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Presentation

CHRIS VAGG , MANAGER, IR, AURIZON HOLDINGS LIMITED: Good morning, everyone. For those of you who don't know me, I'm Chris Vagg. I'm with the investor relations team here at Aurizon. I'll just give you a quick rundown of today and then we'll just have Simi come up to give you the safety briefing.

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But today, you'll see we've got presentations from Lance Hockridge first and then Alex Kummant, Clay McDonald, Lana Stockman, and Pam Bains, all from network. And then we finish up with Mike Franczak from **operations**.

And once everything is finished, we will then go to a Q&A, so you will have the opportunity to ask questions of everyone and you will note there's a lot other Aurizon people here in the audience, so you'll have a chance to talk to them, too. And obviously, people who are on the line, on the webcast and dialing in will have the opportunity to ask questions as well.

But before we get Lance up, we'll just get Simi*X* from the Christie Conference here to just give us the safety briefing. Thank you.

UNIDENTIFIED PARTICIPANT: Good morning everyone. Welcome to Christie Conference Center. I'm Simi, the operation supervisor for Christie Conference Center. We've got two-phase alarm system in the building, beep beep and whoop whoop. Beep beep is investigation. You can stay in your room.

On whoop whoop, you hear an announcement in the room to leave. And the nearest exit for your room would be just down on your right-hand side, so you just get out on right, turn left, and then turn left again.

There are emergency stairs, which will take you to Adelaide Street, which is just the street down on left. And then go all the way to Adelaide, turn right to Creek Street. Our meeting points will be corner of Adelaide and Creek Street in case of emergency.

Please do not use lifts in case of emergency and smoking is allowed four meters away from the building. Toilet is on this level, located just turn right and go all the way to right. That's where the ladies and gents are. Thank you very much and have a good day.

LANCE HOCKRIDGE, MANAGING DIRECTOR AND CEO, AURIZON HOLDINGS LIMITED: Thanks, Chris. Thanks for the introduction. Could I welcome everybody this morning as I necessarily need to change glasses these days. Other than the -- one of -- at least the world's most livable cities letting us down this morning in terms of some of the people trying to get out of Melbourne.

We certainly, as you can tell, have a very wide range of participation today. And so I welcome you all, particularly those that have come a long way, including from overseas.

This is, as Chris said, it's the start of two days. We will spend time together in presentation mode and then Q&A mode this morning. And then of course, a number of you are going to have the opportunity to go up and again, experience the central points line network, some of our people, some of the assets, and some of the **operations**.

We certainly look forward to being able to demonstrate to you the range of initiatives and the progress that is being made around that over that period of time. Fundamentally, the message today is about continuing to drive value and returns for the owners of the business.

So I guess I should -- starting, then, this morning, as I say, with the presentations, which are essentially around the agenda that you see in front of you. The focus is around network, particularly in the post-draft announcement, and the opportunity, though, more broadly to talk about some of those key initiatives that are going on in our network business.

Similarly, though, to then invite Mike to talk about the above rail business and the continued progress around the reform initiatives, the efficiency initiatives in the above rail business as well.

So while that's our focus, again, I emphasize what Chris said in his interaction -- introductory interaction -- that we very much will ensure that there is time for a broad range of Q&A. So you should feel free to go anywhere that you like, both in terms of the Q&A session that we will have here and then there will be opportunity as well over a light lunch to interact with a range of the management.

And again, as Chris observed, you can see that there is a significant range of Aurizon management here -- a number of the EVPs are here, a number of the vice presidents, and indeed, operational and **commercial** general managers. So once again, you will have that opportunity.

Stepping into it then, can we start where always restart and that is around the safety performance of the **Company**. And I guess there's two halves to the observations that I would like to make to you this morning. The first around continuing underlying performance and then the background to the incident -- the tragic incident that we had at Stanwell a couple of weeks ago.

Firstly, you've seen, of course, the FY14 numbers with respect to the continued improvement in the safety performance in the **Company**, especially as measured by the lagging indicators in the **Company**. I can tell you that across the **board**, with the exception of the incident that I will come to in a moment, that improvement has continued.

And remarkably enough, in September, for example, for the first time ever in the history of the **Company**, we had a month in which there was neither a lost time injury nor a medically treated injury in the **Company**. A representation, indeed, as I say, of the continued focus, at the continued performance in the safety space in the **Company**.

By the by, one difference in what we are showing you here -- and it will continue to be the case -- is that for reasons of greater transparency and ease of comparability between our performance and that of our customers on the one hand and a number of the overseas operators, rather than showing you MTIFR, we will consistently show total recordable injury frequency rate.

That being the measure, as I say, that most of our customers and certainly the Class 1s in the railroad industry generally quote more publicly. So it will afford you the opportunity to be able to more readily, as I say, look at our progress and comparability of our performance.

If I can then pass in what for us -- for the life of the **Company** -- is a very sad note, that -- and a demonstration that the line between extraordinarily good safety performance and tragedy is indeed so thin, it's a couple of weeks ago that we unfortunately had this incident at Stanwell, which is about 25 kilometers west of Rockhampton, where a contract car driver driving an Aurizon vehicle was conveying two Aurizon train drivers to relieve a crew at a train about 5 kilometers west of Stanwell.

We would be in speculation mode still to recount what happened. We simply don't know for sure. The facts of what we do know is that which I've said so far. For whatever reason, the driver of the car went past the turn to the -- a designated crew change position, pulled over to the left-hand side of the road, and then tragically made a U-turn right into the face of oncoming **B**-double tanker.

Not to be too graphic about it, but the [prada] rolled some eight times. And unfortunately, the three occupants of the vehicle were killed immediately.

The reaction to the -- to an incident of that kind, as you can imagine, was immediate and widespread across the organization. The impact most particularly in the initial stages around our train drivers, especially in the depots that are most associated with these drivers, but indeed right across the **Company**. The morale impact right across the **Company** was profound.

I think whilst you would always hope that you're never put in a position to have to react to an incident of this kind, that nonetheless, the very breadth and depth and quality of the response to the accident, the way in which the families were looked after, the way in which the colleagues of these people were looked after, and I should have observed, but there's a family relationship, even with the car driver, inasmuch as he was the son of one of our supervisors.

So in that sense, all three occupants of the vehicle were part of the broader Aurizon family. Certainly, the quality of the response, as I was saying, I believe was very appropriate. And is a mark of the values in the organization.

That said, the real takeaway is whatever it takes. We have got to continue the safety journey. We have got to make sure that an incident of that kind -- even of that kind -- cannot happen.

Moving then to some of the overview that I would like to make with respect to the **Company** and our progress. The value creation fundamentals, as the heading says, remains strong.

No doubt, as we all know, there are headwinds -- in some areas, significant headwinds -- across the different parts of our business and the environment in which we operate. But our business remains strong, as I will come to in a moment.

Certainly, we acknowledge that there are a range of concerns that have weighed both on the market generally and on our stock and our **Company** in recent times. I am here to say to you that whilst being balanced about all of that and hopefully being realistic about all of that, we believe for many of the reasons that we will kindly share with you this morning and over the next couple of days, that a number of those issues are either misunderstood or overblown.

From a general market point of view, rather than showing you some of the sorts of charts and demand profiles that often we do, I would simply draw your attention to a range of the kind of presentations that our more significant customers have made in recent days, which in my view, again, for all of the commentary that goes around that, when you look through it, continues to demonstrate that demand remains robust in the medium and longer term.

Again, we're not pretending that there aren't headwinds; we're not pretending that there aren't significant issues. But as we look through the cycle, we remain very confident about the future of the resource sector and the future of our business.

In all of that, though, particularly as we do think about those headwinds, you can be assured that the overwhelming focus of the management team of Aurizon is to continue to drive the things that we can manage and influence. And to continue to drive the improvement in every aspect of the business that we can control.

If I can turn, then, to some of those fundamentals as set out on this chart, firstly thinking about network, this is, at the end of the day in my view, a terrific business. Especially in the context that I've just been painting, I would put to you it is an enormously defensive business for us to have.

It is a very high quality business, and as you will hear from Alex and the team, the extent to which we are able to continue to provide the impetus around improvement in this business is of a high order. In terms of that influence for Aurizon, I would remind you that in FY14, even in the context of the transition tariff arrangements, the network business still provided around half the underlying earnings of this **Company**. So again, high quality defensive core business.

The business, as you will hear more about during those presentations in a moment, has the advantage of an extraordinarily high quality of customers. Indeed, around 80% of the network business is leveraged to the six global resource companies.

Again, you hear more about that in Alex and the team's presentation. But once again, if you want to think about and focus on this defensive quality and the ability for a **company** to be able to hitch its future and its capacity to companies of this kind, then I think the quality speaks for itself.

We will talk, of course, this morning in some detail around the draft decision. And we continue to work with QCA, but more than QCA, we continue to work with our customers in order to what we would hope and believe will be -- improve the outcome that was announced a couple of weeks ago. As I say, more about that in a moment.

Turning then to the above rail part of the business. I am assuming that by now, you would have all had the opportunity to see our volume announcement this morning for the first quarter.

If you strip out of the comparative period, the loss of the Hail Creek contract and the closure of Wilkie, which both occurred after the end of the comparable period last year. Volumes are up 5% in Queensland and by a similar amount in New South Wales.

As we look at the chart here, we do continue to provide guidance consistent with what we've been saying since the full year, around that 210 **million** tons to 220 **million** tons for the full year.

As we stand here today, our volumes remain strong, robust, and as we look forward, all of the feedback from our customers continues to be that that level of throughput will continue. Now we don't have a crystal ball and so as we make our way through the wet season and as we make our way into the middle of next year, obviously at the back end of the year, we need to be cautious about those numbers.

But again, for the moment, we are running flat out and all of the prognosis, as I say, from our customers is that that will continue to be the case. It is on the back of the kind of long-term demand to which I have referred. It is with respect to **China** and India.

But the other significant influencing factor in what we're seeing at the moment, I believe, is the continuing improvement in their competitiveness of the Australian supply chains. Now we are part of that, of course, but particularly I refer to the ongoing initiatives, especially of the big guys, around their productivity efficiency cost effectiveness.

And so you are seeing both in absolute in terms of global demand and are relative in terms of the relative competitiveness of the Australian **coal** supply chains and indeed, **iron ore** supply chains compared to the other parts of the world. And as I say, we're not here today to opine about -- in a broad way -- about our views about all of that, but happy to answer questions in that space.

We are then -- if I can emphasize and emphasize again -- about driving returns. This is about the continuing effectiveness of our transformation productivity cost efficiency initiatives right across the **Company**.

Thinking back over the last few years, we have delivered and we have delivered strongly on each of the promises that we've made, with respect, most obviously, of course, to operating ratio. We are building a culture of continuous improvement right across our organization that will underpin that continued improvement.

Indeed, our mindset is that we are, of course, in heavy-duty execution mode with respect to the delivery of OR 75% this year, but our thoughts, our planning, our initiatives are much more about getting to OR 70% and beyond, as we think about what the key initiatives are in this business.

As you will hear reflected from both Alex and the team and Mike, we remain very optimistic, we remain very confident about being able to maintain that kind of trajectory of improvement in the operating ratio in the business. We continue to do things that are going to underpin that, many of which you'll hear about, as I say, especially from Mike and Alex.

