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EDITED TRANSCRIPT

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PRESENTATION

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

Good morning everybody, welcome to the first-half report from Aurizon. If you haven't already guessed, this is Lance and I'd like to welcome all of you to this webcast. I have here in Brisbane of course, Keith and the team, including each of the EVPs.

This is only the second time that we've done the half-year by way of webcast. Which, again, is a focus on our cost; we save something of the order of AUD100,000 by doing it this way. A reminder though that we do intend to be in person, as usual, at the full-year in August.

As usual I'll go through a brief overview, allow Keith to step through in more detail some of the financials. And then return to talk a little about the market background and outlook.

So let's get into it. Again, on page 4 then, the Group highlights. As always, from an Aurizon point of view, starting with safety. And we are of course delighted to be able, for the first time, to report a period in which we have zero lost time injury frequency rate. But I'll come back to that with a chart in a moment.

You'll have been through the results, so I won't step through each of the elements on this slide. The revenue reduction consistent with what we were saying to you in December. But excluding those previously announced items, revenue was down 4%, underlying EBIT down 2% against the 5% volume decline.

The statutory NPAT was a AUD108 million loss, as you've seen, reflecting AUD426 million of impairments. The difference between what's in the half and what we were talking about at December 23 of course, is the decision to fully impair the West Pilbara and related Aquila investments. I'll have a little more to say about that later on in the presentation.

Importantly our interim dividend is up to AUD0.113, 70% franked. Again, the Board indicating that the -- a payout at the top end of the underlying NPAT level.

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If we think about operating ratio in the business, clearly these are tough circumstances, as we observed when we were talking to you in December. In that light, given where we are now, it's unlikely that our OR target for the current financial year will be achieved and the 2017 target is going to be a challenging target for us. But as we increase our focus, as we ramp up our activity, we very much underline and reiterate that our target for FY18 is an operating ratio of 70%.

In that regard, in the half that we're reporting on we delivered a further AUD56 million of transformation benefits, as you can see. That brings the total to AUD308 million since July 1, 2013. And again, I'll talk a little more about transformation here in a minute.

As we reflect on the stable volume outlook that we'll talk about this morning, and where we are, we've indicated that it is our expectation that, over the next 18 months, we will cut back our CapEx by between AUD150 million and AUD200 million. Again, we'll talk a little bit more about that during the presentation.

Overall, our strategy remains to drive value for shareholders, to return surplus funds to shareholders. In this period, the payout ratio of 100% is maintained. We are also well through the current buyback, and I can confirm that it is our intention to complete that buyback.

If we turn then to the next page. What we have over these next couple of pages -- and it will also reflect in some of the observation that Keith makes -- is a focus around talking Above and Below Rail. This is really to make sure that we can highlight, and help you better understand, some of the business. It doesn't mean that we're changing any of the structures in the business, and the functional reconciliation is in the 4D.

If I can go to a couple of the elements here about Above Rail and a couple of the callouts, again revenue there that Keith will come back to, and EBIT. Again to make the observation that the EBIT, as well as the employee shares, now includes the bad debt provision for QNI.

Transformation remains the name of the game in the Above Rail business -- indeed across the business -- to deliver sustainable value. And I'll talk later about EAs and technology, et cetera.

With respect to volumes, we saw stronger volumes in New South Wales in the period. But we also saw, as we indicated in December, a continuing ramp up of the BMA Rail volumes in Queensland and some contractual changes et cetera. Given all of that, given where we are, you'll see the outlook that we've given, of 204mt to 209mt for the full year.

With respect to customers -- and, again, I'll come back to that -- but briefly, just to reinforce that our coal customer portfolio remains strong. With 68% of volumes contracted with investment grade customers, and with 10.4 years of weighted average contract life.

On page 6 then, we talk about Below Rail highlights. Firstly -- and Keith will come back to this too -- to note that revenue is recognised on the basis of the UT4 consolidated draft. Which is a more conservative position than actual tonnes and transitional tariffs, by some AUD12 million.

Operating performance in this business continues to be strong, and it continues to facilitate the kind of improvements that we're demonstrating in the Above Rail performance. In four of the six months that we're reporting on, we saw record volumes in CQCN. And January saw an all-time record Goonyella volume, to give you some flavour of the volumes.

Technology is important, as you know, in this part of the business as well. And I can tell you that our advanced scheduling system -- automated advanced scheduling system went live in January. All part and parcel of the continued drive to operating performance and transformation in the business. The RAB at AUD5.6 billion shows how, since privatisation, the RAB in this business has grown by 81%.

Our final comment then about the WIRP fee dispute. Simply to observe that we maintain -- and we maintain on the basis, as you would expect, of having sought and received extensive legal advice -- that the notices that we were given last year were not validly given. We are in the process of undertaking commercial discussions with the range of WIRP customers. We're not in a position to be able to indicate any outcomes from that at this stage. And of course, meantime, we do reserve our legal rights.

A little more detail then on transformation. I mentioned the extent of the benefit in the half, and the extent of the benefit since the middle of 2013; again, coming on top of what we've been able to do over the last five and a half years. One of our observations in this period is that, as you know, we've pointed to the importance of resolving those EAs is driving our ability to be able to maintain and improve the momentum of change and transformation in our business.

They only commenced to be implemented, as you would appreciate, halfway through the half. So we've seen less than a quarter, thus far, of benefit from the EAs. But you can see the statistics there, with overtime down 41%, annual leave 20%, absenteeism 45%, train crew cancellations down 65% in coal.

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These are the kind of changes that we've been pointing to all along. That drive flexibility, that drive our ability to be able to, not only maintain, but to leverage up our transformation. Similarly in the technology space, we continue to implement, and see the benefit of, the Wayside condition monitoring that we've spoken to you about on a number of occasions.

FMT, our freight management transformation system, went live, in terms of its first component, in December. So clearly, early days. But I would say to you anecdotally that, at this stage, we're seeing benefits at and above that which we anticipated. We remain both on time and on budget, with respect to that project.

Fuel consumption, you can see the continued improvement there. All of these, in other words, are evidence of the continued transformation journey.

In our centralised area, we've reduced the number of FTEs by 10% since June of last year. Overall in the half, number reduction, headcount reduction of more than 400, or 6%.

Transformation is the key to the future in the kind of tough environment in which we're operating at the moment. We have established a dedicated unit reporting to me -- and I'll talk a little bit more about that later on -- which we're confident will see us delivering at the top end and above, of the range of that AUD380 million range that we spoke to you about previously.

Finally then, before I hand to Keith, with respect to safety, I mentioned the lost time injury performance, which continues. Our total recordable injury frequency rate, I might say, was most impacted in terms of that kick-up by the Julia Creek derailment at the end of December. We remain on the journey. We remain focused on safety. We remain very much focused on driving safety improvement in our business.

