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PRESENTATION

Chris Vagg - ***Aurizon Holdings Limited - IR***

Good morning everyone. Before we get started we're just going to get Damon from the hotel here to do our safety briefing.

(Conference instructions).

Chris Vagg - ***Aurizon Holdings Limited - IR***

Thank you, and once again good morning to Aurizon's FY2015 results presentation. My name is Chris Vagg from the investor relations team here at Aurizon. We've got Lance Hockridge, MD and CEO and Keith Neate, EVP and CFO to present to you this morning, after which we'll do a Q&A here in the room and also on the webcast. Without further ado, Lance.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Thanks, Chris. Can I add my welcome to those of you here, and I gather there's quite a number on the webcast today. Welcome to you all, our usual process here.

As usual I'm joined by a range of the executives from Aurizon, and in particular I make mention of Jenny Purdie who's here for the first time as EVP of Enterprise Services. So welcome to you, Jenny.

You've of course seen the numbers and we've seen a number of the early reports, but as we look at the key headlines for the year, firstly it is about safety and of course this has been the year in which we've had the tragic incident at Stanwell. I'll come back to that in a moment.

But notwithstanding that information we've still had another very strong year of progress around our safety initiatives, certainly around earnings growth, as you can see from the chart, notwithstanding the relative flatness of the revenue line in the Company. So again, very much the theme through what we're talking about today is the transformation story in the business.

We all know that OR 75% was the hallmark if you will, the light on the hill at the time of the IPO and all of the work since then so we're delighted to be able to report not only having achieved but having gone through 75% to 74.3%. We've achieved the transformation targets over a number of years but as we'll talk a little more, particularly in terms of those objectives that we set for ourselves a couple of years ago.

Most notably today of course is the announcement around capital management. With the continued improvement in the business the Board has changed the guidance around a payout ratio, as you would have seen, and announced a final dividend again of 13.9% (sic - see press release, "AUD0.139"), 64% higher than last year.

All round, in every part of our business, the above rail from a network point of view, it shows what a key benefit having that integrated nature of the business, the benefit of the network as a key enabler for our business; 11 out of 12 of the months in the year saw record volumes, as I say, facilitating what in turn was very strong operational outcomes from our above rail business.

Turning then to a number of these items in a little more detail, as always, starting with safety and our focus on zero harm in our organization. As I say, notwithstanding that triple fatality to have a year in which we've seen a further 43% improvement in the lost time injury rate in our business.

Right across the business there are highlights again in network. For the first time in history our entire network business went the entire year without having had a lost time injury. In our operations business the total recordable rate improved 28% off what were already, as you know, very good numbers.

With respect then to that tragic incident at Stanwell, I do note that advice has been received from the Queensland Police Service that the truck driver that was involved in that accident that had the collision with our vehicle has been charged with three counts of dangerous driving causing death. Nonetheless, for us as I've observed many times, having an incident like that just in a very stark and frankly personal way underlines the commitment that we have to safety in that organization.

Notwithstanding what I've just said in respect of rem impacts, that component of executive rem for myself, the executive team, Mike's VPs and the general management, the portion associated with accidents was zeroed out for the year. All of this though simply strengthens our view about our accountability for safety every day, every moment of every day, right across our organisation, and it strengthens our resolve to genuinely achieve zero harm in our organisation.

Turning then to some of these key financial and operational highlights, the first observation is that there are no adjustments in this year's numbers, so underlying and statutory as you would have seen are the same. Any adjustments have been taken above the line. We've seen AUD123 million in transformation benefits and AUD73 million in network EBIT uplift driving that 14% growth in EBIT.

I mentioned that in opening remarks across the two years we've achieved AUD252 million of transformation benefit cost saving with more to come. Strong ROIC as you can see on the slide, and I pause to make the observation that the definition of ROIC has changed to now include equity-accounted investments of AUD318 million which of course captures both the Aquila and Moorebank investments. And intangibles are now net of amortisation so therefore all the cash for Aquila West Pilbara has been included in the ROIC calculation.

The old definition would have seen ROIC at 9.9. Once again, continuing to build the foundation, continuing to build the momentum in the business, achieving not only 75% but better than 75% and in a circumstance where we all know only too well, the world is a very different place today than that we might have expected when first we set that OR 75% goal back in 2010 at the height of the resource boom.

Whilst our volumes in the scheme of things have continued to firm and continued to be solid, they are nowhere near the level that any of us might have imagined that our business would have been carrying.

Again, ROIC improving nearly three times across the period, more than AUD0.25 billion of transformation benefits. In terms of more to come, our corporate support areas as part of that ongoing work that we've been discussing with you are slated to achieve a further AUD43 million of benefit, cost benefit, during the course of the current financial year.

In terms of the continued confidence about our ability on the back of this foundational work to maintain the momentum to continue to drive the improvement in the business, notwithstanding the broader market circumstances, you would have seen that we have formalised the target of an OR of 70% in FY18. Many of you will have heard us talk in the past about an expectation of being able to do that by the end of the decade. So as I say, it's an important message about the work that we've got underway, the kind of things that are underpinning our ability to be able to do that and particularly in a circumstance where that OR has as I say been achieved, mainly through productivity.

In fact, to give you a sense of that, above rail revenue per tonne has since FY11 gone up 9%, a compound annual growth rate of 2%. So again, it reinforces the nature and the importance of the transformation journey in the Company.

A couple of other key matters in respect of how we're travelling and the future for our business. The first of course, the significance of the enterprise agreements, when finally I can stand in front of you and say, save only for what we expect to be the rubber stamp from Fair Work Commission we have delivered on what we have consistently to be our objective, and that is to achieve sustainable, competitive labour relations, underpinnings for our business. It is a significant achievement on the back of the Fair Work landmark decision to terminate.

The agreements, the two remaining agreements are before the Fair Work Commission at the moment and so we're in their hands as to exactly when that will be stamped, but following on from that we're ready to go. Mike and the team, Alex and the team, have an extensive change management process and implementation process that will allow us to take the full measure of what from our point of view is going to be a critical underpinning of that ability to be able to continue the transformation journey in the Company. We will talk more about this matter and a range of the matters about which I've been talking in these introductory comments at our investor day, which you would see we've slated for October 7.