Some of what you won't hear about today for -- only for lack of time is the kind of continuing cultural change initiative in this organization. As we think about what that high-performance culture looks like, what that culture of continuous improvement looks like in our business going forward.

One of those underpinnings of cultural change and capability, of course, are our enterprise agreements. And so if I can digress for a moment, just to give you a couple of thoughts in this space and once again, of course, happy to talk about that if you have any questions at the end.

The first observation that I would make is again about the frustration that we experience with the Australian industrial relations system generally. You've heard us on that, you've heard me on that in the past, but I can't go past an opportunity like this without again making the point that the level to which the system is tilted against the ability of a **company** like ours to be able to make meaningful change is nothing short of extraordinary. It's an observation that I've made from -- to the Prime Minister and anybody else who will listen.

Notwithstanding that, the key point here is the same point that I made before. We are in the business of doing what has to be done within the boundaries of what's available to us.

Again, if you think back to what we've been able to do over recent years, there are many sitting in this room who would say that we would never have been able to move out 2,500 people out of the headcount of this business, for example. But we have done it and we have done it without losing one moment's lost time. So let me be very clear that as we go forward, we will do what is necessary, no matter what the constraints are that are upon us.

Notwithstanding that, let's not be too acute. The changes that we are seeking in the industrial relations environment with our enterprise agreements will materially help. They will help in terms of being able to expedite many of the sorts of changes that, again, you will hear from Alex and Mike and co. about over the next day or so.

It is therefore overwhelmingly important that we continue to prosecute and follow through on achieving the changes in our EAs. Again as a reminder, we are not looking for blue sky stuff. We are at its heart saying to our employees and the unions who represent them what we want is a level playing field.

What we want is to benefit from the same conditions, the exact same conditions, that our competitors already have. The exact same conditions that our competitors already have.

In what planet, therefore, does it make sense for the unions simply to stand on history and refuse to allow us to go forward in that way when they've made those selfsame agreements, as I say, with our competitors.

We are making progress. Outside of Queensland, we have resolved the outstanding enterprise agreement negotiations that were on foot. You will be aware that within Queensland, we put the agreements to a vote of our workforce in recent days. We got the white-collar agreement up, as you would be aware.

Now that is not the end of the story, let me hasten to add. Consistent with the kind of mindset that I was just describing, it won't surprise you to know that the unions are fighting tooth and nail to ensure that we cannot have that white-collar agreement registered by the commission.

And so yet again, we have got another process of having to roll through commission proceedings, in this case at the beginning of December, to argue our case about why those -- that that white-collar agreement ought to be registered.

We all know that more generally, next week, we are before the full bench of Fair Work Commission around our application to call a halt, if you will, to this whole nonsense process by deregistering -- canceling the existing enterprise agreements.

We have gone into that process eyes open. We have gone into that process with the most extraordinary level of preparation and with the best level of legal industrial relations resource that is available to any **company** in the country.

We have done a power of work. If you talk to the likes of Ed McKeever, he wanders around with 6-inch thick lever arch files of material -- of submissions that we have prepared.

We know this is a novel approach. We know that prima facie, at first instance, it would be a large hope to win this case in the first instance. That is not the point.

The point here goes back to where I started. There has got to be a circuit breaker. We have made and delivered on every one of our promises so far. We are taking what is the most extraordinary level of insight and application into the full bench. We have the momentum that that white-collar agreement represents and the objective here is to raise the temperature under the unions.

This simply cannot go on at length. And so whether we win, whether we -- in the alternative, cause there to be a process supervised by the Commission that sees real and genuine negotiations going forward, that's our objective.

If there is to be an arbitration out of all of this, that holds no fears for us, because of the level of preparation that we've done, because of the comparison, as I say, with the positions that already obtain for our competitors in this same market.

More generally, with respect to our focus, again to reemphasize, it is about driving shareholder value. It is about driving returns for the owners of the business. Very clearly, the first and -- will remain the first priority for the **Company** is the transformation, the efficiency drives within the core business of the **Company**. That is our overwhelming effort.

And again, you will hear that in spades from Alex and the team and from Mike here very shortly. We will continue to turn over every rock and look for every possibility to be able to expedite the delivery of that kind of transformational change in the **Company**.

I made the point a little while ago that in our mindset as a management team, we are already thinking of what 70% and better looks like. We do not do this on the basis of -- irregardless of the returns that are involved. Nothing that we do -- nothing that we do -- is not -- is done without regard for the target level of returns in the business.

And so up to and including the kind of transformational capital that, again, Mike will spend more time offering more insight into in a few minutes here, none of that will be done without it materially improving our ability to be able to expedite change on the one hand and our ability to be able to deliver or better than deliver on the target returns out of the business.

Equally, that has to come and is coming with transformational change in the nature of our relationships with our customers. Self evidently, given the kinds of market conditions, given the kinds of headwinds that I have described before, we simply cannot be in a position where we are doing -- that we are simply taking this kind of change, as it were, out of the hide of our customers.

And as we won't have the time as a matter presentation today, but we can give you all sorts of examples of the initiatives that are in place and the quality of the improvement in the relationships, both from an above rail and a below rail point of view, with our customers in our operating space. Value for them, of course, is most particularly about the ability to deliver and the ability to be able to deliver consistently.

We are, as I observed before, implementing formal and comprehensive arrangements to drive organizational health, to drive the improvement of a purpose-built organizational culture.

So it's not just about change for change sake, it is not just about what the latest stimuli is, but we have been through a process of actively designing what we believe the culture of this organization should be, what we believe the must haves, the important, the nice to haves are in terms of a wide range of the elements of that culture going forward.

We do believe that there is, notwithstanding the circumstances that we are in at the moment -- there is considerable risk-appropriate growth opportunity that remains open for the **Company**. Only, however, where the fundamentals make good economic sense and, again, where those risk-weighted returns can be met and exceeded.

One can be forgiven having regard to some of the bigger initiatives and projects that we've got on at the moment to believe that there is a disproportionate amount of effort going in or resource being devoted to those initiatives. But to give you a little bit of a flavor or a single anecdote that will put a little bit of that I think in context, our broader executive team number is 76 people.

Of that 76 people, 5 are associated with business development and major project development. In other words, the overwhelming majority of the resource, particularly the executive resource in this **Company**, remains focused on the transformation and return journey in the **Company**.

Equally, we continue to be focused about active capital management. We would reiterate that first and foremost, our intent is to retain an investment grade credit rating. You would have seen that we have improved the payout ratio in the **Company** currently to 70%. We always have an eye to the option for a return of capital to owners in a circumstance where that represents the best value for the owners of the business.

I spoke about big projects a moment ago. Can I take the opportunity to give you an update and something of a comment with respect to the West Pilbara project, because I think it's important to understand with crystal clarity where we are and indeed, for that matter, where we are not with respect to this project.

And therefore what is set out on this sheet I think is fundamentally important in that regard. Let me say upfront, we do believe as a **Company**, from the **Board**, from the management of the **Company**, that prima facie, the West Pilbara is a sound and an exciting opportunity for the **Company**. And we can happily talk through all of the elements of why we believe that that is the case.

On the back of that, though, we've spent a little over AUD200 **million** effectively buying an option to be able to prove up or disapprove that hypothesis. We have not committed to anything at this point, other than that expenditure as part of the Aquila **acquisition**.

What we have done is to get heavily into a feasibility study. Our colleagues on the mine side are equally heavily into a feasibility study with respect to the mine, the mine quality, and the mine economics. The same kinds of things that you would expect us to be focused on from an infrastructure point of view.

I would want to emphasize in terms of the things that are on this sheet that we are not trying nor will we at the end of the day attempt to defy gravity. In other words, it will only be in the circumstance that the fundamentals of this project stack up, stack up from an operational point of view, and end market point of view, a product demand and cost point of view, and of course, most importantly, from the point of view of achieving and exceeding the target returns for the **Company** that we would make a commitment to go ahead.

We have a number of stages through which we are going. We have in recent days been talking about pricing principles, which is [to the way], of course, both infrastructure to mine and mine to infrastructure.

As you can see early in the new year, we need to provide an indicative tariff. Let me again, at the risk of being too slavish, emphasize there is nothing which is in the nature of a commitment with respect to the

provision of that data. It is simply to allow both sides to better work through the project economics and the feasibility studies.

The point at which we have to make a binding commitment is at its earliest in October of next year. But more likely, frankly, I would suspect through until the early part of calendar 2016.

Again, assuming the **Company** makes a final investment decision, it will only be at that time. It will only be on the basis of the most exhaustive amount of work. It will only be in a circumstance where the fundamentals of the project make sense from the perspective that I've described, but equally that we have in place all of the appropriate risk mitigation elements.

That is where we are at the moment. We have a significant team working through those opportunities. We have what I would describe as an excellent working relationship, most obviously with Baosteel, but equally with POSCO and with AMCI.

And of course, having regard to the nature and the significance of the project, I would expect that we will continue to update you. The next opportunity, I would imagine, will be at the time of the announcement of half year.

Finally then, as I invite Alex to come up, there is this question of our capital and capital spend. I observed a moment or two ago that Mike in particular will talk through, as will Alex, further insight with respect to what that capital is, particularly what we're describing here as transformational and productivity capital.

The observation that I would make is again, a reminder that this is in the nature of looking and that every rock for every opportunity to be able to expedite the delivery of the kind of goals that I have said. It is all about, however, not doing anything that does not meet and exceed the return targets of the **Company**.

As I say, the team will talk more about that, but this chart is here so that right up front, you can have that level of overview and transparency with respect to the numbers that we're talking about.

Alex?

ALEX KUMMANT , EVP, NETWORK, AURIZON HOLDINGS LIMITED: Thank you, Lance. And a third good morning to you, this time on behalf of Aurizon Network. We've truly looked forward to the moment here to be able to lay out our business to you in a little bit more detail, a little more granularity than we have in the past, and perhaps most importantly introduce our team. You will hear in a moment from Clay McDonald, our Vice President of **Operations**; Pam Bains, Finance; and Lana Stockman, Regulation. We've get a great team and tomorrow you will also meet more people in the field particularly in our dispatch center where a lot of the weight of the operation comes to bear.

So many of you are familiar -- quite familiar with the high level numbers. Aurizon Network manages, operates the rail infrastructure for the Central Queensland **Coal** Network or the CQCN as we call it. I'll use that phrase a lot here -- CQCN. As you well know, we are a regulated business. Regulated by the Queensland Competition Authority .

The CQCN is Australia's largest export **coal** rail network with a regulated asset base of about AUD4.5 **billion**. We serve over 40 mines railing to five export terminals at three ports. And to give you a sense of the scope and scale of the operation that means about 70 services a day. You have much more of a sense of that when you look at all the boards of the network and the network **operations** center in Rocky.

And as most of you know as well be reached a AUD1 **billion** revenue level last year with an EBIT a bit over AUD400 **million** and we railed an annual record of 214.5 **million** tonnes. Clay will talk a little bit more about that. We're currently ahead of that pace, at least in the first quarter.

As Lance spent some time on, we at Network truly represent stability and predictability in revenue and returns. Our customer base is fundamentally comprised of the large global miners, as Lance said. But also layered on top of that regulated revenue base we do have a segment of business with more commercially oriented returns, GAPE and WIRP.

Operationally as you'll hear, we are very aligned to the continuous improvement roadmap laid out and really lived by the North Americans over the last 15 years. Given that model and the access to that technology, we've demonstrated and continue to believe that we can move through that journey at a relatively fast pace. Obviously, Mike from the **operations** point of view is in the middle of that and will address more of that later.