But if I can now hand to Keith to talk to some of the financial details.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Thanks Lance, and good morning everyone. Turning to the Group financial highlights. Group revenue, as you can see, is down 11%, some AUD207 million. Adjusting for the non-recurring impact of CRT, TSC and the QR maintenance contract, plus the sale of Redbank, on a like-for-like basis revenue is down some 4% or AUD74 million, reflecting two main drivers. Firstly, a net reduction in pass through charges of AUD15 million, with a decrease in fuel of AUD30 million, offset by AUD15 million increase in external network access fees, and secondly the 5% reduction in volumes, which drove a decrease of AUD59 million in the topline, obviously net of access and fuel.

I'll touch on total operating costs for the Group, which were down some 12% or AUD151 million to just under AUD1.1 billion for the six months, driven by transformation benefits, lower fuel costs, and obviously the reduction in volumes, but offset by a significant increase in depreciation of AUD27 million, mainly in the Below Rail business, as the likes of Wiggins Island and Hexham were commissioned in the period.

Underlying EBIT is down 17% to AUD403 million. Again on a like-for-like basis, excluding the impact of the items I noted earlier, EBIT decreased less than 2%. I'll cover this as part of the bridges later on.

At a statutory level, the EBIT and NPAT results both reflect the impact of the impairments of AUD426 million before tax, or AUD345 million after tax. Finally on this slide, the underlying earnings per share, down 22% from AUD0.144 to AUD0.112 per share, saw an increase in the interim dividend of 12% to AUD0.113 as the 100% payout of underlying NPAT was maintained. As Lance noted earlier, franking on the dividend will be 70%, compared to 0% in the previous half.

Moving on to the earnings reconciliation. This slide sets out the reconciliation between underlying earnings of AUD403 million and the earnings as disclosed in the statutory accounts, which is a net loss of AUD108 million. The ASX release last year disclosed impairments estimated to be in the range of AUD215 million to AUD240 million for rollingstock and strategic projects, as set out on the right-hand side of the slide. The final amount impaired in this regard was actually AUD252 million, and included an additional AUD12 million for a number of minor projects that were identified during the review as being ancillary to project gamma and the rollingstock.

We also noted in the release that the investment in West Pilbara Iron Ore project was under review, following the decision by the partners in late December to put the project into care and maintenance. The outcome of that was the decision by the Board to write off the remaining study costs and the investment in Aquila attributable to the West Pilbara project of some AUD83 million and AUD91 million respectively, making total impairments for the period of AUD426 million. The remaining investment in Aquila is carried at AUD75 million, and it represents Aurizon's 15% share of cash on hand plus AUD8 million in respect of Eagle Downs. For clarity, the Gamma and the West Pilbara projects now have a carrying value of nil.

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Moving to the EBIT bridge for the Group, the first two items we've already touched upon, and adjusting for these the Group EBIT, as I noted earlier, down 2% to AUD403 million. I'll go into more detail for the separate Above and Below Rail businesses in a moment, but this bridge highlights just how leveraged the Group is to volume fluctuations, particularly in the Above Rail business. As you can see, all of the gain from transformation has been lost to the AUD59 million reduction in Above Rail revenue. It reinforces Management's focus not only on right sizing the business to remove excess capacity, but just as importantly, on driving structural change to the cost base, in order that we can be more agile and responsive to volume fluctuations going forward.

A couple of call-outs on this slide. In the other box on the right-hand side are the one-off impact of the employee share gift and the QNI bad debt provision of AUD18 million. Whilst a further provision of around AUD3 million was incurred for QNI railings in early January, neither of the costs are expected to recur in the second half. Although we are continuing to rail nickel for QNI, it's now under guaranteed arrangements with the administrator, for which I can assure you we've been receiving full payments.

Finally on this slide, I'd note that included within the Group result are redundancy costs of some AUD16 million. Whilst it doesn't appear on the slide as it's the same number incurred in the first half of 2015, I'd note the majority of the affected employees, as Lance highlighted, left the business during the second quarter. So the full run rate of benefits will only accrue in the second half of the year.

Moving on to the EBIT bridge for Above Rail, again adjusting for CRT, TSC and QR, the underlying result of AUD238 million shows a reduction of AUD53 million or 22% in EBIT, highlighting even more clearly the leverage of the Above Rail business. Working across the bridge, after the employee share cost, which is the AUD13 million attributable to the operations, commercial and marketing, and support functions, the first two bars show the revenue drivers, with a revenue quality impact of AUD12 million reflecting lower performance incentives and a change in the customer product mix, and the volume impact of AUD47 million caused by coal, down 4%, mainly due to the continued ramp-up of BMA rail operations in Queensland, but also the expiry of the Anglo-German Creek contract in late 2014. Iron ore down 3% as expected on expiry of the mineral resources contract in the first half 2015 result. And freight, which is down 6% and reflects I guess the tough market conditions we're facing, caused to a very large extent by a significant excess of road capacity competing in what is essentially sub-economic rates.

On the transformation, we've highlighted the breakdown in there, and Lance covered this earlier, so I won't repeat it here. The final box on the right in the other cost impact of AUD34 million, one call-out is the labour escalation cost of AUD15 million. This includes some three months at the new EA increase of 4%, but it also includes AUD10 million for the uplift of annual and long service leave provisions at the same 4% rate. Again, not expected to occur in the second half.

Before moving on to the next bridge, I'd also note the 5% volume reduction was not fully reflected in operational activity in the period, with NTKs only reducing 2%, mainly due to a 4% increase in the sector length for coal, as the Maules Creek and Rolleston hauls ramped up. This partly offset the impact of the transformation benefits to derive essentially a flat unit cost outcome compared to half 1.

In terms of revenue, on the same basis, coal yield is down some 5%, principally reflecting the 4% increase in sector length, the lower fuel pass through revenue, and also the impact of the product customer mix change. The underlying revenue for the second half 2015 when compared to the first half 2015 is actually flat, as Lance will highlight later on.

Moving to the Below Rail bridge, as you can see a pretty straightforward result for the Below Rail business, with EBIT up 12% to AUD245 million, driven by a 10% increase in revenue and tight cost control, but offset by an 18% increase in depreciation, as I mentioned earlier, on commissioning of Wiggins Island and Rolleston, but also including capitalisation of rail renewals. I'll talk about that in just a moment.

Volumes were marginally down by 700,000 tonnes to 114 million tonnes when compared to first half 2015, but were up 3 million tonnes or 3% on second half 2015. Access revenue for the period was up AUD59 million, and has been recognised on the basis of the consolidated draft decision. We've adopted this approach as we believe it reflects the most likely outcome for the year, but I would also note it is more conservative than the outcome that would have been under the basis used last year, where it was actual volumes railed at the transitional tariffs, and as agreed by industry. The difference between the two is a lower revenue of some AUD12 million.

