
Start of Transcript

Chris Vagg: Thank you, everyone. Just before we get going as per usual we'll just get Damien from the Intercontinental to do a safety briefing for us.

Damien: Good afternoon, ladies and gentlemen and welcome to the Intercontinental. The hotel has a two [unclear] fire evacuation warning tone, which is a short evac tone at the beginning which the ERT team will investigate the matter and after that will tell the incident controller whether there is a fire or not. If there is a fire in case the second evac tone will with an announcement asking you to evacuate the building. Otherwise they will say there is no evacuation and the announcement will be made over the PA system.

In the unlikelyhood of a fire your evacuation points will be through the fire exit door at the rear which is the closest to here and you will end up in Macquarie Street to the rear of me, and that will be your fire assembly point for the building at the first instance. The next fire exit is at the far corner which goes down to Bridge Street and brings you around back to your left into Macquarie Street assembly points at the back again here. In case of a bomb threat unlikely event your secondary evacuation point is at the Domain at the far end of Macquarie Street [unclear] by which the staff will direct you to the Domain. Our emergency contact number is 6789 from any phone in the hotel and in an emergency there will be somebody to assist you with any questions. Okay. Have a nice day, [unclear].

Chris Vagg: Thank you for that. Once again, welcome to our investor day here for Aurizon. We've got a pretty full schedule for you. I'll just do a very quick rundown. We will have a first presentation from CEO Lance Hockridge followed by EVP of Operations Mike Franczak. Then we will have Q&A and a 15-minute break and then we'll come back at the end for Keith and for Mike Carter for their presentations, and then a follow-up Q&A at the end of the session. Keep in mind, Q&A can be addressed to anyone. We also have the EVP team and some of Mike's team here in the front row to help you with the questions. Then we'll obviously having our drinks function later this afternoon. If we finish a bit early we'll try and get things started there a bit early. So over to you, Lance.

Lance Hockridge: Thank you. Thanks, Chris. I'll just put aside all of my notes of what I was going to say on this first slide as Chris has just covered that. Can I very much welcome you all this afternoon and to those also who are listening on the webcast. We do have a fair amount of territory that we want to cover during the course of the afternoon but certainly again as Chris observed, we want to make sure that there's plenty of time for you

to engage, both engage in a Q&A session but also engage in a less formal way, both with the executive team and, as we observed later in the afternoon, with Tim Poole and the other Directors. As I understand it, most of the Directors will be here to join us in the latter part of our day today. We will proceed then through the agenda as Chris has just observed.

If we can start in reflective mode then, we have, as we are now coming up on five years out from IPO and setting the groundwork for more particularly of course looking forward and what we expect and intend to do and how we intend to go about doing it over the coming period, but reflecting on the journey to date, the story to date, it is essentially about putting in place sustainable, replicable, continuous improvement in the business. Of course, more than ever, given the market circumstances that we face those are the critical and key elements of what we're doing and what you'll hear about from Mike and from Keith in particular during the course of the afternoon.

Safety continues to improve. The journey from where we started to our lost time injury frequency rate as I stand here this afternoon of 0.16 is a measure in my view of a core value but also the cultural change that we have and continue to drive in the business.

We have been delivering around major growth projects, the obvious ones there, but in addition a range of other projects, and so the executive team for example is going to Newcastle tomorrow where in company with a range of our customers we are opening the new Hexham facility in the Hunter Valley, again a representation of the kind of capability that we have and we continue to put in place, but the kind of capability which by contrast to many of the things that Mike will describe to you this afternoon is a much more focused capability. It's much more about the railroad of the future rather than the railroad of the past, especially in that maintenance space.

From a financial point of view, I don't need to go over that but we've beaten all of the objective that we set around operating ratio, around the improvement in the returns in the business, the transformation benefits that have been delivered, as well of course as the structural changes. The impact that you I believe can see today as a result of having a functional structure in this business where there is no place to run and hide right across the length and breadth of our organisation around all of these key issues, around continuous improvement, around where are these assets, the utilisation of these assets, of our people, how we recruit, train and indeed keep our people.

Most significantly though in recent times around the structural changes in the business has been the delivery of the renewed EAs in the business, I believe one of the more significant as I say changes that we've been able to put in place since the IPO. We will this afternoon be in a position for Mike to be able to give you much more granularity around how we see that translating into supporting the changes, the improvement in the objectives that we have set out as we go forward. We reiterate in that regard that our overwhelming priority remains the strengthening of our existing business and the creation of ongoing sustainable value for the shareholders of the business.

In that regard, picking up on a number of those observations, safety remains preeminent. Safety is the core value in our organisation. It is representative of the cultural change. It continues to be driven by a cultural change in the business. More than that though, it is also about operating discipline. It is around execution, capability. It is around compliance. These then you will recognise as being the hallmarks of so much of what we're doing in terms of this continuous improvement journey right across the length and breadth of our organisation.

In that continuous improvement space we have today announced the next layer of objectives around cost savings. Mike will talk to you therefore about how intend to deliver on some \$250 million to \$300 million of additional cost saving benefits in the operating space over the next few years. Keith will also talk about similarly \$60 million to \$80 million of further improvement in our support targets over that period of time. In the operations space we are also making significant announcements today about the next generation of change in our maintenance space, the support spaces that I've spoken about. The targets that we are directing toward we announced and updated at the time of the annual results increase, so the 70% OR by FY18 and those return targets.

All of this of course being sought and achieved in a macro context which has both got its challenges but also its opportunities. We continue to see the strong volumes of recent times across our business. We continue to see that there will be growth in the resource part of the business but very much at the subdued and much more modest levels that we've been talking to you about in recent times. In the regulatory and competitive landscape, as you would expect we watch all of what's going on in competitor land pretty closely.

In the regulatory environment as we observed at the full year announcements we continue to look for the conclusion of the UT4 process in particular and we all are aware that that - the most recent update around that is in November. Hopefully the regulator will be able to stick with that timeframe and over the next month or six weeks we'll see some progress around resolution of those matters. We also continue to see and speak to the importance of government policy and the need for a much better-defined, much better-executed government policy, especially in this land transport area.

We've noted with interest for example the recent statements around ARTC and more latterly around Inland Rail. Especially in that context, but more generally as we look to continue to develop our volumes in this general freight in this intermodal space, our view is that those initiatives, and even absent any change in those initiatives, generally need to be accompanied by implementation of the long-discussed rational land transport policy.

One would hope with some of the changes that have been made in personalities within the Federal Government and with what is going on in that combination of Inland Rail and ARTC space that finally we might see the opportunity for some progress around the long-discussed need for change in those policy settings and particularly what might be described as a more even playing field around the encouragement of transition of tonnages from road to rail in Australia.

We will then continue to build on our enterprise-wide transformational achievements as we do look forward. By way of segue then into the presentation this afternoon, a number of comments in this space in this regard. Firstly, our financial targets are challenging. We spoke at the time of the full year about the top line in the current financial year being impacted by the removal of some \$200 million of non-core revenue. Aside from the general market conditions, those are certainly the kind of headwinds with which we are faced at the moment. That means, and both Keith and Mike will be explicit in their presentations about this, there remains fresh challenges for us in being able to deliver on the targets that we've set for ourselves and that we've made public. We have of course through that period that I've described on each occasion been able to deliver on those stretched targets. Nonetheless you'll be able to see from the presentations this afternoon where that stretch lies and the quantum of that stretch.

Transformation then is continuous. It is all encompassing. It benefits the business in a number of ways. We are not spending any great time this afternoon discussing the

network space although at the outset of his presentation Mike will make a number of observations about network and about how foundational the changes are that have been made in network in recent times such that it is a critical enabler of what we are able to do from a productivity point of view and efficiency point of view in our above rail business.

One might be cheeky enough to say that all of the observations that we made and reflecting back to why at the time of privatisation of this company we said that it was so critical especially in that Central Queensland network to have the relatedness of the below and the above rail. We can now point to what those benefits are that have been achieved and what those benefits are that are going to continue to be achieved on the back of the critical changes, the operational changes, the efficiency changes that have been made in our network business.

The above rail business is underpinned in terms of its transformation by six core programs that Mike will talk through this afternoon. We aren't spending any particular time this afternoon in these presentations separately talking about commercial and marketing though it is inherent and important with respect to just about every element of what we are talking about - the connectedness. The connectedness between network and C and M, between in particular operations and C and M. You will see that again through the presentations this afternoon.

We would say at its heart though that the fundamental customer value proposition as we say on this chart has improved and will continue to improve as a result of the operational productivity improvements improving both our revenue streams and our market share generating those opportunities right across the business. There are just a couple of examples then on this chart of - what are the sorts of things that we mean when we make those kinds of observations? The map of Australia on the left of the chart there the key thing is the wording underneath the bight, that in the east west corridor the altered schedule and improved transit times from Perth to Sydney sees a reduction from five to three days. In our Melbourne to Brisbane service the changes that have been made in combination between our operations folks and C and M folks, have seen a 20% increase in services and a 14% increase in capacity per service.

These are the kinds of benefits that flow directly through to our customers. These are the kinds of service offerings that we now make day in and day out that make it more possible if you will, to put it that way, for our customers to be able to choose our service and to

rely on the capability, the consistency and the quality of the service that we do offer. You see the extent to which we have been able to build the proportion of BFO in our customer base, a long held strategy in the intermodal space. As we indicated at the full year now some 70% of the customers of our intermodal business are the BFOs.

You see the announcement that Woolworths made here just a week or two ago where Aurizon was named as its carrier of the year for 2015. Important because of the standard that an organisation like that sets in this space. It speaks far better than either I or Mauro could speak to around what that consistency, quality and capability of service means. It is the foundation upon which with the kind of capability operating improvements that Mike will describe we continue to look for the momentum to continue to build and improve in this space going forward.

We are therefore in this space spending a hugely increasing amount of time and focus in this customer space. Having done so much work - no one would pretend all of the work - we are on a journey. But having done so much work building this foundation or capability, one of the key, key aspects that we are signalling right across our business as I say is this focus on the customer and our ability to be able to deliver value to the customer and through delivering value to the customer then of course improving our volumes and building shareholder value through our improved margin and returns.

Interrupting the flow then just for a moment before handing over to Mike - can I just make a couple of observations with respect to the disclosure announcement that we made on Monday morning about the developments with respect to WIRP. There's not a hell of a lot more that I can say for the reasons that I'll observe here in a moment than is already in that statement. But we did at the back end of last week receive notices from ultimately seven of the eight WIRP customers subject to the WIRP deeds. Aurizon network disputes the validity of the notices which would as we set out in our announcement were they to be sustained allow the WIRP customers to reduce or eliminate that above reg financial commitment - that WIRP fee that they pay to network.

The dispute to be clear about it given the conjecture over the last 48 hours - the dispute does relate to the readiness of the port. There are as you would expect extensive dispute resolution procedures within the deeds that call for the usual range of commercial interactions, expert determination and failing any of that for any dispute to wind up before the courts.

We set out the range of potential financial impact of zero to \$27 million per annum for the 19.5 year life of the deed recognising that in the current financial year the maximum extent of - were it to go completely against us - impact would be \$10 million. Again to be very clear about it none of the notices, none of what we are discussing, impacts on the regulatory earnings with respect to WIRP. With first rail having been delivered in April and rail being fully commissioned by December of this year we are exactly on time, ahead of budget, having delivered everything to these customers that we said as a part of our - in fact as our obligation under the deed - that we would do.

Important to reiterate that with respect to what we said we would do under these WIRP deeds, we have done it. We have done it in full. We have done it on time. We have done it ahead of budget. The dispute therefore relates to those port matters. You'll appreciate though that also as is common with these kinds of arrangements, the deeds contain confidentiality provisions as well as those dispute resolution provisions and so what we can say and the extent of what we can say is materially governed by those confidentiality provisions within the deeds. I can tell you though that albeit this is very early days - as I say these dispute notices were only served on us at the back end of last week.

Discussions are as you would expect under way with customers. They will be ongoing thought the time frame of course particularly given what I described around what the dispute resolution process could look like, the time frame will be very uncertain. Certainly as we stand here today we're not able to give any real sense of guidance around how long all this might take to resolve. In the meantime however all of our operations continue unhindered, uninterrupted and we are delivering everything that we said that we would deliver from a rail perspective with respect to WIRP.

With that can I invite Mike then to talk to above rail.

Mike Franczak: Thank you Lance. Good afternoon everyone. It's great to see everybody out here. I'd like to just spend a few minutes perhaps up front setting up the next little while with you. I'd like to talk a little bit about some history, a little about the savings, the momentum, what we've been up to over these past couple of years and how that has evolved into the six core programs that Lance referred to many of which you've all heard when I spoke to you in fact about two years ago when I first got here. So the good news that a lot of the themes and a lot of the key stories, programs and so forth are the same.

I'd also as Lance noted like to cover a few comments off about my network colleagues and how they're assisting us in achieving our targets. I'll get right into the gory details of some of the key initiatives and programs. As I do that I'll be touching on some of the key operational metrics that I think many of you are now familiar with and of course what that means for us in terms of our financials over the next two to three years.

I'll also spend a little bit more time diving into the impact of the enterprise agreements as well as spending a little bit more time on what are the key platforms of our transformation in the rolling stock and engineering maintenance space. We'll have some time of course for some Q and As but before we get into that maybe just a couple of quick introductions. I do have a few members of my team here. So they will be more than happy to assist in questions and dialogue. In no particular order - Mark Kirkpatrick who is presently leading up our operations planning group, so IOP fleet related questions, things of that nature. Feel free to grab Mark.

The lady in green, Louise Collins is formerly just of the operations planning world as well but has taken up the lead on our freight management transformation program. Keith will touch on that a little bit later. But a critical contract to cash process re-engineering for us, one that involves and SAP based IT implementation - significant and transformational undertaking. She'll be able to talk to more of that with you.

Ed McKeever who is our vice president of service delivery for coal - happy to speak to you about all things EA. He gave up almost two years of his life at the main table, so he has lived it, breathed it, and is now successfully helping us implement those new agreements, and over in the back corner, in the shadows, Mr Pat O'Donnell, who is our vice president rollingstock, engineering and maintenance, and again, happy to talk about a lot of the detail that we'll be getting into this afternoon.

So as I turn to the first slide, again, probably not a surprise, hopefully, to most of you. Over the past two years, consistent with some of the earlier targets that we put out there, operations has delivered almost \$200 million in gross savings over these past two years.

The major components of this, as you would expect, labour productivity in the range of about \$84 million, made up of roughly a 10% reduction in headcount and significant reductions in overtime and contracted labour. Fleet productivity of approximately \$54 million. Lease reduction, \$7 million. Rollingstock maintenance direct cost, \$11 million.

