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Andrew Harding: Managing Director & Chief Executive Officer

Andrew Harding: Good afternoon, everyone, and thank you for your attendance here today. Today represents the first Investor Day for Aurizon that it's held in the last few years, and therefore it gives us a chance to talk in detail about both what we've been doing over the past 18 months and also the plans for the next few years. Some of these themes you've heard before, but hopefully, you find the greater detail and the information about our strategic framework helpful in understanding how this company will continue to deliver value into the future.

Importantly, it also represents the first opportunity to hear from the senior team that's running the major business units, as you can see from the agenda on the screen. There will be plenty of opportunities for questions and answers after the final presentation and, of course, you will have the opportunity at the end of the day for some more questions with the team over a drink.

Having a new business unit structure in place means a new leadership team with a broad range of skills across the rail, logistics, steel, and energy industries. I am very happy with the team I have assembled and everyone has now settled into their respective roles and given what we're about to talk about you can see that there is plenty going on. As a reminder, you will have plenty of opportunities to talk with them all throughout this afternoon. I would also point out, although they are not presenting, Mike Carter and Tina Thomas are also here in attendance and available for questions.

As always, first we'll start with safety. We have been operating under the revised injury metrics for nearly a year now. These revised injury metrics now include all contractors and restricted work injuries, in addition to some other minor changes, to ensure consistency with best practice. As highlighted at the half-year results, we saw a deterioration in performance in the early part of the financial year, which is disappointing, but a focus on newly identified areas for improvement has seen positive changes in the latter part of this year.

Changing injury definitions was the first step in a broader program that is underway to create a learning safety culture. This journey will require an underlying shift in beliefs from a control-oriented environment towards interdependence and self-sustaining behaviours. To make this shift, a program of work has been developed that will focus on the development of leadership behaviours and capabilities for our frontline leaders, updating our systems, processes, governance and tools to better support frontline operations, and the clarification of accountabilities for operational and support roles.

I wanted to spend some time initially setting the context as a number of factors have influenced my actions to date and the development of the strategic framework, and this will be referenced throughout today's presentation. Firstly, the underlying coal market conditions are strong for our customers, and this has improved in the 18 months since I joined Aurizon. Whilst you may think a growth rate of around 2% is small, this is 2% each year for 10 years and represents a very significant change in mindset and operating environment compared to volumes that were flat at best, and declining at worst, when I first started.

We have very good visibility of this growth based on the work we do around understanding the demand for coal. In particular, tracking construction of thermal coal-fired power generation in Asia and steel capacity growth, especially in India, a country expected to be the single largest driver of seaborne demand for metallurgical coal over the next decades. In South East Asia there are 17 gigawatts of coal-fired capacity currently under construction. Over 95% of all Australian thermal exports are delivered to Asia. For metallurgical coal, India reached over 100 million tonnes of crude steel production for the first-time last year, which is noteworthy given India will be the number one export market for Australian metallurgical coal this financial year.

While coal markets are strong, there is competition in the rail haulage market, and this is placing some pressure on prices as we noted earlier in the year. This reinforces the need for Aurizon to focus on our cost-base in order to maintain margins and returns. The regulatory environment is also influencing the way we operate, but not in a good way. I believe the regulation should provide a framework that protects various stakeholders but also enables businesses to sustainably grow, rather than restricting growth through unnecessary processes and uncommercial returns. Michael Riches will talk through, in his presentation, how he would like to see the regulatory framework evolve in Queensland.

Finally, technology is important today and will continue to be tomorrow for all companies, including railroads. Technology investment will be at the forefront of our journey from transformation to continuous improvement. The internal landscape, as you can see on this slide, is a reflection of where the efforts have been prioritised since I have joined, which I will go through in detail on the next slide.

The truth is we have been delivering this strategy progressively after the past 18 months through action. There were a number of immediate actions that were required when I started to get the business back on a footing for the next phase of performance improvement and growth. I wanted to demonstrate a clear pattern of behaviour to investors. First, you identify the issue, second, you develop the solution, and third, you execute. Very simple but very effective, and a clear way of showing that you can trust when we identify a problem we will determine the solution and then we will execute.

Some of these we have moved quickly on, such as the move to the business unit structure, but the process around regionalising our staff so they're closer to the customers and the operations has only just begun. Likewise, with the freight review, the first part of the promise to exit Intermodal happened according to plan with the shutdown of Interstate. The sale of the Queensland business and the Acacia Ridge remains subject to ACCC approval, which is now expected on 5 July. But as we have noted previously, if this does not happen the Queensland Intermodal business will be closed.

Dividends have been paid at 100% of underlying NPAT for three years now, something which the Board will continually assess. Pam will later go through our thoughts about how we prioritise capital allocation, noting that we are committed to returning surplus capital when it is available. I hope you agree we are true to our word, given that we have distributed over $1 billion to our shareholders through dividends and share buybacks since March 2017.

On transformation, I will talk to you shortly about the future direction, but we have continued to make good progress across the business but there is more than can be done.

So, what is the strategy? The strategy needs to start with a clear articulation of our purpose and vision for the future. A vision of what type of business we want to strive to be. It's important to be clear about our purpose, our vision, and our values as they define our reason for being and how we aim to serve all our key stakeholders. A clear purpose guides the strategy and being purpose-led means we are united behind a common cause that goes beyond profit.

Aurizon's purpose is the why. It engages our employees at all levels behind a common cause and states the role we play in Australia's regional communities as this is where our operations and most of our people are located. It also recognises our important role in a global bulk supply chain. Although our operations are focused in Australia, we have a vital role to play in supply bulk commodity markets and building Australian prosperity.

Our vision is the what, the aspiration, the market we operate in and our role. Being first choice is a marker for our customers and our aspiration to be the leading provider. It highlights the fact that our strategy is to retain and grow our business, our customer base, and volumes by focusing on delivering best outcomes for our customers. This might mean different things to different customers, whether it be low cost or the most flexible, we aim to provide a better, reliable, and customer-focused solution than our competitors. Our vision also defines our role and ambitions in our market of bulk commodities and is broader than just providing rail. We aim to provide supply chain solutions.

Aurizon's values have not changed, and this is very deliberate as they determine the principles by which we operate.

The levers available to help achieve this vision are grouped into three categories and that is how each business unit will achieve its goals. The majority of time, effort, and resources will be focused on Optimise and Excel and these are the major near-term value drivers. Extend is the lever for long-term growth, which is incremental to what the current core business can deliver.

Optimise. Simply put, this is optimising what you already have, which is a great collection of people and assets, but we need to keep refining this to continue to be cost-competitive for our customers.

Excel. This is about taking what you have optimised to the next level through investments in technology, reform of the regulatory environment, and embedding a safety and performance culture that will continue to innovate. This should enable you to stay ahead of the competition and further improve returns.

Extend represents Aurizon's ability to grow and create value beyond what we have today. This is not easy given there is not an abundance of options available, but we do have a small team accountable for searching out these options. While it important to have a focused list of opportunities that are of interest, of equal importance is what we rule out. As you would expect, we analyse the various markets we could operate in, of which there are many. However, we are only interested in where we see alignment between the growth of those markets and our strengths, which is why we have ruled out markets like Intermodal, passenger rail, and anything outside our geographic core. This means no international expansion.

Amongst other things we will be looking at over the next year, there will be a review of the value to the business of our vertically integrated structure. A great deal of work was done a decade ago to validate that this was the best outcome at the time. It is incumbent upon us to review this assumption as a decade has passed and the industry and environment may have changed.

On transformation, we expect to reach our three-year transformation target of $380 million. During the last three years, significant work has been undertaken to streamline and optimise the operation. We are now more productive, both in terms of our physical assets and our workforce. For example, we have seen a 28% improvement in labour productivity from June 2015 to December 2017. While we are not providing a new multi-year cost out target, this is not where the story ends for transformation. As you have heard from me earlier, transformation will continue to underpin our strategy going forward and is central to the Optimise and Excel levers.

We need to ensure that the business is competitive now and into the future. The next stage of our transformation journey across the enterprise will focus on developing a safety and performance culture that is agile and innovative, and leveraging technology and data to drive further productivity improvements. Today Ed, Michael, and Clay will be taking you through their individual plans and key transformation initiatives. There are also two key enterprise-wide initiatives that I will talk to you about in more detail shortly, being the renegotiation of our Enterprise Agreements and precision railroading operations.

Transformation will not only be centred on Coal, Bulk, and Network. There is further work to be done in our central areas to support the business by providing innovative, flexible, and lower cost services. We've commenced work around restructuring TSP, which will involve a reduction of roles during the course of FY19, further footprint consolidation, and will also see the transfer of certain functions into the business units where it makes sense to do so. We would expect these actions will deliver around $20 million in cost reductions by FY21.

As you would expect, in addition to what we will go through today there's a large number of smaller initiatives being driven by our frontline employees. It is here where we begin to move the dial from transformation to continuous improvement, where it's everyone's role to drive improvement in order to create ongoing sustainable value.

One of the key objectives under the Optimise lever is the renegotiation of the Enterprise Agreements, which cover around 80% of our employees. We will either commence or conclude bargaining for all of our EAs in 2018. As you are aware, the majority of our existing EAs provided a very generous wage increase of 4% per annum. In an external environment where current wage growth is subdued, there is a significant opportunity to better align our EAs with the market. We have already seen this with the successful conclusion of bargaining for the WA rolling stock maintenance EA earlier in the year, which resulted in a wage uplift of 1% to 1.75% per year over four years.

In addition to aligning wage increases to the market, we will also be looking to removing the barriers to productivity and simplify and standardise processes and conditions to enable each business unit to be fully accountable for its operation and, recognising the particular differences between the Bulk and Coal businesses, we will be pursuing separate EAs for Coal and Bulk train crew in Queensland. Bargaining in relation to the Queensland construction and maintenance EA and Queensland train crew EA, which accounts for about 50% of staff covered under an EA, is expected to commence next month.

At its heart, precision railroading operations is simple. It's about driving precision planning and disciplined delivery with a goal to improve on-time departure and the arrival of our services across CQCN. Aurizon's trains and infrastructure sit at the centre of this and there is an opportunity to deliver greater value for our customers and broader supply chain. I am leading this initiative, being in the unique position of overseeing both the above- and below-rail businesses. The initiative is centred around three principles, plan with precision, disciplined delivery, and continually improve.

Train delays have impacts across the whole supply chain. For example, through demurrage costs, crew costs for above-rail operators, miners slowing down production when stockpiles reach maximum limits. So, improvement to our on-time performance will have a tangible productivity benefit for all supply chain participants. The value proposition is significant and, as you can see, this initiative is targeted to deliver at least $50 million in financial benefits by FY21. This will not be a one-off initiative. We will be taking a multi-year journey to continuously improve our on-time running performance in CQCN. Ed and Michael will run through shortly what they are doing in their businesses to drive this initiative.

In conclusion, before I hand over to Pam I want to indicate to you what execution of this strategy means to Aurizon's financial performance over the next years. First of all, FY2018 is shaping up to be a strong performance with results comfortably within our guidance range of $900 million to $960 million EBIT, delivering an operating ratio of around 70%. Coal volumes are expected to be within the guidance range, albeit towards the lower end.

When we look at the expected financial performance over a longer, four-year timeframe, there are different dynamics for our below-rail and above-rail businesses. For our below-rail business network, the earnings profile remains uncertain given the UT5 process underway and the draft decision that currently sits in front of us. The range of potential outcomes for 2019 is $130 million when comparing the transitional tariffs to the draft decision, which Pam will go through in more detail shortly.

For Coal and Bulk, our above-rail businesses, the long-term story is more certain despite near-term earnings headwinds in FY2019 which Pam and Ed will talk about in more detail. We expect EBIT growth over the next four years from higher coal volumes, the execution of our turnaround plan in Bulk, and the continued delivery of benefits from transformation initiatives across the enterprise.

With that, I will now hand over to Pam.

Pam Bains: Chief Financial Officer & Group Executive Strategy

Pam Bains: Thank you Andrew and good afternoon everyone. Great to see you all here today. Today I am going to talk about the key areas I am focused on as CFO to support the strategic framework. This includes appropriate capital structure, effective allocation of capital, as well as interest rate management and funding. But first, let me start by providing some context around our performance to date.

FY18 is a year where we have delivered on our promises. We expect to end FY18 comfortably within our earnings guidance range of $900 million to $960 million. We also expect to deliver on our three-year transformation commitment of $380 million and end FY18 with an operating ratio of around 70%. As a reminder, back in FY14, we had an operating ratio of over 77%, hence we have delivered significant improvement over the last four years.

We have also improved the rigour around capital and expect to end the year with capital expenditure under $500 million. This reflects a strong, disciplined approach to capital management.