As a reminder, I'd also note the first half 2015 result did not reflect the accrual for GAPE Take-or-Pay, which ultimately triggered at the end of the full year, skewing earnings to the second half. The basis this year essentially reflects 50% of the consolidated draft, smoothing the revenue profile over the year.

Moving on to the costs, the increase in energy costs reflects connection of the Rolleston and Wotonga feeder stations, plus increased unit charges, and is offset by the change in accounting policy for rail renewals, as I mentioned earlier. The change in policy has been included by the QCA in the consolidated draft decision, and is the basis on which we have adopted it. Rail renewals previously were expensed as part of the maintenance cost, but under the CDD are to be capitalised and depreciated, and recovered as a return on and a return of capital.

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Net upside in the period is only some AUD6 million, with a AUD12 million benefit in operating costs offset by AUD6 million increase in depreciation. With the increase in depreciation continuing in the second half, the full year impact is likely to be broadly flat year-on-year.

Finally I would note, and as Lance touched on earlier, the result includes no revenue from the work commercial fee, and only regulated revenue for actual tonnes railed, which were some 2.9 million tonnes.

Moving on to CapEx, as forecast last year CapEx spend is down significantly this period, with major growth projects such as Wiggins Island and the Hexham train support facility coming to an end. The only significant growth project remaining is the continued acquisition of rollingstock for Whitehaven.

In light of the current trading conditions, we have revisited the CapEx program and reviewed priorities, budgets and forecast returns. Whilst there's a little bit of further work to do, we're now expecting total CapEx for the next 18 months to be reduced by a total of some AUD150 million to AUD200 million, with AUD50 million to AUD100 million in second half 2016 and AUD100 million in full year 2017. The initial target for FY18 is in the order of AUD600 million and that includes the growth CapEx.

Transformation CapEx over the next 18 months to two years is expected to reduce by AUD50 million to AUD120 million, but this reflects more a re-phasing of current projects, together with greater procurement efficiencies, rather than cancellation of any projects.

Second half 2016 will see at least AUD50 million deferred into FY17, including such items as the wheel workshop where the technical and operational design considerations have delayed the RFP process by several months, and the technical upgrades for the narrow gauge fleet and the development of a multipurpose freight wagon which continue apace but are now focused on further trials before moving into full deployment, again deferring expenditure into FY17.

Sustaining CapEx will be cut by AUD100 million over two years, reflecting lower rollingstock requirements given the continuing improvements we're seeing in productivity. As previously, the longer term non-growth CapEx remains in the range of AUD500 million to AUD600 million.

Moving onto cash flow. Adjusting for the non-cash impairment of AUD426 million, underlying EBITDA was AUD683 million, down AUD56 million on the prior period, reflecting the trading result.

Free cash flow, however, is up AUD67 million to AUD126 million period-over-period, reflecting the planned lower CapEx spends and despite the increase in tax paid of more than AUD100 million, as you can see on the summary.

I would note, however, that whilst free cash flow has increased in the first half, it is down when compared to the AUD296 million generated in the second half of 2015, again mainly reflecting the AUD115 million tax spend and the lower underlying EBITDA result offsetting the lower CapEx spend.

Moving on to the funding update -- we continue the strategy to diversify sources and extending the tenor of our debt profile, and in that regard just prior to Christmas, we extended and repriced a tranche of AUD490 million of bank debt that had a maturity of July 2016 out to 2021.

As a consequence, we have no debt refinance due until 2018. However, we will continue to monitor and will tap the debt capital markets in future, once markets become less volatile and the margins tighten.

Average interest cost on drawn debt has reduced in the period by 25 basis points to 4.65% and the average tenor has increased to 4.5 years.

Group gearing. Group gearing increased 4.7 percentage points in the period to 35.4%, with the Below Rail business now geared at some 53%, broadly in line with the QCA assumption. With the increasing gearing, the business is now operating at the upper end of the agency metrics for a BBB+/Baa1 rating.

Bearing in mind the challenging outlook facing the resources sector and therefore our own customer base, we believe this reflects an efficient and risk-appropriate use of the balance sheet. We remain well placed to complete the buyback program, whilst also retaining a level of capacity and flexibility to manage further volatility in the markets that we operate in.

You will have seen in the press that Moody's recently advised that a rise in its rating of Baa1 was under review for a possible downgrade, as they're placing more weighting on our business risk profile having recently downgraded, as you'll have seen a number of our customers.

Management and the Board remain committed to maintaining a strong investment-grade credit rating, and we believe Moody's concerns are well addressed by the protections provided by the regulatory regime in the Below Rail business and also by the long term nature of the contracts in the Above Rail business, together with the fact the majority of our income is earned from global investment-grade customers.

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With that, I'll hand back to Lance.

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

So then if we go to slide 19, to restate, our focus on shareholder value is undiminished. The business model sees us with an extraordinary Below Rail business and you can see the value of that in the half that we're talking about, with the proportion of earnings from what is a very stable regulated business.

Above Rail -- with all the work that we continue to do in that part of the business becomes increasingly defensive, albeit the continuing high cost proportion of that business does, as Keith observes, mean that we do continue to be sensitive to short-term volume fluctuations.

In the current market we certainly see that the volumes are likely to be flat here over the next two or three years. In the near term for example, whilst on the one hand we're seeing an uplift in volumes in New South Wales, in Queensland you see expiration of mine life and these kinds of activities, together with the broadly challenging and volatile markets in which we're operating.

What that does to us is to say we simply have to refocus, reinforce the need for transformation in the business, and as you can see in the half, what we've been consistently been doing, that remains the case.

Our target is now at or above the top end of the AUD380 million about which previously we spoke to you. Each function has detailed plans and processes that will underpin the ability to be able to achieve those efficiency and cost targets. Beyond which, as we've mentioned one or two times, we've established this small dedicated transformation unit reporting to me.

So what is it up to? I guess looking principally for the opportunity to be able to accelerate benefits. The opportunity to be able to eliminate duplication or overlap across the business, particularly in the context that we're describing to you this morning -- to revisit every resource, every element of cost in the business, having regard to that activity and that outlook as to whether we need it, whether there is a better way, and finally to monitor and measure our progress around achieving those outcomes.

As we've observed, the response to the circumstances that we're in does also go to the reduction in the CapEx in the way that Keith has described to you.

Turning to the coal market, again it's worth taking a moment just to reflect on the dynamics of the market, but more particularly our customers, that Australia Inc. plays in the global coal market, as clearly there's a lot of sensitivity about this. Clearly there's a lot of discussion about this.

What we've tried to draw together, however, on this page is some detailed summary that underpins the facts in this respect. On the left-hand side you can see both for met and thermal, recent trends in seaborne supply by origin. I particularly -- as well as taking your eye to the points of origin and the dynamics around that -- more about which I'll say in a moment -- take you to the line there which is the Australian share of that seaborne market and you can see the extent to which Australian share for example in met coal has grown to about 65%.

