Andrew Harding: Managing Director & Chief Executive Officer

Good morning and welcome to the first-half results for the 2023 financial year.

We are based in Brisbane today therefore I acknowledge the Traditional Custodians of this land, the Turrbal and Jagera people, and pay my respects to the elders past, present and future for they hold the memories, the traditions, the culture and hopes of Aboriginal Australia. We must always remember that under the ballast, sleepers, rail systems and office buildings where Aurizon does business, was and always will be traditional Aboriginal land.

I am joined on the call by the CFO, George Lippiatt, and the rest of the Group Executive team.

We will shortly go through the presentation that we lodged with the ASX this morning which is also available on our website.

At the end of the presentation, we will take your questions.

Turning to safety performance.

SLIDE 3: SAFETY PERFORMANCE

A one percent unfavourable movement was recorded for Total Recordable Injury Frequency Rate (or TRIFR) during the half. Lost Time Injuries declined by 7%, and generally consist of lower severity injuries such as muscle strains. Localised injury prevention initiatives continue to be implemented, to help prevent these events.

This year, the Potential Serious Injury and Fatality Frequency Rate was introduced to more accurately represent our business as it grows beyond rail.

This measure shows the number of events, as represented per million hours worked, that had the potential to cause, or did cause, a serious injury or fatality.

After a review of the recorded events last year, we have recategorised 23 incidents, resulting in a restatement of the outcomes as seen on the slide. We have recorded significant improvement in this half with 1.78 incidents per million hours worked compared to the restated result of 4.41 in FY2022. The result was primarily driven by fewer serious motor vehicle and rail incidents.

These numbers exclude Bulk Central, as we transition processes and systems from the acquired business to Group reporting over the remainder of the financial year.

However, what I can report is that Bulk Central TRIFR recorded a 5% improvement in the half compared to the prior year. In addition, Bulk Central did not report any events that were considered an actual SIF event.

Finally as many on the call will be aware, on the 29th of January, between Rockhampton and Gladstone, a third-party freight train derailed and an Aurizon coal train on the adjacent track subsequently made contact with debris that had fallen across the track. Thankfully there were no injuries but there was significant amount of damage to the rail line and associated infrastructure. Rail services on the Blackwater corridor were subsequently suspended for 13 days and reopened over the weekend on Saturday night.

To provide some context of the scale of the incident, the scope of recovery works included:

- Replacing two kilometres of rail;
- inserting more than 2,000 new concrete sleepers;
- laying down 2,000 tonnes of ballast;
- replacing 12 electrical masts; and
- replacing of one and a half kilometres of overhead wire.

I am proud of the round-the-clock work done by the Network team in bringing the Blackwater system back on-line after this significant incident.

Around a quarter of Network volume travels across this part of the Blackwater corridor with the extended outage therefore impacting volumes in the second half for both Network and Coal. This has been factored this into our guidance which I will turn to later in the presentation.

As always, our focus remains on protecting our employees, our customers and the communities in which we operate.

SLIDE 5: KEY ACHIEVEMENTS

Before going into the Results, I want to share the achievements we have made in delivering our strategic objectives, as outlined at the 2021 Investor Day.

You will remember that the objectives for the Network and Coal business units are to maintain and enhance safety, productivity and capital resilience, with a focus on invested capital and free cash flow. These cash generative businesses can then support the deployment of capital for attractive opportunities presenting to the Bulk business.

Although faced with challenging operating conditions in the half, I am very proud of the achievements made in building long-term returns for shareholders. The first items on this slide relate to the Coal and Network businesses:

First, a reminder that in the face of higher inflation and interest rates, the preliminary WACC of 8.18% will apply for Network from 1 July this year and has been approved by QCA. The final WACC reset to apply from July 2024 through to the end of UT5 will be based on market parameters as at June this year.

Second, since December 2021, we have had Enterprise Agreements secured that cover 70% of the EA workforce. These have been successfully negotiated in a period of record low employment and 30-year high inflation. The weighted average wage increase in year one across these EA's is slightly over 4%.

And third, TrainGuard technology was deployed on initial trains, and about 500 kilometres of track infrastructure, in Blackwater in December. Installation on the remaining consists in the corridor will take place in the second half with the Goonyella system to follow.

This next-generation technology is designed to support driver decision-making relating to speed control and signals, through continuous supervision of a train journey. It is the first use of such technology on heavy-haul fleets in Australia. TrainGuard is also a pathway to reducing separation time between trains and also expanding our driver-only operations in Central Queensland. It promises to be a real game changer both in terms of safety and productivity.

And turning to our other objective to grow Bulk:

First, after a long journey, the acquisition of One Rail completed last July. We believe this is transformative for our business and provides a platform for future growth. There is a significant pipeline of projects in this region, and the opportunities in leveraging the below rail infrastructure with connections to ports and the East-West line. Although we always knew of the high quality of the business we were acquiring, what we have seen since completion gives me further confidence in the future.

Last week, the ACCC approved the sale of East Coast Rail, sold at a strong price through a trade sale. The sale is now unconditional and closure is due to take place later this month, with the proceeds initially used to reduce Group debt.

Second, Aurizon's commodity exposure is changing at a Group level given the scale of non-coal opportunities presenting to the business in addition to the contribution of Bulk Central. We have also seen a greater range of commodities (and services) within the Bulk business unit. Grain now contributes around 15% of Bulk revenue, with record railings in the half, including a record one million tonnes railed for CBH in December. When combined with our services in Bulk Central and East Coast, we are the largest grain rail operator in the country.

Third, outside of grain, we have signed new contracts and extensions across all regions Bulk operates. These include

- a five-year contract extension with OZ Minerals for the for haulage of copper in South Australia and the Northern Territory
- a four-year contract with Centrex for road, rail and stevedoring of phosphate rock in North Queensland;
- a five-year contract with Aeris Resources for road, rail and stevedoring for base metals in New South Wales; and
- capital investment for track upgrades and 10-year contract extension with GRA for gypsum in South Australia

Fourth, in response to both the current and projected future opportunities, we have invested in supply chain solutions over the past three years. This includes:

- port assets (such as APS Townsville and Newcastle);
- bulk trucking (in support of rail services); and of course
- rollingstock.

This investment is increasing with capex of $130m in the half. There is more to come to support the significant opportunities that are presenting to the business.

And finally, our Bulk team has over 200 potential opportunities in the pipeline worth more than an estimated $1.5 billion in annual revenue. These opportunities are across all regions where Aurizon operates and cover commodities such as Copper, Nickel, Iron Ore, Rare Earths, Vanadium, Lithium and Fertiliser.

As I mentioned these achievements have been made in the face of a very challenging operating environment and underscore our unwavering commitment to delivering on our business and growth strategy at Aurizon.

Turning to the Results.

SLIDE 6: 1HFY2023 RESULTS

Wet weather has played a significant part in the results this half, with above rail coal volumes down 8% and Network volumes down 2%. This was the major contributor to underlying EBITDA being down 7% to $673m. Bulk benefited from higher grain volumes in Western Australia in addition to the inclusion of One Rail (now referred to as Bulk Central) from July. This acquisition was a significant milestone for Aurizon as we have now expanded our operations into this part of Australia which is exposed to many future facing commodities. Lower EBITDA and the One Rail acquisition has impacted ROIC this year, but this will improve in the future as earnings continue to grow.

Free cashflow from continuing operations (and excluding the One Rail acquisition) decreased by 76% driven by:

- higher capex supporting Bulk growth;
- an increase in tax payments; and
- adverse working capital movements.

George will spend some time going through the detail of the cash flow in a moment but this includes the impact from the acceleration of our investment in the growth of Bulk. I will shortly present more information regarding the many opportunities available to the Bulk business, which is driving the capacity investment. You can see the early results of the Bulk investment which has increased its share of revenue to 44% of the group excluding Network.

I know that some have been expecting an increase in the payout ratio with the successful sale of East Coast Rail. The interim dividend declared of 7 cents maintains the payout ratio at 75% which we believe is appropriate given the investment cycle we are currently in.

In periods of lower growth opportunities, we are very happy to pay dividends at the top end of the range, and conduct buybacks where appropriate. At this stage, with many growth opportunities in front of us, we have adjusted dividends accordingly. There will be an opportunity again in the future to consider increasing dividends once the growth cycle completes.

Moving to an update on commodity markets.

