Firstly, Network can elect to fund investment at the regulated return. Assuming that Lance and Alex are able to get Board

approval for these sizeable projects we would declare early on in the process that this would be a regulator return project.

Secondly - and this is an example of GAPE and WIRP - Network can opt to fund a commercial return in exchange for taking on more risk, such as construction cost and timing, a ramp up risk and if we're really bullish potentially even longer term volume risk but clearly we'd be wanting a much higher rate of return for those types of projects.

However, there is one major issue with Network undertaking commercial terms in the eyes of our miners. We are the only game in town in terms of expansion, so they believe that there's an opportunity for us to extract too high a return in exchange for too low a risk for commercially funded projects. So the solution to this is to develop what's known as a user funding agreement. We're currently working with the Queensland Competition Authority in industry to develop a standard user funding agreement. This is known as SUFA. The SUFA would act as a template for user funding arrangements in future. SUFA also importantly allowed the third party financing, so it's not just the mines or the access right holders that would be funding it, but potentially other parties could seek to invest within the network.

User funders do not own the asset that's developed but instead they obtain the rights to receive the cash flows from those assets in relation to the WACC and depreciation allowances. Network would continue to receive the operating and maintenance allowances for those assets.

SUFA also has one important feature - the QCA is looking to implement a preapproval process for SUFA projects. This process will ensure that funders have the certainty of a CapEx spend for their project, ensure that that asset gets placed into the RAB in advance and also have an idea around the timing of when that asset will go into the RAB. This is important because no cash flow will originate in relation to WACC or depreciation until the asset has been commissioned and moved into the RAB. Clearly this is a benefit I'd like to obtain for Network-funded projects and I'm working with the QCA to extend the preapproval process to cover all projects.

This is what occupies 90% of my waking time, UT4. Okay, UT4 was lodged in April 2013 and my expectation is this will be resolved by close of June 2015. I'd like to note though UT1 took three years to develop, so clearly there is some improvement in timing, however, I think there is a lot of scope for improvement moving forward.

In the last eight months - sorry, the last 12 months - we have been focused on working very closely with the QCA. Just in terms of managing the logistics of developing and approving an undertaking we have regular timetabled meetings and this ensures that our expectations of when the QCA will make decisions and the QCA's expectations around what information we provide to them are met and are understood well in advance.

You may note that we resubmitted UT4 earlier this year. This was because we have been working extensively with industry, particularly the Queensland Resources Council or the QRC in terms of their concerns around UT4. We were able to agree a large number of changes requested by the QRC. Because the QCA needs to approve a decision based on a submission made by Aurizon they would have had to have made a decision on our April 2013 submission.

It made sense that we provided the QCA with a more refreshed, up to date view of the undertaking as negotiated with the industry and we resubmitted this early this year. We did this in conjunction with the QRC, the QCA and the above rail operators, so there were no surprises when we resubmitted UT4.

Furthermore, in parallel to all the formal processes in relation to the undertaking we have been negotiating extensively, particularly with the Queensland Resources Council on a number of parts of UT4 and have reached agreement on substantial parts of the undertaking. This negotiation has both been productive and helpful for both parties in sitting in a room together for hours at a time has definitely given us both an insight into each other's incentives and motivations.

The most recent Queensland Resources Council submission to the QCA they were able to provide a number of mark ups and changes that they would like to see to the undertaking. But we had already agreed these in advance with the QRC and were able to provide a supporting submission showing the extent of agreement between us and industry.

Our next step. I'm going to have a very busy Christmas. I'm expecting a SUFA decision in the next couple of weeks. The QCA will be publishing a policy paper which will cover all the remaining elements of the undertaking apart from the maximum allowable revenue and this includes the break-up of the tariff components for users. This will be delivered before Christmas. The QCA will be making a final decision in February/March - on SUFA in February or March, the QCA will make a final decision on UT4 in May. Then to have the undertaking actually approved we need to turn around a new set of drafting that reflects

the requirements of the QCA's final decision. We expect us to turn that draft around, have it back to the QCA and out for consultation within a month. So hopefully, fingers crossed, this will all be done by June 2015.

On 30 September the QCA issued a draft decision in relation to the maximum allowable revenue for Aurizon Network. There were 300 pages excluding the special reports attached. So if anyone wants more detail I'm happy to send you a web link.

I'm not going to talk through the specific numbers on the slide but instead will make a few key points. There is a lower WACC, firstly, as Alex noted. We have increased our RAB by over 30% on average from UT3 to UT4 and we're raling approximately 30% more tonnes. Our increase on tariff from UT3 to UT4 is around 13%. So clearly we are delivering more, we've got a larger asset to maintain and so there is obviously an increase in the tariff required.

In relation to WACC yes, this is a lower WACC relative to UT3. This is mainly driven by the decrease in risk free rate between the two regulatory periods. However, the QCA did increase the market risk premium from 6% to 6.5% and also decreased the gamma from 0.5 to 0.47 and these are both positive movements for Aurizon.

The QCA has requested specifically more information on the build-up of our maintenance costs in relation to ballast undercutting. This was not a surprise to us. As you have seen from Clay's presentation the amount of transformational change particularly in this area has been remarkable and our understanding of what our efficient costs are has changed from when we originally lodged the original submission. So we're working with the QCA to improve their knowledge and understanding of those maintenance costs.

The MAR decision also asked for a change to our capitalisation policy for rail renewals in UT4 and potentially capitalisation of ballast undercutting to UT5. Again, this was not a surprise to us and we've been working with the QCA on transitional arrangements to ensure we can move from operating allowance to capitalisation with ease.

The operating allowance represented a material increase over the UT3 allowance. It is our belief that the UT3 allowance was a major under recovery and we feel that the increase in allowance more truly represents our actual operating cost.

It's also worthwhile noting that our operating allowance includes traction costs. The traction cost is the direct electricity cost that the electric trains consume. It is much easier

for Network to procure electricity for all the trains and pass through the cost to rail operators as opposed to the rail operators individually procuring electricity via the grid.

By contrast, rail operators procure their own diesel. We're working on a response to the MAR decision and we hope to lodge this with the QCA just before Christmas. Now what occupies the remaining 10% of my waking hours is beyond UT4. Whilst by nature these processes can be time-consuming there is plenty of scope to move to a modern and possibly cutting edge regulatory process. In the near term my main focus is to continue and strengthen the engagement with our key stakeholders - this is the Queensland Resources Council, the miners, the above rail operators and the regulator.