In the middle of this chart, the pie charts speak to the destination for Australian met and thermal coal. We all know and understand the dynamic around China, the extent to which China is such an important and indeed swing player in this space. Nonetheless, it is again worth observing that in terms of thermal coal, in terms of all types of coal, China is not our biggest customer. In terms of thermal coal, Japan is the biggest customer for Australian thermal coal. And for metallurgical coal, today India is the largest customer for met coal.

We'd reflect on some of the observations that Minister Goyal made during his visit last week, with respect to both power generation in India and the need and demand for thermal coal and steel, and the objectives that the Modi Government has to increase substantially the output of the steel sector in India over coming years. In all of those circumstances, not to get carried away but to have a more sober view about where Australia sits in all of that story.

As we've seen the diminution in supply from the United States, for example, with respect to met coal, as we've seen diminution in supply from Indonesia for their own reasons, own domestic reasons, as we've coupled that with the activity of our own customers here in Australia around cost reduction that you can see there. I believe that it's important that we maintain a balanced view of where the world is and what the world is likely to look like over the coming period.

If we step down to the next level and think about our own coal customers in an Australian environment therefore, we've set out there our volume split by type and by geography. As we've been discussing with you in recent times, as these challenging circumstances have developed, we include further detail around the credit ratings of our customers, the extent to which our customers are investment grade or are not, the cost curve position of our customers and the sensitivity around that. The principal sensitivity of course being the Australian dollar and you can see the impact there of a movement in the dollar.

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26%, as of January, of our coal customers are cash neutral or worse. Not a great position to be in but I remind you that two years ago that number was 40%. So again in terms of balance, this is, self-evidently, an extraordinarily important statistic, but it's not the only factor that we look to, including things like credit rating, expandability, mine life, portfolio fit et cetera as we think about our customer suite.

Finally, there is of course a lot of speculation around the things that flow from that in terms of the status of our customers. We're indicating to the market today that as we sit here, the only coal customer who is seeking out of cycle relief is at the moment Cockatoo Coal, which as we all know is in VA.

We all understand the dynamic. We all understand the market outlook. We are not taking anything for granted, but again, in my view there is this need for balance in understanding the fundamentals and where our market security lies, having regard to the quality, the counterparty risk of our major customer base and the contracts, which is the point on the right hand side of this chart. Today, 80% of our contracts are new form, 96% by FY18, 10.4 years average contract length. No material change in the major contract renewals before 2021 from an above rail point of view. From a below rail point of view, again the counterparty risk, the top six mining companies accounting for 80% of our contract volumes. Risk being socialised across the network and work equally protected by the regulatory framework.

If I can talk to one of the elements of the above rail revenue composition, again for the sake of greater transparency, what we've set out here as you can see are the components of above rail revenue and there are a number of takeaways from this. You can see consistent with what I was just saying the extent to which the capacity charge, the fixed revenue element is increasing and the variable is decreasing as we put in place more of these new form contracts. I draw your attention to the top bar and remind you that fuel is a pass through and you can see there the cost that's been incurred and passed through in fuel. Without the pass through, revenue is down 23% -- or 4%, the same as the volume decrease in the business. Note also as we pass on the diminishing amounts of incentives, largely due to customer behaviour, as we've expressed to you, influencing revenue through them, better able to manage their railing profile against those incentives.

We've set out for you then on the next chart the look forward of our contract expiry data and it reinforces the point that I make about the next year in which there are major renegotiations is as far away as FY21. We continue to contract, we continue to contract at and above target rates. The emphasis of course is on new form contracts, also of achieving longer terms and exclusivity in the market circumstances in which we operate to date.

Turning then to iron ore and freight. Iron ore firstly, I don't need to again state the extent of the challenging trading conditions that we face and that our customers face in this space. We are working actively with all of the customers around continuing to find cost savings and productivity right through the supply chain. A specific word about Karara, about which we're all aware. We along with all of the suppliers continue to talk to Karara about opportunity to be able to offer them cost decreases that would allow them to continue to trade. We believe, as I believe do the other major suppliers, that within reason it's in all of our interests to do that which will ensure that that business can continue, and so we are talking to them about contract adjustments, in return for appropriate value exchange.

Bulk equally is difficult and we've spoken for example about the QNI position and the provision that we've taken there. We will of course continue to take all measures to get as much recovery out of that AUD18 million provision as we can. While we focus, naturally in these circumstances on the negative, it is worth reflecting that we have been able to renegotiate and put in place a renewed TSC with the Queensland Government, which will underpin our business going forward.

In the intermodal space, again, difficult trading conditions for the reason that Chris -- I beg your pardon, that Keith mentioned, but our strategy continues to show green shoots. As you know, at its core is the strategy of working to focus on the beneficial freight owners and the proportion of those customers in our portfolio is now 73%.

Thinking then about capital management. Keith mentioned previously that gearing is now toward the upper end of the rating agencies' metrics. This demonstrates that we have appropriately geared the balance sheet to reflect the current outlook and the trading conditions, and this chart shows you that with the operating cash flow we've generated since IPO of some AUD6 billion and the increasing gearing, how we've deployed that capital to grow returns for the Company and for our shareholders. Over that period of time, our ROIC, as you can see, has doubled.

The major growth, of course, in that period, has been around areas such as GAPE and WIRP as well as Hexham, Whitehaven, et cetera and through that same period, the dividend payout ratio has increased from 50% to, as it stands at the moment, 100% of underlying NPAT.

I think with respect to West Pilbara, we've made the position clear -- no further work on DFS being undertaken. We are in partnership with our colleagues at Bao and POSCO and AMCI, winding down and ensuring that we capture the value of the work that's been done to date. To give you a sense of -- so what is it? What's the sort of thing that we're doing, by the by? Well we were undertaking, in the back half of last year, some geotech work and it makes no sense just to close that down. We're closing it out by completing the report and putting it in a position where, were there ever to be an opportunity to go forward, that work is there at least to take forward.

But the impairment does reflect the fact that that project in our view is unlikely to proceed in the near term. Our focus is on value protection and protecting the relationships and the optionality that we have. There will be minimal spend going forward and that spend that there is will be part of our BAU.

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Finally then if I can turn to outlook. In light of all of the events that we've spoken about, you will see that we've guided a full year EBIT outcome of between AUD845 million and AUD885 million, given those key assumptions including above rail coal tonnes tightened to 204mt to 209mt and the things that we've spoken about in the UT4 and trading environment space. Operating ratio, cost efficiency is at the very core of what we are, what we have been and increasingly what we will be over the next couple of years and I've made the observations about degrees of difficulty, particularly this year, but we do maintain our ability to be able to deliver an OR of 70% in FY18, underpinned by that continued transformation journey and we do make the point that, notwithstanding those changes, management REM targets are unchanged.

