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JOHN KNOWLES , SVP INVESTOR RELATIONS, AURIZON: Good morning ladies and gentlemen in the room in Sydney and to those on the webcast and the line. Welcome to Aurizon's 2014 results. Before I pass over to Lance, Mike, and Keith, I'd like to call Matt from the Western just to provide us with a safety briefing. Thank you. (Conference instructions)

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LANCE HOCKRIDGE, MD & CEO, AURIZON HOLDINGS LIMITED: Good morning everybody. Good morning to those of you here in Sydney as well as to those of you who are listening to us online. I'**m** joined upfront today by Mike Franczak and Keith Neate who will help us go through this presentation, but equally I have the full EDP team here in Sydney along with some of our other colleagues who can help with any of the queries that you might have.

So again, you will have seen already of course our various announcements this morning, so we will step through the presentation and then as always allow plenty of time for your questions.

Key headlines then, this is a strong result, a result which speaks to the continuing momentum of change and improvement in the **Company**.

First and foremost of course around safety which I'll come back to in a moment, but we are now at and beyond world class levels. From an earnings point of view, from an underlying point of view, you have seen up 13% EBIT-wise, our operating ratio improving by 2.1 points. Dividend, again financial management being at a disciplined level with a 70% payout at AUD0.085 which year-on-year gives a 34% increase in the dividends in the business.

The foundations of the future we believe, as I'll talk about a little bit more in our remarks later on this morning, have been set around things like the Galilee Basin, the West Pilbara project, and what we're doing with Moorebank. I'll talk a little bit more about enterprise agreements a little later on in our presentation this morning.

Starting then though in detail with safety, as you can see off what was already a very significant and substantial improvement over recent years, a further 71% improvement in lost time injury frequency rate, 49% improvement in MTIFR. There is no doubt ladies and gentlemen that we are now at and better than world class.

Indeed our TRIFR -- total recordable injury frequency rate -- as internationally measured is 2.8. The lowest of the Class 1s, to give you an indication, is 4.85. This as we've always said is important in its own right being the core value, the core and number one priority in our organisation, but it is also again representative of the kind of change -- the kind of momentum of change -- which continues to be representative of our business.

With respect to statutory earnings the impairments have been well flagged, largely transformation-related, so again is a function of the continued improvement in asset utilisation in our business, as well as a recognition of what the market is doing at the moment. But Keith will talk in more detail in a moment with respect to those matters.

Then from an underlying point of view you can see here generally speaking strong volumes across the **board**, albeit that in our freight business in the last six months -- as both Mike and Keith will talk about -- we saw substantial diminution as a result of customer issues and then market issues in that business. But record **coal** volumes, record CQCN volumes, record **iron ore** volumes, et cetera.

In the transformation space against our target of AUD230 million across FY2014 and FY2015, you'll recall that our target for FY2014 was AUD90 million, and you will have seen now that we achieved AUD129 million. More of that a little later on.

In our network space, again we have seen a slightly unusual -- or in fact a significantly unusual -- situation where because of the impact of transitional tariffs we have not booked any benefit in FY2014 from the substantial uplift in volumes during that period. But again Keith will talk more to the impact of that in a moment. Of course as I mentioned our final dividend at AUD0.085 takes us to a payout ratio of 70%, at the top end of our range.

In relation to the operating highlights of the year, I will leave it to Mike to give you a good deal more flavour and granularity in this space. But as you can see overwhelmingly across all of the key ratios -- all of the key indicators in our business -- that we are showing not just improvement but significant improvement: our operational expenses per NTK overall as we indicate there improving by 10% for example.

On the back of all of that -- the momentum, the strength of the outcomes, the volumes outlook, more about which I'll speak a little later on -- we believe that we are on track to deliver the long-promised 75% operating ratio during the current financial year. Again, having achieved AUD129 million against that AUD90 million target during FY2014, and having the kind of momentum which has continued into the current year that Mike will talk more to in a moment.

Again we'll explain a little more, I'll make some observations with respect to our outlook a little later in the presentation, but you would have seen that we have uplifted our goal from the AUD230 million across the two years to between AUD250 million and AUD300 million across the two years as a measure of risk mitigation if you will that again I'll come back to and talk in a little while.

But first up I'd invite Keith to spend a little more detail time on the results.

KEITH NEATE , EVP & CEO, AURIZON HOLDINGS LIMITED: Thanks Lance and good morning everybody.

Turning first to the underlying EBIT bridge, EBIT as you can see has increased almost AUD100 million year over year delivering an operating ratio of 77.7%, or an EBIT margin of 22.3%. The bridge is pretty self-explanatory. There's a lot more detail in the 4E in the supplementary pack, but I'll just touch on two or three key points.

The first is the transformation program as you can see, AUD129 million against a target of AUD90 million delivered in the year, AUD59 million in the first half, increasing to a run rate of AUD70 million in the second half. AUD96 million of that was from the ops group, AUD33 million from the support group. Mike will touch on specifics around the transformation program in the ops group in a moment.

Turning to revenue, as Lance has mentioned one of the key impacts on the business this year -- and I'll talk about this later -- is the transitional tariffs where we've seen compared to last year a direct impact of AUD85 million to the bottom line, and that's despite the record volumes that we've seen in the network business this year. One of the upsides in the network business though is the GAPE revenue up AUD98 million to AUD205 million and that's now running at full contractual earnings under the GAPE deed.

In terms of the freight business despite a good start in the first half of the year where we saw a 2.7 percentage point increase in the operating ratio, the bulk business ended the year down in revenue terms AUD53 million and forecast reduction in the TSC services of AUD21 million as well, which in light of the cost structure of our business went straight to the bottom line. But again I'll touch on that later.

Underlying EBIT by segment, pretty straightforward here. The callouts I would have on this slide: unallocated, we have seen transitional benefits driven through the unallocated cost space in the order of AUD16 million this year offset as highlighted back at the interim result by a significant increase in project costs. Plus also we are carrying 65 people in the EIT group, the employees in transit group; that is the group of the employees whose roles have been made redundant but under our current EA arrangements remain employed until they find alternative employment. That's costing us around AUD8 million per annum.

One other point to call out on this slide is as you'll be aware the functional structure is now fully implemented across the business. On that basis we will be moving to a change in the segment note reporting in future years to reflect that structure. With FY2015 being the transitional year we will provide disclosure in both forms and later on this year, probably during the second quarter, we will provide a full restatement of the comparatives on that basis.

Touching briefly then on the segment earning drivers. In the network business operationally an excellent year, 214.5 million tonnes, a record throughput underpinned by a significant improvement in the network reliability as you can see: 33% reduction in delays; 47% reduction in network caused cancellations. A very strong performance indeed.

Financially, however, a different story. As you'll recall at the start of the year the maximum allowable revenue was capped at AUD739 million. That was a AUD60 million reduction on the prior year.

In delivering the record tonnes this year under the normal rules, we would have actually recognised an additional AUD70 million of revenue this year, plus a further AUD25 million recovery of volume-related maintenance costs would have been recovered. So a total of AUD95 million of top line revenue that has not been booked but would have fallen straight through to the bottom line as all the costs have obviously been incurred.

Indeed, the over-collection of the AUD70 million incremental revenue will be repaid to the miners during Q1 of this financial year. Final recovery will be subject to UT4 resolution hopefully during this financial year.

On the cost side the increase in total operating costs for the network business and in the unit cost simply reflects the additional volumes in the year.

Turning to coal, a pretty clean result. Highlights here are 25% increase in the underlying EBIT driving a 4.3 percentage point improvement in the operating ratio to 78.5%. That's been delivered on the back of a 9% increase in volumes and AUD41 million of cost-outs from the translation program. The measure of unit cost, operating cost per NTK , reduced 16% during the year.

