Start of Transcript

Andrew Harding: Good morning and welcome to the interim results for financial year 2019 for Aurizon. As usual, Pam and I will go through the presentation that we lodged with the ASX this morning, which is available on our website. We will take your questions, with the rest of the executive team who are in the room with me here, in Brisbane.

Just to remind you, the team is Ed McKeiver, Group Executive Coal, Clay McDonald, Group Executive Bulk, Michael Riches, Group Executive Network, Mike Carter, Group Executive Technical Services and Planning and Tina Thomas, Group Executive Corporate.

Before we begin, I did want to make mention of the flooding in North Queensland. While I am pleased to report that none of our people were hurt during this extreme weather event, the impact on local communities is clearly significant. We will discuss the business impacts later on, but I want to acknowledge our North Queensland employees for their strength and resilience they've shown during this tough time, as well as other areas of our business that have been lending their support.

We are assisting employees who have been personally impacted and this week we'll also launch a special round our Community Giving Fund to help communities with local projects that assist the recovery and rebuilding process.

Now, turning to safety performance. At Aurizon we always start with safety. During this half we've seen an encouraging improvement in safety performance. Whilst six months is too short a period to claim substantial changes are working, it is pleasing and demonstrates the improvement initiatives put in place during FY18 are starting to deliver results.

This includes a reduction in contractor injuries by 88%, which is due to the strengthening engagement with our contractors. You will recall we expanded our metrics to include all contractor-related injuries in 2017.

We've also commenced a long-term program of work, called seamless safety during the half. This program aims to streamline and simplify our safety systems and processes and consists of three interdependent projects around leadership and culture, system and processes and structure. This work will reshape Aurizon's program and approach to safety.

Turning now to an update on key priorities. Before we talk about the numbers, I'd like to give some context about progress on the Company's key priorities, which is usually where investors are also focused.

During the half we've made good progress in these areas, as you can see on the slide. We've also indicated how these priorities are aligned to the value creation levers contained within our strategy that we introduced last year at the investor day.

This is about ensuring investors understand that we will continue to deliver on our promises, consistent with the strategy and that we will continue to prioritise where we see the most value. I'll step through some additional detail on each of these topics shortly, but first I wanted to talk to some of the high-level points.

The UT5 final decision was handed down last December, and this represented an improvement on the draft decision, and I'll cover this in more detail in the network section.

On operational efficiencies we continue to progress a number of initiatives across key areas, including targeted investments in technology, and I will go through this in more detail shortly.

Good progress has been made on enterprise agreements and we have now either completed or are awaiting finalisation through the Fair Work Commission four enterprise agreements, being WA Rollingstock Maintenance, Queensland Staff, New South Wales Coal and West Australian Rail Operations. Bargaining continues on the three remaining Queensland EAs, with the Infrastructure agreement currently out to vote with employees.

Finally, with Intermodal, the sale of the Queensland business to Linfox has been completed and we now have a new commercial hook and pull contract for the Bulk business. The remaining asset in Intermodal is the Acacia Ridge terminal, an agreement to sell the terminal to Pacific National remains subject to proceedings in the Federal Court.

Turning to the first half highlights. The Company delivered a first-half result in line with expectations, with an underlying EBIT of $406 million. While this is down 16%, Above Rail is in line with expectations and guidance provided last year.

Network revenue for the half is based on the UT5 final decision that was released by the QCA in December. This includes a provision for half of the $61 million true-up relating to FY18. The final decision represents the low case in terms of the revenue outcome and establishes what could be owed for customers - to customers for FY18. Therefore we believe the most prudent decision is to take this provision now, as the longer we wait, the greater the true-up, and therefore impact on the P&L in future periods.

The Above Rail result includes the impact of the cessation of the Cliffs contract in Bulk in June 2018. Pam will step through the detail in her section shortly.

In Above Rail, volumes were down 5%. In Coal, volumes were affected by supply chain constraints, weather events at the back end of the half and protected industrial action across New South Wales and Queensland. Bulk volumes were lower due to the Cliffs contract cessation, partly offset by growth in volumes across WA and Queensland. Network volumes were flat.

Statutory NPAT was down $55 million against prior period, consistent with the reduced EBIT. Free cash flow was higher by $26 million and benefited from the receipt of the termination payment from Cliffs.

Finally, an interim dividend of $0.114 per share has been declared by the Board, which represents a payout ratio of 100% underlying NPAT for the continuing operations.

Turning to the Coal business. We continue to operate in a positive market environment and the Coal team has been progressing its reliability program that was outlined at the Investor Day. This program includes bringing stored rolling stock back into active service, to meet volume growth in CQCN and making investments in rolling stock for Hunter Valley growth.

We've been progressively investing to meet growth demands. In the Hunter Valley, since FY2017 we have invested over $110 million in rolling stock, to meet volumes both from new contracts such as MACH Energy, but also increased volumes from our existing customers, such as Whitehaven. As well as investing in new rolling stock, we have been able to recycle locomotives from the Intermodal Interstate business into the Hunter Valley.

I'm also pleased to announce that we have recently approved two new consists of 106-tonne wagons for the CQCN. This is the first investment in new wagons for this region in nearly a decade and supports our view of coal demand growth. The 264 wagons will progressively go into service during 2020 and will support additional tonnes from existing customers. This investment is a signal of Aurizon's willingness to support our customers' growth ambitions.

The haulage market remains competitive and the coal business continues its work on building competitive market offerings for new and existing customers. The coal business is focused on delivery performance, as this is where contracts can be won or lost.

While pricing is tight, we've been able to win contracts by not necessarily being the lowest in price, but rather by being more innovative and flexible on operational terms. Not only are we tailoring solutions to meet specific customer requirements, we are seeking early

renegotiations where this makes sense to do so.

Coal is continuing its work to drive operational efficiencies through targeted investment in technology. Automated scheduling software has been implemented in the coal planning team across the CQCN and has released around 20 to 25 services per week, through more efficient scheduling.

In addition, Coal is investing in a workforce planning tool that will drive efficiencies in crew footplate, train crew utilisation and reduced car travel, just to name a few of the benefits.

These investments in technology will enhance asset utilisation and assist in preserving margins in this competitive haulage market.

Moving to Bulk. The Bulk business continues to deliver improving results through its turnaround program. There has been contracting success in the half with the contract that came as part of the sale of Queensland Intermodal to Linfox. As part of the deal, Bulk has taken ownership of the Queensland Intermodal locos, with Linfox owning that wagon fleet. This is a great example of Bulk leveraging its capability and core strength, as it will provide the linehaul services to Linfox through a commercial 10-year arrangement.

Bulk has also recommenced the Glencore Freighter on the Mount Isa line, with a new commercial offering that underpins the efficiencies and operational improvements that have been achieved since moving to the business unit structure.

As we've highlighted previously, the Mount Gibson haul ceased in line with the end of both the contract and mine life in January, and the GrainCorp contract will cease later this year.