Gains on sales of surplus locomotives, wagons, and other kit, about \$9 million, and depreciated savings on our fleet, as we've eliminated it, about \$27 million.

I'd comment here, for just a second, to give you a sense of the range of transformation, not just over the last couple of years but even as we go into this year. When I got here we had an active fleet of over 700 locomotives, 830 on the register. Today we're running the business and have been moving record volumes with just north of 530 active locomotives. Significant leverage.

You can imagine the impact that has in terms of fleet maintenance costs, depreciation, the need to go and spend more capital to renew the fleet or get more kit. So significant change in our world.

In the rollingstock maintenance transformation, \$17 million. Significant improvements in wheel consumption rates as we've improved lubrication regimes with the network folks, looked at our wheel profiles, gotten a lot better at our predictive and condition-based maintenance.

We've also implemented, as you've heard, on-train repair and other technology enhancements, but we'll hear more on that later.

In the fuel and energy space, we've improved our fuel consumption by 7% over these last two years, continuing to improve driver training, coaching and the like, but also deploying technologies such as driver assist and automatic equipment stop/start.

The other \$21 million that you'll see there is made up of a number of things. Some depot improvements, mainly in intermodal to the tune of about \$5 million; reductions in consumables of \$4 million, and about \$12 million just in improvements in the direct cost of safety.

I'd like to stop on this point for a second and pick up on some of Lance's comments, because while this chart shows what I think are pretty impressive improvements in terms of our cost profile, the other part of this story is the significant improvement in our lagging indicators in safety, the improvements we've made in service, in delighting our customers, as well as all of the productivity that underlies these financial numbers.

Safety, service, productivity, and all the dimensions that go with it are not mutually exclusive. They are very much mutually inclusive. I'd like to think, as we've built this kind of momentum and we've started to really focus on the things that are driving value,

connecting the dots, we have a new organisation, very different capability, very different focus than we had two years ago.

This is the momentum. This is the type of pace of change that you should expect to see from us in the coming years.

So when I think about where we were two years ago and when I spoke to you first, this is probably a slightly better summation of what I gave you two years ago, but the fundamentals are the same.

On the upper left, I spoke to you about the integrated operating plan. It remains a cornerstone of our business model. We no longer think as separate, independent P&Ls. We are a heavily capital-intensive business with a wide geographic reach. We need to be looking at the fleet, the \$3.5 billion in fleet assets that we have right across the entire company.

We need to be looking at the \$1 billion in terminal footprint that we have. We need to be looking at all of our systems, processes, training, you name it, to ensure that it is completely standardised. That's how you get at the value in an organisation and a business like ours.

So you'll see references here to rollingstock fleet planning now taking place very regularly across the enterprise, working the supply/demand model more effectively between C&M and operations, working more closely between rollingstock maintenance and operations.

We continue to focus on payloads. Our program of building longer, heavier trains continues to roll out on plan, and we are getting much better at driving velocity and wealth. Lance noted the changes in our integrated service plans and how, with a little elbow grease, innovation, and focus, we've been able to take transit times out of schedules and improve the service offering that we give Morrow and his people in the C&M space.

I think as one of my colleagues said, the operating team is an operations team, but in some respects they are the pre-sales sales force. They need to be innovating, looking for the cost opportunities and the service opportunities, the value creation not just for our customers but also for our shareholders.

Of course, the focus on continued reduction and variability in cost is just an underpinning principle, whether it's variability by design or by accident. The more we can eliminate it, the better we get.

In the middle box on the top, I'll speak to this in a lot more detail later, but you can see already some of the key underpinnings of our rollingstock engineering and maintenance transformation, the condition monitoring, the condition-based maintenance, the shift to on-train repair, and all of the knock-on effects that that will have in terms of materials, labour, and the footprint that we need to maintain our fleet.

In the upper right, we have continued now to invest in key operational technologies. Getting at a lot of the 80/20 stuff requires elbow grease, mark with chalk, cut with chainsaw, perhaps, but if we're going to get into the 60s in terms of operating ratio, like the class ones, we will need to begin, and we have begun, to invest in the kinds of technologies that will get us there.

You'll hear about freight management more from Keith. I've talked to you in the past about the technologies we'll deploy to begin to allow us to go to more driver-only operations. Systems like our driver assist and fuel trip optimiser roll-outs, and there will be many more.

In the lower left, what we call process re-engineering in part touches on some of the areas that Louise is involved in, going back and re-engineering many of our internal business processes to make sure they are consistent, they are appropriate for the business that we have.

The integrated supply/demand planning. This even involves some of the work that I'll speak to with Network. It's getting much, much better. Our scheduling and order optimisation, working closely with customers so that we balance the supply and demand in a smart and effective way that provides the service they're looking for in a cost-effective manner.

Maintenance planning and scheduling, whether that's in rollingstock maintenance or even in the Network space, is changing dramatically as we think about how we retool to be safer, create capacity, and drive productivity. It's the right balance of some of our key operational initiatives and metrics.

In terms of footprint rationalisation, you've heard us talk about this before and I mentioned the \$1 billion in facilities and real estate that we have in the Above Rail space. You've heard about the announcements about Redbank, and today, as Lance has already indicated, we are going to be continuing that journey.

Today we began our consultation with our unions on closure of the Rockhampton locomotive maintenance depot. Again, as we have gotten much better with our fleet, re-worked our operating plans, looked at how we create capacity in some of our bigger running shops, we are now positioned to take the next step in this space and close that facility.

We are also, as we've mentioned to some in the past, pursuing the automated wheel shop, collapsing three wheel shops that we've had at Redbank, South Townsville and Rockhampton into one location, much more highly-automated, much more cost-effective, and that work is underway and in due course we'll be announcing the location of that shop, but it is coming.

We've also talked about Townsville, broadly, the fact that we've had two terminals there, neither of which are running at full capacity, one of which has huge capital overhangs and is an inefficient location for our intermodal business.

We are now moving ahead with the closure of South Townsville completely and will be transferring the intermodal operation to our Stuart yard, enabling us to eliminate a number of transfers, a number of jobs, quite frankly, and drive significant efficiencies, improvements in service, and safety in terms of running a better operation at Stuart.

We're also re-visiting the core needs for our Rockhampton back shop. This is one of the last major facility footprints that we have in the business, and we continue the work to consolidate necessary work to key locations and outsource non-core work at Rockhampton. That one we will continue to re-visit in the coming months in terms of its future and disposition within our company.

The last thing that I would like to mention is the closure of South Townsville [unclear]. You'll recall that we had a small maintenance facility there, which we indicated we would close by the end of this financial year. Let's call it June of 2016. We are now advancing that by six months to close at the end of this calendar year.

So as you can see, a lot going on in this space, but what is important to understand is that you don't just close shops because that's what you want to do. You have to make underlying changes in your business, whether it's fleet size, your operating plans, create efficiency and capacity in the core terminals and depots that we need to have, in order for these things to happen.

In the lower right, standardisation and continuous improvement. Again, you'll see the first point is the EAs, which I will spend more time on, but the ongoing standardisation of our wagon and locomotive fleets, standardisation of safety and operational protocols right across the business, and the focus on access management that we have with our partners in Queensland Rail, ARTC and Brookfield remain opportunities that we continue to go after.

As I do, as I did this morning, not only do we deploy these programs but we certainly spend a lot of time in the field, making sure that people are getting the message about what's important. This morning I had an opportunity to visit our intermodal terminal here in Sydney and to see a few other parts of our operation.

Last week I was in a number of locations in Queensland, looking at our changes, making sure the team was ready to execute, understood what we needed to do, personally walked the yard plan for Stuart, looking at the stakes, seeing where the leads would go, making sure that we're not just putting the programs out there but we in fact have the ability and focus to execute.

Let me now turn to another element of our improvement, and this is the one that Lance and I have both mentioned before is that partnership we have with our Network colleagues in terms of enabling our Above Rail operational performance and customer service.

It makes a statement that the investment made in the Network over the past number of years, in the asset itself, is definitely, from my perspective, paying off. I think the Above Rail operators in the Central Queensland Coal Network are seeing material improvements in the number of outages, speed restrictions, other elements of capacity and productivity that have benefited the customers and the Above Rail operators alike.

You'll see on the left side of the slide some of the FY15 operational highlights from Network. Zero lost time injury frequency, 3.7 total reportable injury frequency, material improvements year-over-year. Record CQCN volumes - which I know many of you are familiar with - and in 11 of the 12 months setting new railing records.

The performance to plan has improved by 11% over the last two years and even in the past couple of months has been over 90%, in many cases and in many weeks. The Network Maintenance Program has delivered a 3% decrease in Network caused delays, 5% reduction in Network caused cancellation and a 20% decrease in closure hours, which has effectively returned eight million tonnes of capacity back to the operators.

These are material numbers. You can't imagine how disruptive these things can be in terms of crewing, in terms of fleet productivity, maintaining cycle times and schedules and so forth. Now I won't say in the Above Rail space we're lilywhite either but as the entire system lifts, Network and Operations, as we get better at managing or eliminating those variances that I spoke to, or the variability that can creep into these kinds of operations, it becomes a bit of a virtuous circle and it feeds on itself.

As we get better in these spaces, we take that to the bank in terms of shrinking our fleet size, adjusting crew rosters and the like. So there are very real, very material benefits that flow through to the Above Rail operators.

Some of the continuous improvement initiatives that have driven this include more efficient and effective infrastructure management. The Network asset management system is starting to come online. We have more efficient and effective management in delivery of our train control services. Some of the systems we're working on with GE, for example, are starting to come online. I had a sneak peek at APEX the other week, Alex.

We're doing some innovative things, like inspecting our bridges and overheads using drones, which consumes less track time. It's safer for our people. New track maintenance equipment is delivering a 50% productivity improvement that, again, allows us to be faster, safer, more efficient and create capacity for our business.

Turning to our next slide, I wanted to give a sense in terms of how we saw the shifts in some of the major operational metrics in the business. You'll see on the left, there's six programs that I've referred to. The waterfall charts reflect the improvement in some of these key operational metrics and productivity ratios over the last couple of years but also provide you with a bit of a forward view in how we see those playing out in the next two to three years as we drive improvements in the areas I've already noted.

One callout I would make for those of you who are really sharp this afternoon. You'll see the cost curve only declining by 4% to 7% over the next three years. You'll see in the next slide that that number won't tumble with what I will tell you the net improvement to be. But this number does not reflect some of the other stretch that we've put into the program. So bear with us on that.

The key points here, the key takeaway, is that delivering on those key programs drives material improvements in the kinds of operating metrics that run a railroad and will translate into financial value.

Let's look at that. If I look out over the next three years, we are targeting about \$250 million to \$300 million in gross savings. I'll explain the waterfall in just a second. But if we took another look at where we see continued improvement in fleet productivity, and we will see more, we estimate somewhere in the \$10 million to \$15 million range, as we continue to terminate leases that are no longer required and adjust the size of the fleet downward commensurate with the improvement in productivity that we're targeting.

In the labour productivity space, let's call it \$85 million to \$95 million, based again on continued reductions in overtime allowances, contractors and the big hit being the reduction of approximately 800 FTEs over the course of this three year plan, which accounts for roughly \$75 million to \$80 million of this number.

Fuel and Energy, which I skipped over and I apologise, will be in the 15% to 20% - \$15 million to \$20 million range and, again, over the course of the three years, targeting a total of 12% reduction in fuel consumption.

In the rolling stock, engineering maintenance space, targeting a \$60 million to \$70 million in cost savings, about \$18 million to \$20 million of that, a reduction in some of our procurement costs. So as the fleet leans up, as we drive the supply chains harder, get better leading information about our demand, based on wayside technology and other planning improvements, we'll see significant changes there.

But we'll also continue to see improvements in maintenance schedule reviews and unplanned, or unscheduled, maintenance. I've mentioned the wheel shop automation, which we estimate will be worth about \$8 million to \$10 million to us, as well as a number of other benefits which we'll touch on a little bit later.

The big number that I was referring to on the previous slide here called Stretch, well, I have to tell you, looking out at three years things do get a little fuzzy. I can't see what the third or fourth or fifth layer of the onion looks like after I've begun to - until I've peeled that onion and can see it directly. But what I can tell you, and what the team has signed up for, is that based on our confidence we've had Stretches before, based on the strength of the programs, the momentum we have. We know that money is out there. We've got a pretty good idea of where it is. But we are including that stretch as part of this, because we believe fervently, as we peel the onion we will get to other areas of opportunity. That is why, for example, we've announced the closures of the [LMD] today, and advancing the closure of south Townsville by six months.

So as we proof up these opportunities, as we get more confident, we peel back the layer of the onion faster as we get to the next opportunities. So that brings us to the 250-300 range. Yes, there will be some transformation costs, things like [VRs], the 4% EA uplift. Others, CPI and FX impacts, and from our perspective, we're looking at something in the upward range of \$150 million in net benefits by the end of the life of the plan.

So what I'd like to do now is start to segue into a little bit more detail about some of the elements of the plan, and the focus for the balance of my session will really be on labour productivity, in particular the new enterprise agreements, and on our rolling stock and engineering maintenance transformation. So as I segue into the enterprise agreements, I'd like to start with this first slide, and I think it's appropriate and important to remind people of what we started with, that IPO. You'll recall that our enterprise agreements were grandfather to us. No changes in work rules for four years there, in effect. No - a 4% per year increase, no corresponding offset in productivity or work rules.

We were granted legacy conditions that were anachronistic and uncompetitive, things that no-one else had to deal with. So the burning platform for us, if you just looked at the train crew space for example, compared to our next largest competitor, our view was, we were anywhere from 10-15% less competitive in the train crew space. We had extremely restrictive core conditions. We have 14 separate agreements, again, coming out of GOC land. We had no forced redundancies. Again, remember the mandate of the Queensland Rail and the government back in the day. This was in many respects a social obligation. Job creation, vote gathering, call it what it is.

But entirely inconsistent with how you run an efficient, safer, more customer-focused enterprise. We had no forced relocation. We had over 900 different pay points. We were paying for rail passes for people. We had extremely limited flexibility in our work rules, as I noted. Roster rules, limited the variability to variablise our costs with demand, and so things like demarcations became important. Work ownership rules that prevented us from improving the productivity of the staff. We had guaranteed rostered days off. Driving and driving radius restrictions in terms of where our crews could deadhead themselves to and from, sign off and sign on times that were, quite frankly, anachronistic.

Multiple sign on points, limitations of hours restrictions, banking of hours, inability to direct people to take leave. A number of things that our competitors just simply didn't have to deal with. Now it took us almost two years of negotiating at the main table. We, as you

heard, made a Fair Work Commission application to terminate the agreement, and that had the effect of bringing the unions back to the table to get serious with negotiating with us. As I mentioned, Ed spent a big chunk of his young life at that table. But we got what we were seeking, a negotiated agreement with our unions. That was critically important to us.