With respect to UT4, frankly there's not much to add in that space of which you're not already aware. We've seen the work documentation in relation to UT4. QCA is maintaining its assessment that it will deliver its final decision by the end of October and so of course we continue to work closely with them around that.

Before coming back to talk about some more background context et cetera, I'll invite Keith to make some observations with respect to the financials.

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Thanks, Lance. Good morning everybody. Key financial highlights for the year. I don't propose to go through this. Lance has touched on the key results for the year and highlighted the fact that there are no underlying adjustments this year, everything has been taken above the line. That includes redundancy costs and the impairments which I'll touch on in a moment.

The only point I would make here is the result actually is very straightforward. There's three key drivers to this year's numbers. First is flat volumes in the above rail business; second, record volumes in the below-rail business, up to 226 million tonnes this year; and third is the continuing drive in the transformation space with, as Lance said, AUD123 million of benefits delivered to the business during the year.

In a little bit more detail then, the bridge between 2014 and 2015. As you can see from the two largest green bars on this chart, it's the network growth delivering AUD96 million and the transformation benefits, net AUD103 million with AUD123 million growth and AUD20 million in costs of execution.

In terms of revenue growth, as you can see from the small red bar we've gone backwards. It reflects the tough environment we've been in over the last 12 months, a key driver obviously being iron ore and I would note that whilst our existing customer base is all railing at full capacity, the reduction of AUD33 million here that's included in that bar reflects the two contracts which expired at the end of FY14.

In terms of revenue quality, at least it's green this year, AUD3 million. It's a good outcome in the circumstances, coal being the key driver here. AUD10 million up year-on-year, but that is after a AUD25 million reduction in performance and incentive bonuses that we got last year, and again reflects the flat volume environment that we're currently operating in.

The only other point I'd make on this chart really is the notable items on the left. Lance has touched on some of these but included here AUD36 million of redundancy costs, offsetting the gain on Redbank which was ironically the same number, AUD36 million, and we've also included a AUD15 million write-off in respect of the greenfield project costs around the Galilee project. Lance will talk about the status of the Galilee project shortly.

If you look at the EBIT result, the underlying EBIT result, on a like-for-like, that is treating the redundancy costs and the impairment costs as we have historically then EBIT, underlying EBIT is actually up 20% year-over-year from AUD851 million last year to [AUD1,021,000,000] this year.

I won't dwell on this one, it shows the same story. Strong performance from network and operations with C&M marginally down on the back of the volume environment. So maybe we'll just go the next slide and go through some of the key drivers.

Lots more details included in Annual Report [for] 4E but just touching on these briefly. Network business is up AUD72 million year-over-year, as I say driven by the 5% volume growth. You'll recall revenue last year was capped. We returned AUD70 million of excess railings last year back to the customers, but FY15 revenue, as agreed with the customer base, is not capped, which explains why you're seeing a 9% increase in revenue against a 5% increase in volume.

I would also remind you transitional tariffs remain below the current UT4 draft. So we've taken a conservative approach in using the transitional tariffs, and the true-up going back to the start of UT4 period will occur on finalisation of UT4. Disciplined cost control across the network business in the year saw costs up only 2% against the 5% volume growth, albeit offset with a AUD17 million increase in depreciation reflecting the partial commissioning of the Wiggins Island network and the increase asset renewals in the year.

In the commercial and marketing space, included within commercial and marketing there's a AUD70 million reduction in the fuel pass-through cost which reflects the lower diesel prices, and also an increase of AUD58 million in access revenue, which again reflects the increase in network railings. Both of those are pass-through costs. So if you exclude those, really the key driver of the C&M result for the year is, as I touched on at the start, it's the lower volumes, 1% decrease in volumes over the year.

Iron ore, which we've spoken about, has the biggest impact. Intermodal is up marginally and in fact has had a very good start to FY15 so the outlook there is positive. TSC is down in line with the contract and coal above rail as you'd expect is off 2%.

In terms of the operations business, strong EBIT lift of AUD72 million. And again, excluding track access and fuel pass-through the operations result is underpinned by the transformation program delivering AUD99 million in benefits during the year, principally in the space of labour, AUD42 million, fleet productivity AUD25 million, rolling stock AUD17 million and then consumables and the ongoing fuel efficiency program delivering AUD15 million.

That brings the total of the operations transformation benefits over the last two years to AUD195 million, which is at the top end of the range that we gave of AUD160 million to AUD200 million when we started the program. Included within ops there is also a further AUD16 million of transformation benefits which are an allocation from the central corporate costs and predominantly reflect improved property and labour costs, all of that offset by a [AUD30] million redundancy cost incurred in the year and taken above the line, and AUD22 million in terms of CPI and labour escalation costs.

Just touching briefly on the other, this represents the non-allocated central costs. We continue to drive the transformation program here, AUD24 million delivered in the full year, AUD16 million obviously allocated across to ops. Key movements included in here obviously is the AUD15 million impairment on Galilee and the profit on disposal of Redbank amongst other assets that we've sold during the year. There's also AUD3 million of VR costs in here and a reduction of AUD11 million year-on-year in terms of project costs.

Turning to the core operational drivers, the point to note on this slide, I won't go through this line by line, but all of the operational outputs are showing green. The two red lines are the inputs. The net tonne kilometres NTKs for the year down 2% and total tonnes down 1%. Key callouts on this page really, service design changes and the continuing fleet rationalisation program have seen loco and wagon productivity increase 8% and 5% respectively.

We continue to make improvements in the area of labour productivity with an increase of 3% in NTKs per employee and a further 250 reduction in FTEs. As Lance has touched on earlier, the enterprise agreements will provide an opportunity going forward here to further increase the productivity through the flexibility and rostering that the new arrangements will provide us.

Excluding pass through costs of access and fuel and the redundancy, OpEx was down just under AUD90 million or 5%, which is a good result in light of the declining NTK environment. I think it highlights the challenges of transforming a capital-intensive high cost -- high fixed cost business where volumes are going the other way.

A couple of quick points on cash flow. Net operating cash flow is up 27%, principally driven by the 10% increase in EBITDA and the net tax refund position that we're in for the year. Free cash flow following on from that is up 9% to AUD355 million, and we would expect that to grow in line with the reducing CapEx profile over the next couple of years.