Through the turnaround program further progress has been made in the half, through labour productivity initiatives, which have seen Bulk deliver additional services in the East, with a minimal increase to FTEs. These initiatives include driver-only operations on some services, roster consolidation and improved crew scheduling and planning. In the West the team have driven efficiency through the outsourcing of non-core operations, including moving some trucking services to third parties.

In addition to the turnaround program, the Bulk team is also focused on growing revenue and volumes, in order to build a sustainable business for the long term.

Turning now to Network. As I've said before, we've been pursuing multiple ways to reach an appropriate UT5 outcome, and while there has been positive engagement, resolution remains a work in progress. Engagement with customers and our stakeholders continues, although no agreement has been reached.

On the regulatory front, the final decision issued by the QCA in December provided a 6% increase, compared to the draft decision, including an improvement in the weighted average cost of capital. This is positive, but still short of where we believe the appropriate revenue and return should be.

We've aligned our financial accounts this half to the final decision, including recording half of the $61 million true-up that relates to FY18, with the balance to come in the second half. The next milestone in the QCA process is 18 February, being the date by which submission of a UT5 undertaking conforming to the final decision is due.

Turning now to an update on operational efficiency improvements. As we highlighted at the Investor Day, while we have not set a new multiyear transformation target, ongoing operational efficiency improvement remains a key driver for the achievement of our strategy.

You will see on this slide we have highlighted four of the key initiatives that are ongoing in the enterprise now. The Precision Railroading Initiative is a program of works that is being led by myself, with the objective of driving precision planning and disciplined delivery with the aim of improving on-time arrival and departure time of our services.

One of the benefits is the release of pathing to the system, through scheduling reviews with the aim of improving scheduling efficiency. Releasing paths has the benefit of increasing capacity for all users and can allow above rail operators to more effectively catch up services where they may be impacted by weather or other events.

The restructure of our support areas commenced during the half. The objective of the restructure is for our support areas to provide more innovative, flexible and lower cost services to the business units.

In our Technical Services and Planning area approximately 170 roles have been removed, with a further 170 roles being reappointed to the business units. This is expected to drive further synergies as the teams are integrated into their new structures.

We are on track to meet the $20 million cost reduction target set for FY21.

We continue our investment in technology with the expansion of condition monitoring plans for the Hunter Valley. This is expected to unlock efficiencies in our Hunter Valley maintenance, as we have done in Central Queensland, through predictive maintenance practices. We already have the equipment and are expecting to install this later in 2019.

On the European Train Control Systems program, or ETCS, the trial of the technology is in

development and expected to occur in 2019. ETCS supports driver behaviour to make our operations safer and more efficient and has the potential to expand driver-only operations in Central Queensland in the future.

Moving to the enterprise agreements. At the Investor Day I outlined that the renegotiations of our EAs was a key objective under the optimise lever. Negotiating multiple agreements can be complicated, but it is normal business for a company like Aurizon, which has a high proportion of unionised employees. We are coming off agreements that provided above CPI increases of 4% per annum, and one of the key objectives of the renegotiation was to better align our agreements with the market.

We are not seeking fundamental changes to the conditions. The majority of the changes are aimed at securing agreements that are more flexible, simple and responsive. In addition, we're seeking alignment to each of the business units in meeting their objectives.

Over the last six months, we've completed bargaining on three of our EAs. Two remain subject to approval from the Fair Work Commission and the Queensland Staff EA received approval in January. This is in addition to the West Australian Rollingstock Maintenance agreement, which was approved last year. Wage uplifts agreed were between 1.5% and 2.5% in these agreements.

The agreements outstanding are the three Queensland ones, being Coal, Bulk and Infrastructure. Bargaining is progressing, but there has been some industrial action, which is an unnecessary and an unfortunate part of the process. We've managed the impacts well across the business, but it does slow the process down. However, the Infrastructure EA is more progressed, and we recently put this to ballot, with the results expected this week.

Moving to Intermodal. On Intermodal, we have already executed the closure of the Interstate business, which removed the majority of the losses. This allowed the cascading of locomotives to support the growth in the Hunter Valley coal business.

In August 2018 we announced the termination of the business sale agreement for the Queensland Intermodal business. We subsequently executed an agreement with Linfox in October for the sale of Queensland Intermodal, including all freight forwarding pick-up and delivery assets, rail wagons, customer contracts and access to terminals. This contract completed on 31 January 2019. This was a positive outcome, as it provided ongoing employment for approximately 310 Intermodal employees, who were either transferred to Linfox or Aurizon Bulk and avoided significant closure costs for Aurizon.

As I highlighted earlier, it also resulted in the execution of a 10-year commercial take or pay contract for Bulk to run the linehaul services and some terminal services for Linfox.

The last remaining piece of Intermodal is the Acacia Ridge terminal and the transaction to sell to Pacific National remains subject to Federal Court ACCC proceedings that are adjourned until later this month. This asset remains under Aurizon ownership and operation until the Court makes its determination, which is expected later this year.

Should the Court make a determination that the sale transaction cannot proceed, Aurizon will consider all options available to it, one of which is continuing to hold the asset. The Acacia Ridge terminal made a small profit in the half and is forecast to continue as a profitable going concern.

Now I will hand over to Pam.

Pam Bains: Thank you, Andrew, and good morning to everyone on the call.

As a reminder, the results I will cover today are based on the continuing operations, hence exclude Intermodal, which is classified as discontinued. I will provide an update on Intermodal a little later.

The FY19 half year result is very much in line with expectations. Whilst the overall result is lower than the prior period, this should be no surprise, as it represents changes communicated during the FY18 results for each business unit and accounts for the impact of the UT5 final decision. We continue with our disciplined approach to capital management, with CapEx tracking in line with expectations, strong free cash flow, and a 100% dividend payout.

Moving to the detail, underlying EBIT has decreased 16% against prior year, impacted by the UT5 final decision in Network and the cessation of the Cliffs contract in Bulk, offset in part by an improvement in costs.

Revenue decreased 7%. The UT5 final decision was issued by the QCA in December of 2018. In this half we have booked revenue in Network, based on the final decision and have taken 50% of the true-up in relation to FY18, with the remainder to be booked in the second half.

As Andrew highlighted, this represents the low case in terms of revenue outcomes, and what could be owed to customers for FY18. We believe the most prudent course of action was to account for the final decision now, as the longer we wait, the greater the potential true-up due to customers and consequential impact to the P&L.

We have taken the FY18 true-up adjustment above the line, as the revenue was originally booked in underlying earnings in the prior period.

Revenue was also adversely impacted by the cessation of Cliffs. Operating costs reduced $37 million, largely due to lower access costs, with some customers in Coal moving to end user access agreements and reduced fuel and energy costs. This was partly offset by increased consumable costs in Coal and Network.

Net profit after tax has decreased by 19%, broadly in line with the reduction in EBIT. The Board has declared an interim dividend of $0.114 per share, franked to 70%.