A key requirement for us to be effective in this space is to engage and operate from a more transparent information process. We have already commenced a process with the Queensland Resources Council to improve the transparency around how we build up the scope and cost for maintenance. This has been largely done without a firm direction from the QCA but on our own initiative because this is what our customers are asking us for. In the longer term we can also include this or expand to include the operating allowance.

In parallel to the strength, engagement and open information processes I'd like to continue we'd also like to improve rail regulatory reform within Queensland that benefits all parties of CQCN. One example of this is to implement a mechanism to facilitate short-term transfers. What this means is that if a miner, for example, will not be utilising a train path they can swap that train path with either another mine in their own portfolio or another mining company. What this will do, it will mean the train path is effectively counted as a consumed train path for take or pay purposes, thus reducing take or pay liability. But it will also reduce the underutilisation of train paths within the network and provide greater flexibility for both miners who operate with a portfolio and for miners who are able to swap paths between different mining companies.

I'd also like to review take or pay. I think there is plenty of scope for incremental reform around take or pay contracts. The differences of on UT1 access holder and a UT3 access holder for take or pay does create distortions within the market. Also if there is no socialisation - if somebody wants to relinquish a train path and there is no socialisation impact that occurs then I think they should be able to relinquish the train path. An example of this is if we run a longer, faster train that carries more tonnes and we only need to consume three train paths instead of four, the fourth path should be able to be

given up at no cost if it can be demonstrated that the amount of tonnes is effectively equivalent. This will allow that unused train path to be given to somebody else and sold to somebody else, reducing overall access charges.

The tariff structure within Central Queensland Coal Network has remained unchanged since UT1. It has never been reviewed and I think that it is time to review the tariff structure but obviously this will be done in full consultation with industry and the QCA.

Longer term, as Alex has alluded to, there is plenty of scope for longer-term risk/reward incentive mechanisms, especially around how we deliver our maintenance activities.

So UT4 will hopefully be done and dusted by June 2015 and then I need to get started on UT5. There are a number of different options that I am considering to progress this forward and none of these requires legislative change, just a change of approach in mindset. In all cases a greater consultation with industry and above rail operators is required before we lodge the undertaking.

I want to focus on a greater alignment of stakeholder needs bearing in mind that our stakeholders quite often have very different needs not just from us but from each other but also to work closely with industry and the QCA to streamline the process and to reduce what I call the regulatory hump or the regulatory burden. We are no longer a government owned corporation. We are a modern, integrated organisation and the onus is on us to challenge the status quo and the regulatory process. We need to move beyond the submit, respond model that has been used for many years and by many industries. We need to move towards a genuinely commercially focused process that provides win-win benefits for Network but also for our customers.

That's all I have to say and I'd like to hand you over to Pam Bains. Thank you.

Pam Bains: Good morning everyone. It's nice to see so many of you here today. I'm Pam Bains. I look after Network finance. Today I'm going to cover briefly capital expenditure in the Network business and also touch on the Wiggins Island Rail Project.

Okay, so start with capital expenditure. The first tale on the screen highlights the key growth projects that have been delivered or are in the process of being delivered by the Network business. So just a quick reminder of these key projects. Firstly GAPE, Goonyella Abbott Point Expansion. This was Network's largest infrastructure investment in the Central Queensland Coal Network and involved the construction of 69 kilometres of greenfield track. Essentially, the northern missing link between our Goonyella system and our

Newlands Coal system. This came at a cost of approximately \$1.1 billion. This increased the capacity from the Bowen Basin by 33 million tonnes. The project was delivered at a cost of \$1.1 billion and delivered late 2011, on time and on budget.

Next we have WIRP, the Wiggins Island Rail Project. This is a project at a cost of \$860 million. The project is designed to link the mines in the southern Bowen Basin to the port WICET, Wiggins Island Coal Export Terminal at the port of Gladstone. Works commenced on WIRP in 2012 and are set to deliver in 2015. I'll talk a little bit more about WIRP in a few months but suffice to say the project is running on track and running on budget.

So then we have the Hay Point expansion. The expansion for Hay Point essentially increases the capacity of the Goonyella coal system from 129 million tonnes to 140 million tonnes. The project has increased capacity to align with the Hay Point coal terminal expansion. Although the terminal expansion has been delayed to September 2015 all Aurizon Network works have been completed and essentially purely awaiting the connection of the feeder station by power link. The project again is running on time and currently under budget.

Finally, we have Rolleston Electrification. For those of you who don't know, Rolleston is the line that feeds up to the Blackwater system across to RG Tanna Port. Essentially the scope of works for this project involved electrification of 107 kilometres of track on the Rolleston Mine, to support the growth of tonnes from the Rolleston Mine for Glencore. This project harnesses the operational efficiencies and cost benefits of operating high capacity electric trains. Again, the project is expected to be completed by the end of this calendar year and is currently running to time and under budget.

So I guess the key point to note on all of these growth projects, the engineering and project delivery team who used to sit as part of the Network business, and following the move to the functional model transferred across to Aurizon Operations, were absolutely instrumental in delivering these projects. They have a great track record. The team delivered these significant projects in years where we saw major improvements in safety performance. In years where we saw significant flood events. Also in years where we railed record volumes across the Central Queensland Coal Network, whilst ensuring day to day operations continued.

The project team delivered through disciplined project management processes and systems, hence ensuring the impact on Operations is minimised, as I mentioned.

It is also important to remember that delivering these projects under budget essentially means that any cost savings are fed back through to our customers directly in the form of reduced RAB values and hence reduced tariffs. Hence ensuring competitiveness of the supply chain.

So also it should be noted that the engineering and project delivery team will be involved in projects in the future such as the West Pilbara Lance talked about and also the Galilee.

The table at the bottom of the slide highlights the split between growth CapEx and sustaining CapEx. Following delivery of the three key growth projects this year, essentially Rolleston, Hay Point and the Wiggins Island Rail Project, there are currently no committed growth projects in the Network business. So what we will have as capital expenditure is sustaining CapEx for Network. So what does sustaining CapEx include? Broadly three key areas. Firstly, asset renewals - and Clay touched on, in his presentation, where assets are life expired on the network. So this includes replacing culverts, replacing turnouts, rail, structures.

Then we have another category around replacing our yellow machines - the big yellow kit, again, Clay referred to. So when Clay butts regulators, tampers, ballast cleaning machines. Then as you will appreciate we also have ballast undercutting, which is capitalised.