Finally then as we turn to your questions, it is a challenging environment, but the core business risks and opportunities haven't materially changed. The transformation program, as we've emphasised, remains the core focus of management and will drive value over these coming years. We've got a track record of being able to do that. We have in place the plants, we have expended on the technology, we have resolved the EAs that will most underpin our ability to be able to take forward that transformation program.

From a customer point of view, we have strong counterparties. We have strong contractual arrangements in the Above Rail, albeit it is a volatile situation out there. Again, from a Below Rail point of view, this then is a regulated defensive asset with nearly AUD6 billion in RAB. Cash flow generation remains strong and will be stronger on the back of what we're saying about CapEx today. And we are, at the end of the day, committed to delivering shareholder returns.

Thank you and we would be happy to take your questions.

QUESTION AND ANSWER

Operator

Thank you. The first question comes from Simon Mitchell from UBS. Please go ahead.

Simon Mitchell - ***UBS - Analyst***

Good morning. My first question is regarding the CapEx. The guidance has been taken down by AUD150 million, AUD200 million over the next 18 months and the maintenance component of that is now AUD350 million to AUD400 million a year and despite that, you've retained the longer term guidance of AUD500 million to AUD600 million. Just querying the appropriateness of that longer term target and whether you think that that really is the right number in this current environment?

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Simon, I guess at the moment the longer term number is still subject to further review but the size of the business, the size of the asset base we have, there is certainly some flexibility to move that number. At this point in time, the focus is really on the near term CapEx and managing that.

Simon Mitchell - ***UBS - Analyst***

Okay and second question regarding gearing, you've mentioned that Moody's has placed you on watch or review and you also mentioned the buyback continuing so I think it looks like there's about AUD200 million, AUD250 million to go under the current buyback. Does that get you to a point that's the appropriate gearing for the business in your view or do you still think there's the potential for more, despite the current operating environment?

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

I think it's probably fair to say that with the buyback ongoing during the remaining period through to November this year, we believe we're appropriately geared at this point in time whilst retaining flexibility and capacity on the balance sheet to manage any fluctuations that we see in the operating environment in the near term. If there is a change in that operating outlook then obviously that'll change our view in terms of the capacity we need on the balance sheet, but at this point in time, based on the view that we have regarding the outlook, I think we're in a position where we believe we are appropriately geared.

Simon Mitchell - ***UBS - Analyst***

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Okay and just last question from me, if we look at the revenue outlook for the business, one of the only or maybe actually the only positive at the moment is the additional revenue you're expecting from the Wiggins Island project and you mention that there's none of that in this result and in fact the QCA has deferred the recognition of that. How should we be thinking about the incremental EBIT that you're expecting from that project, from now until full ramp up?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

I'll comment on that first point, Simon. The outlook that we have at the moment doesn't include anything for the commercial fee, the non-regulated component. In terms of the regulated component, the numbers actually include the volumes that we've railed to date, which is around 2.9 million tonnes, so the number is in the order of AUD20 million to AUD25 million.

Simon Mitchell *- UBS - Analyst*

Okay, so that's regulated revenue you've recognised for the work project in this half.

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

Yes, for tonnes actually railed rather than being billed on the basis of forecast volumes, or contracted volumes, I should say.

Simon Mitchell *- UBS - Analyst*

So if we kind of think of a revenue or an EBIT breach for network, all other things equal, how should we be thinking about the incremental benefit you'd be expecting from work over the next few years?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

Certainly in the current year, I would be looking at a fairly flat result for the network business on the basis of the incremental revenue we're seeing under the CDD being offset by the full impact of depreciation in the second half of the year and a continuation of the increase in traction costs that we talked about earlier as well. The outlook post that, I guess we'll have to wait and see exactly what the QCA determines under the consolidated draft.

Simon Mitchell *- UBS - Analyst*

Okay, so you're not able to give us a rough EBIT number on the AUD900 million you've sunk into network? I mean it's obviously quite difficult, with your experience in the past, to translate regulated concepts into accounting concepts for network.

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

I mean in terms of the regulated return, Simon, it's obviously going to be subject to no change from the QCA's 7.1% on the asset base. The timing of it, though, is still very much subject to determination by the QCA.

Simon Mitchell *- UBS - Analyst*

Okay, thank you.

Operator

Thank you. The next question comes from Anthony Moulder from Citi. Please go ahead.

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Anthony Moulder *- Citigroup - Analyst*

Good morning all, just a few quick questions from me if that's okay. I'll start with coal volumes. Lance, you mentioned that you're expecting those coal volumes to be flat for the next few years, but also highlighting that 26% of those volumes are at breakeven or negative margin. So obviously no expectation that producers will close or lower that production? How do you get comfortable with that profile given what you are seeing and albeit you mentioned that I think a few years ago that level was 40% were below water, I guess the question is how long can those producers keep producing at negative margins before they do cut that production back or exit the market?

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

I think in lots of ways, Anthony, you've gone to the answer to the question. It has been as high as 40% over a sustained period of time. We've had minimal approaches from customers. We have, though, during that period, as you would recall, seen a number of particularly the smaller, less economic, individual mines close. So couple that, on the other hand, with that description around what's happening in the dynamics of the global market and the increasing share from Australia, that's what to the extent that we have confidence. We have confidence about it; it's what underpins those numbers. Clearly we're not seeing anything which is going to be dramatically different.

Anthony Moulder *- Citigroup - Analyst*

Okay, but if I look at the coal volumes for the revenue, or coal revenue per NTK was still down 1.4% if I exclude out all the bits and pieces like fuel and incentive payments, is that purely just the increased haulage level in the sense of the increased kilometres per haulage?

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

Yes it is, that's exactly what it is, particularly with the ramp up in Maules Creek being the single biggest influence in that space, Anthony.

Anthony Moulder *- Citigroup - Analyst*

So conceivably, that continues that sort of decline. Second question, if I could, I think you highlighted the reduction of the cost incentive receipts from AUD18 million in the second half of 2015 to AUD10 million. I think on the call in late December you said that most of that was coming through in November, December. Should the expectation be that that winds to zero by the end of second half 2016?

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

Mauro?

Mauro Neves *- Aurizon Holdings Ltd - EVP, Commercial and Marketing*

Hi, Mauro Neves speaking. It all depends on behaviours from customers, but I think we're seeing a trend that more and more, the customers are relying on more stable providers of hauling, which drives very little opportunity to have those performance bonuses.

Anthony Moulder *- Citigroup - Analyst*

Right okay. We'll make our own assumptions on that. Lastly, the cost focus, obviously calling out that you've already identified some levels that will take you past that AUD380 million by the end of FY18, is it purely that you'll drive that as aggressively as possible to hit that 70% operating ratio and is that within the scope, based on the projections you have for the revenue base of the business?