Moving to Coal. EBIT decreased $13 million to $210 million. Volumes have decreased in CQCN, reflecting supply chain constraints, adverse weather and the impact of protected industrial action, which took place in December. New South Wales and southeast Queensland volumes were flat, with additional growth volumes largely offset by one-off events being protected industrial action in August and December and a third-party derailment in Newdell in September.

Revenue quality has improved with decreased contract utilisation and CPI escalation impacts.

The $4 million reduction other revenue represents the transfer of internal work trains from Coal to Bulk, principally for Network maintenance trains, where Above Rail provides the crew and locomotives. As an internal service, there is no impact on Group EBIT.

Operating costs, net of fuel and access, have increased $11 million over the half. I outlined at Investor Day and FY18 results an expected increase in costs for the Coal business for FY19. As a reminder, these costs represent, firstly, with the new contract secured in 2018, there is a ramp-up process where resources and assets are deployed before rail links commence, and secondly, with new rolling stock in the Hunter Valley and the reinstatement of rolling stock in CQCN, there will be an uplift in maintenance cost during FY19.

We are seeing the impact of these costs in the half. This has been offset in part by lower one-off costs incurred against the prior period and redundancy costs, which are now reported in the other segment.

Depreciation has increased $5 million, in line with the increase in fleet, including the transfer of locomotives from the Intermodal Interstate business.

So overall, a result from Coal in line with expectations and guidance we provided in

August. We expect maintenance cost to remain higher during the second half of the year. That will keep EBIT flat on higher volumes and revenue.

With increasing fleet in both the Hunter Valley and CQCN, we expect a moderate increase in maintenance into FY20, however, with Coal's investment in rolling stock, delivery of ongoing operational efficiency improvements and increased growth volumes, we expect EBIT growth in FY20 and beyond.

Moving to Bulk. Bulk's underlying EBIT decreased $6 million to $14 million, largely due to the cessation of the Cliffs iron ore contract in June of 2018. Removing the impact of Cliffs, Bulk revenue has increased $10 million in the half, from volume growth across a number of customers both in the east and west.

Bulk East is seeing the benefit of MMG operating for a full half, where it commenced late in the prior half. The Glencore Freighter service commenced this half on the Mount Isa line and Bulk East benefited from the internal services that have been transferred from coal.

Bulk revenue per NTK increased predominantly due to the cessation of Cliffs, with this being the longest haul in the bulk portfolio, and typically, longer hauls will have a lower revenue per NTK.

Operating costs, net of Cliffs, have improved, with continued efforts to drive cost out of the business. Impairment represents the sustaining capital written off in Bulk East, which is reported in operating costs. This was higher than the prior period, due to the completion of a loco overhaul program.

We expect the second half performance for Bulk to be lower as a result of Mount Gibson ceasing in January of 2019, the ongoing impact from the Cliff cessation and the impacts from the recent flooding event in North Queensland. This will be partly offset by new volumes and ongoing operational efficiencies.

So overall, a good result for Bulk, which demonstrates the work the bulk team are executing on the turnaround.

Moving to Network. As I highlighted earlier, regulatory access revenue has been booked, based on the UT5 final decision. EBIT has decreased $46 million or 18%, largely due to the decreased revenue with the UT5 final decision. Volumes were broadly flat on the half, at 116.5 million tonnes. Total revenue has decreased $51 million. This includes recognising 50% of the true-up to the UT5 final decision for FY19 being $30 million.

There is a further reduction of $24 million, representing the MAR decrease from

transitional tariffs to the UT5 final decision for FY19. This has been partly offset by a positive revenue cap impact in the half of $33 million. The other revenue reduction of $15 million on the bridge principally relates to the recognition of the Caledon Bank guarantee in prior period and the reduction in GAPE revenues, which included its own UT5 final decision true-up.

A reduction in EC revenue has been offset by lower EC expenditure and this has been netted off against operating costs in the bridge.

Total costs, including depreciation, have increased by $10 million, with increased consumable costs, mainly due to higher maintenance costs, from increased track stability works, and track inspections, focused on reducing speed restrictions and higher legal and professional services costs. Increased labour costs, primarily due to salary escalation, increased depreciation of $7 million, largely related to ballast. This is offset by a decrease in fuel and energy costs net of EC pass-through.

In relation to outlook for FY19, until the QCA approves a UT5 access undertaking, there is some uncertainty around the treatment of any true-up. We have provided a range of Network EBIT scenarios, based on various revenue true-up recognition alternatives.

This ranges from a low scenario of $380 million, where revenue is based on the UT5 final decision and the full FY18 true-up of $61 million has been taken in FY19, to a high scenario, of $485 million, which assumes that Network remains on transitional tariffs for the whole year. Each scenario assumes no volume variance. We've provided more detail on slide 77.

Moving to Intermodal, which, as a reminder, is treated as a discontinued operation. As you can see, Intermodal generated an EBIT of $6 million in the half, a significant improvement against the prior period, due to the closure of the loss-making Interstate business in December of 2017.

The sale of Queensland Intermodal was completed last month, and Aurizon received $7 million consideration on settlement. The total loss on sale is approximately $30 million and has been largely recognised this half. As Andrew highlighted, the sale was an excellent result for the Company, with the majority of Intermodal employees retaining employment. It also provides a new commercial haulage contract for our Bulk business and avoided $30 million to $40 million in closure costs.

The remaining Intermodal asset in the discontinued segment is the Acacia Ridge terminal.

This is a profitable asset, which generated a small EBIT in the half. The terminal has a current book value of $37 million. Should the transaction to Pacific National proceed, we will record a significant gain on sale for this asset at the time of settlement.

Looking at capital expenditure. Capital expenditure for the half totalled $223 million and the guidance range for FY19 remains $480 million to $520 million.

Growth capital of $22 million largely relates to the purchase of new Coal rollingstock, to support growth in the Hunter Valley. Non-growth capital includes the purchase of a replacement rail grinder to support the renewal of the ARTC 10-year rail grinding contract.

As Andrew highlighted, we've approved two new consists of 106-tonne wagons to support volume growth in CQCN. Total capital investment in relation to the wagons is approximately $60 million, and we expect this investment to occur across FY19 to FY21. In relation to FY20, our expectation is non-growth capital of around $500 million for the year.

Moving to cash flow. Free cash flow for the continuing operation has improved by 8%. This is largely due to the receipt of the termination payment from Cliffs this half. In Network we've been billing customers based on transitional tariffs. We will continue to bill on transitional tariffs until there is an approved access undertaking in place. Accordingly, there will be a lag between EBIT and cash flow until UT5 is finalised.

The interim dividend has been declared at $0.114 per share, which is a reduction of 19% against the prior period. This represents a payout of 100% of net profit after tax for the continuing operations, something we have continued since second half of FY15.