During the year we have had contract success in both Coal and Bulk, and Ed and Clay will go through this in more detail, but we have been successful in securing two greenfield coal contracts on the market during FY18, being MACH Energy and Qcoal Byerwen. The team is now working to operationalise these new contracts, which includes recycling locomotives from the loss-making Intermodal Interstate business into the Hunter Valley region, which has been a growth region over the last few years, and also bringing back into service rolling stock in Queensland.

The draft decision that was released by the QCA in December of 2017 was extremely disappointing. This potentially presents an earnings challenge for FY19. If there is no change between the draft and the final decision then EBIT impact of UT5 will be in the order of $130 million for FY19, and I will take you through this in more detail shortly.

In addition, in the iron ore business, Cliffs will end its operation this month and Mt Gibson iron ore contract will be concluding, as expected, mid-FY19. Both mines are near end of mine-life and, as they were profitable contracts, there is an EBIT impact in the order of $50 million in FY19. It is also worth noting that when contracts end there is a lag between when the revenue ceases and when costs can be removed. In particular, costs like real estate and IT. It is a priority for the business and myself as CFO to ensure that these costs are removed as soon as possible. Due to the timing of contract end dates and the timing of key decisions such as the Intermodal exit, the full annualised benefit of overhead cost reductions will be seen in FY20.

The volume growth in the Coal business has been very pleasing. As I outlined, the Coal team is working through operationalising the new Qcoal contract during the ramp-up period and work continues in setting up the resources and assets required in the Hunter Valley in advance of first railings for MACH Energy. With any new contract, there is an implementation period where costs will be incurred in advance of first railings. This occurred in Coal in the second half of the year and will continue into FY19. We will be bringing back old rolling stock in Queensland to support volumes in CQCN and new wagons have been purchased for our Hunter Valley growth.

As a result, maintenance has increased in the back half of this year and into FY19, both because of increasing loco and wagon numbers, but also due to additional works required to restore older rolling stock into service. This does, on the positive side, avoid capital spend on new rolling stock to support volumes in Queensland. This is not expected to continue beyond FY19, and therefore you will see earnings benefit in FY20. In addition, we will also see an increase in depreciation in the Coal business with the transfer of locomotives from the Intermodal business and the increased number of rolling stock, as I outlined.

You will recall that we reduced Coal volume guidance at the First Half 18 results for the remaining period of FY18 by 5 million tonnes due to the likely impact of implementing revised maintenance and operating practices in the Network business to align with the UT5 draft decision. The change in practices will continue to impact Coal above-rail volumes into FY19. As a result, we expect the coal volume growth and continuing transformation to be generated in FY19 in the Coal business to be largely offset by the headwinds I have outlined today. However, the work that we are doing now which Andrew has highlighted, and further plans that Michael, Ed, and Clay will take you through shortly, build a strong foundation, and we expect to see above-rail earnings growth into FY20 and beyond, and increased coal volumes and benefits from the next wave of transformation initiatives driving value across the business.

The next slide, this slide is the Network bridge which details what we believe to be the absolute low-case and high-case scenario for Network EBIT, assuming the final decision is the same as the draft, or transitional tariffs are applied to the end of June '19. This is not guidance, but it provides an indication of potential impact or range of impacts for UT5.

If I step through the bridge, starting on the left-hand side, FY17 to FY18, noting that transitional tariffs have been confirmed by the QCA for all of FY18, the major movements including firstly the reversal of the UT4 final draft decision true-ups, one-offs from FY17. The net impact, as you can see on the left, is $64 million. You will see $90 million impact to revenue offset by $26 million decrease in costs, representing the UT4 corporate cost true up.

In FY18 we had to pay customers $22 million, being the FY16 revenue cap, which was an overcollection of tariffs in that year due to higher volumes. This is offset by volume-related increase in volumes in FY18, due to the comparative period being the period when we had Cyclone Debbie. So, we under-collected revenue as volumes were lower in FY17. The $19 million represents the flood recovery costs. Again, these are a one-off, being collected through tariffs in the second half of FY18. Other relates to lower operating costs for Minerva and Blackwater power systems and a reduction in maintenance costs, as well as a wash up of bank guarantees collected over FY17 and FY18 in relation to WIRP contracts.

This gives you an indicative earnings range of $470 million to $490 million for FY18. This is consistent with our $900 million to $960 million guidance range for group EBIT.

Moving to the right-hand side of the slide, so FY18 through to FY19, the first thing to call out is that, assuming UT5 final equals the draft and this is applied to all of FY19, we would expect to see a decrease in revenue of circa $130 million. $100 million of this represents the decrease in maximum allowable revenue from the transitional tariffs to the UT5 draft decision tariffs. Then the additional $30 million represents a true-up of the over-recovery in FY18, noting that we are on transitional tariffs in FY18, so the $100 million, which is assumed in this bridge to be spread equally over the last three years of the undertaking. This, of course, is an assumption and would need to be agreed by the QCA.

In addition, we will see a further $19 million earnings impact for the reversal of the one-off flood recovery cost that I mentioned for FY18. This is offset by a positive revenue cap of $66 million. This represents the reversal of the FY16 revenue cap of $22 million, which was a payment to customers, and the FY17 revenue cap, $44 million, which will be collected from customers in FY19 and represents the shortfall from Cyclone Debbie in FY17. Other, a large proportion of this relates to depreciation and reversal of the Caledon bank guarantee from FY18.

So, this provides an indicative EBIT range for FY19 of $340 million to $370 million, noting that this is based on UT5 draft decision tariffs being applied for all of FY19. If, however, transitional tariffs stay in place for all of FY19, expect earnings to be $130 million higher. The other point to note is if transitional tariffs are in place in all of FY18 and FY19, there will be a $200 million true-up required over the remaining two years of the undertaking period, assuming draft equals final. Also, it is important to note that this is based on volumes of 244 million tonnes, so any change in actual volumes will impact earnings.

The indicative EBIT bridge has been provided in the context of UT5 only and will apply for the period FY18 through to FY21. UT6 will commence in FY22 and at a minimum we have seen an increase in bond yields over the last couple of months which would improve revenues in a UT6 environment, assuming the same parameters against those in the UT5 draft decision.

So, moving to capital structure, the objectives of Aurizon's capital structure are simple. This needs to be optimised to enable the appropriate balance of shareholder returns, capital investment, and providing balance sheet strength. The objectives are all inter-related and need to be considered together rather than viewed independently.

Satisfying all these objectives then determines the appropriate leverage. A way to demonstrate this is with cash flow sustainability. Although Aurizon's cashflows through the cycle would imply it can sustain a high level of gearing, this would not provide sufficient flexibility to reflect changing market conditions or reflect the appropriate level of business risk. It also provides a buffer for future earning shocks such as weather-related disruptions which happen and can make material short-term impacts to cash flow. Therefore, flexibility is a key determinant of the appropriate level of gearing.

Minimising the cost of capital is important as it facilitates lower-cost access to capital from a broad range of debt capital markets. This relationship between the cost of debt and the cost of equity, and different ratings and different gearing levels, also need to be considered in order to minimise weighted average cost of capital.

As discussed previously, Aurizon has targeting a BBB+, Baa1 credit rating. In an environment at the current gearing level, we are unable to meet Moody's Network credit metrics. At a minimum, Aurizon will continue to target an investment grade credit rating but will await the final decision on UT5 before making a decision around target gearing and credit rating.

Moving onto capital allocation, you will recall last year we detailed to investors how we prioritised capital allocation, as shown on the slide, on the left-hand side. This remains unchanged despite the implications of the UT5 draft decision. Capital will be prioritised firstly to non-growth capital. That's our sustaining and transformation capital. Secondly, to dividends, noting that our current policy is a payout range of 70% to 100%. Thirdly, surplus capital will be returned to shareholders or invested in growth projects. We would only look to invest capital in growth projects ahead of returning it to shareholders where it maximises shareholder value.

At that time, we also determined the appropriate credit rating, and therefore gearing, which was set at BBB+, Baa1, and approximately 40% leverage. The leverage target has enabled the distribution of $300 million in the form of an on-market buyback during the year, in addition to dividends being maintained at 100%. However, after the UT5 draft decision the credit rating could change, not through Aurizon's actions but because the cash flows contained within the draft decision do not meet Moody's Baa1 credit metrics, despite the fact that the regulatory assumptions are the same. Therefore, if the final decision equals the draft, Moody’s could downgrade Network, which may also result in a downgrade for Aurizon Holdings.

There is no such impact for S&P, given they have a 13% FFO to debt threshold level for Network, compared to Moody’s at 16%. In addition, there is no impact on the Holdings ratings at face value as both agencies have a threshold of 30%. If there was a downgrade by Moody's for Network and Holdings, funding costs would marginally increase, but this could also provide additional funding capacity, which would be applied in accordance with the prioritisation framework. Given the uncertainty, any decision around ratings, and therefore gearing, will be made once the UT5 final decision is released.

As you can see, we have shown consistently over the last few years that where capital is available we will distribute it back to shareholders, both through dividends and capital returns. Aurizon targets a payout ratio of 70% to 100% and has maintained a payout ratio of 100% since it paid its final dividend in FY15. We expect the dividend policy to remain unchanged, irrespective of the final landing on UT5. However, where it sits within the range remains subject to Board consideration at each reporting period, taking into account an assessment of current earnings, current liquidity, and cash flow requirements.

Capital expenditure. As I mentioned earlier, capital spend for FY18 is expected to be below $500 million for the year, with some capital being deferred into FY19. Capital is forecast to increase slightly from FY18 to FY19 at the top end of range by approximately $25 million. In growth, we continue with our investment in wagons in the Hunter Valley as we ramp up to the commencement of railings for MACH Energy later in the year, which has been delayed and is expected to commence later in this calendar year.

At the top end of the guidance range for non-growth capital is forecast to increase compared to FY18 [sic]. As we discussed at the half, we have reviewed the pipeline of capital for the Network business, given the returns assumed by the UT5 draft decision. The decrease in Network capital spend for FY19 is offset by an increase in capital for the Coal business, firstly because we're moving forward with trials for the ETCS, a technology transformation project that Ed will talk you through shortly. Jilalan wagon shop upgrades - this is part of the Rockhampton exit strategy, and we will see the transition of the 106-wagon overhauls from Rockhampton to Jilalan. This project will facilitate improved wagon movements in the maintenance area and result in the reduction in time and cost of undertaking overhaul activities against what was previously done in Rockhampton.

There are increases in overhauls within Coal and there are three parts to this. Firstly, some capital has been deferred from FY18 to FY19. Secondly, we are bringing back stored rolling stock in the CQCN. These locos and wagons had their overhaul and maintenance activities suspended while they were stored. Accordingly, the overhaul and maintenance activities now need to be undertaken. Thirdly, given the nature of our business, we often buy rolling stock in large tranches. There are procurement benefits from doing this, and new contract tonnes may necessitate the purchase of whole consists. This will mean that the overhaul cycle and maintenance cycle for large tranches of our rolling stock will fall around the same time. Accordingly, there will be some peaks over the cycle, and Ed will provide more detail on this later in his section.

Other capital spend is also expected to increase relating to the potential acquisition of a rail grinder in support of a 12-year contract renewal of the ARTC rail grinding contract in the Hunter Valley. A cost of $40 million, split between FY19 and FY20.

You may ask why I am talking about the capital approval process today. I am doing this to demonstrate that there is a robust and rigorous capital approval process that is applied to all investment decisions. What does the Aurizon capital approval provide? Firstly, it ensures that investments are aligned with our strategy and vision. It also provides a framework for making commercial decisions to achieve sustainable financial performance whilst taking into account risk. It ensures investment decisions are made on a consistent basis, and also on a whole of Aurizon perspective. Post-implementation reviews are an important part of the process and allow Aurizon to learn from its investments and continually improve the framework for managing investment opportunities.

We have also reduced our capital delegations to ensure the majority of capital is scrutinised by the Aurizon Investment Committee, or the AIC. All investments over $5 million require the endorsement of the AIC. Chaired by myself, the AIC membership includes the CEO and the Group Executives. In addition, any investment greater than $50 million requires Board approval at feasibility. Our objective is to ensure capital is deployed in the most productive and highest yielding activities. Since making the changes to the delegations and changing the membership of the AIC, robustness and rigour around investment cases within the Group have improved but there is always opportunity for further improvements.

Finally, on financing risk, Aurizon currently has approximately 70% of funding sourced from debt capital markets, and the balance being bank debt. Our objectives are to transact in the most advantageous markets, bank or debt capital markets, based on pricing, size, tenor, liquidity, timing, and execution risk, and maintain sufficient liquidity for the Group. During the next six months we will be looking to re-finance the Group's FY20 and FY21 revolving bank debt facility, and in relation to interest rate risk, as you would expect with a below-rail regulated business, Aurizon typically maintains a high level of hedging in line with the regulatory undertakings.