Which, as you know, those three agreements - for the white collar, this is the construction and maintenance and the train crew were voted up with a very reasonable majority. We believe the agreements that we have, which we are now implementing, are good for the company, and its shareholders, but equally good for customers and the employees as well. I'll talk about some of the terms and conditions of those as we go through them. Let me start first with some of those core conditions. As you heard, we have eliminated no forced redundancy. Now, at a time - over the past number of years, when we have far too many people for the work at hand, it wasn't as difficult to find people who would take a voluntary package.

They tended to be older, more senior employees, ones that probably didn't want to come along for the change, and we were very successful at bringing the head count of the organisation down from about 10,000 at IPO to about 7000 today. But the next changes that we've been talking about and will continue to talk about start to cut a little bit deeper. Younger workforce, workforce located in areas where we just don't need them and need the ability to either reduce or redeploy, and as you can see, just in terms of the Queensland-based employees we're talking about, these agreements will see us reduce or be in effect, now, at a time when we're probably going to be reducing in that 350-400 range, just in Queensland alone over the life of the agreement.

One of the things that we spoke to earlier was the cost of carrying the employees that would not accept a voluntary redundancy in a regime where you had a no-forced redundancy clause. Now we've had employees, roughly 40, 50, 60. It's varied over the last few years. But they were a group of white collar employees that we were unable to remove from the business to force the redundancy. We incurred \$14 million of costs to carry those people, until such time as we got the white collar agreement up at the end of last year. If you were to do some back of the envelope math and apply that kind of cost to the \$350-400 million, again, depending on how long they stay with us as EITs, the cost to look after them, the administration, the cost to help them find other employment - this could be \$30 million, \$40 million, \$50 million in costs that we are now able to avoid.

It is allowing us now to execute the changes as quickly as we can without having to dance a little bit around how we execute relative to the no forced redundancy clause. Significant change and enabler for us in terms of our transformation. If we take a look at things like rail passes, maybe not a big hit, but iconic and cultural and a real signal to the organisation about what we mean about driving continuous change and improvement in our culture. The ability to take indirect leave, this is also critically important. The reality in many of our businesses is that annual and long-service leave often get banked by employees and accrued, and only taken towards the ends of their career.

By that time, the employees are generally earning their highest possible wages, and we've had to accrue for that time and money by making sure that that is indexed according to their wage increases. As you can imagine, and the number says it here, we're holding on the books roughly \$240 million in accrued vacation. That is increasing with the rate of inflation. Our inability to direct leave when we have a reduction in demand or an ability to free people up has been costly. We now have the tool we need to be able to get at this number and reduce that liability going forward. One of the other core conditions that has helped us, also, is the ability now to go after, or implement, changes and, if we have a dispute with the unions, to take that to Fair Work and arbitrate after the fact.

We no longer need union permission, Fair Work approval to make the changes before we implement. This will materially speed up our ability to implement. This is an important change. As I turn, then, to construction and maintenance - and again, I've already touched on this - the no forced redundancy clause in this space is probably one of the most important, because this is the area where we expect to see the greatest amount of head count change in the coming two to three years. We've talked about Redbank already, but in Townsville, Rockhampton, and so forth, we will continue to see opportunities that we can now act on quickly with the forced redundancy clause.

One of the other changes that will help us, as well, in terms of our flexibility, is the removal of rostering by agreements or ballot, or committee. In effect, as we see the need, we can make rostering changes in the CNM space. If there's a dispute, we'll take that to one side and deal with it, but it does not prevent us from moving forward in terms of aligning our labour to demand more appropriately, more quickly. It's also allowing us to set our labour up so that we're paying less overtime, that there are more straight time shifts. Shift worker classification, again, collapsing and blending some of the job

descriptions so we don't have issues of demarcation, a more flexible workforce, more - proactively adjusting for the type and nature of the work we have.

You'll see, also, that in doing some of this, some of few folks who somehow managed to finagle a five week annual leave grant, that will be coming back to four. Maybe not the biggest thing we have, but again, another very strong signal about our desire to change the culture and the mentality of our business. Removal of paid meal breaks, yet another one. Again, not a big number in the grand scheme, but important in terms of sending a clear message about what we value and what we're prepared to pay for. As I move to train crew and transport operators, again, a lot of stuff in here and I'll try to give you a quick overview of what some of these changes mean for us.

Then I'd like to maybe spend a minute and talk a little bit about what we're actually seeing now, three weeks into it. Master roster diagrams. In the past, an inability to change them as we needed to to reflect changes in demand. So we'd often stick with rosters that were put together many, many months ago in a very different demand scenario. That meant that we'd have un-rostered shifts, or we'd have shifts that were rostered that were no longer needed. You can imagine, now, we'd have to call people on overtime to fill in the blanks, or we'd have people coming in, getting paid for time that was not required. So all of that has changed, and our view is that that should lift the productivity of the workforce by 5-10%.

Overall, that would look and feel like a 65 number. We'd also have greater flexibility in terms of our day of operations. So the reality is that sometimes, trains may come ahead a little bit in terms of their schedule or fall back. Our problem was that our crews were rostered, in advance, for a fixed time, which would mean that at times, trains would show up and there was no crew, in which case the asset was sitting, service might get cancelled, or we had to roster someone else to come in to grab that train at overtime rates. Or the opposite was true. We had a crew sitting around, twiddling their thumbs, waiting for a train.

At the end of the shift, we were paying overtime, or potentially having to relieve the crew. Highly inflexible, highly inefficient. The changes that we have in what we call lift and layback are now allowing us to adjust those times, reasonably, within a few hours of either side of that original rostered time. That is allowing us to get at significant footplate time and overtime rates. It is also helping us reduce the amount of deadheading we'll do, and

I'll touch on that in a minute. Overtime, again, as we've adjusted those rosters, as we've created those flexibilities, we're seeing more incentives to work on weekends, as people get better schedules. We're also seeing improvements in absenteeism and a reduction in overtime cost. Again, the percentages I'm showing you here are the estimated numbers that we had as we went into this agreement.

Car driving hours, again as we think about the lift and lay back provision, the better rostering, but also the removal of some of those car driving restrictions is actually allowing us to reduce the percentage of road kilometres that our people are putting on. I would rather have them in the cab of a locomotive behind the throttle than on a road behind the wheel of Prado or some other SUV. If we talk about safety exposures and we talk about some of the challenges we've had, and certainly the tragedy at Stanwell a year ago, the resolve to get our people out of vehicles, off the roads, continues to be extremely strong. This is a key enabler in helping us get there.

The removal of artificial demarcations. I have had road crews that would come into a yard or terminal and with plenty of time left on their rostered shift be unable to switch or shunt their own train. That work had to fall to the local shunters. It doesn't make a lot of sense to me, not consistent with best practice; that is now changing. That will allow us to redeploy or use our shunters very, very differently. Now, in a global sense, I sit here and look at the cumulative effect of all of these things and I say okay, well, what should we start to see? First of all, if I think of it in these terms, the first thing I want to do is move a hell of a lot more coal. This has helped me reduce service cancellations, it has helped me cycle the sets faster. It has helped me move more coal, first and foremost.

The second thing is that it's helping me move more coal with less overtime or penalty rates so I'm getting a better unit cost. If I do those things and reduce the dead-heading and footplate time and so forth goes up, I now have an opportunity if I'm surplus people to go after that annual leave or long service leave. After that, if I can get at that well enough, then we'll think about whether we curtail the training. Might even do that a little bit earlier and in the end if we're still surplus that becomes the opportunity to redeploy or reduce the workforce. That's how we're thinking about the approach here because those, probably in that order, are where we think we can get the greatest elements of value.

If I talk a little bit about what we're seeing, I guess the first thing I'd point out in many respects is that the direct and indirect benefits of these EAs is much larger than the

incurred cost of the agreement, call it the 4%, and really does underpin the \$250 million to \$300 million we're targeting for transformation. I want to stop for a second, because it is important to understand that the multiplier effect of these things is considerable. It is not a perfect point-to-point, line-to-line relationship. As I noted earlier, it depends on how we want to extract the value. The benefits may appear in different places.

Just to give you an indication of what we're actually seeing now three weeks into the agreement and let me say this first. I've been involved with a number of these enterprise agreement implementations. I've sat at the main table, I have implemented and I can tell you, sometimes not so well. This is by far in my almost 30 years of railroading the best-planned, the best-executed implementation of a series of significant EA changes that I have ever seen. We have had to reshape our organisations a little bit, redefine roles, accountabilities, process.

We have a whole new suite of metrics that we're tracking that are owned very clearly by certain individuals and in some cases by a broader team of roster clerks and field managers and supervisors. The governance around these agreements to ensure that we're implementing them properly, getting the right benefits in the right places and cleaning up where we have some opportunities, and we are finding some opportunities, has been some of the best I've ever seen.

When I talk to you now a little bit about the early results I tell you that relative to the previous screen we're probably a little ahead of ourselves in terms of car driving kilometres. We're seeing 8%, 9%, 10%, 12% improvements. In one system a couple of weeks ago it was as high as 30%. We're also seeing improvements in crew hour to train hour, reducing 67% to 7%, a little ahead of our plan in coal. We're also seeing significant drops in overtime, anywhere from 15% to 25% depending on the system. Our absenteeism has dropped 2%. If I look at train or service cancellations since the EAs went live, just in coal, down 50%. I can go on about a few of the other metrics but these are ones that I personally watch very, very closely and I know my team does. We have a long way to go to get these things fully up and running.

We still have work to do to get people appropriately trained and qualified so we can execute on things like the demarcation changes and so forth. We are very much hitting the ground running in these first few weeks and we will be continuing to make sure that those cultural and other iconic changes, work rule changes, are moving forward as quickly as we

possibly can. A good job from my perspective in terms of the whole team, and like a child it takes a whole village to raise that child, this has involved a lot of people, not just IR, HR but a lot of folks. Right through the frontlines, head office, this has been truly an enterprise effort.

As I shift gears to another favourite topic of mine, rolling stock, engineering and maintenance, this is a core part of our transformation program as I noted. Consistent with the other slide that I showed, you can see here for example, this was probably one of our largest single functions in the business. I mentioned the 10,000 people that we had in Aurizon at IPO; well, at about that same time there were just shy of 3000 people in rolling stock maintenance alone, almost 30% of the company made up of rolling stock maintenance staff. Over the past five years under largely Pat's stewardship, that number has come down to 1400. In fact, I will tell you today we're continuing that push and are just sitting at about 1250 as of today.

Over the next three years we are going to take that number down further. That will involve again some of the things I spoke to you about in terms of the ongoing fleet, terminal, depot rationalisations, wheel shop, will enable us as well as the on-train repair and wayside technologies will enable us to bring that number down yet again. On the productivity front, if you're taking a look at that in terms of the number of tonnes we're moving as a function of our FTE, considerable improvement here. Not only are we shrinking the workforce significantly, but as an enterprise we're able to move a lot more tonnage with a smaller fleet, smaller workforce, smaller footprint. This is exactly what I said before, this is about how you do a lot more with a lot less.

Similarly, you'll see the maintenance cost per NTK coming down and that reflects everything from labour to materials, the cost of the footprint and so forth. The other bit, and we don't lose sight of this one because I constantly hammer Pat on it every day, is the availability and the reliability of the fleet. It's not good enough just to do these other three things. We need to make sure that the smaller, more productive fleet we have is also highly available and highly reliable, and as you've seen in the last five years, a significant improvement in that performance.

The bar gets a little higher and a little tougher to attain but if you're talking about a 2% to 3% improvement on a fleet, in many cases some of our key locomotive classes are already in the 93% to 95% range. Our 106-tonne wagon fleet is already in the 95% to 97% range.

This is truly squeezing the blood out of the stone. But on a fleet of almost 7000 wagons, 1% is 70 wagons and if we are in growth mode or we have an opportunity to defer capital, those 70 wagons, that 1% becomes really quite important.

Let's talk a little bit about the evolution of the model in rolling stock maintenance. At IPO I think it's fair to say, and Pat would probably agree with me, and Lance and others, it was really just about getting fit. It was about shedding a lot of the extra weight we were carrying. We had far too many depots. Without a lot of hard work, this was not about marking with micrometres and cutting with lasers, this was chalk and chainsaw stuff.

We did close a number of surplus depots and took out the surplus headcount. We had a foundry that we exited. We exited wagon manufacturing, because frankly that was a make-work project; that was an employment project. There are people who do that far better than we do and for far less cost. We moved to more reliability-centred, more disciplined maintenance practices. We didn't in some cases have standards for certain fleets and in some cases the standards were inconsistent across the fleets within Aurizon, so a huge opportunity.

We've been moving I think very quickly into the ticket-to-the-game space if not leveraging competitive advantage space. You've heard us talk about the initial deployment of condition monitoring and the trial of on-train repair at Jilalan. When I was there last week I was very pleased to see that in action, and the excitement that the team had around the implementation of that. Just last month alone with the work we did, we avoided having to shunt 70 trains and take wagons to the shop for repair. Why? Because we knew the work that we had coming in based on the wayside information and we had the on-train repair methodology nailed down so that we didn't have to burn crews to shunt, we didn't have to chew up the yard's capacity while we were doing the shunting, we were in effect able to make those repairs within a matter of minutes in the train's natural dwell.

We've also exited from non-core passenger work at Townsville and Redbank and we've spoken to that before, the ongoing work now in terms of the disposal of the Redbank site, which is underway and further depot rationalisation across the footprint, and I've already referred to a few of those earlier in the presentation. Non-core maintenance will continue to be contracted out to appropriate suppliers, partners, who can work and grow with us in terms of what we need in our business. As I think about how we talk about leveraging competitive advantage, using the electronic rolling stock examination capability and

moving to a more predictive condition-based maintenance has a lot of benefits which I will touch on. We think about this in terms of changing the way we work, and even how we think about our planning and whether there's a future that has us integrating our operations and mechanical planning, even some of the network planning, far, far more effectively.

We believe we are moving to a place where we will have industry-leading availability and reliability and improved capital, class and service profiles. I want to just touch on this for a second, because the supplier relationships that we're building and the network characteristics that we have for high-density captive fleet in CQCN, the deployment of the wayside technology, the partnership we have with the suppliers that are helping us do the analytics of that wayside data to drive better information and planning and maintenance practices is what we believe will create that competitive advantage.

I can tell you that there aren't many people - in fact I don't know of anyone who is doing what we're doing fully in this space. Yes, the class 1s had wayside detection technology. Yes, they have some of the analytics. But they don't have the network characteristics, they don't have [captive] fleets and I'm not aware of anyone who is doing what we're doing with the analytical information that we're now getting from the wayside sites. That to me is competitive advantage. So we are going to continue to work on that trajectory.