This sustaining CapEx does not include rail renewals which you may have heard of through the regulator's decision.

Sorry, wrong way. Okay. So let's talk a bit about WIRP. WIRP, I guess WICET in itself is a major infrastructure investment, the project involving the construction of a new coal terminal. As I mentioned. WIRP is the vital link between mines in the southern Bowen Basin and the terminal, increasing capacity by 27 million tonnes across the network.

Overall, WIRP will cost approximately \$860 million and will increase the current RAB value by 20%, hence increasing returns and EBIT in the coming years, so providing a return on such a significant investment.

The scope of works for WIRP is divided into multiple segments, as shown on the map on the left hand side of the screen. The orange boxes represent the different segments. Not easy to see on the map but I will talk about these on the next slide.

As you can see, the investment results in upgraded infrastructure across both the Blackwater, the top line, and the Moura systems, the bottom line. You probably heard

about delays in the WICET commissioning date. Aurizon Network as a result has worked with the customers to agree revised delivery date for the segments. The table on the right highlights the key eight foundation customers, their respective mines and the tonnes they expect to rail. I'm sure there will be a few questions on these key customers later on.

So the table highlights, as I mentioned, the segments which I mention highly integrated into the existing mainline infrastructure. It should be noted that over 70% of WIRP infrastructure will be used by existing and new Blackwater and Moura customers, hence reducing the asset stranding risk. 94% of WIRP infrastructure is multiuser with only 6% being single user. WIRP consists of multiple segments, as you can see, but just to touch on a couple. Construction of the Wiggins Island Balloon Loop. This was commissioned earlier this year. I understand you will get the opportunity to see the balloon loop tomorrow and it is very impressive. Moura system upgrades. This includes formation strengthening. Moura East was completed last year and Moura West we expect to be finalised next year.

Segment four is a critical segment to all users. Not only is it the most expensive segment relative to the other segments, this essentially includes seven single line sections of the Blackwater system that are being duplicated as part of the scope of works for WIRP. So the completion of the duplications will provide operational efficiencies to both new and existing access holders in the supply chain. In fact some of the infrastructure is actually currently being used and Clay can talk about - that we are already seeing improvements in operational performance as a result of these duplications.

Finally we come to WIRP returns. WIRP returns. Returns for WIRP comprise two key elements. We have regulatory returns and above regulatory returns, also known as the WIRP fee. Regulatory returns are by far the largest component of revenue for WIRP. They are recovered under the normal access agreements, have the normal revenue protection mechanisms such as take or pay and revenue cap and will be built up on the normal building blocks. Lana touched on these elements.

A significant proportion of capital expenditure for WIRP is mainline upgrades for both new and existing customers. Based on contracted ramp up volumes socialisation of WIRP infrastructure will reduce tariffs for all customers, hence this is the proposal for pricing we have put forward as part of UT4. The project will be complete in FY15 and start depreciating. However, earnings will not commence until FY16. We expect WIRP contracted railings to fully ramp up in FY17.

Subject to QCA approval WIRP capital expenditure will be submitted for inclusion in the RAB in FY16.

So WIRP fee. Because WIRP was a major investment, over \$300 million in Central Queensland, we negotiated separate commercial arrangements with our eight foundation customers.

So why did we set up these arrangements? Our customers wanted reassurance. They wanted certainty and they wanted confidence that we could deliver what we said we would deliver. That we would deliver to the timescales they wanted us to deliver and also at a cost we all agreed. So hence we entered into the work deeds. These additional fees compensate us for additional risks associated with construction and capacity. So additional risk for additional return. This does mean we have an incentive to deliver on time and under budget. Our failure to achieve the key milestone dates on time and on budget will reduce the fee payable, as you can see on the graph on the bottom right hand side. Each month of delay reduces the fee payable.

However, delivering under budget also gives the business an opportunity to increase the fee payable and the fee is retested every year, hence the fee is not subject to volumes and will be payable 50% in FY16 and 100% in FY17 onwards and is payable over a period of 19.5 years after the first milestone date.

We also have appropriate security mechanisms in place, given that the work fee does not have the same revenue protection mechanisms as regulated revenue.

So just a reminder, WIRP regulatory revenue is by far the largest component of revenue for WIRP.

So in closing I'd like to say WIRP is a fantastic opportunity for the business and Central Queensland. I'm sure you will appreciate the size and scale of the project when you visit tomorrow and you see the terminal and the balloon loop.

Thank you for listening. I'll hand you over to Mike Franczak who will talk about above rail operations.

Mike Franczak: Thanks Pam and good morning everyone. Greta to see you all here again today. Just a comment about Clay, Pam and Lana's presentations in particular. I guess just a comment about the degree of excitement that creates for us in Operations. The benefits that are going to be created don't just benefit the Network business; they have a huge

multiplier benefit when we look at the above rail operation. Coupled with some of the improvements I'm going to talk about creates a real virtuous cycle where we move beyond just the simple sum of the improvements into more of a multiplier effect that drives even better returns and margins in future.

So what I'd like to do this morning just by way of presentation I'd like to start with this slide and set some context for you in terms of the transformation journey and operations. Where we've been and where we're going to drive further improvements in both margins and returns.

Now many of you will recall at our investor day in Sydney last year that I spoke to many of the items in the upper left hand part of this chart that we're going to begin to take us to successively lower operating ratios and higher returns on invested capital. I spoke to organisational changes, the culture of continuous improvement which Lance touched on, the integrated operating plan, our business model and the elements of our cost out story. Of course, these things are going to continue to drive and deliver value in the coming years, improving margins and returns to further reach the targets that we've already announced. They will continue to underpin our journey.

But a culture of continuous improvement also means that we're continuously looking for ways to make the business better. So through late last calendar year and into early this year as we got traction on our IOP, the other changes that we have underway and got deeper and deeper into our business. We began to identify and proof up some game changing opportunities, like the North American railroads that will take us beyond the near term targets of the low 70%s for OR and low teens for ROIC. These are the items that we identified as the drivers for additional capital at our year-end results.

It's important to note that in this space in many respects we are leveraging work that has already begun in North America and put our own unique spin on it, ensuring we can extract full value. But to be clear, the incremental capital we are targeting against these opportunities will meet or exceed the requisite hurdle rates and drive further improvements in margin and returns.

The items in orange on this chart, the freight management transformation, the fleet upgrades, fuel and operating technologies and terminal upgrades are some of the next plays in our transformational or continuous improvement handbook. They do not replace the other non-capital approaches. These will always be there and will always continue. But

like the class 1s, the targeted capital in IT and other operational technologies with the requisite margin enhancement and returns is part of the improvement journey.