Currently, Aurizon's debt is 84% hedged for the period FY18-20. Aurizon is not materially exposed to interest rate risks over the next three years. Whilst market conditions contribute to this strategy, the hedging objective is biased towards creating certainty for the Group. From FY22 debt is currently unhedged. It's important to note that Network debt risk is offset by future UT6 debt allowance.

So, on that, I will finish there and hand back to Chris, and I think we will be going to a break.

BREAK

Michael Riches: Group Executive Network

Michael Riches: Thank you, Chris. Michael Riches is my name. I've now been with the Aurizon Group as Group Executive for Network for almost 12 months. Prior to that, I spent almost six years in the electricity and gas industry working with Alinta Energy. I had a variety of roles with Alinta from Head of Regulation and Government Relations through to Head of Retail and finally the Head of the Flinders Closure Program which closed power stations in South Australia.

I also led the sales process for Alinta during 2016 when the business had a private sale, and IPO dual process. Prior to joining Alinta I spent 17 years in legal practice with 10 years as a partner of both Minter Ellison and Clayton Utz.

Clearly, the biggest issue in the Network business at present is the outcome of UT5. Network has a three-pronged strategy to achieve a better outcome than UT5 draft decision which we consider is fundamentally flawed. The strategy involves on the regulatory front we will continue to promote our position through the normal regulatory process.

The QCA has recognised in the recently issued consultation paper that the maintenance allowance proposed in the draft decision was inadequate and that the allowance proposed by Aurizon was reflective of the appropriate costs of maintenance. We consider that the position put by Aurizon in our submissions in relation to operating costs is just as compelling.

There is a change to the QCA Board composition recently whereby we have a new Chair, a new Deputy Chair and a new Board member. Aurizon will continue to articulate to the Board that amongst other things the position taken on WACC is unreasonable and unsupportable. Without regard to any other component of WACC, the position on the risk-free rate is incomprehensible.

The average real risk-free rate determined by other regulators in the eleven most recent final regulatory decisions across the electricity, gas and rail infrastructure assets is a positive 0.33%. The real risk-free rate applied by the QCA under the draft decision is negative 0.46%, a difference of almost 80 basis points. This fact alone demonstrates, in our view, how out of step the WACC applied in the draft decision is with the return allowed for other regulated entities. We will continue to impress upon the QCA the need to overlay any theoretical formula with commercial reality.

We have similarly made strong submissions that the introduction of additional obligations as proposed in the consultation paper on maintenance is at best outside of reasonable process and at worst outside the QCA's powers under the Act. We will strongly resist any additional obligations unless there is a proper and fulsome consultation on those matters in the context of all components of the maximum allowable revenue.

If additional obligations were to create value for the supply chain, it would need to be balanced against increased allowances or a higher WACC that would be required by Aurizon for taking on additional risk. Any additional obligation imposed in the final decision, without proper consultation on how the other elements of the maximum allowable revenue need to be adjusted, would be strongly resisted.

In addition to the regulatory approach we will continue to engage with our customers. Engagement is clearly challenging but despite the QRC's positioning there is a clear recognition in our mind by industry that a resolution is required. We will continue to seek to find a way to engage with industry on a resolution of UT5.

Aurizon has made two reasonable and genuine offers to cease its operating practice changes to permit a discussion to occur. The QRC has rejected both offers and indicated that if Aurizon were to cease implementing its change practices for a period until UT5 is resolved, which could be an extended period, industry would enter into discussions.

This offer is made without any recognition that Aurizon has no certainty on receiving allowances or a return to recover the additional costs and additional risk assumed by Aurizon during this period. QRC's offer is disingenuous and purely seeks to have Aurizon subsidise the coal industry.

Unless an appropriate environment for discussion can be created and an acceptable resolution reached, Aurizon will continue to align its operating practices and risk tolerance to reflect the best view of what a final decision may contain. At present that is the draft decision. Should an opportunity for engagement arise Aurizon is prepared to negotiate and has a proposal prepared for industry's consideration.

Finally, we will, if necessary, have to continue our legal strategy. Ultimately if neither a regulatory or commercial outcome can be achieved Aurizon will exercise its legal rights to the fullest extent. We will continue to progress the judicial review of the draft decision and we will also consider judicially reviewing any final decision depending on its terms.

I thought it might be useful to refresh the dollars that sit behind some of the statements made on UT5. You will see those on the slide. To provide some further perspective on those numbers the UT4 tariff is approximately $4.60 per net tonne at a regulated asset base of circa $1 billion less than the regulated asset base that the QCA have indicated should apply for UT5. We are not that far away, it would seem, from where customers are currently paying.

In FY18 there's been a strong focus by Network on managing our costs which has accelerated since the draft decision. We will continue to manage costs as if the UT final decision reflects the draft decision. Many of our initiatives, including those I will discuss a little later, were initiated and are being implemented independently of the UT5 situation.

At the draft decision WACC, capital investment at previous levels cannot be supported. We will continue to assess and review our capital expenditure but fundamentally at a return of 5.41% there will be a significant reduction in capital spent on the network. In the short-term and the long-term this will result in increased reactive maintenance and the potential for further adverse impacts on throughput.

I note that reliability of the network is directly related to investment. The time gap between lower investment and reduced reliability is never certain. Suffice to say that with a network carrying 230 million tonnes of coal per annum the time period is likely to be relatively short.

Accordingly, any reduced investment will likely have an impact on reliability relatively quickly. This reinforces the uncommerciality of the QCA draft decision which fails to recognise this fundamental connection. This reduces reliability, increases reactive maintenance at a higher cost and with greater impacts on pathing for coal services as greater track time is taken up in maintenance positions.

As mentioned, there is an inherent linkage and interdependence between capital investment driven predominantly by return, maintenance and operational support. We have firmly stated that no component of the final decision can be considered in isolation of the other components. They are all interdependent and it is critical for the sustainable operation of the supply chain that there is an appropriate balance of these elements.

Aurizon will always look to invest where it is economically rational and prudent to do so and of course where necessary to meet safety requirements. Ultimately, however, investment at a WACC that does not recognise the risks associated with our business cannot be supported. In a low capital investment environment, driven by low returns, reliability and the efficient operation of the Network can only be achieved by higher reactive maintenance and an operating regime that requires additional resources.

Aurizon's UT5 submissions have been developed recognising this interaction. The approach adopted delivers the right balance between investment for the long-term, maintenance activities and operational effectiveness. The QCA consultation paper on maintenance fails to recognise this fundamental interdependence and we will continue to highlight this connection.

Whilst we obviously will recognise and welcome the QCA's position on the inadequacy of its draft decision as to the maintenance allowance it is not appropriate regulatory practice to just consider one element. An appropriate response on the revised maintenance allowance can only be given with an understanding of the return on capital and operating allowances that will also apply.The revised maintenance allowance would only be supportable where the WACC and operating allowances reflected Aurizon's March 2018 submission in response to the draft decision.

Finally, on UT5 I thought it useful to briefly reiterate the practices we have adopted to align to the draft decision. Having regard to all of the factors I've just discussed and the retrospectivity of any UT5 final decision Aurizon continues to reluctantly have no option but to implement changes to its operating practices and business decisions to align with the draft decision and any final decision. In doing so we continue to comply with our regulatory and contractual obligations.

Without explaining each of the above changes in detail in essence the changes involve developing the most efficient operational plan and minimising risk and then sticking to that plan and risk tolerance. Ultimately this translates into undertaking activities that prioritise maintenance and renewal activities over train services.

It remains extraordinary that with one quarter of the regulatory period gone we still have no final decision. The QCA has made over 300 requests for information from Aurizon, mostly on maintenance to now come up with a decision that would appear to support Aurizon's position on an appropriate maintenance allowance. A system that seeks to be so prescriptive does not create the right incentives to deliver the best outcome across the supply chain.

The regulatory approach and process adopted by the QCA is symptomatic of a broken system. On that matter industry and Aurizon do agree. We expect post to UT5 final determination to able to have a constructive engagement with key stakeholders on substantial reform of the regulatory framework. I'll expand on that a little later.

Now that I have UT5 out of the way hopefully, I'll move on to the longer-term strategy as to how Network delivers value for Aurizon. We have a regulatory system today that creates misalignment between customer and Aurizon outcomes. Aurizon has the levers to create value for the supply chain but limited, if any, incentive to do so under the current system and the approach of the QCA.

Necessarily this leads to customers being concerned that they are not achieving optimal performance of the supply chain and the costs are not reflective of value. We need to break the shackles of a system that is designed around confrontation to one that is focused on collaboration. There is a clear pathway to a solution that has been followed by numerous other industries.

At its core is a clear understanding by Aurizon of customer requirements so as to create an environment for the development of a value proposition to customers focused on mutually beneficial outcomes. Creating the right incentives to align operational performance and additional value from Network to customer expectations is critical.

Whilst UT5 has strained customer relationships at a senior executive level, at an operational level our engagement continues to be positive as we develop solutions for a continually diversifying customer base. When the UT5 issue is resolved and there is clear motivations on the part of Aurizon and the coal industry to achieve better outcomes. My team's focus would be on developing a reform regulatory environment that will deliver greater value for customers and commensurate earnings uplift for Aurizon.

We are already working constructively across the customer base in establishing opportunities to create joint value including with new customers, looking to bring mines out of care and maintenance quickly and with existing customers on major projects around overall resilience of the Network. Supported by regulatory framework that encourages collaboration and creates the right incentives there is significant mutual value that can be created.

Andrew discussed earlier the key strategic levers for our business of Optimise, Excel and Extend. For Network the key focus is on the Optimise and Excel levers. Those levers can be translated into the following key actions. On the Optimise front there are three key components for Network. One is to align our resources to the UT5 draft decision and any final decision. I've already touched on this but critical for us is ensuring we resize the cost-base to reflect the worst-case environment and look for opportunities to continuously improve.

Secondly, we will look at improvement in supply chain productivity. A key component of this will be the implementation over the next 12 months of our advanced planning and scheduling software. This will be a key part of the precision railroading initiative that Andrew mentioned.

Thirdly, there will be a strong focus on Network cost efficiencies. I'll cover this in a little more detail but broadly this covers depot rationalisation, a restructure of our maintenance teams and program and a renewed customer focus that is orientated to value.

In the Excel space we'll be focused on regulatory reform which I've touched on. We will look at developing tailored solutions and products for a diversifying customer base particularly focused on optimising capacity utilisation and management within and across the coal systems in the CQCN.

Finally, we will invest in a fit for purpose network, focusing on our customers' requirements and investing or not investing to achieve the appropriate balance of investment, maintenance and operational support that fit with customer expectations and short and long-term objectives.

In relation to transformation of costs in Network, in addition to driving cost reform to align to the draft decision, Network has been focused on initiatives that will deliver long-term and lasting value to customers regardless of the regulatory environment. In particular, we have a project to rationalise our depot footprint. The intention is to substantially reduce our real estate footprint from 32 sites whilst continuing to deliver service at the levels required by our customers.

In conjunction with this, regardless of the UT5 outcome, we are refining our closure strategies bringing fewer closures over longer periods and putting more work into those closures to achieve greater efficiencies. We are restructuring our maintenance teams to ensure planned possessions are utilised most effectively.

We remain committed to reducing electric traction costs which have grown significantly in recent years due to the rise in wholesale electricity prices. We are working hard with our suppliers that constitute a key component of the electric traction cost-base to create value for our customers. We expect to see a substantial reduction in charges for electric traction over the next two to three years.

As I referred to before the essence of the best regulatory systems are ones that are focused and drive collaboration not confrontation. The current process adopted by the QCA revolves around prescriptive formulaic outcomes that fail to have regard to the commercial realities and customer and regulated entity desired outcomes.

Best practice regulation is predominantly focused on three key elements. The customer is at the heart of all regulatory objectives. This will require a substantial shift within both the regulatory process and legislation but it is fundamental to the design of a system that encourages cooperation.

There needs to be a cooperative engagement with limited regulator involvement but with appropriate oversight and regulatory protections. This model is used very effectively in other industries where you have sophisticated customers facilitating cooperation drives the market to effectively assess where value can be created and outcomes are driven to that end.

Finally, you require timely decisions. Certainty encourages greater dialogue to drive joint value. At present, as I said, we are already a year into the regulatory process and we have no final decision and that follows a UT4 process where we were over three years into the regulatory period before we had a final decision.

Finally, in the longer-term and thinking about the Extend lever there is a clear shared opportunity to create a collective benefit through improved supply chain alignment. Underwritten by regulatory reform Aurizon's capabilities in better utilisation of capacity and a focus on initiatives like precision railroading combined with working more effectively with other components of the supply chain will deliver real mutually beneficial value.

Today, we work within multiple supply chain forums and collaborate with each of our customers, rail operators, port operators and other adjacent infrastructure providers to align major maintenance activities for the benefit of the supply chain to maximise throughput.