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

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Yes, in broad terms. It's about acceleration of that which is already in contemplation. It is about taking advantage of the further opportunity that we believe will come from benefit realisation around particularly the transformation capital, the FMT, the other capital expenditures that we've got and thirdly, what I would describe as the cut-your-cloth stuff, Anthony, that in this environment, to go back to the observation that I made about revisiting to ensure that there are no pockets of duplication, for example, across the Company. When you think about what it needs in order, as compared to the AUD380 million to get to OR70, it's not significantly beyond that, having regard to the tonnage and revenue assumptions that we've made.

Anthony Moulder *- Citigroup - Analyst*

Alright, perfect, thank you.

Operator

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

Matthew Spence *- Merrill Lynch - Analyst*

Hi guys, just one issue from me and again, it's on this slide 22 which is good disclosure, thanks. So the bottom bullet point comment you make is the fixed capacity charges now 62% of your above rail revenue in coal. Can you just give us a feel for how that moves over the next couple of years? Is there still some BMA volumes to switch across to take or pay over the next 12 or 18 months and where does that fixed capacity charge percentage peak out?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

Look Matt, we've made disclosure on this previously, but I'll go yes, as we transition through to the second BMA contract coming online in July this year, the fixed component will ramp up to around about 70%. Lance is just telling me page 59 in the supporting pack.

Matthew Spence *- Merrill Lynch - Analyst*

Okay and that's the peak?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

Yes, we would expect it to maintain that sort of level.

Matthew Spence *- Merrill Lynch - Analyst*

Great, thanks guys.

Operator

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

Cameron McDonald *- Deutsche Bank - Analyst*

Good morning guys, just Lance, on the outlook slide, you've got above rail coal volumes, you've got stable freight and iron ore volumes, can I just get a sense of what you mean by that, given that you've said that in the first half freight's down 22% and iron ore volumes are down 7%? Are you expecting that to bounce back or are you -- like what do you mean by stable?

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Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

A continuation of where we are at the moment, is the short end way, Cameron.

Cameron McDonald - ***Deutsche Bank - Analyst***

So that trend to now be finished? Because I don't see how that's going to rebound relative to the second half of last year or be the same result as last year.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Cameron what we're talking about is that they'll remain stable based on where they are today. So not further --

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Cameron McDonald - ***Deutsche Bank - Analyst***

Right okay, so no further deterioration.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Yes.

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

Correct, and no hockey stick.

Cameron McDonald - ***Deutsche Bank - Analyst***

Okay. And Keith, you mentioned a couple of times that you expect the Below Rail result to be flat for FY16, so that's relative to the AUD484 million that you delivered last year at the EBIT result?

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Yes. Just as clarification to Simon's comment earlier regarding the WIRP revenue, just so that it's absolutely clear, I said we'd recognise something in the order of AUD25 million in the first half of the year, we'd expect that to increase slightly in the second half of the year based on the CDD and it's based on volumes that'll increase in the second half of the year. Where it goes after that in terms of future recoveries is yet to be resolved.

Cameron McDonald - ***Deutsche Bank - Analyst***

Okay great and just last question Keith, just the tax expense of AUD15 million, can you just gives us a reconciliation of what that is actually charged to, relative -- on an underlying basis relative to the significant items? Because I'm just trying to get back to the AUD50 million pre-tax number that that would imply.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

The tax expense, sorry, the tax cashed expense in the period was AUD115 million.

Cameron McDonald - ***Deutsche Bank - Analyst***

No, you've got income tax expense in the first half was AUD15 million --

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Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Oh sorry.

Cameron McDonald - ***Deutsche Bank - Analyst***

-- and you say the underlying effective tax rate was 29%. So I'm just trying to get back to what was that applied to on a pre-tax -- on the items relative to the AUD403 million.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

It's essentially adding back the impairment, but there's a deferred tax asset that we did not recognise in that regard because there's further discussions with the Tax Office around whether it's a capital or a current account item.

Cameron McDonald - ***Deutsche Bank - Analyst***

Right, okay, so that takes you back from the minus AUD23 million, back to positive AUD50 million.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Broadly, yes.

Cameron McDonald - ***Deutsche Bank - Analyst***

Okay, so it's about AUD75 million, alright, no problem, thank you.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

It's a bit less than that, but that's the concept.

Cameron McDonald - ***Deutsche Bank - Analyst***

Yes alright, great. Thanks Keith.

Operator

Thank you. The next question comes from Paul Johnston from RBC. Please go ahead.

Paul Johnston - ***RBC - Analyst***

Good morning everyone, just a couple of questions from me. Just a first one on the guidance, might be for you, Keith, just in terms of what the assumption might be in respect of Karara, is there a specific assumption there in terms of that particular contract being renegotiated or ceasing at a point in time?

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

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As Lance mentioned, those conversations continue with Karara. I think it would be inappropriate for me to make any comment on it prior to us concluding the discussions with them.

Paul Johnston *- RBC - Analyst*

Right okay, or can we assume that there is an assumption that it remains -- the status quo remains in the AUD845 million to AUD885 million, that's I guess all I'm trying to understand.

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

I think we want to protect our negotiating position, if you don't mind, at the moment.

Paul Johnston *- RBC - Analyst*

No, that's fair enough. Thank you. Maybe just generally on the customer situation, and thanks for the additional detail, it's much appreciated, I think in the quarterly update on the volume side you did mention you were in active -- or in discussions with a number of non-coal customers. But it seems like from the conversation today it may well be just about Karara and maybe little else. But could you just clarify, I guess, what you meant by that comment in the quarterly, and whether there are active discussions with other customers other than Karara?

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

The discussions other than Karara are really around supply chain efficiency-type discussions, as opposed to rate relief per se, Paul. And as I observed in coal, the only out of cycle discussions at the moment are with Cockatoo Coal.

Paul Johnston *- RBC - Analyst*

That's great, thank you. Just one final one --

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

Paul, the reference in the quarterly was in respect of QNI.

Paul Johnston *- RBC - Analyst*

Gotcha, thank you. Sorry, I'm just getting a bit of feedback. Just one further question on the balance sheet, and thanks for your comments on that, it's helpful. I guess the question is more with reference to other comments made around the improving free cash flow generation of the Company that's expected over the medium term, but then you're making some comments around the balance sheet. I guess the obvious or next question would be what you might do with that free cash, given you feel that the balance sheet's -- or the gearing's about appropriate, post the completion of the current buyback. So if you could just offer some comments around that as well, that would be great, thanks.

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

I'll let Keith make some observations, but from my point of view that goes to the importance of slide 25. It really is about driving value.

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

I'd make the same comment, Paul. As we said on many occasions, in those circumstances where there are no growth projects returning appropriate margins for us, we will return surplus funds to shareholders.

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Paul Johnston - ***RBC - Analyst***

Okay, thank you, that's it from me.

Operator

Thank you. The next question comes from Paul Butler from Credit Suisse. Please go ahead.

Paul Butler - ***Credit Suisse - Analyst***

Hi guys. This is a question on the 15% shareholder limit, and wonder whether you could comment whether you have looked at the possibility of that being removed, and indeed what the process for that would be. Would it require legislation in the Queensland Government, or is it something that could be determined by a Minister?