Turning to CapEx. Spend of AUD1.1 billion in the year was in line with budget as forecast last year. The spend over the full three year period remains at AUD2.55 billion. There have been a number of reallocations within that though to reflect the changing market conditions and timing of certain spend. The growth profile over the three years is down AUD120 million with spend on rolling stock deferred in line with slower ramp up of customer production. Transformation spend here will increase by AUD40 million over the three year period. We've seen some very positive results coming back from the roll out of the operations integrated technology plan. Mike will talk more about that at the investor day in October.

Finally in sustaining, that's increased by about AUD80 million over the three years with a significant increase this year, reflecting the acceleration to secure both procurement and operational benefits, with the acquisition of some high performance track maintenance equipment of Network, an increase in locomotive overhauls and the refresh of the motor vehicle fleet being the key items.

Longer term non growth CapEx remains forecast in the AUD500 million to AUD600 million per annum range. Consistent with prior periods I would note growth CapEx only includes those projects that we have committed to, so it does not include West Pilbara or Galilee.

In terms of the balance sheet, it remains very strong. There's a marginal increase in gearing in the year, just over 30%, but we're still well within our target range of 30% to 35% and supporting our investment grade credit rating. Lance will talk more about the focus on capital management shortly, but with gearing at 30%, free cash flow improving over the next couple of years as the CapEx profile pulls back, it's reasonable to say that we're very well positioned here.

Franking credits however I would note remain low, reflecting the low tax payment profile we have as a consequence of the historic tax benefits that arose from the government to private ownership transition at the IPO, together with the benefits arising from AUD4 billion of capital expenditure over the last three years -- four years rather.

Finally a quick run through on the debt position. Total debt at June up very marginally to AUD2.9 billion, all currently held at the Network level. As you can see in the lower right hand box we have just under -- a tranche of just under AUD500 million falling due in 2017. So you can expect to see us returning to the capital markets shortly to refinance that. Consistent with our recent strategy we will seek to further extend the maturity profile whilst taking advantage of the current low rate environment.

The final point I'd make is that at 30 June, some 70% of [our debt] was fixed either through [SWOX] or fixed rate bonds. As we refinance that AUD500 million tranche that number will increase much closer to 100% fixed in terms of interest rate risk.

With that I'll hand you back to Lance.

Lance Hockridge *- Aurizon Holdings Limited - MD and CEO*

If I can turn then to Business Update. Firstly returning to the theme, and underlying the theme, about the shareholder value focus in the organisation. There has been, as both Keith and I have addressed in various ways, such a significant improvement in the nature and the quality of the earnings, and demonstrably our willingness and ability to be able to return value to create and then return value to shareholders. As we've gone through this process in recent times we've been through something of a strategy refresh, particularly (1) just given the normal processes, but (2) given the nature of the market, and the market circumstances, and that has resulted in what we now call an Aurizon Blueprint, which I'll share with you here in a moment.

Key in all of that though is that the overwhelming priority in the business remains clearly focused on the current business. Our ability to be able to continue to strengthen the business, continue to reform and transform the business. Capital investment is, and only is, invested in circumstances where we can achieve target risk rated -- weighted returns.

Capital management then, as you've seen from our announcements today, and following on from one or two of the observations that Keith just made, is and will continue to be a core and key focus for the Company. Again, more about all of this and some of the detail around this at our investor day on 7 October.

I mentioned the Blueprint, and you will have in front of you a copy of a couple of the summary slides with respect to the Blueprint. I don't intend to go through that here, other than to again underline the point that the priority remains around the current business. There are now those five core areas that we focus on, safety, people, integrity, customer and excellence.

As we look at this second summary slide, what I would draw out in particular is the continued elevation of the focus on the customer in our Company and in our strategy. We are about developing and operating multi-customer rail-based integrated supply chains. As I say in so many ways, whilst maintaining and indeed enhancing, as you can see there, the productivity improvements in the Company equally continuing to improve our customer focus.

Let me then turn to some of those key projects in the business and industry context. The first an update about West Pilbara. A busy slide but some key messages on this slide. Having regard to what has happened since we formally spoke to you about West Pilbara at the half year.

As you know we gave to our partners the plus and minus 25% tariff earlier in the year. You can see here some of the underpinnings of all of that, in particularly the extent to which the capital cost estimates have come down. From AUD6 billion for a 30 million tonne throughput, to AUD4.5 billion for a 40 million tonne throughput. You can see the leverage associated with the capital market, that provision of CapEx market out there at the moment.

We know that in order for -- ultimately however for this project to go ahead, it needs to be competitive in terms of delivered cost. That's where the focus is going forward. We are applying every effort around the continued focus on the capital cost of the business and we certainly, as we move up toward the provision of the non-binding plus or minus 15% tariff later in the year, we are very much focused around the further reduction in the capital cost in the project. But also I'm bringing to bear the best capability. Bringing all of the integrated operating plan, bringing all of the best technology, bringing the rail port interface type benefits that we can see.

Again the project will not proceed unless it achieves the target returns. In that regard you will recall that the next key stage gate is that CEO meeting at the end of December, which will focus on not only our tariff but the equivalent of what the mine has been able to do with respect to its costs et cetera.

In terms of those other strategic projects update, I think you're pretty well aware of what's going on with Moorebank in light of the development in recent months. You can see there our expectation of AUD235 million of capital. We are continuing to negotiate and finalise with our major partner, Qube, the operating rights to the intermodal terminal. The conditions precedent are essentially around some of those government issues which seems to be slipping from the back end of this year into the early part of calendar FY16. We would expect still that there will be construction during the latter part of calendar FY16.

Keith mentioned Galilee. If I can make an observation or two about Galilee. You will have seen Keith's reinforced that we have impaired the greenfield component of that project. That being an appropriate and cautious response to the kind of things that we've been saying now for some time, with respect to the timeliness of the project.

Given the kind of conditions that would be required for an investment decision, we remain of the view that they are unlikely to be achieved prior to at least the back end of this decade. We do though remain of the view that rail and port are a significant opportunity, but only of course with respect to the Galilee part of this project, if those market and cost positions can be met to make the project and sustainable.

On the other hand the work that's been going on continues to underpin the development and improvement in the brownfield component of the -- of our Northern systems, which will continue to underpin the growth opportunity out of the Northern Bowen Basin.