In the future, we think there are significant opportunities to optimise capacity utilisation and therefore capital expenditure across the supply chain. Through more effective alignment of capability there is an opportunity to generate enhanced availability and utilisation of infrastructure through all parts of the supply chain creating more effective use of capital.

In conclusion, Network although facing some immediate challenges through UT5 has clear opportunity to deliver value for Aurizon and its customer base through regulatory reform, cost and efficiency transformation and supply chain alignment. In achieving those elements, we will also create the licence for the Network business to be well-positioned to take advantage of opportunistic expansions of the CQCN or rail developments in other regions in Queensland or elsewhere in Australia and to be a leader in supply chain alignment. Thank you.

Ed McKeiver – Group Executive Coal

Ed McKeiver: Thank you, Michael. Good afternoon, everyone. My name is Ed McKeiver and it's my pleasure to present to you today. I joined the company at IPO, seven and a half years ago following a 16-year career with the steel industry. Prior to my current appointment I was fortunate to rotate through three executive roles with the company, firstly as a Group General Manager Rollingstock Workshops where I was responsible for heavy haulage overhauls.

Secondly, as the Vice President for Service Delivery for four years where I drove the transformation integrated operating plan outcomes in coal. Finally, as the Vice President of Coal Commercial and Customers where I managed the commercial portfolio for almost two years and built business and built relationships. It's in this way that I learned the business, I learned the industry and I learned the market that we currently operate in.

Today it's my privilege to lead the Coal business with almost 100 trains and 1700 dedicated men and women that show up and do their best every day. We deliver almost 600,000 tonnes of coal to the Eastern Seaboard every day for our customers. At this scale we're Australia's largest coal hauler with just more than 50% of the market share. We're the only operator that has railed coal into all nine deep sea coal ports on the Eastern Seaboard.

Today, I'm going to talk about three things, firstly the focus and results of our first year as a business unit. Secondly, what it takes to win in today's market and tomorrow's market. Thirdly, how I'm pulling the strategic levers that Andrew spoke about to preserve and grow value in the Coal Haulage business.

We've had a solid first year or almost first year as an integrated coal business and we're on-track to deliver within our guidance. In fact, we're on-track for a new record in coal volumes albeit at the lower end of our guidance range. I can talk about that in a little more detail.

That's despite the headwinds of a difficult start to the year following a winter and Cyclone Debbie fallout in Q1 and second-half headwinds of UT5. The latter remains a drag on our performance which we're working hard to mitigate every day. It certainly impacted our customer satisfaction and earnings in FY18 and will continue to do so into FY19 until resolved.

During the year we've established the Coal BU in Mackay adjacent to Australia's second largest coal port and one of the world's largest coal ports. I've moved there myself with my family and have been there almost a year. We've rationalised the previously functional operational and commercial planning processes of the business. We can now - we're in a better position to harmonise demand and capacity and take advantage of the supply in the corridors where the coal is flowing.

We've secured 10% growth in our contracted volumes including a new contract I'm announcing today that we've secured for Bounty Mining which is a mining company that's producing in the Blackwater corridor. We've made essential investments in equipment capability as I'll come to talk to. I have a detailed slide on equipment reliability and performance later in the pack.

As FY18 closes we look forward to volume growth in FY19 and earnings growth in FY20. We continue to absorb the one-off investments in equipment through FY19, push through the CQCN capacity constraints which are the response to the UT5 which Michael and Andrew have referred to.

Thirdly, the costs we've incurred as a result of bringing on trains and [as in] people particularly in the New South Wales business ahead of the growth and the ramp-up of MACH Energy's Mount Pleasant Mine. We have one train landed, the crew employed and being trained, another train about to land and a ramp-up that looks - a start-up that's about October or November later this year.

There's no doubt the market is more competitive than ever. As I mentioned earlier we retained 50% of the market share and there are now four competitors competing above rail haul providers competing for the remainder of the market share. Our recent contract wins have helped de-risk our contract portfolio. Our first contestable contract is up in FY20. You can see the profile in the image on the slide.

Our weighted average contract life is now 9.2 years. Our ongoing transformation of performance and our cost-base has been critical in our success with winning these contracts despite the downward pressure on price that Andrew and Pam spoke about we managed to find a pathway to ROIC accretive returns. It's a relentless focus on transformation and cost and finding better ways to do what we do.

We also know what it takes to win in the market. Having picked up several of the contestable contracts over the last 18 months we certainly understand that you have to be there on price and you have to listen to the customers and you have to respond to their needs. You also have to have good delivery performance which underpins everything we do and is a segue into the conversation about equipment reliability and performance later.

On this slide I'll just talk for a minute about how I'm pulling the strategic levers of Optimise, Excel and Extend in the Coal business. My priorities are to optimise the current business in FY19, further build out our integrated planning and scheduling processes which is seeing us better able to be agile and respond to demand flows particularly in Central Queensland where we can cascade consists from one corridor to another and take advantage of surge. Also take advantage of sometimes unplanned capacity constraints that are becoming a feature of the world we operate in today in that region.

We're progressing our fleet reliability program throughout the year. Some exciting things going on there. We're improving our asset productivity and our customer service is king, service delivery and delivery performance.

As we move into Excel we're commencing this year with target investment in the right technologies, technologies that will drive our asset utilisation, the performance of equipment, the performance of people. I'll talk to those a little later on as well. We continue to work through our reliability programs and cascade our condition monitoring and our predictive maintenance technologies into New South Wales.

The way I think about Extend is once having established a foundation of efficiency and customer centricity in regards to delivery performance and value we continue to target ROIC accretive growth at the right price and de-risk our contract portfolio further.

I'd like to talk a bit about for a minute, how we think about the integrated approach to transformation. For some of you that have followed the company for some time you would have heard the term integrated operating plan. For those that haven't I'll just explain what we mean by that. The way to make money in the rail industry is to make your trains heavier, longer, keep them moving faster, stopping them less which is otherwise called dwell when they're idle. That means - and running to a schedule that you can plan for in advance. That shouldn't be a surprise to anybody.

There are a number of factors and drivers that build into your ability to do that particularly in an environment where you don't necessarily control the Network. We operate in CQCN, on Queensland's Rail's Network in the southwest in the ARTC Network in the Hunter Valley, the Gunnedah Basins and Ulan.

The way we think about approaching operational transformation, and we have, and it's been very successful for us over the last few years, is to think about - is to focus on the things that drive asset utilisation. In the planning space we look for better ways to predict volume, determine where the volume is going to show up and ensure that we have the capacity to serve it noting that sometimes it's an 18-month lead time to have the assets and six months for the crew to be in place.

Then we determine where's the best place and how you build the deployment model around that, where you put your depots and so on. Then in the week of operation when you receive your orders you need to be able to schedule the trains, and when we run about 500 coal services a week, you need to be able to schedule them in a way that optimises their utilisation so the rotation of those trains from A to B to C to D back to A to B is working in the most efficient way. We've had some recent success in that space with a new scheduling and optimisation tool.

The future for us lies in investing in state-of-the-art rostering and time management technology. Our processes are still, despite the success we've had in transforming, there's marketable opportunity that lies within our business for the better scheduling and rostering of crew in real-time. That links to the negotiation of the EAs this year and our ability to build in the flexibilities we need to take advantage where there is variability in the chain to drive the performance and get the crew at the trains when the trains show up.

From an asset productivity the last thing I'd like to comment on is just the importance of our ability to drive the precision railway outcome that Andrew referred to in Queensland. We currently have, I've got a number of the slide there in the asset productivity box, approximately 3.5 consists of dwell every day.

What that means is that if you look at our circa 50 trains that are operating in the Central Queensland coal network at any point in time the sum of the trains that are actually sitting idle is approximately 3.5, they're either stopped at a signal, they're waiting for path to connect, they're sitting outside a port. That presents a very significant opportunity for us as a business.

Those gains will be made by better planning, scheduling and adherence to the schedule. I'll come to increased payloads in my case study slide on the next page and also the deployment of distributed power trains in the Hunter Valley.

I chose some case studies to illustrate just during real-time and this year, current case studies to illustrate what I've just spoke about in practice. Starting with the West Moreton Service Improvement on the left. We've seen approximately $2.2 million of EBIT benefit fallout of the West Moreton corridor via 70% improvement on on-time performance year-to-date, financial-year-to-date and 22% reduction in unplanned leave or absenteeism since between Q1 and Q3.

There's a number of initiatives that have come together to drive this outcome including the redeployment of crew and new rosters, including the closure of our Goondiwindi depot in the corridor. The expansion of driver-only from Brisbane Port to the Ebenezer Mine. The focus on fuel efficiency by the roll-out of a driver advisory system. Also, the shutting down of locomotives whenever they're idle for more than 30 minutes.

In addition to that, probably most excitingly we've also been trialling extended length trains in the system, the standard configuration is a 41 wagon consist. We've run more than a dozen trials now of a 63 wagon consist in collaboration with Queensland Rail which would represent a 50% uplift in the payload of the train and it releases capacity in the South West corridor.

In New South Wales it's also been a very successful year. We've seen $9 million worth of value drop out of New South Wales operations year-to-date based on the same approach to reviewing our labour deployment particularly with regards to barracks workings, introduction of distributed power consists. Distributed power means the locomotives are not all at the front of the train. In the Hunter Valley we two at the front now and one at the back.

We're the first mover in New South Wales ARTC with distributed power trains and we're enjoying a 1% to 2% improvement in fuel efficiency as a consequence, lower in-train forces and lower maintenance expenditure and virtually eliminated, certainly on those trains, any train partings which can occur and can disrupt the network and create ongoing cancellations and losses.

Customer response been outstanding and with one more customer set to sign off on accepting the trains we're likely to go from six to eight within the next six weeks in the Valley which is exciting for us and we're very proud of it.

We've also leveraged the systems from Queensland, the scheduling and planning systems I spoke about. We've seen - the outcome has been with 19 consists now additional volumes hauled with the existing crew numbers we have.

Finally, it would be remiss of me not to also call out you don't get to celebrate success like that unless you have the right safety outcomes as well. I'm very proud to say today that yesterday we passed 100 days TRI or Total Recordable Injury free in our entire New South Wales and South-East Queensland operations which is about 650 people. That's 100 days without a medically treated or a restricted work injury or a lost time injury. Catherine Baxter can talk to you about that later at the networking because that's her patch.

The final example I'd like to comment on is the automated scheduling success we've had in the Queensland business for very minimal capital investment and I'm talking sub-six figures. We've been able to deploy a new scheduling technology that replaces our previously manual systems.

The ordinary course of business would be 400 trains a week to be scheduled across the Central Queensland Coal Network for us. That process would typically take two days, it now takes one hour. Not only does it take one hour and can be done the day that the customer order's land, it can be done with a level of precision and problem-solving that optimises the train schedules. We're seeing the release of five to 10 trains services per week in the Goonyella system alone which is equivalent of one consist operating just by better scheduling.

The other thing the technology allows us to do is to test and trial different scenarios. Up until recent months we've had - it's been too time-consuming to be able to go back and run the plan again in a manual way. We're rolling that through our Blackwater System now and by August it will be deployed across Central Queensland Coal Network entirely. We've already had the payback.

I'd like to talk to you about one last slide on Optimise and the importance of fleet capability and performance. I mentioned earlier as did Andrew and Pam about our one-off maintenance investments in FY19 as we roll out our fleet reliability program which is driving our capability today and also supporting our volume growth tomorrow.

There's a number of activity drivers I want to explain to you so you can understand what I mean. Firstly, we've been sweating the assets for growth. Rather than with start-ups like QCoal Byerwen and also some of the increase in nominations from some of our existing Central Queensland customers, we're able to pull rollingstock out of our stowed service and upgrade or maintain that equipment and get it back into service more quickly, avoiding capital expenditure and meeting what's increasingly a more demanding ramp-up profile from the customers that we sign up.

Secondly, there's increased volumes. Despite us coming in at the lower end of range we were geared up for the higher end of range as you would expect. That necessitates an increased maintenance spend based on the volume effect and despite, as I mentioned earlier, the headwinds in the Central Queensland part of our business we're seeing good volumes in South-East Queensland and also in New South Wales.

Thirdly, there's the midlife overhauls. For good reasons we made decisions some years back to switch our maintenance from time-based maintenance of our locomotive fleet, particularly the 3700, 3800, 4100 diesels from time-based to condition-based. The effect of that was to enable us to harvest and sweat those assets further over the previous few years. Now those maintenance investments have synchronised and we need to start those programs. We have in fact started and they will roll through FY19.

That applies to our wagons too. Ten years ago, at the of peak of the boom that was a period where there was a large investment made in Central Queensland coal wagons our 106 tonne wagons. Ten years on those wagons have reached their midlife overhaul. That's a necessary part of doing our business and an investment which will see us sustain our performance for the next decade.

