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PRESENTATION

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Welcome everyone to the first half results for Aurizon for the 2017 financial year. Of course they are also my first results as CEO. With me in the room are Pam Bains, Mauro Neves, Mike Carter and Alex Kummant. So let's get cracking and move straight to the safety slide.

While it would not surprise you I need to state that safety remains a core value for myself and for Aurizon. The 18% improvement in TRIFR has been driven by increased management focus on various initiatives including the safety pauses, safety interactions, efficiency testing and high consequence activity monitoring. What the numbers don't show you but what I've been truly impressed with in my travelling around the various operations is the significant work that's being done to engineer out some of the safety risks. I'm going to provide an example from the below rail business. It's about level crossing risk.

Level crossing risk is managed by looking at the number of reported incidents and the current risk controls that are in place at each crossing. This information is then used to assess and prioritize work which systematically reduces operational risk by removing or upgrading the higher risk crossings. This process has been used to continuously reduce the operational risk of level crossings over the last 5 years resulting in, amongst other things, the closing of 100 level crossings.

To put that change in context we now have around 760 crossings remaining. I think it's also a great example of where an improved safety outcome also is paralleled by an improved and more robust operational -- organizational - operational capability.

Moving on from the safety report I would characterize the first half results as solid performance in a strengthening commodities market. The key financial metrics of underlying EBIT is up 21% to AUD488 million. ROIC has improved to 9.6%. As a sustainable contributor to EBIT, transformation has delivered AUD64 million in the first half which is at the required run rate to deliver AUD380 million of transformation benefits by the end of the 2018 financial year.

Finally the Board has declared an interim dividend of AUD0.136 per share, 70% franked, paying out at 100% of underlying NPAT. This represents an increase of 20% on the corresponding period.

Turning to the above rail business the underlying EBIT has increased 18% to AUD290 million (sic - see press release, "AUD219 million") with strong coal earnings benefitting from the earlier mentioned transformation benefits. However, the weaker revenue in bulk and Intermodal has not been offset by transformational benefits and the performance has deteriorated.

I will cover some of the transformation points in a moment. But from a customer perspective we note that the strong price environment has resulted in some short term volume upside in iron ore for our customer Mt Gibson as they draw down on substantial stockpiles at the Extension Hill mine before replacing with new volumes from Iron Hill.

Moving to the below rail business despite improving asset management through planning and scheduling programs that has resulted in a 20% reduction in system closure hours performance to plan has reduced from its previous record high by 1.2 percentage points to 91.5% with a 17% increase in mainly mine related service cancellations.

The 20% increase in underlying EBIT to AUD295 million is due to the true-up from the under recovery of UT4 revenue from prior years. This came in at the high end of the expected range. The key issue for the below rail business remains how it is regulated, with the highest item on the to-do list to ensure it is receiving an appropriate return in UT5 given the level of risk.

Finally before I hand over to Pam for a detailed walk through the results some summary thoughts on the transformation program. It is continuing to touch many cost drivers in the business as noted on the slide. I wanted to talk about two of the newer initiatives in particular.

The first is flexible crewing. This involves the introduction of both casual and contract trained crew and it's initially in coal. This has only just started and at this stage is small. However it has the potential to expand in the future delivering benefits through variabalizing labor costs which can enable the Company to respond quicker when volumes fluctuate whether they be up or down.

The second initiative is in maintenance and has been spoken about before. The agreement with Progress Rail to outsource non-core heavy maintenance for locomotives was fully implemented in the half. This will result in material capital and cost reductions in the coming years.

Over to you Pam.

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

Thank you Andrew. Good morning everyone. Firstly can I say how delighted I am to be speaking to you today. I'm looking forward to working under Andrew's leadership. My focus at Aurizon will be driving strong financial discipline and also maximizing the benefits on the transformation program. I've been involved in change, process improvement and transformation in most of my previous roles across a number of sectors. I believe a culture of continuous improvement is key to ensuring sustainable change.

So how would I describe the result for the half? I would say a solid result given the challenging market conditions over the last 6 to 12 months. We have a resilient business, an above rail business which delivered an EBIT uplift of 18% due to a focused transformation program and a solid below rail business which delivered a 20% increase in EBIT as UT4 finally draws to a close.

We know we still have some challenges in relation to the freight businesses which both Andrew and I will be very much focused on in the coming months. So this morning I'll walk you through the group highlights and significant items. Then I'll move on to the above rail and below rail components.

So from a highlights prospective revenue was up 1% to AUD1.8 billion while operating costs declined 6% to just AUD1 billion. Revenue includes timing differences as you will appreciate from the below rail business which have been recognized in the period following the finalization of UT4 in October of last year. Another point to note is in the above rail revenue we saw a decline in coal access revenue. That was down to 2 key reasons.

Firstly a key customer on the Central Queensland coal network moved to an end user contract from July 1, 2016. What that actually means is the customer contracted directly with the network provider for access rather than the operator. Hence there is a corresponding reduction in operating costs. It's EBIT neutral.

The second component was Queensland Rail. We received a credit from Queensland Rail of AUD30 million following the finalization of its undertaking for the West Moreton system. As you know these costs are passed back through to the end customer. Again a reduction in costs, EBIT neutral. In total AUD85 million impact on revenue as a result of these.

Operating costs down six percent or AUD69 million. This includes delivery of AUD64 million of transformation benefits which Andrew touched on, AUD52 million in the operational areas and AUD12 million in support costs. So a real key driver to the result.

Depreciation increased slightly again largely driven by the below rail business. I'll talk about this a little bit later. I'll come back to the underlying adjustments but EBIT underlying increased 21% to AUD488 million while net profit after tax increased 18% to AUD279 million. Key driver being slightly higher interest costs as a result of the increase in -- the move from short-term bank debt to longer term debt in capital markets. We achieved an operating ratio of 72.6%. Dividend per share increased to AUD0.136.

So just moving to the significant items -- as we communicated a few weeks ago you will appreciate we had significant items of AUD321 million in the result. So on the left-hand side of the slide you can see impairments of AUD257 million and redundancy costs of AUD64 million, in total AUD321 million. On the right-hand side you can see a breakdown of the AUD257 million.

So AUD162 million asset impairments for the Intermodal business due to trading performance being lower than expectations. It's important to note this is an accounting requirement. The freight review is still ongoing. No final decision has been reached in relation to the Intermodal business.