Before going onto a market comment, perhaps given the timeliness of some of it can I make an observation or two about two emerging developments in the context of the broader transport and logistics market. These of course are what's going on with respect to Brookfield and Asciano on the one hand, and with respect to the scoping study by the federal government around the future of ARTC on the other hand.

I start by acknowledging the obvious. Aurizon continually evaluates and responds to developments in the markets in which we operate. Significant developments are naturally of interest, including of course any of the broader implications that might arise for the Australian logistics market.

There's very little information, having said that, which is as you know currently in the public domain with respect to either of these proposals. So we're not in the business of speculating on hypothetical scenarios. Likewise we're not going to rule anything either in or out, given that position that I've just described. We're conscious of the need to prudently consider all of these things as they do unfold. As I mentioned a moment ago, having been through that strategy refresh work we do have a clear view about what our strategy is and how all that ought to play out.

Aurizon further though believes rail can play -- and you've heard me say this many times, can play a much bigger and improved part in meeting the country's freight transport requirements, with the obvious benefits in productivity, the environment, community, of seeing more freight travelling on rail rather than road. In that context we certainly believe that it is imperative that there's a need for a review of land transport policy, which currently as you know, in our view directly distorts that road to rail environment as part of any scoping study for ARTC.

Certainly again we would call for that review of, in particular, road transport pricing to finally be enacted to be part of the scoping study. Meantime our focus remains on our customers first and foremost and in continuing the kind of transformation journey, the productivity improvements, that we're talking about with you this morning.

If I then go onto the markets, clearly conditions generally in the markets in which we operate remain challenging for our customers. We certainly, during the course of this year, see that there will be a flat environment from a market point of view. Again we make the point though, that whilst it's a low growth environment, over the medium and longer term we certainly don't see that this is a zero growth environment.

On the back of the kind of transformation that we're talking about, our customers are themselves going through, the exchange rate environment et cetera on the one hand, and the continuing demand and increase in demand for high quality raw materials, particularly out of Asia, again we make the point that we continue to see the opportunity for growth as we go forward. Meantime though, undoubtedly it is a challenged environment for us and for our customers.

In that context, especially in this slide, we make the point about the key defensive aspects of our business. In coal for example those very strong customers, very strong credit worthiness, the contract provision and the extent of the fixed revenue. Customers are still signing contracts and long term contracts, notwithstanding the kind of environment that we're describing.

Below rail as you know is heavily protected, 80% of the volumes from the top six miners and the socialisation aspects of the network. We acknowledge that our existing iron ore business is more challenged, but even there are contractual and credit arrangements in place.

With respect by the by to the weighted average contract life on this chart, can I just make the observation that that assumes, particularly with respect to BMA which as you know is three lots of four years, it assumes only the first four years. So to put it in context, were we, as is our expectation of course, to achieve the longer term, that would lift the average life to 10.4 years overall, and 10.9 years in Queensland.

In terms of freight market update, bulk revenue is certainly expected to decline moderately in this volatile market, but at the same time the quality of our contracts the proportion of fixed revenue will continue to grow. Intermodal continues to be a tough area but we do see the opportunity for continued growth in that area.

Keith mentioned that we have on the back of all of the work that Mike and Mauro have been doing that we've been describing to you seeing particularly strong results over recent weeks and months. I'm pleased to be able to say that we've started the new financial year ahead of where we expected to be both operationally and financially. This emphasis around the centrality of the beneficial freight owners continues to be an important plank in our strategy going forward in that space.

Finally then if I can turn to a couple of slides. Firstly with respect to the outlook, the market conditions as we've said now a number of times this morning are flat compared to last year particularly taking into account the point around the fact that there is some AUD200 million worth of revenue that disappears on the back of those issues that we've spoken about.

We have, as I just said, had a strong start to the new financial year, not just in the intermodal space but generally across our business. The volumes are continuing to run at the sort of levels and expectations that we have seen. That said, in this environment we don't have a crystal ball. It is very early in the new financial year. We are running flat out. What happens later in the year, of course we'll all see. Again, hopefully by October 7 we'll be in a position to not only update you but give some greater flavor around all of that.

In terms then of a summary; a significant achievement in my view about having achieved and having gone through the 75% OR target, and in turn of having put in place with the level of confidence that I've spoken about, the continued transformation, the continued improvement in the operating ratio, the continued improvement in the returns out of this business, most of it as we all acknowledge through the productivity, the transformation arrangements in the Company.

Not denying that those future targets are challenging. But we have that solid foundation. There are a raft of initiatives of the kind that Mike in particular has spoken about that underpin that level of confidence about our ability to continue the momentum that is represented by today's results.

Capital management as we've demonstrated in the clearest way today is the key focus in our business. And as I observed longer term, whilst not at the levels that we would have seen a few years ago, we remain upbeat about modest improvement in demand for the high quality Australian raw materials which will underpin opportunity for growth in our business.

Finally all of this is being brought about through the hard work of everybody in our business. I've had the opportunity this morning on a webcast to all of our staff, first and foremost to say thank you to everybody in our Company for the work over the last 12 months and for what OR 75% means for our Company, and beyond that in recognition of those achievements to indicate the Board has approved the issue of AUD2500 worth of shares to each of our employees in recognition and in thanks of that effort.

Thanks very much then.

Keith and I would be happy to answer your questions. If we can do the normal, we'll start here in the room in Sydney. If you'd just indicate your name et cetera and then we'll swap backwards and forwards to those on the line.

+++ q and a

Matt Spence - ***Merrill Lynch - Analyst***

Hi Keith; hi Lance. Matt Spence from Merrill Lynch. You mentioned within C&M, AUD25 million reduction in performance bonuses in coal revenue during the year. Can you just run us through what that amount is?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

That was the BMA bonus last year Matt --

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Purely (inaudible) driven.

Matt Spence - ***Merrill Lynch - Analyst***

So there was a bonus of AUD25 million for FY14 that's not there in FY15 relating to BMA. Is that right?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Yes.

Matt Spence - ***Merrill Lynch - Analyst***

Okay. Lance, can I just take you to the slide on strategy? I'm not sure what number it is but there's a mention there of potential for going into international markets. Can you just make a comment on what you see as the investible universe in international markets? I think to be honest it probably makes some shareholders nervous, comments like that.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Yes, a couple of observations. You shouldn't misread anything in that Matt. It really is in the realms of not ruling stuff out. You know that in the past for example we've looked at Southern Africa and those kinds of things. So be very clear, there is nothing in prospect. It is in the nature of, well let's not rule anything out, as we think about this strategy refresh and the way that we describe ourselves.