Fourthly, there's integrating maintenance planning and execution with a move to the business unit model. In the business unit we've been better able to align the capacity and demand, as I mentioned earlier. Under the functional model there was an enormous amount of excellent work done including things like the development of the condition monitoring programs and world-leading technology.

However, there was also a, and we don't apologise for this, a focus on absolute cost out. It is possible to get into the situation where you save a dollar in maintenance and you lose two in revenue. Certainly, my first year in the business has been one of taking stock and with my background in maintenance and understanding the customer side and the demand profile and having line of sight for that and making better decisions about aligning investments in maintenance and equipment reliability to meet the increasing demand and expectation of customers in relation to delivery performance.

Finally, we've also be able to optimise some standards, again unapologetically we pushed the boundary hard in recent years. A good example of what I mean by optimising standards are our condition monitoring process in Queensland allowed us to take our wheels arises from 21mm to a 19mm flange as we extended life and tried to optimise the total cost of ownership.

What we found is that it actually increased our total cost of ownership. We've undone that, we've unwound that decision in recent months and now we've reset to the original standard of 21mm and that has driven the need to invest in approximately 300 wheelsets to be reinstalled through the system.

Detail of some of the midlife investments are there and I'm happy to take questions on them or talk to them later. I did want to finish on this slide by just drawing your attention to the graphs on the right and speak to you about the underlying performance improvement we've seen since the business unit or business model was introduced a year ago.

The top graph shows you our maintenance plan compliance at our locomotive depot. You can see clearly the step change in our discipline in relation to commencing and finishing the locomotive maintenance on time. We've seen a 5% uplift in maintenance work orders in our system and only 3% uplift in maintenance costs through the course of the business unit or through the course of the year.

The next graph down shows you the benefits we've seen in terms of our rollingstock stock performance and cancellations. That's also reflected in the bottom graph which I've extracted from a HVCCC monthly report which shows our relative performance in orange compared to two anonymous competitors. You can see that particularly over January, February, March, and May 2018 we had a one-off failure in April, a failure in the Bylong Tunnel on an overhauled locomotive ironically.

You can see what is now world-leading rollingstock stock performance in that corridor, culminating in May being our best ever month in the Hunter Valley at 5.3 million tonnes hauled. Record low cancellations of 13 cancellations. We have to go back more than two years to see a cancellation performance of that level. Two customers, Whitehaven telling us that we're now their major supplier and we haul more coal for them than any other operator.

We also had AGL tell us after our first year of ramp-up, during the course of the year, it's our first year with that contract, we've railed more for them in 11 months of the year coming May than they've ever seen railed into Antiene load out before - or unloading facility at the power station. Again, we're quite proud of that performance and its evidence what can be achieved when you focus on the right things including delivery performance and the underlying equipment reliability.

I'd like to finish with a slide on Excel and talk to you about three - I picked three of our major focus technology investments we are commencing rollout this year on. Firstly, on the left expanding our predictive maintenance capability. We've talked in previous sessions, I believe, about our condition monitoring program, it's world-leading, it takes photographs of trains at full line speed and enables us to identify faults and change those faults before they become problems.

We have six systems deployed in Central Queensland now. We've seen almost the complete elimination of train partings in Queensland. We've also seen the ability to extend our maintenance inspections from, if you go back far enough, seven days but certainly in recent history, 21 days to 42 days. That means the trains are in longer, it means they're still cycling, delivering revenue business, it means we have less shunting because we do our on-train repairs. It means our rollingstock stock maintainers that were previously inspecting these trains with flashlights at night-time looking for break blocks, looking for wheel faults, for [old] bearings are able now to know those things two hours in advance and get ready to fix rather than find.

The other one I would like to call attention to is the iTrigger. The iTrigger is a proprietary technology that we had developed. 14% of our cancellations occur from a wagon door fault of our fleet. The iTrigger is a technology that we've developed in-house and with an external service provider. That enables us now, where we have it installed at the ports, to detect the closing force of every door and then predict that door's failure or the potential for failure, saving us three to four times per month currently.

In the centre our ETCS technology. ETCS stands for European Train Control System. This is an exciting announcement for us today. We concurrently shared this with our workforce today. This is our first step toward active train control in Central Queensland and support driver decision-making particularly in relation to speed control and signal enforcement.

We're making an approximately $20 million investment in FY19 to trial this technology with the potential to unlock significant value. It's very successful in Europe on passenger trains, it is yet to be proven in a heavy haul railway. Fundamentally the technology supervises, in conjunction with track technology, it supervises the train. It knows the speed that the train should be travelling. It controls that speed if the train is travelling too fast and/or does not respond to the signals in the appropriate way. This will make our operations safer and it will also make them more efficient as we see less signals passed at danger and we have better control and better train handling.

Importantly, this technology not only makes our operations safer and more efficient but it is a pathway to expanding our driver-only operations in Central Queensland. This is not new to our business. Where we have technology deployed on our freight trains we have been operating driver-only freight trains for many years up and down the North Coastline and on Mount Isa line. Similarly, the technology is deployed in the Pilbara. The risk here is low. We're going to trial the technology and make a decision later in the financial year about the deployment across Central Queensland.

Finally, I'd like to end on asset and crew performance and close out with what I meant by targeted investments. Locomotive and Operational Data Acquisition, we're calling it LODAM as an acronym. It's the next step on our ability to monitor condition of the train and also the performance of the driver. This technology, if you like, sits as a supervisory system that in real-time can transmit the condition of the locomotive and the performance of the train including the handling of the train, whether a driver is sweeping the throttle, whether it's applying - and therefore driving too many in-train forces.

This will unlock a new level in performance accountability within the organisation. We've seen exactly that happen with our IVMS system that was installed in our road vehicles. We saw a 95% reduction in our vehicle infringements once technology was installed that communicated the acceleration, breaking and management of the vehicle. In conjunction with ETCS there's significant up-side opportunity for us there in further delivery performance and reduced maintenance expense.

That's where I'd like to finish today. I'm happy to take questions later and hand over to our Group Executive for Bulk, Clay McDonald.

Clay McDonald– Group Executive Bulk

Clay McDonald: Thanks, Ed. Hello, my name's Clay McDonald and I'm the Group Executive for Bulk. I've been with the business for 10 years, having previously served as a Group General Manager for Coal South running the Above Rail coal operations in Blackwater, Moura and the West Moreton System. I was Vice President Network Operations responsible for the operations, maintenance and renewals of the CQCN.

Part of my role now I've moved to Perth to lead the Bulk business but I remain fiercely loyal to the New South Wales Blues despite living over there in Perth.

The Bulk business is a national business responsible for a variety of industrial, mining, agricultural and fertiliser products and of course includes the iron ore business in WA. Today I'd like to provide a strategic overview on the success we are having in the Bulk turnaround primarily through disciplined cost-base review and portfolio strengthening within our revenue side of the business.

We're also growing our market opportunities through detailed market scan and how we intend to convert those market opportunities through changing our value proposition to become the customer's first choice for Bulk commodity transport solutions.

Financial Year 2018 has been a good year for Bulk with encouraging momentum created from disciplined cost-base review and some really positive contracting results. In addition, the General Managers responsible for Safety, Service and Profit have started to find their rhythm after leading their businesses for 12 months. However, with the early closure of Cliffs which was due to end in FY21 we some headwinds heading into FY19.

The fundamentals, however, in Bulk remain and today I'd like to take you through what we are doing to execute against our three strategic levers of Optimise, Excel and Extend. Immediately upon creation of the Bulk business we conducted a detailed analysis of market growth opportunities. We conducted a full cost review, benchmarking and a competitor scan.

What we found was a business with a strong operating core. It was custodians of strategically located infrastructure and terminals and predominantly a blue-chip customer base who are leveraged to strong market growth in commodities with a positive exposure to the demands of the modern economy. We also found a business despite its strong operating core that need to reinvent itself.

The market in which Bulk operates is defined by a need to be very customer centric, operationally efficient and reliable and of course cost competitive. Due to the nature of the supply chains in which we compete and operate we need to be truck-like in flexibility and responsiveness yet retain the benefits of rail scale and cost. In the broader Bulk market there are positive profit pools and growing demand but our business needs to transform its service offering to the customer and that transformation is underway.

The Bulk business is focused or its focus has been heavily weighted towards the optimise phase in the last 12 months, certainly it's been about fixing the business. Whilst the need to accelerate cost competitiveness within Bulk has become embedded and ritual and there remains plenty of work to do. We have commenced shifting our focus and attention to the strategic levers of Excel and Extend to create longer-term value for our shareholders.

I'd like to take you through a couple of examples of what we're doing now in the Optimise space. In the last 12 months we have reduced our cost-base by 7% net of the depreciation benefits through a disciplined turnaround program. Within Bulk I chair the turnaround program with initiatives covering all aspects of our cost-base. We have a comprehensive pipeline of executable opportunities that will deliver cost-based improvements over the next 12 months to 18 months.

These initiatives are generated both from top-down and we've found through our cost-based review and our benchmarking exercises but also have been generated from the bottom up with engagement with the workforce. Whilst we've been on the cost out and efficiency journey for some time in Aurizon we continue to find opportunities to remove slack, duplication and waste, improve utilisation and generate ideas that monetise some of the services we provide internally.

Core to the cost-base reduction has been increasing our labour productivity. Despite total NTK being down 12% year-on-year primarily driven by lower Cliffs volume, Cliffs being our most productive operation for NTK due to trailing tonnes and distance, our labour productivity measure which is measured by NTK per FTE is up 4%.

A simple example of how we have achieved this labour productivity is in the Bulk East business where we have introduced a program of multi-skilling. By capturing learnings in a Bulk West business and transferring those learnings to the Bulk East business we have been able to change the business and operating model in Bulk East by decreasing a number of specialist shunting staff who move and shunt trains within yards. Today train crew and maintenance staff are shunting and inspecting a large number of trains in Bulk East.

Secondly, we have commenced a program that sees basic on-track maintenance being conducted by train crew. This is targeted at increasing labour and asset productivity and improving response times and customer service. What's most pleasing about this particular initiative is it wasn't generated by a general manager pushing down changes to labour within the business. This was an idea generated by a driver trainer and supported by volunteer train crew who were interested in better business outcomes rather than seeing restrictions and demarcation in the industrial instrument.

To give you a feel for the impact of this, on Saturday evening when most of you were probably watching the Wallabies get towelled up by the Irish we had a failure of a component out on-track. Without that cross-training and multi-skilling what would normally happen we would have to consider deploying maintenance staff from Townsville to where the incident occurred which was west of Hughenden about 550 kilometres or about five hours by car.

The other option for recovery was to turn the loco or find a location that was appropriate to do that, either way it was going to cost a significant amount of time. What happened on Saturday night was the driver that was trained, cross-trained and multi-skilled in those component change out simply changed the component and the service got on its way. A real tangible impact or tangible example of not only the improvements but the cultural change and willingness within our team to work hard for the customer.

In our Bulk business these multi-skilling initiatives have seen like-for-like tonnes delivered with 11% less staff. In the service delivery space our key customer measure is Delivered in Full on Time. It's a measure many of you will know about but how we measure it is it's a full payload and its arrival time is plus or minus 15 minutes on the scheduled time. This is an important measure for our customers.

It's important because our customers' inventories, buffer stock and stock piled capacity are key components to the manufacturing and mining operations. We have to perform reliably within the minimum and maximum stockpile levels to ensure we don't negatively impact on their production. As we deliver these multi products into their sites DIFOT is a key service measure for us and our customer.

Delivered In Full on Time performance has improved across most areas in our business but in particular in the complex and highly dynamic Bulk South West business of Western

Australia where we deliver over 30 trains a day for Alcoa, South32 and Nickel West. Delivered in Full on Time uplift has been driven by locomotive reliability together with payload and scheduling improvements.

Disciplined maintenance and focused rollingstock overhauls has underpinned improvements in delivery performance. Over the last 12 months we have seen a steady downward trend in locomotive failures evidenced by 47 cancellations in April 2017 compared to 28 in May 2018. That trend has been going steadily down where we had a record of only eight cancellations for the month last month.

The Bulk South West business has also been able to improve capital utilisation to improve train design and scheduling. One of the initiatives in capital utilisation has been moving from four mixed bauxite services to three longer, heavier bauxite services capable of delivering more product, more efficiently for Alcoa.

Together with Alcoa we developed a joint business improvement team that's core focus was on improving the domestic bauxite delivery so we could enable opportunities to unlock export opportunities for Alcoa. Working together the team focused on effective loading and unloading, scheduled changes and payload improvements. The result was that we were able to deliver both domestic and export a lift from 8.8 million tonnes to 10 million tonnes with one less consist. We continue to work with Alcoa on developing further opportunities to support their growth in the export bauxite market.