Today I'd like to focus on those opportunities to give you more insight into what they are and how they'll add value to our business. With me today in the back - you'll have an opportunity to meet them at the break - we have Pat O'Donnell, who is my Vice President of Rolling Stock Maintenance, Chris Gregg who's the Vice President of Service Delivery for Freight, Ed McKeiver, Vice President of Coal Service Delivery. Scott Riedel, VP Program Delivery, who's helping Clay with a lot of the stuff that he spoke to you about and, of course, Louise Collins, who's the VP of Operations Planning, who helps us pull a lot of the design and execution of this together.

So please feel free to engage them at the end of the session and Louise will also be with you tomorrow in Rockhampton and, of course, available to interact with you on any of our specific transformation programs or how the network and operational programs align and interact.

Now taking a look at the capital spend, over the next three years, as we've noted previously, we're targeting just over \$1 billion in capital spend. Roughly \$300 million in what I'll call transformational capital, \$500 million for renewal and \$300 million for growth. The transformation capital, which will be the main topic I'll cover today in detail, is expected to generate an annualised run rate of benefits of some \$60 million per year with an average payback within five years.

Well, before I get into the details of those let me just context this overall Operations capital spend. I look at it really in terms of three major components. Starting on the right, growth. This is in my mind pretty straight forward, but as we do come across material growth opportunities it is sometimes necessary to acquire the requisite kit to take advantage of the opportunity. These investments, of course, are made on a commercial basis with the requisite returns.

Fleet acquisitions that we're making in the Hunter Valley for Whitehaven tonnes for example is a classic example of what I would call growth capital.

In the middle area we have what I call renewal capital. There's an A and a B version of this. One is basic, a like-for-like replacement of end of life assets, with no material change in the characteristics of that asset in terms of its basic performance. This is what I would

call just keeping the lights on type capital investment. Necessary. Part of what we need to do in our business. But no material improvement in performance.

The other renewal category is where we choose to upgrade our choices in renewal and acquire an asset that is capable of delivering materially improved performance over the asset being replaced, thereby delivering much improved returns. One example of this is the acquisition of AC electric locomotives, which we have in our plan in the [out] years. These can replace DC electrics on a three for five basis. They're also far more reliable and far more maintenance efficient.

Likewise, you'll see that the replacement of expensive leases that are inherently inefficient and costly with less expensive, more efficient kit will enable us to further improve returns and margins and offer further opportunities for growth in this space.

Last but not least is what I call transformational capital. This is a capital of a discretionary nature but which is game changing in terms of the way we work and drives significant improvements in margins and returns. This is where I now want to spend the balance of my presentation.

Let me start first with this slide - and I apologise, it is a little busy. The spaghetti diagrams on the left, I think, give you an indication of a current state, which is very messy, and a cleaned-up, revised state, or future state. But this outlines the key elements of how we're re-engineering our core business and standardising what I call our contract to cash business by implementing cutting-edge but proven SAP technology. This is what we call our freight management transformation, or FMT.

We're replacing 18 legacy systems that do not communicate with one another, are not well supported, are not entirely reliable and in some cases are as old as 25 years. Leveraging the experience of the North American railroads who've gone before us in this space, we intend to drive a streamlined order to execution capability across our business. For this effort, we've in fact employed the very same people who have helped implement this approach in North America, helping those railroads improve their margins and retuned.

The key components of this approach involve real-time reporting to metrics, activities, a simplified approach for our customers to see our service offering, place their orders and settle their bills. It will drive material improvements in contract yields and asset and labour performance. The multiyear rollout, the work and planning has already begun but out first implementation will be in the north-west in the May of next year, completing the

entire national footprint in 2016. This initiative has a rigorous governance of process attached to it and the support and the attention of the entire enterprise.

Now I've spoken to opportunities about energy consumption before so I won't spend a lot of time here other than to say that while we'll continue to improve in this space through better train design, fleet rationalisation and improved fuel management protocols that helped us drive a 10% improvement over the last few years, like many of the class 1s we will be leveraging technology more fully to drive further opportunity to get closer to the class 1 levels. There are a few key areas that we are pursuing. You see them here on the grey bars.

But if I flip forward, just to give you a little more detail - which I won't go through - four key areas include driver assist systems, which is a form of cruise control for drivers, automatic equipment stop start, or AESS, which shuts down idling locomotives automatically but will restart them should the engine block's temperature fall below a certain level, or the battery charge drops. Fuel link will give us live feeds to both locomotive and driver performance. Our locomotive block upgrades reflect changes for software and hardware that will further enhance fleet fuel performance.

In the rolling stop maintenance world, we've already spoken before about the changes we're making, driven by fleet rationalisation and standardisation. These of course include our facilities rationalisation, harmonising and improving our maintenance policies and practices and reducing materials and labour. Of course continuing to improve the reliability and availability of the fleets through things like in-train repair and those improved policies and practices.

But we intend to go a lot farther. As we considered our facilities rationalisation in Queensland, we saw a further opportunity to rationalise our three wheel shops to one, but in doing so, not just replicate the same old wheel shop technology but to choose to make an investment to upgrade. Like buying a motorcycle as opposed to replacing your bicycle. This technology will deliver materially improved costs and production rates as noted on the slide.

Additionally, we intend to go a lot harder and faster in implementing our wayside condition monitoring technology and software. Our trials to date have been very successful, allowing us to change our inspection intervals in one of our coal systems from 42 days to 21, freeing up capacity, reducing expenses and improving productivity. This is technology

that allows us to transform our workforce from what I call changing them from finders to fixers. The maintenance regime changes from a reactive prescription - prescriptive maintenance regime to one that is truly predictive and condition-based.

Akin to the approach that our network colleagues are taking, we can drive this approach to our above-rail assets as well, in terms of reducing variability - or improving variability, safety, service, capacity and productivity. In a [closed-coal] system like ours, where the equipment is largely captive, we're going to be able to do some things that others can't do. Let's take a look - and if the technology holds up - here we go.

This cartoon or graphic is a shot of our wayside sites. I won't go through all the bits and pieces but this is equipment that allows us to look at the moving parts and the fixed parts of many of our wagons and locomotives and, as you'll see here, as the train comes through at track speed, these sensors will light up and allow us to take a look at all of the critical parts of the locomotives and wagons; wheels, bogeys, wagon bodies, axels and so forth. You can see the sensors coming on and starting to take a look at all of the moving pieces so to speak.