More than that, to reinforce the observation that I made that as is apparent when you read the words the key and overwhelming priority in the business is the existing core business and the continuing opportunity for transformation reform in the core business.

Matt Spence - ***Merrill Lynch - Analyst***

Okay thanks. Keith just one last one if I can, you mentioned Network true-up coming through sometime in FY16 when you get the UT4 decision. Can I just confirm that true-up will be positive or negative? How will you account for it through the year?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Well if you can tell me what the outcome of UT4 will be then I can give you an answer. Look, if the outcome of UT4 is as per the draft, there will be a very marginal increase. But it's how long is a piece of string at the moment until we get a resolution on UT4.

Ian Myles - ***Macquarie - Analyst***

Hi. Ian Myles from Macquarie. Your dividend policy and your change in capital management you put at 70% to 100% ratio which is a pretty wide ratio relative to a lot of corporates. Can you maybe give us some colour on what metrics you want to see which will shift where you pay out within that sort of ratio?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Sure. Look it's -- the prime one obviously Ian is going to be capital requirements for the business going forward in terms of what the growth prospects are, what the growth projects are and the timing for that capital requirement.

In terms of the sustaining CapEx we are confident that AUD500 million to AUD600 million will be the requirement there. Outside of that transformation, again, fairly heavily through that program in terms of identifying the requirement; so the key driver really is: what are the capital requirements for the business? How do we return best value to shareholders? Obviously playing into that will be our franking credits around the dividend as well.

Ian Myles - ***Macquarie - Analyst***

In terms of -- you've still got some capitalised expenses with the Bowen Basin -- across your overall business how much capitalised expenses do you have from development projects, probably inclusive of the Aquila? I guess the other aspect is, I know -- I appreciate you bought Aquila this year but given the iron ore pricing, given the world of mining, how did you test that value of that asset and not possibly have a write down, for no other reason than actually the world has just shifted?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

I'll let Keith answer the detailed question. With respect then to the second part of it, we are in the midst clearly of a review around all of that. But let me just make the obvious comments. I guess that -- I think in addition to the things that we set out on that slide in that presentation, we're talking about first ore not being, even if the project goes ahead for some five years. So it's not today's world. Secondly it's a project that will then extend for 15 or 20 years depending on what ultimate decisions are made after that period of time.

We are however, not at all being dismissive of the point that you make. In fact quite the reverse, that the world has shifted to use the form of words that you use, and again reinforce the point that we need to be competitive in that environment if there is to be a decision to go ahead.

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

To the detail - notate in the accounts, AUD73 million is currently capitalised, AUD30 million in respect of the brownfield and AUD43 million in respect of West Pilbarra.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Perhaps we can move to the phones, starting with Simon Mitchell from UBS.

Simon Mitchell - ***UBS - Analyst***

Good morning. I just wanted to touch on (inaudible - technical difficult) detail you referenced AUD200 million negative [NPAT]. Should we assume that - it's quite a low margin relative to the Group [costs to revenue] --

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Sorry Simon, you're breaking up. We're having a real problem hearing you at this end.

Simon Mitchell - ***UBS - Analyst***

Is that better?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Try again.

Simon Mitchell - ***UBS - Analyst***

Okay, I'll try again -- first question is regarding the AUD200 million of negative revenue impact you're expecting.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Yes.

Simon Mitchell - ***UBS - Analyst***

Should we assume that those businesses are much lower margin relative to the Group average and you'd expect to reduce costs in direct proportion to the revenue declining? Therefore there should be minimal impact on EBIT?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Correct. Yes, in particular things like CRT where there was zero margin, there's AUD40 million that we have in revenue and costs this year and obviously nothing next year. SC121 which was the Queensland Rail maintenance contract; there was a small margin on that but not the sort of return we achieve on our other business. So indeed.

Simon Mitchell - ***UBS - Analyst***

Okay. Just the next thing I wanted to explore was the coal haulage revenue per NTK. I think there was an earlier question around the AUD25 million of incentive receipts that wasn't in this result.

It still looks like there's quite a significant drop in that metric in the second half. It looks like it was down about 8% after being up 5% in the first half and that's despite the BMA Blackwater contract. How should we think about that metric going forward? Presumably you're still getting a benefit from the BMA Goonyella contract starting in 2016 so we should see that metric actually turn positive do you think going forward?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Again, the revenue for NTK metric is subject to the volume movement as well, but moving forward as we transition more and more to the new form contracts, yes, you'll see the quality of that revenue stream improve, but also become slightly more susceptible to movements in volume because about 70% to 80% of it ultimately will be fixed, so not driven by volume.

Simon Mitchell - ***UBS - Analyst***

Okay, just lastly a broader question on capital structure, you mentioned that pretty much all the Group's long term debt is at the network level and there is nothing at Group level. Do you view that as being an optimal capital structure going forward?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

It's a capital structure that suits the business at this current point in time. Obviously the future capital structure is going to have to take into account any, if any, growth projects. But at the network level we're seeking to maintain a gearing level that's at least equivalent to the QCA WACC assumptions. Obviously we'll continue to review whether that's the right gearing overall or whether we should look to change that.

Simon Mitchell - ***UBS - Analyst***

Okay, thank you.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Thanks Simon. Anthony Moulder.

Anthony Moulder - ***Citigroup - Analyst***

Good morning all. If I could start with cost performance, obviously particularly strong in the second half. I appreciate there are further costs to come out of the corporate side of the business. But can you talk to the opportunities for savings that you think will now come through from the new EAs?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

I guess there's a range of those kinds of things Anthony. From the direct, so for example there is a very direct benefit as you would expect from the elimination of the no-forced redundancy provision, right through to the consequential impacts of things like the flexibility that, Mike in particular, now has around rostering, the costs associated with that.

There are a bunch of second order benefits that go to head count. So as we get on with, for example, simplifying the wage structures and the numbers of classifications in the business it allows us to simplify our payroll. So there are those kinds of implications.

If I can sort of turn it around and come back at it the other way around Anthony, you'll recall that on many occasions we've made the observation that our modelling suggests that we're between 10% and 15% behind our competitors in terms of our labour cost. We're now in the ballpark. We're, now having achieved the things that I set out on the way through in the presentation; I believe that we are indeed able to compete as we're on an equal footing.