If I can I'd just like to give you a feel for the process and how we think about this area of our business and then I'll take you through a few examples. If you think about how we now leverage the new wayside technology and I'll actually show you a video of this here after this slide. So we've got a nice cartoon for you to look at because you're probably tired of listening to me. If you could imagine this train passes by a whole suite of wayside detectors and this stuff is now doing the work of employees that used to take several hours inspecting a train. This thing is looking at wheels, running gear, bodies, car bodies and the like and providing us with real-time information about the health and condition of that equipment.

That's allowing us to create work orders. Once that data and interpretive analysis is done, it's creating work orders for our people in advance so that we can plan any needed repair or replacement work. Not everything needs to be urgent. Some things we may decide to get in two or three turns or a day or two or a week out, depending on the nature of the wear and tear. The interesting thing or the best thing about this is that we can now, as I

say, start to target to do things differently. If we know on a planned basis when this is going to come in or when it needs to come in, we can start to do some activities very differently.

If you take a look at this, this is one of those things that's like the virtuous cycle and one of the ones that touches many, many functions in the organisation. Certainly there are greater efficiencies. It is faster, it is definitely safer, more predictive and condition based. If you think about the reduction in service failures, direct improvement and benefit to the customers as well as to the network as well as to the productivity of our fleet and crews and the like. I mentioned the number of shunting movements coming down. You won't believe just how badly those shunt movements can tie up a yard and the capacity and impact cycle times, core volumes and all of the other factors it touches.

Of course this allows us to keep the assets in service more as opposed to taking them to the shop where we lose time and productivity and it is certainly improving the reliability and availability of the assets. And there's that variability word creeping in as well. The better we get to know our equipment, the better we understand how it's doing out there, the less variable we become in our business. That helps us take cost-out, that helps us improve service and it helps us improve safety. As I noted, the knock on impacts for materials and the footprint we need, the labour and other costs all start to melt away.

Now if I could get Andy to help me with this video and a couple of you may have seen this. This is an example of our wayside site and here, without getting into a lot of details, you'll have things that are looking at wheel profiles, brake shoes, running gear, car bodies and the like. There are a number of sensors in here that as you'll see as the train goes by - and by the way, this is happening at track speed so let's call it 80 kilometres an hour. This is a rather short train so it's not part of a long train program but it has a few wagons on it so you get the gist of what we're looking at.

As the train begins to pass through the site you'll the sensors come on, just giving you an indication of the kinds of things that we're looking at as the train goes by, every wheel, every component, the undercarriage, the draw bar mechanisms, all being looked at and that data and information gathered and collocated. A comment here about this is that that would have taken probably in the order of, for a full train in the Blackwater, probably about 90 seconds to pass by and it is getting a wealth of information for us that quite frankly we tried to get in a four-to-six-hour inspection in a yard but in many cases can't do

unless we take the wagons into the shop and take a look at them in a pit or over a pit. So we're getting much better, much more accurate, much more frequent, much better information than we could ever have gotten by manual inspection or other similar means. You could imagine and we've had similar situations in Canada, you've got to imagine it's pretty tough when you're out there at 3:00 in the morning at minus 30 or 40 doing this work or here in Australia when it's 30 or 40 above in a train yard for four or six hours trying to find stuff. That's the essence of the change. Our people are no longer looking for problems. They're no longer finding stuff. They are now fixing stuff because this changes the process. It lets the technology do the heavy lifting in terms of finding stuff, which it can do faster, safer, more reliably, more informatively and letting our people be better planned, better ready, resourced and equipped to get at maintaining the fleet and that's how you improve fleet availability and reliability.

Let me give you an example of what this can look like in practical terms. This is a picture of one of our wheels. So for those of you who are somewhat familiar with this, what you're kind of looking at, the shiny bit is the tread of the wheel and the shinier bit towards the bottom right is the flange of the wheel. That's what holds the wheel onto the gauge of the track. This was taken at 80 kilometres an hour. Now that's a level of detail with the appropriate analysis that we just can't get when we're in a yard or terminal. We could never do this kind of work this quickly, this effectively.

The lower right just gives you an indication of the kind of analysis that takes place behind the scenes. The green line is the ideal profile of the wheel, the flange being the little bump on the left and the tread being the flat bit through the middle. The red is the actual profile. What this is telling us is that we've got some wear and a high flange. This wheel will need to be changed or may need to be changed immediately. But if this is doing its job and we're watching the trending we know well in advance what the wheel wear rate is and we can better plan for the change-outs.

As we get better in this space not only can we get better at predicting wheel wear and when we need to change it out, but we can also - working with our network colleagues - adjust the lubrication regimes, rail profiles, and the like to make sure we've got the best outcome in terms of wheel wear and the like. Train design, train handling, can also play a role in this. It is hugely powerful information and allows us to do some things very differently going forward. I'd tell you that there was probably a point in time where we

were spending north of \$40 million a year on changing wheels in this business. We're now well south of \$20 million. This technology is helping us get there along with improved train designs, improved lubrication regimes, and the like.

Here's another example: this is the underside of one of our coal hoppers and as the green ticks and circles would tell you, those two on the outsides are what a closed door should look like. The one in the middle is open. This has come back from report. Now if you can imagine this gets to mine, no-one catches it, and all of a sudden we've got a problem; we're loading a wagon with an open door. Coal spillage, delay, clean-up, all the rest of it. This allows us to catch this, repair it, address it, before it becomes a problem. Again, driving variability out of the system, improving our customer service and making us far more productive and cost effective.

Here's another one: undercarriage. On the left, you see draft gear as it should normally appear in one of 106 tonne wagons. The strike plate is in good shape. That's the bar down the left side of the chart. On the right side you can see the - as this car has come back or this wagon has come back - something has happened to cause that yoke to pull out and to bend the strike plate. This yoke will need repair. One of the other interesting things here is that not only are we catching this on this particular car but as we see these things happen we're also able to zero in on where they're happening, how they're happening, and make sure that we catch these things before they fail. Just over the last, call it, four or five months, we've found 19 such instances which we've been able to fix: either a defective yoke, or some train handling, or some other issues. But the fact is we can catch these things often well before they fail and make sure we're taking the appropriate corrective actions.

Again, last picture in this space, but if you take a look at the full detailed scan, you're seeing stuff that we used to have to take to the pits inside a shop to look at - whether it's axle strap gears, couplers, centre sills, or the car body underneath - can now all be looked at by the technology at track speed. Significant improvement in the way we do work. It is all about improving our safety, capacity, reducing those shunts, the availability, being far more planned and reactive. As I say with that imaging up front, this gives you an example of what can happen as a train comes into a yard or terminal now. Andy, if I get you to run this one, this is Kalamunda yard. This is a simulation that shows what happens when a train has gone by one of those scanner sites, now comes into the yard. We know the health of the equipment. We know which wagons may need some TLC. We've already pre-

instructed the workforce to load up their vehicles with the appropriate materials and equipment and head out on site to the specific location where we are going to do the repairs.

You can see here what are the panels and the changes we've made to the yards to enable the change-out: we slide a hydraulic jack in. This is a wheel change, obviously. We can pull the wheel out, insert the new wheel, drop the bogey in the wagon, and literally off we go. Now imagine again that in the world we wouldn't have known the wheel was bad. Someone would have found it. We would be reacting and scrambling. We'd have to go and shunt the wagon out, bring it over to the shop, et cetera. So unplanned work, reactive, frankly creating exposures in terms of addition safety and activity for our people. So again a huge opportunity for us to drive material change in the way we do our business.

So with that I'd like to finish up my section just by reiterating a few key points for you here today: we are targeting an additional \$250 million to \$300 million in gross benefits by FY18. Those six core programs that I spoke to and some of the key subcomponents that I've just reviewed such as rolling stock maintenance transformation and the EAs underpin that transformation, have underpinned, and will continue to underpin that transformation. Our track record, our momentum, our focus, and the line of site, that we have to the next set of improvements will carry us there through the next three years. Perhaps, I'll step down and turn it over to Q&A. Thank you.

Chris Vagg: Thank you Mike. Q&A now. We'll do some Q&A for Lance & Mike and then we'll have a break. So we'll have a couple of mics coming around. Sorry they're just coming now.

Simon Mitchell: (UBS, Analyst) Just a question for Mike first. On slide 13 where you've talked about the waterfall with the costs coming down, I presume that the foregone costs on the exited revenue from CRT et cetera are on top of that?

Mike Franczak: The waterfall.

Simon Mitchell: (UBS, Analyst) Referring to...

Mike Franczak: Yes, sorry can you give me that again?

Simon Mitchell: (UBS, Analyst) The first chart in slide 13...

Mike Franczak: Yes.

Simon Mitchell: (UBS, Analyst) ...where you have costs going from \$1.3 billion down by 4% to 7%, I presume that we should be thinking of CRT et cetera as on top of that?

Mike Franczak: How do you mean on top of it?

Simon Mitchell: (UBS, Analyst) These exited business, it's gone. There's still some in FY15?

Mike Franczak: Very little. We executed that sale six months into the year. Yes, not material in my view.

Simon Mitchell: (UBS, Analyst) Just one for Lance maybe. The 10.5% return target that you talked about, last year you said that you generated 10.4% return on the same measures. So I think that the methodology you're using is the same as your executive remuneration targets. Just thinking about the increase in EBIT that you're expecting through these cost-outs, why aren't we seeing the return on capital creeping up over time? Is it because of additional CapEx to achieve those targets or are we thinking that some of these are not cash...

Lance Hockridge: The 10.5% target, Simon, is an average of 10.5% over the three years. So we enter 9.87% and we exit at 11.5%, 12%, somewhere in that range.

Simon Mitchell: (UBS, Analyst) But you achieved 10.4% in FY15.

Lance Hockridge: 9.7%...

Simon Mitchell: (UBS, Analyst) The FY15 result, it's on the same measure.

Mike Franczak: No.

Lance Hockridge: So 9.7%.

Simon Mitchell: (UBS, Analyst) Okay. Well you - I'll take that offline, I'll show you where it is.

Lance Hockridge: Sure.

Simon Mitchell: (UBS, Analyst) Just thirdly, should we think of the reduction in costs as being all cash or is there some element of depreciation there through asset efficiency?

Lance Hockridge: The majority of it will be cash, yes. There will be some provision movements on things like annual leave provisions as we work those through but yes, the vast majority will be cash.

Matt Spence: (Merrill Lynch, Analyst) Matt Spence from Merrills, for Lance or Mauro. So your EBIT in FY15 was \$975 million. If I add the mid-point of your cost-out target at \$350 million, I get \$1.32 billion. Incentives is at \$1.25 billion so about 6% below. We've got \$200 million revenue coming off this year, we've got work ramping up. Can Mauro or Lance comment on anything else in the coal haulage business that's changing between now and FY18? Any contract changes or any...

Mauro Neves: Thanks Matt. No, there's no relevant change. The guidance we gave for next year, is closest to where we landed this financial year, so all in all, now very consistent. We're not anticipating immediate change. Only the rollout of the implementation of the BMA contract, that's the big thing, but that's been vastly well known.

Matt Spence: (Merrill Lynch, Analyst) Maybe just a follow up into the panel. How do you feel about holding onto these cost-outs that you've announced today? I mean the coal haulage business is making above cost of capital sort of return now. Miners aren't, so how confident are you around holding onto these cost-outs?

Lance Hockridge: I think we've got a - within the scheme of the nature of the challenge that you're talking about on all the - all of the work that Mike has described, we've got a high level of confidence. To the extent that your question therefore Matt is about well, the pressure that the miners are under and what therefore is the possibility outside of the sort of things that we've been talking about that we continue to get pressure for renegotiation, et cetera, all I can say as we've indicated before is that other than what we've seen in the last couple of days in that work space, to the extent that that's representative of it, we're not seeing that kind of pressure. Certainly not in the coal space, Matt.

We continue to model both by customer and by mine. The profitability of our customers and the latest number is 11% of our customer base is cash negative on that Wood Mackenzie modelling, which is an improvement from about 30% in July of calendar 2014, for example. We also see as I observed on the way through the continuation of the strong level of shipment that has been representative of the last 12 months.

So again, not to deny the pressure that the customers are under, but to reiterate and to reinforce the observations that we've made, that in the face of that and given those specifics that I've just given, what we continue to see is our customers wanting to ship every tonne that they can ship.

Anthony Moulder: (Citigroup, Analyst) Anthony Moulder from Citigroup.

Just one for Keith if I can start with the inflation rate. What are you assuming for your rate of inflation over the next three years?

Keith Neate: Sorry, say again.

Anthony Moulder: (Citigroup, Analyst) The rate of inflation that you assume...

Keith Neate: It's in the order of 2%.

Anthony Moulder: (Citigroup, Analyst) Secondly you've kept the 70% target as far as the operating ratio for FY18 is concerned. Do we think of - about delivering at the mid-point of the transformation savings that you've identified today, 345 in middle of the 310 to 380?

Keith Neate: If we knew an exact number, Anthony, we'd have given you one. It's a range because in terms of things like redundancy, you know we have a workforce that some are very young in their years of service, some have got 30 or 40 year of service. Whichever one is made redundant, there's a very different redundancy cost involved in that. So it's impossible to pinpoint right now the outcome but it's in that sort of range.

Likewise the volume outlook will be a key driver in terms of the overall numbers as well. We're making the assumption in the numbers here that the volume outlook growth will be very modest indeed and obviously we start FY16 with a \$200 million drop in revenue. So I'll leave it to you to pick the number that you think is most appropriate in your model. I've got a number in mind but...

Cameron McDonald: (Deutsche Bank, Analyst) Mike, Cameron McDonald from Deutsche. Just a question - I think you said the net benefits were going to - that you were going to keep of the cost-out program around \$150 million? So how much of those are ongoing costs that you're going to incur through the technology versus the redundancy costs which will be one-off? I think previously we've seen the payback on some of these to be, you know, 12 months or less. Is that the way we should be thinking about it?

Keith Neate: The costs are specifically VR costs, CPI and the cost of delivering transformation. They're not the ongoing costs, they're the one-off costs of doing it.

Cameron McDonald: (Deutsche Bank, Analyst) So in the - so in the first year, we should see the difference of - so in FY18 or FY19 I suppose you'll see - you won't see 350 of benefits, you'll see 150 and then stepping up to 350 thereafter. Is that what you're saying?