The readings that these monitors, or conditioned monitors will be able to send us in real time, within seconds, it will be sent ahead to the maintenance people who can act on a plan basis to affect repairs or arranged planned change-outs. This is game changing stuff. What you saw is a train that gets inspected in a matter of tens of seconds or a minute, or two at most, versus three to four to five hours in a rail yard. So imagine the lifts in capacity, imagine the improvements in safety when we can leverage this kind of technology, this speed, and be - completely re-engineer our work processes.

This next slide really just gives you a little bit more detail in terms of how we work today and what will change in the future. I'm not going to cover this other than to say that the technology will allow us to dramatically re-engineer the way we work and drive material improvements in variability, service, safety, productivity and capacity and, of course, expense. This is one of those game-changing technologies that ticks all of the boxes. To reinforce this, you can expect us to - you can expect to see us continuing the rolling stock journey as outlined by some key metrics such as maintenance cost per NTK, FTEs and the availability and reliability of the fleets. I'm expecting a lot more in this space in the coming few years.

In our IOP work, we've already made material changes in our operating plan; making it less variable, building longer, faster, heavier trains and reducing crew and asset requirements. We've also now identified opportunities to rationalise and invest in our terminal footprint to drive further improvements in margins and returns. Our case in point is in Townsville where, as part of our IOP and rolling stock maintenance initiatives, we've identified an opportunity to close South Townsville yard.

To enable the transfer of those activities to Stuart yard, which is the top one in the map, for a relatively modest incremental capital spend over what we would have spent as renewal capital to keep the lights on in South Townsville, we will upgrade Stuart yard, enabling the disposal of South Townsville and significant improvements in labour and asset productivity and service. This isn't just about doing more of the same, it's about building radically different capability to drive better margins and returns.

As I wrap up with my second-last slide, I wanted to leave you with maybe a more fulsome example of where all these initiatives work in unison to continue to improve the margins and returns on our business. Yesterday, we introduced a radically new integrated operating plan for our intermodal business. It started yesterday, in fact, with services, hopefully, fully subscribed and full, which is great to see. It creates material improvements in transit times and capacity, with fewer assets and no material increase in costs. It is an exciting opportunity for us and there's more to come as the service - as we continue to enhance the service and reduce the unit costs.

But in addition to these IOP changes, the business will continue to be enhanced by all of the things that I've just spoken to you about; FMT, the rolling stock maintenance changes and the fuel and terminal changes that we're making. It is truly and integrated approach to driving enhanced margins and returns.

So as I wrap up, I wanted to come back to one of my favourite topics, the fleets. The key point here is that as we continue to drive the IOP, fleet standardisation, modernisation and all of the other improvements I noted here today, we will in fact continue to lower our fleet renewal needs below the level of attrition. This is a great example of how we generate improved returns in the business.

So, in wrapping up, I want to reiterate that operations is on track to deliver its targets to driving to our margins and returns and that we're going to continue to identify and deliver

further improvements in margins and returns through smart, targeted capital and non-capital means in the coming years.

With that, I will wrap.

Chris.

Chris Vagg: Right, thank you everyone for your attention. We're going to go straight into Q&A now so I'm going to get Lance, Keith, Alex and Mike to sit up here on the stage, but we do have a mic here. So if there's questions for our other presenters then feel free to - just wait a second to get everyone all organised. Obviously, if you want to ask a question, please raise your hand. We've got a couple of mics coming around. Go for it.

Simon Mitchell: (UBS, Analyst) Hi, Simon Mitchell from UBS. Just a question on the network, Alex. The slide 22, you've got there theoretical capacity, contracted and actual. It looks like theoretical's about 270 million tonnes and contracted about 255. So that delta there of 5%, is that what you're seeking to try and close - partly close over time with these improvements you've discussed today? Or is it actually you're trying to increase the actual up to the contracted more. Because that probably relates more to demand, doesn't it?

Alex Kummant: Yeah, look, first let me say there are a number of figures we've talked about in the past. One of them gets to about - and I look to my team, that theoretically we can get to 300 or 308 million. You have to recall that there is an overall iron in the ground kind of look at that and then there's a day of execution. The other thing - sorry, I'm winding up a little bit, I'll get to your question - the other point is that a network, to some degree, the way it operates is somewhat of a living animal. So you cannot at any point in time necessarily say, X is the capacity, that's always evolving depending on where the demand comes from, what the ports are doing.

So long story short, we are - we continue to build the capability in order to expand day-to-day capacity and in fact reduce variability. We would argue that we essentially have in the ground a capacity that can handle, today, easily the contracted tonnage. You can really go down a rabbit hole and have long debates what the actual, hard, theoretical capacity is because the boundary conditions for that effectively change every day. So I'd invite anyone from my team or Mike, you guys work this a lot as well, how to give a more expansive answer. Clay, feel free to jump in as well, if we can get you a mic.

Unidentified Company Representative: [Unclear].

Alex Kummant: Yeah Simon.

Unidentified Company Representative: [Unclear] mic.

Alex Kummant: Simon is our Vice President of Commercial. Yes.

Simon Smart: Thanks Alex, and Simon for the question. So as Alex says, the capacity in the network is in a changing state of flux. But the way we value that capacity at the moment or analyse that capacity is we've got Hay Point expansion which Pam spoke about earlier on, of about 11 million tonnes coming online. There's a WICET expansion of 27 million tonnes which is coming online. So when that all comes online, we will have, based on the way we currently work out our capacity, 308 million tonnes' worth of capacity available.

The difference between the 255 and the numbers you're seeing on the charts is largely because of contracts which have been put in place with access holders but which have not - which are still to start in terms of riling tonnes. There's a chunk of those, for instance, with - gate tonnes, where we upgraded to the 50 million tonnes and currently some of the access holders don't start riling those tonnes until 2016, 2017, for example.

Simon Mitchell: (UBS, Analyst) Thanks, and just a follow up to that. Under the regulated system, how does Aurizon Network benefit from increased utilisation, apart from being a good network manager?

Alex Kummant: Well, look, you know how the numbers stack up. We are under a fixed revenue sort of system. At the end of the day, my view is that we ultimately benefit by customers that want to do more and more business with us. That's going to mean other commercial opportunities, that's going to mean UT5 evolution. You can strictly say that on a year-to-year basis, when you have a fixed revenue available, yeah, you could sit and do nothing. But that really doesn't make a whole lot of sense.