Secondly we decided to terminate the FMT project. An impairment charge of AUD64 million has been recognized as a result. The next item reflects the Glencore decision not to renew its contract to haul between Mt Isa and Townsville. So we decided to cease to operate the multi-customer freight service on that line. An impairment of AUD10 million was recognized.

Then finally we have the ongoing transformation work which resulted in further redundancy and restructuring costs which is the AUD64 million of redundancy costs plus the AUD21 million on the right-hand side, other assets AUD85 million. It's also worth pointing out we took a further AUD9 million of impairments above the line which is included in the AUD488 million EBIT number.

Moving to the material items on the next slide included in the underlying EBIT. This is consistent with what we disclosed at year end. So this includes a number of items that were in the prior half and are not in the current half. So for example the employee shares gifted of AUD16 million in the prior half and towards the bottom you can see the QNI doubtful debt provision of AUD18 million. Plus there is a net movement of AUD13 million for redundancy costs not treated as significant items.

So in summary we have redundancy costs of AUD67 million, AUD3 million above the line and AUD64 million below the line. This is consistent with prior years. The large restructuring transformation program related costs have been treated as significant items. We did the same in 2013 and 2014. What we've provided is a supporting slide in your pack which gives a breakdown of redundancy costs per year.

Land rehabilitation and employee provisions as you will appreciate are standard six monthly non-cash accounting adjustments which can actually move in either direction subject to discount rates.

So overall there's a AUD52 million positive impact in the first half. These material items of AUD52 million are included in the underlying EBIT of AUD488 million and will appear in the waterfall charts as I go through.

So moving to the underlying EBIT bridge -- group underlying EBIT increased from AUD403 million to AUD488 million, an increase of AUD85 million. It's important to note that volume and revenue quality are shown net of access charges and fuel. From a volume perspective, volumes were lower across the products with the exception of Intermodal whilst revenue quality was positive in coal offset by reductions in Intermodal and freight.

The coal business included a change in mix to higher yielding contracts. We saw lower volumes with one of our larger customers which attracts a lower yield. But this was more than offset by higher yielding volumes. We do expect this to reverse as the lower yielding volumes pick up in the second half.

The next item -- there is a AUD90 million positive upside from the below rail revenue which I will come back to a little bit later on the specifics. But just a note it includes the UT4 timing differences plus a AUD15 million bank guarantee in relation to Bandanna following the termination of the work deed with Bandanna.

AUD64 million transformation benefits I touched on -- AUD52 million operational and AUD12 million corporate support costs. Again I won't go through the material items. That's the AUD52 million I covered on the last slide.

Finally just a couple of callouts on the last box which includes AUD27 million in relation to below rail depreciation and energy costs. As you know these are recoverable through the undertaking process, just timing differences. AUD17 million for labor and consumable CPI, also the AUD9 million of asset impairments that I mentioned earlier. The key message here is the overall Group result reflects a positive contribution from the below rail business and transformation being a key driver of the above rail business.

From an above rail perspective EBIT increased AUD34 million half on half. I talked through the volume and revenue quality components on the previous slide. From a revenue perspective Intermodal and bulk businesses remain challenging hence why we started the strategic review in H1 of 2017 with the aim of identifying strategic options for the under-performing businesses. Andrew will talk a little bit more about this later on.

Iron ore as highlighted at year end includes the impact of restructuring the KML contract and lower volumes as Mt Gibson Extension Hill operation ramps down. However we are seeing some opportunities in this area.

The transformation benefits of AUD61 million includes AUD52 million of operational initiatives and AUD9 million of the AUD12 million in relation to the corporate support costs. As you know corporate support costs are allocated to the segments so this will -- they will also receive the benefit of reduction in costs in that area.

The material items of AUD34 million represent the above rail portion of the AUD52 million I talked through earlier and comprises largely the QNI provision and also apportionment of employee costs. So for above rail are AUD34 million uplift in EBIT, a strong coal performance driven by transformation offset by Intermodal and bulk.

Turning to the below rail business underlying EBIT increased AUD50 million half on half. The AUD90 million revenue includes a number of items. I'll just run through a few of these. Firstly the UT4 true-up -- this represents revenue we under recovered in prior years. We previously communicated a range of AUD73 million to AUD89 million prior to the final decision. This was finalized in October of last year at AUD89 million. AUD45 million is included in the first half. The remainder will flow through to the second half.

Also following the UT4 decision a true-up in relation to the Goonyella Abbot Point expansion commercial arrangements and also rebates for access facilitation deeds was required as both were impacted by the final decision. It wasn't possible to estimate this number until we had a system by system breakdown and we had an agreement reached with our customers. This adjustment of AUD12 million for GAPE and rebate is a Half 1 adjustment only and won't be repeated in the second half.

In a similar way the AUD15 million bank guarantee I mentioned earlier in relation to Bandanna is a first-half recovery. Again this was a commercial decision to mitigate risk in the original work contract. We communicated earlier recovery of AUD10 million in energy costs. AUD5 million is in the first half. Finally we have an insurance recovery in relation to the Newlands derailment. So overall approximately AUD35 million will not be repeated in the second half.

Moving to the AUD23 million, this includes AUD10 million of higher energy costs which reflects higher wholesale energy prices in Queensland. Also included in the AUD23 million is AUD13 million of overhead allocation. This is a result of a true-up in relation to the final decision. We'll see the same again in the second half, noting however there is a corresponding benefit in other. So there's a nil impact to the Group.

Finally AUD17 million reflects increasing depreciation due to the timing of work commissioning in the prior half plus higher expenditure on rail renewal spend which is now capitalized. So just a reminder, the first half for below rail includes AUD35 million of revenue which will not be repeated in the second half.

Moving to capital expenditure, we have previously communicated guidance of around AUD550 million to AUD600 million in FY17. As you can see first half expenditure was AUD256 million. With an increased focus we expect to be at the lower end of that guidance range, around AUD550 million. This reduction represents approximately AUD150 million reduction on prior year spend of AUD700 million as we've seen growth projects being completed.

The focus moving forward is sustaining and transformation capital expenditure with very little growth CapEx in the forward forecast. The reduction in capital expenditure is as a result of the more disciplined allocation process and, Andrew will talk about in a moment, the change to the Company's capital delegations.