As we have said in previous sessions our regulated business model and vertical separation is a different model than the North Americans, but there are many, many parallels in the operational elements of the business. And Clay will touch on many of these as he walks through the **operations** story.

Again getting back to the overall stability, the financial stability and the business stability of this, 90% of the Aurizon Network revenue is generated from track access fees. Speaking of predictability -- tell you what. I'm just going to leave that here and not smash Lance's glass. I think you'll hear about our maintenance practices -- things like this never happen out on the network.

In a few minutes, Lana will take you through how the regulatory building block process stacks up our revenue picture. She'll walk through how our annual revenue comes together from the WACC, depreciation, OpEx, and maintenance. Pam will also talk a bit about how the commercial structures in WIRP work.

So again, stability driven by the regulatory process is one thing but the quality of our customer base, as Lance alluded to, is certainly the key point. I think you, again, you all know the customers. They're the who's who of the natural resources world -- Rio, Anglo, Glencore , BMA. 80%, as Lance said, of our revenue is generated from that base.

UT4 -- obviously a long process. We had had a lot going on in that space. We are still a bit limited in what we can say -- because of the pricing paper that was released -- it was after all just a draft, again, about a month ago on September 30. We are nonetheless happy that the WACC figure began with a seven and not a five or a six, so that's certainly a positive.

The QCA has been genuinely forward leaning in really wanting a further detailed engagement in the maintenance space, I think as everyone knows who follows this. But what I can tell you is that the engagement really has been very positive over the last year both with the QCA and with the industry. I think everybody recognizes we just have to get particularly this maintenance piece right; that's critical for all. So we can't promise you an outcome, but I think we can say that we believe we will get a very real hearing on our issues. And we will be working this hard for the next 10 weeks or so.

Not to spend too much time making the case, but let me leave you with a little bit of a sound bite -- we have to make a bit of a case. We do want to emphasize that the RAB value will be up between UT4, from UT3 over 30%. And as is forecast as well, the annual tonnage will be north of 30% increase on an average annual basis, UT4 over UT3. Those are big numbers. And you don't grow an asset, you don't grow volume that much without needing an uplift in almost every piece of the OpEx and maintenance space that you get. So without presupposing or preaching because I know our friends at the QCA will look at everything we have to say here today as well, but all I want to say is, that is an indicator that a reasonable revenue lift for Aurizon Network from UT3 to UT4 is certainly wanted.

So what's the broader strategic framework? How do we think about this business? First and foremost, you see here the first tranche -- we need to continue the journey with our customer base to a world-class operation. That is what we mean by optimizing the current business. You'll hear a lot of this from Clay -- how do we improve maintenance practices? How to be optimize capital use? How do we plan and schedule better? How do we improve our technology and our people skills? Overall, how do we drive down variability in this entire system? But in the end from a business point of view nothing succeeds like success. The CQCN and the smooth operation of this asset is a single best marketing tool that Aurizon can have.

I'm also often asked, so what motivation do you have as Network as a regulated business to improve? Surely you can just sit there and enjoy these guaranteed revenue tranches that come in. I've never believed that. I never believed that when I ran Amtrak, but performance alone is a huge unlocking mechanism. After all, we want more accretive commercial opportunities like GAPE and WIRP, but we also want an ongoing constructive relationship with the regulator; and furthermore, our performance will make all of Queensland Coal more efficient and will unlock market penetration opportunities for everyone. Regulated or not, that means a stronger more resilient and more profitable business for the entire supply chain in Queensland Coal.

So, we also believe, though, post UT4 when you look at the current structure and you look at the current structure that we're wrestling with in the ongoing dialogue that there is value to be unlocked here, the central tranche from within the CQCN. Some of that is sheer performance, as I said, but a regulatory and commercial evolution surely must be possible. Everybody agrees we can't go through this two or three-year process again; no one benefits.

But we can create some risk -- but there are questions out there that I think all of us naturally ask. Can we create some risk return opportunities on top of the regulatory base? Are there commercial motivators for the miners, for example, to reduce the variability that they bring to the system? And there are a few -- cancellations, mine load-out performance, high numbers of SKUs. I think -- what is it -- the Goonyella has 40 to 50 SKUs. Coal types -- that's complexity, that's variability. Can we come up with more creative structures for take or pay? That's on us. We think there's much to talk about here, really, and an interplay between the regulatory and commercial frameworks.

Finally, if you really look at, so where do we go from here? Here I speak in terms of 10-year, 20-year outlook. As Lance alluded to, our core focus is what you know it is today. But I think we can ultimately grow in other markets from a network point of view, and that is when the CQCN is truly a world-class operation. There may be other revenue opportunities for services in other rail spaces, and our skills clearly come to bear in the current development activities that we are working. But in the end there may be longer-term follow of the customers strategy as this operation at CQCN evolves.

From a performance point of view this chart as much as any shows how closely we are linked to the **operations** side of the business. Mike could probably put up a chart very, very similar to this one. It's really all about moving more tonnes at lower cost. It's about reducing variability. This is all very closely aligned, again, with what you will hear Mike say here in a moment. You've heard this in the past and will hear it again today.

In a nutshell, we want to move heavier and longer trains faster and in an overall environment of lower variability. Again, that's good for everyone. It's more **coal** for less cost with better on-time performance and predictability. And the underpinning of the Network performance, the excellence of this asset and how it's managed, is after all the platform this all runs on.

Clay will step you through what that means on a day-to-day basis for **operations** and tomorrow you'll hear from Sarah Dixon what that means from a planning and scheduling and dispatch point of view. You'll hear a common thread of better maintenance planning, shorter maintenance windows, better condition monitoring, and overall reduction of non-value tasks. So not only do you need great infrastructure, you need to maintain it in the least invasive way, which is no small feat. And then you need to manage your planning and scheduling to get the most out of your asset. We are working on all of those fronts.

So here we reflect on a lot of different ways we do spend capital. Big **iron** in the ground capital and smaller unlocking technology projects. You see on the right hand side is a representation of stepping up the capacity capability of the network. So where do we get most of our physical capacity? Obviously you see the hard **iron** in the ground projects here, but the small unlocking projects are very significant. Clay will also spend more time on this.

We'll give you an example really of the unlocking projects. And in the middle of Sarah's world, APEX is a systems project with GE. I mentioned this to a few folks as we were gathering to come into the room. There's also a strong assist here from Norfolk Southern who have just implemented this system. It's a system called Movement Planner. This allows day-to-day **operations** of dispatch with complex decision-making beyond really pure human capability. NS has seen significant gains here where the system can actually look at passes and meets and other decisions you need to make that far exceed what human dispatchers can do today. And this will substantially help us get more out of the network on any given day.

Another example is the acronym -- the project called PACE, Possession and Capacity Evaluator. Also core to doing CapEx and maintenance the least invasive way that we can on the network. It's a clever tool that optimizes shuts, answers questions like how does one plan the scope of a job. For example, one of the questions is, is it worth replacing some assets that may still have some life but you are already on **site**, you are adjacent to the current work -- does it financially makes sense to go after some of those assets? And economically you can prove that that's the right thing to do. What else can be done in the window of a shut? There's always opportunity opportunities. There's always things that are recognized from a geometry car, from other inputs -- hey, we need to go fix this, let's do it now. So it's an ability to react. And how does this align with mine and port maintenance programs? Also a significant issue as you plan ahead. So we can manage all of these shuts better and that's and evolving process.

So these are all terrific capacity unlockers and often variability reducers and these technology and smaller projects generally are delivered for about 25% per sort of capacity unit, if you will, of the big **iron** projects. Clay will spend quite a bit of time on this and show you some photos and some data on interesting programs.

So to close, I'll just go to the last point on this chart and that really is success by network provides, as we have said, above rail performance benefits for all operators, for the whole supply chain, for all the customers. That will continue unlocking opportunities for us. We make the point that is best practice is a de facto competitor, but more than that include transparent regulated world within which we operate, it's our goal that are cost customers will see and understand our performance and our continuous improvement.

We've partially achieved that, but we have further to go, I think we all know as with the UT4 process, as is the case with our maintenance consultation with the QCA, and over the next 10 weeks we will work that hard. We have a good story to tell, and we need to make that obvious to everyone.

Just to sort of round out a little bit of what we've accomplished -- so we have railed record volumes. We have reduced delays but over 30% year over year. We have reduced electrical faults by 50%. We've achieved full scope of our monthly maintenance programs while railing record tonnes. We've diligently closed high-risk crossings, reducing level crossing collisions by 43% since 2010. And in the last years we have delivered AUD2.2 **billion** worth of major capital projects on time and on budget. I think we've demonstrated that we are very strong stewards of this asset.

On the bottom left, you'll see how we measure ourselves in terms of process capability -- how we stack up in 25 different categories. We are on a journey. We'll always have more work to do, but that's life in **operations**. And I think that is a great **lead** in to Clay. Clay?

CLAY MCDONALD, VP, NETWORK **OPERATIONS**, AURIZON HOLDINGS LIMITED: Thanks, Alex. My name is Clay McDonald and I'**m** the Vice President of Network **Operations**. I've been in the role for three years now. Previous role to this one was **Group** General Manager of **Coal** South looking after the Blackwater, Moura, and West Moreton systems. So I've been in the business for six years.

I'd like to start with a few on the CQCN, the Central Queensland **Coal** Network, which Network **operations** manages, maintains, and renews. What we have starting in the South if you look at your map on the right hand side, the Moura system, which is a non-electrified system, contracted for just under [15 **million**] tonnes. As we head north we go into the Blackwater system, 81 **million** tonnes contracted. Goonyella system, just over 130 **million** tonnes. And up into the North, the Newlands system currently 38 **million** tonnes in that system. All up, 255 **million** tonnes of contracted capacity.

This is a complex supply chain. This has three above rail operators with diesel and electric trains. We have electrified network and unelectrified network; five cold terminals, each with their own constraints. We have 40 mines, as Alex mentioned, with different SKUs. You can't put different SKUs on the same train, and you can't deliver them to the same stockpile -- they've got to be separate.

We've got trains now running from the Goonyella system down into the Blackwater system. We've got trains running from the Blackwater system into the Goonyella system, of course. The Goonyella system into the Newlands system. It's a complex supply chain.

To manage that complexity we've got a number of continuous improvement programs and step-change programs I'll take you through. But fundamentally we focus on three discrete areas -- reducing variability, improving reliability and customer service, and optimizing capacity. You are going to see each of these programs, and you are going to hear those sort of terms used quite regularly through this presentation and as you head up into barmy Central Queensland this afternoon and into tomorrow.

So over the last three years, we've had two axis of improvement based around the following -- structure focus and capability, which has been our people focus. So might team, for example, has a mix of [X] or long serving employees from QR that really know the asset and know the operation, and we have quite a few managers and new superintendents from places like Rio and BHP have joined the team. So, yes, a big focus on the structure capability and the focus of those teams.

The second area what I call the enabling area, enabling focus -- modernization/mechanization, systems, and technology. And the output on the right-hand side through those programs and through these streams is what I have spoken about before -- reducing variability, increasing capacity, and unlocking or improving our customer service.