The other point is that the smoother, the better we operate, you're going to see flow-through effects from above rail every time. There are just no brainers that we will continue to do really from our North American background. I'll even answer the question before you ask it; you'll say, okay APEX advance planning and scheduling pace, why bother doing that if you get a 7% return on it? Well the really is that we get well north of 15%, 20% returns on all of those on a flow-through basis.

So I think we will always benefit for it. In a very strict sense, if you say let's for the moment, play the game exactly as it's designed. That means you have a four-year window, moment the starting gun goes off, let's for the moment say we had an undertaking signed on exactly the right day and we had all kinds of cost savings queued up that we very carefully managed and then immediately took step-function cost savings, in theory you could say you compete with the regulator to launch cost savings after they have made their maximum allowable revenue determination and then for four years you get benefits. Then after four years, they sweep that off the table and you start it again. That's not as crazy as it actually sounds if you've ever run, say, an industrial products company where you essentially renew your entire product suite every four or five years and you're competing with an entire market. You sort of do that as well. But I think that our opportunities to continue driving performance go well beyond that.

Matt: Lance, it's Matt from Merrill's. Hi. Can I just take you to the [EBA]? So you're at the Fair Work Commission first two weeks of November; when do you think you'll get a ruling on that?

Lance Hockridge: Steve-o, why don't you - given how pretty you look today...

John Stephens: Thanks very much. Maybe you can hear me. In terms of the expectation of the timeline, it's at least a two-week hearing on evidence and submissions. Typically, the Fair Work Commission will then take and opine for a couple of months before they register a decision based on all that material. So we wouldn't expect - with the Christmas break, you wouldn't expect a decision from Fair Work until late January, February at the earliest.

Matt: John, if I can just follow up on that...

John Stephens: Yeah, sure.

Matt: So if we take that to the end of Jan, whenever, and the decision is not to set aside the terms of the EBA, do you - is there formal arbitration, is it mediation? What do you hope for from that?

John Stephens: Yeah, it's a good question. The - it's likely that whether the Fair Work make a decision in our favour then that would be implemented immediately by us. Alternatively, if it's not in our favour, we'd obviously canvas the decision very quickly to see what we'd need to do to change and go back for a second application. But in the

meantime, negotiations continue. In fact, they're continuing as we speak and this application no doubt puts pressure on the unions to do what they - we think they should do, in other words capitulate on a number of those iconic conditions like no forced redundancy and so on. There's no doubt this application is helping us in that cause.

Ian Myles: Ian Myles. Just back on the capacity of the system, looking at it slightly differently, you've got coal loaders there who've got natural constraints as well. Why are the miners happy to support you to do this, spend a fair bit of money on this upgrading if you can't actually get use out of those extra 1000 [piles] that you're actually talking about?

Alex Kummant: Well because they know that at the end of the day, the iron in the ground has to be there. It's a *sune qua non*, so you - look, you always do a lot of analysis upfront and you try to consider all these issues. You go through a period, economics change, construction changes, but I still think that fundamentally they understand, ultimately, for a functioning WICET, you're going to need this capacity. So it's - you do it with the best precision you can. They vote on this, they agree to this. These are either regulatory processes where everyone has voted or they are commercial agreements where we have agreed with them. A tremendous amount of work goes in upfront on doing the best you can to assess the iron in the ground capacity.

Ian Myles: You make comment in some of the presentations, you've actually implemented some of the expansions and the products in the ground. Are you actually getting any revenue on those expansions and the widenings already or are you just sitting there and it's effectively - existing operators are getting a bit of a free run until the WIRPs or the XPXs are actually opened up and running?

Alex Kummant: Well it will ultimately roll into the RAB, I think there's truth to that, but I wouldn't call it necessarily a free run. Because it's good for everybody. When you look at the duplications in the Blackwater, Mike can tell you, he's very happy to have that running and any place you've got single track on your network, that's a liability. We're all happy it's there. Actually everyone is benefiting from it. So I don't really think there's a notion of a free or it's - everyone's benefitting from increased fluidity. With the market trying to pump every single tonne they can to the ports, I think they're just saying, thank goodness it's there.

Ian Myles: Lance, you talked about West Pilbara, how much is the feasibility actually going to cost Aurizon? So how much do you have to capitalise to actually get that project to a final 15 - plus or minus 15%?

Lance Hockridge: Order of magnitude about \$80 million.

Ian Myles: Okay, thanks.

Scott Ryall: (CLSA, Analyst) Hi there. Scott Ryall, CLSA. John, this is probably going to be handed to you, but I think just from Lance's obviously - obvious frustration with industrial relations laws, I think most CEOs would agree, Lance, that it comes down to the circuit breaker at the end of the day and the lack thereof. In this case, arbitration's the obvious circuit breaker unless the Fair Work Commission comes through for you. How do you force it into arbitration?

John Stephens: Again, that's a good question. Frankly, the obvious way to have this matter arbitrated is for either party - and in this case, the only party initially that can take industrial action. So if they take industrial action, we respond, then the Fair Work Commission have the authority, both on behalf of the customer, an impacted customer, or ourselves to apply the Fair Work and to have the matter arbitrated. Now, that's not, again, a quick thing. However, to answer your question succinctly, industrial action is a key mechanism to have this matter arbitrated.

Please remember we have actually asked all parties, the Fair Work Commission and the unions for this matter to be arbitrated a number of times and we're willing to accept the umpire's decision in this course. But the unions have refused on each occasion. Now, even with this matter going to the full bench, it may be they make a recommendation that the both parties accept the decision again. So we will wait and see if they make any passing comments on that question at the time of the termination of the application.

Scott Ryall: (CLSA, Analyst) Thanks, and a follow up for Alex. With all the presentations around improving systems and improving performance of the network, can you foresee in - call it three to five years, that you guys are coordinating something not dissimilar to the Hunter Valley Coal Chain in the sense of end-to-end visibility around coal flows and everything that involves the miner, the port, the above rail, below rail?

Alex Kummant: Well I'll answer it this way. I think we've actually demonstrated with the tonnages we've moved and in fact recent DBCT records - and Clay, correct me if I'm wrong here - that a lot of awfully good things are happening in that space already. We certainly

think the challenges particularly in the Goonyella are a bit different than Hunter Valley. We think it's highly possible that through commercial structures - and I alluded to this, call it Lana's post-UT4 formulation - are there ways we can drive variability out of the whole system which in fact is also visibility, going to the producers and saying, let's talk about your mine load out processes, going to the ports and saying, let's make constraints more visible here.