We have reduced the capital expenditure from a non-growth perspective in FY19 to AUD500 million. So the important point here is very little growth CapEx going forward and increased financial discipline driving efficient management of sustaining capital.

Moving to the next slide cash flow continues to be a very positive story. We continue to see improvements. Included in the cash flow position for the half is the AUD98 million proceeds from the Moorebank sale. In Half 2 obviously - Half 2 will be lower as a result. At the bottom of the page you can see free cash flow increased to AUD356 million partly as a result of strong earnings from operating activities increased, but somewhat offset by cash tax. But primarily due to a significant reduction in capital expenditure and improvement in working capital.

Growth in free cash flow is expected to continue through disciplined management of capital expenditure and the ongoing transformation work which delivered AUD64 million in the first half. We remain on track for the second half.

Finally a comment on funding. Our focus continues to be diversification of funding sources and lengthening tenure. We have no further issuances in Half 1 however AUD525 million of below rail bank debt will become current in FY18. So we'll look to refinance in this calendar year.

Following the issuance of the MTN in 2016 tenor extended from 4.5 years to 5.3 years with an increase in average interest costs to 5.1%. Gearing reduced marginally during the year to 37.1% with below rail at 51% debt to RAB as reported -- approved RAB.

The Board remains committed to an investment grade credit rating. We see further growth in free cash flow in FY18 and beyond which will increase headroom and also support capital management initiatives which Andrew will address. So it's about financial discipline, delivery focus on the transformation program and focused capital expenditure which will drive increased cash flow.

So on that note I'll hand back to Andrew.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Thanks Pam. Moving to initial focus areas. As you could readily appreciate the opportunity to address the business from end to end is immediately available. But I like to prioritize, to get things done and to get them done quickly. Therefore in the first two months I've focused initially on transformation, capital allocation, the freight review and UT5. This is being done in order to drive shareholder value with more immediate effect. Strategy and structure will come and get their increasing focus in the coming months.

The next 4 slides deal with the 4 focus areas in turn, starting with transformation. As I've already said transformation is at a run rate we need to deliver AUD380 million by the 2018 financial year. Like many similar business projects you start with the opportunities that are more obvious within silos and not as interconnected, but not necessarily easier to change. This typically does not require a strong governance process. Later in time transformation initiatives are less obvious, cross functional across silos and interconnected. So you need a strong governance process to manage them.

The scope is broadening because we need to be in front of the delivery of transformation after -- to the 2018 financial year and because solely focusing on cost can cause you to leave value on the table. So some early decisions -- we've lowered the CapEx allocation limits. To give you an idea of the size of the prize in the 2016 financial year there was AUD149 million of capital spend that had occurred without the need for CEO approval. The change will undoubtedly lead to less capital being spent and higher return investments.

The second decision is around the centralization of the consultant spends. Currently -- or prior to the change -- there were 200 people able to engage consultants across the business, which is too many and results in too much spend. I should point out that those two changes are not just decisions. They're actually being implemented as actions.

Moving to the freight review update -- there are two separate work streams within the freight review due to the differences between the bulk freight business and the intermodal business. First to bulk -- bulk is a number of distinct hauls. It's not a market. When we look at the data of each haul against a ROIC target out to the financial year 2019 there are three clear groups and action that can now be taken as we move into the execution phase.

The first group are those contracts that we will retain that are or will be at target returns with reform work that is within Aurizon's control. The second group are contracts similar to the first group but require third-party decisions to meet the targeted returns. The third group are those contracts that cannot meet the target returns even with reform. There is already an example of action in this space which is the which is the cessation of the Mt Isa freighter service as of January 31, 2017.

Now looking at the intermodal business -- it has the characteristics of a market. The way to determine the course of action is underway. It has strong overlaps with the business strategy work that needs to be completed. This will likely be done by the middle of the year. The early decision to restructure the business by combining commercial and operational activities has already been taken. I note that financial performance for both of the bulk business and the intermodal business has deteriorated in the period with both operating at an EBIT loss.

Now to some market commentary -- this slide is the one I have the most familiarity with given my history in coal and iron ore as a business operator, and also with my time managing business in China. There are 2 distinct periods we need to think about. I'll go to the long-term first. Metallurgical coal remains the key ingredient for steel which is strongly linked to population growth and the increasingly high standard of living a symptom of which is the rapid urbanization in Asian countries. While we have already seen a huge wave of growth in China there is still a great deal to happen within that country and elsewhere in developing Asia.

Thermal coal due to the need for energy security will remain in demand and have positive growth due to the energy needs of a vastly growing urban population for many decades to come. There is plenty of room for renewables. In the very long-term they will dominate. But energy security will be the major supporting theme for coal in the decades to come.

Australian iron ore has a very bright future for many decades, certainly from a volume viewpoint. The very large investments in supply underpin volumes for a long time. In the short term we are seeing mines trying to increase production. But typically the big producers are already at high utilization rates which means it is difficult to respond in the short term. Smaller producers or closed mines are responding quickly albeit the overall volumes are small. While the immediate response is muted, sustained high coal prices could result in future volume growth. Lastly all coal and iron ore customers are estimated to be operating at positive cash margins.

Finally the last of the four focus areas, UT5 -- the reality is that the UT5 submission was made just before I joined the business. So I'm speaking as one who has reviewed it rather than written it. UT4 clearly is an example of a process that should never be repeated from anyone's viewpoint given it was 3 years late. But at least it is now finished. UT5 has been built upon an Aurizon decision to undertake maximum stakeholder engagement on the basis of minimum policy changes with as simple a document as possible.

It represents a very clear statement of what the Company finds unacceptable. The highest of those unacceptable issues is a return that does not remotely match the risk in managing the asset. From a process point of view the next step is that the industry responses will be submitted by February 17, 2017. A draft QTA decision is expected around the middle of the year. There is an ongoing Aurizon stakeholder engagement process which I enthusiastically play my part in as does every other relevant level of the organization.

What I'm really looking forward to is the post UT5 finalization when we will have an opportunity to consider how we transform the relationship to deliver benefits both for the coal industry and for Aurizon.