As I indicated at the start Bulk needs to transition towards a more customer-focused business but develops a deeper understanding of the value it can create and the problems it can solve for its customers. Each of our customers requires a different solution and operates in a different market. Unlike the coal business our equipment is often bespoke and dedicated to individual customers. By maintaining a strong market share we are able to create the networking effect of scale despite the special nature of the hauls that we service. Therein lies the opportunity for Bulk.

A good way to take advantage of this is through the early involvement in supply chain design and solutions. We are leveraging strong supply chain design and modelling capability within the business to engage projects in the prefeasibility stage to work on optimal solutions so we get an early seat at the table.

The target opportunities that we can see will benefit from our design modelling and capacity management expertise in the planning and concept stages and add significant value to the project. We are currently working on a number of these opportunities.

I wanted to provide you with an update on our portfolio strengthening plan that we announced to the market 18 months ago. You may recall our decision to exit, transform or retain a number of the contracts with in the Bulk portfolio. As an ex-government organisation, a number of the bulk contracts were long-term agreements that were signed under a government ownership and aimed at supporting regional development and prosperity rather than standalone profitable logistics supply contracts.

We continue to work our way through these contracts with the exit of four hauls since the initial review. This is a deliberate strategy targeting improved commercial returns for our shareholders through contract or operational reform and where this can't be delivered, exiting the haul and redeploying the resources to where we can get a better return.

An example of this is where we have closed narrow gauge hauls that are loss-making, which provides us with the opportunity to redeploy equipment and focus to the growing and profitable Alcoa export bauxite business in Western Australia that I spoke about previously. This work is underway. However, there have been a number of recontracting successes this year and as a result, you can see that our average tonnes weighted contract life has been extended out by 12 months since November 2017.

An example of where we didn't achieve this was in the reform of the GrainCorp or the reform and the retain of the GrainCorp contract in Queensland. This is a small and highly variable contract that our approach and the pricing of risk was not a value proposition that was appealing to the customer. That contract will cease at the end of calendar year 2019.

One of the good examples of where we did reform a contract is the Incitec Pivot agreement where we moved fertiliser and acid on the Mount Isa line in northwest Queensland. This is a significant and long-term contract which we have serviced since the opening of the operation 20 years ago. The way the contract was structured under the original rail haulage agreement resulted in Aurizon taking on significant volume risk and sub-optimal returns, resulting in this being a significant loss-making contract.

The contract was recently tendered and was heavily contested. We were delighted to be selected by IPL as their preferred rail supplier for the next eight-and-a-half years.

Our solution appealed to IPL as it was able to deliver on IPL's key objectives around manufacturing flexibility, cost and delivery performance. This was a long and difficult negotiation and a number of rail operators provided very compelling offers to IPL. There are a number of factors why we were successful in recontracting this customer. Two of the most pleasing were our service delivery performance and our innovation that created a cost-competitive and flexible offer.

Whilst the contract was being negotiated, our operational team delivered over 450 services in five months without loss. This required support and engagement from the entire workforce. Secondly, as the operation were delivering that performance, our commercial teams were delivering a solution that appealed to IPL. The solution used our detailed knowledge of the customer's demand and production profiles whilst looking at a more efficient way of deploying our existing rolling stock. The result was a combo consist solution that reduced overall consists from seven to five whilst retaining the flexibility and recovery operations required by IPL. The new contract commences with IPL in January 2020.

As we increase our focus externally on the customer we continue to look for operational opportunities to lift performance, increase capital turns and reduce cost. A positive example of this work was the Forrestfield by-pass project. The Kalgoorlie Freighter is an industrial and mining freighting service that runs daily between Perth and Kalgoorlie. We move mining inputs and outputs for key customers Nickel West, AGR, Cockburn Cement, Lynas and the major fuel companies of Caltex and BP.

The performance and operating costs was negative impacted by the requirements to duplicate shunting and inspection services as this train could not be made up in one location. The train has a maximum length of 1800 metres and trailing capacity of 5000 tonnes. However, this could not be coordinated from one single point. With a capital light solution, we have increased a road in departure roads at the strategically located terminal of Kwinana to enable the train to be serviced at full length in one location, removing duplications and delays.

The value generated for us and the service improvements for our customers have been extremely pleasing. On-time performance has increased by 7%, train starts have been reduced by 20% whilst the freight volumes have increased by 14%. As an added benefit, when we put the two terminals together, Kwinana and Forrestfield, and started the multi-skilling program with our drivers so that they could both drive narrow gauge and standard gauge operations we were able to deliver this task with 22 less FTE.

This project continues to deliver and has unlocked additional potential opportunities in regard to real estate, rolling stock and terminal operations.

As the general managers firmly focus on costs and service delivery, we have improved our line of sight on the growing opportunities in the bulk market. Growth in battery, solar, electric cars and telecommunications is directly driving export growth in our target markets. The canary in the cage for us is the increasing spend in exploration in all key commodities which commenced in March 2017 and continues today. You can see on the slide in the bottom left-hand corner as an example we have cobalt and nickel exploration expenditure but that number's consistent for all our target commodities.

We have a business development pipeline and you can see that in the bottom right-hand corner that captures these projects and rates them on likelihood, timing and fit to the bulk service proposition. We don't intend to chase everything. Our pipeline plots volume and distance from end markets' vicinity to existing infrastructure and counterparty risk to assess which opportunities we take through to our key account plans.

Bulk rail has a sweet spot on distance and volume trucking and it's encouraging to see the amount of opportunities that exist in the Mount Isa minerals province, the Western Australian mineral province and the New South Wales construction market that fit an efficient rail solution. These opportunities generally suit an aggregation or capacity share opportunity as the project sizes range from somewhere around 50,000 tonnes annually up to 500,000 tonnes per year. This is often too big or too far for line haul trucking but too small for a fully dedicated rolling stock or train solution.

The opportunity for our customers in supporting their project development by lowering their supply chain costs through aggregation and for us, improving our returns by increasing utilisation of our train services. We have seen this EXCEL lever being applied to the Kalgoorlie Freighter where revenues have grown from $134,000 a day to $165,000 a day over the last five months. This is primarily on the back of aggregation opportunities and growth in our target markets.

Demand in the key commodities supported by the Kalgoorlie Freighter, nickel, lithium and rare earths all have positive CAGRs out to 2023.

Key to these opportunities is the very efficient trucking operation and terminal operations and of course back to our key customer measure, delivered in full on time, DIFOT.

Finally, looking at our EXTEND strategy. Our EXTEND strategy clearly looks to expand our service offering in the growing minerals provinces by improving our utilisation and service offering around inland terminals and considers the two key pillars of strategic partnerships and the development of terminal services. Inherent in this strategy is an acknowledgement that there is a really important first and last mile. Very rarely is someone building a mine right next to your terminal operations.

The competitiveness and attractiveness of this rail solution is often impacted by the requirement for the service. We understand the need of the service offering and the value that these nodes need to create. We also understand that the terminal operations need to be efficient. That might require strategic partnerships as part of the value proposition.

Leaders in the trucking industry are developing high tare, multi-trailer powertrain trucking solutions that in partnership can feed our inland terminals, offering an extremely efficient solution for long haul heavy industrial products. In partnership we see their services as complementary to our service offering as they open up the longer distance brownfield opportunities and offer lower cost greenfield start-up opportunities.

The second pillar of the Bulk EXTEND strategy targets value add services at our terminals to reduce project and development costs for greenfield and brownfield expansions. Our flow connecting structures need to be utilised better to provide improved connectivity, switching, sorting and consolidation services to drive down supply chain costs for our customers whilst avoiding bulk becoming a simple point to point haulage provider.

A good example of this is our contract with MMG that commenced in November last year. We moved 400,000 tonnes for MMG that is trucked to our Cloncurry terminal, consolidated and moved in full trainloads to the port at Townsville. The first and last mile legs are done by Wagners and we manage the terminals at both Cloncurry and Stuart. There is a clear and near-term benefit in utilising this service to grow throughput and providing additional services to MMG or other start-ups in the vicinity of the Cloncurry terminal.

In conclusion, despite the near-term headwinds facing the business in the early closure of Cliffs and the planned closure of Mount Gibson I'm pleased with the results that have been delivered in FY18. The business general managers are achieving momentum in both cost out and improving revenue quality. Whilst there is more work to do in this area, the team is now shifting its focus into the EXCEL and EXTEND phases to take advantage of the strong growth pipeline to deliver on our purpose of growing regional Australia by delivering bulk commodities to the world.

Thank you.

Andrew Harding: Thanks, Clay. Before we go to Q&A I'd like to provide you with a quick summary of what we've said here today.

Financial year 2018 represented a year of consistently delivering on our promise in a strengthening coal market and we look forward to providing more detail at full year results in August.

2019 sees Aurizon face a number of headwinds and challenges in each of the businesses but these challenges are well understood and are being addressed in a structured and co-ordinated way. Our strategic framework sets us up for the future and will contribute to earnings growth beyond 2019 in the above rail businesses with transformation, productivity and asset efficiency continuing to deliver value for many years to come.

With that, I'll ask the executive team to join me here on stage while we go to Q&A.

Chris Vagg: **Head of Investor Relations**

Okay, just while we're getting ourselves organised there's a few roving mikes in the room so if you just want to raise your hand. We'll just go first down here to Simon Mitchell here on the left from UBS. And just remind you that we do have other Aurizon Execs in the front row should you need any more detail.

Simon Mitchell: (UBS, Analyst) Andrew, I just want to pick up on a comment earlier on about reviewing the vertical integrated structure. Can you just go through the - talk to the potential scenarios that play out as a result of that review and timing of that review?

Andrew Harding: It's very early days. I'm saying that we're studying it after having known it was studied a decade ago. I think it's probably to help place it in your mind. When we announced a freight review some years ago which ultimately led to the bulk turnaround that you've just heard about and indeed the intermodal - exiting the intermodal, we were faced with an area of the business that was significantly underperforming, indeed losing a great deal of money and we weren't happy with.

That's a very different situation to the study that I just talked about starting on vertical integration where there was a great deal of work done back a decade ago. People were very happy with the decision that was made. It's just that it's a decade later and we should do the right thing as part of the strategy is to actually work our way through that. We will work our way through that through the financial year that we're coming into.

Thank you.

Simon Mitchell: (UBS, Analyst) Just secondly around the various targets you talked about today in terms of cost out. The bulk turnaround that was talked about, do we think of those being on top so, incremental to the $70 million you've outlined today? And if so, how should we be thinking about the pathway on that turnaround? Related to that, the EAs, how far away from best practice are you now with productivity, particularly things like footplate hours as an example? You haven't really talked about upside from EAs in terms of increased productivity.

Andrew Harding: I might get Clay to talk a little bit about the bulk turnaround and then Ed, if you could just talk about footplate hours to give people a sense from an EA point of view.

Clay McDonald: Thanks. We were really pleased with the turnaround progress in FY18. As I spoke about, a lot of value created in our cost base reducing our cost base down 7%. Obviously, the one-off benefit, depreciation, is also involved in that and the growth pipeline and revenue quality we're seeing coming through. We go into FY19 with some positive momentum in regard to that.

Obviously, the impact at Cliffs is significant to us and you've seen that in the numbers that Pam's put there, about $50 million. Regardless of that impact we see that the bulk portfolio will remain positive in FY19 and we'll continue to see those benefits come out from cost reduction and growth in both organic and new growth in the business.

Ed McKeiver: From an EA perspective, just to contextualise my answer the New South Wales coal EA currently under negotiation has expired and the Queensland one's about to commence negotiation. I'm a little reluctant to list our log of - too much detail in relation to the things we'll be seeking.

That said, there remains a tremendous upside in the labour productivity within the organisation, within the coal business. Our footplate, while we've seen a lift in productivity of our drivers' footplate meant the hours that the driver spends in the cabin of the locomotive rather than waiting for a train or in a car. We've lifted it from about 40% to 45% over the last five years to 65% to 70%. That's a significant, almost doubling of our labour productivity but there's still upside.

Getting that upside means you have to look at things like the underlying variability of the system and match your - resource your crew resource to that variability. In some systems it's very good or low variability and there can be - and Central Queensland is better than we see on the ARTC in New South Wales. In a place like New South Wales you need more flexibility in relation to lift up and lay back. You need to be able to deploy your crew. You need to be able to change the rosters within shorter timeframes. That's where we see the value lying.

Chris Vagg: We'll just go up the back here. Anthony Moulder from CLSA.

Anthony Moulder: (CLSA, Analyst) Thank you for the intro. If I could say, Andrew, the integrated review, is that in any way related to a focus to look at any changes to the constitution around the 15% maximum shareholding?

Andrew Harding: Great question but just way too early. We're just starting a process. There's going to be lots of things that would be considered as part of it. Again, I'm saying all we're doing is checking 10 years on that the work - that the decision was still appropriate. That's the heart of it.