We spoke about the option to smooth the dividend six months ago, given the likely lower earnings in UT5. We chose not to smooth as the outcome was not known and we felt this was inconsistent with our capital management strategy. Reflecting the final decision in our accounts this year maintains our dividend at 100%, consistent with our strategy, as the lower earnings has the effect of smoothing the dividend without altering the payout ratio.

Finally, before I hand back to Andrew, an update on funding and gearing. We have previously advised that we would be looking at our legal entity and capital structure. This work has commenced. Our current legal entity structure is a legacy from IPO, and reflects the structure at that time, rather than one suitable for a listed company. It limits flexibility and is not completely aligned to the underlying assets, for example, Aurizon Network is a subsidiary of Aurizon Operations.

The work that we are currently undertaking will look at opportunities to optimise the Group's structure. The legal entity and capital structure review is not connected with the work that is under way around the integrated structure. That work is continuing and we - as we highlighted previously - we will advise on an outcome at the end of FY19.

On other funding matters, during the half we cancelled existing bank debt syndicated facilities for Above Rail expiring July 2019 and July 2020. We have replaced them with bilateral bank debt facilities totalling $450 million with maturity extended to November 2023. Moving to bilateral debt facilities allowed Aurizon to take advantage of competitive pricing in the market at the time of refinance and provided flexibility for funding opportunities in the future.

Interest costs remain 4.5%, with approximately 90% of Group debt hedged in line with the UT5 regulatory period.

On credit rating, at the half - the full year '18 results I outlined that the UT5 draft decision did not meet Moody's credit metrics for Network. Subsequent to this, Moody's lowered its FFO to debt threshold to 13%. This now means, with the improved final decision, this supports both Moody's and S&P credit metrics for Baa1 and BBB Plus. For the Group there is limited headroom in our credit metrics for FY19, due to earnings being lower however, the expected earnings growth next year results in a comfortable buffer for FY20 and beyond.

Thank you. I'll now hand back to Andrew.

Andrew Harding: Thanks, Pam.

Turning now to the financial outlook for FY19. In August we provided guidance for the Non-Network business of $390 million to $430 million, excluding redundancy costs, and today's results place us comfortably within the range, provided there are no material weather or industrial action impacts.

For Network, although we have the final decision and we have recognised this in our accounts at the half, until the QCA approves a UT5 undertaking, there is uncertainty around the treatment of any true-ups, therefore we have not provided guidance for Network, but as Pam indicated, we have shown the range of scenarios on slide 77 to help investors.

Key assumptions in relation to the Above Rail are as follows. For Coal it assumes higher volumes in the second half, offset partly by increased maintenance and operating costs.

Coal volume guidance for the year remains 215 million tonnes to 225 million tonnes. For Bulk, we expect lower second half earnings with the cessation of Mount Gibson in January and the impact of the recent flood events in North Queensland. Ongoing delivery of operational efficiency improvement across the business and no major weather or industrial action impacts beyond that already referenced.

Finally, on to a summary of key takeaways. Before moving on to some questions, I wanted to provide you of a summary of what you have heard and how Aurizon is continuing to deliver on its promises.

The results are positive, with no surprises, and the Company continues to focus on shareholder returns, with dividends being paid at 100% of underlying NPAT.

UT5 remains a work in progress, with an improved final decision and continuing engagement with customers and stakeholders, but no outcome as yet.

We are continuing the work we have executing since IPO to improve the operational efficiency of the business. This is necessary to create sustainable value through improvements in how we manage our costs and assets.

On the EAs, two agreements have been finalised and two are awaiting approval from the Fair Work Commission. We've also put the Queensland infrastructure EA to ballot and bargaining continues for the Queensland Bulk and Coal EAs. In the finalised EAs we've been able to secure agreements that are better aligned to current market conditions.

The Bulk turnaround continues to generate momentum and the first half has been a good result for the team and evidence that the turnaround plan is gaining traction. This places the business on a strong footing to drive its growth agenda.

On Coal, first half performance is in line with expectation, given the work the business is doing about improving capability and reliability of the fleet. We are investing in growth, both in the Hunter Valley and Central Queensland, and taking steps to secure the long-term contract book. Volume growth and operational efficiencies are forecast to grow EBIT in the Coal business from FY20.

Finally, on Intermodal. We have stemmed the losses through the closure of Intermodal Interstate and the sale of Intermodal Queensland. Acacia Ridge is the remaining asset in the portfolio, and we are hopeful this transaction is resolved over the coming months.

Thank you. Now I'll hand over to questions.

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 are on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Anthony Moulder from CLSA. Please go ahead.

Anthony Moulder: (CLSA, Analyst) Good morning all. Maybe if I can start with the Network UT5. Given how far away that decision is from your expectations and you calling out some of the - how they came to that decision as being fundamentally flawed, why no judicial review was undertaken of that final decision.

Andrew Harding: Thanks, Anthony. I will hand that over to Michael Riches for an answer.

Michael Riches: Thanks, Andrew. I think importantly, when considering the judicial review of the final decision that was made in December, we looked at the necessity of providing certainty for our investors for - and our customers, and as a consequence, decided that at that time a judicial review of the final decision wasn't an appropriate response.

Anthony Moulder: (CLSA, Analyst) I'm a bit lost - given how significant it was, why decide that certainty, given the difference? Given that we're talking about hundreds of millions of dollars and this could potentially have an impact through UT6, UT7, et cetera. I appreciate the certainty for this period, but aren't you playing a longer game, as far as ensuring that future decisions are not based on such a poor process?

Andrew Harding: Michael, I think you might want to talk about the 18 February [unclear]?

Michael Riches: Yes, sure, I mean, we obviously have to respond to the final decision by 18 February and we will do so at that point in time. It's not appropriate at the moment to discuss exactly what that response will be. Ultimately, it will be based on our assessment of what are the impacts for the business longer term and what are the needs for certainty, going forward.

I think it is important to recognise that we do look at UT6, UT7, and as does the QCA, and they've clearly indicated it in UT5 to be independent and separate decisions, going forward, so I don't think you should draw any conclusions that a UT5 outcome will be reflected or replicated in UT6.

Anthony Moulder: (CLSA, Analyst) Yes, one would hope not. Michael, while you're there - changed network maintenance practices, you've talked to the impact that that has in the latest - the previous half, but given Network volumes are flat this half on first half '18, in

which there was no impact on maintenance practices, how should we think about the impact that you've had this half, from those maintenance changes?

Michael Riches: Yes, I think volumes are affected by multiple factors. One of them being our maintenance and operating practices, weather and other supply chain constraints. Accordingly, it's difficult to predict the effect that one single factor has on tonnages. What we have done and will continue to do is always align our maintenance and operating practices to the regulatory environment, which is why we responded to the draft decision.

As that regulatory environment has changed with the QCA May consultation paper and then finally the Final Decision in December, we have progressively modified those practices, and I think volumes, although flat, compared to the first half of last year, probably are less affected by the maintenance practices than they would have been in the second half of FY18.