Turning now to the capital allocation -- this slide simply and clearly provides shareholders with my view of how growth opportunities are considered. I have changed the capital allocation model from the past. I view dividends as the contract with the shareholder. It is appropriately prioritized and comes immediately after sustaining and transformation capital. The payout range is set by giving due consideration to our capital structure and potential other capital investments.

The key message in terms of what has changed is that the growth opportunities are to have their returns considered against the returns implied by completing a buyback. I also want to highlight that any future capital returns will be considered following a broader strategy and capital management review. This is because we do not want to make a decision in isolation without considering strategy which would come later in the year.

As Pam has already highlighted our expectation is for a continuation of free cash flow growth beyond this year as we execute our transformation programs and continue to focus on reducing capital spend.

Now to guidance for 2017 and some thoughts for 2018. For the 2017 financial year our earnings guidance range remains unchanged with revenue of AUD3.35 billion to AUD3.55 billion, and underlying EBIT of AUD900 million to AUD950 million with the mix changing as higher below rail earnings have offset weaker above rail.

In above rail we expect continued delivery of transformation benefits and to deliver total volumes between 255 million tonnes to 275 million tonnes which should result in moderate growth in underlying EBIT when compared to the prior year. This is slightly weaker than when the original guidance was set six months ago, with stronger coal and iron ore offset by the deterioration in freight.

Below rail, the EBIT expectations have increased compared to six months ago, as the final adjustments from the UT5 true-up were at the top end of the original expectations.

This guidance does indicate that earnings will step-down in the second half given the number of non-recurring items Pam has already talking through. It also excludes the transformation related redundancy and restructuring costs which have been treated as a significant item due to their size this year.

We do expect more costs in the second half to take the total to at least AUD100 million, although we cannot be more specific than that at this stage. As per usual, we assume no major weather impacts.

Some thoughts about 2018. We have a target of an operating ratio of 70%. The achievement of this target remains dependent on the items listed in the slide, two of which the delivery of transformation, and the outcome of the freight review, are within management's control. Although we note that the final freight review decision has yet to be determined for Intermodal.

The remaining two above rail, volume growth and UT5, are not completely within management's control, but we will be doing everything we can to influence a positive outcome. The key message for me here is that the transformation alone is unlikely to deliver an OR 70 result, so we will need positive outcomes from the other items that I've mentioned.

In closing, I'll leave you with a summary of Aurizon's fundamentals on the page. What I can add to the investment case outlined in the slide is that in every week that has gone by since I started, the opportunities to add value to the business have become more numerous and my enthusiasm for what Aurizon can become has only grown.

I'm increasingly confident the outcomes of the strategic work underway through the middle of the year will prove exceptional and add substantial value to the business.

Thank you very much. Now we'll go to questions on the telephone.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions) Your first question comes from Simon Mitchell with UBS Investment Bank. Please go ahead.

Simon Mitchell - *UBS Investment Bank - Analyst*

Good morning. My first question relates to the guidance for FY17. There's clearly been a benefit to network that weren't expected at the beginning of the year being the UT4 true-up and those other three or four items that Pam mentioned. Despite that you've kept the guidance as is. Do we take it that there's a number of factors in above rail that have gone against original expectations?

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

I think the first point I highlighted that in the coal business we did have lower volumes with a lower yielding customer. We do expect the mix to change in the second half. So, for an above rail perspective there will be some downside. However, hard to judge given it's subject to customer rail links. There's that and obviously the performance of the freight businesses.

Simon Mitchell - *UBS Investment Bank - Analyst*

Then just extending that into FY18. I know it's hard to make too much comment on that year, but Pam, you've outlined a number of factors in the network business that will cause a lower outcome in 2018. It looks like though that up to something like AUD130 million. So, the starting point for 2018 is that to start with. Do we think of other swings and roundabouts in 2018 to kind of offset or increase that AUD130 million headwind?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Look, I think in one of the last slides I put up my thoughts around the 2018 guidance. You can see the very large drivers there that have meaningful impact. Things like the UT5 agreement making the outcome of the freight review, the transformation project being three of them. Would you like to add anything more Pam?

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

No. Again, UT5 is a key driver and you probably know as much as we do at this stage.

Simon Mitchell - *UBS Investment Bank - Analyst*

Okay. Also, just a question on the dividend. Interesting in this first half you obviously had the benefit of those issues and network and the Board decided to pay out 100%. You suggested earnings in the second half it's more than likely going to be less than the first half. Should we think of the dividend moving with the earnings? So therefor there will be some volatility and potentially downsize risk to the dividend in the second half and potentially (inaudible) depending on those issues we just discussed?

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

That's a fair assumption.

Simon Mitchell - *UBS Investment Bank - Analyst*

If I would just ask one more question for Andrew just on capital management. You made some clear comments on that. Just wondering how you can see CapEx longer term sitting at a level well below depreciation? How long that can go for and what the key leaders are in keeping CapEx under control?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

The way I'd look at the capital management going forward, I think one of the things that struck me coming into the business is how much decentralization that there was in the actual capital spend.

If you can think about when you've got to prioritize and make hard decisions, that's hard enough for an individual to do, but if you have that task being done by a committee, or indeed delegated to a larger number of people, they will all be doing what they think is correct. But it was nowhere near as strong as it can be as if one individual is aligning the spend with the actual vision of the business going forward.

What I'm trying to say is you shouldn't underestimate the impact that can be made in that space. Notwithstanding some of the other comments you made.

Simon Mitchell - *UBS Investment Bank - Analyst*

Thank you very much.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

If we could move on to the next question.

Operator

Thank you. Your next question comes from Anthony Moulder with Citigroup. Please go ahead.

Anthony Moulder - *Citigroup - Analyst*

Good morning all. Just if I can start with that guidance. How much of the wet season does that play into your expectations on the second half?

Mike Carter - *Aurizon Holdings Limited - Acting EVP Operations*

Anthony, Mike Carter here. Just normal impacts as per our approach every year. We don't presume that there won't be some weather impacts. But what we're saying is it won't be a major outage for a significant period of time like as happened four or five years ago. We don't plan for that. But we do plan to have some lower service levels with the normal impacts of this time of year.

Alex Kummant - *Aurizon Holdings Limited - EVP Network*

Anthony, this is Alex. We've had actually a disproportionately wet first half so we've already overcome some weather, and we'll just have to wait and see on cyclone season.

Anthony Moulder - *Citigroup - Analyst*

Could we see some sort of change to that volume expectations after the third quarter? Is that fair?