It's not clear to me at all that we can't continue moving down the path that we're moving. Some of that can be commercial, some of that can be how we all work. We need to remember, too, look, we're just four years out of float here. So we're still rapidly evolving and inventing this business, relationships are still maturing on both sides of this. So I think the best is yet to come I think there's a lot that can still happen in terms of overall fluidity.

Scott Ryall: (CLSA, Analyst) Thanks.

Anthony Moulder: (Citigroup, Analyst) Anthony Moulder from Citigroup. Just if I start with the network, is there still a process, the CRIMP process that goes to the customers to get their engagement on the size of network going forward?

Alex Kummant: Well there's certainly a CRIMP process through UT3 that a number of the major projects went through. I have to look at Lana and Pam if UT4 is equally CRIMPed. I don't know if there's a CRIMP-like structure in UT4. Simon is leaping up to...

Simon Smart: So under the current program, we use something similar but it's not called CRIMP. So we have a Network Development Plan Process which we rolled out last year and enhancing that this year. The intent of that process is to work through with all of the stakeholders in the supply chain and identify likely growth and then likely opportunities to support that growth. One of the issues with the CRIMP process was it was very infrastructure focused, purely infrastructure focused. As you've heard today, we're very much more on about these days, just understanding what capacity's required and how most cost effectively to deliver that. Whether that involves investment in above rail or below rail infrastructure.

So, for example, if the best outcome to get further infrastructure - sorry, further growth volumes through is to operate longer trains and invest in that capital rather than investing in the capital in the ground, the rail in the ground, then that's what that process tries to bring to bear.

I'll hand over to Lana for part 2.

Lana Stockman: In UT3 there is a customer vote process. It hasn't been utilised much. We worked quite extensively with QRC in recent months for changes for UT4, which will be included in the undertaking. Just in terms of network development more generally, we've also improved the process around pre-feasibility and feasibility in concept studies. So there's a lot more information available early on in the process. The other fundamental change we've made for post- for UT4 is we've moved the queueing process and moving development to the most likely mine that's - we will support users - or infrastructure development's got a higher chance of success rather than someone who's just been sitting in a queue for the longest period of time.

Anthony Moulder: (Citigroup, Analyst) A follow up to that. Does that give confidence in the outlook statements that you've given, Lance? A commitment by the customers to the increased utilisation of the infrastructure?

Lance Hockridge: In terms of our outlook for 15?

Anthony Moulder: (Citigroup, Analyst) Well, and beyond effectively.

Lance Hockridge: Yep.

Anthony Moulder: (Citigroup, Analyst) If I switch to the quarterlies that you've released today, obviously lower growth in Queensland than what was going through the export terminals. Can you talk to whether or not that's an issue with domestic demand or some issues with stockpiling at the port?

Unidentified Company Representative: [Haven't] come across anything specific.

Lance Hockridge: No, I - you saw the comments about the Hail Creek and Wilkie Creek.

Anthony Moulder: (Citigroup, Analyst) But if I combine yours and Pacific National's, it still looks like volumes that you both transported were lower than what went out through the ports.

Lance Hockridge: I think that's - there's always going to be that kind of swing from period to period, Simon, where it goes to exactly the point that you make. It just depends on what's been stockpiled and what the ship schedule arrangements are. Our view would be, and the evidence is, that it's aligned, Anthony, and it's purely a timing issue around those issues. In other words, we're not seeing anything that is of the nature that you describe.

Anthony Moulder: (Citigroup, Analyst) Okay.

Alex Kummant: If I may add, again, from a CQCN point of view, we're four million tonnes ahead of last year's rate. So we certainly, from a pure - from an overall network point of view in Queensland, see tremendous demand.

Anthony Moulder: (Citigroup, Analyst) Lastly, if I could, can I get an update on the WICET tonnes? Obviously 27 looks a high water mark if I look at some of the comments coming from some of those listed customers?

Lance Hockridge: I guess there's both a below and above rail observation.

Alex Kummant: Yeah, how should we answer that? The ramp up - well I don't know what we've said publically on ramp up, can you help...

Lance Hockridge: Yeah, that's okay.

Alex Kummant: It's okay. So I don't think we're at large variance. I think the story on Bandanna's being worked through. That's still viewed as a quality asset. Glencore has said they want to rail very hard. So even with the WICET delay, we think there may be some transitional issues we work through here in '16 and '17 but we're very comfortable and really quite bullish on the asset in the mid to longer term. That's a bit of a vague answer but we're happy we're there. I don't know...

Lance Hockridge: Which taken away means that, subject to those timing issues, our view is that the below rail is secure. From an above rail point of view, Anthony, I think it remains the case that there's 17 - that the right number? Seventeen contracted. So there still remains 10 from an above rail point of view to be contracted.

Anthony Moulder: (Citigroup, Analyst) Can I just ask a follow up on the issue of WIRP? If, say, only half those 27 million tonnes materialise, what's the impact to network regulator return? Do we assume that the balance of unutilised tonnes gets socialised across the existing Blackwater and Moura users?

Alex Kummant: As Pam said, there's two components; the fee and the regulated tariffs. The regulated tariff is fully socialised. With the fee, we do have some securitisation against that. Those are commercially private structures but we do have some securitisation against those. But fundamentally, the regulated fee - the regulated tariff is socialised and the fees have some recourse.

Anthony Moulder: (Citigroup, Analyst) When you say socialised, it's across the whole Blackwater and Moura systems, is it?

Alex Kummant: Go ahead, Lana.

Anthony Moulder: (Citigroup, Analyst) Not just WIRP users?

Alex Kummant: It's - for one thing, it's not fully decided yet. This is still before - part of UT4 at this point, before the QCA. Go ahead, Lana.

Lana Stockman: Yeah, as for the QCA, at the moment as we're around about 60% of forecast tonnes, suggests it should be socialised. But there's another broader issue which is going to be picked up in the pricing principles of UT4 around how investment [unclear] whether it's socialised or has a specific standalone tariff. One of the things the QCA is looking at - and look, this isn't firm yet - is the timeframe. So if it's just a ramp up issue, they may choose to socialise earlier or if it's a longer duration they may choose to have a specific reference tariff.

So it's not just - whether or not it's socialised isn't just from day 1, there is a little bit of a timing aspect there as well. But the number we're looking at is - I think it's [50%] is where you start - where socialisation makes sense.