Anthony Moulder: (CLSA, Analyst) Can you quantify that impact in this - in the first half '19?

Michael Riches: It's too hard. What we have discovered through this process is you can give an indication, but with all of the other factors, particularly the weather events we've had, other supply chain constraints, it's too difficult to identify exactly what the impact would have been.

Anthony Moulder: (CLSA, Analyst) Okay. All right, thank you for that. Lastly, if I could, the redundancies taken in the half are obviously not split by division. How are you looking at redundancies for this coming half, the second half of fiscal '19, please?

Andrew Harding: Anthony, I'll get Pam to answer that.

Pam Bains: Anthony, we haven't - we deliberately provided guidance excluding redundancies. It very much depends on where the changes will take place, to be able to give you a business unit view, going forward.

Anthony Moulder: (CLSA, Analyst) But just the quantum? Is it…

Pam Bains: Again, the reason we provided guidance excluding it is because there's obviously - we don't have that clarity. It'll depend on the transformation work that takes place in the second half.

Anthony Moulder: (CLSA, Analyst) Okay. Understood. Thank you very much.

Operator: Thank you. Your next question comes from Jakob Cakarnis from Citigroup.

Please go ahead.

Jakob Cakarnis: (Citigroup, Analyst) Morning, guys. First things first, can you just give some update on the progress for the EBAs for Queensland Coal and Bulk? I know that you mentioned that you're almost done for Infrastructure, but I will note that those two outstanding divisions or segments there, Coal and Bulk in Queensland, are about 40% of the workforce and there's been ongoing negotiations from August and September last year. Can you just provide us with a little bit of colour, where they're at? Appreciate that there's bargaining ongoing there, but just some colour as to expectations there, please?

Andrew Harding: Sure, Jakob. What I'll do is, because the bargaining covers a number of areas in the business, I'll get Tina Thomas, who has human resource responsibility to answer the question.

Tina Thomas: Yes, thanks, Andrew. As Andrew said, four of our EAs are now complete, or with Fair Work for approval. The Infrastructure EA is out for employee ballot and we'll get a result on that this week. The final two that you mentioned, Bulk and Coal, we're actually bargaining this week for Bulk and Boal next week, so we are looking to progress that bargaining with the unions and bargaining representatives. So, we're very focused on continuing to bargain in good faith, and as I said, we've got some scheduled for next week.

The key aim for that bargaining is to achieve outcomes in line with market rates - and as Andrew said, some of the EAs that we've already completed have achieved that - but also to strike the right balance between the hours of work - so getting certainty for our employees, as well as flexibility for our operations and our customers.

That's really where they're at. We're continuing to push bargaining and to work with union reps and bargaining reps and engaging our people.

Jakob Cakarnis: (Citigroup, Analyst) Is it possible, Tina, that you just give a little bit more colour on where the push points are? Just given how long the negotiations have been going on?

Andrew Harding: What I might do is I'll get the individual executives responsible for the areas, because there's different points in different areas, so Clay, I might get you…

Clay McDonald: Yes, I might start with Bulk. For us, Jakob, we're looking at - we've got two employment entities within the one business, so our EA really is about bringing those two employment entities together, under the one set of conditions, because you could imagine the difficulty in rostering and deploying on the same line, crews under two

different employing entities.

So a lot of our focus in negotiation is around bringing those two together and that's not unscrambling the egg, either. It's a lot simpler than that. We think we've had some good progress in bargaining. We've got bargaining this week, as Tina outlined. We can see progress in the near future in bringing those two employment entities together under the one agreement for Bulk.

Andrew Harding: Okay. Ed.

Ed McKeiver: Yes, hi Jakob. Ed McKeiver. From a Coal perspective, the key terms, as usual, relate around hours - what we call hours of work provisions, and some core - probably arguably core conditions. There's also the matter of a shift - the definition of a shift worker with our particular - with our maintenance employees in particular, which is one of the key issues yet to resolve.

By hours of work, I mean essentially the way that employees are rostered, and they're called into work and the changes to those rosters that are allowed. As Tina said, our employees seek certainty of their hours of work so they can plan their lives - which is completely reasonable - and at the same time, we need the right amount of flexibility so the Company can manage the variance in relation to daily train services.

Jakob Cakarnis: (Citigroup, Analyst) Sure, thanks for that, guys. A related follow-up then. In the operating cost notes for the Coal division there was around $5 million additional for staffing costs and the note alongside that noted that that was in line with additional volumes. All that considered now, with what's going on with these negotiations and then the flex that you need in the workforce, can you just tell us how that flows through operating costs, if volumes are to be around the guidance? Particularly elevated guidance for the second half of '19, on Coal volumes?

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

Ed McKeiver: Yes, there was a fair bit in that question, Jakob. I'd - one of the large drivers of the costs - for the labour costs that you're talking about, in the 4D are the onboarding of new resource people for our growth volumes and necessarily that is done ahead of the volumes coming online, so as you're probably well aware, we've continued to bring new business online over the last year or two and in this particular half it was Baralaba Coal and obviously MACH Energy in New South Wales.

The other aspect there is the CPI increase, necessarily, that's flowed through and that's -

which is also impacting in the maintenance area.

Probably not as obvious is the impact of the network constraints in CQCN. The practical outcome of tuning the system for lowest maintenance costs and other changed practices, is essentially to make it harder to get the pathing, which slows our trains, which means they move slower and we burn more labour resource and overtime, in order to deliver the same or less services. So that's…

Jakob Cakarnis: (Citigroup, Analyst) Sure. Thanks, guys, that's good colour. Thank you.

Operator: Thank you. Your next question comes from Simon Mitchell from UBS. Please go ahead.

Simon Mitchell: (UBS, Analyst) Good morning. A question on revenue performance in coal - perhaps one for Ed. Net revenue per NTK up 5% during the half, which is a much better performance than what we've seen in recent years. Please go into a bit more detail on what's driven that and how we should be thinking about that as we see some of these new contracts roll through the business.

Ed McKeiver: Yes. Thanks, Simon. Yes, despite the reduction in volumes, the revenue increased largely on the back of on - by $13.3 million, compared to the previous comparable period, largely driven by higher fuel charges, of $13 million and some contract price escalation associated with CPIs and our contract terms, in the order of about $10 million.

Simon Mitchell: (UBS, Analyst) Okay, and how should we be thinking about that, as the new contracts roll through?

Ed McKeiver: Are you - could you just reclarify the question please?

Simon Mitchell: (UBS, Analyst) There's a number of new contracts in Coal you just talked about that you've already started and are starting over the course of this year. How should we be thinking about that revenue per NTK as those contracts ramp up?

Ed McKeiver: There's absolutely a yield benefit that flows from lower contract utilisation as Pam had said, so there'll be an adjustment to that as we see our contract utilisation lift during the second half, but my sense it will normalise largely in line with previous comparable period.