SLIDE 7: COMMODITY MARKETS UPDATE I

Compared to the ten-year average, double the amount of rainfall was recorded in the key coal producing regions of Central Queensland and Hunter Valley. Although individual months of significant rainfall can be seen with some regularity in historical records, the continued occurrence of such results has been the cause of the disruption in the half. This has impacted coal supply by our customers, port availability, and at times, the ability for Aurizon to operate services. Near-all major coal producers have recorded lower production and/or reduced guidance, and Australian coal export volume reduced by 11% in the half.

Significant rainfall has continued into January in Central Queensland, resulting in the closure of the coal export terminals of Abbot Point, Hay Point and Dalrymple Bay for up to 8 days, impacting the Goonyella and Newlands systems.

This has been a very difficult operating environment for the Coal, Network and Bulk businesses on the East Coast, resulting in lower volumes.

Turning to the other side of Australia, it is pleasing to see the run of record grain production continuing in Western Australia with a further record projected for the 2023 season at 42 million tonnes. Aurizon is the major rail operator for grain in the state with a long-term contract with CBH.

SLIDE 8: COMMODITY MARKETS UPDATE II

Putting aside the supply challenges faced in Australia, there is a very strong demand environment for coal.

Coal-power generation is expected to have risen to a new record in 2022, driven by India, China and also European nations who have returned to the reliable source of energy to power their economies. India, Australia's largest trading partner for metallurgical coal, achieved record crude steel production in 2022.

After a two-year break, it was pleasing to see vessels sailing to China in January loaded with Australian coal. Although Australian coal producers were able to find alternative buyers for coal in the absence of China, having another participant in seaborne trade is a positive development.

As a result of strong energy and steel demand, global coal demand is expected to have surpassed eight billion tonnes last year, an all-time record. The IEA has projected demand to remain at this record level at least through to the end of their short-term projection in 2025.

Supported by continued elevated coal prices, a recovery in coal volumes is projected for the year-ahead and we have the capacity to respond.

Our long-term view on coal demand remains unchanged:

- Almost three-quarters of global steel production draws upon metallurgical coal. Steel-intensive growth in India is expected to be the largest driver of seaborne trade demand. Despite already being the world's second largest steel producer, India is considered to be at an early stage of development.
- For thermal coal, it is recognised that global consumption will reduce in the decades ahead. However, the demand for Australian coal is dependent on the seaborne trade market that is dominated by Asian demand. Against an expected retirement age of 40 years, the average age of coal-fired generation capacity in Asia is just 14 years.

SLIDE 9: INVESTING IN BULK GROWTH

As I noted earlier, the quality of the One Rail bulk business, now referred to as Bulk Central, has exceeded our expectations. This applies to the people, assets and the opportunities in the Central Australian corridor, particularly with links to ports in both Northern Territory and South Australia.

The operational performance and projected synergies are tracking as expected and it is great to already see contract activity so soon since the acquisition with OZ Minerals, SIMEC and GRA.

This level of contract activity in Bulk Central is representative of what we are seeing across all Bulk regions.

In response to the high number of opportunities, investment is being made in capacity including rollingstock, track, and port terminals.

As I noted earlier, the Bulk business development team is assessing a potential pipeline of around 200 opportunities. Clearly not all opportunities will progress though to production, but it indicates the strength of demand.

We've shown the map on this slide a number of times in the past and I won't go into detail about the specific mining projects, but what I will point out is the alignment of Aurizon's presence with the opportunities, primarily:

- In and around the key mineral provinces of Northwest Queensland and Central New South Wales;
- Key Western Australia regions of the Goldfields, Mid-West, Esperance and into the South-West; and
- Port assets at Townsville, Newcastle, Gladstone and Darwin.

SLIDE 10: CONTAINERISED FREIGHT

The acquisition of One Rail provides the opportunity to further expand our service offering in containerised freight. This infrastructure connects to the port of Darwin, enabling a national capability in this growing market.

This could expand beyond our existing Adelaide to Darwin and Brisbane to North Queensland, services.

In response to accelerating containerised freight trends, there is a growing use of rail globally to improve supply chains, for both speed and reliability. Examples of this can be seen in North America and Europe. Over the past 40 years, containerised trade has grown more than any other form of seaborne trade with an annual growth rate of over 8%.

This is not about Aurizon getting back into full service Intermodal as some in the market are claiming. Our previous Intermodal business was not optimal because it involved full end-to-end service including:

- warehousing;
- a significant trucking fleet;
- last mile delivery; and
- managing more than 600 customers.

This was, and is still, not a business suited to Aurizon's capability.

Aurizon's core competency is safely transporting bulk product efficiently which includes containerised freight.

On that, I will hand over the George.

George Lippiatt: Chief Financial Officer & Group Executive Strategy

SLIDE 12: KEY FINANCIAL RESULTS

Thank you Andrew and good morning to those joining us on the call.

As Andrew said, these results are characterised by two major themes. First, adverse weather on the east coast of Australia which has impacted volumes and revenue across all Business Units. And second, a ramp-up of investment to underpin our strategy of growing Bulk earnings – as underscored by the One Rail acquisition and further investments in rollingstock, port equipment, and track infrastructure.

Turning to the table on this page, which excludes the earnings from the East Coast Rail part of One Rail given it's treated as discontinued. As you can see, underlying EBITDA declined 7% to $673m. The change in 1st Half EBITDA was predominantly driven by Coal and Network volumes being down 8% and 2% respectively. The declines in Coal and Network EBITDA were partially offset by Bulk being up $25m, driven by the 5 months of earnings from One Rail, or Bulk Central as we now call it.

As you can see in the top row of the table, revenue increased 12% with Bulk and Network higher. Operating costs increased 30%, due to the acquired One Rail business and increases in fuel and energy costs. Given fuel, energy and access costs are largely a pass-through and the One Rail acquisition is a recent addition, I find it useful to look at operating costs, excluding those items to get a sense for how the underlying business is managing cost inflation pressures. Adjusting for those items highlights that operating costs only increased 7%, with the main driver being cost uplifts to bring on new capacity in Bulk in WA and the Eastern States. I will go into more detail on each of the business units and their performance shortly, including showing how each performed when we exclude fuel, energy and access pass-throughs.

Staying at a Group level, you can see in the table that depreciation increased 12%. This reflects recent investments in equipment to support Bulk earnings growth and the integration of the acquired One Rail business. The One Rail depreciation is driven by the provisional Purchase Price Accounting which we have finalised and included in our accounts. It shows that the $1.45bn purchase price of the One Rail Bulk business comprises $200m of rollingstock assets and $1.2bn of track infrastructure – which is to be depreciated based on distinct asset lives, but generally over the remaining 30yr concession period.

Unlike prior periods, Free cash flow was materially lower for the Half. As well as the reduction in EBITDA, this reflects higher capital investments, as well as a number of one-off or timing impacts such as a higher tax instalment rate and the prior period including the cash tax benefit from the Aquila disposal in FY21. I will cover Free Cash Flow in more detail on a later slide.

The final dividend of 7 cents per share has been declared based on approximately 75% of underlying NPAT, which is consistent with the last two dividends and will be fully franked. While the successful trade sale of East Coast Rail provides additional balance sheet flexibility, the 75% payout ratio is prudent given the current capital investment cycle we are in – these investments will support earnings growth, the execution of our Bulk growth strategy and long term shareholder value.

Moving now to Coal.

SLIDE 13: COAL

The result for Coal highlights the volume impact of prolonged wet weather and the ongoing focus on cost control. This is best explained by stepping through the EBITDA bridge on the right, as it excludes both the revenue and cost impact of fuel and access costs – which are largely a pass-through.

EBITDA, at the far right of the bridge, was $230m for the Half, a decrease of 20% against the prior period. The first and largest impact was from volumes, which accounted for $47m or 84% of the EBITDA reduction. As Andrew said, we witnessed extraordinary levels of rainfall and it occurred over a prolonged period of time – meaning that our Coal customers found it difficult to recover their operations at a time of labour shortfalls in most markets.

The second red bar on the bridge is net revenue yield and was $6m unfavourable against the prior period. This represents the contract rate reductions and end of two contracts which we flagged previously, partially offset by the benefit from higher CPI flowing through in quarterly contract resets.

The last bar I'll touch on is Operating costs, which increased $4m against the prior period when fuel and access costs are excluded. This increase represents a 1% uplift, which is a good result in a higher inflationary environment. We've also taken significant steps during the Half which provide operating cost certainty in future periods – including the commencement of TrainGuard, as well as the agreement of Coal QLD EAs at 4-5% for Year 1 and inflation for years 2-4. This was a great outcome, particularly given agreement was reached without any industrial action.

It was a challenging first half for Coal and we are expecting a similar Coal EBITDA in the second half, before an expected recovery in FY24 as volumes increase and the benefits from CPI contract resets flow-through.