Anthony Moulder: (CLSA, Analyst) Thank you. Understood. Michael, obviously some fairly blunt comments regarding the QCA. Can you quantify how many tonnes you expect to have been lost out of the system as a consequence of the change in maintenance for this current year?

Michael Riches: Yes, we started introducing the change to operating practices at the end of February this year so, four months. We estimated that we would have an impact on throughput of 20 million tonnes per annum. I think despite and as Ed said, we have seen record tonnages. What we've also seen is clear indication through stockpile growth at mines in particular, that there has been an impact. Our estimation is it is consistent with that 20 million tonnes per annum number so, it is in the vicinity of 5 million to 6 million tonnes.

It probably took us - as you implement these changes there's always a period where the teams get used to the changes and implement those practices so it might be a little bit down for that four months but predominantly we're certainly seeing that run rate apply now.

Anthony Moulder: (CLSA, Analyst) Should I take anything from the wording of the QCA's letter yesterday or the request for submissions on the timing of the averaging for the risk-free rate seemed more conciliatory. Do you think there is a changing of their terminology or their views as to this dispute?

Michael Riches: I certainly agree with you in terms of the language and the tone. I think you'd have to ask the QCA specifically around that but we continue to engage with them constructively on a range of the elements of the final decision as they keep asking questions. That process is still a constructive one and we'd certainly hope that there's a recognition within the QCA that as we provide more information and give them more detail they're hopefully able to think about things a little differently.

Anthony Moulder: (CLSA, Analyst) Thank you and lastly for Ed, you talked to improved delivery for your customers and then started to talk about coal pricing. Is there a link between that delivery to ensure that there isn't too much of a discount to pricing going forward through that re-contracting period?

Ed McKeiver: In general, in terms of re-contracting or relation to UT5?

Anthony Moulder: (CLSA, Analyst) No, just general re-contracting.

Ed McKeiver: General. I think you can solve for both things. I think you can find - we can find a way and we continue to find a way to meet the market pricing and at the same time improve our delivery performance. We just continue to focus on that and driving out variability in the operation, finding better ways to deliver at a lower structural cost and back ourselves and ultimately our service quality is finding a way for us to protect margins.

Anthony Moulder: (CLSA, Analyst) Thank you.

Ian Myles: (Macquarie Group, Analyst) Ian Myles. Just on the CapEx, do you want to give more clarity? It seems when you discuss the coal business you're bringing in old equipment. There seems to be like a structural change in the CapEx regime that we've had in the last three to five years to where we're going forward in the next three to five years to stay in business. I'm wondering what that increase probably is.

Pam Bains: It's probably more just a reflection of the fact that we're utilising rolling stock that we previously took out and bringing rolling stock into service. What we have done through the engineering is we have been able to extend life of our rolling stock and push them beyond. Some of the studies we are doing is to ensure that by doing the overhauls we are able to extend the life.

Also, the point I made earlier and I think Ed touched on as well, because of the peakiness of sometimes when we're bringing in consists you will see peaks above the 500 but there'll be times when it will drop off. It's really about bringing in rolling stock for the volumes that we're seeing. You do have to look short-term and long-term. From what we're seeing in volumes today that's the basis of which we've brought rolling stock back into service.

Ian Myles: (Macquarie Group, Analyst) In the coal industry you made an observation at the beginning that there's 2% per annum growth for the next 10 years. Do the coal owners actually have the capability of actually handling that volume if you were to achieve that or is that actually subject to a new coal loader being built somewhere in the system?

Ed McKeiver: Yeah, I can comment on that. The 2%'s a top down assessment, Ian, in relation to the demand, the projected demand for Australia for thermal and met coal. Every port that I'm aware of and I've been to all nine of them, have got focused productivity improvement. The most - plan is underway. The most recent example is Hay Point certainly with the HPX55 and also some in-loading trials they're doing right now. They're all in their way looking to debottleneck.

The port with the most capacity is WICET. That remains a significant opportunity for export and there's still tremendous opportunity in scheduling and the planning and scheduling the alignment to release capacity in the systems. You've got a port like DBCT with a nameplate capacity of 85 million tonnes per annum, railing more than 10% less than that or processing more than 10% less. There's upside to be had in eliminating variation and driving broader supply chain efficiency.

Ian Myles: (Macquarie Group, Analyst) Okay. Final question. Just in terms of - listening to the rhetoric on the network with regard to your commentary that you need to see your revised draft application be adhered to, where's there room for some sort of negotiation between the three different parties? Because no one seems to be in a room, you all acknowledge it's a problem but there just seems to be some sort of impasse where you're saying at this presentation that if we don't get what we want we're not happy.

Michael Riches: I'm not sure that's quite right, Ian, but in terms of opportunity for engagement - and we did have a meeting with the QCA and the QRC a few weeks ago. I think we post that meeting, made a couple of offers to the QRC to actually cease our operating practices for a period and we offered to cease them for 10 weeks to allow time for a discussion around UT5. That was rejected. I think there remains a clear desire across all three key stakeholders to see an acceptable outcome. It's how we create that environment.

Certainly, our indications to industry have been we're willing to have a discussion. We know there's elements of the draft decision and things more broadly that they'd like to address. We're happy to consider those. It's really a question in our mind as to how we can create that environment to bring industry to the table where there's a proper recognition that we can't for an unlimited or indefinite period of time cease our practices with no certainty of what the outcome is going to be. That would not be a sensible thing to do.

Ian Myles: (Macquarie Group, Analyst) You mentioned on a go forward basis the ideal world of negotiating and having a light-handed regulation and the likes. More realistically to try and engage in that with the UT5 uncertain, is it even feasible that a UT6 could actually get that sort of futuristic approach? The timeline's just simply too short for government, QCA, mining industry, you putting in thousands of pages of review submissions and the likes to actually get to that process.

Michael Riches: It's a good question. If you follow the current model of the way regulatory change happens I agree that trying to get something done before UT6 would be extraordinarily challenging. I think the way we look at it is there's a clear indication across all stakeholders that there is need for reform and change and to do that you actually need to create a different way of implementing that change. If you're going through it through a draft access undertaking process, it gets reviewed, draft decision and the like yes, it's going to be challenging to get there before UT6.

We think there's actually better models around. There's ways that have been done before. We don't need to recreate or reinvent the wheel here. Actually, strong engagement with government and the QCA in particular around a recognition of change and the desire to get a better outcome will lead to an opportunity for accelerate that and adopt a different way of dealing with it.

Chris Vagg: Okay, we'll do Scott on the left here. Scott Ryall.

Scott Ryall: (Rimor Equity Research, Analyst) Thank you. Maybe I'll just stay on Network. Michael, can you just comment if you've got some protected action potentially coming up that you've notified the miners about? Can you just talk to how that links in to some of the other initiatives that you've taken, please?

Michael Riches: Yeah, sure. It's very specific protected action which is limited to 33 train controllers. They're the only ones entitled to take the protected action. We've obviously got our contingency plans in place and are working towards those. We've obviously notified industry that there is the potential for that. We have yet to receive any notice of protected industrial action. We remain confident that we'd be able to deal with that if it were to arise. We have gone back out to the workforce through our staff EA process to seek a further vote on the staff enterprise agreement. We don't see it a major issue.

Scott Ryall: (Rimor Equity Research, Analyst) But the bottom line is you think you can manage through it. Okay.

Michael Riches: Correct

Scott Ryall: (Rimor Equity Research, Analyst) Then, Pam, this one's probably for you. In terms of what you presented as the waterfall chart out to 2020 I think it was, 2019 sorry, that looks very much like a low case to me. Is that a fair point? Because it doesn't offset for any of the maintenance that the QCA's come back with. It doesn't account for any change in the risk-free rate which Michael pretty clearly had a strong view on and they've asked for submissions on that yesterday and it doesn't take into account any cost reductions that you may take in the meantime. Is all of those fair?

Pam Bains: What the bridge provided at the end of 2019 you saw the bottom end, which was based on a UT5 outcome in line with the draft decision and then you saw the lift to that 500 number. Essentially, we've given you the full range so draft decision transitional tariffs, I guess you'll call what we actually get to in terms of an outcome. Yes, if the maintenance is given there's obviously - that's a revenue uplift but then we'll also have to look at our maintenance practices depending on what changes we need to make so there's a cost. Those haven't been factored into that bridge. It was just to give you the two ends of the spectrum.

Scott Ryall: (Rimor Equity Research, Analyst) Sure, thank you. These ones are probably for Andrew. Could you tell me who on your Board has experience dealing with Queensland Government?

Andrew Harding: Individually picking their names…

Scott Ryall: (Rimor Equity Research, Analyst) Yes.

Andrew Harding: …as part of their CV? Well there's myself that spends quite a bit of time doing that. I'm on the Board obviously. The other individual with considerable experience would be Michael Fraser.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, good. Then could you talk to with the wind down of the official transformation targets that were set three years ago, that's been a material part of the STI program over the last few years. Can you just comment on what the incentives are going to look like for fiscal 2019 please?

Andrew Harding: Sure. This is in the context that the Board's got to do a sign-off. This is just generally a view yet to be agreed to. I would say…

Scott Ryall: (Rimor Equity Research, Analyst) Can I just clarify? Four days before, three days before the end of financial year and the start of the period, they're yet to sign off on remuneration targets?

Andrew Harding: We're close.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, yep.

Andrew Harding: The LTI will have two components to it which is TSR and ROIC as you would undoubtedly expect. STI is pretty heavy around EBIT and safety of course. Transformation really does feed back into EBIT and ROIC, because your issue is where does that go, it goes back into EBIT and ROIC. Then the other part is personal KPIs and I would hope that you would think that they would be attached to some of the strategic stuff that we've talked about and some of the important issues. If I was to name one of them you would expect something like a UT5 to feature in that sort of personal KPI.

Does that give you a picture of where we're up to?

Scott Ryall: (Rimor Equity Research, Analyst) Yes. No customer aligned metrics in there? You've talked a lot in all your presentations about alignment with customers. I'm just wondering if there's anything in the STIs that actually shows that that's real.

Andrew Harding: If you looked at the strategy and you counted the number of times customer was actually said and that will feed into everything, for sure.

Scott Ryall: (Rimor Equity Research, Analyst) Okay and then one more just on adjacencies that you've mentioned. Clay talked a lot about them and you can see that there's some pretty bespoke adjacency opportunities potentially there. But is it realistic to think that you would be able to participate in adjacent opportunities in the coal business given the ACCC's attitude to vertical integration, the current regulatory process which obviously is in what I would define as a combative stage at the moment? Is it realistic that you can participate in any WICET restructuring or anything like that that comes up in that context?

Andrew Harding: Well, I'll use WICET as an example because it's obviously been something that we are interested in. An issue still exists at WICET. It needs a solution from a supply system point of view. We're quite uniquely placed for that and our initial idea would have led to a dramatic improvement in the competitiveness of that port as a result of - if we were to execute. Now, that didn't happen for a whole lot of reasons but the issue still exists.

My belief is that I wouldn't pursue them if I didn't think there was a possibility and I do think that where we bring some unique opportunities to fix a problem, I think that that's a reasonable expectation that it would be part of our solution.

Scott Ryall: (Rimor Equity Research, Analyst) Thank you.

Chris Vagg: Here in the centre. Nathan. Nathan Lead.

Nathan Lead: (Morgans, Analyst) Yes, first one for Michael. I suppose there's been a lot of focus on the regulatory debate in terms of maintenance and the rate of return allowance but could you talk a bit more in terms of AT5, the electric infrastructure and the risk of asset stranding there? Is that something we really should be factoring in to our thinking or is that something that you expect over time will be dealt with?

Michael Riches: No, definitely factored into the thinking. We have put an amendment to the AT5 tariff regime to the QCA. We received a draft decision about a month ago and effectively that looked at greater socialisation of the AT5 tariff should there be switch from electric to diesel traction. At the moment, the way the tariff operates, if someone switches even though that ends up being a free option to switch back, once they've switched they don't pay the AT5 tariff even though the capacity is there. We see that as an inappropriate approach to the utilisation of electric infrastructure.

We put that forward and we received albeit a rejection of the initial proposal some clear indications of what needed to be rectified in the QCA's mind. Submissions go back in at the end of this week on that and we feel that we're putting a proposition up that has strong industry support as well as clearly addresses the QCA's issues.

That's one element. We are looking very closely at it.

The risk of asset stranding, there's a lot of variables in it. What happens with oil is obviously key but it is a factor. That's why, as I indicated in my presentation, the other thing we're working hard on is reducing electric traction costs both in terms of electricity supply costs and working with our suppliers there and also the costs around the infrastructure, both our own and our other suppliers. We're attacking it from both angles.

Nathan Lead: (Morgans, Analyst) Can you just remind us, what's the size of the electric RAB?

Michael Riches: About $700 million.