Mike Carter - *Aurizon Holdings Limited - Acting EVP Operations*

I think again, Mike Carter here Anthony, we certainly if we saw a material change we'd obviously look to communicate that. But the normal rhythm of the business is a fairly hard run in the last quarter, is generally what happens every year after the wet season. So, to materially move the volumes it would be running even more quickly than would be the norm. I wouldn't look for major increases but certainly if things change we'd obviously look at that and look to communicate that.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Anthony if I could add, well I'm only a beginner in the Aurizon business, I'd have to say that the reason that the range has not changed is because expectations fall within the range.

Anthony Moulder - *Citigroup - Analyst*

Of course, but just point me in some range I guess just looking as to when that might be tightened perhaps. If I move on the rate freight revenue down 8%. You mentioned both freight and Intermodal both lost making it the EBIT line, can you give some quantum particularly for the Intermodal businesses to how loss making that might have been in the first half?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Look, I'm not going to delve into that, just to point out that it has been.

Anthony Moulder - *Citigroup - Analyst*

Understood. You mentioned strategic options for Intermodal, I guess that's the full suite of everything from restructure through to sale.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

What you've seen when we announced the impairment for the business is that I immediately restructured the operating and commercial sides of the business to bring them under the control of one individual reporting directly to me. So, that's an indicator that running the business as hard as possible is the first step in the work.

The review itself will be done at a proper review which can only be done if it considers all aspects on the continuum of how you deal with the business that is challenged.

Anthony Moulder - *Citigroup - Analyst*

Understood, and lastly if I could for you Andrew, I appreciate it has been a short amount of time, but can you, besides from discussion with customers they've seen high pricing. I wondered if whether or not they're giving any insights as to how they're thinking about increased volumes?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

You can certainly with having customers, and I will get Mauro to give a little bit more color to this, but certainly we're seeing customers with increasing confidence. I would say not so much immediately, but building up into the near future, and that's proving to have quite likely positive outcomes for us. But as I say its discussions are not today focused. They're more short to medium term focused going forward.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

Yes, Anthony if I can add to that, Mauro speaking. We have seen a combination of the smaller customers, they have probably better flexibility in dealing with potential shutting down the mines, extending mine life. But as Andrew mentioned with little impact in the short-term volume.

The majors have been mining their assets quite hard and operating at quite high levels of utilization. So, they are trying hard to get better outputs but they were already mining those assets very hard. If the prices are sustained at three figures, it's likely there will be some medium-term upside, but nothing that will materialize in the next few months.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

I'll just add the general impression I'm getting is there's increasing believe in the positive nature of this trend and it's not just built on a past price spike which is actually mitigated to some degree to this moment in time. So, there's a longer term feel to it but it is still early days.

Anthony Moulder - *Citigroup - Analyst*

Thank you very much.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Now, let's move on to the next question.

Operator

Thank you. Your next question comes from Matt Spence with Merrill Lynch. Please go ahead.

Matt Spence - *BofA Merrill Lynch - Analyst*

Hi guys. Thanks for the cash flow stuff and the lower CapEx guidance. You mentioned also improving working capital. What's in the example of that Andrew? What can you do on the working capital side?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

I mean there's a vast amount of things that you can actually do when it comes to working capital from some simple inventory improvements to a whole range of other activities. There's real money attached to actually doing those sort of things.

I would add that those working capital management falls in a category that typically falls in the low hanging fruit category when you're doing transformation work. It's something that is easier to do and present in front of us to deal with. I'll hand over to Mike for some further comments.

Mike Carter - *Aurizon Holdings Limited - Acting EVP Operations*

Matt just to give you a bit of color and example, the Progress Rail deal that Andrew referred to earlier is a good example of a project that will improve OpEx, CapEx and working capital. The major workshops are doing as much work on inventory and capital as they are on direct OpEx costs.

If you have a material reduction in the cost of an engine for a locomotive, and that is what happens with that deal, then all of the inventory costs come down significantly and your CapEx in due course as well.

That's one absolute example of it right now and we're obviously going to look at other examples.

Matt Spence - *BofA Merrill Lynch - Analyst*

Andrew, if I can just look bulk, can I put it to you that fixing up this division doesn't look too hard from the outside. Analysts will always oversimplify this, but you've got a bunch of contracts you say that make their return hurdle, and then you've got some contract that are loss making, and there's some in between.

But isn't this just as simple of just exiting the loss-making stuff, and fair enough there's a right down that comes with that, but if you've got these longer-term contracts that are profitable isn't that a relatively easy business division to turn around?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

So, it's a mixture of some of it's easy and some of it's a little bit harder. If you can imagine the particular issue is with contracts that you want to exit and it would be too costly to exit them quickly, and you actually have to serve out the term of the contract.

While some of the business solutions maybe fall more in that easier category, there's a very strong timing impact with dealing with the some of the contracts that run for a reasonable amount of time. I might ask Mauro if he wants to give anything more on that.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

Hi Matt, probably useful to add that bulk is just a way we refer to and they have a wide range of different natures of service. The best way to look at them, the closer they are to the [rallying] call, I mean somewhat new rolling stock, full train services to world class customers, the best the contracts tend to be. The more you go to multiuser services with more volume risk with less quality [counterparties], the less profitable the service is going to be.

So, it's a wide range of different services and there are some very interesting markets that we want to continue playing. The work that we've done so far helped us to have a very clear line of sight of where we can be profitable long term, and what are the markets that we are better off walking away. That's the work that is well on the way and I would say in full execution mode.

Matt Spence - *BofA Merrill Lynch - Analyst*

Okay. Just one last one Andrew. So, improving free cash flow profile is noted but one thing we've had in the past it's below the line items and we're going to have AUD90 million, AUD100 million this year. Noted that you're doing ongoing works, so what do you think on below the line items going forward, and whilst they might be one off how might they impact what we should think about free cash flow going forward?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

I will immediately hand this over the Pam because this is something dear to her heart.

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

Matt, this is something we're monitoring closely. It's hard to judge whether that number is how much higher it is. Obviously as we restructure the business you're always going to get transformation costs. I wouldn't say there won't be anymore. Again, we'll communicate it if it is a material value.