Moving to Bulk.

SLIDE 14: BULK

Bulk EBITDA increased in the half to $100m, an uplift of $25m or 33%. This reflects the first 5 months of the new Bulk Central business, partially offset by lower earnings on the east coast.

Revenue in Bulk was 51% higher, or 21% when One Rail is excluded.

In terms of Operating Costs, this was $421m or 57% higher – however, similar to Coal, when excluding fuel and access costs which are largely a pass-through, operating costs were up $120m, mainly reflecting the new Bulk Central business. When One Rail costs, as well as pass-through energy, fuel and access costs are excluded, Operating Costs were up 18% on the prior corresponding period. This reflects the build of capacity in the Bulk business in anticipation of higher grain, minerals and containerised freight volumes in coming periods.

As I highlighted earlier, while the west and central Australia operations of Bulk delivered to expectations, east coast earnings were lower. This was due to wet weather causing track outages, several derailments and customer specific issues which impacted Bulk EBITDA by approximately $10m during the first half.

Looking forward, we expect higher Bulk EBITDA in the second half before further earnings step ups in FY24 and FY25 driven by the One Rail acquisition and new equipment being deployed.

Moving to Network.

SLIDE 15: NETWORK

Network EBITDA decreased $17m or 4% to $363m for the first half. This was driven mainly by lower access revenue – shown on the bridge as a negative $11m movement against the prior period due to a 2% reduction in volumes.

Other revenue was $5m higher as a result of external construction works, which is offset by the $5m increase in other operating costs.

Energy and fuel is shown separately on the bridge as a $6m negative impact against the prior period. While energy and fuel costs are a pass-through to Network customers, this $6m reflects higher electric connection costs which are recovered as part of the AT5 tariff.

The important item to note in Network is how lower volumes are dealt with under the regulatory arrangements. To illustrate this point, our FY23 guidance which Andrew will cover, assumes a volume related under-recovery of approximately $100m excluding GAPE. Of that $100m, we are currently expecting Take or Pay to trigger in one of the 4 CQCN systems and that Network will book approximately $60m of Take or Pay in the second half of FY23. The remaining $40m would then be part of the usual true-up in 2 years time and be reflected in the FY25 revenue cap.

Turning to free cash flow.

SLIDE 16: FREE CASH FLOW

We've dedicated a single slide to this topic, because there are a number of one-offs and timing related drivers behind the decline in Free Cash Flow. Free cash flow excluding growth capex was $95m for the half which is down $300m.

Working left to right, and the first item shown is one I spoke to earlier, which is the $54m reduction in Group EBITDA for the half.

The second item is working capital, which was $122m unfavourable – but of particularly note are two items we've called out:

- First, Network electric charge revenue of $37m which we've accrued in the first half, but from a cash perspective won't be collected until the second half.
- Second, Network Take or Pay, which is booked within the financial year but not collected from a cash perspective until the following year. As FY21 Take or Pay was $55m higher than FY22, this resulted in a corresponding adverse movement in working capital for this half. As I said before, we are expecting higher Take or Pay in FY23, which will benefit cashflow in the first half of FY24.

The third bar across is sustaining capex, which increased from a cash perspective during the half by $25m.

The next item across on the bridge is an adverse cash tax movement of $76m against the prior period. That prior period included the one-off cash tax benefit from the Aquila sale, and we've seen higher tax instalment rates for FY23. This should drive a favourable cash tax result in FY24 as the instalment rate is reset lower and the benefits from temporary full expensing flow through.

Interest costs were also higher by $26m, reflecting higher rates and additional debt to fund the One Rail acquisition and Bulk equipment purchases. This then arrives at $95m.

The last item we've shown is growth capex from a cash perspective, which was a $135m cash outflow in the half. This reflects the pro-active choices we've made to invest in rollingstock, port equipment and track infrastructure to support our Bulk growth strategy.

As you can tell from the nature of the items in this bridge, we are expecting free cash flow to improve in the second half of FY23 and to increase further into FY24. We would expect free cash flow in FY24 to be more consistent with levels we have seen in the previous three years.

Turning to capex.

SLIDE 17: CAPEX

Capex for the first half was $403m, with $130m of that for growth capex which is slightly different to cash capex I just mentioned.

In terms of sustaining or non-growth capex, it increased $60m to $273m in half one. There are two drivers of this increase:

- First, as we flagged in the prior results, sustaining capex for FY22 came in under expectations as some Network track work was delayed and pushed into FY23. That's consistent with the increase we've seen in the first half where Network capex was up $22m.
- Second, we've expanded the footprint of our Bulk business with the inclusion of Bulk Central and several port terminal operations. That's resulted in a $28m sustaining capex increase in Bulk during the half.

Despite this increase we are still expecting FY23 sustaining capex to remain in the range of $500-550m.

Turning now to growth capex and we thought it useful to provide a view of the last 5 years on the left, and on the right to show the current view of capital associated with Bulk growth. What's noticeable in the chart on the left is the transition we've seen – from a historical focus on coal and network capex to one now focussed on capex supporting the various Bulk mineral sands, grain, copper and containerised freight opportunities in front of us.

We expect growth capex for FY23 of around $210m, as shown in the middle of this page, while on the right we provide an aggregate view of the FY21 to FY25 Bulk capital which totals $430m, with about $200m of that spent so far. This includes:

- $320m in fungible standard gauge locomotives, wagons and containers that can be deployed across the country to meet the Bulk earnings pipeline Andrew mentioned earlier;
- $60m in port equipment, with the majority to expand our operational footprint by utilising the concession we acquired as part of One Rail within the Port of Darwin;
- $30m in freehold land acquired at the Port of Newcastle to develop an inputs supply chain for the NSW minerals province; and
- $20m to support a track upgrade for our gypsum contract, which we've extended for a further 10 years.

We expect these investments to deliver returns of greater than 10%, although I note there is further upside beyond this – particularly in South Australia and Northern Territory should volumes of grain, minerals and containerised freight accelerate.

The last item I'd note on capex is that this slide reinforces why the trade sale of East Coast rail was the preferred outcome. The $435m of cash proceeds we now expect is $10m higher than the $425m we flagged in our December announcement. That's due to completion timing being pushed back to February and the cash generated by ECR being for Aurizon's benefit. These cash proceeds will initially reduce debt

and can then be utilised to invest in equipment which will accelerate the earnings growth of the part of One Rail we wanted to keep, and where we see significant growth opportunities.

SLIDE 18: INFLATION AND INTEREST RATES

As has been the case for the past year, many investors are asking about inflation and interest rates and the impact this could have on Aurizon – this is a topic we actively monitor and manage and so we thought it was worthwhile discussing it on one page.

Starting with inflation, and as we've seen recently in Australia it's risen to almost 8% in the December quarter. For Aurizon, inflation flows through differently in our respective businesses:

- For our Above Rail businesses – Coal and Bulk – we have revenue protections in place through quarterly or annual CPI escalation in our customer contracts. There are though two sides to every coin and the main risk is inflation driving wage escalation. Pleasingly, with the recent QLD Coal and Staff EAs being voted up, we have renewed 70% of EAs in the past 12mths – with the most recent agreements being 4-5% wage uplifts in year 1 and years 2-4 being tied to CPI with a cap and floor.
- For Network - the regulation is designed to deliver the owner, in this case Aurizon, with a real rate of return. To do this, there are a variety of inflation true up mechanisms – for historical inflation, the Regulated Asset Base is rolled forward at an assumed rate of inflation and at the reset point on 1 July 2023 there is a true up where actual inflation differs from the estimate at the start of UT5. This will result in the FY24 RAB being increased to $5.9bn, an increase of $5%. This means Network will see the benefit of higher inflation, but not until FY24. For forward inflation, this is reset alongside the WACC for the FY24 to FY27 period, with a higher inflation assumption reducing regulatory depreciation.

Also on this page we thought it worthwhile to talk about the Network WACC reset as this is where higher interest rates are reflected. When we settled the commercial deal with customers for UT5 it was designed for a reset in 2023 and for this reset to be simple and mechanical, with adjustments to certain market parameters such as the risk free rate and the debt risk premium.

There is actually an interim step in this process, and the numbers you see here are for the Preliminary WACC reset – the WACC that is used to determine tariffs for FY24. You can see that the increase in both the risk free rate and the market risk premium takes the WACC from its current 6.3% to 8.18%.

The final reset will occur in June 23 and be reflected in tariffs from FY25. The difference between the final and preliminary WACC resets will then be reflected in a revenue cap adjustment in FY26.