So how are we going three years at it? On the top left-hand corner is how we measure ourselves on what variability we create in the network. So that's below rail delays, unscheduled delays greater than 15 minutes. What that captures is any delay caused by our overhead signaling or track system, any delay we create on the network caused by an unplanned occupation or and overrun, and any impact caused or additional dwell caused two trains by our activities. And you can see from 2011 to 2014 we've seen a 44% reduction in those unplanned delays. So from around -- at the peak of it there you can see 43 minutes down to around 22 minutes.

As a team, we recognize that 22 minutes still has a lot of opportunity in it. That means that every train that's traveling around the network -- 500 trains a week -- the impact by 22 minutes. So these programs are very much focused on reducing that 22 minutes and increasing the velocity of the trains that are running on the network.

So just to have it looked at some of the figures that contribute to that below rail delay number, on the right-hand side is our traction faults. You'll see a bit of this tomorrow -- these are the overheads in the Blackwater and Goonyella system. So our cancellations and impacts caused by traction faults been reduced from 33% from 2011 to 2014. Partially this goes back to the previous slide on what we are focusing on, an increased focus on corrective and preventative maintenance by our teams. A restructure of those teams, so we have tradespeople on 24/7. There is a focus on accountability at a line leader level for

delivering corrective and preventative maintenance -- they report on it every Friday. And some operational and equipment improvements that have assisted us in those statistics. One I'll show you later, an over-height laser beam that we have in a couple of our critical crossings that have reduced dewirements where heavy machinery goes over -- over-height heavy machinery goes over our line and takes out the overheads. And I'll talk about that a little later. It's been very effective.

Bottom right-hand corner we talk about mainline derailments. It would be of no surprise derailments cause impact to the network. Derailments caused damage. Derailments cause significant delay, so there's a big focus on our team on reducing below rail caused derailments. In fact there's quite a successful community of competence on reducing overall derailments -- you can see that they are coming down, and our focus there on what we can contribute in the below rail space.

How do we do that? We've increased improved our condition monitoring. We've improved our speed and efficiency in removing speed restrictions. I'll demonstrate and show some photos tomorrow of what a speed restriction is and why it's important for us to remove it. But we've got better at identifying them and removing them, so we've gone from an average 20 days that speed restriction would be on the network down to six. We also work with the above rail **operations** on which are the most important speed restrictions to remove first, to improve velocity and around safety.

As I mentioned, accountability at the local level on removing speed restrictions and network condition and finally rail husbandry. Rail husbandry, you will learn a little bit about rail husbandry tomorrow when you feel the heat. In the heat the rail expands and, obviously, overnight it contracts. We've got to make sure that our rail is within tolerance to ensure it doesn't buckle or it doesn't break, and we've certainly get a far more rigorous program in managing rail husbandry.

So, we've got some results and we've seen some decreases in below rail cause delays, and this has enabled us to move more network tonnes by all operators across the system. So if you can see on the right hand side, 166.7 **million** tonnes or 74% of the network was utilized in 2012 up to what is today 214.5 **million** tonnes and 80%. To give you a feel for that, that's an increase in a daily run rate of 130,000 tonnes per day or the equivalent of 14 trains.

Another -- the figures came out today for tonnes -- our network tonnes are up 4 **million** on last year so our daily run rate at the moment, 610,000 tonnes a day. Yesterday we did 723,000 tonnes in a day. Our best ever -- 770,000 tonnes. So the focus of the management team is definitely about moving the average towards the record. So, we're at 600,010 tonnes -- shows you the upside of 770,000 tonnes. And a year and a half ago we had never hit 700,000 tonnes in a day, and we hit it quite frequently today and we look forward to hitting it more frequently in the future. How are we doing that? Left-hand side -- planned maintenance, reliability, and of course working with the above rail operators closely.

Talk about innovation in our renewal practices -- so we're reducing our closure times like for like at the end of September. Our closure times are down 39%. So the amount of hours we take on the track where we completely close it is down by 39% on the previous period. What's important there is the Engineering and Project Delivery team has also been able to renew or provide AUD11.5 **million** of renewal, for an example, in a 60-hour closure that occurred last week in Blackwater. And that's about twice as what we have done in previous closures. So not only are we using less time, the time that we are given is more productive and our delivery rates are up.

A practical example of that, I guess, is during that 60-hour closure, 4.6 kilometers of track to the west of Rockhampton, the formation of it was renewed. So we actually lift the track up, we lift the sleepers up, we take the ballast out. We take the top layer of information off, we rebuild it, put it all back together. We did 4.6 kilometers delivered on our behalf -- our Engineering Project Delivery -- 4.6 kilometers in five days. In 2011 we did 900 meters in five days. That's a change in the type of equipment we use, the approach that we use, and our execution practices.

Reliability, significant increase in completion rates of our preventive and corrective maintenance -- from high 60s to low 70s, up to 98, 99 -- I'll showed you a graph of that later in the presentation. We've also got condition monitoring on some of our most critical infrastructure. We've installed 150 points monitors in critical pieces of infrastructure, called turnouts. And a turnout is where you change direction on a track from one track to the other -- the turnout swings across and allows you to change direction. If the turnout doesn't function correctly it causes a delay through the UTC network where it says this turnout is not indicating to me that it is closed or opened correctly, and it stops trains. So on 150 of the most [criticalized] points we've got condition monitors that tell us -- This [sustained] a fallout of tolerance, sends a text to our tradespeople. They go out and they fix it in a planned way prior to causing any delays.

Other areas of focus and improvement there, we've now got dual telemetry through Central Queensland. That is kind of like having two power points in your system rather than one, so it's a failsafe. And we use

nondestructive rail testing that indicates to us in the future that we need to do work rather than it occurring in an unplanned way.

What does that mean to the above rail? [Operizing] our customers down the bottom looking at running faster trains, stopping them less often, increasing velocity, and we look at improving plan, schedule, run and recover **operations**.

Alex touched on this slide -- top right-hand corner for us -- step-change projects around the mechanical plan upgrade so a complete upgrade of our on track equipment is our heavy maintenance pieces of equipment -- what we call regulators, tampers, and the ballast cleaning machine. So we are getting we equipment out of Austria, and we've already commissioned four of those pieces of equipment -- I'll show you some photos of that a little later on. Why do we do that? Improves our productivity by having better performance rates, but primarily we looked at it and we went for the high productivity machines. You can see that we are using half the time to do the same amount of work or we can do double the work in the same time.

PACE, Alex touched on, and I'll talk a little bit about that at the end as we come to that complex environment again of delivering the renewals program, delivering the maintenance program, and ensuring volume gets through but managing our costs. PACE is a program that we worked together with the University of Newcastle on, so their optimization center. We've been going at it for two years, and it goes into service in the Goonyella system for its first live trial later this year.

On the right-hand side, we talk about better planning and scheduling and that's that plan/schedule, run and recover. Today we get a customer order from **operations** and [C&**M**] on a Tuesday, 2 o'clock. We haven't completed the plan until late on a Thursday when we hand over so **operations** can then plan what their train crew schedule is going to look like and how they are going to run and they can inform the customer. With the system that we are working with as part of the Project Pluto, those orders will be received and plans will be generated within seconds. Then it gives us that opportunity between the time when we've done that to the time when we hand it over to **operations** to harmonize it with other parts of the supply chain and to work on improving the plan. There is a fantastic opportunity and great value volume that can be unlocked through this process.

I talked a little bit about the high production mechanized maintenance fleet and the advantages that are coming with those and the improved productivity or opportunity we have two reduce track time or increase work completed. And down on the bottom we talk about improved tools and processes in the field. Talking there SAP mobile for our maintenance teams so they've got a tablet with all the information they need to conduct the tasks they need more efficiently. Of course all sorts of information from OEM-type equipment to ordering an assessment on who serviced it last and what the faults were.

We've also got a system called Track Access System, TAS. We saw this in BNSF when we traveled over there. An effective system for our maintenance people to get on track, so they can see the live running of the train and the plan in the field and decide whether it's worth actually requesting to get on track or whether they can actually sequence their work differently to be more effective and BNSF told us they were getting about two hours a day increased productivity from utilizing that system. That's not in execution -- we haven't done it in the field but it's being progressed very effectively.

So Alex touched on this slide on the right which is our asset management benchmarking statistics. So what this really shows to us is -- you can see the green line being best practice in rail in the world. You can see the blue line indicating where we were in 2010, and the red line indicating where we are in 2013. For us, it's just a fantastic opportunity for improvement. It exposes us to best practice, and it challenges our approach to asset management. You can see that in some particular areas around demand analysis or CapEx evaluation we are quite strong, although still opportunities for us, where in other areas around weather and climate change and sustainable development we need to work on and focus to improve.

This really is about us understanding our asset -- knowing our asset so that we can have a laser-locked focus on where the renewal spend needs to go. And this is where it goes. On the right-hand side you can see the allocation into the renewal spend by type, from formation all the way through to tele and sig. See the largest area there is in track -- that's where steel meets steel. So that's track upgrade. We talked about sleeper and rail upgrade in that area. Structures -- sleepers, we replaced 66,000 sleepers last year, and we are doing a little over 40,000 this year. And we are replacing a lot of timber with concrete, so with a timber sleeper you've got a 15-year life. With concrete you have a 50-year life. Also with the timber sleepers you have to do a maintenance renewal at the halfway mark, replace some of the fastenings. With concrete, you don't have to do that generally.

I want to tell a little bit of a story on the right-hand side there around structures and around the integrated business. A lot of people say can you want to say quantify what the integrated business means to network and **operations** and other parts of the supply chain? Here we had a situation in one of our branch lines in

the Southern system where we had a bridge that needed to be renewed prior to the wet season. So you can imagine, we had planned and had a package for execution on this particular bridge for some time, and we went to the customer and said, this work has to be done prior to the wet season.

The customer had a very aggressive shipping schedule. So with C&**M**, the key account manager, ourselves, **operations** and with logistics we got together and our engineering department got together and we worked on a plan that would see both the shipping schedule met, **operations** moved to tonnes, and the bridge get renewal prior to the wet season. So we broke that work down, we [did try it off walls]. We could do it in one block which had the most impact. We broke down into blocks so that **operations** could then match the shipping schedule. And like I said, the customer met its shipping requirements, the bridge was done in four pieces instead of one continuous job, and **operations** got to move the **coal**. And the bridge stayed up in the wet season.

On the left-hand side, you can see the growth in sustaining capital for us. This is that targeted spend I spoke about previously. Really the increase is just reflective of the age of some of the asset and increased volume and wear rates we're seeing through CQCN. I'**m** going to touch on that a little bit later on where that's been.

So 74% of that money that we indicated this year, AUD125 **million**, 74% of that is spent on end-of-life replacement. That's a no choices, no regret type spend, that is renewing you can see on the right-hand side, culverts that need replacement or timbers/sleepers that might need to be or other concrete sleepers where fastenings might have failed. That's an example. But really it's 74% of end-of-life replacement.

We don't go like-for-like replacement here. We have it looked at -- obviously the technology we've got today is far more advanced than the technology when those culverts were put in 50, 75 years ago. So what we do -- we get hydrology studies and we say, yes, that culvert needs to be renewed; or no, it doesn't; or we need to double the size of it to harden the network for particular rail events.

So there's not a like-for-like replacement exactly, it's an improved replacement. You can see up there obsolescence -- and this is technology, operational technology generally around our teles area and that 5% spend you can see that's an old element telemetry system we've got there -- still got the [Prestel] phone on it. And that's been replaced throughout our Central Queensland network. As I mentioned before, we have now get to dual telemetry giving us redundancy in that system.