New form contracts now comprise some 53% of volumes, 65% of revenue, and 74% of operating profit. That is before overhead allocation.

Moving on to the iron ore business, no surprises here. Revenue is up 6%, EBIT is 6%, and the operating ratio has remained flat at 72.8%. The only point to note here is the outlook for the iron ore business as previously advised will be 23 million tonnes next year reflecting the expiry of both the Tallering Peak and the MRL contracts.

Finally in terms of freight, Lance will talk later on about the strategic outlook for the freight business, but the key driver on the FY2014 results as Lance mentioned disappointingly is the loss of revenue in the second half of the year. Intermodal has increased revenue 17% offset on those new contracts by some one-off start start-off costs in the order of AUD20 million. But it's in the bulk business where we've seen in the second half of the year AUD53 million of revenue lost, plus a further AUD21 million in respect of TSC representing some 9% of bulk volumes.

The strong trend in the first half did not carry through to the second half as a direct consequence of that revenue loss. Pleasingly though the cost base transformation on the cost base has seen a 6% reduction across the year in operating costs. Adding back the revenue, it equates to an adjustment to the operating ratio of some 4 percentage points.

Significant items, I won't touch on this. This is as previously advised to the market, no change to these numbers. The only point I would note here is, as announced this morning, the non-core freight assessment impairment that we've referred to there is as a consequence of the disposal of the CRT business which is no longer considered core. That business was sold to Qube and the completion was post year-end.

Just touching on the VRP costs, 410 roles have been impacted during the current year. The balance of that AUD69 million, approximately half of it, reflects the progressive disclosure of the Redbank and Townsville sites over the next couple of years, again as previously to the market earlier this year.

In terms of cash flow, the headline here is free cash flow's up AUD223 million on the back of a 25% improvement in operating cash flow. A strong performance by the business, and again reflects the disciplined capital management as mentioned by Lance earlier.

Turning to the balance sheet, the balance sheet remains very strong. Gearing has increased marginally in the year to 28.4% and we remain well-positioned to fund the committed CapEx program and maintain the dividend strategy from both existing facilities and future cash flows.

I would note that during the current year we have some AUD1.5 billion of our existing bank debt will fall due in the current period. It matures in FY2016 and in doing so we would seek to refinance that during the current year, again looking to extent the tenor, the diversity of the funding sources, but more importantly or as importantly to also take advantage of the current low rates in the marketplace.

Finally, committed CapEx profile. For clarity, this does not include any CapEx for either Aquila or GBK as neither of those projects at this point in time are committed. There is a final investment decision to be taken by the Board prior to those projects being fully committed to.

The increase in sustaining CapEx over the prior period reflects a significant investment program in technology, both information technology and operation technology. Most of the IT platform in the business runs on systems that are 15 to 20 years old.

This is the largest investment the business has made in IT in recent years and it will run to more than AUD200 million. It will provide a very sound and sustainable base for the business to grow going forwards. In addition, there is significant investment in operational technology which Mike will talk about and further investment in rollingstock as we upgrade end of life assets and also replace a number of highly expensive leased lines of equipment with owned assets.

With that I will pass over to Mike.

MIKE FRANCZAK , EVP OPERATIONS, AURIZON HOLDINGS LIMITED: Good morning everyone.

2014 was a very good year for the operations team, and working closely with our colleagues at Aurizon in the other functions we were able to set new records of performance in safety, service, and productivity.

Executing on our core transformational programs, the team delivered AUD96 million in cost out benefits and generated further efficiencies in our core business which effectively allowed us to move record tonnes in some of our key lines of business. As a result of this momentum and the line of sight and confidence we have in our ability to drive further improvements in 2015 we are raising our transformation targets from AUD130 million to a range of AUD160 million to AUD200 million in support of our drive for an operating ratio of 75% in FY2015.

I'd just like to turn to some details on the first slide. As was noted earlier operations delivered a 9% year over year improvement in unit costs, and this was a combination of both cost reductions and driving efficiencies in our operations, effectively doing more with less.

If you take a look through some of the key year-over-year improvements, you'll see in things like net tonne kilometres we moved 10% more net NTKs year over year. We did this with almost 6% fewer FTEs and we did it with assets that were anywhere from 17% to 20% more productive as expressed in terms of NTK per active locomotive or wagon. You'll also see that payloads increased by 2.7%, our turnaround times in coal increased 6.6% and fuel consumption tipped just north of 5% all driving significant benefits for us year over year.

I'd like to turn to a couple of examples that give you better flavour for how we've managed to do this. This first example gives you a view of how we've done in the southern coal system, the Blackwater, where we've driven improvements in a number of key operational metrics effectively realising an opportunity cost of about AUD34 million, essentially again moving additional tonnage at the same or slightly less cost.

I'd just like to walk through this slide with you for a minute. It's a little busy, but if you start in the lower left hand corner, you'll see we start by maximising train payloads. This is work that continues even into this year in a number of other systems but even increasing by four wagons or 4% improvement in consist payloads required 275 less train starts in the calendar year.

Moving up in the boxes you'll see we also improved by cycle time by 15%, so effectively spinning those assets much much faster. As a result using essentially the same number of train consists travelling faster and much heavier we are able to run more train starts and move more tonnes. At the very top you'll see the outcome of that, a 23% increase in tonnage moved in that system year over year from 50 million tonnes to 62 million tonnes.

So how does that all translate in terms of efficiency benefits? Well effectively it felt like we did this with a hundred fewer FTEs. If we had been doing it with the old operating model, we would have needed that many more people to move those additional tonnes.

Similarly, less consists, less track time, and we also did it far more efficiently from an energy consumption standpoint. So the train designs, the speed of the assets, the horsepower tonne ratios, and so forth, allowed us to make improvement in this area as well.

I'd be remiss if I didn't add in the service dimension here, because it was this kind of performance that allowed us to meet our customers' demand and move the tonnes they needed to move when they needed to move them, and in fact allowed us to realise some improvements in our incentive payments.

If I turn to the next slide and give you a bit of an overview of what we were doing elsewhere it really all is underpinned by our integrated operating plan and I've spoken to you about this before. We've begun to roll this out, similar to the coal example I just showed you, in a number of other areas across the operation. We talk about balance, seven-day-a-week operation, multi-user trains; essentially driving much faster, heavier, tighter schedules than we had before.

The North West corridor was one example I spoke specifically to that was implemented in May. We continue to adapt and improve upon that design, and you'll see that there were significant cost benefits we were able to realise as we made the changes. And in fact, it was this approach that underpinned a lot of the changes and improvements we made that drove that AUD55 million improvement in the freight and in our mobile space.

And so to the details of the opportunity ahead. As I noted, we delivered AUD96 million in cost-out transformational benefits in 2014 and are now revising our target upwards from AUD130 million to the AUD160 million to AUD200 million range. As I noted, clear momentum, confidence and capability and line of sight to the improvements, and let me just talk to a few of the areas where we see further opportunity.

In the labour front as we continue our rollingstock maintenance footprint consolidation, the fleet rationalisation and the implementation of some of the new wayside technologies we'll see further opportunity there in terms of labour productivity and headcount. In the train crew space, setting aside the big opportunity we have with the enterprise agreements, we still see opportunity with respect to improving the productivity of our train crews, by driving cycle times, increased train payloads and flowing those benefits through to our rostering.

From a fleet standpoint, again payloads, cycle times, further train consolidations will allow us to spin these assets even more effectively. And from an energy standpoint we remain well on track, both in fuel and electricity, to reduce our consumption through all of the things that I've spoken to you about before, technologies like driver-assist systems, automatic equipment stop-start -- they made me say it instead of put the acronym in here -- as well as all of the other good practices with respect to train-handling or training of our drivers.