As you can see from this page, Aurizon has protections from rising inflation and interest rates. To underline that point, based on the RAB and WACC reset, as well as the prior year adjustment of revenue cap, we expect Maximum Allowable Revenue for Network to increase in FY24 to $1.06bn, an increase of $95m from FY23. This is highlighted in the chart on the bottom-right of this page.

And before handing back to Andrew I will spend some time on a Funding Update.

SLIDE 19: FUNDING UPDATE

It’s been a successful period in terms of funding activity, and I’ll start by talking about East Coast Rail. As highlighted when we announced the trade sale in December, the debt package we secured will be novated across to the new owners – this includes the amortising bank debt in place at Aurizon’s acquisition, as well as the $340m, 10-year US private placement we successfully issued post acquisition. This USPP issuance was a key event that enabled Aurizon to extract value from the trade sale and I think demonstrates the ongoing demand from capital markets for a business such as East Coast Rail, noting that it is majority thermal coal exposed and rated BBB- which is two notches below the respective Aurizon ratings. This bodes well for Aurizon's future debt capital markets raisings.

Our Treasury team have also been busy on the core Aurizon debt profile, with:

- a re-financing of approximately $1bn of Network bank debt facilities across 3, 4 and 5yr tenors; and
- Issuance of $70m of new 10 and 12-yr private placements off the existing Network programme in December.

Both of these recent funding outcomes are shown in green on the chart on the bottom-right side of this slide. The long term funding strategy remains unchanged, that is to ensure we access multiple pools of capital and lengthen debt maturity to align it with Aurizon’s long duration assets.

Looking at some of the metrics on the page I note the weighted average cost of drawn debt at 4%, which is consistent with what I foreshadowed at FY results in August and reflects a high fixed portion of Network debt. We also saw group gearing increase to 55% during the half, a reflection of the debt utilised for the One Rail acquisition. Importantly, we will see this figure reduce to around 52% post Completion of the East Coast Rail trade sale – this trade sale, combined with holding the dividend at a payout ratio of 75% means that issuance of a hybrid in FY23 is no longer intended.

Finally, I’ll say in closing that while this half and has been impacted by weather, we continued to deliver on our strategy – cost control and inflation linked earnings in Coal and Network, and investments across the supply chain to meet the demand from containerised freight customers and the expected uplift in Australian Bulk commodity exports.

Thank you and I’ll now hand back to Andrew.

Andrew Harding: Managing Director & Chief Executive Officer

SLIDE 21: OUTLOOK

Thanks George.

Our EBITDA guidance range has been lowered to $1.42 to $1.47 billion with the 4% reduction primarily driven by prolonged wet weather and the impact of the third-party Blackwater incident I spoke of earlier.

Although Network has take-or-pay and revenue cap mechanisms in place in periods of lower volumes, the Above Rail business does not hold the equivalent level of protection.

Group non-growth capex is unchanged at $500 to $550m.

With more certainty on growth opportunities, our growth capex guidance is $210m.

We have listed our key assumptions by business unit:

- For Coal, lower EBITDA is expected due to volumes *now* expected to be lower compared to the prior year, in addition to the previously advised revenue yield reduction
- For Bulk, revenue and EBITDA growth is expected from increased volumes and services and inclusion of Bulk Central; and
- For Network, lower EBITDA, driven by lower volumes, is now expected to be below regulatory forecast, with revenue under-recovery of around $100m and take-or-pay of $60m booked in the second half. The net under-recovery of around $40m is to be included in the Revenue Cap mechanism in FY2025.

As per our normal practice, we do not assume any further disruptions to commodity supply chains such as major derailments or extreme/prolonged wet weather.

Later this year, we will be hosting an investor day, which will focus on Bulk Central and the bring forward of opportunities presenting to the Bulk business unit.

With that, we will take your questions.

Questions and Answers

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question is from Andre Fromyhr with UBS. Please go ahead.

Andre Fromyhr: Thanks. Good morning. Just thought I'd start with probably asking George, you called out sort of two major themes across what's driving earnings in the period just gone being weather and growth investment in bulk. Can you help us size some of these things? So firstly, are you able to tell us just how much you saw specifically from the One Rail business for the five months that it contributed in the half? But then I'm also interested in when you add it all up, what you think the impact of EBITDA was from weather?

George Lippiatt: Yeah, got it, Andre. To tackle the first part, which was Bulk Central. Bulk Central, it delivered to our expectations, which as you would've seen from our prior presentations, we were expecting $100m EBITDA over the first 12 months. Although it was only five months contribution in our first half and there is a ramp up profile as we get to full run rate on synergies and some growth projects. So Bulk Central hit expectations. Bulk West, so the Western Australia business hit expectations. It was Bulk East that was both below our expectations and below the prior year. So that's what impacted Bulk during the year.

In terms of weather more broadly, I'll break that out. So the first thing to note is the wet weather and its volume impact on Network. Network had a volume under recovery of $50m in the first half. We don't book take or pay in the first half, so if that first half under recovery of $50m repeats in the second half, which is what our

guidance assumes, you'd have $100m under recovery, take or pay would then recover some of that, we're assuming $60m, although there's a number of things that can move that number, that then means there's a $40m catch up or true up in two years time.

So remember, Network always recovers its maximum allowable revenue. It's just a question of whether it recovers it in the year we are in or in two years time. If you then go to Bulk, I called out Bulk's significant items on the east coast being weather, derailments and some customer production issues, which were weather driven. That was about $10m impact. And then you have coal, which we showed on the bridge in my presentation, about a $45 to $50m impact from volumes that was largely driven by weather. So I know I've given you a lot of detail there, but hopefully that answers your question.

Andre Fromyhr: Yes, thanks. And just one more if it's okay, specifically on the pricing environment in coal, I take your point, you've split out the dollar impact of that once you strip out things like pass through of fuel, but maybe more broadly you could help us with the outlook for coal pricing. Are you having these conversations with customers about contract resets that also include commitments around capital? I understand in general, Aurizon is seeking to not spend growth Capex into the coal business, but are there customers that are asking for new fleets and better reliability in order to support prices going forward?

Andrew Harding: Andre, it's Andrew. I think I might get Ed to talk more about the customer discussions and whatever he wants to.

Ed McKeiver: Yeah, thank you, Andrew. Thank you, Andre. Over the last few years we've seen the market for coal haulage services stabilise, I'd say. As George outlined, part of the revenue yield reduction this year is due to the rate reset in one of our medium-sized contracts. There are no further material resets, but the market does remain dynamic and competitive. We find that while rates are important, customers are valuing things like volume and origin, destination flexibility, shared risk positions, delivery incentives. So it depends on the customer. We are prepared to invest capital where the returns meet our hurdles and in the period, the first half there's just been little opportunity to do that.

Andre Fromyhr: Okay, thank you.

Operator: Your next question comes from Justin Barratt with CLSA. Please go ahead.

Justin Barratt: Hi, team. Thanks very much for your time today. Look, really appreciate the colour on your free cash flow and your growth capex expectations sort of over the next couple of years. George, you made the comment that you expect FY24 free cash flow to return to previous levels prior to FY23, I guess. I just wanted to understand, is that before your growth capex expectations?

George Lippiatt: It would be after growth capex expectations. And to give you a bit of colour on that, Justin, and if you look at some of the one-offs and timing impacts, obviously we'll see EBITDA recover in the second half, and EC in the second half. But when you look through to FY24, we'll expect a cash tax benefit from temporary full expensing and

instalments rates being reset lower. So that's a big driver. We'll also see EBITDA uplift, and what I'd point you towards there is the Network MAR bridge. I touched on in my presentation. So a $95m uplift in Network MAR, but also coal and bulk as we see CPI flow through and volumes recover. You'll also, don't forget, get the take or pay recovery from a cash perspective in FY24. We book it in this financial year but from a cash perspective in the next financial year. So hopefully that helps you with how the one-off and timing related items impacted us negatively in ‘23, but will flow through as favourables in ‘24.

Justin Barratt: Yeah, fantastic. That's very clear and very helpful, thank you. And then, look, I know it's early stages in terms of the second half of ‘23, but I just wanted to ask you, or if you'd be willing to share what you've seen in terms of coal rail volumes to start off this second half x the Blackwater derailment?

Andrew Harding: I might get Ed to talk about that.

Ed McKeiver: Yeah, thank you Justin. From a coal volume perspective, we plan to have a better second half. It won't be record-breaking, but customers are telling us they expect their orders to hold up. At a portfolio level, I expect volumes will be up from first half aligned with the second half of ‘22, the previous half. Of course there's always factors outside our control, the bad weather, the third party derailment we've talked about, but we are factoring that in.