Left-hand side, safety. What we had had in Central Queensland was a whole number of overhead events where the electrical wire was brought down by over-height trucks, and we tried the education and we tried the enforcement, and of course, the last opportunity was engineering. So this is a real innovative solutions here where we used a laser beam as you approach those crossings. The laser beam triggers a screen that is in front of the driver that tells the driver you are over height, you need to pull over. So it might be an aerial that is being left on an excavator or for some other reason that particular vehicle is over height, and that system indicates to them that they need to make an adjustment. With live footage of this system we can see all these trucks pulling over and actually lowering their load. This is despite the permitting process, despite the education process. And we saw a significant improvement in performance around those level crossings.

We have sent a number of events still in Central Queensland, but only one at those crossings. Just to give you a feel for the impact of that, in 2012 alone we had three instances in six weeks that stopped that network.

Bottom left-hand corner, reliability, improved asset performance through new technology -- that's a photograph of our latest track lubricators. So, we've seen a replacement program where we now have **solar**-powered lubricating systems that have replaced previous manual lubrication systems -- pump system. The numbers have gone from 380 to 160. So we've got half as many because I actually do both sides of the track -- they've got a better spread rate. We can see from the depot using the remote system which ones need to be serviced, which ones are actually working, and which ones aren't. There's still some fine-tuning and improvement to be made there, but the upside for us is instead of sending around maintenance staff to check out the 360 odd lubricators, they go to the ones that need to be serviced. This is incredibly important for our rail wear and is important for the wheel wear for operators.

Just digging in quickly to some of the ways we do standard work, and I guess the saying in our business would be -- if it's on track and it's repeatable, we are looking for a machine to do it because it's going to be faster, it's going to be safer, and it will be more effective. So on the left-hand side there, I referred to the Network Asset Management System and that's that SAP integrated platform that we'll deploy into the field where the jobs and the standard work can actually be sent out to the team and they complete that work in the field.

On the right-hand side is a track recording vehicle. Today we use three separate types of track recording vehicle technology that occupy parting. You can see it there -- ground penetrating radar, ultrasonic recording, and our track recording car. And then every 96 hours we have eyes on path, that is one of our inspection team from the maintenance crews run out on a path doing 40 kilometers an hour and occupying a bunch of capacity from the network to do an eyes-on inspection.

What we are looking at doing there is replacing all four of those inspection techniques onto one single vehicle that runs at high speed -- 80 kilometers an hour. So you are using one path instead of numerous paths. Also enables us to send that information directly from that track recording car to our new [Plasser] machines on what work needs to be done on the network.

Roughly we think there's about 1000 paths to be unlocked by that process and that's being conservative. Even if you use half those paths as revenue generating trains, it's unlocking about 4 **million** tonnes to 4.5 **million** tonnes.

Otherwise we do standard work. At the moment if you are inspecting the overheads there's two primary ways of inspecting the overheads -- more traditional ways of inspecting the overheads. We inspect them from roadside using a set of binoculars and looking up with a piece of paper, and we say, yes, we can see that component or those particular components appear to be in good order. Or we use on-track equipment elevator work platforms, and we get up into the overheads during an isolation and we can consume track capacity.

What we've done is **purchased** two UAVs or drones, as they are better known, and we've deployed one to the North and one in the South. Alex and I got to fly them the other day up in Rockhampton. They offer us high definition imagery, as you can see on the top photo, and infrared analysis on the bottom. So what we are looking for is hotspots. So that would indicate to us that there is a potential failure in that system. The high-definition imagery is then taken and we analyze it back in the depot, and then we adjust out or set out renewal and maintenance program based on those findings. Significant decrease in track occupancy. Significant increase in quality of inspection.

The bottom of that is our ongoing focus on that dewirement and earthing failures that this would all be part of in the program that this relates to. And you can see the progress we have made so far. When an earthwire comes down, the system stops -- again, causing that variability that I spoke about at the start. You'll get to see some further footage and some more detail on these on these systems up in Central Queensland.

So what are our maintenance teams doing? Definitely, we've -- as I said in the first slide, the structure has changed, the focus has tightened up and we have boarding capability both in supervisor and superintendant level capability that is seeing delivery improvements. So bottom right-hand you can see in 2010 -- that is work not done, so 29.9% of our preventative maintenance was not completed for the Goonyella system in 2010. There's a whole bunch of reasons for that. There was a huge drain on labor from the mine system. There was the way that our business was structured. There's a whole bunch of reasons, but the fact was around 30% of preventative maintenance wasn't being completed. Today you can see on the right-hand side we've got that down to 1.7%. Quite often, that's just a timing issue rolling from one month to the other. Very much in the 98% to 100% type execution levels there.

Above that, I'll go back to our beloved speed restrictions and our ability to focus on improving the quality and condition of the network by removing speed restrictions as efficiently as we can. I'll show you some photos tomorrow of equipment we now use to improve that process. Previously we would have an excavator just digging out a certain amount of the track. Now we've got high productivity under covers that we deploy; they do it in part of the time and the quality of the product is a lot better. That's been a significant contributor to the increase in velocity in the network that we are seeing with the above-rail operators.

As far as structure goes, we have six regional centers for maintenance, and they are based on the amount of infrastructure they have to manage and deployment times. And we're broken down into maintenance and response teams being predominantly our tradespeople around signaling, our overhead system, and mixed in there is civil skill sets, and then our traditional civil and track teams.

Again, a step-change in how we do standard work. Previously we would dig out -- you can see on the bottom right-hand slide -- I'll give you some context on this slide. This is about better ballast management. Ballast is the rock that sits underneath the track, and ballast is required to ensure drainage and stability of the track. So that we do is previously we were using an old sampling method where we would have an excavator dig out every kilometer and tell us what work have to be actually executed on the track. You can imagine, it took quite a significant track occupancy. It was open a little bit to interpretation and the skill of the actual operator. There was a whole bunch of reasons why that wasn't the most efficient way to tell us where the ballast cleaner had to be deployed.

The left-hand side is the way we do it now. So, we use a on-track machine with a ground-penetrating radar operating at 80 kilometers an hour and it indicates to us the amount of contamination within the ballast and assists in developing our undercutter program. We've done a number of runs although we will get into result as we layer that data over a period of time and build up the information we have.

We calibrate that ground-penetrating radar using a specific track -- you can see it up on the right-hand side -- so we know that the results we are given on that track, which we have actually established ourselves and we know what those results should be, correlate with what we are getting out on the mainline. This has definitely allowed us to be more specific and pinpoint the work that we need to conduct.

So when we are cleaning, we are also part of the supply chain that's looking at using the amount of ballast fouling that occurs. And how we are doing that here is you can see our **coal** fouling prevention. One of the systems there that we work with -- the miners and our customers -- is veneering and garden bed profile. So the veneering is like a sticky polymer that gets sprayed on the **coal** as it goes through the loadout. So it removes the fouling caused by dust. You can see there our veneering can reduced reduce **coal** dust by up to 75% -- the **coal** dust that's coming off the top of the wagon. How do we know that? The top right-hand opacity dust monitoring results you can see it in this case -- it's Rolleston. You can see the dotted line that says install complete. That's when the veneering system was in and you can see the level of opacity reading going down significantly from the left-hand side to be right-hand side. So not only are you cleaning it but we are producing it and coming back into the system by some of these methods.

Talk about modernization or mechanization and increased productivity from our on time or our track time. We've get four of the new units already in and deployed and what we are showing there is through the commissioning process a lifting performance, but as we get used to these machines we see additional increasing performance coming through. To give you a feel, on the right-hand side one of the biggest uses of capacity in our system is the ballast cleaning machine. It's a big unit; it's a big operation. And our current machine travels at about 250 meters an hour, cleaning that. It lifts the track, takes the ballast out, cleans it, puts it back in.

The new system -- new RM 802 that we would look at purchasing runs at 550 meters an hour but has the capacity, if you want to **wind** it up -- we saw it in the US going at 800 meters an hour, if you need to burn through your work and you need to burn through unlock additional capacity. It's got some real upside.

For us that a AUD200 **million** spend in total on these new track machines. The entire fleet upgraded for the maintenance side of the business. And back -- I'll go back to where we started around complexity and dealing with complexity. Alex touched on this, and you'll get a good overview from Sarah Dixon who is responsible for the implementation of this system into her business -- the Central Queensland Network Control.

What you've got is we've got a situation where that complexity -- if we look at it from a train controller's perspective, they've got a -- you'll see a screen tomorrow -- they covers about 250 kilometers on average. There's 12 screens you see. So we are covering the 2600 kilometers of network with 12 screens. That controller is making the best decision that they can make for their screen. What they can't predict and what their bandwidth doesn't allow them to do is project eight hours forward or understand other decisions being made on the other 11 screens throughout the [whole] Central Queensland **Coal** Network that may impact the operation.

So through an incredibly innovative solution that NS and GE worked on called Movement Planner that decision-making is updating the plan and updating what's happening to bring you back onto that scheduled operation that we talked about reducing the variation all the time giving the controller some decision support saying, let train A go in front of train **B**. Slow train C down, give preference to train D. So it all interlocks across the four systems, and we get the right trains in the right place.

What in essence is then is a 20% increase in velocity -- that's seen significant reduction in double-up crews -- that is a crew that needs to be deployed onto a train because we haven't got the train in the right place. And that being from the corridors that it's fully implemented in, they've gone from minus 20 -- so 20 minutes late to eight minutes early on the corridors where it's fully implemented. We are very excited about our project -- a significant step-change for that part of the business. Probably the biggest -- the biggest thing that has happened since the automatic for the UTC which you will see tomorrow -- the unified train control system.

I think Alex covered PACE. PACE will fit into this at the front end of that system so it already tells us what is the positions that we need to consider and what order we would consider in, and what other work we can get done. And then we talked very much about integrated planning -- the opportunity that provides with our above rail **operations** partners, with the mines and back into the port.

And with that, I'd like to welcome Lana to the stage.

LANA STOCKMAN, VP, NETWORK REGULATION, AURIZON HOLDINGS LIMITED: Thanks, Clay, thank you for the presentation on maintenance. I am still waiting for my invitation to fly a drone. Got my tent hint.

I am sure this audience would much rather hear about regulation, because it is such an exciting topic. I am Lana Stockman. I am the Vice President for Regulation for Aurizon Network.

My primary responsibility is, of course, managing our regulatory affairs. And given the fact we are -- Network is a regulated business and most of our revenue is regulated, it is a fairly critical function, has quite a lot of oversight from Alex, Kate and Lynn.

Our fundamental document that we operate under is an access undertaking, or an undertaking for short. And we are currently operating on an undertaking which is known as UT3, which is a third undertaking, and we are currently negotiating or working with the Queensland Competition Authority on UT4.

An undertaking provides, in our instance, four main areas that are important. Firstly, it fits what our maximum allowable revenue is and how that revenue is broken up into tariffs for customers. It provides a framework for users wanting to access our network. And, importantly, for our above rail operators who were competitive to Aurizon **operations**, it ensures that we have a ring-fencing framework in place so we cannot discriminate and favor an above rail operator. Finally, the undertaking provides a framework for future investment in Central Queensland **Coal** Network.