In the other category, this is a grab-bag but lots of opportunity appearing here. I've mentioned before as we rationalise the fleet and the footprint we're driving opportunities through or materials and procurement spaces. And of course, as we continue to focus on improvement in the safety space we expect to realise further financial benefits from being a much safer railroad.

So moving on to some of the other things that are on our radar screen for this year, I've already talked to the rationalisation of our rollingstock maintenance footprint, but there is more to come, especially in the intermodal space. This past year we reduced the number of depots by 18, reducing our cost to serve and we will be doing more again this year, in the upper single-digits.

In the intermodal space proper we will be benefiting from off-leasing expensive locomotives and railcars as we transfer the fleets that we've freed up from other areas into the intermodal business. We'll also be reducing the number of containers and forklifts and other equipment and chassis that we use in that business as we start driving those assets harder.

We're also marketing into new areas of our operation to grow volumes in the intermodal space, and I've mentioned before on the Mount Isa line part of the redesign of our services there is now enabling the intermodal marketing and sales folks to attract volumes to that line segment, which they haven't been able to do before.

On the people front, it is about embedding a culture of continuous improvement and continuing to high-grade the skill set of our people to become professional railroaders and to carry the programs through quickly, safely and effectively.

Keith spoke to our FMT or our freight management transportation systems. This is a significant transformational undertaking for us. This will allow us from the moment the customer orders a wagon or a train right through to the time we bill them for the services, it integrates a lot of our disparate operating and commercial systems and allows us to get access to much better information that will allow us to drive further efficiencies and improvements in service.

And lastly, as we continue to drive our integrated operating plan there are opportunities that are opening up with respect to our access costs. So as we start reducing train starts, getting leaner, much more effective, there are opportunities here to reduce our exposure to those costs as well.

So in wrapping up, ops delivered significant improvements in 2014 through its transformation programs. We're revising our target for cost-out savings from AUD130 million to AUD160 million to AUD200 million.

While this a big challenge and not without some risks, like labour and weather and the usual things, we do have line of sight to where the opportunities are, we've got momentum, we've got confidence and we have the capability to execute. Lance.

LANCE HOCKRIDGE: Thanks, Mike. So then, thinking about some of the other business issues at the moment, firstly by way of update around our West Pilbara project. As you'll recall, the strategic intent here is to develop the rail and port infrastructure associated with the API joint venture.

We have completed, successfully completed the **acquisition** of Aquila. It has now been delisted and we are in the process of compulsorily acquiring the roughly 1.5% of shares which didn't tender into our offer. The strategic review that we signalled is now well underway.

I can tell you that we have had, as you might expect, a very warm reception from the partners in the API joint venture -- that's to say AMCI and POSCO -- and Mike and the team are now actively engaged in the negotiation, finalisation of negotiations indeed, with them about the arrangements that will apply generally to the development of the mine and infrastructure associated with the West Pilbara.

From our own point of view we are actively mobilising. We have over the last couple of weeks had access to the information that Aquila and API have had with respect to market studies or more particularly the engineering work that has gone on, the feasibility work around the infrastructure.

As we look at this indicative timeframe, the key point is that our friends in this joint venture, particularly Baosteel, remain very intent on getting first **ore** at the earliest opportunity. And so I can certainly observe to you that there is an intensity of activity which very much underpins what Baosteel has been saying publicly about their desire to be able to not only get these tonnes but to get these tonnes as soon as possible.

All of this of course assuming that we can work our way through the feasibility studies, and I'll remind you at the end of the day we will not be going forward absent making a final investment decision. Equally I would remind you that any ongoing investment will be by Aurizon in infrastructure only. We will not have any ongoing **equity** interest in the **mining company**.

We're certainly working therefore to tight timeframes, but at the end of the day the activity, the progress, underpins what we've been saying about the benefit of working with the end market, of working indeed with a **company** of the standing of Baosteel and now prospectively POSCO as well, who have the offtake requirement. And who we remain confident will underpin the further development or the future development of this project.

Turning then to the Galilee Basin. We are very happy with the progress that we've been making in terms of the finalisation of the arrangements and the agreements with GVK Hancock. Indeed, I can say to you that our negotiations are substantively complete with GVK Hancock.

There do though remain a range of what are largely administrative issues and they are administrative issues which are essentially related to the things that need to be done to remove some of the conditions precedent that we have around the completion of that deal. We see those taking the time that will mean that it's likely that the signing of definitive documents will be more aligned to the signing of the completed documents. We can't nail exactly when that is but likely to be some months away.

Nonetheless, as I said a moment ago, our agreement is substantively complete. We are, as with West Pilbara, moving ahead with the mobilisation arrangements with putting in place the pre-work that will be required in order to take the Galilee Basin, the North Queensland project forward.

With respect to Moorebank there is really not a lot to say in this space other than that with our friends at Qube we of course have the period of exclusivity. We are working actively through those arrangements and we look forward to being able to report later on in the year, hopefully, about progress in that space.

We've spoken a fair bit about this morning about freight, and again as much as we were disappointed in the second half with that combination of some of our customers having their own production issues on the one hand and the Indonesian nickel issues on the other hand for example, adding up to the AUD53 **million** that Keith spoke about, when you do add that back, and reflecting on the other observations that Keith made, a 17% uplift in the volume in our intermodal business for example, we are certainly making traction in this area.

We have in the last 12 months made the final changes associated with the functional nature of our organisation; we have removed the intermodal business from its incubated nature if you will. And with the progress that on the one hand Mike and the **operations** team have been making about which he spoken a little while ago, and on the other hand Mauro and the **commercial** team are making, we remain very confident about our ability to be able to not only maintain but to build the momentum; to build the momentum of volume, to build the momentum of earnings and to build the quality of earnings with respect to its impact on operating ratio in this business.

You can see here some of the strategy that underpins that, but for example I highlight to you the work that Mike referred to on the North West line, the Mount Isa line. The extent to which we have been able to make what could only be described as the most fundamental change in the nature of our operating arrangements on that line.

At the end of the day the benefit to the customer around those kind of changes is a very substantial increase in the consistency of the performance that we're able to offer, and indeed the range of performance: the range of trains, train services, regularity, frequency, these kinds of things that we will be able to offer. We have been continuing to work our way out of a range of the traditional arrangements that we've had, for example in relation to maintenance, in relation to where and how we fuel the trains, all of these kinds of things.

On the revenue side of the business you're aware of the contracts that we've picked up with the likes of Coles and Woolworths during the course of the year. Our expectation is that on the back of the consistency of performance to which I refer, we will continue to be able to build that kind of momentum and that kind of opportunity. We remain therefore overall sanguine, if you will, about the nature of the challenge in that part of the business, but optimistic about what we can do and the results that we can achieve by continuing to build our performance in that part of the business.

With respect to other matters, firstly in relation to enterprise agreements. We're all aware that during the course of FY2014 we completed the renegotiation of our enterprise agreements in the Hunter Valley in New South Wales.

In Western Australia, we've been negotiating there. I can advise that as late as the last couple of days we have reached agreement in principle with the unions in relation to that agreement, that renegotiation. That still remains to go to employee vote but we have been pleased with the progress and the speed of progress that we've been able to achieve in that set of renegotiations in the current economic circumstances.

I wish I could say the same frankly with respect to our Queensland EAs. You are all aware that we have been actively negotiating now for nearly 18 months in Queensland. We have had what particularly as the days go by has looked like an increasingly generous wage offer on the table for the renegotiation of those agreements. In return however we have looked to the removal of a number of those iconic provisions and a number of the provisions that limit our productivity and flexibility opportunity. Keith gave a tangible example of that at the start in talking about our EOIT cost at AUD8 **million**.