Justin Barratt: Fantastic, thanks Ed. Thanks team.

Operator: Your next question comes from Anthony Moulder with Jefferies. Please go ahead.

Anthony Moulder: Good morning, all. If I can start back in Bulk please, obviously there was a lot of factors in that Bulk first half of ‘23 result, but I wanted to understand because the cost growth was significant, how much, in that cost growth related to future periods, how much investment are you making for future growth in Bulk, please?

Andrew Harding: Clay, I might get you to give some colour on that?

Clay McDonald: Yeah, I might start with reiterating just sort of what happened, Anthony, I'll throw to George on that investment. So as outlined by Andrew and George, now there's sort of three different stories in Bulk in the first half. You had the integration of One Rail, which we are pleased about and operating as we set in line with our business case. We had strong performance for most customers and most commodities over in the West, offset by the impact in the East, weather, derailments. And we had a particular customer that we'd installed a lot of capacity for that didn't rail for the full six months, which had quite a significant impact. So that's kind of the view on the half. George, I might throw it to you on the second part.

George Lippiatt: Yeah, Anthony, I think you need to look at the revenue and cost line in bulk because there are a number of moving parts in the first half and as you look forward to the second half. So I find it most useful to think about it in the context of EBIT margins or EBITDA margins. So from an EBIT margin perspective, historically we've been at 15% to 20%. You saw in this half it reduced to 9%. That's a product of those one-offs and investments that Clay mentioned. But also we've got higher fuel revenue, which

is a pass through, so it increases your revenue line, but it doesn't increase your EBIT line. You also have higher depreciation coming through from the investments we've made. When we look forward, we're still targeting that 15% EBIT margin in bulk across the business. Hopefully, that helps.

Anthony Moulder: That's helpful. Thank you. You also talk about this investment cycle. Obviously, we're seeing that in the second half in the capex profile, but you talk about related to the payout ratio for dividends. Do we take from that this will last well beyond 2023?

Andrew Harding: George, I might just get you to talk about the few years.

George Lippiatt: Yeah. That's one of the reasons, Anthony, we tried to give transparency as to what we see as the capex investment cycle. In that slide I touched on, you'll note that it looks out to FY25, $430m. And so we see this capex investment cycle lasting ‘23 and ‘24, and then, ‘25, then tailing off, although one thing that may happen, these opportunities may come forward before we expect them to. But at this point, what we're saying is it's ‘23 and ‘24.

Anthony Moulder: Thank you. And that profile is associated with your expectations or are you getting close to signing customers that'll be used for that investment?

Andrew Harding: Yeah, go, George.

George Lippiatt: It's a combination, Anthony. If you break down the capital, we mentioned $20m of track upgrades that's supported by a 10-year contract in South Australia. We've got $20m of containers to support a number of customers that we have contracted recently, including the Centrex contract Andrew touched on. The port equipment is obviously expanding what we do for a lot of existing rail customers, and then the rollingstock capital is more about the forward pipeline and we expect to sign customer contracts over the coming 6 to 12 months.

Anthony Moulder: Very good, thank you. Lastly, if I could, on Coal with Ed, we used to talk about take or pay customers. Obviously, that's less of a focus, but it was that take or pay protection that gave a lot of protection to your Coal earnings. Where is that now at? Are customers still signing with any form of take or pay or is it purely, "here's the rate we hope to rail," but there's no downside from a lower level of contract utilisation?

Ed McKeiver: Thanks, Anthony. Consistent with previous results releases, we're still seeing capacity charges in the 50% to 60% range. Yes, customers do principally seek capacity charge protection or certainty of service from us. Actually, they have an incentive to make sure that the capacity is in place.

Anthony Moulder: Very good, thank you.

Operator: Your next question comes from Sam Seow with Citi. Please go ahead.

Sam Seow: Good morning, guys. Thanks for taking my question. Just on the free cash flow, previously, you've talked to about $500m to $650m. Is that still relevant or similar to the dividend as we think about the next couple years of reinvestment that could potentially lower?

Andrew Harding: George, do you want to take that?

George Lippiatt: Yeah. Our expectations haven't changed from what we mentioned at that investment day 18 months ago.

Sam Seow: Maybe just following on from an earlier question trying to unpack that Bulk Central contribution, is there any seasonality in the business and maybe some colour around what you mean by ramp up given the business was largely operating when you took over it?

Andrew Harding: Clay, do you want to talk about that?

Clay McDonald: Yeah. There is some mild seasonality, as you'd seen in most containerised freight or the intermodal side of the business, there's some seasonality in that. But, generally, these are consistent production mines, consistent production facilities unless there's weather impacts, not a lot of seasonality on the bulk commodity side.

George Lippiatt: Just to add to that, Sam, in terms of the ramp up, what we're referring to there is in terms of synergies and some growth volumes. You might remember that $80m was the historical EBITDA of that business, and we see it stepping up. There were two drivers of that step up. First was synergies, which we said is $7m to $10m. Of those synergies, the first part is corporate-related. They were cash flowing very early on. The other part is operational. For example, replacing hauls where you've got three or four times the number of locomotives that there could be on that haul, they take longer to execute. They'll really ramp up in the second half. You also have some growth volumes, which we've always flagged would come through in the second half of the financial year.

Sam Seow: Got it. Just quickly on revenue yield, I guess in Coal, you've obviously combined that with the contract rolls. Just on an underlying basis, can you give us maybe an idea of what the CPI rollover was and did that cover the operational cost increases?

Andrew Harding: George, you can cover that.

George Lippiatt: You can actually work that out if you go back to our full year results and look at what our expectations were for EBITDA. If I remind you, we were expecting EBITDA to be lower but volumes to be up. That was clearly meaning that the EBITDA reduction we were expecting in the year was going to be driven by yield reductions. What we've actually seen is volumes being below our expectations. When you back that out, the revenue yield reductions almost exactly offset CPI, albeit there's a wedge of that $6m, which I've discussed in my presentation.

Sam Seow: Thanks for the colour, guys. Appreciate it.

Operator: Your next question comes from Jakob Cakarnis with Jarden Australia. Please go ahead.

Jakob Cakarnis: Morning, Andrew. Morning, George. George, I'm just trying to tie together some of the commentary that you've given. You've said that the One Rail Bulk business, Bulk Central, is on track per internal modelling. You suggested there that it was $80m. I

think the last update that we got was calendar ‘21, so we're a little bit behind for that business. On the period of ownership, five months, it'll be about a $33m EBIT contribution. Can you just confirm that there were no synergies during the half? If that is the case, I know that you've identified $10m as EBITDA headwinds from poor weather, but it still leaves a third of the EBITDA decline that underlying Bulk business year-on-year unspecified. Can you just dig into that into a little bit of detail and then how that recovers into the second half, please?

George Lippiatt: Yeah. Let's start with Bulk Central EBITDA. Pretty similar to what you've described there. So, you take that $80m divided by 12, that gives you your run rate for that first five months. But there were some synergies in that first five months. Those synergies will step up in the second half. If you then go to the other impacts that we've seen, I called out $10m from weather, derailments and customer production issues, but there was also another similar number of about $10m that was early costs that we've brought on to support growth that will come through in future periods.

Jakob Cakarnis: Okay. Just to follow on to that then, George, some of the problems that you are seeing for your customers in the fourth quarter of ‘22, can you just confirm that they've been resolved and that that's kind of run rate now as we get into the second half of ‘23?

Andrew Harding: I might get Clay to confirm that.

Clay McDonald: That particular customer that's had the impact in New South Wales, we expect that to come online and be at full roar in the second half of H2.

Jakob Cakarnis: Sure. The issue that you had in the fourth quarter of fiscal ‘22, I think it was in Bulk West, has that now gone back to normal? Is that contract fully restored? Is that customer back up and running fairly normal?

George Lippiatt: The Bulk West you might be referring to was CBH grain run rates. We're now run rating at an-expectation for CBH. The customer production issues we were talking about in the fourth quarter of FY22, there was one in the Mount Isa corridor that was a shut that's now been restored. The other one was a ramp up issue. That ramp up issue is still a ramp up issue and has been slowed by further flooding in the Broken Hill region.

Andrew Harding: Just to add, just to make sure that there's no Bulk West misinterpretation. The CBH contract, performance for CBH is setting records, and you can see that published in external documentation for the interest of farmers in Western Australia. There should not be any sort of uncertainty about that. It's going very well.

Jakob Cakarnis: Cool. One final one for me both for Andrew and George, just for the bulk business, for the capital investments that are going in there, are you considering them on an incremental return on invested capital that's going there or it's versus group hurdles?