Mike Franczak: I guess the way I'd look at it is look at those numbers over a three year period. So sometime during that three years we're going to, you know, shell out VRs,

restructuring costs, the like but over the course of the three years we'll be getting also that 250 to 300. So think of it in those terms. That's the best way to do. There will be some puts and takes. To Keith's point, we may go a little harder and faster in year one versus year two or the opposite may be true.

I've already noted that we're, in some cases, already accelerating. So some of those VR costs, [PAT's] going to pull ahead by six months at Rockhampton or Townsville for example. So we're going to go hard and fast on this to get the underlying - ongoing costs out, but there will be a few bumps and hiccoughs in terms of the restructuring as we go. That's the best way to put it to you, but think of that over the end of the three years, that's I think where the dust will settle roughly.

Cameron McDonald: (Deutsche Bank, Analyst) Okay and Keith, just a question on your volume commentary. If I look at slide 23, you've got the productivity measure of NTKs to FTEs is up 50% to 60% and yet your FTEs are down sort of 30% to 34%. So I'm just wondering your comment around the volume growth of only 2%, how you actually then get a doubling of that productivity benefit?

Keith Neate: [Sector lengths] plays a big part in that as well obviously. We've got the likes of...

Cameron McDonald: (Deutsche Bank, Analyst) So what's happening with sector lengths over the next three years that's with new mines or new operations when we've just heard from Mauro that there's nothing operational that you think is going to be changing?

Keith Neate: We've got Whitehaven starting which obviously has got a very different sector length to our average in Queensland. It's already started obviously, but there will be a ramp up in that as well.

Cameron McDonald: (Deutsche Bank, Analyst) Okay, thank you.

Ian Myles: (Macquarie, Analyst) Hi, it's Ian Myles from Macquarie. Just can you give us a bit more colour on the voluntary redundancy? You've got I think off that maths would have about 1200 people exiting the business. I was just wondering the timelines, how many of those you'll want to sort of try and achieve to have exit out in the next 12 months or the next nine months versus over the three year period? Because clearly you've got a lot more detail which you have maybe articulated here.

Mike Franczak: Well you have to respect the fact that we haven't begun consultation with all 800 or 1200 of them in terms of timing and what will happen. Look, I think what I would tell you is we're confident in those numbers over the course of the three years. If you want to plot a straight line for that, that's probably a fair representation. It will exceedingly difficult to get all 800 in the operations space out within the next year. It is more likely to happen over that two to three year period.

Ian Myles: (Macquarie, Analyst) In terms of that asset efficiency, you're clearly getting a lot more productivity out of your asset but, you know, we hear we're not getting a lot of volume. What sort of capital spills out at the bottom? Because you know, you either use your equipment more to haul the same tonnage or - and haul more tonnage or you have a lump of asset at the back which you sell at some point. I'm just wondering, what comes out at the back when you get that efficiency?

Mike Franczak: Well look, if you - just back to the envelope numbers, you know, you take a look at as I say, the fleet size. I'll go back to that 106 tonne example that I used. Every per cent availability that PAT can give me is in effect an uplift in productivity. There's 60 to 70 wagons there. So to the extent that those become opportunities for us in terms of hauling more coal tonnes, different mines, maybe Mauro has something up his sleeve, I don't know, but I think I know what's up his sleeve. Then at \$200,000 a pop you can do the math in terms of capital avoidance.

That's the way I like to think about it. If you're looking at a 106-tonne wagon, \$200,000 per is a good working number; \$5 million a locomotive - good working numbers. So the extent to which I can move more coal or avoid or defer capital spend, I'd say probably five years ago at this time we were probably looking at some acquisitions - not even five years ago frankly, two or three years ago - we were probably going to be in the hunt for AC locomotives and by virtue of the productivity in the fleet we've avoided that spend.

Just to close out I would say that's probably one of the underlying reasons Keith would say that we've been able to bring our capital spend as a company back in line. In operations alone we're settling into that, call it [\$400 million-\$425 million] range on a forward basis which is more in line with the kind of depreciation we have for things like the fleet for example so starting to hit a more steady state, leveraging the productivity improvements and avoiding acquisitions where we can.

Scott Ryall: (CSLA, Analyst) Scott Ryall, CSLA. I wondered, Lance, I think it's a variation of some earlier questions but if I look at the last two years your EBIT stepped up by call it \$220 million on very limited revenue step up and taking out some cost inflation. Your conversion - just to use a crude metric - the conversion on EBIT increased to the cost reduction or the cost savings achieved was 85% or so. Going forward if I look at using similar sort of metrics the only variability therefore is around revenue or any step up in costs in order to implement some of these changes.

You've talked obviously to the revenue step down this year. Could you talk to anything you see over a three year timeframe on the revenue side and maybe - and this might be Mike as well - talk about increases in costs particularly around technology that will be expensed that will potentially offset some of the cost out that you'll achieve?

Lance Hockridge: The extra degree if I put it that way of granularity around the revenue is just picking up on the observation that Mauro made that over the next couple of years in terms of what's known in the market at the moment there's between 10 million and 15 million tonnes of contestable tonnes. Beyond those there are the sort of things that people are aware of in terms of are there mines that are going to be re-opened, those kinds of things, Scott. Other than that that really is the totality around shifts as a result of why I describe them as contestable tonnes. Then there's the extent to which the miners can run hard around what they're already doing.

I think the observation that we're making though is that there will always be the opportunity hopefully for them to do a little better but they're essentially in that space now. There's not anything that we're aware of where on the back of the plans that the miners have got for further productivity improvements or changes in the nature of their operation, et cetera, that we would see significant change from the volume and therefore from a revenue point of view.

Mike, did you want to comment on the...

Mike Franczak: Yes, I guess a couple of comments. I think the question was around technology and the expense associated with that perhaps as a result of FX. Most of what we're investing in is largely capital. Now we do have an FX exposure there with respect to capital as we move forward so we've had to manage and deal with that effectively.

The good news I think is that a lot of what we have done, largely put in place is ahead of the change in the Aussie dollar but we do need to be mindful that as we go forward on the

capital items that we're getting offshore there will be an FX impact and that's part of Keith holding my seat to the fire on my overall budget. We have to deal with that.

I would point out that when I spoke to the transformation costs and CPI in that three year cost curve I did mention that that was inclusive of our view on the impact of CPI, VRs and FX on materials and other such costs so we are already reflecting that in that transformation cost and CPI bucket. That runs about \$30 million odd right now in our estimation just for the FX component. We're mindful that we have that headwind in both expense and capital buckets but not too heavily worried about the technology bit per se yet.

Scott Ryall: (CSLA, Analyst) Presumably amortisation is faster so that also includes any uptick in amortisation associated with technology investments which is shorter duration?

Mike Franczak: I'll defer to Keith but my esteemed financial colleagues make sure the depreciation rates are set accordingly based on the asset life and so forth.

Keith Neate: Yes, technology we obviously write over a much shorter period than the rolling stock but I guess the key one that you need to build in, Scott, is the wage escalation. Don't forget in the last two years there was no wage increase for the EA staff and it's now 4% per annum for the next three years.

Scott Ryall: (CSLA, Analyst) Good and then, Lance, maybe just from the top level again and I know you'll laugh when I ask it this way but what's your incentive but what's your incentive to beat the operating ratio targets in the long term incentive plan? If you had the opportunity to hit 32%, 33% EBIT margin in fiscal 2018 what's the incentive to do so?

Lance Hockridge: I would never laugh at a question that you ask, Scott.

The incentive is to demonstrate the improvement as we said in the guts of my overview, the creation of value for the shareholders in the business. This is about embedding within this organisation a culture of performance, a culture of high performance, a culture of being able to run as hard and as fast as we can.

To the extent that your question is a rem question it is or it isn't going to find its way through all of that but in my view the ability to be able to run as hard as we can as quickly as we can is what's going to continue to demonstrate and provide opportunity for us in the future. It's certainly going to underpin obviously the view of value that people have of our business, the share price of the business and how all of that's been through as well.

Don't be under any illusions. There is no padding if I can be rude enough to react that way. We will run, we will run as hard and as fast as we possibly can. What you see before you is given everything that we know our best estimation of what it is that we can do in the timeframe.

Paul Johnson: (RBC, Analyst) Hi, it's Paul Johnson, RBC. Just two questions from me. I think it's for you, Mike, the first one on the Wayside technology. Is that unique to Aurizon in an Australian context? In other words can your above rail competitor implement that same technology given they don't own any track?

I guess the following question is where you don't any track in other parts of Australia can you implement the same technology or are there other initiatives you have to do to get the same savings?

Mike Franczak: Let me start with the second one first. Yes, we can and are progressing now the ability to deploy that technology on another access provider. That deal hasn't been finalised but it's well along so I would say on balance you'll be hearing about that in very short order.

With respect to the other guy, in theory nothing prevents them from deploying but we've not seen any move in this space. They've not made any announcement. It will take them time presumably. Never say never but quite frankly as I noted I'm not sure how far along they would be able to get with any of the suppliers in terms of doing the kinds of things we're doing because quite frankly some of the stuff we've done is now locked up as part of our intellectual property with some of the world leading partners in this space.

Can it be replicated? Yes is the short answer. How far along they are, how far behind they are, quite frankly they're a ways so they've got some catching up to do.

The key for me is that we're moving forward with it, we're well along. We will remain ahead in my view in this space.

I talked about North America, again they've got some of this stuff. Their challenge is that the networks are so geographically dispersed. The equipment is generally not captive to any particular line or railroad in some respects for that matter. It's very difficult for them to get the kind of trending information that we've been able to leverage on the dense network with the number of turns our equipment gets in that network.

Again never say never. We do look over our shoulder from time to time but we're also about reinventing ourselves and innovating. If we have to eat our own lunch and change and innovate we'll do that.

Right now the short answer is we're not seeing anybody on the horizon here domestically who's in this space the way we are.

Paul Butler: (Credit Suisse, Analyst) Hi, it's Paul Butler from Credit Suisse. Lance, I was just wondering if you could just comment on how you see Pacific National, obviously your competitor in above rail, given your deal with Brookfield and particularly your view on vertical integration issues with the coal terminal they have and also issues with your existing iron ore business in Western Australia.

Lance Hockridge: There's a lot in that. Without going to the specificity of the answer, when I made the observation on the way through about the competitive landscape this is what I'm referring to.

Clearly the deal hasn't been done yet. Note with interest some of the - related to your question - some of the observations that Rod Sims was making today. We've certainly got a view and expressed our view in a number of the spaces that you refer to as have others however, in many cases in what we understand to be in more strident terms than have we. Again it comes back to the observation I think that I made on the way through that we're watching this very carefully. We are taking a view about the matters that you express. Beyond that though and it is in part at least to relevance or the context in which I make the observation about the customers and it certainly builds on the kind of observations that Mike was just making and represented by the entirety of his presentation. Our focus is on our business. Our focus is on delivering value to our customers of the kind that I described on the way through, and by virtue of doing that to be able to build the margins and the value in the business for the owners.

Paul Butler: (Credit Suisse, Analyst) Mike, if I could just ask you one: when you were discussing, I think, slide 20, you made a comment about curtailing training. Could you just explain what you meant by that?

Mike Franczak: Oh yeah. It just is as we get the lift - we're doing a continuous review of our supply-demand model for manpower. Like the fleet as we drive productivity in our label workforce, and if we stack that up against the demand expressed in train starts and origin destination fares, if we get to a point where we no longer need to hire and train

people we won't. We may hit that curve - in fact we're at a place - a location - now in a few of our system where we no longer need to hire and train. In fact the productivity we can get out of the workforce is allowing us to defer or put off that training for a while. That's really what I was referring to.

Lance is just whispering things like single driver operations which we're pursuing in a number of other areas, again another opportunity to shrink the demand side for the workforce. So again demand expressed in terms of tonnes moved, number of trains, origin-destination pairs, kilometres. But then we do all the offsetting productivity and supply improvements that we can make to mitigate the need or demand for people.

Paul Butler: (Credit Suisse, Analyst) Just relating to that, what's your labour turnover rate in the different parts - train crew and then maintenance?

Mike Franczak: I'll throw it out.. It's 4% to 5% on average right now - 5% to 6%.

Lance Hockridge: That's pretty uniform across the business in fact. Averaged across the business our turnover at the moment's right around 5%.

Mike Franczak: Which maybe if I could just building on one of the earlier questions about VR costs and when we get them, if certain things align a certain way that reduction or that turnover becomes a bit of a natural hedge for us, so to the extent in a particular area I can get 5% improvement in productivity or not have the need for those 5% worth of people then to the extent I can follow the natural attrition retirement curve and avoid VRs and the like then we will certainly be doing that.

Paul Butler: (Credit Suisse, Analyst) I just want to circle that quickly on the return capital question. In the FY15 result you say that return on capital excluding major capital projects - so anything over \$250 million - was 10.4%. You're indicating a target of 2.5% for the next three years. So just trying to reconcile why there's no improvement there. I know it's an average but it implies that on a like-for-like basis you're almost dropping in the first year and then going back up.

Keith Neate: [Unclear] one-off line Simon. I'm not sure the number you're referring to so I'm a bit at a loss to respond to it. But going back to your CRT question earlier, I should have realised the CRT obviously was included - because it was an intermodal business - was included in C&M, so it didn't actually sit. So there are no adjustments through the ops numbers for that.

Chris Vagg: We might leave it there. Keep in mind we will do Q&A again at the end, but we'll have a very quick break: we're a little bit long - call it 10 minutes. 3:45, I've got 3:34 at the moment, so about 10 minutes. There's some coffee and tea outside where you first came in but I'll see you back here in 10.

Ok, we'll get... We're all live again, we'll get started straight away so, again as before, Keith and then Mike Carter and then Q & A at the end. Over to you, Keith.

Keith Neate: Thanks Chris. [Unclear] Okay, good afternoon everybody. I'm going to have a quick run through on the support costs on the same basis as Mike spoke to on the operations side of things and the targets and the challenges we're looking at over the next three years.

This slide is just a brief reminder of all the activities that we've now centralised into the - as part of the transition to the functional model, as we continue to eliminate the duplication from the old line of business model and continue the drive to productivity.

As you can see in the black table at the bottom there, centralised costs have remained broadly flat over the period 2013 to 2015. That's against a 6% growth in the business and after a \$57 million cost-out in the period which has been offset - and much to some of the challenges we were talking about just earlier - has been offset by escalation CPI of about \$12 million, restructuring costs of \$10 million, an increase in general consumables with the growth of the business of a similar number, and then property costs where I'll talk about them in a little bit more detail in a moment. We've seen something in the order of a \$20 million increase in our property costs.

As you can see the percentage of costs that are actually incurred by and allocated directly to the ops, C&M, and network functions has increased from 65% to 73%. So the unallocated, or what you would call the traditional corporate, costs have gone from \$121 million down to \$92 million, or a 24% decrease in the period.