The remainder of my presentation today will cover the revenue cap and take or pay. I will talk about the Regulated Asset Base and investment options, cover the UT4 process to date and how that should play out in the next few months. We will cover the recent decision from the Queensland Competition Authority around our maximum allowable revenue. And just to really get you excited, and before we go on to Pam, we will talk about beyond UT4.

There are as many different forms of regulation as there are regulators. The form of regulation in central Queensland is a revenue cap. This ensures that Network is allowed to achieve a certain predefined level of revenue in any one particular year.

This is if we over or under recover in any one year, there is a true-up mechanism to ensure that our revenues remain stable. You can compare this to a price cap type of regulation which hits a maximum price. If the volume **sold** in any one particular year vary, the revenue for that organization will also vary under a price cap regulation.

The Queensland Competition Authority , or the QCA, determines the amount of revenue that we can make based on an economically efficient model. It is built up of five building blocks: the WACC, the weighted average cost of capital; depreciation; operating allowance -- clearly Clay needs a sizable allowance for all of his activities, so that's the maintenance allowance; and my favorite allowance or Joe Hockey's favorite allowance, which is tax.

What Aurizon Network does is we provide a submission to the QCA -- in this case it's UT4 -- that fits our expectations around what we would like to receive for maximum allowable revenue. The QCA undergoes a process where they consult with stakeholders, get their own independent experts who actually come into our business to review our submission, and then they'll make a draft decision and then a final decision.

The revenue cap provides revenue for Aurizon Network that covers an aggregate over minus in any particular system. Take or pay, by contrast, is for one individual access holder. Take or pay is a standard contractual arrangement across many industries. It is not specific to rail.

However, it provides benefits to both parties to the contract. Firstly it ensures that Network is able to get some form of revenue certainty over long-term to reflect the long-dated nature of our assets. If we didn't have this certainty, we would probably be unable to achieve funding to build the assets in the first place, or if we did receive the funding, it would probably come in a much higher cost. This would result in higher access charges for all users.

Secondly, the take or pay contract firms up access rights for end-users. It would be really unfortunate if a mine had made a long-dated investment in **mining** infrastructure and coupled that with a short-term access right that expired during a period of economic boom. I can assure you with my dealings with the miners that their competitors would be very happy to snag those access rights.

Finally, the take or pay contract protects against moral hazard. Consider this example. Assume there is a 30 **million** tonne rail system and it costs AUD1 **billion** to build. Assume there are six miners and they would all have, say, 5 **million** tonnes of rights to that expansion. But, assume there is a free option and they could walk away from a take or pay contract, or they can walk away from the access rights.

Now, if we're in a period of economic decline and one mine wants to shut up shop for three years, well, the money that they would have paid would then be socialized against all the remaining miners in their system. I don't think those miners would be too happy taking on someone else's credit risk or operational decisions.

As far as just if the **mining** aspect and assume that risk was transferred to Network, we would also be seeking a greater rate of return or a higher WACC and this would also result in higher access charges. Even though I understand the miners are undergoing some particular pressure with take or pay at the moment, there is a fundamental financial structure that underpins the viability, not just of the rail network, but of the mines and the poor infrastructure in Queensland.

Let's talk about the Regulated Asset Base or RAB. As you can see, the RAB has almost doubled since the IPO. And this is due -- partly due to the number of major projects coming online, and Pam will talk to you about those. But you have already noted that Clay has talked about the size of capital investment around asset renewals that we also have in the CQCN, and this also has driven a large part of the RAB growth.

Each year we make a submission to the Queensland Competition Authority that seeks to have the RAB increase by the value of the CapEx we have undertaken in that year. The QCA reviews the claim. They will get expert advice. They will have auditors come in to our business and review our processes, and they will also send it out for stakeholder comment.

The QCA will assess whether or not our capital expenditure in that particular year was prudent and if the scope of work was prudent. If it is demonstrated that we have not operated prudently, we run the risk of not having the full value of the claim included in the RAB. This is a risk to us, and there is an alternative approach that is currently in use under UT3 and will be in use in UT4, which allows the customers to vote, which effectively will pre-approve our claim.

How do we fund the RAB? Under UT3 and what is proposed for UT4, Aurizon Network funds asset renewals at the regulated WACC. In terms of expansion processes -- expansion projects, there are three main ways this can be funded. Firstly, Network can elect to fund investment at the regulated return. Assuming that Lance and Alex are able to get **Board** approval for these sizable projects, we would declare early on in the process that this would be a regulated return process or project.

Secondly, and this is an example of Grayson work, Network can opt to fund a **commercial** return in exchange for taking on more risk such as construction cost and timing, a ramp-up risk, and if we are really bullish, potentially even longer-term volume risk. But clearly we will be wanting a much higher rate of return for those types of projects.

However, there is one major issue with Network undertaking **commercial** turns in the eyes of our miners. We are the only game in town in terms of expansions. And, so, they believe there is an opportunity for us to extract too high a return in exchange for too low a risk for commercially funded projects.

The solution to this is to develop what's known as a user funding agreement. We are currently working with the Queensland Competition Authority and industry to develop a Standard User Funding Agreement. This is known as SUFA.

The SUFA would act as a template for user funding arrangements in future. SUFA also importantly allows for third-party financing, so it's not just the mines. It will be access right holders that would be funding it, but potentially other parties could seek to invest within the network.

User funders do not own the asset that is developed, but instead they obtained the rights to receive the cash flows from those assets in relation to the WACC and depreciation allowances. Network would continue to receive the operating and maintenance allowances for that asset.

SUFA also has one important feature. The QCA is looking to implement a preapproval process for SUFA projects. This process will ensure that funders have the certainty of a CapEx spend for their projects, ensure that their asset gets placed into the RAB in advance, and also have an idea around the timing of when their asset will go into the RAB.

This is important, because no cash flow will originate in relation to WACC or depreciation until the asset has been commissioned and moved into the RAB. Clearly this is a benefit I would like to obtain for Network-funded projects, and I'**m** working with the QCA to extend the preapproval process to cover all projects.

This is what occupies 90% of my waking time, UT4. Okay, UT4 was launched in April 2013 and my expectation is this will be resolved by the close of June 2015. I'd like to note, though, UT1 took three years to develop, so clearly there is some improvement in timing. However, I think there is a lot of scope for improvement moving forward.

In the last 12 months we have been focused on working very closely with the QCA, and just in terms of managing the logistics of developing and improving an undertaking. We have regular timetable meetings and this ensures that our expectations of when the QCA will make decisions and the QCA's expectations around what information we provide to them are met and understood well in advance.

You may note that we resubmitted UT4 earlier this year. This was because we have been working extensively with industry, particularly the Queensland Resources Council or the QRC, in terms of the concerns around UT4. We were able to agree a large number of changes approved -- requested by the QRC, and because the QCA needs to approve a decision based on a submission made by Aurizon, we were -- they would have had to have made a decision on our April 2013 submission.

It made sense that we provided the QCA with the more refreshed up-to-date view of the undertaking as negotiated with the industry, and we resubmitted this early this year. We did this in conjunction with the QRC, the QCA and the above rail operators, so there were no surprises when we resubmitted UT4.

Furthermore, in parallel to all the formal processes in relation to the undertaking, we have been negotiating extensively, particularly with the Queensland Resources Council, on a number of parts of UT4 and have reached agreement on substantial parts of the undertaking. This negotiation has both been productive and helpful for both parties, and sitting in a room together for hours at a time has definitely given us both an insight into each other's incentives and motivations.

The most recent Queensland Resources Council submission to the QCA, they were able to provide a number of markups and changes that they would like to see to the undertaking. But we had already agreed these in advance with the QRC and were able to provide a supporting submission showing the extent of agreement between us and industry.

Our next step: I am going to have a very busy Christmas. I am expecting a SUFA the decision in the next couple of weeks. The QCA will be publishing a policy paper which will cover all the remaining elements of the undertaking apart from the maximum allowable revenue and this includes the breakup of the tariff components for users. This will be delivered before Christmas.

The QCA will be making a final decision in February/March and -- on SUFA in February or March. The QCA will make a final decision on UT4 in May. And then to have the undertaking actually approved, we need to turn around a new set of drafting that reflects the requirements of the QCA's final decision. We expect us to turn that draft around, have it back to the QCA, and out for consultation within a month. Hopefully, fingers crossed, this will all be done by June 2015.

On the [3rd of] September, the QCA issued a draft decision in relation to the maximum allowable revenue for Aurizon Network. There were 300 pages excluding the special reports attached, so if anyone wants more detail, I am happy to send you a web link.

I'**m** not going to talk through the specific numbers on the slide, but instead will make a few key points. There is a lower WACC, obviously, as Alex noted. We've increased our RAB by over 30% on average from UT3 to UT4, and we're railing approximately 30% more tonnes. Our increase on tariff from UT3 to UT4 is around 13%, so, clearly we are delivering more. We have got a large asset to maintain, and so there is obviously an increase in the tariff required.

In relation to WACC, here -- this is the lower WACC relative to UT3. This is mainly driven by the decrease in risk free rate between the two regulatory periods. However, the QCA did increase the market risk premium from 6 to 6.5, and also decrease the [GAMA] from 0.5 to 0.47, and these are both positive movements for Aurizon.

The QCA has requested specifically more information on the buildup of our maintenance cost in relation to ballast undercutting. This was not a surprise to us. As you have seen from Clay's presentation, the amount of transformational change particularly in this area has been remarkable. And our understanding of what our efficient costs are has changed from when we originally launched the original submission. So we're working with the QCA to improve the knowledge and understanding of those maintenance costs.

The MAR decision also asked for a change to our capitalization policy for rail renewals in UT4 and potentially capitalization of ballast undercutting to UT5. Again, this was not a surprise to us, and we have been working with the QCA on transitional arrangements to ensure we can move from operating allowance to capitalization for these.

The operating allowance represented a material increase over the UT3 allowance. It is our belief that the UT3 allowance was a major under-recovery and we feel that the increase in allowance more truly represents our actual operating costs.

It is also worthwhile noting that our operating allowance includes traction costs. The traction cost is the direct electricity cost that the electric trains consume. It is much easier for Network to procure electricity for all the trains and pass through the cost to rail operators, as opposed to the rail operators individually procuring electricity via the grid.

By contrast, rail operators procure their own diesel. We're working on a response to the MAR decision and we hope to lodge this with the QCA just before Christmas.

Now, what occupies the remaining 10% of my waking hours is beyond UT4. Whilst by nature these processes can be time-consuming, there is plenty of scope to move to a modern and possibly cutting edge regulatory process. In the near-term, my main focus is to continue and strengthen the engagement with our key stakeholders. This is the Queensland Resources Council, the miners, the above rail operators and the regulator.

A key requirement for us to be effective in this space is to engage and operate from a more transparent information process. We have already commenced a process with the Queensland Resources Council to improve the transparency around how we build out the scope and cost for maintenance. This has been largely done without a **firm** direction from the QCA, but on our own initiative, because this is what our customers are asking us for. In the longer term we can also include this or expand to include the operating allowance.

In parallel to the strengthened engagement and open information processes I would like to continue, we would also like to improve rail regulatory reform within Queensland that benefits all parties of CQCN. One example of this is to implement a mechanism to facilitate short-term transfers.