Andrew Harding: George, do you want to take the easy question?

George Lippiatt: Group hurdles is the short answer to that.

Jakob Cakarnis: Thanks guys.

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

Paul Butler: Good morning. Thanks for taking my question. I just wanted to ask first about the restatement of the safety metrics for last year. What is the explanation for that?

Andrew Harding: Yeah, so look, the SIFRa measure looking at the significant incidents was designed to actually replace our previous sort of metrics which didn't cover the entire business. We introduced them, we ran them through the year, we formalised them this year. As part of the formalisation process from a good governance point of view, we had experts go back and look at all the classifications of the prior incidents to make sure that we were comparing like for like. In that process, we found that, in the prior year, we were reporting some things as significant that didn't meet the hurdle and we had to remove those.

Paul Butler: Just to clarify, if you were restating it on the previous basis, would you also be showing this decline in incidences that you've shown for the half?

Andrew Harding: Yes. It's still a major improvement. It's just that it's less of a major improvement, but still significant. It’s as we've actually done that restatement. It is definitely a strong improvement.

Paul Butler: Thanks. And a question for George, you said just a moment ago that you're targeting a 15% EBIT margin in the bulk segment. Do you think about that as being a minimum target or is that a stretch target?

George Lippiatt: No, I don't think it's a stretch. We were at 15% and above a year or two ago, so I don't think it's a stretch.

Paul Butler: Clay, I think you said the one customer you've been having the issue with in New South Wales will be back to full roar in the second half. Will we have a full contribution for the half or is it going to be first half next year before we get the full contribution?

Clay McDonald: No. I would say it's the last quarter of the half that operation's still standing up after prolonged weather impacts. It'll be the last quarter of that of H2.

Paul Butler: Just one other question, the D&A in bulk, is the change in that pretty much all just driven by the One Rail consolidation or is there also some changes from other investment that you've put into other parts of the bulk segment?

George Lippiatt: It's a combination, Paul. About 80% to 90% of it is driven by One Rail, and the rest is driven by the investments in new equipment.

Paul Butler: Okay, great. Thanks very much.

Operator: Next question comes from Ian Myles with Macquarie. Please go ahead.

Ian Myles: Good morning, guys. Just at a broader macro level, you showed us the EA agreements being 4% to 5%. Inflation's probably still running a little bit ahead of those numbers. Can we actually expect a broader margin improvement into the second half and into FY24 as a result that you're doing better on inflation than the labour costs?

Andrew Harding: Yes. George, do you want to add anything?

George Lippiatt: Yes. Absolutely, we do, Ian, in Coal and Bulk, but Network will more be driven in FY24 by that MAR step up that I described earlier.

Ian Myles: I have to say, Andrew, I've got a little bit more confused about Intermodal where you are defining what a box is and the element. I'm just trying to understand what your value add is in that of carrying a box versus doing a full Intermodal service.

Andrew Harding: The reality is when we look at what we call containerised freight and the differentiation from intermodal, the business is vastly more complex and you're in an extensive use of labour and the management of a whole larger group of customers. In this sense, you're actually competing with some of your own major customers, which is what we got into from an Intermodal point of view. Containerised freight is simply what we do very well and have done for a long time. You can see examples of that in Aurizon before the One Rail acquisition with the call on the hook and pull activity on the east coast line. You can see that it is a containerised freight activity that happens through central Australia. It's a much smaller part of the actual full stream Intermodal activity. Hopefully, you got the message when I used the word "not." We are not getting back into Intermodal, but we do see, because we operate in containerised freight, some possibilities in the future.

Ian Myles: You talk about $1.5bn of revenue opportunities or 200 opportunities. What does that translate into capex and how much of that capex is already spoken for within the $400m that you're looking forward over the next two to three years?

Andrew Harding: I might get Clay to talk a little bit about the pipeline a little bit more extensively, and then I'll get George to talk a bit more about the capex.

Clay McDonald: Thanks. When we look at that pipeline, and Andrew mentioned the 215 opportunities valued at $1.5bn in revenue, we've kind of distilled that down. We think it's around $300m in EBITDA and then you take sort of another slice at it and your assessment out to sort of 2028. We think the higher likelihood number looks around $600m in revenue and about $150m in EBITDA. What's exciting about a lot of those opportunities is where they're located adjacent to our network and our strategically located land and locations, and that nine of them are in excess of $50m each. We've got some of that capital and some of that infrastructure already in place, but I might throw to George whether he has considered further down post-2028 on where we want to spend money and how we want to address those markets.

George Lippiatt: I might answer that this way, Ian. We are spending capital or investing ahead of customer contracts. That's what we're flagging today. We're doing that for two reasons. The first is we're seeing customers wanting to ramp up the provision of our services quicker and we're seeing the benefits of bringing on some of this equipment

earlier because you get, for example, the temporary full expensing benefit from a tax perspective. What we're really conscious of is not getting out beyond our skis. What I'd say to you is the capex that I've outlined, that $430m when you look back a year and forward a couple of years, represents less than 20% of that pipeline. Now, I don't expect Clay to convert 100% of that pipeline, and I think he'd be doing a great job to convert more than 50% of it. That should give you a sense for how we've sized the capital to the pipeline.

Ian Myles: Look, that's really good. The only other issue is, in Coal, are you actually losing still a little bit of market share in the corridors. In Queensland volumes are down 4mt per year and the system is only down 3mt. I'm just wondering if there's something specific occurring.

Andrew Harding: Ed, do you want to address that?

Ed McKeiver: There's nothing specific occurring and it's more of a matter of the particular customers that are down. Our average share for the half was 66% for CQCN and 26% for the Hunter Valley, which is consistent with the long term average.

I'd add something that might help as well is if you look at where particularly strong growth has happened is with the Newlands corridor, and there's a new rail hauler and mining operator that's set up there with some [inaudible]. That will have an impact on the metrics. Also, if you look, our market share is different between the Goonyella and Blackwater. If you have big impacts on the Blackwater with a third party operator taking out your production for two weeks, that has an impact as well.

Ian Myles: That's great. I just want to check. That's all. That's great. Thank you much, guys.

Operator: Your next question comes from Owen Birrell with RBC. Please go ahead.

Owen Birrell: Good morning, guys. Can I just drill down into the contribution from grain in the period? I know you highlight the fact that you're the largest grain hauler, and there was a chart there which suggested it was about 20% of Bulk revenue. I'm wondering if you can give me a sense of what the earnings contribution was for grain in aggregate across the business.

Clay McDonald: I'll talk about grain and then, George, if you want to answer that question on contribution. First of all, we've got back into grain in a heavy way. When we think about it, we've focused on the most resilient regions and our ability to scale up in a cost-effective way. What does that mean? We like WA and we like South Australia. When we scale up in New South Wales, we've been working with Ed and his team on how we can get synergies there and also converting coal wagons into grain wagons, which had safety and payload improvements.

Strategically, we like the momentum that is starting to come through in the grain market. What I mean by that is, for many years, there hasn't been a lot of modest investment into improving grain supply chains, particularly infrastructure. As you would read, as I read, there's a lot of momentum in from governments, from exporters, and from traders in driving improved performance and lower costs for the grain supply chain overall. The best example of that is the $400m investment in the

Western Australian supply chain. We're pretty excited by that market. We're excited by the fact we delivered 12.5mt last calendar year, which is a record on rail, and we continue to perform very well for CBH, but I'll throw it to George on the investment side and the earning side.

George Lippiatt: Yeah. Owen, I'll answer it this way. We only have two or three major grain customers, so we're not going to get in the habit of giving you EBITDA or EBIT by that segment. What I will say is we've given you revenue percentage, which is about 20% as you said, of total revenue, and EBIT contribution is broadly consistent with that 15% that I mentioned before for the Western Australia and South Australian parts of grain. Where we tend to get a better EBIT contribution because we have a lower capital base in grain is on the east coast. Unfortunately, that's where we saw weather disruptions in the half. Hopefully, that gives you a sense of the answer without giving you specifics that would upset our customers.

Owen Birrell: That's good. I'm just wondering, ABARES has upgraded their guidance for the South Australian markets and WA markets by circa 30% of the last upgrade in December. Clearly, you've seen that coming through, but should we be expecting that the margins that you're delivering in those business to step up further from where we are at the moment? It sounds like we're at very, very peak conditions at the moment.

Clay McDonald: My answer is, first of all, on the South Australian market, there is strong demand in South Australia. We've been asked to try and find another consist to put in down there to haul grain, so busily trying to find that because, as you just mentioned, there's high volumes across the nation. They want an additional consist down there. In fact, there's a real government push to move more grain from road to rail in certain regions in South Australia, which we're pretty excited about. We're working with governments and others and customers to try and facilitate that.