Anthony Moulder - ***Citigroup - Analyst***

Can I ask specifically as far as the forced redundancies, obviously that's a key measure of these new EAs, is there a target level that you're identifying or that you have identified?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Yes, there's a direct cost of between AUD40 million and AUD50 million Anthony.

Anthony Moulder - ***Citigroup - Analyst***

Okay. secondly if I could -- on slide 25 you talk to some adjustment to the ramp-up profile for customers. Can you talk to which -- is that more broadly to the work customers? How should we think about the ramp-up profile for those customers (inaudible) them?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

I don't think we'll talk individual customers. But WIRP obviously is one where we're seeing some deferral. But that's already been talked about historically. Then obviously in the above rail business there is a number of other customers where profiles are currently being reviewed. We're being conservative would be my response in terms of demand growth going forward to the point Lance made earlier.

Anthony Moulder - ***Citigroup - Analyst***

So is that a deferral of the step-up as far as the new form contract payments effectively the take-or-pay aspect to those contracts?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

No, with respect to WIRP for example there's, from an above rail point of view, still 17 million tonnes that has been contracted, so still another 10 million to go. It's when that's going to happen Anthony.

Anthony Moulder - ***Citigroup - Analyst***

Understood, thank you.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Can we go to Cameron McDonald.

Cameron McDonald - ***Deutsche Bank - Analyst***

Good morning guys. Just a couple of questions with regard to the policy around dividends. Going forward I've been noticing that either the final payment was 100% but the annual payment is at 85%. When we think about the payout ratio going forward in the new year given that you don't have the CapEx requirements that you've spoken about Keith in FY16 should we be thinking that the payout in FY16 itself would be towards that upper end?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

That's really a question you need to direct to Board with that degree of specificity. I think though Keith made the observations that are around the quality of the earnings, the progress of the transformation, the free cash flows and the call from a capital point of view diminishing. So you can draw your conclusions.

Cameron McDonald - ***Deutsche Bank - Analyst***

Okay thanks. Then just finally, Keith you made a mention that the key drivers of the result were record volumes in the below rail business but then flat volumes in the above rail, can you talk a little bit about where you're seeing that mismatch and s there specific regions or -- I know you don't want to get into specific customers -- but about where that volume growth has been coming from, and why you haven't seen that in the above rail?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Well obviously it's in Queensland. BMA Rail has picked up some tonnes. It's railing some of its own volumes these days. There is also I think a bit of a hangover from a contract -- I'm just trying to remember which contract it was -- we had some tonnes in the prior year that aren't there this year because they transitioned across to PN a few years ago. That would have been --

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Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Hail Creek.

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Hail Creek.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Hail Creek at the end of last year.

Cameron McDonald - ***Deutsche Bank - Analyst***

Okay great. Thank you very much.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Thanks Cameron. Andre?

Andre Fromyhr - ***Commonwealth Bank of Australia - Analyst***

Yes, good morning. I just wanted to follow up on a prior question about the cost saving opportunity from the revised enterprise agreements.

I think you just mentioned direct costs opportunity of AUD40 million to AUD50 million but at the same time you've maintained all of the targets on the operating ratio have been maintained for FY16 and FY17. To what extent do those targets depend upon benefits from those EAs being revised or to what extent do they make those targets more easily achieved?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Yes, we've consistently said that that is the case. It is not exclusively the case however, -- and let me be crystal clear, the number that I quoted was with respect to the direct benefit associated with the no forced redundancy. So that's just one example amongst many that we will see and realise even during the course of this year, but it will be the proverbial snowball as the benefits increase.

To illustrate the point though, there are a raft of initiatives that are underway, many of which we've spoken about on a number of occasions that Mike's outlined around longer heavier trains, technology et cetera. But even during the course of this year, we commenced the implementation of FMT, our new Freight Management Transformation system. Our inventory systems in our rolling stock maintenance areas, some of the technology -- weigh side technology -- some of which was implemented certainly in Goonyella and Blackwater in last financial year and will roll out into Moura and Newlands during this year.

The automated wheel shop this year some of the upgrades around things like fuel, telemetry, these kinds of things. Some of our other scheduling systems, that will either go live this year or be on the point of going live this year. They're just a number of the examples of the kind of things that we already have to coin a phrase in train. They are however, the kind of thing that Mike will be able to talk more about at that Investor Day on October 7.

Andre Fromyhr - ***Commonwealth Bank of Australia - Analyst***

Okay so the only real update we got to the transformation savings today is that the corporate target of AUD100 million by 2016 is maintained from six months ago when you updated to that. Are we expecting a broader update including the potential of those things that you talked about at the Investor Day in that case?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

There will certainly be more colour. So to that extent that represents an update, yes, definitely.

Andre Fromyhr - ***Commonwealth Bank of Australia - Analyst***

Okay thanks.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

David, David Fraser.

David Fraser - ***Fairfax Media - Media***

Morning everybody. Look a couple of questions if I may. The potential consolidation that's occurring in some of the coal producers and the Eastern Seaboard with Rio opening at their data room and we suspect that that's probably just going to see Glencorp and Rio merge the operations. Is there an opportunity -- are there any change of control clauses in those contracts that might allow you to try and bet on some of Pac National's business?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

I'm not aware either way whether there are or aren't.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

No, I'm not either. I don't believe that there is David -- and Mauro is shaking his head as well. We'd need to double check that there's not any specific provision in any of the contracts but as a matter of course, no.

David Fraser - ***Fairfax Media - Media***

Okay. Second one probably for you Keith, I guess we're just wondering of what levels of cash tax you'll be paying in full year 2016 and how that will impact your ability to fully frank your dividends in full year 2016?

Then the second question on the financials, looking at your energy and fuel costs 2015 on 2016 and it dropped quite materially from AUD380 million to AUD290 million, obviously you've got lower black oil/diesel costs rolling through. How much of that has to be passed on to customers and how much of that will you be able to keep for yourself?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

In terms of the fuel question, it's just a straight pass through. So the only benefit we achieve is where we improve consumption but any price benefit goes straight through to the customer. In terms of the cash tax rate, we would expect to be in the range of 25% to 27% going forward.