These are the kinds of imposts that the business simply cannot sustain going forward. We are not looking, ladies and gentlemen for anything, I remind you, anything that these self-same unions have not already conceded to our competitors.

We believe that while we can continue to achieve the kind of outcomes for the current financial year -- and indeed even going forward -- that we are highlighting to you today, clearly as every day goes by the strictures on us that are delivered by these legacy arrangements are going to mean greater hurdles for us to have to jump. We therefore absolutely have to get this thing sorted out.

We have been consulting extensively with our employees with respect to what's on the table and what it is that we are seeking to achieve. As recently as the last week on the back of that consultation and feedback we have been back to our employees offering some significant changes, most particularly around the number of agreements that we are talking about.

With respect to the unions however, I can say that far from making any progress, the latest position that the unions put to us was for a 4.5% wage increase with zero change, zero change in the agreements. Clearly that is not an acceptable, let alone sensible, outcome.

You'll be aware that in an effort to force a break in what I would describe as this impasse, in May we applied to Fair Work Australia for the termination of the existing enterprise agreements. This is not something that we would prefer to do; far from it.

We have been at pains to say that to our employees. We have been at pains to say to our employees we will not, were we to succeed, for example, impact on their earnings. Nonetheless we have to do something to achieve a sensible meeting of the minds, if you will, around the change, the renegotiation of these agreements.

That application to terminate comes before a Full Bench of Fair Work Australia on November 5, assuming that we haven't been able to make any breakthrough in the meantime.

With respect to network regulation, I think you're largely up-to-date around all of this. The most recent change has been the withdrawal and resubmission of our UT4 arrangements that was done on Monday of last week. This represents the embodiment if you will of an extensive range and a very productive range of interaction between the **Company**, the Queensland Resource Council and QCA.

As you know, we expect that the revenue decision draft will be published by QCA by the end of next month. The timeframes then follow through from there, but with a clear expectation that this will be resolved during the course of the current financial year. And Keith has already spoken about the financial impacts and the continuing transitional tariff arrangements pending that outcome.

Finally then if I can turn to our outlook. In the first six weeks of the current financial year we have seen a continuation of the strong volumes in **coal** that we saw during the last financial year. We, as Keith has mentioned, expect that the **iron ore** volumes will continue at current levels save for the completion of those two contracts that Keith mentioned and on the back of the resumption of throughput following on from those issues in freight in the first half of the year we do see a modest increase in bulk and intermodal volumes during the course of the current year.

The most significant outlook of course that you all look to is the **coal** haulage volumes and you can see that we're advising at this stage a range of 210 **million** tonnes to 220 **million** tonnes. So relatively robust, which reflects as I say the volumes that we've actually seen and that we have booked in the beginning of the year and what our customers are saying to us about their outlook during the course of the year.

We all understand that there are significant risks associated with the delivery of those volumes, whether that be industrial action, and I've just given you an update about where we are with respect to the EAs, we are certainly not taking the view that inevitably we are going to have industrial action but this clearly is line-in-the-sand territory with respect to the need, as I indicated, to make fundamental change in our Queensland EAs.

UT4, as you would all appreciate, has a significant impact on the earnings capability of the business. And of course we don't have the crystal ball that will tell us what the wet season is going to look like in Queensland at the beginning of next calendar year.

Now, we are not waving a white flag by any stretch of the imagination about any of those; indeed, we are in heavy duty risk mitigation mode. And even if I take the last example of the wet season, our network and our above-rail **operations** are far more resilient today than even was the case in January of 2013, let alone in January of 2011, with the strengthening of the network capability, the kind of operation and planning capability that Mike has spoken about.

Nonetheless, given that we have seen the kind of momentum in cost-out and improvement that we've described to you during 2014, given the importance of delivering the operating ratio of 75% in 2015 we have determined to in those circumstances further lift the bar for ourselves. And rather than targeting the AUD230 **million** that we spoke about in July of last year, we are now targeting between AUD250 **million** and AUD300 **million** during the course of the current -- or across the two years, to be achieved during the course of the current financial year.

In summary then, we see this as a strong result, delivering sustainable value. Most particularly, as always, we refer to the safety outcome, safety being important in its own right but safety being so representative of the nature and the quality of the journey of transformation that we are undertaking in the business.

I can say to you unequivocally that the achievement of OR 75% this year remains a key focus of management. The achievement of OR 73% and 71.5% and ultimately the achievement of world-class operating ratio remains the key and core focus of management.

You will have seen as a result of our announcements today the continued focus as well on discipline capital management, and that will continue. During the course of the year under review, as a result of what we've been able to achieve in the Galilee, in Western Australia, in Sydney, we are building the foundations for the future and the future growth of the **Company**.

Clearly the market is as we've all observed only too well a different place than it was a few years ago. Nonetheless we have been able to demonstrate across these recent years our ability to be able to respond to that through the transformation program to deliver and deliver in full on the targets that we have set for ourselves and advised to the market.

We do not see that this is a zero-growth environment however. Whilst certainly more subdued than a few years ago, we still see the significant opportunity for a sustained period of time on the back of the quality of performance that we're talking about today, the opportunity to be able to continue to grow and grow the volumes in our business in the way that we've been talking about.

Thank you for that, and we would now be happy to take your questions.

Questions and Answers

ANTHONY MOULDER, ANALYST, CITIGROUP : Good morning all, just if I can start with you Lance -- it's Anthony Moulder from Citigroup . Can you talk to the revenue pressure that you might be seeing for coal customers? Obviously you've given a guidance of between 0% and 5% growth rates in coal tonnes, but whether or not you're seeing any pressure from the coal producers and the pricing terms for those additional tonnes?

LANCE HOCKRIDGE: Well clearly our customers Anthony are under a great deal of pressure, there's no point denying that, but that which we can most deliver is certainty with respect to the tonnage delivery. The numbers that we're talking about you would see that we're running well into the 90s in terms of contracted tonnages. You would have seen that DTC has fallen away. All of these are representative indicators that what our customers want most is the tonnes and the tonnes delivered consistently. That doesn't mean that of course, particularly with respect to renegotiation of contracts et cetera, that they remind us that the world is a different place given where particularly of course the raw material prices are at at the moment. But we have not -- beyond the examples that we gave for example at the half year -- we have not had to make material change in any of the existing contracts.

ANTHONY MOULDER: If I look at it another way, it's 75% operating ratio; you targeted AUD230 million cost outs back in July last year, you've upped those to still hit the 75%. Is it fair to assume that there is a revenue -- a lack of revenue in expectations between July last year and today?

LANCE HOCKRIDGE: No, it purely relates to the risk mitigation around those issues that we've spoken about, that self-evidently we don't have that crystal ball that I spoke about. We can't wait, for the obvious reason, until March of next year to respond to whatever the wet might have been or whatever the outcome of EA might have been or whatever the outcome of UT4 might have been. The only sensible risk mitigation measure is therefore to lift the bar now. So again let me be very clear that is risk mitigation with respect to those risks. It is not representative of any view that we have about softness or uncertainty in the revenue space.

ANTHONY MOULDER: All right, thanks for that and moving onto to sustaining CapEx, obviously a big increase in that. You've called out AUD200 million from additional IT spend. Is that in totality or a -- I'm assuming that's not per annum?

KEITH NEATE : No, no, no that's in total based on the below rail, the above rail and the support programs that are underway.

ANTHONY MOULDER: Can you call out the additional AUD250 million -- sorry, AUD150 million of sustaining CapEx you expect or where that's coming from?

KEITH NEATE : It's across the business in total: there's operational technology; wayside monitoring equipment; on-train maintenance systems, and various other operational technology that'll be deployed across the network. There's also, as I mentioned, an upgrade of rollingstock that is now in the next three to four years going to reach the end of its useful life, together with, as Mike referred to as well, we have a number of consists on lease which are, to say the least, exorbitantly expensive. That equipment is being swapped out for our own equipment as well.