We turn just very quickly to the cost savings. This is just a summary of all the information that was included essentially in the 4e so I won't go through it in any detail. But as you would expect the biggest drivers on the cost space are clearly around labour where we've seen a \$24 million reduction. That's been driven by a 189 headcount reduction down to 639 people in head office as at 30 June, which is a 23% reduction, and also a significant reduction in consumable, professional, and discretionary spend of \$26 million.

Turning to the targets for FY16 to FY18, I'll talk in more detail both about property and IT later on. We'll just highlight here the central role that the IT program plays in driving the transformation of the business, not just in operations as Mike has noted, but more broadly across the business and in particular in the support functions.

With almost 50% of the support or the central cost functions being employee costs, the provision across the enterprise of a single integrated company-wide platform is not only critical but it's also a fundamental driver of being able to access the benefits and the savings that we're looking for going forward, particularly in the longer-term. For the next three years the central support functions have a target of \$60 million to \$80 million cost-out, and on the same basis as ops: that is before CPI and transformation delivery costs.

The key opportunities or key drives that we see, obviously in the employee benefits space in addition to the 189 roles I've spoken about, in Q1 this year we've taken a further 36 roles out, mainly in the finance, HR, SH&E space, and some in property as well, with significant reductions to come over the next few years. Expected savings in the three years are in the order of \$30 million to \$40 million in the employee benefits space.

In terms of procurement, a recent restructure within the business in Q1 this year has seen procurement and property re-pointed into the finance function. We're currently well-advanced with a full review of the procurement operation, with the aim of implementing a more centre-led but function-based structure by early November this year. The revised strategy is set out here in summary form, so I won't propose to go through that in any detail.

It's fair to say with a team that in terms of size is already well-below industry benchmarks the opportunity here is not further headcount reduction; rather it's an investment in the team to drive an improvement, one in the capability, two in the service provided, but more importantly in the execution of their procurement activities. That's what underpins what Mike has already referred to in terms of driving \$20 million of procurement savings in the operations space, but we're also looking for something in the order of \$3 million to \$5 million across the rest of the business in the central functions.

Other direct cost-out initiatives that I'll just very briefly touch on: the vehicle fleet, again now under finance control. We're in the final stages of outsourcing the fleet management as well as installing an in-vehicle monitoring system across the entire fleet. You'll have

noticed on one of the earlier slides we've reduced the size of the vehicle fleet by some 1000 units. We're now down to 1500.

Mike has spoken about the opportunity to further reduce the fleet size based on the operational efficiencies coming out of the EAs and the less driving that the teams need to do. We're also looking at the IVMS to provide us with much more transparency on the operation of the vehicle fleet. So again whilst we can primarily make it a much safer operation we're also looking at efficiencies in terms of how we manage that fleet and how we deploy it across the business to drive further savings.

In terms of travel we have a very mobile maintenance and construction crew, as I'm sure you can imagine, in servicing right the way across Queensland and also the other regions; New South Wales and WA. The business spends some \$45 million a year in travel and accommodation. Clearly a significant opportunity to drive savings here through renegotiation of those service providers both in the air travel and the hotel accommodation space, as well as improving processes around the management of the travel account.

Finally at the continued focus on discretionary spend again as we saw earlier we've reduced from 2500 credit cards across the business to 700. That number continues to come down. It's amazing how much discretionary spend we've cut from the business simply by removing credit cards and we continue to look at opportunities across every other area of the business to drive similar behaviour in terms of ensuring that every dollar we spend is value for money and it's contributing somewhere along the line to the bottom line of the business. Those three opportunities that I've just talked through plus a number of similar but somewhat smaller opportunities in the central space are going to deliver 15 to 20 million of savings over the three years.

Again much like operations the central functions have also been stretched target included in the numbers we're talking about here is a stretch in the order of \$15 million. We have line of sight on the initiatives, we just need to flesh out the opportunities now and ensure that we can get to them.

There's also big opportunities both in the real estate and the IT space to drive value right to the bottom line. Because most of the services both of those functions provide is predominantly to the operations group and CNM, those costs will directly filter in to the cost savings that Mike is seeing in his space. Again, the scope and opportunities I'll talk about in a moment.

What are the challenges we face in delivering \$60 to \$80 million of savings over the next three years? Well we've talked about it already this morning or this afternoon rather, the ever present challenge of CPI and wage escalation is going to cost us something in the order of \$9 million to \$10 million a year for each of the next three years, so that's a fairly extensive head winds. Like every year since IPO we will also have further redundancy and transformation delivery costs, which whilst difficult to accurate, to estimate accurately at this point in time will most certainly increase over the FY15 levels that we've seen.

With regards to property in particular I think it's fair to say, the current weak state of the regional Queensland commercial and residential property market combined with the quality of much of that particular portfolio is making the divestment process somewhat slow and difficult. Certainly in terms of ensuring we realise full value for that property, that is proving to be a real challenge at the moment.

Again in terms of IT, putting aside obviously the inherent implementation risks associated with a major IT program, which I'm sure we've all seen before. The current program timeline will see the majority of the benefits being delivered towards the end of the period we're looking at but I'll talk about the starts of those benefits shortly.

Just turning briefly to the property portfolio, I'm not sure if we've shown these details before but this is just a snapshot of the property portfolio across the entire business. As you can see in the order of a billion dollars included in there, 800 land parcels and some 360 odd predominantly owned facilities worth in the order of a billion dollars. The annual OpEx spend on this is about \$100 million with a further \$24 million in terms of depreciation expense that sits directly in the central functions. Depreciation expense obviously on those facilities utilised by operations and other parts of the business are allocated directly.

Annual sustain and CapEx is in the range of \$24 to \$30 million a year, much of it driven through safety compliance and legislative requirements. On top of that we also have included within the OpEx budget some \$30 million that we spend on average every year at the moment on maintenance of the portfolio. I mentioned earlier the aging portfolio and somewhat desperate nature of it. In order to address certain legacy issues of that portfolio and to ensure we maintain those older facilities up to code, that is ensuring that they're compliant with the relevant safety standards, we are incurring what I would regard as an incremental OpEx spend in the order of \$15 to \$20 million over the three years. It is

simply in order to keep them up to code. Given the opportunity we certainly would be looking to divest much of that portfolio.

The journey for the property group going forward is a continuation to some extent of what we've been doing in the past but also some further developments in terms of unlocking growth opportunities for the business. Historically property has been focussed very much on stabilising the portfolio, addressing many of the legacy issues that came with it, whilst at the same time commercialising the property sites.

Achievements to date well we've sold over 120 or divested over 120 operational sites since the IPO, including such things as Redbank with a significant number of depots in North Queensland as well as other maintenance and operational facilities, some of which Mike referred to earlier. Total gains since IPOs been in the order of about \$110 million in that regard. Additionally we've rationalised the nine corporate offices that we have within Brisbane over the last three years down to the current two sites that we occupy and there'll be a transition to a single office in FY18, which is going to save us on top of the \$8 million we've saved by going to two offices we'll save a further \$5 million going forward.

We've also managed to divest over 10% of the Queensland residential portfolio. We've talked about this before. In terms of an opportunity to divest the entire portfolio the market currently doesn't support that opportunity. Although pleased to say we have sold seven properties in the last month so we've only got another 500 to go.

Since IPO again in the property space we've taken about \$100 million in operating costs predominantly through headcount reduction, outsourcing certain of the activities, reducing leased accommodation and renegotiating both the remaining leases and the supply contracts.

Key objective though in all of this is to ensure that we continue to maintain the portfolio to a compliant and safe standard so there are costs that are associated with that that I mentioned early.

The strategy going forward centres more around the development of an efficient, cost effective and right sized portfolio to support the business operationally and commercially to be funded in the most capital efficient manner going forward.

Key elements of it include continuing to consolidate and rationalise the portfolio both commercially and operationally and as Mike's referred to, I won't go through them again but the opportunities we're currently working through are Townsville, Rockhampton and

the wheel workshop all of which will be actioned in the not too distant future, certainly well within the three years we're talking about here.

In addition there's a lot of work been done with the property team and CNM to identify the strategic assets across the business that we can leverage to unlock development potential for the intermodal and the bulk freight business such as Moorebank obviously in New South Wales but also a greater utilisation of our Forrestfield site over in WA, which is essentially an operational site at present.

We're also looking to streamline facilities' management capability including the delivery model so evaluating whether there's an opportunity to outsource that or retain it in-house. The diverse and somewhat disparate nature of the portfolio makes that a challenge but it is something that we're working through at the moment.

Finally I'll quickly touch on IT. The current annual OpEx budget for IT is in the order of \$80 million a year with transformation CapEx as we've talked to the market about previously, in the order of \$200 million. I think that underpins and highlights the scale and extent of the upgrade program that's currently being taken across, to be frank, all aspects of the business. There's nothing that we're not touching in terms of the IT upgrade program.

As I noted earlier, IT transformation is not only critical, it's a fundamental enabler of the transformation and of driving the benefits in operations both above rail and below rail but also in the central functions.

The program's designed to deliver an integrated suite of systems across the entire enterprise that will underpin a far more effective and cohesive business model as we move forward. We're moving from a fragmented line of business suite of legacy systems and processes to one consolidated integrated platform.

In that regard, without going through each of the components of that IT program, I'll just touch briefly for example on FMT, freight management transformation, and APEX which is the advanced planning and execution solution that's currently well advanced, both well advanced in terms of their development. We'll be harmonised across the business. FMT alone is going to replace 18 legacy systems in the business.

The implementation of shopfloor, the network asset management system and the roll out of SAP in WA, which was completed today actually, means that by the end of FY16 for the first time Aurizon will use one business system across the entire enterprise. It'll have

common processes for managing assets, people, procurement, finance and maintenance activities.

The benefits arising from that, Mike's touched on some of them but are very, very significant to the business in the longer term. The automation and elimination of manual interface in all of those processes and systems will drive a significant unlocking of value for the business.

Finally to support that, in the finance space the upgrade as we put FMT in at the end of this financial year will provide us with significant enhancements in reporting capability. It will be simplified, automated but more importantly it will be much more granular across the whole business, enabling us to make better, more informed, more timely decisions right the way across all activities in the business.

What's that going to deliver for us in terms of bottom line benefit? Well completion of that program of work that I've outlined there which is expected to be towards the end of 2017 and calendar year 2018 is expected to deliver full year savings in the order, in excess I should probably say, in excess of \$60 million per annum going forward. Some of that will fall into FY18 but the majority we will see subsequent to that.

Finally I'd just close by saying IT together with operational technology is clearly an increasingly strategic part of our business transformation. Whilst we've identified some \$60 million of savings on a run rate basis by 2018, we expect over the next three years as those systems are bedded down, as we work out how to fully commercialise and utilise them that further opportunities will be identified to drive further savings.

Chris, are we doing Q&A now or are we going to do that at the end?

Chris Vagg: At the end.

Keith Neate: Okay, with that I'll hand over to Mike.

Mike Carter: Good afternoon all and to all of those online. Thanks for the opportunity to give you an overview of where we've gotten to with our development assessment of the West Pilbara infrastructure project.

My aim this afternoon is to give you an overview of our progress to date and some insight in the process going forward and also to give you some level of insight into our partners with a particular emphasis this afternoon on Baosteel.

By nature of the information I'm giving you it's obviously reasonably high level, some of it more detailed than we've certainly previously provided to you but very open obviously to questions that to the extent we can we'll answer beyond this.

If we go to the exec summary and key messages from our perspective the continuing development and assessment of the project is consistent with our Company strategy. It's consistent with exploring for opportunities that endeavour to leverage both the development and the operational capabilities of the Company.

It's consistent with our history of taking a disciplined approach to looking at opportunities, considering whether they can add value to our Company over the long term, considering whether our capability will be a differentiator in terms of the project and looking with partners in particular as to whether there can be a sustainable project and contribution to the Company over the long term.

From our perspective that's what West Pilbara at this extent of our assessment is. People that know the Pilbara province will have an awareness that this is a different model. This is a model that doesn't just take what's traditional in the area of miner owned all of infrastructure with some being entirely closed systems and some certainly portraying a level of open access to restructuring into a MineCo and an InfraCo so that upfront it's being positioned to allow for a multi-customer future development pathway.

InfraCo and MineCo while they need to be integrated as a whole, one of the key differentiators with this project is to enable multi-customers to turn up into the future. It must make sense in this first stage but we also position for future potential.

Our view on the partners in the project that having two of the world's largest steel makers and one of the world's leading natural resources companies is an absolute benefit and particularly when combined with the capability that sits within Aurizon, provides for an exceptional opportunity in terms of assessing what can be done with the project.

We absolutely acknowledge that the commodity markets and the iron ore markets are not in a state where one would say let's all go out and spend lots of money looking for development and investment opportunities. We would acknowledge that they've somewhat changed since the acquisition with Baosteel and Aquila last year.

What I want to talk to you this afternoon about is explaining why we continue to assess and some of the nuances when you look particularly at our partners, of why they look at

this and why they look at this in the long term and why we continue to invest in a development process to test whether it can be a substantial project for us.

As you might imagine in today's market cost outs are the name of the game in terms of many of the people that are in the Pilbara. They've been the story this afternoon with our Company and they're absolutely the story with this project. We are endeavouring to find all ways to reduce the cost and obviously lift the project's economics and then test that against what might be the future iron ore market going forward.

I said at the start, I'll say it a number of times, this is a considered process, this is a disciplined process, it has stage gates where we make conscious decisions whether we keep going or we pull up or we hold or we do something else.

The context, I think many will understand the Pilbara, a couple of comments in relation to the project itself. The West Pilbara for those that may not know the Pilbara so well is relatively undeveloped. Most of the developments of the last few decades and most of the existing mining operations are in the East Pilbara. The West Pilbara has tended to be infrastructure poor and has not had a project with sufficient scale to open it up and then leverage the other deposits that are in the region.

If we find a development pathway for this project then one of the key messages is that it needs to work for this stage but it also opens up an area of the province that historically has not been opened up and as those will know around the Pilbara, there is no shortage of iron ore. It's just where are the economic iron ore deposits and can they be competitive in terms of the world's iron ore markets when you look over the longer term.

I stress again that it is built for a multi-customer integrated rail and port supply chain. What we're endeavouring to build is an integrated supply chain, everything from mine load out to shipping channel, however in a framework where it allows, encourages and welcomes other customers to that infrastructure into the future. There's a direct alignment with our partners on that aspect of the project in terms of Baosteel and Posco.