Matt Spence - *BofA Merrill Lynch - Analyst*

Okay. Thanks guys.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Thanks very much. Now, if we can move to the next question please.

Operator

Thank you. Your next question comes from Cameron McDonald with Deutsche Bank. Please go ahead.

Cameron McDonald - *Deutsche Bank - Analyst*

Good morning. A couple of questions. Andrew you've mentioned the transformation program moving more away from just costs to the revenue, and then also returns focused. Can you give us an idea around where you think the revenue opportunities are? Particularly with regards to growth opportunities, given that you've guided to in effect a zero growth CapEx, and then where you think the ROIC should be being targeted?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Yes, look I don't think it's a great idea for me to talk in any real detail about the revenue opportunities from a customer point of view obviously. I might just steer clear of that. Suffice it to say that it's a very good idea when you're considering cost reductions that you actually contemplate what the impact is on revenue at the same time.

The point I'd make is that we're not steering away from the cost reductions, we're actually expanding the scope. I think that's an important differentiating aspect and we need to be a bit clearer around that language to explain what we're doing with the transformation project. But it is all tied to get us to an appropriate rate of return.

Cameron McDonald - *Deutsche Bank - Analyst*

Sorry, what do you think an appropriate rate of return would be?

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

We're already communicated ROIC targets, so I'd say that they still apply at this stage.

Cameron McDonald - *Deutsche Bank - Analyst*

Then just given the commentary you've made around the improving coal market, can you give us an update around Wiggins Island and what the customers there are doing given the pressures that we've seen there in the past.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

I might get Alex to give an update on Wiggins Island.

Alex Kummant - *Aurizon Holdings Limited - EVP Network*

Well we continue to make progress. I think we're headed this year to something a bit shy of 10 million tonnes, so we're still moving forward. I think there are issues clearly we need to work through. You're aware of the WIRP court case that has some limited effect on those issues. We won't comment more on that.

But in general I think what Wiggins Island really represents is a capacity opportunity as a Blackwater customers wish to rail more, Wiggins Island really gives them an opportunity to do that. I certainly can't speak to their cost position and the port itself, but the operation is working well from our point of view and the duplications on black water are creating the fluidity that we look for.

Cameron McDonald - *Deutsche Bank - Analyst*

Thanks guys.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Okay, we might move to the next question. Questioner.

Operator

Thank you. Your next question comes from Ian Myles from the Macquarie Group. Please go ahead.

Ian Myles - *Macquarie Group - Analyst*

Hi guys. Just a couple of questions. Electricity charges. Can you assure us that you're 100% hedged and it's 100% passed through into your customers very steep rise to go through the Queensland market in the coming years?

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

From a below rail perspective, yes we get full recovery.

Ian Myles - *Macquarie Group - Analyst*

And above rail?

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

Yes, we have full recovery of fuel prices. Obviously, there may be a lagging effect up and down, but we are fully covered by [fuel] as a pass through.

Ian Myles - *Macquarie Group - Analyst*

Okay. You made a comment about access being 100% passed through, but if I look at the delta between the access fees at the revenue lining coal and at the cost line. It doesn't look like it's moving in par. I was wondering what the different might be.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

We can take that offline, but it's essentially a bit of a lagging time. So, the billing mechanisms in above rail and below rail are slightly different so may give a, but its shouldn't be material, it's small, Chris can walk you through the detail. But there is essentially a different billing time which can get that imbalance.

Ian Myles - *Macquarie Group - Analyst*

Just in terms of bulk, you talk about looking at these through pricing opportunities and the likes, we've heard this rhetoric before from Aurizon over the last two or three years, what's changed in that identification of the mis-priced routes?

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

We still have some old contracts. We still have some contracts that have been going for the last five/six years and have another couple of years to go. The contracts that we have been renegotiating they are commercial.

I think some of the change has been a pretty clear direction from Board and from Andrew is really to look at that not as a volume play but really from a yield play and make sure that long term those contracts can be profitable.

So, probably a change in direction is that whilst volumes are still an important driver, the focus is using profitability in each of the hauls. And the work that we have undergone in freight reviews really trusted in each of the hauls whether they can be profitable long term of not. So, this is the work that is underway and as Andrew said is in implementation mode.

Mike Carter - *Aurizon Holdings Limited - Acting EVP Operations*

Ian, Mike Carter. If I can just add a little. As I think you know over the period since privatization one of the aspects of transformation has been to steadily improve and increase the robustness of our systems. One of the aspects that has been accelerated over the last year is to get a much-improved granularity down at the haul level, at the origin destination level for this business than we've had in the past.

That gives us insight that allows us more effectively to target where the specific transformations will have best effect at the haul level. That would be my observation of the true detailed outcome that's come out of the freight review as it applies to the bulk group of contracts. Therefore, we think we can get to value much more quickly with this much-improved granularity.

Ian Myles - *Macquarie Group - Analyst*

Can I ask then, of the contracts that you have renegotiated, are they all coming up into the top category of only needing a little bit of work? Or are they still sitting in that transformation category as well? Or transform category?

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

I would say both. The transform category as Andrew alluded to most of the cases depend on counterparty negotiations. So we're hopeful that we can find a commercial outcome with those customers. If we don't they will fall into the last category of exit. We've been clear that we will be disciplined in not retaining any business that we cannot make our commercial return.

Ian Myles - *Macquarie Group - Analyst*

One final question on bulk. Is it actually cash flow generative, or is it actually cash flow negative?

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

Well, we won't go into that level of detail because again when you look at bulk as a group, it really is a case of 15 different stories. Each of the contracts in isolation has been discussed. I don't know if Pam wants to add anything to that.

Pam Bains - *Aurizon Holdings Limited - Executive Vice President and CFO*

We don't look at the numbers in that way, but what I can say is we have a AUD33 million reduction in revenue from the bulk side of the business.

Ian Myles - *Macquarie Group - Analyst*

Okay, thanks.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Okay, let's move on to the next question.

Operator

Your next question comes from Paul Butler with Credit Suisse. Please go ahead.

Paul Butler - *Credit Suisse - Analyst*

Hi, thanks very much. I just had a question on the FY18 target and just wondered if the decision is to retain the Intermodal business, how do you then think about how achievable that 70% OR target is.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Well, I'll put it a slightly different way. To achieve the OR 70% target, you can't do that just by achieving the transformation target of AUD380 million alone. We actually need something from some of the other drivers. Whether that's a change in the operating circumstances for Intermodal, whether it's a positive outcome for UT5 which we'll know shortly about, those are the sort of things that you need. We can't get there just with the transformation project.