ANTHONY MOULDER: Lastly if I could, the CRT business: AUD100 million revenue approximately can you detail as to how much contributed or detracted from EBIT for the full year?

KEITH NEATE : I was going to say, the impact on OR if that's where you're going Anthony, is about 0.2%.

LANCE HOCKRIDGE: We should be clear that it's not the entirety of the CRT business that we've sold because those parts that relate to our core business Anthony, loading and offloading of those kinds of things we've retained. It's that pre-existing predominantly capital city associated with the stuff that we don't have frankly anything much to do with.

MATTHEW SPENCE, ANALYST, BANK OF AMERICAMERRILL LYNCH : Keith, Matt Spence from Merrills. Just the increase in CapEx, how much of that, if any, will go into the RAB? I know you've outlined the details, but how much of it will go into the RAB, any?

KEITH NEATE : In the first couple of years about 50% of it is network business.

MATTHEW SPENCE: Okay, so of the increase we've just talked about 50% will go in the RAB is that right?

KEITH NEATE : In terms of the total sustaining CapEx, yes.

MATTHEW SPENCE: Great, thanks and then Mike just excluding access, OpEx per NTK in your division, if we exclude access side of things, has it fallen by about 4% rather than the headline number?

MIKE FRANCZAK : This year's numbers we didn't include the access is my recollection Keith. So what we're doing in this coming financial year to create better visibility to that cost we're showing that -- we will be showing that in the operational P&L if you will. What we want to do there is we've got some good capability in the organisation. We're getting those folks really focussed on the, call it access contact performance. So we're getting value for what we're paying, but also going in and leveraging the changes that we've been making.

So if we're reducing train starts I want to be able to cough up the paths and the costs associated with that if you will. So you'll see that as a new line item starting to appear next year, but the 9% is fairly clean year over year excluding access.

MATTHEW SPENCE: Okay, thanks.

STEVEN MILES, ANALYST: [Steven Miles] here. Probably about 18 months ago you talked about a large upgrade of your IT system then and I think you said you had the best base load SAP system when you were not actually using it, and we're now seeing another AUD200 **million** spend in IT. It just doesn't seem to -- it doesn't seem like you've given a lot of colour on what that spend is actually really to do with when you've gone through this major upgrade and we haven't got anything out of it.

KEITH NEATE : Well I'll touch on it first. The spend, we haven't actually spent anything, any material sums to date. What we are looking at going forward, Mike can talk to the operational systems, but in the network business there's a scheduling and network planning tool. In the support functions there is a significant upgrade to the financial systems and there is also the opportunity to eliminate a multitude of disparate systems across the business.

We currently have revenue systems, some double-digit number of revenue systems across the business which need to be consolidated into one single platform.

MIKE FRANCZAK : Yes and I'll speak to FMT maybe in a little more detail. To Keith's point I think the financial systems we have are SAP based. There has been some work done and I think the last major spend we had was at IPO when we just spent about AUD70 **million** to split the IT systems from QR.

The vast majority of the applications we have in, call it the operating **commercial** space, are anywhere from 15 to 20 plus years old. They are, as Keith said, disparate systems so going back we have old ARG systems, we have **coal** systems, we have intermodal and freight systems, a lot of it reflecting the old lines of business that we had and geographies and acquisitions and so forth.

This is the first time that we will be bringing a lot of that together as I mentioned. If you think of it from order to cash, all of the **transactional** and informational elements that would drive that process both from a financial perspective but also an operational perspective is what we're targeting.

This kind of investment has been made by the North American Class 1s over the last several years. I know in my previous life, Canadian Pacific had already started that work when I was there and has just recently finished it. Working with SAP we have a significant opportunity to high grade our systems, to standardise our inputs and outputs, provide the right information to our people. The benefits are significant. It's more than just having to upgrade old systems onto new platforms and tie them in with SAP in a financial sense. It really is going to give us the opportunity to re-engineer a lot of key business processes and so there will be benefits coming out of that as well.

STEVEN MILES: Does any of your cost saving programs today reflect those benefits or is that a wave which we should expect in FY2017 I guess?

MIKE FRANCZAK : Yes, the rollout of FMT we've already begun a lot of the preparatory work in terms of processes and speccing out our IT requirements. We'll be starting to implement our first phase of it in May of next calendar year so call it late 2015, late FY2015, but the benefits will start rolling out to your point in 2016, 2017 and beyond fully.

STEVEN MILES: The other thing you make mention of: I think you're taking some trains out of **iron ore** and putting them into the freight business as the **iron ore** contracts come to an end and the leases come to an end. What's the cash saving as a result of that roll through?

MIKE FRANCZAK : Well I've spoken before about some of the things we're going to be able to do, for example, off-leasing some of our locomotives that are in intermodal. That's around AUD10 **million** a year -- AUD9 **million**, AUD10 **million** -- so that's a combination of using some of the locomotives that'll be coming out of **iron ore** but also cascading locomotives from other lanes or services because of the productivity improvements.

There will be from a crew standpoint we are able to reallocate a lot of the labour, both rollingstock and train crews to other lines of business. From my perspective we will be able to pretty much offset a lot of the revenue just by reallocating the assets and the labour to make sure we're moving other business. The wagons in this particular case were leased so they'll just be going back off lease.

SCOTT RYALL, ANALYST, CLSA: Hi thank you, Scott Ryall from CLSA. Keith can I just get you to tell it for the slow guys like me that network reconciliation -- again you've mentioned in your slides decrease in access revenue AUD60 **million** due to transitional tariff cap. That's pretty easy in terms of just the old terms. Is that what you were referring to as under the normal rules, that's UT3 right?

KEITH NEATE : Yes. If we were still running under the access undertaking we would have billed an additional AUD70 **million** this year.

SCOTT RYALL: Yes, all right, and there's a step up in costs of AUD25 **million**. Presumably that's associated with the step up in costs that you've put forward in your UT4 submission?

KEITH NEATE : And it's volume driven as well in respect of (multiple speakers).

SCOTT RYALL: Yes, all right, good. Then you mentioned an amount of AUD70 **million** which I assume is the amount referred to in note 19 which is the trade payable.

KEITH NEATE : Yes.

SCOTT RYALL: Could you just detail for me, has that revenue been received already because of the stronger volumes over the network over the course of --

KEITH NEATE : It's not been recognised as revenue. It has been collected from the customers based on the tonnage tariff. Obviously with the transitional tariffs in place we have a cap on the revenue that we can actually receive and recognise. The AUD70 **million** is in excess of that and that is the amount that will be repaid to customers in Q1 of this financial year. The final resolution of how much of that we get to keep will be subject to UT4.

SCOTT RYALL: Okay, so that's payable not recognised through P&L ?

KEITH NEATE : Yes.

SCOTT RYALL: Will you pay it back when UT4 is finalised?

KEITH NEATE : No, no, we're paying it back in Q1 this financial year.

SCOTT RYALL: Okay, fine, that's cleared it up, thank you. In terms of the write-offs that you've made, could you just tell me in terms of some of the costs that were incurred on the way through on the major two items of write-off, where were they recognised historically?

KEITH NEATE : Sorry I'**m** not sure your --

SCOTT RYALL: Did they go through the P&L ?

KEITH NEATE : The impairments that we've done this year?

SCOTT RYALL: Yes, like some of the business development impairments and things like that.

KEITH NEATE : Well no, they were all capitalised in the balance sheet.

SCOTT RYALL: They were 100% capitalised?

KEITH NEATE : Yes. Yes, hence the reason that we're impairing them now and expensing them to the P&L account.