David Fraser - ***Fairfax Media - Media***

That's just for 2016, or going forward for how long?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Well the next couple of years would be as far as I'd go at this point in time.

David Fraser - ***Fairfax Media - Media***

Okay but we have 25% this year and 27% next year?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Probably leave it at 25%.

David Fraser - ***Fairfax Media - Media***

Right. Brilliant, thanks very much.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Thanks mate. Nathan from Morgans?

Nathan Lead - ***Morgans - Analyst***

Yes, good morning Lance, good morning Keith. Just a question I suppose first up just in terms of your credit rating BBB+. Has there been any consideration given to increasing the gearing on the balance sheet to bring that credit rating down to a BBB?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Constantly. I mean it's something that's always under review at this current point in time. The credit rating has provided us with the ability to finance the business effectively and efficiently, but it's always part of the capital review of the business going forward.

Nathan Lead - ***Morgans - Analyst***

Okay; anything imminent in terms of looking to change that?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Not until I've spoken to the Board.

Nathan Lead - ***Morgans - Analyst***

Right.

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

No, no at this point in time there are no immediate plans.

Nathan Lead - ***Morgans - Analyst***

Okay. Second question, employee entitlements sitting on the balance sheet close to AUD350 million, with the reforms to the EAs are there plans to have that reduce either over time or paid out?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

Certainly the level of employee entitlements is something that we're heavily focused on moving forward. The change to the EAs provides us with greater flexibility and it is certainly something that we'll be looking at how we can reduce going forward.

It's a legacy of the government ownership of the business, and the fact that the longevity of many of our employees goes back to a time when there wasn't a super fund arrangement in place, so they looked at long service leave as their own super fund structure. So there's a cultural change that needs to occur as well as obviously the financial benefits for the organisation of moving that on.

Nathan Lead - ***Morgans - Analyst***

Okay. Right and just final one there Keith, just in terms of -- I suppose the question was partly asked just before -- but just in terms of the outlook for the franking of the dividend, what can we expect going forward?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

We can expect it to increase. I guess at this point in time we'd be looking at a significant increase on the 30% we're paying this time around. The aim ultimately is to get it to 100%, but I think in the next couple of years you could probably look at 50% to 60% would be where we would seek to get to.

Nathan Lead - ***Morgans - Analyst***

Yes. Thank you.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Thanks Nathan. Finally in terms of calls on the line, [Will Charleston].

Unidentified Participant

Good day guys. I'm just wondering if you could expand a little bit on your comments around the iron ore business, and talking customers about near term adjustments. What's the range of outcomes of that business over the next couple of years? Secondly, what's the total amount of capital employed you'd have in the iron ore business?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

With respect to the first, we're working with some of those customers, and I think we've been pretty clear about all of that in terms of where they are financially and we will continue to do that in what we believe to be a prudent way. There is no specificity about what the outcomes are around that at this point. With respect to the amount invested --

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

It's in the order of AUD400 million.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

But, again, to use Mike's favourite word bear in mind how much of that is spongeable, (sic) it goes to, in other words, that you should not assume that that amount of money is in that sense at risk in that business, that part of the benefit of the fleet transformation standardisation et cetera is our ability to be able to move and re-deploy assets around the fleet.

Unidentified Participant

Okay great. Thanks very much.

Lance Hockridge *- Aurizon Holdings Limited - MD and CEO*

So back to yes Scott.

Scott Ryall *- CLSA - Analyst*

Hi there. Thanks very much. Scott Ryall from CLSA. I was wondering if you could comment Keith just briefly on the payout ratio. I know we've laboured it a little bit. But in terms of looking at the dividend going forward and your recommendations to the Board which come from you, presumably you're not going to look at the dividend going backwards year-on-year all things being in your control? What I'm trying to get to is you've paid to a certain level this year?

Keith Neate *- Aurizon Holdings Limited - EVP and CFO*

No, that's why we have a range Scott, we don't have a progressive dividend. We're not paying an increase year-on-year-on-year. We've set a range of 70% to 100% subject to capital requirements of the business. The objective would be to seek to maintain the 70% as a sustainable dividend, but the 70% to 100% will be subject to an annual review of ongoing capital requirements.

Scott Ryall *- CLSA - Analyst*

On a rolling one year basis, two basis, five years?

Keith Neate *- Aurizon Holdings Limited - EVP and CFO*

The kind of projects we undertake Scott are three to five year long development projects, so obviously we will be looking out further than that and understanding how firm, or best estimate those outlooks are.

Scott Ryall *- CLSA - Analyst*

Okay. Then Lance maybe if you could comment on the last six months have seen a hell of a lot of attacks made on the coal industry and even the gas industry has turned against it. Could you comment just in terms of the positioning of coal as an energy source in particular for the coming decades? What do you see Aurizon's role within that is, and can you also just speak to those capitalised costs that you left with respect to the Galilee in that context of potential expansions of the network up to Abbot Point presumably?

Lance Hockridge *- Aurizon Holdings Limited - MD and CEO*

With respect to the last point and then I'll come to the soapbox speech, that which is left is associated with the brownfield and so is more aligned with the potential for development growth as I observed on the way through the Northern Bowen Basin rather than the Galilee.

Scott Ryall *- CLSA - Analyst*

You see that as likely though or it's just something to --

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Yes, we do --

Scott Ryall - ***CLSA - Analyst***

-- have in fact --

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

-- and even today we continue to have discussion with our customers around the potential for that kind of growth which to go there is as I observed in my general observations this morning, not of the kind -- self evidently of the kind of growth levels that we would have been talking about a few years ago. But again is not zero growth and off a base of even in our case, thinking about Queensland network, 220 million tonnes, 225 million tonnes, compound growth rate of even 1.5% over the kind of period of time that we're talking about still adds self-evidently significant numbers.

More generally what we think, we're in the space where I guess neither at the most bullish end or certainly at the bearish end of views about the future of coal. There is no doubt that over time, firstly thinking about energy goal, about thermal coal, that the mix of energy is going to change. There will be the rise of renewables that we all know is going on in the world. One needs of course to peel back the onion, so to speak, as to where and how, but at a general level, they are growing off a low base.

So our view is that for at least the next 10 years and probably a little longer, even though the proportion of coal in the energy mix will diminish over that time, the absolute demand for coal, thermal coal, will continue to increase over that period of time. I think you can take in terms of our view about what that means align through the IEA type numbers.