What this means is that if a miner, for example, will not be utilizing a train path, they can swap that train path with either another miner in their own portfolio or another **mining company**. What this will do, it will mean the train path is effectively countered as a consumed train path for take or pay purposes, thus reducing take or pay liability. But it will also reduce the underutilization of train paths within the network and provide greater flexibility for both miners who operate with a portfolio and for miners who are able to swap paths between different **mining** companies.

I would also like to review take or pay. I think there is plenty of both incremental reform around take-or-pay contracts. The differences in a UT1 access holder and a UT3 access holder for take or pay does create distortions within the market. Also, if there is no socialization, if somebody wants to relinquish a train path and there is no socialization impact that occurs, then I think they should be able to relinquish the train path.

An example of this is if we run a longer, faster train that carries more tonnes, and we only need to consume three train paths instead of four, the fourth path should have been able to be given up at no cost, as it can be demonstrated that the amount of tonnes is fit to the equivalent. This will allow the unused train paths to be given to somebody else or **sold** to somebody else, reducing overall access charges.

The tariff structure within Central Queensland **Coal** Network has remained unchanged since UT1. It has never been reviewed and I think it is timely to review the tariff structure. Obviously this would be done in full consultation with industry and the QCA.

Longer-term, as Alex has alluded to, there is plenty of scope for longer-term risk/reward incentive mechanisms, especially around how we deliver our maintenance activities.

UT4 will hopefully be done and dusted by June 2015, and then I need to get started on UT5. There are a number of different options that I am considering to progress this forward and none of these require legislative change, just a change of approach and mindset. In all cases, a greater consultation with industry and above rail operators is required before we launch the undertaking.

I want to focus on a greater alignment of stakeholder needs, bearing in mind that our stakeholders quite often have very different needs not just from us, but from each other; but also, to work closely with industry and the QCA to streamline the process and to reduce what I call the regulatory hump or the regulatory burden.

We are no longer a government-owned corporation. We are a modern, integrated organization and the onus is on us to challenge the status quo in the regulatory process. We need to move beyond the submit/respond model that has been used for many years and by many industries. We need to move towards a genuinely commercially focused process that provides win-win benefits for Network, but also for our customers.

That's all I have to say, and I would like to hand you over to Pam Bains. Thank you.

PAM BAINS, VP, NETWORK FINANCE, AURIZON HOLDINGS LIMITED: Good morning everyone. Nice to see so many of you here today. I am Pam Bains. I look after Network Finance.

Today I'**m** going to cover, briefly, capital expenditure in the network business and also the touch on the Wiggins **Island** Rail Project. Okay, so, start with capital expenditure.

The first table on the screen highlights the key growth projects that have been delivered or are in the process of being delivered by the network business. Just a quick reminder of these key projects: firstly, GAPE -- Goonyella/Abbot Point Expansion. This was network's largest infrastructure investment and the Central Queensland **Coal** Network and involved the construction of 69 kilometers of greenfield track -- essentially the northern missing link between our Goonyella system and our Newlands **coal** system.

This came at a cost of approximately AUD1.1 **billion**. This increased the capacity from the Bowen Basin by 33 **million** tonnes. The project was delivered at a cost of AUD1.1 **billion** and delivered late 2011 on time and on budget.

Next we have WIRP, the Wiggins **Island** Rail Project. This is a project at a cost of AUD860 **million**. The project is designed to link the mines in the southern Bowen Basin to the Port WICET, Wiggins **Island Coal** Export Terminal at the port of Gladstone.

Work commenced on WIRP in 2012 and are set to deliver in 2015. I will talk a little bit more about WIRP in a few moments, but suffice to say the project is running on track and running on budget.

Then we have the Hay Point expansion. The expansion for Hay Point essentially increases the capacity of the Goonyella **coal** system from 129 **million** tonnes to 140 **million** tonnes. The project has increased capacity to align with the Hay Point **Coal** Terminal expansion. Although the terminal expansion has been delayed to September 2015, all Aurizon Network works have been completed and, essentially, purely awaiting the connection of the feeder station by Powerlink. The project, again, is running on time and are currently under budget.

Finally, we have Rolleston electrification. For those of you who don't know, Rolleston is the line that feeds up to the Blackwater system across to Regitana Port. Essentially the scope of work for this project involved electrification of 107 kilometers of track on the Rolleston mine to support the growth of tonnes from the Rolleston mine for blank haul.

This project harnesses the operational efficiencies and cost benefits of operating high-capacity electric trains. Again, the project is expected to be completed by the end of this calendar year and is currently running to time and under budget.

I guess the key point to note on all of these growth projects, the engineering and project delivery team who used to sit as part of the network business, and following the move to the functional model -- transit across to Aurizon **operations** -- were absolutely instrumental in delivering these projects. They have a great track record. The team delivered these significant projects in years where we saw major improvements in safety performance, in years where we saw significant flood events and also in years where we railed record volumes across the Central Queensland **Coal** Network, whilst ensuring day-to-day **operations** continued.

The project team delivered through disciplined project management processes and systems, hence ensuring impact on **operations** is minimized, as I mentioned. It is also important to remember that delivering these projects under budget, essentially means that any cost savings are fed back through to our customers directly in the form of reduced RAB values and hence reduced tariffs, hence ensuring competitiveness of the supply chain.

Also, it should be noted that the engineering and project delivery team will be involved in projects in the future such as the West Pilbara, Lance talked about, and also the Galilee.

The table at the bottom of the slide highlights the split between growth CapEx and sustaining CapEx. Following delivery of the three key growth projects this year -- essentially Rolleston, Hay Point and the Wiggins **Island** Rail Project -- there are currently no committed growth projects in the network business. What we will have as capital expenditure is sustaining CapEx for Network.

What does sustaining CapEx include? Broadly three key areas; firstly, asset renewals and Clay touched on in his presentation where assets are like expired on the network. This includes replacing culverts, replacing turnouts, rail, structures. Then we have another category around replacing our yellow machines, the big yellow kit again Clay referred to, so when Clay buys regulators, tampers, ballast cleaning machines.

Then, as you will appreciate, we also have ballast undercutting which is capitalized. The sustaining CapEx does not include rail renewals, which you may have heard of through the regulator's decision.

Okay, so, let's talk a bit about WIRP. WIRP, I guess WICET in itself is a major infrastructure investment, the project involving the construction of a new **coal** terminal. As I mentioned, WIRP is the vital link between the mines in the Southern Bowen Basin and the terminal, increasing capacity by 27 **million** tonnes across the network.

Overall WIRP will cost approximately AUD860 **million** and will increase the current RAB value by 20%, hence increasing returns and EBIT in the coming years, so providing a return on such a significant investment. The scope of work for WIRP is divided into multiple segments as shown on the map on the left-hand side of the screen. The orange boxes represent the different segments. Not easy to see on the map, but I will talk about these on the next slide.

As you can see, the investment results in upgraded infrastructure across both the Blackwater, the top line, and the Moura systems, the bottom line. You probably heard about delays in the WICET commissioning dates. Aurizon Network, as a result, has worked with the customers to agree revised delivery dates for these segments.

The table on the right highlights the key eight foundation customers, their respective mines and the tonnes they expect to rail. I am sure there will be a few questions on these key customers later on.

Okay, so the table highlights, as I mentioned, the segments which highlight -- which I mentioned highly integrated into the existing mainline infrastructure. It should be noted that over 70% of WIRP infrastructure will be used by existing and new Blackwater and Moura customers, hence reducing the asset stranding risk.

94% of WIRP infrastructure is multiuser with only 6% being single user. WIRP consists of multiple segments, as you can see, but just to touch on a couple -- construction of the Wiggins **Island** Balloon Loop. This was commissioned earlier this year. I understand you will get the opportunity to see the balloon loop tomorrow, and it is very impressive.

Moura system upgrades, Moura -- this includes formation strengthening. Moura East was completed last year and Moura West we expect to be finalized next year.

Segment 4 is a critical segment to all users. Not only is it the most expensive segment relative to the other segments, this essentially includes seven single-line sections of the Blackwater system which -- that are being duplicated as part of the scope of works for WIRP. The completion of the duplications will provide operational efficiencies to both new and existing access holders in the supply chain.

In fact, some of the infrastructure is actually currently being used. And Clay can talk about that we are already seeing improvements and operational performance as result of these duplications.

Finally, we come to WIRP returns. WIRP returns, returns for WIRP comprise two key elements. We have regulatory returns and above regulatory returns also known as the WIRP fee. Regulatory returns are by far the largest component of revenue for WIRP. They are recovered under the normal access agreements, have the normal revenue protection mechanisms such as take or pay and revenue cap, and will be built up on the normal building blocks, and Lana touched on these elements.

A significant proportion of capital expenditure for WIRP is mainline upgrades for both new and existing customers. Based on contracted ramp-up volumes, socialization of WIRP infrastructure will reduce tariffs for all customers. Hence, this is the proposal for pricing we have put forward as part of UT4.

This project will be complete in FY15 and start depreciating. However, earnings will not commence until FY16. We expect WIRP contracted railings to fully ramp-up in FY17. Subject to QCA approval, WIRP capital expenditure will be submitted for inclusion in the RAB in FY16.

WIRP fee, because WIRP was a major investment, over AUD300 **million** in Central Queensland, we negotiated separate **commercial** arrangements with our eight foundation customers. Why did we set up these arrangements? Our customers wanted reassurance. They wanted certainty and they wanted confidence that we could deliver what we said we would deliver, that we would deliver to the timescales they wanted us to deliver, and also at a cost we all agreed.

Hence we entered into the WIRP fees. These additional fees compensate us for additional risks associated with construction and capacity, so additional risk for additional return. This does mean we have an incentive to deliver on time and under budget. Our failure to achieve the key milestone dates on time and on budget will reduce the fee payable, as you can see on the graph on the bottom right-hand side. Each month of delay reduces the fee payable.

However, delivering under budget also gives the business an opportunity to increase the fee payable and the fee is retested every year. Hence, the fee is not subject to the volumes, and we will be payable 50% in

FY16 and 100% in FY17 onwards and is payable over a period of 19.5 years after the first milestone date. We also have appropriate security mechanisms in place, given that the WIRP fee is not have the same revenue protection mechanisms as regulated revenue.

Just a reminder, WIRP regulatory revenue is by far the largest component of revenue for WIRP.

In closing I would like to say WIRP is a fantastic opportunity for the business and Central Queensland. I'm sure you will appreciate the size and scale of the project when you visit tomorrow, and you see this terminal and the balloon loop. Thank you for listening. I will hand you over to Mike Franczak, who will talk about above rail operations.

MIKE FRANCZAK , EVP, OPERATIONS, AURIZON HOLDINGS LIMITED: Thanks, Pam, and good morning, everyone. Great to see you all here again today. Just a comment about Clay and Lana's presentations in particular. I guess just a comment about the degree of excitement that creates for us in operations. The benefits that are going to be created don't just benefit the network business. They have a huge multiplier benefit when we look at the above rail operation. And coupled with some of the improvements I'm going to talk about creates a real virtuous cycle where we move beyond just the simple some of the improvements into more of a multiplier effect that drives even better returns and margins in future.

And so what I'd like to do this morning just by way of presentation, I'd like to start with this slide and set some context for you in terms of the transformation journey in operations: where we've been and where we are going to drive further improvements in both margins and returns.