Simon Mitchell: (UBS, Analyst) Okay. Just a question for Pam on - just regarding your comment on slide 21, around credit metrics and gearing. You've mentioned limited

headroom this year and increasing headroom 2020 onwards. Can we just confirm that that - that those comments apply at 100% dividend payout ratio, or is that - has it been modelled at a lower rate?

Pam Bains: It assumes 100% dividend payout ratio, Simon.

Simon Mitchell: (UBS, Analyst) Okay. Thank you. Just also on that slide, your comments about legal and capital structure. Are we to assume that this is purely around flexibility, or is there actually a negative cost to the business of the current structure continuing?

Pam Bains: Just - thank you for the question. I just want to emphasise up front that we are looking at structure from a technical legal perspective and it's not a change in our business unit structure. Again, I - just to avoid any confusion. It is the benefit of reviewing the structure is around greater flexibility and establishing an optimal structure, moving forward. So we should have a further update for you at year end results, in terms of the outcome.

Simon Mitchell: (UBS, Analyst) Okay. Thank you.

Operator: Thank you. Your next question comes from Owen Birrell, from Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys. A few questions from me. Just looking firstly on the accounting treatment for the below rail and how you've noted that you've conformed it with the final decision. Just looking at the scenarios that you've outlined FY19, is it fair to say that the accounting treatment has been aligned with the scenario three?

Pam Bains: Yes. The $380m - the lower end.

Owen Birrell: (Goldman Sachs, Analyst) Okay, but it's, as you say, it's not - we could see some adjustment to that, depending on how the actual decision comes out?

Pam Bains: The adjustment - as I touched on - it excludes any volume variance, so naturally you get a volume variance each year, so it depends on how the railings go in the second half and then as Michael touched on, any final outcome.

Owen Birrell: (Goldman Sachs, Analyst) Yes. Okay. You make - there's comment around how you're continuing with the stakeholder engagement. Given the - but you - given that you have to conform with the final decision, I'm just wondering, what are you hoping to achieve out of that stakeholder engagement? Is it a bit of flexibility? Where can you get

some adjustment?

Andrew Harding: Michael, I might get you to talk through that stakeholder engagement.

Michael Riches: Yes, thanks, Owen. I think generally what we're looking for is a better outcome holistically for the industry and for Aurizon network. The detail is matters that are still under discussion and so it wouldn't be appropriate for me to comment on that, but discussions are continuing, although no agreement's yet been reached.

Owen Birrell: (Goldman Sachs, Analyst) One thing that you've spoken about historically is around performance benefits. If you guys can outperform the structure that you'd be able to share in some of that benefit. Is that included within this engagement, in terms of trying to define what that is? Or is that a UT6 issue?

Michael Riches: Owen, as I said, I think at this stage of the discussions it's just not appropriate to comment on that detail.

Owen Birrell: (Goldman Sachs, Analyst) Okay, no problem. Just finally, you've mentioned a lot of investment in growth CapEx for rollingstock in the Hunter Valley and positioning that New South Wales business for increased growth. I'm just wondering if you had any comment around the decision from the New South Wales Lands and Environment Court that we've seen on Gloucester Coal, which effectively caps any new market growth, either replacement or new mines. If that comes to pass is that going to change your view on the New South Wales market?

Andrew Harding: Ed, I might get you to talk about the coal decision.

Ed McKeiver: Yes, thanks, Andrew, and thanks for the question, Owen. I've not read the judgement personally, Owen, and I'd prefer to refer - to avoid commenting on specific companies or their prospects.

From our perspective, we have - we believe in the long-term prospects for Australian thermal coal exports. I mean our coal is among the best quality in the world and it's well-positioned to meet the growing Asian demand, so we'll stay focused. There are different mines that have different prospects and we've seen other headwinds for some of these projects, subject to review, of course, but we'll stay focused on our delivery performance and our own sustainability for the long term.

Owen Birrell: (Goldman Sachs, Analyst) Can I get a sense of what you expect long term growth for New South Wales coal exports to be, going forward.

Ed McKeiver: Yes, I'll take that question. Again, we - our - there are some good material in the back-up materials, I think around pages 56, 58. Our view is that the long-term outlook for coal exports from Australia is a 2% CAGR. Of course that's - it's a lumpy - and that's broadly both in met coal and particularly in thermal coal, as some of the existing reserves expire in the mid-20s, there'll be continued growth.

So it's lumpy - and we've seen that with the MACH business coming online and the Byerwen business obviously. We remain positive about the outlook and in line with that long-term growth.

Owen Birrell: (Goldman Sachs, Analyst) Okay, thanks.

Operator: Thank you. Your next question comes from Rob Koh from Morgan Stanley. Please go ahead.

Rob Koh: (Morgan Stanley, Analyst) Yes, good morning guys. Can I just as a process question about UT5? I take on board your comments about the sensitivities, but just for the submission that you need to make before 18 February, what should we be looking for, in terms of process after that? Does the QCA just then basically rubberstamp your submission, or is there a bit of argy-bargy after that?

Andrew Harding: Michael, do you want to just talk through what you can about the process?

Michael Riches: Yes. Look, it will be very dependent on what our submission is on 18 February as to the process, but I think there's a general recognition that trying to get something completed sooner rather than later would be preferable for all parties, and I know the QCA is very focused on ensuring they move their process as quickly as possible, but it will be dependent on the exact nature of what we submit on 18 February.

Rob Koh: (Morgan Stanley, Analyst) Okay. Yes, I'm probably pushing the boundary of what you're going to submit, but is there a matter that you could submit that would then cause further dispute? I mean, if you basically just submitted the final draft, then the QCA would probably approve things pretty quickly, right?

Michael Riches: I think that second statement is a fair assumption, yes.

Rob Koh: (Morgan Stanley, Analyst) Yes. Okay. No worries. All right, then just another quick one, just possibly to Pam on the legal capital structure review. Apologies if you've said this before. Does that include optimisation of tax structuring? Is there any - anything we should be thinking about on that front?

Pam Bains: It'll include looking at everything associated with the structure.

Rob Koh: (Morgan Stanley, Analyst) Okay, right, so if you did need to move things around, then you'd - part of the metrics of your decision would be CGT events and the like, is that fair?

Pam Bains: We'll take absolutely everything into consideration, before we put in changes.

Rob Koh: (Morgan Stanley, Analyst) Yes. Understood. All right. That's it for me. Thanks very much.

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

Ian Myles: (Macquarie Group, Analyst) Hi. Just a couple of quick ones. Just on the volume risk for FY19 on Network, given you're making the application to the QCA is there a point the you might not have to take the volume risk of between forecast and actual? That you can eliminate that in the process?

Pam Bains: There's always that possibility, Ian, as we've done in the past, sometimes they do reset the volumes and the adjustment is to the MAR. Again, it's hard to predict without a view from the regulator.

Ian Myles: (Macquarie Group, Analyst) Is there a precedent of which way they've done it, typically?