Let's talk our partners. As I said, whilst today I'll certainly concentrate a bit more time on Baosteel I should also talk to Posco and AMCI. People have a broad awareness of Baosteel. They're the world's fourth largest steel maker. They're the second largest steel maker in China by volume, but arguably - and as I'll talk through this - they are China's market leading steel maker. They are the steel maker with certainly the highest credit rating of all global steel enterprises in the world. They have a focus on flat products. I'll talk to flat

products shortly, because that's where margin opportunity is in the steel industry, that's where growth opportunity is in the steel industry going forward. Hence that leads to why West Pilbara is such a key element from Baosteel's perspective of understanding how it can add to their business success into the future.

If we talk Posco, many people have probably got a broad awareness of Posco as well, the world's fifth largest steel maker, Korea's largest steel maker, with a history of investments both within and outside of Korea. Currently operating two integrated steel mills in Korea and in a joint venture in North America, and with investments around the world including - as people will probably be aware - with the Roy Hill project aligned with an off-take agreement over 10 years with Roy Hill. Again a company with an investment grade credit rating and a long history of success, a leading technology based steel maker.

AMCI privately owned company with a history of trading across the commodities, strong experience in coal, that has recently added global shipping operations as part of their portfolio and direct involvement with a range of mining operations in North America, South America, and Australia, and as people may be aware, a significant investor in Whitehaven here in Australia.

If I come back to Bao, and I'm going to spend a little bit of time now on Bao and just for a second talk about flat products and long products. I'm not sure how many have an insight into the dynamics below what is the macro steel market or the macro iron ore market. China has been obviously going through an investment and construction phase. That means long products for steel. There is debate but suggestion that China is gravitating to a consumption phase. That means flat products in steel. When we talk flat, we're talking about automobiles, we're talking about appliances, we're talking about electrical distribution systems, we're talking about support infrastructure, not the hard civil infrastructure or the building construction that has been the history of China is the last 10 years.

If you look at Bao their bias is flat steel products. If you look below the macro in China you find where the inefficient steel mills that have been doing the long products that are very stressed - not that the whole market is not being tested at the moment - are in the inner regions of China and they are not Baosteel steel mills. Baosteel predominantly is along the coast. Baosteel does do some long products, but is predominantly flat products. Baosteel is a leader in terms of technology in relation to these flat products. Therefore what you see is

Baosteel with a growth profile. Baosteel actually looking to go much larger than they already are and have already been growing recent times.

So a few attributes in relation to that. On the graph here you can see their historical growth in steel and hence iron ore. You can see where their sourcing has been for iron ore. You can see their off-takes in relation to forward forecasts in relation to their commitments to partners to date. All of significant relevance to why would Baosteel want to develop West Pilbara. It's one of the fundamental questions of the project, why would they want to do it against their other alternatives.

So in the steel in absolute volume, because they're flat products that is growing. It has been growing to date. It continues to grow. It grows this year, and they have a project at Zhanjiang that was only just turned on two weeks ago that is an additional 8 million tonnes per annum of steel that they now need to source iron ore for, and has later development phase. I'll talk to it again in the next slide. So fundamentally they are in a position where they have increasing need for iron ore and the need to work out how best to source that iron ore.

What is their supply bias? How do they contract for iron ore? Their supply bias is long-term. Whilst they do a small amount of spot they are essentially on all of their key inputs long-term contractors. Their long-term contracts are with who you would expect, the major mining houses as you see there. However, as you look at that off-take profile it's changing, and it will change. They're considering how best do they retain a long-term sourcing approach to their iron ore.

So growing need, long-term bias. What else are they looking for? They're looking for an increased self-supply of iron ore. It's not that they won't purchase from the major mining houses, they will. It might be with their growth that they'll purchase in absolute terms a larger amount. But they have an absolute strategy when they look long-term - and I'm not talking this year, next year, in three years. These people are looking 10 and 20 years. The Zhanjiang project is done on a 30 year business case analysis, done at some level of detail. They are looking and asking themselves what proportion of iron ore do they want to self-supply?

It's materially higher than what you see there today at 7%. If you look beyond that into the Chinese steel industry there is an absolute desire to have a higher proportion of self-supply than they do today. They understand the market. They understand the market

dynamics. They know what's happening today and they have a view for how sustainable is that and where do they want to be positioned in five, 10, 15 and 20 years. How do they get risk around one of their key supply inputs in the right space from their perspective?

So if we go to the next statement, the next level of detail associated with them, what do I really mean by flat products and how successful are they at flat products. Well, you'll see as we've got on the slide here a bit of detail about some of the markets that they operate in and then a bit of detail about their new project.

In relation to the markets that they operate in for steel companies to be successful in flat products there's a couple of attributes that are pretty important. (1) Technological capability. So they've got to really know what they're doing in relation to the steel, particularly when you're talking automobiles, but all of the specialised steels into the consumption market.

It you look at Bao, if we start with the automobiles at the top there, 50%, just to be really clear on that number, that is of all manufacturers in China. That is not the Chinese cars, that's the global brands. That's all cars that are manufactured in China. So one in two - or for any of those that visit China, one in two of those cars, no matter where you are, has got Baosteel steel in it, because of the technological capability of the company. That's what they see as a growth market. That's the market that's got the highest margin segment. If you look into Baosteel's comparator benchmarks to the other steel companies this is the sort of thing that's driving them as a stand out compared to their peers in the steel industry.

If you go to the next one, which is essentially steel to deal with the cause of electrical transformers in the distribution of electricity, specialised steel. Not just any steel mill can make it, not just any steel manufacturer can make it. 35% of all of that in China is Baosteel, steel. The non-standard oil pipe steel associated with oil and gas, again, a highly specialised product, at the higher end of margins in the steel industry. Almost 30% of all of that in China is Baosteel steel.

You will find the actual largest Chinese manufacturer, with respect to them, it's all long products, whereas Bao, as second, is basically all flat products. That's one of the reasons why we're working strongly with Bao to understand what is it that they want, how is it that they look at this and over what sort of term are they going to explore this opportunity.

The last one down there, galvanised steel - white goods. So essentially white goods in China, one in five, Baosteel steel. So if you do - no matter your view on China about what the macro is doing, 7%, 6.9%, if you do believe that the consumption will continue to grow - and remembering those percentages are off an increasing base all the time - then if you are strong in flat products in steel and you believe you have competitive advantage then you are looking at a growth story.

Then if I come back to the previous observations about how they source iron ore, how they look at the market and look at it over the long term then you start to get an insight as to why they take a project like this pretty seriously. Why they don't just sit and say it's not worth exploring. It's not worth working out whether this is a commercial opportunity or not.

On the right a bit of detail about their new steel mill, Zhanjiang, which is in southern parts of China. If people don't know the geography it's not that far from the Vietnamese border. It is one of the last, if not the last, natural harbours for a steel mill. It's right on the coastline. It's a natural harbour that needs no dredging. The first stage was fired up two weeks ago.

Myself and Lance about a year ago had a chance to see it under construction and understand what their dream was in terms of focus of this steel mill and the level of technology that they're trying to put in this steel mill. Two weeks ago, credit to Baosteel at a very busy time, they received Lance and our new Chairman, Tim Poole, to have a look at this steel mill two days after they turned the blast furnace on and first steel being produced. All of the world's major steelmakers are watching this mill. It is arguably the most modern steel mill in the world. It is arguably most likely going to be the most efficient steel mill in the steel industry. It has all of the most efficient environmental controls around it.

The Japanese, the Koreans, the Taiwanese, all the steel companies in those markets that are strong in technology, strong in flat products, are watching this mill very, very closely. Because it's not only positioned for the Chinese market in terms of Southern China and all of those products into there, it's exceptionally well positioned for export into Southern Asian destinations. Baosteel at the moment has about 10% export and like any business they'd like to grow that if they can find a way of being more competitive than others into those markets.

Just before I go onto the structure there's probably a couple of other things I should add in terms of Bao, in relation to questions that I receive at times about Baosteel. One is associated with this well why don't they just buy it off the market. The market's got its cost at the moment and many projections are that it's going to go lower then why wouldn't you just try and lock in long-term contracts in relation to that.

If you look at their strategy, whilst they will absolutely take those opportunities as best they can they have an absolute desire to get much closer to the upstream market - on a proportionate basis, not in absolute terms - so that they not only secure that supply, as I was saying earlier in terms of controlling inputs, but they've also got an opportunity to build revenue and scope. They are a significant trader of iron ore in their own right. So they not only buy it for their own purposes, they also trade to the Chinese market in particular.

Certainly as part of the MineCo assessment going on at the moment it's Baosteel working in partnership with API to understand what would be an appropriate product that's acceptable into the Chinese market. In recent times they've visited 60 mills across China, trying to understand how the product would go. It's been tested in about 20 of those mills where significant volume has already gone there, to understand how the product would fit into those markets.

Another question that sometimes we field is will they hold to their commitments. Baosteel have been an international player for quite a significant period of time with partnerships with many people. They have a joint venture with Rio Tinto that dates back to 2002. They have a joint venture with FMG that was initiated in 2007 and another merger of some assets with FMG in 2012. They have a partnership with Nippon Steel that dates back to 2004. They've done another partnership arrangement with Nippon Steel in 2012. They've acquired a downstream manufacturing steel company in Italy in 2011. Through all of that period they are known as holding to their commitments.

They are known as an exceptional partner. They are known through all of the stress moments, including the GFC, as standing there and agreeing that what they committed to is what they committed to. They have an outstanding history in this space. It's a question we field a lot and as you can understand they sometimes observe to us well our history doesn't show that that's occurred, why would that be the case. It's something that we continue to work through in relation to the project.

Let's go to the structure. Just to reiterate some of the numbers. This is indicative and this is capital cost of the \$4.5 billion capital cost as it stands at the moment. Call that up front there in the notes, it doesn't include funding cost, so if it gets project financed funding costs are going to have to be added on to this. But it was just to give you an indication of the way the thing is intended to be set up if it progresses.

It's absolutely that there will be a separate InfraCo and MineCo. It's absolutely that there will be a tariff structure running from InfraCo to MineCo that's underpinned in a take or pay arrangement. It's absolute that there will be offtakes from MineCo to both partners and maybe other customers that will underpin the cash flows and the credit flows back through MineCo and into InfraCo. It's absolutely that InfraCo will be project financed. MineCo may be project financed and that's for the partners to determine, but InfraCo will be project financed.

It's agreed that Aurizon will be the majority equity holder in relation to InfraCo. It's agreed that the partners will have the opportunity for the other equity in the first call. Baosteel's made it pretty clear that if the project progresses to a project that they'd desire to be 20% of that equity.

It's agreed that Aurizon is driving the development of the whole integrated infrastructure from mine load out to shipping channel and that Aurizon will be providing the operational service for the fully integrated supply chain.

We are working through the commercial agreements that go between the two companies associated with the development and the operations and services. As you'd expect, we need to work out a way that works for both entities and for all partners. It needs to try and get risk in the right places. It needs to get appropriate returns and levels of success expected for all partners. To the extent we absolutely can get alignment of interest through the entities. So everyone is successful when everyone is successful, whilst not any particular partner taking risks that they're not best suited to take that risk for. So returns and risks, need to work through that, underpinned by what I said about take or pays, offtakes and credit securitisation.

In terms of the project itself and the goals that we set for the team, I think we all know that what's happening with the cost outs again as per the story here today. We all know that the cost curve is flattening and many of us expect that flattening to continue. We are not immune to that. We are not believing that that's not the story. We are absolutely

targeting the teams that for all partners to agree to go past any review point that it must be commercial and economic in that context. The teams have a direction that it will not be progressed if it's a marginal project. Looking from MineCo down through InfraCo, not the two entities separately. This is whole of project economics.

So when we look at these cost curves and where they may go, what we're saying to the teams involved, that we will not go through a review point, will not even put it to our boards for consideration, if we believe the project is in that part of the cost curve that it's marginal. So it needs to be competitive and that's coming on both the MineCo side and the InfraCo side in terms of this and most importantly, for the whole of mine life. So not just at the start, the whole of mine life.

So the first ore at the moment is targeted for late 2019, early 2020 and then notionally a 16 year term beyond that. So that project economics is being tested through cycles, through scenarios, and through the whole of mine life before we even make judgements about whether we would put it to the respective boards.

We give you today a little bit more detail in terms of the capital reductions. Obviously one of the major drivers to the InfraCo tariff. We have done an extensive review of the scope - all elements of the scope. We have done extensive reviews of the market pricing of all elements. That is ongoing at the moment. We are engaging with the supply market in terms of looking to continue to find an improved outcome in that space. We have done a whole of supply chain integrated operating plan. We are leveraged into the sort of transformation work that Mike Franczak was talking to earlier to make sure that everything that we're learning in our current business can be applied here, and is done as a fully integrated supply chain. We're taking the opportunity from the project to see if there are new ideas we can introduce to the company that ultimately if the project progresses could go back into the current operation. So there is a real duology - if you like - of opportunity, if the project can go forward.

MineCo are doing exactly the same work in parallel with us. So you will find if you look into some of the information that's in the public domain associated with API and it's joint ventures, that both the resources and the reserves have materially increased in recent times as they continue to run their drilling programs. You will find that now they have certainly reserves that more than cover the duration of the mine life from a contracting sense that we've been talking about. You will find that the product that they're talking

about is directly comparable to other Pilbara products that are presently in the market. It's not the 62% benchmark, it's in the mid-57% and it's exactly comparable to some of the other products that are presently in the market. You will find that it can do that for the entire 16 years; not just for two years, not for three years, not then it gets a bit hard. It's for the whole duration of the mine life.

You will find that it has a stripping ratio that is arguably one of the best in the region. It sits around 0.7 to 1.0 for the entire mine life. Again, not two years, not three years, not that it's sitting okay. It does that for the entire 16 years. If some of you know some of those numbers with the miners, you will know that there are orders of magnitude bigger numbers with some of the current mines that are in the region.

So from our perspective- and certainly from Bao, which I've been concentrating on today - this is something worth seriously looking at. We would not be spending the time in a considered disciplined way if we did not think it had some potential. It's not a commitment to go all the way. It's a commitment to go to each stage gate, review, make a decision and then look to move on.

If we are going to be successful - even though we have a structure that's a little different - we still see it's fundamentally important that we have an integrated approach across MineCo and InfraCo. So we have a whole of opportunity governance approach. We have an oversight committee that includes all partners. We have the CEO steering committee that includes all partners. As we've previously spoken about in late this calendar year and December in Hong Kong we will get together, and we will look at the plus and minus 15% from our side on behalf of InfraCo, we will look at the update mine plan, we will look at the updated product plan, we will look at the feasibility of the thing as a whole. We will make a conscious decision whether we go to the next stage, and go to the next stage again. That's not go to bankability, that's go to the next stage gate that would then start to get into the key zone of, can this thing work from a bankability perspective.