Nathan Lead: (Morgans, Analyst) Yes, right. Okay. Andrew, a question for you. The $50 million plus $20 million cost out, in the context of Aurizon's overall cost base it's relatively small. I think I did the maths. It was about a $1.6 billion cost base. Is that a low case? Is that a high case? How should we be thinking about that in terms of cost escalation and upfront costs also? Is there a lot more to come out beyond that?

Andrew Harding: Well the answer is yes, there is a lot more to come out. What we're doing by indicating those projects was to give you an idea of what a few projects could actually generate from an improvement point of view. Hopefully you picked up with the greater insight into detail that you got from the business unit leads that there's a lot of stuff that can still happen. If you want to take it as the low case as the only two things we talked about, that's absolutely fine. There's a lot more to add as we go through the various years for sure.

Pam Bains: Can I just add to that? Of this $1.6 billion there's quite a lot of cost that's in there that's non-compressible so access costs, the depreciation, fuel, energy costs which obviously we're still working on, ability to compress but there are other initiatives which Andrew touched on that we are working through even though we've only named a few.

Nathan Lead: (Morgans, Analyst) Hi, Pam. Just while you're speaking could you just give an indication of the amount of cash and material items that wouldn't be included in that underlying number that's likely to come through over the next couple of years just related to transformation redundancies, et cetera?

Pam Bains: We'll provide more detail as we get into our full year results so, probably not at this stage.

Chris Vagg: More questions? Over on the right here. Guy Bunce. Just wait for the mike.

Guy Bunce: (JPMorgan, Analyst) Thanks very much. Ed, you mentioned earlier in your presentation on coal that the market's very competitive at the moment. Can you just give us an idea of the decline in haulage rates that you've seen so far?

Ed McKeiver: I'd prefer not to talk details and I certainly can't disclose commercially sensitive information but suffice to say that when I talk about the market being competitive and pressure - price on pressure it's natural that where contracts were negotiated the contracts are expiring now. They're typically 10-year contracts in the haulage industry and the contracts that are expiring now were negotiated in the 2010 period, or were set to expire in a very different set of circumstances.

Over the last 10 years with transformation and increasing competition operators have got more productive and operators are prepared to pass those efficiency gains on to customers for market share. That's what's playing out. That's why we continue to focus on our cost base as being the thing that we can control and driving out our variance in the business.

Guy Bunce: (JPMorgan, Analyst) Just secondly in terms of customers must be somewhat frustrated by the whole UT5 process and what impact do you think that's going to have on your contract renewals going forward?

Ed McKeiver: That's a good question. There's no doubt that there's frustration and customer dissatisfaction certainly in our Central Queensland business or operation. Demand's strong, the capacity's constrained and stockpiles are filling and customers are getting frustrated and some of them are even curtailing production as those stockpiles stock out. There's no evidence yet of a contract loss and our first one's due in FY20. That is for contest. In fact, we've won a contract in this context signing up Bounty in the Blackwater system in March.

We're alert. I'm alert to the risk. My team's alert to the risk. We've got a professional team. There is absolutely tension in the tender process. Our customers are sophisticated counterparties and some of them can look through and continue to assess our suitability for their haulage solutions based on our service quality, scale and the long-term value we can deliver for their business.

Chris Vagg: Down the front here. Paul. Paul Butler.

Paul Butler: (Credit Suisse, Analyst) Hi. Thank you. Ed, can you just comment on what risk you see around contract renewal from the fight that's going on with customers in the network part of the business? Do you foresee that as going to be a challenge for you with trying to renew customers that are unhappy with other parts of Aurizon?

Ed McKeiver: Yes, I think it's a very similar response, Paul. There's absolutely tension and the customers, as I said, they're sophisticated and some of them can look through. I run a commercially autonomous business as part of the above rail business, and some of the customers absolutely look through the current temporal situation. Others are sending different signals but there's yet to be an impact. We work through that. We certainly acknowledge it.

We are doing whatever we can for our customers in CQ every week by scrambling and pushing and demanding access and trying to get as many trains scheduled to meet the demand as we can. Whether that translates to lost contracts remains to be seen.

Paul Butler: (Credit Suisse, Analyst) Could I ask, on the customer side is it the same individuals that are managing the haulage contracts that are also the individuals that are pursuing you on the network side? Or is it different?

Ed McKeiver: It's mixed. In some cases, yes. In others, not. What I'll say is largely because of the long-term nature of the contracts depending on the scale of the counterparty at the larger end of town the commercial teams have put in place the haulage contracts. They set them up then largely they've handed to the functional operational business to administer and manage the contracts. In those cases, they're typically not the same but there are examples. We have a range of customers right down to small one pit mining companies that have a very lean team.

Paul Butler: (Credit Suisse, Analyst) Yes, okay and, Michael, if I can ask you. You've set out a pathway to a solution of a more functional regulatory structure and I recall that when we were hearing about the challenges of UT4 there was the hope that UT5 might be better and now we're talking about UT6 possibly being better. You've set up this pathway but what's the catalyst? What's going to kick it off to actually make a change?

Michael Riches: I think the situation we're in at the moment is I expect a key catalyst for both Aurizon and for industry to make a change. You will have seen in a number of the submissions that industry made to the draft decision. They actually indicated themselves that the system was broken and there needed to be regulatory reform. They're certainly very focused particularly in this coal market on ensuring optimisation of the supply chain and the maximum throughput.

If the regulatory system doesn't support that, which it clearly doesn't at the moment because it's driving us to take actions to minimise costs that are actually impacting throughput, I think we'll create an environment where there's a recognition that we have to, once we get through UT5 and come to a resolution, work out what is a better regulatory framework that supports a situation that is vastly different from when the regulatory framework was initially set up. You go right back to the first undertakings and although there's been changes incrementally, the fundamentals of the system are exactly the same almost 20 years later.

Paul Butler: (Credit Suisse, Analyst) Do you think legislative change is required to get to a more functional regulatory structure or does the QCA have the leeway to make…

Michael Riches: I think definitely government support will be critical. Whether that translates into specific legislative change it depends. I think there is some broad discretions within the QCA and they introduced some of those recently with amendments to the QCA Act. But certainly, to implement it there needs to be strong government impetus as well. We're certainly talking to all key stakeholders about the necessity for that change.

Paul Butler: (Credit Suisse, Analyst) You've talked about cost out and efficiency improvements within Network. Are you doing these with the view that you might be able to keep the benefits for the period of UT5? You might lose them after that?

Michael Riches: I think under the current regulatory model we all know you might get them for a short period and then you're going to pass them on to the customers. From our perspective as I said, a lot of the transformation we're making is not UT5 related. It's not regulatory orientated. It's the fact that we actually feel leaving aside the difficulties associated with UT5 at the moment that driving better value for customers and creating an environment where we're delivering that is going to lead to long-term benefits for Aurizon.

The changes we're making across the electric traction sector, there's no value in that for Aurizon network. It's purely pass through. When we take cost out of electric traction that is benefit that goes directly to the supply chain but we're working on it because we see the value in creating those positive constructive customer relations as a result.

Paul Butler: (Credit Suisse, Analyst) Andrew, if I could just ask you one question. You've talked a lot today about customer and customer focus. Are the customers feeling that?

Andrew Harding: I think we were talking about our strategy, our intentions and where we would like to take the business and also where we're at at the moment. I thought we did that pretty honestly. The reality is where you want to go to has to be an improvement on where you're at, at the moment. If it's not then go somewhere else and do something else. We see a future where the organisation in all the various business units is very much focused on the customer and we will absolutely execute to that point over time.

It's the nature of the strategy. If the strategy is you start at the end point it doesn't make any sense. You need another strategy.

Chris Vagg: Up the back. Another one from Ian.

Ian Myles: (Macquarie Group, Analyst) Sorry, can you just remind us - 10 years ago I don't think AZJ was listed. I can't remember. What was the conclusion for why you guys should actually stay together 10 years ago?

Andrew Harding: I'd have to find an expert that was around at the time. I know the outcome of it.

Ian Myles: (Macquarie Group, Analyst) Mike? Where's Mike? Mike can talk.

Michael Carter (Group Executive Technical Services & Planning): Ian, there's three timelines that you look at in terms of integration benefits: one, long-term investment; two, contracting; three, day-to-day operations. The benefit of integration really manifests in long-term investment in your day-to-day operations.

In the contracting environment, if the access undertaking, aside from debates about UT5, is functional then you'll have an equitable competitive market. But that does not guarantee that long-term investment, electric traction being your classic example, that you'll get alignment of incentive in terms of where the supply chain should be positioned. Undertakings come and go but they don't look 10 years out. Investments in rail whether it's above or below rail are normally at least 10 years out in their context.

At the other end in the timeline is day-to-day operations. As both Michael and Ed have referred to in a number of examples there are all sorts of trade-offs that are made to try and make the supply chain more efficient. I think if you ask Clay McDonald and some of his observations since he left network about day-to-day operational matters in separated environments, it takes a long time to get alignment. Conceptually it can occur but practically it's very hard.

I think Ed referred to condition monitoring in the Hunter Valley. We were able to get that through in Central Queensland - it's not a competitive issue - in about a third of the time that we'd been able to negotiate it in the Hunter because you've got to work through a theoretical construct without an ultimate alignment of commercial interest in the same way. But if you've got a good contracting framework you can still get the best of both worlds with a competitive environment. That's the heart of the debate.

Andrew Harding: Mike, thank you for that. I didn't know you could answer that like that. Thank you so much.

Chris Vagg: Any other - another one from Nathan.

Nathan Lead: (Morgans, Analyst) Andrew, with what's going on with the coal customers, from what I hear is the customers are berating the above rail guys, the above guys are berating the below rail guys, you've got union negotiations going on this year - I don't know how to phrase this properly but what's your sense of the spirit of the employees within Aurizon at the moment? Is it a positive place to work, negative, et cetera?

Andrew Harding: Michael answered that question actually very early on in his presentation but at the end of the day while there is some recognised tension and we do recognise at the executive level the QCA matter plays out and UT5 matter plays out. At the working level we're still achieving operational improvements and still working very hard to keep the business moving forward and keep improving every day. I think that's the best way to understand the situation.

Nathan Lead: (Morgans, Analyst) Just one technical question. If intermodal sale doesn't go through you've said you're going to exit or shut down the rolling stock operations. What happens to Acacia Ridge? I'm assuming you're not going to be closing that so is that going to go into another sale process? Are you going to continue to own it and operate it? Sorry, at least own it?

Andrew Harding: If you waited one more week you could actually find out and there would be - but look, as far as Acacia Ridge goes we believe that we've put a very strong case forward for the process. The reality is we would have to review our commercial and our legal position if we were to get an answer that was negative.

Chris Vagg: Scott. Up the back.

Scott Ryall: (Rimor Equity Research, Analyst) Thanks. One follow-up for Michael. You're relatively new. Your boss is relatively new and both of you were not there when the original UT5 submission went in so, you guys are probably in a good position to comment on what Aurizon needs to change going forward once we're through the regulatory system - the regulatory process that we're currently in.

Michael Riches: Yeah, I think as I've indicated and we all have, greater customer orientation and alignment is absolutely critical. It's going to be a core part of what we seek to deliver for our customers going forward, a better recognition and understanding of their requirements. I think what we have certainly from a network perspective is a customer base that is significantly diversifying and as it diversifies there are different needs and requirements of those customers. Our focus will be on understanding all of those and then how we develop both a regulatory framework and a business approach that delivers for them.

I don't want to comment on what things were done in the past and how they were done. Again, it's framed around a different environment. What we know is that going forward one, we need some significant reform around regulation and secondly, as part of that and as a key component of that is us actually ensuring that we understand and deliver on the expectations of our customers.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, thank you.

Chris Vagg: Any more questions in the room? One here on the left.

Matt Nacard: (Ethical Partners Funds Management, Analyst) Matt Nacard here from Ethical Partners Funds Management. Just a question on coal versus your four competitors on whatever metric is the most appropriate. Where do you think your cost base is versus those competitors?

Ed McKeiver: We're competitive. They're very different scale. I think the five I talked about are Pacific National, SSR, BMA Rail and GWA to be clear. As the largest we've got a different structure and much more akin to Pacific National. Our direct costs, if you look at our enterprise agreements which are publicly available, we have fuel, energy and maintenance. We're largely comparable.

There may be a point or two of OR in overhead allocations which we've certainly got on our radar and we're working through but our business is also structured differently. We own our own maintenance depots. We have an in-house maintenance capability. That capability allows us to take signals from our condition monitoring sites and ready those shops for the trains as they come in and then do the repairs so we're not taking fleet out of service, keeping it dwelling and having it unproductive.

There's a trade-off based on the way we service our customers.

Chris Vagg: Any more questions for the team? Okay, if not, thank you very much everyone for your attendance and for those on the webcast, thank you. For those of you here in the room there is the opportunity for more questions over a drink just outside the room. Thanks very much.

End of Transcript