Pam Bains: Precedent is probably a strong statement, in that there's always been something different in previous decisions, so difficult to say at this stage.

Ian Myles: (Macquarie Group, Analyst) Okay. In the EBA negotiations are you trying to achieve a net outcome of a flat overall cost in labour? I appreciate you're obviously growing or changing shape as a business, but on a standalone basis, the CPI price being - trying to be offset by that product or efficiency or flexibility requirements you're getting?

Andrew Harding: Yes, Ian, I'll get Ed just to give a quick response to that.

Ed McKeiver: Yes, Ian, in short, that's exactly what we're trying to target. We're looking for moderate change, not fundamental, and certainly in real terms, for our people.

Ian Myles: (Macquarie Group, Analyst) Okay. I'm going to push my luck here. In terms of the progress, you talked about splitting consideration of the businesses. I know - I appreciate you haven't reached conclusions or anything like that, but are you seeing any early indications of maybe a better consideration of why the businesses should be

together?

Andrew Harding: Ian, I can confirm you're pushing your luck - but just to be quite clear, the work is under way and we will deliver the work in time to give an update in the middle of this calendar year.

Ian Myles: (Macquarie Group, Analyst) Okay. Thank you.

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

Scott Ryall: (Rimor Equity Research, Analyst) Thank you very much. Andrew, I wonder if I could ask a question on ROIC, first of all? In the full year the LTIs were dropped by about 150 basis points in terms of both the upper end and the lower end of the range for a three-year look-forward. Your ROIC, actually even with the draft - oh, sorry - with the final QCA decision is up on the first half last year, down on second half last year - and I appreciate it's a rolling 12-month number, so you can't see what the true impact was - of UT5 was.

Can you clarify for me please what would have been the ROIC for this period on a rolling 12-month basis, if you applied UT5 for the second half last year as well, please?

Andrew Harding: I will - I'll have to get back to you on that, Scott. I only barely followed your question, and I'm not able to answer it at this moment, so I'll get back to you.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. Then, the second question I had was I'm very conscious in a week's time you'll lodge a - well, that's your current deadline for lodging with the QCA. When will we be able to judge whether the really strong action that you took last year will be worth it, from a regulatory perspective?

In that if I look at slide 29 that you've provided, in the Excel column, which you had a dot next to, on one of the first slides, it's mostly about achieving regulatory reform, so are we to watch out for the announcement next week in terms of that regulatory reform - that's the critical thing to look out for? Or should - are there milestones, going forward that we should also be watching out for in terms of ongoing regulatory reform?

Andrew Harding: Scott, I might get Michael to follow up after my answer, but look, in my speech I was very careful to refer to 18 February as a milestone, so it is just a milestone in the scheme of things. I don't want to get too philosophical, but this is a long-term process and it will take some time to judge the events that have folded out and are likely to fold out - unfold - sorry. The reality is you have no alternative history to compare it with

neatly, unfortunately.

Those would be my high-level responses. Michael, did you want to add anything?

Michael Riches: Probably the only thing, Andrew, to add is, at all times we've said we'll align all of our maintenance, operating practices, our business decisions with the regulatory environment that exists at that time, and that was what we did when the draft decision came out.

We continue to progressively align what we do with the regulatory environment that exists, and in relation to reform, there is certainly a process that we are undertaking internally to look at the most effective regulatory framework for the CQCN and that will involve engagement with the regulator, with customers and other stakeholders, over, as Andrew said, probably an extended period, to get what we think is an appropriate regulatory framework.

Scott Ryall: (Rimor Equity Research, Analyst) What I'm struggling with though is what's an extended timeframe? I mean, is it - do you think UT6 is where things really come to a head? Is that…

Michael Riches: I think if you look at the time it takes to get fundamental regulatory reform undertaken, it is a process of years and not months. So it could be a timeframe in the early 2020s, I would have thought.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. That's led me on nicely also to the next question, which is the settings that are appropriate, as you say, to whatever the regulatory framework is at the time. Pam was talking about $500 million of CapEx - of non-growth CapEx in fiscal '20, but presumably, with a WACC of 5.7% it's irrational to spend anywhere near depreciation in the Network business, if that were to continue, so depreciation is not too far off that $500. How do you think about CapEx long-term and whether BBB+is an appropriate credit rating?

Pam Bains: I'll just make a comment on that. From a CapEx perspective, generally it a very - well, it is a sustaining CapEx from a Network perspective, so we're required to maintain the network - a safe network - at a certain condition, so the CapEx assumes no growth or expansions in the network in that $500 million.

Then, from a credit rating perspective, as I said, we will do the review that we're working through and again, we assess this on a regular basis, in terms of what's appropriate.

Scott Ryall: (Rimor Equity Research, Analyst) Right. Okay. All right, that's all I had.

Thank you.

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

Cameron McDonald: (Evans and Partners, Analyst) Good morning. Just a couple of follow-up questions. You've highlighted the outlook commentary doesn’t impact - or doesn’t have any weather impact at the moment. What - how long does Abbot Point need to be down for, or the floods have to - the clean-up impacting the operational performance of above rail start to bite? How long does that take?

Andrew Harding: What I'll do is I'll get Clay to talk about the impact in the Bulk business, where I think the majority of the flooding has impacted and then I'll get Ed to talk a bit about the Abbot Point. I would point out, as Clay talks about the Bulk business, it is his whole life, but that doesn’t mean it's a significant part of Aurizon, although we - it's an important part of Aurizon - financially, I'm talking about.

Clay McDonald: Yes, thanks Andrew. We've got a large employee and operating base in Townsville and up in the North Queensland area, so first and foremost, we're relieved to know that we've had no injuries of our employees in that region.

As far as operating - our operating structure goes, our depots sustained very minor impact, so we've reoccupied those depots late last week.

In regard to operations on the Mount Isa line, the below rail owner and operator, Queensland Rail, is still assessing the impact. A lot of that track is still inaccessible at this point in time, so they're assessing that impact and we'll know possibly mid to late this week on what the scope of works is, to bring that track back on at this point in time.

Like Andrew said, it's material to my team and to Bulk, but not material in a financial sense, to the Aurizon result.

Andrew Harding: Thanks, Clay. Ed, do you want to just talk - give an update on where we are with Abbot Point - or more broadly in the Newlands line?

Ed McKeiver: Yes, certainly. Thanks, Cameron. We've had a bit of a famine and feast this year, as you know, we've had a number of events that have found us into the second half with a - still within guidance, but I'd certainly point towards the mid to lower end of the guidance.

We - to finger your - put the finger on the point of your question, I mean our railings in the

system - we've got them actually detailed on page 51 of the background reading - approximately 10 million tonnes for the half. We typically rail between 50,000 and 60,000 tonnes in that corridor a day, so you can get a - you can probably run the numbers yourselves, in relation to what the impact will be of sustained outages in that system.