On yields and margins, I'll probably go back to my statement about modest investment infrastructure. The whole idea of us first setting up the CBH and the eastern states grain contracts was to, first of all, ramp and then stabilise, and then look for yield and productivity improvements. We're working particularly in Western Australia on, okay, how can you get longer trains? How can you get them loaded quicker? How can you get them unloaded quicker? Both volume and yield improvements are expected as that infrastructure improves.

Owen Birrell: Just one final question, just furthering on from Paul's question before about the D&A in bulks, just wondering whether that $53m D&A number that we got for the half is the run rate we should expect going forward, or were there any one-offs in there that are not going to repeat in the second half in the Bulk’s D&A number?

George Lippiatt: No, it'll broadly repeat, Owen. The one thing I'd note is you'll have a full six months of the One Rail depreciation flowing through, whereas you only had five months in the first half numbers.

Owen Birrell: Okay. And look, just one final question for you, George. On the debt, I noticed the average interest rate is getting up 3.4%, up to 4% for this half. You've got $1bn worth of debt to be refinanced over the next 12 and a bit months. Just wondering, if you

were to refinance that at today's rates, what would your average interest cost move to?

George Lippiatt: Yeah, it's not so much when we refinance, it's more about our hedging book. And so, in Network, we're largely hedged through until 1 July '23, which is when the WACC reset occurs. And so we do that to try and match the WACC reset with the cost of debt reset. So, what I would say is it's more about our hedging book rather than refinancing. The other thing I'd say on refinancing is we actually did a major refinancing in January for Network. We refinanced about $1b of debt. And we actually got tighter margins than we had in the prior period. So that two bits of context. I think your broader question is going to, what do you expect the weighted average cost of debt to be going forward? It's about 4% for the first half. I'd expect it to be marginally higher in the second half and then beyond that, I'm not going to try and predict because when you predict interest rates, you get in a bit of difficulty.

Owen Birrell: Yeah, no problem. That's great. Thank you very much, guys.

Operator: Your next question comes from Cameron McDonald with Evans and Partners. Please go ahead.

Cameron McDonald: Hi, good morning, guys. Just a couple of questions on bulk if I can and just the amount of capacity that you've actually got. So you've talked about the $10m of operating cost investment and the $430-odd million worth of capex. How much capacity for growth does Bulk actually have? How much are you investing for? And so, how much could that investment actually support in terms of either tonnage or revenue versus what you acquired with One Rail? And how much of that investment in capex is actually being spent on the asset you bought for $1.8bn?

Andrew Harding: George, I might get you to answer that.

George Lippiatt: Yeah. So, a lot of questions within that, Cameron. I think the way I'd answer that is to take you back to our Investor Day 18 months ago, and we said that we have an EBIT target for bulk of $250m to $300m. Now, when I look at the investment in One Rail and these capex investments we flagged today, that is aimed at getting us to that target. Should we make further investments beyond that, then we'll re-look at that target. The reason I answer the question that way is there's not a clean tonnage capacity number we can give you because each of the investments are unique. Port equipment, for example, doesn't necessarily drive a tonnage outcome which translates to an EBIT outcome and that's because you get generally better margins at the port end than the rail end. So the way I'd answer that question is to say the One Rail investment, with this $430m that we've flagged is consistent with that EBIT target.

Cameron McDonald: Right. Well, where is that $400m? Presumably, most of that is being spent supporting the One Rail acquisition though.

George Lippiatt: It's a combination, Cameron. So, again, if I break it down, you've got that $20m of track upgrades which are in One Rail. You've got that $20m of containers which is in rollingstock, which is not One Rail. That's more Queensland based, as well as some containers in other parts of the country, but not so much South Australia or Northern

Territory. You've then got $60m of port equipment. The majority of that is targeted at Darwin Port, which is an add-on to our One Rail investment but also an investment in Gladstone Port. Then you've got the rollingstock. And I said that's standard gauge, locomotives and wagons. We see the majority of the pipeline opportunity being in South Australia or Northern Territory, but deliberately those investments are standard gauge and fungible so they can meet opportunities as they come up in Western Australia, South Australia, Northern Territory, New South Wales or Victoria.

Cameron McDonald: Yep. Okay, great, thank you. And just going back to the debt issue, you previously flagged that you may have to consider a hybrid as part of your funding mix. Where are you in that decision and consideration given the sale of East Coast Rail versus the in-specie alternative?

George Lippiatt: Yep. We're now at a point, Cameron, where we don't intend to issue a hybrid.

Cameron McDonald: Great. Thank you very much. That's all from me.

Operator: Your next question comes from Scott Ryall with Rimor Equity Research. Please go ahead.

Scott Ryall: Hi, thank you very much. Hopefully, I'm not going to take too long. The Slide 17 on capex is really helpful. Thank you. I just had my first questions on that. The chart itself shows the sustaining capex is $500m to $550m. Can you just talk to what are the opportunities potentially to squeeze that even further in order to fund your growth aspirations? And then the second part of the question on that one is an IRR of minimum 10%. I mean we all know they can be shifted quite dramatically by your terminal asset value assumptions. So I'm wondering if you can talk to it in the context of return on invested capital, which is a metric you report and get long-term incentives based on. And can you talk to how long it takes if you'd like to get up to wherever the company thresholds are and preferably where it becomes accretive to current return on your debt to capital please?

Andrew Harding: Okay. Scott, look, I might handle the first one-and I'll get George to handle the second part. Look, squeezing sustaining capex below that range is an unlikely and difficult task. If you think about what we've been doing for a number of years is we've pretty much been holding sustaining capex around about a number that approaches $500m sometimes for big weather events or that network doesn't quite actually manage to get all its work done, but that's kind of broadly the number that we've seen works for the business.

I'd also say, so that's a little bit about thinking about it historically. The prediction of sustaining capex in this business is, I'm going to say, it's reliable and reasonably easy to do in that you can figure out your wear rates for rail, you can figure out the lifecycle replacements for engines and bogies and the like. So when you build that up, it's not hard to get a picture like that.

The other thing I'd say is that for a number of years we've been talking about some larger-scale electrical infrastructure replacement in the Network business, and we're working our way through that situation. And those are things like, and I'm not an electrical engineer, but things like transformers, which have probably a 20 or 25-year

lifecycle that you actually need to get on and actually figure out how that replacement takes effect. So, what I'm hoping to do by painting that picture to you is actually say is that squeezing that number is pretty unlikely. George?

George Lippiatt: Yeah. I guess on the first question, the $500m to $550m, I just reiterate Andrew's point, which is the majority of that is network sustaining capex, which is an annual discussion with our customers, and it gets recovered by the regulated asset base. It's about $200m annually of Above Rail Coal and Bulk capex. As Andrew said, we do look for opportunities to optimise that, but I think the biggest optimisation lever we've got on our capital base in rollingstock is looking at how we shift over time locomotives to where there's the best long-term demand. And we've done that over the last two years. Scott, if you look at active locomotives in coal, it's reduced by 15 over the last year and a half, and those locomotives have gone to Bulk as a capital light way to grow the bulk business.

If I then come to your question on the $430m, I understand your question is around ROIC and therefore EBIT. I'd expect us to get to that ROIC hurdle, which we publicise around 10% within the two to four-year period. Obviously, it's going to be longer when you're looking at how do you get freehold land at the Port of Newcastle to contribute to EBIT, but it's going to be shorter when it comes to that track upgrade in South Australia or some of the containers and other standard gauge rollingstock. So, two to four years to hit that ROIC hurdle is what I would give you as a guide.

Scott Ryall: Okay, great. That's very helpful. And then the last question I had is on TrainGuard, which Andrew mentioned in his initial comments. You've started rolling that out in Blackwater and I think if I read the more detail on that, you're going to complete the rollout in Blackwater this financial year, and then Goonyella comes next, but there's not a timeline associated with that. So I was wondering if you could just step through and give us an update on when you see the implementation of that and how long ? What's the duration of time that has to lapse once it's implemented before actually taking other steps associated with the, or that are enabled by that technology, please.

Andrew Harding: Thanks. A nice way of asking the question. I'll get Ed to answer.

Ed McKeiver: Yeah, so we're really pleased with the progress on the TrainGuard project. Thanks, Scott. As you probably know, we went live in December, and we expect to have the fleet switched on sometime by the fourth quarter. Consultation with the workforce is going really well. We had a risk workshop have been held and we've got our workforce behind us. And so if everything goes to plan, we should be seeing us really live with TrainGuard at the start of the new financial year in Blackwater and about 18 months or less than that live in Goonyella. That's the plan.