Paul Butler - *Credit Suisse - Analyst*

I'm just trying to get a sense of how big a driver each of those issues are - UT5, volumes and Intermodal.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

I mean I'd say they're all big, that's why they're on the slide and isolated with the transformation project itself. That value is AUD380 million.

Paul Butler - *Credit Suisse - Analyst*

On UT5 you've made the comment that the return does not remotely reflect the risk profile. To your mind is that simply an issue about the WACC or is it also about the operating constraints that you get from regulation? I mean obviously UT4 was not an efficient process. Do you foresee that there's an opportunity here to make a big change to the efficiency of that process?

Alex Kummant- *Aurizon Holdings Limited - EVP Network*

Hi Paul, it's Alex. I'll give you some thoughts. Clearly at the end of the day you guys really do know as much as we do in this space. But, what we do have is I think a clear, more focused dialogue with the QCA today because there is not a large clutter of unresolved policy issues.

The policy issues again were direct carry overs where we staked out the position last time. But, we would argue very fundamentally that the QCA is held to the belief that we resemble a water utility and we think it's very easy to demonstrate that that risk profile really is entirely different. Much lower number of customers, actual asset stranding risk as was demonstrated in the recent period.

We think that there is much dialogue to be had on the fundamental risk profile, consequently the WACC. There's also been a use of capital deferrals that we think represents a problem. There's also a system fragmentation. In the end the QCA has made a decision to actually manage socialization system by system as opposed to a whole. That in itself creates more risk.

So, we do think it's going to be a robust dialogue. We cannot predict where it will go, but we do think there is a clarity to that. But let me also say it's been a very good engagement, a lot of listening has been going on. I'm not going to predict any outcomes. But by robust I don't mean in any way inimical, it is a very solid relationship and we're working through the issues. So, we'll just have to see where we go.

Paul Butler - *Credit Suisse - Analyst*

Perhaps one more. So far, the transformation program has been pretty much focused on above rail, now that you've got a window of opportunity where you might hang on to some cost benefits in below rail, is there an opportunity now to expand to look at that business as well?

Alex Kummant - *Aurizon Holdings Limited - EVP Network*

Alex again here. We have quietly been moving along for five years. We have been on a continuous improvement program. We have continuously actually lowered our cost base relative to the size of the RAB. You have to recall that the RAB is almost twice what it was at float. Having held our absolute numbers flat is actually a relatively substantial reduction.

We've also worked a lot on process. So our focus has very often been how do we gain more capacity and more fluid network operation which doesn't necessarily mean dollar cost reduction, but it means better operations for our entire customer base. Be it other haulage companies, or the mining community itself.

Again, if you look at the reduction in closure hours, if you look at the increase in velocity, if you look at the safety performance, all those things have moved in the right direction. That in fact is a cost reduction for the industry.

Paul Butler - *Credit Suisse - Analyst*

Okay. Thank you.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

If we can move to the next questioner.

Operator

Thank you. Your next question comes from Owen Birrell with Goldman Sachs. Please go ahead.

Owen Birrell - *Goldman Sachs - Analyst*

Hi guys. Thanks for the call. Andrew, just a question to you. From your experience at Rio you well understand the benefits of fixed cost leverage in a business, particularly a logistics business, and the impact that has on productivity, particularly when you get higher or lower volumes.

You mentioned a comment before that above rail volumes are not really in your control, but I'm just wondering what you're doing to position yourself to better gain share from your rivals, or defend share against you rival, particularly that they may have lower ROIC hurdles than you do.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

There was a great example in the presentation about building on the negotiated enterprise agreement outcomes whereby we could actually introduce more flexible labour practices which give you a change to actually manage against variable volumes in a much more immediate and effective way. That's just one example of the sort of things that we're doing to actually improve how the business is run from a variable cost point of view.

Owen Birrell - *Goldman Sachs - Analyst*

From what you're saying there you're not going to be pushing for share but rather adapting the cost base to allow for lower volumes if you can't win it.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

Mauro speaking here. We have been quite successful in the last few years to renew existing contracts and I believe that Mike and the team in ops, doing what they're doing, delivering service is our best way of increasing market share. We have also last year announced AGL contract in the Hunter.

I believe that one of the things that was succeeded in doing that particular customer is embedding our services further in the supply chain including some maintenance work. We've been doing that load-out. Service and deliver and the quality in what we do is definitely the thing that determines out success long term.

I think ourselves in competition have been historically quite disciplined in terms of how we use price, which is still important but all in all the customers want to make sure that they will be able to deliver the gold to the ports when they have it. So, services are still paramount in that space.

Mike Carter - *Aurizon Holdings Limited - Acting EVP Operations*

Owen, Mike Carter. I think the heart of your question just underscores what Andrew has been talking about of how important transformation is, and how important transformation is going at both cost and capital in addition to looking at the revenue side. We know that we're not where we need to be from a productivity and efficiency perspective and we know that if we don't get there then our long term future in terms of having the opportunity to provide the services to customers will become exposed. So it's fundamental for us to keep the momentum of the transformation program and combined with that, to Mauro's point that if we're not distinctive in terms of our customer service then we don't deserve the business of our customers.

So the combination of the transformation and being as high a quality service provider as we possibly can, will be the thing that underscores our ability to win contracts that provide the returns that is the expectation of our shareholders.

Owen Birrell - *Goldman Sachs - Analyst*

Sure, (inaudible). Andrew just one last question from me, just your - you've obviously been in the seat for a few months now and had a chance to look across there at the broader business. You've obviously taken a very strong focus on return on capital across each business and I'm just wanting to get your view on I guess the broader portfolio of assets and your views on diversification. I mean if you focus too heavily on return on investment capital then you're effectively going to start rationalizing a lot of non coal businesses because they're effectively subscale versus the coal business. How comfortable are you in concentrating the exposure of the business down to effectively a single commodity given that we know commodities can be very highly volatile just by nature?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Yes, look I think a fundamental position for me is that you don't chase diversification for diversification sake. What you're after is the best most valuable adding activities for the business and that is the end game in actually delivering the most value to the shareholders. So diversification becomes an outcome of actually pursuing that sort of approach.