Cameron McDonald: (Evans and Partners, Analyst) Okay, that's great, thank you. Just a couple of more, if I can? You've mentioned the EBA process. How - once we - considering we get to a Federal election in the middle of the year, what is the profile of EBAs post that Federal election?

Andrew Harding: Tina, do you want to just talk about the length of the EBAs we've negotiated and are negotiating?

Tina Thomas: Yes. As we talked about earlier, there's three EAs left and they're - once they're complete, that really sets us up for this round of EAs will totally be complete. Most of our EAs have either been extended for three or four years - three in New South Wales and four across the rest, so that's why we're really focusing on the three that we've got outstanding at this stage.

Cameron McDonald: (Evans and Partners, Analyst) Okay, that's great, thank you. Final question, you have mentioned that you started to talk to customers about contract renewals. What has been their initial feedback, both in terms of price, service and service quality?

Andrew Harding: Ed, I will hand that over to you for a very high-level response.

Ed McKeiver: Right. Cameron [unclear], yes. Sorry, Cameron, could you repeat the question, please?

Cameron McDonald: (Evans and Partners, Analyst) Yes. Just what's been the initial feedback from the customers on contract renewals regarding price and service quality?

Ed McKeiver: Yes, so…

Cameron McDonald: (Evans and Partners, Analyst) And what they're looking for into the new contract?

Ed McKeiver: Yes. I'll respond in a general way. I mean, not surprisingly, customers want more flexibility, better service performance at a lower price, and within a more competitive marketplace, we've got to find a balance between those things and maintain a value-accretive business.

Yes, downward pressure on rates continues. I think this has come up at previous questions. We focus on - we continue to focus on our transformation and our cost base, preserve our margins, and try to listen to the customer and deliver a proposition that meets their particular needs in relation to particular operational flexibility.

Cameron McDonald: (Evans and Partners, Analyst) Okay. Thanks, guys.

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

Paul Butler: (Credit Suisse, Analyst) Hi. Thank you. I just wonder if I could come back to the original question about why no judicial review? In your response to that you said it was about providing certainty for investors or customers, but you made no comment about your view of the likely success of a judicial review. Do I take it you think that you would be successful there, or not?

Michael Riches: We have to - we have a response due on 18 February to the final decision and we'll make a decision at that point in time and based on that decision, I suspect you can draw your own conclusions as to how we view judicial review holistically.

Paul Butler: (Credit Suisse, Analyst) Okay. I know you're limited in what you can say about the negotiations, but you've said in the release that you're negotiating, or you're having discussions with all stakeholders. Is that on a one-on-one basis, or is that via the Resources Council? What are the mechanics of how that's working?

Michael Riches: Again, in the circumstances, it's not appropriate to provide that extent of detail, but it's fair to say we are having discussions with all relevant stakeholders.

Paul Butler: (Credit Suisse, Analyst) Okay. During the last six months you were still collecting the network revenue under the transitional arrangements. What was the level of over-collection in the past six months, compared to the final decision?

Pam Bains: I can take that one, Paul. Based on the half there hasn't been an over-collection to a material extent. It's a million, is the adjustment - $1 million.

Paul Butler: (Credit Suisse, Analyst) So $1 million of over? Or $1 million under?

Pam Bains: Over.

Paul Butler: (Credit Suisse, Analyst) Over. Okay. Then, just coming back to your review of the legal structure, you made a comment that Network is a subsidiary of Aurizon Operations. This is something I'm not particularly familiar with, but can you just - I don't

know if you can explain, what are the - what's the significance of that in terms of what the limitations are or what it doesn’t allow you to do? Is this things to do with debt capacity or alternative ownership arrangements?

Pam Bains: Yes, it does create - we have a credit rating, which can depend on the holdings level, how it's structured, so again, we will provide a full update in terms of the issues and also some other solutions in the full year results.

Paul Butler: (Credit Suisse, Analyst) okay. All right, I'll leave it there. Thanks very much.

Operator: Thank you. Your next question comes from Nathan Lead from Morgans Financial. Please go ahead.

Nathan Lead: (Morgans Financial, Analyst) Hey, guys, thanks for your presentation. Just interested in the above rail for the Coal part of the business. It sounded to me like most of that revenue growth came through from the fuel costs passed through.

For Coal, the contract capacity had actually increased in the period, so I suppose where I'm going with this is just wondering what happened to average pricing in the period, like on a contract to capacity basis? I think you used to produce a little chart in the back of the pack that split it between capacity charge and throughput and fuel and performance. I don't see it in there, so hence the reason that I'm asking the question.

Andrew Harding: Okay, Ed, I might get you to answer the question please.

Ed McKeiver: Yes, thank you, Nathan. Yes, there's a number of factors that drive obviously contract yield, as you know, Nathan. As I said, there's definitely downward pressure on tariffs when we do come to recontract. At the same time though, we've been able to keep ahead of the pace in relation to our costs - the UT5 environment we've just come through aside.

The other factor of course is that different contracts yield different revenue yields, and so depending on the mix of customer we rail for, that can also impact - impact the system. Finally, the other factor is, yes, we flagged some of the growth in FY19 - a large part of that was the MACH Energy contract, and of course, rather than the first quarter start-up, they'd had some troubles with their washery plant, which is now finished, so that pushed back by about approximately six months, so that's also part of - one of the factors.

Nathan Lead: (Morgans Financial, Analyst) Okay. While I've got you, could you just maybe make a couple of comments about contracts falling - maturing in the market with obviously your competitor or competitors? Where you guys are there?

Then with your existing contract to book, is there any contracts within there that you know have already been grabbed by the competitors out there? Or is looking like you've got the most of that FY21 to FY23 still available to recontract?

Ed McKeiver: In short, yes, mostly available and up for grabs. Our contract book's on 52 this year, as you can probably see.

Andrew Harding: Slide 52.

Ed McKeiver: Slide 52. So while we've had some ability to focus on growth in FY19, as we run into that '20, '21, '22 years, there's definitely opportunity.

Now, we've also been actively engaging with our customers that fall within those bars, in relation to recontracting. Well, I'm not at liberty to discuss the details of that on this call.

Nathan Lead: (Morgans Financial, Analyst) What about in terms of your competitor though? You have previously talked about how their contracts are supposedly falling due earlier than yours, and I thought you normally need to allow 16 to 18 months before those contracts expired to be able to - when the new contracts get awarded, to allow for new rollingstock et cetera to get built. Can you give a bit of an indication about where things are with those ones?

Ed McKeiver: No, I'd prefer not to, today. No.

Nathan Lead: (Morgans Financial, Analyst) All right. Thank you.

Operator: Thank you. There are no further questions at this time.

Andrew Harding: Okay, well, thanks to everyone on the call. Today we've outlined our results for the first half of the year, but also provided further detail on the work that we're doing to drive long-term earnings growth to the business and create value for our shareholders.

Thank you to everyone for joining the call, and good morning.

End of Transcript