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

The relationship that we have with the Queensland Government of course is both broad-based and deep. We talk to them about a range of things. We have discussed, at various times, the shareholder limit. At the end of the day though, it is a matter for the Government, and they would have to determine what the process is, were there to be any change in the existing arrangements, Paul.

Paul Butler - ***Credit Suisse - Analyst***

But do you have advice on what would be required to make that change? Would it indeed require legislation?

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

You can look at the legislation as much as we can, and the -- inevitably it would require, I would imagine, an opinion from the State's legal advisors as to what it would take. There were provisions around Ministerial action, but they were clearly to do with privatisation in the first instance. The legislative arrangements are set out in the Act, and I really can't amplify too much more than that.

Paul Butler - ***Credit Suisse - Analyst***

Okay. Just another one, you said quite clearly that Cockatoo Coal is the only customer that you're in an out of cycle negotiation with, but I'm just wondering have you been approached by any other coal customers who've tried it on, so to speak?

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

We have in the past, yes, and I think we've been clear that we've had order of magnitude, a handful. It's that kind of number. There have been occasions when we've made a change, but only on the basis of the outcome being NPV-neutral or better for the Company. To restate as we sit here today, the only out of cycle approach is from Cockatoo, but we all understand the dynamic in the market out there at the moment that our customers are facing.

Paul Butler - ***Credit Suisse - Analyst***

Okay, and do you have -- on page 7, you've provided some statistics on improvements in labour performance, and I'm just wondering have you captured the full benefit of that in the first half, or are there things that you can now do to your processes to capture more benefit from having better reliability from staff?

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

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It's the latter, Paul, which is really the qualitative comment that I made. Firstly, bearing in mind that these changes were only made in the September-type timeframe, even to the extent that they flowed through, therefore they flowed through in the latter part of the half. So even if there were no more, no different change than that that we refer to, we will have the full benefit going forward. But as we've always observed, this is a building block approach, and as we put these kind of arrangements in place, the flexibility will breed, in our view, further consequential flexibility. That's the nature of the opportunity that they team is driving.

Paul Butler *- Credit Suisse - Analyst*

Okay, thanks very much.

Operator

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

Ian Myles *- Macquarie Group - Analyst*

Good morning guys. A couple of questions. Just firstly, with the QNI write-down, clearly that was a bad debt but didn't really appear at the full year. I was wondering, do you have any other aged creditors or -- sorry, receivables in your books at this point in time from other miners?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

Not that we believe are unrecoverable, no.

Ian Myles *- Macquarie Group - Analyst*

But there are a few people who are actually not paying within the existing terms at the moment?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

No. Payments are all broadly on track. We have a number of long-outstanding balances, but they refer rather to some invoices in dispute, less in the coal space, more in other spaces. But they were small amounts and they've been fully provided for, either in the period or previously. So in terms of our current trading performance, we're pretty up to date in terms of payments.

Ian Myles *- Macquarie Group - Analyst*

Great. In terms of contract life, you mentioned in coal that you've got a 10-year contract life, but you've got a footnote to that saying -- maybe I'm misreading, but it appears to include all the extension. I was wondering if you removed the extensions whether -- what that actual average life would be?

Mauro Neves *- Aurizon Holdings Ltd - EVP, Commercial and Marketing*

It's about seven years, Ian, if we don't consider the two extensions.

Ian Myles *- Macquarie Group - Analyst*

Okay, thank you very much. Following on with that, we saw Peabody announce over the weekend or on Friday some time that they are putting Burton on care and maintenance. I think you guys might provide a service to that. How does that work in the framework of no one's approached you to change terms and conditions? What should we expect to be occurring with the tonnage which is sort of lost from the end of 2016 as that mine shifts to care and maintenance?

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Mauro Neves - ***Aurizon Holdings Ltd - EVP, Commercial and Marketing***

As you would appreciate, Ian, I'm not prepared to go into any specific details. But what I can tell you is that this particular customer has an arrangement where the Take-or-Pay is a bundle of their existing mines with Aurizon. So as long as they meet their obligations within the pool of mines that they operate, that will be fine. So in other words, they have the ability to compensate across the portfolio. So we're still discussing with Peabody what are their plans moving forward, but it shouldn't change -- those announcements wouldn't change any of our guidance for the short term.

Ian Myles - ***Macquarie Group - Analyst***

Okay. Two more questions. Firstly on Aquila. Are you guys still planning to develop Eagle Downs, given the operator that was developing it went bankrupt? Is that actually still proceeding?

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

The thing that's most in contemplation at the moment is the sale of the Vale half, Ian. I think that -- what I can tell you is that those processes are active as we speak. I think the outcome of that will be most illustrative about going to the question that you raise.

Ian Myles - ***Macquarie Group - Analyst***

Okay. So I guess it leads into WIRP itself. We got to a point where WIRP was originally intended for, what, circa 27 million tonnes to 30 million tonnes. When we look at the outlook, even if we go to actual volumes, 2.6 million tonnes at the moment, can this new rail line effectively ramp up anywhere close to the original expectation? And how does the regulatory framework generally deal with this problem? Because the way it's been structured to date is that it's going to be narrow to those WIRP users, which sort of makes it quite a vicious cycle if we don't get volume.

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

Alex, do you want to --

Alex Kummant - ***Aurizon Holdings Ltd - EVP, Network***

The draft decision -- the consolidated draft -- this is Alex, obviously. The consolidated draft decision does contemplate some revenue deferral in fact, ultimately ramping up the revenue profile with the tonnage profile. The question of can it ultimately get there, I think we would still say yes. That's simply a question of a discussion of the future of coal. We will still work through those issues here the balance of the year, until we get to a final UT4. But I'm not sure that there's really a more specific answer than that. I'm kind of looking around the table to my colleagues because we are in speculation space there, but ultimately it's a question of the future of coal, and we're obviously believers. So can we get there? Yes.

Look, I would also point out if you really want to look long-term, the most logical place for the Surat to ultimately come out is down the Moura and through that overall terminal system, which would include WICET. So I think there's still ultimately a lot of opportunity there.

Ian Myles - ***Macquarie Group - Analyst***

Okay, look, thanks.

Operator

Thank you. The next question comes from Nick Markowitz from Morgan Stanley. Please go ahead.

Nick Markowitz - ***Morgan Stanley - Analyst***

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Thank you. I just had another question on the balance sheet if I could. So you've kept the payout ratio at 100%, which sends quite a strong message around the dividends and the potential dividend profile, but if you do keep it at 100% for the full year and for FY17, you'll probably have to debt fund the divi. So I guess the question I have is, how comfortably do you think you can manage that, particularly with your previous comments around the balance sheet being adequately geared, and I guess the overlay from Moody's as well?