On the other side of the coin of course is met coal, and that is a function of the steel industry demand. Similar picture, on the one hand we know that the Chinese steel make, in our view, is getting toward the end of the certainly the kind of expansion period Scott that we've seen in the past. The days of 4%, 5%, 6% compound growth have gone, and indeed there's a range of views as we all know about where that's going to top out, but it's probably sub a billion tonnes in terms of domestic demand.

So there will be, on the one hand therefore, a levelling out of the demand, but on the other hand what that again to use the peeling of the onion observation what that disguises of course is a move from long products to flat products. So the question is given both where the flat products industry is in China and the need for higher quality raw materials, the opportunity remains for continued demand even out of China for high quality met coal.

India expects to see its steel make over the sort of periods that we're talking about increase from current levels of 85/90 million tonnes to 290/300 million tonnes. So notwithstanding, we would all I'm sure have a degree of caution about whether India is going to be a position to achieve those kinds of numbers but nonetheless it represents that next frontier.

What's our role in all of this? Firstly it's about to the - to the extent that we can -- understanding the kind of things that we're talking about advocating for the, in particular, high quality, the use of high quality raw materials. We are very much an advocate through industry forums, through trade associations, through on the ground work in Asia from west Asia to north Asia particularly the environmental benefits of using a combination of high quality/low ash coal in combination with the latest in generating technology.

So as was observed the other day, it's not a binary question of coal just disappearing, but an acknowledgement, a sober acknowledgement of the things that I've said that renewables will rise, that coal will lose market share, but that in absolute terms coal demand will continue to increase over the kind of period of time that I've spoken about. And we can underpin and enhance that by demonstrating that there is a level at which particularly some of the economies that I've been referring to can have their cake and eat it too. That whilst the renewables sector is increasing they can continue to benefit from step downs in emission by using as I say a combination of technology and high quality coal.

So at a certain level we're just a small player in all of that, but it is self evidently important for our business, it's self-evidently important for our nation, and I'd like to think that we're more than pulling our weight to answer your question Scott.

Paul Butler - ***Credit Suisse - Analyst***

Paul Butler from Credit Suisse. Just a few questions, firstly I'd really like the increase in the payout ratio. I'm just wondering what the intentions are with the buyback program that you had in place? I'm just wondering if that was discussed, I assume it was discussed at the same time at the Board as well as the increase in the payout ratio and what the nature of those discussions were?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

The buyback was an opportunistic buyback. It remains on foot until November this year, and it certainly remains in place at the moment.

Paul Butler - ***Credit Suisse - Analyst***

How much have you got left, how much --

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

$400 million --

Paul Butler - ***Credit Suisse - Analyst***

-- have you got left?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

-- just a little bit over $400 million.

Paul Butler - ***Credit Suisse - Analyst***

So at a certain level you would buy is that how it works?

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

(Inaudible).

Paul Butler - ***Credit Suisse - Analyst***

Okay. Second question if I may, obviously the improvement in the operating ratio has been very impressive. I'm just wondering given that you've got these new labour agreements, which to my mind are potentially transformational in terms of what you can do with the business, so I'm wondering why do we go from having just achieved almost a 3.5 percentage point improvement in the operating ratio to getting improvements at much slower rates going forward? I'm just trying to understand that.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

I think the short answer to that Paul is it goes to the question of the top line and the extent to which it's on the one hand this, on the other hand that. There is -- to answer your question the other way around, no diminution in the rate at which the team is continuing to pursue and implement the transformation benefits in the Company.

Paul Butler - ***Credit Suisse - Analyst***

Okay. Then just another one, you recently won a new contract with Anglo I think, I'm just wondering if you could comment about the upside that you get from that moving to a new form contract versus any pressure you're seeing from a more competitive bidding environment, or if indeed there is a more competitive bidding environment?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

There's no doubt that given the world that we've all been talking about this morning it is a more competitive environment, and that is simply the reality that we face. The benefits though are two way and they are all associated with the nature of the new form contracts, the levels of certainty that fixed proportion of the contracts those kinds of things that we've spoken about many times.

But equally for the customer, greater certainty and flexibility, the extent to which we're on the hook around performance and performance outcomes, all of which is part of the risk analysis of course that we put into bidding for these contracts. And again is the way that the circle goes around about the benefit of the kind of improvement in the quality and the consistency of the operating performance of the Company to be able to, as it were, share those benefits with the customers.

Paul Butler - ***Credit Suisse - Analyst***

Yes. So the upside still outweighs the increasing bid pressure you're seeing there?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

Well we're not going to go to, as it were, giving a precise outcome as Keith says about the particular contracts, but I go back to the observation that I've made and constantly reinforced around our focus and objective around achieving risk weighted target returns.

Paul Butler - ***Credit Suisse - Analyst***

Just one more on the West Pilbara, I thought it was quite interesting in the presentation you put in a cost curve chart. I was just thinking, wondering how you think about where that project overall needs to be on that cost curve? Obviously there's uncertainty about where iron ore price is.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

It's the very reason for putting it there that again as I observed, it's a representation that we recognise that for a project of the kind that we're talking about that is being considered in the circumstance that we were talking about before. Particularly in response to Myles' questions, we absolutely need to be competitive and we absolutely need to understand both what the components are of that chart and the sustainability of their competitive position in order to be able to make the kind of judgements that we're going to have to make later this year, and if we go beyond later this year into next year.

Paul Butler - ***Credit Suisse - Analyst***

Okay. Just on that, how much more investment do you think you need to put in there before you get to the final decision point?

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

If we go right through to an FID at the back end of last year, there is AUD80 million in the current financial year.

Paul Butler - ***Credit Suisse - Analyst***

Right, so another AUD80 million; and so far it's what about AUD200 million and something you've --

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Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

AUD225 million.

Keith Neate - ***Aurizon Holdings Limited - EVP and CFO***

AUD225 million was the original investment and then there's been project costs to date of around AUD43 million.

Paul Butler - ***Credit Suisse - Analyst***

Okay, thank you.

Lance Hockridge - ***Aurizon Holdings Limited - MD and CEO***

It would appear that that has exhausted the questions. There are no more on the line and last call here.

Okay, thank you very much everybody we appreciate the opportunity.