We're looking forward to the safety benefits of the technology. It's shown to reduce potentially 95% plus of signals passed at danger events. So that's really exciting. It's one of the reasons the employees are behind it. In relation to productivity benefits of presumed talking to a driver only, that's still the subject of consultation with our workforce. There's a little bit of water to flow before we take that step. As I said, our workforce is excited about the technology, they're with us, they're all trained, and they're looking forward to going live at the end of the fourth quarter.

Scott Ryall: Okay. Great. Thank you. That's all I had.

Operator: Your next question comes from Rob Koh with MS. Please go ahead.

Rob Koh: Good morning. Can I maybe ask a question on the Network side thing as we haven't heard from Ms. Bains? Just on the true-ups that come through, do they also benefit sort of the true-ups for FY25, do they benefit from the higher WACC as well?

Pam Bains: Yes, it'll be the WACC that's applicable at that point in time. Oh, sorry, you're talking about the revenue cap adjustments?

Rob Koh: Yes.

Pam Bains: Yes. They will have the WACC that's applicable at that point in time.

Rob Koh: Okay. Actually, so that's not a benefit then if they're getting into the, or is it a benefit? Sorry. I'm confused.

Pam Bains: Sorry. So, the WACC is adjusted for the time it takes to recover. So it will be the higher WACC.

Rob Koh: Okay. All right, that's clear. Thank you. Thank you very much. Maybe a question for Mr. McKeiver because the coal volumes to China could be expected to recover, but your customers were very successful in diverting coal to other markets. Do we expect the diverted volumes to redivert back to China or could we actually see some good growth in coal volumes? Just maybe a collection of feedback from your customers?

Ed McKeiver: Yeah, certainly. Thanks for the question, Rob. A couple of things. I think the re-emergence of China as an export destination for coal, Australian coal is certainly going to keep the demand side pressure up. And when I think about our steps through into next year, we're really well-positioned with the capacity. Our contracted volume is flat at 230mt this year, 230mt next year. We've got a BD pipeline. So, I think the heart of the question, it goes to the sort of coal flows, seaborne-traded coal flows, particularly thermal. And that's really a question for our customers and their long-term contracts. I think initially China will emerge as a spot buyer and probably late to the party for this year's contract negotiations. So, I think the demand side will stay strong for long and the supply side constraints will relieve in 2024 as the Office of the Chief Economist forecasts with the exports returning to the high tide market, about 386mt for FY24.

Rob Koh: Okay, thank you very much. Maybe one last question given that there was also some questions about predictability of sustaining capex and how you can keep the efficiency rates going there. Do you, in your sustaining capex budgeting, include amounts for climate adaptation?

Andrew Harding: So, the answer is yes. There's actually a number of categories of spend in that area. George, do you want to talk about some of this?

George Lippiatt: Yeah. The main one, Rob, is our $50m future fleet fund. So this is investment that we're projecting over the next 5 to 7 years. So, pre-2030, to look at other technology,

be it battery-electric locomotives, battery-electric tenders, or hydrogen-electric tenders. Those are all programmes of work we are looking at actively, looking at building prototypes. And the reason behind that and the timing is that a lot of our fleet renewal is in the 2030s. And so, we want to make sure that we're spending the money now to know which technology is best for each haul because it does differ by commodity and by distance travelled. And so, we are looking at that actively at the moment.

Andrew Harding: We also spend in the Network business or have directed some funding towards the resilience of the Network under adverse weather events. And we've been doing that actually for some time. And in addition to that, we spend some money associated with understanding our future as much as you can, understanding future impacts of predicted climate change on the various rail corridors.

Rob Koh: Okay, great. Thank you very much. Much appreciate it.

Operator: Your next question comes from Nathan Lead with Morgans. Please go ahead.

Nathan Lead: Thanks for your presentation today, team. Three quick ones for me. First up, just in terms of your debt capacity within your target credit ratings for the two different borrower groups. Could you maybe sort of just talk through where you're seeing that post the East Coast Rail sale?

Andrew Harding: George?

George Lippiatt: Yeah, I can, Nathan. We will in ‘24 beat our metrics at a group level. We'll have a bit more headroom in Network than Ops and then we'll get more headroom through ‘25. And the reason I answered that question that way, so I'll link it back to an earlier question we got around our capital investment cycle and dividends. That's very deliberate, the plan and approach we've taken. We want to maintain our BBB+ rating across Network and Ops. That will mean that we're likely to be at the lower end of our payout ratio for that period of time, so ‘23, ‘24.

Nathan Lead: Okay, makes sense. Another one, I suppose this one, for Ed. But I'm just seeing here in the data, lower locomotives down in the fleet and quite a stepdown in the amount of wagons. So, if you could maybe just talk us through what's driving that, and will there be a sustainable sort of cost increase coming from that?

Ed McKeiver: I'm not yet sure, Nathan. Thank you. I mean, as we mentioned earlier, as George mentioned, the cascade of some of the locomotives to the Bulk business has been at the fringes of our business. And what we're seeing is a capacity release of equipment as we're focused on our transformation agenda. So, where we're able to, in the case of half of those locomotives, that's a consequence of the cessation of the contracts that we talked about in the presentation, the business in the South East Queensland, and I know you previously asked a question about Moolarben and the Hunter Valley in previous sessions. So where we've got that, where we've had those contracts roll over, where we've transformed and released capacity, that's where we cascade. So, we still carry the capacity to service our contract book.

Nathan Lead: Okay. So, how much was cascaded across to Bulk on top of the $410m you're going to be spending in investment?

Ed McKeiver: Well, as George said, over the last 18 months, there's been 15 locomotives; in the last 12 months, there's been about nine of them. And in the last six months, we've done about four in the last half. So, as we adapt, again as we release capacity, as we can work together, and as Clay said, we've recently done a baton exchange for grand train service into Port Kembla. So, working together to put the capacity to work.

Nathan Lead: Yep. So, I suppose I'm trying to work out here is you've got the $410m of investment going into bulk, but you've also put another 15 of locos coming across. So, what's the all up effective investment into Bulk now?

George Lippiatt: Yeah. So, those 15 locomotives, Nathan, were very low in terms of capital on the balance sheet. They were quite old locomotives, so they're almost a rounding error compared with the $430m and the investment in One Rail.

Nathan Lead: Okay. All right. And just final one for me. I suppose if I'm just scanning through your account, note four, you actually say there's a $75m impairment on East Coast Rail. So, does that mean that you guys actually valued it at $510m and sold it for $435m?

Andrew Harding: George, you're expecting that question.

George Lippiatt: Yeah. So, the way the accounting treatment works, Nathan, is we valued it on EV basis of $950m. We sold it at less than that. The important thing to remember from an accounting perspective is because the business was held for sale, they actually didn't depreciate or amortise at all over the seven-month period we held it for. And so, the key number I look at is the $45m net loss, which is that $70-odd million you mentioned, less the net profit after tax that we got the benefit over for the seven-month period.

Nathan Lead: Yep. Okay. Thank you.

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

Paul Butler: Hi. So, thanks for taking a follow-up question. Just quickly on the growth opportunity that you flagged, I think 200 opportunities, $1.5bn in revenue potential. Can you give us some colour on that? Are they all sort of new projects, or is some of it where there's an existing service provider? And so, how much of it relates to the capability that you've acquired with Bulk Central?

Andrew Harding: Go for it, Clay.

Clay McDonald: Majority are new. Some are brownfield operations that we would be targeting. And the top kind of commodities are copper, nickel, iron ore, rare earths, and mineral sands, phosphate, and lithium. So, if you look at our network and footprint that we showed in the map pool, you'll see that we're ideally located to access those commodities, but now it's predominantly new and green growth, some brownfield and some market share.

Paul Butler: And what time period could these be realised over? Are we talking a couple of years or longer term?

Clay McDonald: Our assessment in that number is out to 2028, but obviously if it's brownfield or market share, that opportunity exists today.

Paul Butler: Great. Thanks so much.

Operator: There are no further questions at this time. I'll now hand back to Mr. Harding for closing remarks.

Andrew Harding: Thank you all for attending the conference call. I'll reiterate again, you see the impact of the strong and prolonged weather that we saw through the period. And also, if you look at the guidance taking into account a very major derailment as well, that is only just reached a reinstatement over the weekend on Saturday. All that said, though, you can see a very, very strong delivery against our strategic intent over the period. Thank you very much.

[END OF TRANSCRIPT]