Anthony Moulder: (Citigroup, Analyst) So just to clarify that, so existing users of Blackwater and Moura may actually see an increase in their tariffs if not all the work tonnages materialise?

Lana Stockman: It depends on the QCA. I really - going through the analysis at this very moment in time, we've got quite a lot of engagement, there's a lot of different modelling of different scenarios. It also depends on what they want to do with the pricing principles under UT4. So there's a broader issue at play as well. So I don't really want to suggest what the QCA may or may not do at this time.

Alex Kummant: But look, let me just say there's no doubt we'll have to collectively figure out how to get through '16 and '17. It'll be an imperfect world. Beyond that, socialisation makes sense for everybody.

Anthony Moulder: (Citigroup, Analyst) Just as an aside, Mike, in terms of - you put up an example of consolidation your railway - your wheels and the equivalent. So you've got your competitor also going through a similar situation, some of these things strike me as they're pretty ubiquitous to both of you and that there's not really a competitive

advantage, it's a technology issue. Is there much conversation to actually where there isn't that difference, to actually go and be smart and only have one in New South Wales and one in Queensland?

Mike Franczak: Yeah, I guess I would refer to my old stomping grounds. We would call that co-production back in North America. So where there were operating efficiencies but we could preserve the competitive environment, so we still had regulation there, then we would try to go after those opportunities. Quite frankly, there are a few of those, between ourselves and some of the other operators. Some we've been successful with, others we haven't. But ultimately the choice of a PN or other operators to invest capital is their decision and their returns.

So we'll continue to do what we need to do to make sure we're driving competitive returns for our shareholders. If we are able to do something smartly with the other guy that benefits our shareholders, we'll do that. But if they have no interest then we'll move on and do our own thing.

Scott Kelly: (Morgan Stanley, Analyst) Scott Kelly, Morgan Stanley. Just wanted to talk about capital management. It's obviously something you're brought up in the past and again today. Where does that fit in, timing wise, in your heads at the moment? Do you believe that growth options like the Pilbara offer a better risk-return profile than your own share price at the moment? Is it because you're going through a CapEx peak? You mentioned maintaining and investment-grade credit rating; are you prepared to let that slip a rung from where it is?

Lance Hockridge: Look, I think timing obviously plays a significant component of that decision-making process. It is something that we have under review all the time. There is a - potentially a significant CapEx spend coming down the track, but as Lance has reiterated today, the investment in major growth projects will only happen when a final investment decision is made, and that will be taken at the appropriate point in time. There's no pre-commitment to any of the major growth projects. In the absence of that, we maintain the commitment to a BBB+ credit rating in order to ensure that we have the appropriate access both to the size of funding we'll need but obviously the cost as well.

Scott Kelly: (Morgan Stanley, Analyst) In short, does that mean capital management is on hold until that decision is made?

Lance Hockridge: No, it's actively considered at all times. We have to try and weight up those various components of that decision-making process. As we invest in a major growth project, it's anything up to a five year program of work for us. It's not going to happen on a set day, as we've seen, both with the Galilee and with Wiggins Island. So we just have to try and manage the best we can in terms of the timing of that.

Scott Kelly: (Morgan Stanley, Analyst) Okay, thank you.

Lance Hockridge: No more questions? If anyone - we've got no questions on the line but if anyone on the line wants a question, please do notify Nathan.

Unidentified Participant: Just back on that question of capital management. You made the statement about maintaining an investment grade credit rating, do you consider dropping that from a BBB+ rating down to a BBB flat or BBB- to fund some of these projects? Is it always targeting maintaining that BBB+?

Lance Hockridge: The current proposal, the current environment is we'll maintain BBB+.

Unidentified Participant: Just a follow-up question if I can. Could you just outline the differences between - in terms of just accounting, the differences between your statutory and regulatory accounting for the network businesses?

Unidentified Company Representative: How long have you got?

Unidentified Participant: Yeah, quite a lot - I'm thinking obviously you've got your ballast undercutting, you've got the re-railing, is there other major bits in there?

Alex Kummant: Pam will field this one.

Pam Bains: Sorry, the only difference to ballast undercutting is capitalised from an accounting perspective, not from a regulatory perspective. At the moment, rail renewals are consistent. We're just awaiting a decision from the QCA.

Unidentified Participant: Sorry to ask one more question but you made - mentioned Galilee and I looked through the presentations, I don't see the word Galilee. Is that indicative of your view of where it's going?

Lance Hockridge: No, quite the reverse in fact. It's more simply indicative of wanting to clarify some of those issues with respect to the West Pilbara. In relation to Galilee, we've completed our agreement with GVK Hancock. There are, as we've indicated at the full year, some conditions precedent before such an agreement can be executed. Those CPs

are being worked through at the moment. One might observe that you've heard of being between a rock and a hard place, in this case we're between two billionaires. So the timing with respect to the clarification of some of those CPs is out of our hands.

There are, however, some commercial timings that will crystallise those arrangements, likely before the end of the calendar year. So we remain optimistic that those CPs will be resolved and that we will move forward with that agreement. In terms of the timing, I think we've been pretty clear in our view that where, on the one hand, thermal coal prices are at the moment, it's not likely to be any time in the next five minutes that that project proceeds. On the other hand, the fundamentals - to go back to the observation that I was making in my presentation this morning - is equally as good in that space.

When you look at the quality of the coal, when you look at the ash, the calorific value, all of those things, there continues to be, as you would expect, a great deal of work around the - particularly the mine costs and the mind gate costs. But the reality is that in terms of timeframe, the go-ahead for the Galilee, a decision about going ahead will be some use down the track, to coin a phrase. Again, a reminder in that context that in terms of the deal that - to which I refer with respect to rail and port, we don't need first coal through T3 until 2022, 2023, to still make our return profile, Ian.

So in summary, the deal is done, as between ourselves and GVK, the CPs have to be resolved before that goes anywhere. The fundamentals of the project in terms of on the one hand, demand, on the other hand, the quality of the coal, we continue to be bullish about. But we don't believe that the current price environment is going to be a trigger.

Chris Vagg: All right, there's no more questions, we'll wrap it up there. Thanks everyone for your attention. We've got lunch outside here so everyone will still be around, all the EVPs and other senior managers. So feel free to take the opportunity to ask questions. For those heading to Rockie, we'll be leaving at 2pm. The bus will be coming to get us at 2pm. So thanks again for your time.

End of Transcript