SCOTT RYALL: Yes, okay that probably makes sense. See I told you I was slow. All right, and could you just tell me though what -- I mean the amounts seemed very large for some of those projects given the state of where they're up to. Are there any single projects that you feel like you've overspent on with the benefit of hindsight?

KEITH NEATE : Oh, with the benefit of hindsight you can always do better Scott. No, I think in terms of what we have expensed they're very reasonable in terms of the scale, complexity of the projects that we were looking at. I mean --

LANCE HOCKRIDGE: And the subject of agreement with the customers in most cases and will be subject of clawback if you will through the normal regulatory process.

SCOTT RYALL: All right, and then my last one, more for Lance on the industrial relations side of things. Given the reaction of the unions to the process that you guys have undertaken, is it realistic that you come to an agreement with them prior to November, prior to the hearings?

LANCE HOCKRIDGE: Again that's crystal ball territory I'd have to say. I'm optimistic, I'm always, unlike some of my colleagues, I'm glass half full, but we can't rely on that and that's why we've put in place the application.

The thing though that gives me most confidence, to be a little more specific about it, is the extent to which we're consulting directly with our employees, and don't forget that they're alive to the fact that as every day goes by they continue to lose the earnings opportunity. So we will continue to do that, we'll continue to ramp it up, I'm hopeful, but I wouldn't bet the farm on it.

SCOTT RYALL: Okay and then, the last one: you look like you've done a fair bit of thinking around management performance hurdles so they it looks -- they look positive steps in the right direction. Can I just clarify for the ROIC hurdles long term, how do you treat ongoing write-downs and things like that under the transformation program?

KEITH NEATE : That'll obviously impact the earnings incentives.

SCOTT RYALL: Do you adjust the ROIC amount under where it's set at the moment in terms of your hurdles -- 10.5% and all of that -- does the ROIC get adjusted for any ongoing write-downs?

KEITH NEATE : No, would be my short answer to that one on the basis that any write-down that does incur impacts the earnings driven incentives, both short term and long term, so there is a far more significant impact as a consequence.

LANCE HOCKRIDGE: Perhaps if we could move on to a number of questions on the phone. Simon Mitchell from UBS ?

SIMON MITCHELL, ANALYST, UBS : Good morning. I know there's already been a lot of questions around the increase and the sustaining CapEx which looks like it's about AUD650 million over the next three years. There was a question around how much of the CapEx is included in the regulatory asset base or recoverable through the network process, and then Keith you said 50%. I just wanted to clarify that's 50% of the sustaining CapEx number or 50% of the increase that you've actually announced today?

KEITH NEATE : It's 50% of the sustaining CapEx number. I don't off the top of my head have the split in terms of the increase, but of the AUD600 million that we're showing as sustaining CapEx approximately 50% of it relates to the network business, reducing to 40% in year three.

SIMON MITCHELL: Okay, so the bulk of the increase today relates to the operating business or is not recoverable through the regulatory process?

KEITH NEATE : A significant portion of it, yes.

SIMON MITCHELL: Okay and how should we -- I know there's been a lot of discussion already on this -- but how should we think about the Board's review of return on capital hurdles on that or payback period?

KEITH NEATE : It's obviously encapsulated in the ROIC targets. In terms of incentives are you talking or in terms of the initial investment?

SIMON MITCHELL: No, just in terms of what sort of earnings benefits should we expect from that and I guess over what sort of period should we see that phased in?

KEITH NEATE : Oh okay. Obviously in terms of investment in the IT platforms, Mike's already made comment that we would expect to see significant improvement in the operating cost base of the business through improved processes, reduced manual intervention and a significant reduction in headcount, particularly in areas of the support functions. In terms of rollingstock and other core assets it would be required to meet our normal hurdle rates.

SIMON MITCHELL: Okay and I guess you're not going to give us those hurdle rates so I'll just move onto another question on the 75% operating ratio target for FY2015. Keith, could you just walk us through what you've assumed there in terms of the regulatory process? Are you assuming that you just book the transitional tariffs on the network or are you actually assuming that you have an outcome on UT4 and you accrue for an expected outcome under that process.

KEITH NEATE : Look, I think Simon, we'd like to think we've got an outcome on UT4. What the treatment will be regarding any of the adjustments is yet to be determined. We don't know at this point in time.

SIMON MITCHELL: Okay, mate. Maybe I'll just ask a different way. Did you think that you can meet or achieve that 75% target under the transitional tariffs?

KEITH NEATE : Interesting question, Simon. Currently yes. We do believe that we will achieve target this year, based on what we're forecasting. But without a doubt, it will be dependent upon what the final settlement of UT4 ends up being, as to whether there is any recovery or under-recovery.

SIMON MITCHELL: Okay. Thank you.

LANCE HOCKRIDGE: Could we move to Scott Kelly?

SCOTT KELLY, ANALYST, MORGAN STANLEY : Good morning. I note you've taken AUD18 **million** off one-off transformation costs above the line. I'**m** just wondering if you have a quantum in mind for FY2015.

KEITH NEATE : Look, I think the one-off transformation costs in 2015 would be less than AUD10 **million**.

SCOTT KELLY: Okay. You also show AUD19 **million** of non-cash adjustment in that slide 11. I'**m** just wondering what that is please.

KEITH NEATE : Sorry. Which slide are you referring to?

SCOTT KELLY: Slide 11 in the breakup of other. You've got non-cash costs adjustment for AUD19 **million**.

KEITH NEATE : Give us a few seconds and we'll confirm the number for you.

SCOTT KELLY: Okay.

KEITH NEATE : I'**m** assuming it's probably year-end provisioning in respect of employee leave entitlements, which are subject to ASB calculation. So it will be dependent on the bond rate. So it's just an annual audit adjustment that we're required to make.

SCOTT KELLY: Yes. Do you know, Keith, what's the actual balance of expenditure so far on projects that have been capitalised? I assume it's just GVK and West Pilbara at the end of this period.

KEITH NEATE : I was going to say I don't have the number off the top of my head Scott. But it's disclosed in the statutory accounts.

SCOTT KELLY: Okay. I'll look into that. The last question is with respect to how you're thinking about capital management at the moment. If we go back six months, there was the slide that showed growth verses capital management. With the uncertainty around West Pilbara and GVK, does that mean that capital management is on the back burner until they're both resolved?

KEITH NEATE : No. Capital management remains very much at the fore of management's focus. GVK and Aquila are both in the early stages at the moment. There is a final investment decision that we'll need to go before **Board** before we commit any capital other than the feasibility and pre-feasibility costs. So no, we're extremely conscious of ongoing capital management.

SCOTT KELLY: What about in terms of outside of investment in new projects, so payout ratio, **buy**-back, those alternatives?

KEITH NEATE : Yes. They remain very actively under consideration.

SCOTT KELLY: Okay. Thanks very much.

LANCE HOCKRIDGE: Thanks Scott. Can we turn to Cameron McDonald ?

CAMERON MCDONALD , ANALYST, DEUTSCHE BANK : Oh yes. Hi Lance, a couple of questions from me, if I can. Firstly, just again on the operating ratio. Obviously, it's 77% in the second half of FY2014. Can you give us a sense of where that got down to in the second half? I'**m** assuming the fourth quarter would be the low.

KEITH NEATE : You assume correctly. Although obviously, towards the end of the year there are a number of incentive payments that are on an annual basis, together with a number of one-off audit adjustments that simply occur on an annual basis. The underlying performance, if you exclude those, certainly was a continued improvement in the operating ratio towards the last quarter of the year.

CAMERON MCDONALD : Are you able to tell us what that run rate is, going in at the end of the year?

KEITH NEATE : Quarter four was in the order, if adjusted, 76.5% I think it was.