Keith Neate *- Aurizon Holdings Ltd - EVP & CFO*

I think looking forward, obviously the CapEx profile is coming off. We would expect to see some cash generation from that and as I said earlier, we've retained sufficient capacity and flexibility within the funding profile to ensure that we have a buffer to manage the current outlook. On that basis, we have made certain forecasts in our own outlook in terms of what the dividend profile will be, but I think at this point in time, we won't go down there. Currently, I think it's set out on slide -- whatever slide it is -- the funding slide refers to AUD600 million of capacity.

Nick Markowitz *- Morgan Stanley - Analyst*

Right, okay .Then second question, so Cockatoo's gone into voluntary administration. I was just wondering if you could highlight how Take-or-Pay protections have -- or I guess in theory will play out on that contract and I guess what the cash flows are from that contract now that some of those volumes are actually in care and maintenance.

Alex Kummant *- Aurizon Holdings Ltd - EVP, Network*

Yes, on a -- excuse me, this is Alex. On a Below Rail basis we do have security arrangements for part of it and then again, we are also in consultation with the administrator. So I'm not sure what to add really to that at this point.

Nick Markowitz *- Morgan Stanley - Analyst*

Are you getting payments from Cockatoo for the contracted Above Rail volumes that aren't happening now? Is that still happening?

Mauro Neves *- Aurizon Holdings Ltd - EVP, Commercial and Marketing*

We were, but as they announced last week they are now in care and maintenance. So we don't have any outstanding payments or any risk of debt that is not covered by guarantees, as noted by Alex. Moving forward, it all depends on the outcomes of the voluntary administration process, so obviously we would do it while we can to try to make the mine remain an ongoing concern, so we are in negotiation with the administrators.

Nick Markowitz *- Morgan Stanley - Analyst*

One more from me. The BMA contract looks like it -- well BMA sorry looks like it contributed to some of the Above Rail volume weakness. Just given the rest of that contract rolls to new form later this year, can you comment on how the incentives of BMA will change in FY17 and whether you do actually expect to claw back some of those lost volumes for the Above Rail business?

Lance Hockridge *- Aurizon Holdings Ltd - MD and CEO*

Maybe if I start and then ask Mauro to talk to the contract position. If you look at the -- particularly at the port data, you can see the extent to which BMA rail has ramped up. So from an original expectation around Daunia and Caval Ridge, AUD11 million, AUD12 million in run rate terms, it's up in the AUD17 million, AUD18 million type number. For four consists, given the length of hauls, obviously there is a technical limit and it's why we make the observation that there's no reason to believe, put it that way, that that's now not at the -- at a stable level for the go forward.

Mauro, with respect to the contracts?

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Mauro Neves - ***Aurizon Holdings Ltd - EVP, Commercial and Marketing***

Nick, yes, most of the -- not most but all of the incentives from the previous DTC old form contracts are now expiring when we see the Goonyella contract migrating to new form. So to answer your word, yes we shouldn't expect any more monthly incentives in the new financial year.

Nick Markowitz - ***Morgan Stanley - Analyst***

Right. The lost volumes, implicit in your -- basically implicit in your guidance, the lost volumes from FY16 won't be returning in FY17. Is that fair?

Mauro Neves - ***Aurizon Holdings Ltd - EVP, Commercial and Marketing***

Yes, subject to what is the mine plans for BMA. So in other words, consistently to what Lance just said, we see that ramp up of BMA rail will be plateauing because it's very close to capacity and we have the opportunity to catch any volumes that BMA might offer. So it all depends on the volume outlooks.

Nick Markowitz - ***Morgan Stanley - Analyst***

Okay. No worries, thank you.

Operator

Thank you. The next question comes from Scott Ryall from CLSA. Please go ahead.

Scott Ryall - ***CLSA - Analyst***

Thank you. A couple of questions. Could you -- Lance, this transformation group you've got reporting directly to you, who is going to be running that please?

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

A guy by the name of Darrin Rawson-Harris. Darrin is currently VP Commercial in the West Pilbara project. So again, it's part of the demonstrated wind-down there. Darrin's background is commercial, financial but also operational. He moved to Western Australia in the first instance as a general manager of our operations in that part of the world. So in other words, long, deep and broad experience and I think will be well suited to this role.

Scott Ryall - ***CLSA - Analyst***

Okay good and then the 68% of volumes that are backed by investment-grade mining companies, can you just clarify who you consider investment-grade at the moment?

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Anyone with an investment-grade credit rating.

Scott Ryall - ***CLSA - Analyst***

Can you just spell it out for me though so I don't have to look it up? That would be -- well let me put it this way. Is it just BHP, Rio, Vale -- I'm presuming you include Glencore --

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

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That excludes Peabody. If that's where you're going to, Scott, it excludes Peabody but it includes all the usual suspects that you've just nominated.

Scott Ryall - ***CLSA - Analyst***

Okay and Anglo, right? So the five of them?

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

BHP, Glencore, Wesfarmers, Anglo, Yancoal.

Scott Ryall - ***CLSA - Analyst***

Okay, yes. All right. That makes sense. Okay, that's all I had. I think the rest is covered with other questions, thanks.

Keith Neate - ***Aurizon Holdings Ltd - EVP & CFO***

Thanks Scott.

Operator

Thank you. The next question comes from Nathan Lead from Morgans. Please go ahead.

Nathan Lead - ***Morgans - Analyst***

Yes good morning gents. Just looking at that slide 23, I just sort of wanted to ask a question about what protections are in place if the miners decide to terminate their contracts early, like in FY19 or FY20? Is there some sort of NPV of future Take-or-Pay payments that they've got to pay up to? Secondly, just what protections there are for you guys if one of the mining company customers decides to sell their portfolio to a lower credit quality owner?

Mauro Neves - ***Aurizon Holdings Ltd - EVP, Commercial and Marketing***

So in terms of the contract protections itself, with most of the customers the contract is with the asset. So as long as we are satisfied that the new owner will be capable of bearing the risk of the operation, we normally are happy to facilitate those and one example of that would be the Clermont divestment from Rio some time ago. Every contract will be a bit different but in some cases we have change of control provisions that will allow us to participate in that discussion.

Regarding the future Take-or-Pay, as long as the counterparties still exist, the obligation doesn't cease to exist, if you know what I mean. So the Take-or-Pay is payable as long as the contract is on foot. So in other words, yes we are protected in the long range if, for some reason, the mine decides to be not operating for any reason.

Nathan Lead - ***Morgans - Analyst***

Thank you.

Operator

Thank you. At this time we're showing no further questions.

Lance Hockridge - ***Aurizon Holdings Ltd - MD and CEO***

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Okay. Thank you very much for that. We've hopefully given you a fair sort of an opportunity. I know as you reflect, for some there will be a further opportunity this afternoon and for most, if not all, the chance to see us face-to-face over the next few days. So again, we look forward to catching up then and thank you for your attendance and questions just now.

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