So for us - if I go back to the key messages - the opportunity is significant. However the process is considered, it is disciplined, it's take it a step at a time. It does align to our growth strategy and leveraging our capabilities. We think it's absolutely worth exploring with the quality of partners that we have had. So I'd be more than happy to take questions in relation to the project. Thanks very much.

Chris Vagg: Yes, yet again we'll do questions from the floor.

Matt Spence: (Merrill Lynch, analyst) Mike, it's Matt Spence from Merrill's. My understanding is that Baosteel has got some long-term shipping contracts in place for iron ore shipping. They're take or pay contracts. But in the past Baosteel has got the shipper in and tried to renegotiate those contracts down for periods of time.

Mike Franczak: Yes.

Matt Spence: Have you had a look at those issues?

Mike Carter: Matt, I am not aware of that at all. We have had direct discussions - both with Bao and with advisors - that help us both in terms of China and Baosteel about their record in relation to contractual commitments. We are yet to find any issues. Sometimes there's stories that float around about Chinese entities. All of explorations says that Baosteel have never been part of that. That doesn't mean though I don't think that any company - like what's happening to our market at the time - wouldn't have a discussion if there was something different in the market to see if you could come to a different arrangement. That's what's happening as you know in some of our markets at the moment. But they never stepped over the line and tried to impose an arrangement. They respect the contractual commitments. They respect the integrity that those commitments have been made in.

Matt Spence: Okay, I mean just so I'm clear, I'm pretty sure they've renegotiated shipping contracts in China....

Mike Carter: Oh, I'm happy to take it and explore it Matt, thank you for that.

Matt Spence: No, and that's what I'm saying, it's been China merchants. Yes.

Mike Carter: Thank you, we'll follow up.

Simon Mitchell: (UBS, analyst) Simon Mitchell, UBS. Just a couple of questions for Keith or for his section. The \$1 billion of property assets that you mentioned, what's the right number for what's core to the business do you think?

Mike Carter: We're not all the way through that.

Lance Hockridge: It's less than a billion.

Mike Franczak: Let's start with the housing portfolio. Look, I think Keith called it. However, I think we still have some opportunities in the residential housing which is legacy and

frankly has been part of the helping us get people in past years up to some very remote places. So that will be part of the ongoing review.

I think we've given you a pretty good indication of the kinds of changes that we're still able to deflect in terms of our yard and terminal footprint and maintenance depots. What the total value of that will be when the dust settles, it'd be hard to say entirely but I think we do know and we're already seeing that we can avoid capital cost and maintenance expense as we rationalise the underlying footprint and facilities.

So we will have fewer real estate plots, fewer facilities which means the capital we do spend on those will be reduced overall. The maintenance expense will be reduced as well. Some of that Keith has noted has already been reflected in some of those enterprise numbers.

Simon Mitchell: (UBS, Analyst) Just secondly, the \$60 million to \$80 million of gross cost out target, how should we think of that on a net basis, similar to Mike's roughly \$150 million?

Mike Franczak: Yeah, probably.

Simon Mitchell: (UBS, Analyst) Same proportion of inflation and cost?

Mike Franczak: \$35 million to \$45 million range, yes.

Simon Mitchell: (UBS, Analyst) Okay, thanks.

Will Charleston: (Goldman Sachs, Analyst) Will Charleston from Goldman Sachs. Just following up from Simon's question. Is there - are you assuming some amount of gain on asset sales in your forecast to get to that 70% operating ratio?

Mike Franczak: No, we're not.

Will Charleston: (Goldman Sachs, Analyst) Great. With the West Pilbara project, if you decide not to go ahead or can't agree with your partners on the economics of that project, what are your options from there? Is there an opportunity for some of your competitors to develop that project or what do you do with your investment?

Mike Franczak: We have exclusivity arrangements which are under a framework that as we go through each stage gate they generally get extended to the next stage gate. If we get to a point where we stop then they will extinguish not too far past that stage gate but what we keep is all of the IP, so all of the development material in relation to the supply

chain from mine load out to shipping channel, all of the updated scope documentation, all of the integrated operating plans, all of the contractual schedules and interaction with the suppliers is IP of Aurizon. So obviously what I'm saying, you can't just go out the next day and suddenly replicate a process that's got a lot of detail and leverage the company and taken some time to prepare.

Will Charleston: (Goldman Sachs, Analyst) Could you just follow up on that \$60 million? Was there real estate benefits and the IT benefits you implied were being given back to the operations like Mike's business? How much are they already built into that \$300 million or \$250 million to \$300 million number which you've been given as a range?

Lance Hockridge: Well there's \$20 million of procurement in there as a...

Will Charleston: (Goldman Sachs, Analyst) But is all that \$60 million already actually in that \$250 million to \$300 million [unclear].

Lance Hockridge: No, no, no, no, I'm sorry. No, no, I'm sorry. The \$60 million to \$80 million is the central support functions cost target.

Will Charleston: (Goldman Sachs, Analyst) No, no, not the \$60 million to \$80 million that you talked about, IT delivering a \$60 million benefit.

Lance Hockridge: Sorry, you mean...

Will Charleston: (Goldman Sachs, Analyst) Is that already actually in the \$250 million to \$300 million?

Lance Hockridge: No, because as I've said, the majority - the timeline is such that the majority of that benefit will only start to really ramp up to a full year in late '18.

Will Charleston: (Goldman Sachs, Analyst) So it's a 2019.

Lance Hockridge: Yes.

Will Charleston: (Goldman Sachs, Analyst) That's a 2019 event. In the case of Mike's Baosteel, if you look at your investment you're spending as much as Baosteel and you're also having a take or pay contract from Baosteel yet they've got the right to probably shut down that mine and [for you to] get no revenue out of it. Is the risk allocation actually that balanced that they're spending only as much as you are but you're taking a huge - probably a lot more risk and not in control of it?

Mike Carter: It's certainly not clear that they'll have the rights to shut the mine down and so that needs to be worked through is what - how those scenarios [unclear] are dealt with and who's got what rights to do what. So I just want to be clear for a start that they don't - they won't necessarily have an overriding right to shut the mine.

If it would make sense to shut the mine then obviously credit pathways are fundamental. But one of the most important aspects that I try to keep reinforcing is that the project must be competitive or it won't go in the first place. So the chance of them wanting to shut it, for a start while it's important to understand if that dynamic was in play what the scenario would do, but that the chance of it actually coming into play is absolutely minimalized.

Will Charleston: (Goldman Sachs, Analyst) Plenty of miners have got it wrong.

Mike Carter: Sorry.

Will Charleston: (Goldman Sachs, Analyst) Plenty of miners have got it wrong with the [Pilbara]. They're now regretting it.

Mike Carter: And I think one of the gifts of this market is that it is so challenging to work it out as opposed to three, four years ago when people perhaps didn't all see this coming. So in fact I do talk about the challenging market being a real gift for the project because it has to be exceptional to get away to your point.

Will Charleston: (Goldman Sachs, Analyst) Just staying on West Pilbara if I can, this mine has a 16-year life. You're obviously building infrastructure that's in excess of probably 50 years. How comfortable do you need to get that other projects or other mines within the region are going to start to take volume on this mine and port over the next 50 years?

Mike Carter: It's a great question, [unclear]. It's fundamental to the commercial arrangements to understand to what extent InfraCo would get satisfactory returns through the first stage, and what are the risks and opportunities of growth beyond that, and to what extent foundation customers and InfraCo should be aligned in benefitting from those. That's all in the mix at the moment.

One thing I want to make clear though is that we will not, from our perspective, be betting an InfraCo on possible future tonnes. It must make sense in the first stage. That is just upside if that was to occur, but we'd try to structure it in a way that all parties were incentivised to explore that upside, if I've understood your question.

Will Charleston: (Goldman Sachs, Analyst) Yes you have. Secondly, for Lance, if West Pilbara doesn't go ahead - and maybe this is too theoretical - where is the growth from Aurizon's perspective? Are there other growth options being developed outside of West Pilbara, outside of Galilee Basin, which may take a few more years beyond today?

Lance Hockridge: I think it is the answer to the question that we've given on a number of occasions, particularly around the explanation of the strategy work that again Mike has been leading. We've spoken to the options that you've just outlined. We've spoken to the growth in the freight and intermodal space and our growing level of confidence in the way that we were talking earlier in the afternoon in the intermodal space. It's in the more general freight intermodal space, why I keep banging on about this land transport policy. We certainly see the opportunity and we're working actively on the technology that would see a return to rail in the right policy settings for a number of products that have been in more recent times seen as not suitable for rail.

I refer in particular to things like the agriculture, grain, livestock, these sorts of areas. We no longer have a mindset that those kinds of products are lost to rail. In the right policy setting environment with the kind of costs, quality, consistency, and technology, that we have and are developing we see opportunities in that space. Beyond that we certainly don't rule out opportunities in the M&A space. Again I'm not signalling anything in saying that. But whether that's around bite-sized chunks or whether that's around something that might be more sizeable, they're the sort of things that in terms of an opportunity scan we continue to look at and do so frankly all the time.

Mike Carter: No other questions?

Scott Ryall: (CSLA, Analyst) Thank you. Mike, what is a competitive cost in terms of a flattening iron ore curve? One of the things you haven't got on there is demand curve. It flattens out for a long way. How competitive - what do you call cost competitiveness?

Mike Carter: We're obviously not going to put numbers out, Scott. But certainly when I indicate that the goal is not to be a marginal producer, we're taking and will take a view on the forward cost curve, taking account of what we expect to happen, that it's going to continue to flatten. So you would expect that for that to occur if you buy to the hypothesis that it'll be dominated by the majors, then perhaps we wouldn't be as low as the really big ones because they're got real scale economies, but we'd certainly be in the zone of some of the others.

Scott Ryall: (CSLA, Analyst) Lance historically has said sub-\$50, I think was what you'd said at previous result briefings Lance. Is that fair?

Lance Hockridge: I think it was - not to quibble with you - but in orders of as opposed to...

Scott Ryall: (CSLA, Analyst) But would that have changed in the last six months? I guess the thinking would have materially changed.

Lance Hockridge: That's part, I think, of exactly what Mike is saying. But every step involves a more granular understanding of the very dynamics that you're referring to. At the end of the day it's not about picking a number out of the air. It is about having the confidence in the context, in the environment that you talk about, in order to be able to make what is a pretty significant call.

Scott Ryall: (CSLA, Analyst) Not seeking comment on the work discussions, but how do you learn from what's happened in the last week in terms of structuring take or pay with a single counter-party please?

Lance Hockridge: It is genuinely very difficult to answer that question without going into breaching areas of confidentiality. Let me just turn it around the other way and say the point that lies behind your question is not lost on us. Already that's part and parcel of the examination that we have underway.

Are there lessons? If there are, what are those lessons, whether they're from a general risk profile point of view, a specific risk profile point of view, the way that we structure contracts, foreseeability of certain events, all of those things are very much in that mix already.

Scott Ryall: (CSLA, Analyst) Mike, you made the comment about the due diligence your advisors had done around Baosteel's other JVs, relationships, things like that.

Mike Carter: Yeah.

Scott Ryall: (CSLA, Analyst) Are they advisors with an incentive for contracts to complete or a deal to go ahead?

Mike Carter: No.

Scott Ryall: (CSLA, Analyst) Okay.

Mike Carter: No, not at all.

Paul Butler: (Credit Suisse, Analyst) Paul Butler from Credit Suisse. Mike, you said that Baosteel's optimising this mill for feed stock of 56-57. Why is that?

Mike Carter: Lance would probably be better placed to speak to it than me but they're blended product in terms of this mill. That's what they regard as the best for flat products. Now I'd have to ask Lance in terms of why that is.

Lance Hockridge: It's less about best. It's more about designing your feedstock for value in use and so they will continue to use a proportion of the higher FE content but of course over the time that we're talking about the availability of that product is going to continue to diminish.

What Mike has described is what typically any steel mill would do these days is to design around the predominant feedstock being this kind of feedstock and then the blend is both higher and lower. At the end of the day you set your blast furnace up to work on the basis of that, as I say optimises the quality of hot iron and the cost of hot iron coming out of the blast furnace, if I've answered your question.

Mike Carter: Blending is one of the key words in there.

Paul Butler: (Credit Suisse, Analyst) Okay and just one more. Mike and Lance, with your dealings with Baosteel, what's your view in terms of whether they see their assessment or criteria for assessing the economics of this project are the same as yours? You've said they have a very long term view and I sort of take by that to mean that they've probably got a bias to have a longer term view than you do.

Lance Hockridge: That's probably a reasonable generalisation although obviously by the nature of many things we do when you look at the sort of things that Mike was referring to are the Company's core assets, these aren't assets that you hold for short periods of time. Our whole Company has a strong bias for long term assets, long term contracts so I wouldn't suggest at all that we're short term and they're long term. Yes, they might be a bit longer than us is probably a fair statement.

In terms of the commercial assessment they will still not progress this unless it's commercial in their perspective. Now commercial in their perspective is not a miner's business case. It's one of the key things. They are a steel maker so they're not at all looking for a loss leader, they're not at all looking for something that is trying to manoeuvre the market but they absolutely will need it to wipe its face commercially. They

won't necessarily look at it like a miner does in terms of some of the cycles and high returns in cycles and a bit harder in other parts of the cycle. They'll look at it as a steel maker.

Paul Butler: (Credit Suisse, Analyst) Have they given you a sense of what proportion of their needs they'd like to have self-supply for?

Mike Carter: If you read some of the documentary out of China there's an indication that the Chinese industry would like to get to 40% across the entire industry. Now whether they will or intend to get that high from a Baosteel perspective that's a little unclear but I think you can certainly read that they want to be orders of magnitude above where they are today.

Paul Butler: (Credit Suisse, Analyst) Do you know if Baosteel has any other projects similar like this?

Mike Carter: Tanjung is their major project and for their next major development - sorry, iron ore.

Paul Butler: (Credit Suisse, Analyst) I mean mining.

Mike Carter: Mining? They have a lot of global offices and they look at a lot of deposits around the world. They haven't come to the West Pilbara lightly. They have offices in Africa. They have offices throughout Australia, South America, Asia. They have remarkable insight into the world's deposits so they have not come to this lightly and they do not have, to my knowledge, any other active project anywhere near the development phase that this one is at.

Lance Hockridge: Parenthetically worth adding that part of what comes with Aquila of course is also Eagle Downs and their interest in Eagle Downs remains at a very high level for the same kind of motivating factors.

Mike Carter: No more questions? Thank you everyone for your time. Thank you to those on the line. For those of you here in Sydney we've got a drinks function up on level 31, the Harbour Room. It's starting right now and our Board will also be in attendance there but plus also the entire team so you can have more questions over a drink.

Thank you.

End of Transcript