CAMERON MCDONALD : Okay, thank you. Lance, you have recently given some media commentary around the West Pilbara project and I think you've referred to Stage 1 as potentially coming in at a CapEx number materially below the previous assessments of around the AUD4.6 billion. Can you give us an idea of where -- what sort of work you've done around that and where you see those savings coming from?

LANCE HOCKRIDGE: It's more headline than that, Cameron, so two observations. The first is that the publicly available numbers, the one that you refer to with respect to West Pilbara, were done in the lead up to 2012 and so those numbers were assessed, put together if you will, at the top of the mining boom, Cameron.

On the other hand, we, like others, through our day to day capital projects, have experienced what has happened with respect to, frankly, the level of pencil sharpening that has gone on and is going on, around these major capital developments, which is just a reflection, of course, of supply and demand in that space and we have seen in reletting some of our contracts in Queensland for example, some significant falls today, compared to what the assumed numbers were, as little as two or three years ago.

That's the context in which I made those observations and so specifically to your question, we won't know, of course, until we know, but we would expect that largely it will be across the board.

CAMERON MCDONALD : Okay, thanks.

LANCE HOCKRIDGE: Can we move onto Andrew Gibson?

ANDREW GIBSON, ANALYST, GOLDMAN SACHS : Hi guys. The first one is for Keith. It looks like you booked a profit on assets sale of about AUD10 million and he had a release or reversal of provisions around AUD12 million. I'm just wondering, have they been adjusted for any underlying number?

KEITH NEATE : No. That's all part of BAU. We had a similar number in terms of asset disposals last year and the movement in provisions is just part of business as usual.

ANDREW GIBSON: Okay. The second one -- it's probably tough to comment on -- but payout ratio now at the upper end of your range. I'm just wondering if the sustainability of payout at those levels could be impacted by the CapEx that you announced today.

KEITH NEATE : At this point in time, no we don't foresee it being impacted.

ANDREW GIBSON: Okay, thank you.

LANCE HOCKRIDGE: Thanks Andrew. Matt Crowe.

MATT CROWE, ANALYST, CBA: Oh good morning. Lance, you recently made a comment in a speech, I think, that you would like to double the size of the business every five years. I think it was originally stated in 2012 annual report. Given the declining in growth CapEx and the fact that a couple of big projects you're looking at haven't yet got to final investment decision, can you just tell us how wedded you are to that growth target and when you say double the business, what exactly are you talking about? Is it the market capitalisation or the asset base or -- what you mean by that?

LANCE HOCKRIDGE: Starting at the back end, Matt, it's a range, I guess. But essentially market cap. Are we wedded? We're only wedded to it to the extent that it makes sense. The reported observations for all the usual reasons don't include the caveat that fundamentally it's about doing stuff which adds to shareholder value. We have said from the word go that this, as a privatised organisation, is an organisation which is fundamentally and irrevocably focussed on returns for the owners of the business.

It's why in the context of talking about those projects today we continue to underline the point that before going past feasibility and getting into execution phase, there are FIDs and we will only go past those to the extent that we can demonstrate that they do make that kind of economic sense.

MATT CROWE: Thanks very much.

LANCE HOCKRIDGE: Thanks Matt. Carolyn Holmes.

CAROLYN HOLMES, ANALYST, JP MORGAN : Hi. Thank you very much. I've just got -- I have three questions. In the first half results you gave a target for an EBIT to revenue margin by FY2016 of 27%. Given the comments today that you're increasing the transformation cost and efficiency savings in the current year to achieve the 25%; is there any change to the FY2016 target?

KEITH NEATE : No, there is no change to the FY2016 target and indeed the annual report discloses the FY2017 target now as well, which is 71.5%.

CAROLYN HOLMES: Okay, and what kind of transformation cost outs and efficiency savings do you expect to achieve in order to get the 27% by FY2016?

KEITH NEATE : We haven't quantified a number at this point in time. But obviously, we will continue to drive the sustainability of the cost savings we're delivering during the course of this year into future years as well. We've talked this morning around investment in IT systems as a particular case in point, to continue ensuring we have the right platform to build the business sustainably for the future.

CAROLYN HOLMES: Okay. And just turning to the CapEx, the AUD200 million that you expect to spend on IT systems, can we just assume 50% in the current year, 50% in the FY2016 year? Or is it looking over a longer period of time?

KEITH NEATE : No, the majority of it will be spent in the next two years. Yes.

CAROLYN HOLMES: Two years. Okay and the accounting standards, you've got a depreciation policy in IT and software applications of between three and 11 years. Given that obviously some of the stuff that you're replacing is well and truly older than that, should we as a base be looking at a depreciation and amortisation of the IT application software of five to eight years, which is clearly going to have an impact in terms of the D&A type of number, going forward in our forecast.

KEITH NEATE : You are at a level of detail that's a bit beyond me for today, I'm afraid, Carolyn. But your assumption probably is not unreasonable. I haven't -- we haven't done the specifics on that at the moment until we know the final lay of the land on the IT spend in terms of, in particular, the investment we're making.

CAROLYN HOLMES: Okay and my last question, just a clarification. The additional AUD20 million to AUD70 million of transformation cost outs in the current year. Was I right in hearing that the abnormal costs in relation to that will be AUD15 million pre-tax in the current year?

KEITH NEATE : Sorry, I'm not with the question.

CAROLYN HOLMES: Okay. So you're expecting additional costs out of AUD20 million to AUD70 million to get up to your target.

KEITH NEATE : Yes.

CAROLYN HOLMES: Is there going to be redundancies related to that? And was I right in hearing, you talked about some kind of abnormal pre-tax costs in the current year of AUD15 million: was that not in relation to this? If not, what is the split between redundancies and other costs out and what is the abnormal costs that we should be allowing for in current year?

KEITH NEATE : I think you're referring to some implementation costs.

CAROLYN HOLMES: The additional costs doesn't relate to headcount reductions.

KEITH NEATE : Does it? It doesn't no.

CAROLYN HOLMES: Okay, so no further additional abnormal items, other than the impairment on the asset that you sold will come through in the current year?

KEITH NEATE : In FY2015?

CAROLYN HOLMES: That's right.

KEITH NEATE : There'll be no further impairments at this point in time, but there may well be additional redundancy costs. At this point in time we have had no further consultations and therefore are not in a position to disclose what they will or won't be.

CAROLYN HOLMES: All right, okay well we'll wait and see later, thank you.

LANCE HOCKRIDGE: Thanks Carolyn, Nathan Lee.

NATHAN LEE, ANALYST: Good day Lance. I just wanted to focus on those transport services contracts, they come up for renewal if I can recall 2015. I understand the Queensland government's running a competitive tender for them at the moment. Where do you see Aurizon's competitive position in that and how quickly can you reduce your cost base if you do actually lose those contracts?

LANCE HOCKRIDGE: You're right with respect to the timeframe Nathan, but the government whilst it's said it will tender has not yet done so. So we won't know until we know in that regard. The other part of your question goes to all of the sorts of issues that both Mike and I were talking to before. About the kind of IOP transformation that we've indicated on the Mount Isa line, rolling through the North Coast line, the Western line, the South Western line, et cetera, et cetera.

We would, particularly given the nature of the invested capital that we've got, the invested human resources that we've got, see ourselves as being in a good position with respect to any retendering of that business. Equally it's not a one way street, once we see the form of the tender, we'll need to make up our mind about whether we want to tender, and if so whether we want to tender for it all or something less than all of it.

That of course is going to be a function of our view about our ability to be able to achieve the returns that we want out of the business. Is that all okay? Moving then finally to Andrew Gibson.

ANDREW GIBSON: Sorry guys just one follow up question. Just to be clear, was Mike suggesting that the additional cost savings on the labor front this year, are not reliant on any of the potential outcomes in the EBAs?