Owen Birrell - *Goldman Sachs - Analyst*

Sure, thanks.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Thank you. Moving on to the next question.

Operator

Thank you, your next question comes from Scott Ryall CLSA, please go ahead.

Scott Ryall - *CLSA - Analyst*

Thank you. Andrew I was wondering, this one will be really quick, how many times have you visited the QCA since you started please?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

There's a long and ongoing engagement process with the QCA which does involve me being in part of a process but it's actually been ongoing at many levels. So I might actually hand over to Alex who can give you some really interesting sort of information in that space.

Alex Kummant - *Aurizon Holdings Limited - EVP Network*

Scott, it's Alex. We kind of had this chat I think at the debt discussion we had with Pam about six months ago.

Scott Ryall - *CLSA - Analyst*

Yes.

Alex Kummant - *Aurizon Holdings Limited - EVP Network*

The one thing I want to assure you is there has been Board level engagement from both sides. So the engagement is quite robust. I just wanted to make sure that I told you that.

Scott Ryall - *CLSA - Analyst*

Okay so can I confirm Andrew you have visited the QCA since you've started?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

So again, what I would say is there's a process in place and there's a timing for all the visits and the stakeholder management plan that is being mapped out to deliver the maximum impact in the decision making process to get the right outcome that we've nominated previously in the presentation. So that stakeholder engagement plan requires me to do certain things and I'm following that plan.

Scott Ryall - *CLSA - Analyst*

Okay, all right, I'll leave that one there. Can you - on Karara you mentioned the above rail result was impacted by the restructuring of the contract. As far as I can tell from the disclosures, the main offset to Aurizon was the extension of the contract length, can you confirm whether there was any upside sharing? Clearly their cash flow position would be a lot better now with the iron ore price where it is than what it would have been when the contract was restructured. So I'm just interested in how you share the benefit of the restructuring please.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Okay well look I'm not over that detail so I might hand over to Mauro.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

So there is a mechanism of -- the relief is linked to an expansion of the price. So with the current price is -- the relief outcome is better than it would be otherwise. We have also seen Karara improving the volumes of magnetite which is great. So they are running close to main plate capacity at about 8 million tonnes. Unfortunately they have exhausted their DSO reserves. So they have been -- we have seen some reduction in volumes

despite an improvement in overall grade that have exported. So from a financial position, KML's financial position has improved and they are cash flow positive with current prices. But answering your question there is a price link mechanism in the higher the price, the better outcome for us.

Scott Ryall - *CLSA - Analyst*

Okay great, and Andrew this one will be for you I think, you made the comment -- obviously when you announced the impairments a couple of weeks ago one of them was to the freight management transformation project and you -- in the release you've said -- it was an investment to standardize 18 separate legacy symptoms for logistics, planning, scheduling, ordering and billing to a single platform which sounds a really good idea, could you just give us a little bit more color in terms of -- and obviously two weeks ago when you announced it, you said it had kind of gone over scope and it didn't really have the deliverables that you felt were robust enough in terms of delivering for the Business, but what will replace it? Presumably you're still trying to get all systems to communicate to each other. What will you do now?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

So I think the important thing with the freight -- the FMT was that the deliverables that it was chasing are absolutely sensible. The issue was that it was trying to chase it through a very large, very complex program that unfortunately the nature of very large, very complex programs is you have a risk of scope creep and that leading to poor results or you just kind of never really get there in any sensible way without just continuing to poor more cash in and there's a long winded history in the IT world and I won't go into that.

The actual legacy systems still need to be addressed in the main and we will go about doing that. But rather than actually trying to push the FMT project with its -- the large size of the project to deliver against -- to deliver those deliverables, sorry for saying it that way, we'll actually go through a small project at a time targeting a very specific outcome that we want in a prioritized order. This will take longer to deliver than a big project that tries to deliver everything supposedly in a big bang. But what you get, is you get a much more certain outcome, a much more controllable process because you're only putting it at risk, small amounts of money against the replacement of a system before you and then you validate that and then you move onto the next one.

So I hope I've given you a sense of, we've still got to get the same outcome, but we're going to do it through a much higher reliability, lower risk process. I'd also add that because of the length of time the FMT had been running, big project, long life project, a number of the other transformation projects had actually caused some of the business case to disappear in that we'd actually delivered some of those benefits. One I would actually point to specifically was the organizational changes that were made last year; a very large number of people left the organization. That delivered some of the business case that the FMT program was originally intended to actually provide benefit to.

So we've already seen some of the benefit by other means in the transformation program and we will deliver against the requirement to have better systems in a more reliable way going forward.

Scott Ryall - *CLSA - Analyst*

Do you have the capability for that internally at the moment?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

There's been a big change in the people in the area of IT. We've actually gone through quite a learning process with an external auditor to understand what the opportunities are with just our general program management and I believe we'll be well placed to actually move forward with that change to a smaller scope program and faster deliverables.

Scott Ryall - *CLSA - Analyst*

Okay and just my last question was just on the bulk division again. Have you -- you've given one example where you've executed a contract, have you got any that were in the transform bucket that you've ended up retaining that you can give us an example please?

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

I will handle over to Mauro.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

So if I come back to my previous explanation Scott, where business, they are similar to the nature of coal business, again full train loads, cycling through, (inaudible) to port type entities, we have a series of customers advised to have that type of nature. One being grains for instance. Where it's a market that our market share is growing and we have been doing significant improvements. So it's part of what we call bulk but in itself is a market that we can win. So grains in general is a place where we're looking to grow a presence.

Scott Ryall - *CLSA - Analyst*

All right, so that's one example where at the moment you would say it's not earning its return so it needs transformation but you're optimistic that you'll be able to turn it into a retained business. You know if I simplify it.

Mauro Neves - *Aurizon Holdings Limited - EVP Customer & Strategy*

Exactly.

Scott Ryall - *CLSA - Analyst*

Okay, that's all I had, thank you.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Thank you very much for that Scott. Okay, any more questions?

Operator

We are showing no further questions at this time.

Andrew Harding - *Aurizon Holdings Limited - Managing Director and CEO*

Okay, well look thank you very much everyone for dialing in and listening to the presentation and the q and a session. I look forward to talking to you more in the future. Thank you.