MIKE FRANCZAK : That's correct.

ANDREW GIBSON: Okay thank you.

LANCE HOCKRIDGE: That's all the questions on the line, just a final check, yes Milesy's has got to have the last word.

STEVEN MILES: I don't wish to, but your CapEx guidance, six months ago you're at AUD350 **million**, today you're at AUD600 **million** and you've talked about the IT program. Will they be spent by 2016 and you're still at AUD600 **million** in 2017? You look at the notes from six months ago, the comments about upgrading track maintenance and the equipment around that were the same six months ago, so you knew about those.

You really haven't given us a lot of color on why you've uplifted effectively that AUD250 **million**. It sort of begs the question, you extended your asset life for locos and equipment 18 months ago or thereabouts. Yet at the same time we're now lifting maintenance CapEx and you're telling us we're using our equipment more efficiently, and we're spending more money. It doesn't sort of add up: what's shifted in your psyche in six months to make that difference?

MIKE FRANCZAK : So let me walk you through it again. Looking out in the out years, to drive the operating ratio down significantly and well in to the 60s%, you have to start setting up some long bets. The IT systems are part of the overall transformation, we weren't in a position to give you an idea of what that was like even six or eight months ago. But it's a necessary part of what we need to do to be world class.

Keith touched on a couple of other things. We have, in addition to getting rid of leases through driving productivity of the fleets, there are other opportunities out there to off-lease very expensive -- if you're just looking at it on a cash basis -- very expensive leases, and acquire some of that equipment ourselves, at a much improved rate. Quite frankly we'll more than make our hurdle rates by doing that.

There are some upgrades to equipment in time, we do have some fleet that if we do decide based on things like grain business. We're making provision for bottom gates, things of that nature that we may need to upgrade to bring those fleets back in to service, to go after new revenue opportunity, again meeting our hurdle rates. In terms of things like overhauls, you know that's a business decision, quite frankly, to spend a little bit of capital to save a lot more.

I do not want to acquire more fleet, but I do have to maintain what I've got, the fleet is right sized, it's sized for the business growth in the future. But it also has to be properly overhauled and maintained, and that requires some capital overhauls that will happen. In the case of locomotives every seven, eight years, wagons probably closer to eight to 10 years if we need to do any program work on some fleets.

Some of the work we're doing in yard consolidations will require minor capital, these aren't big massive multi AUD10 **million**, AUD20 **million**, AUD30 **million** spends. But as we consolidate for example our back shops in to Rockhampton, as we move out of South Townsville and consolidate all of our running maintenance in to Stuart. There are some minor upgrades we're going to have to make along the way.

Again the key point, the important thing is that the returns on these have to meet our hurdle rates, which are reflected in the ROIC targets and which are considerably higher than what we would see in a network sense. So we're talking internal rates of return that are north of 20%, well north.

Every one of these things we have line of sight to. The other technologies that Keith touched on as well, we're moving forward more aggressively with our wayside detection equipment. So we put some more money in that, because we see even further improvements in terms of labor efficiency, safety and productivity. Our fuel consumption, again similar story, we've gotten a lot of traction, we see more opportunity. Again all at **commercial** rates and more than meeting the hurdle rates we need for our business.

So I view this as good, smart capital management quite frankly, it's where to put the money, it's how we drive the business to the next level, and to set ourselves up for a trip in to the 60s%.

LANCE HOCKRIDGE: An important issue: Ian does that go to the question? I mean clearly we make the observation that you're right with respect to February. But it reflects very much the nature of the momentum that we spoke about, the speed of change that we're talking about. And the line of sight that we've got to how we are driving the business, not just to 75%, which for all the reasons that we understand is where we are now, but as Mike observes, we genuinely believe that we will ultimately drive this business in to an OR in the 60s%.

We're not going to be able to do that without taking advantage of world class capability, including the stuff that Mike has spoken about. We've seen the benefits, we've shared with you some of the benefits of some of that early stuff that we've done. So we certainly take it on the **chin** in terms of the description today versus six months ago. It is though about continuing that momentum that we spoke about.

There is another question from Stephen Wong, on the -- Stephen are you there? Oh it's a webcast, so Stephen asks, I understand that management LTIs have hurdles for EBIT margins of 27% in FY2016, 28% in FY2017, can you talk to the key drivers that will allow you to achieve those targets?

I guess it's a combination of all of the things that we've been talking about. The continued improvement through the integrated operating plan that Mike has spoken about. The kind of improvements which will accrue on the back of the capital improvements that we've spoken about. The wash through of the headcount changes in the business, the improvements in the revenue quality in the business.

I can't recall Keith, I think you made the point that as of today, 53% of our revenue is from new form contracts. That of course is going to go up in to the 90s% over the next couple of years. We will have first revenue from first -- sorry first revenue from the Wiggins **Island** project in March of next year, and the ramp up that will come from that. Again it's the combination of all of those things. Paul Johnson?

PAUL JOHNSON, ANALYST: Thank you, yes just one question for me on UT40, rather than timing, I just wanted to get a sense for just where your thinking might have evolved over say the last six months, as to the likely outcome on the revenue line? I think the QCA is six weeks out from making a draught decision. I presume you've had a fair bit of interaction with them and obviously with the customers as well.

I guess the pointed question is, has your confidence increased or decreased vis a vis your application, and maybe even if you can just apply some of the more sensitive points as you see it. Be it WACC or depreciation, you know has the argument moved in the last couple of months in your dealings with the QCA?

KEITH NEATE : I think again we're in crystal ball territory here. The QCA obviously has engaged heavily with ourselves and with industry around the issue and is currently preparing its papers that it'll hand down in September. I don't think there's anything further we can say at this point in time, in terms of what that outcome is going to be.

LANCE HOCKRIDGE: I certainly agree with that, I think what we do know is that the elements indeed, the elements that you refer to are the things that remain front of mind. But you'd be not surprised to know that at this stage of proceedings, QCA is playing their cards close to their chest. So it would just be speculation.

PAUL JOHNSON: Okay.

LANCE HOCKRIDGE: Phil Wensley.

PHIL WENSLEY, ANALYST, PARADICE INVESTMENT: Hi guys, just with respect to the CapEx that's swapping out some of the expensive leased equipment, can you help us just quantify that by perhaps giving us an estimate of how much the lease costs will come down?

MIKE FRANCZAK : I'll just take a quick stab at it, these numbers aren't going to be 100% accurate, because I'**m** going off the back off the envelope. But you know to give you an indication, right now we've got I think it's about AUD19 **million**, AUD 20 **million** in total, lease costs for locomotives and wagons for our intermodal services.

As I mentioned before we're going to get at some of that by driving other assets harder and those assets harder to get the productivity and therefore the numbers down. The balance of that will be off-lease and if we require capital to replace them, and we'll need some, I mean we're talking about rates that are multiples higher than it would cost us on a capital basis. So call it 50/50 in terms of that AUD20 **million** number and of the AUD10 **million**, you know we can do it for far less than AUD10 **million** a year, far less.

PHIL WENSLEY: Thank you.

MIKE FRANCZAK : Just one other comment too, and it's important to understand, and very relevant. Is when you're driving 20% and we'll see similar numbers in the middle teens at least this year for asset productivity. You're now running your fleets at much higher duty cycles. So this isn't the old lazy fleet we had two or three years ago, this is a fleet now that's working a lot harder, a lot faster, burning up more miles. So they do require a revisit of the overhaul cycles, and there will be capital involved with that.

LANCE HOCKRIDGE: There are no more questions on the phone, last call in the room? No? Okay, well thank you very much, thank you for your attendance, both here in Sydney and on the telephone, and we look forward to catching up with you further. Thanks very much.

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