Now many of you will recall at our Investor Day in Sydney last year that I spoke to many of the items in the upper left-hand part of this chart that were going to begin to take us to successively lower operating ratios and higher returns in invested capital. And I spoke to organizational changes, the culture of continuous improvement which Lance touched on, the integrated operating plan, our business model and the elements of our cost out story. And, of course, these things are going to continue to drive and deliver value in the coming years, improving margins and returns to further reach the targets that we've already announced. They will continue to underpin our journey.

But a culture of continuous improvement also means that we are continuously looking for ways to make the business better. And so through late last calendar year and into early this year, as we got traction on our IOP and the other changes that we have underway and got deeper and deeper into our business, we began to identify and proof up some game-changing opportunities, like the North American railroads that will take us beyond the near-term targets of the low 70%s for OR and low teens for ROIC. These are the items that we identified as the drivers for additional capital at our year-end results.

It's important to note that in this space in many respects we are leveraging work that has already begun in North America and put our own unique spin on it, ensuring we can extract full value. But to be clear, the incremental capital we are targeting against these opportunities will meet or exceed the requisite hurdle rates and drive further improvements in margin and returns. The items in orange on this chart -- the freight management transformation, the fleet upgrades, fuel and operating technologies and terminal upgrades -- are some of the next plays in our transformational or continuous improvement handbook. They do not replace the other non-capital approaches. These will always be there and will always continue.

But like the Class 1s, the targeted capital in IT and other operational technologies with the requisite margin and enhancement in returns is part of the improvement journey.

Today I'd like to focus on those opportunities to give you more insight into what they are and how they will add value to our business. And with me today in the back -- you will have an opportunity to meet them at the break -- we have Pat O'Donnell, who is my Vice President of Rolling Stock Maintenance; Chris Gregg, who is the Vice President of Service Delivery for Freight; Ed McKeever, Vice President of Coal Service Delivery; Scott Riedel, VP Program Delivery who is helping Clay with a lot of the stuff that he spoke to you about; and of course, Louise Collins, who's the VP of Operations Planning who helps us pull a lot of the design and execution of this together. So please feel free to engage them at the end of the session, and Louise will also be with you tomorrow at Rockhampton and, of course, available to interact with you on any of our specific transformation programs or how the network and operational programs align and interact.

Now, taking a look at the capital spend, over the next three years, as we've noted previously, we are targeting just over $1 billion in capital spend: roughly $300 million in what I'll call transformational capital, $500 million for renewal and $300 million for growth. And the transformation capital, which will be the main topic I will cover today in detail, is expected to generate an annualized run rate of benefits of some $60 million per year with an average payback within five years.

But before I get into the details of those, let me just context this overall operations capital spend, and I look at it really in terms of three major components. Starting on the right, growth. This is in my mind pretty

straightforward. But, as we do come across material growth opportunities, it is sometimes necessary to acquire the requisite kit to take advantage of the opportunity.

These investments, of course, are made on a **commercial** basis with the requisite returns. Fleet acquisitions that we are making in the Hunter Valley for Whitehaven tonnes, for example, is a classic example of what I would call growth capital.

In the middle area, we have what I call renewal capital, and there is an A and **B** version of this. One is basic, a like-for-like replacement of end-of-life assets with no material change in the characteristics of that asset in terms of its basic performance. This is what I would call just keeping the lights on type capital investment. Necessary. Part of what we need to do in our business but no material improvement in performance.

The other renewal category is where we choose to upgrade our choices in renewal and acquire an asset that is capable of delivering materially improved performance over the asset being replaced, thereby delivering much improved returns. One example of this is the **acquisition** of AC electric locomotives, which we have in our plan in the out years. These can replace DC electorates on a three for five basis. They are also far more reliable and far more maintenance-efficient. And likewise, you'll see that the replacement of expensive leases that are inherently inefficient and costly with less expensive, more efficient kits will enable us to further improve returns and margins and offer further opportunities for growth in this space.

And last but not least is what I call transformational capital. This is a capital of a discretionary nature, but which is deemed changing in terms of the way we work and drives significant improvements in margins and returns. And this is where I now want to spend the balance of my presentation.

And let me start first with this slide and I apologize. It is a little busy. Spaghetti diagrams on the left I think give you an indication of a current state which is a very messy and a cleaned up revised state or future state. But this outlines the key elements of how we are reengineering our core business and standardizing what I call our contract to cash business by implementing cutting-edge but proven SAP technology. And this is what we call our freight management transformation or FMT. We are replacing 18 legacy systems that do not communicate with one another, are not well supported, are not entirely reliable and in some cases are as old as 25 years.

In leveraging the experience of the North American railroads who have gone before us in this space, we intend to drive a streamlined order to execution capability across our business. And for this effort, we have, in fact, employed the very same people who have helped implement this approach in North America, helping those railroads improve their margins and returns. The key components of this approach involve real-time reporting of metrics, activities, a simplified approach for our customers to see our service offering, place their orders, and settle their bills. It will drive material improvements in contract yields and asset and the labor performance. The multiyear rollout, the work in planning has already begun, but our first implementation will be in the Northwest in May of next year, completing the entire national footprint in 2016. This initiative has a rigorous governance process attached to it and the support and attention of the entire enterprise.

Now, I've spoken to opportunities about **energy** consumption before, so I won't spend a lot of time here, other than to say that while we'll continue to improve in this space through better train design, fleet rationalization, and improved fuel management protocols, that helped us drive a 10% improvement over the last few years like many of the Class 1s, we will be leveraging technology more fully to drive further opportunity to get closer to the Class 1 levels. And there are a few key areas that we are pursuing. You see them here on the gray bars. But if I flip forward, just to give you a little more detail which I won't go through, four key areas include driver assist systems, which is a form of cruise control for drivers; automatic equipment stop start or AESS which shuts down idling locomotives automatically but will restart them should the engine block's temperature fall below a certain level or the battery charge drops; fuel link will give us live feeds to both locomotive and driver performance; and our locomotive block upgrades reflect changes for software and hardware that will further enhance fleet fuel performance.

In the rolling stock maintenance world, we've already spoken before about the changes we are making driven by fleet rationalization and standardization. These, of course, include our facilities rationalization, harmonizing and improving our maintenance policies and practices, and reducing materials and labor, and, of course, continuing to improve the reliability and availability of the fleets through things like in train repair and those improved policies and practices.

But we intend to go a lot farther. As we considered our facilities rationalization in Queensland, we saw a further opportunity to rationalize our three wheel shops to one. But in doing so, not just replicate the same old wheel shop technology, but to choose to make an investment to upgrade, like buying a motorcycle, as opposed to replacing your bicycle. This technology will deliver materially improved costs and productions rates as noted on the slide.

And additionally we intend to go a lot harder and faster in implementing our Wayside condition monitoring technology and software. Our trials to date have been very successful, allowing us to change our inspection intervals in one of our **coal** systems from 42 days to 21, freeing up capacity, reducing expenses, and improving productivity. This is technology that allows us to transform our workforce from what I call changing them from finders to fixers. The maintenance regime changes from a reactive prescription, prescriptive maintenance regime to one that is truly predictive and condition based. And akin to the approach that our network colleagues are taking, we can drive this approach to our above rail assets as well in terms of reducing variability or improving variability, safety, service, capacity, and productivity.

In a closed **coal** system like ours where the equipment is largely captive, we are going to be able to do some things that others can't do. Let's take a look, and if the technology holds up, here we go. This cartoon or graphic is a shot of our Wayside **site**. I won't go through all the bits and pieces, but this is equipment that allows us to look at the moving parts and the fixed parts of many of our wagons and locomotives. And, as you'll see here, as the train comes through at truck speed, these sensors will light up and allow us to take a look at all of the critical parts of the locomotives and wagons: wheels. Bogies, wagon bodies, axles, and so forth. And you can see the sensors coming on and starting to take a look at all of the moving pieces, so to speak.

The readings that these monitors or condition monitors will be able to send us in real time within seconds, it will be sent ahead to the maintenance people who can act on a plant basis to effect repairs or arrange planned change outs. This is game-changing stuff. What you saw is a train that gets inspected in a matter of tens of seconds or a minute or two at most versus 3 to 4 to 5 hours in a railyard. So imagine the lifts in capacity, imagine the improvements in safety when we can leverage this kind of technology, this speed, and completely reengineer our work processes.

This next slide really just gives you a little bit more detail in terms of how we work today and what will change in the future. I'**m** not going to cover this, other than to say that the technology will allow us to dramatically reengineer the way we work and drive material improvements in variability, service, safety, productivity, and capacity and, of course, expense. This is one of those game-changing technologies that ticks all of the boxes.

And to reinforce this, you can expect to see us continuing the rolling stock journey as outlined by some key metrics such as maintenance cost per NTK , FTEs, and the availability and reliability of the fleets. I'**m** expecting a lot more in this space in the coming few years.

In our IOP work, we've already made material changes in our operating plan, making it less variable, building longer, faster, heavier trains and reducing crew and asset requirements. We've also now identified opportunities to rationalize and invest in our terminal footprint to drive further improvements in margins and returns. And our case in point is in Townsville, where as part of our IOP in rolling stock maintenance initiatives, we've identified an opportunity to close South Townsville yard. And to enable those -- the transfer of those activities to Stuart Yard, which is the top one in the map, for a relatively modest incremental capital spend over what we would have spent as renewal capital to keep the lights on in South Townsville, we will upgrade Stuart Yard, enabling the disposal of South Townsville and significant improvements in labor and asset productivity and service. This isn't just about doing more of the same. It's about building radically different capability to drive better margins and returns.

And as I wrap up with my second to last slide, I wanted to leave you with maybe a more fulsome example of where all these initiatives work in unison to continue to improve the margins and returns on our business.

Yesterday, we introduced a radically new integrated operating plan for our intermodal business. It started yesterday, in fact, with services hopefully and fully subscribed and full, which is great to see. It creates material improvements in transit times and capacity with fewer assets and no material increase in costs. It is an exciting opportunity for us, and there is more to come as the service -- as we continue to enhance the service and reduce the unit costs.

But in addition to these IOP changes, the business will continue to be enhanced by all of the things that I've just spoken to you about: FMT, the rolling stock maintenance changes, and the fuel and terminal changes that we are making. It is truly an integrated approach to driving enhanced margins and returns.

And so, as I wrap up, I wanted to come back to one of my favorite topics, the fleets. The key point here is that as we continue to drive the IOP, fleet standardization, modernization, and all of the other improvements I noted here today, we will, in fact, continue to lower our fleet renewal needs below the level of attrition. This is a great example of how we generate improved returns in the business.

And so, in wrapping up, I want to reiterate that **operations** is on track to deliver its targets to driving to our margins and returns and that we are going to continue to identify and deliver further improvements in margins and returns through smart, targeted, capital and noncapital means in the coming years.

And with that, I will wrap. Chris?

Questions and Answers

CHRIS VAGG : Thank you everyone for your attention. We are going to go straight into Q&A now, so I'**m** going to get Lance, Keith, Alex and Mike to set up here on the stage. But we do have a mic here, so if there's questions for our other presenters, then feel free to just wait a second to get everyone all organized. And obviously if you want to ask a question, please raise your hand. We've got a couple of mics coming around.

SIMON MITCHELL, ANALYST, UBS : Simon Mitchell from UBS . Just a question on the network, Alex. Slide 22 you've got the theoretical capacity contracted and actual looks like theoretical is about 270 **million** tonnes and contracted is about 255 **million** tonnes. So that's -- if that delta there is 5%, is that what you are seeking to try and close, partly close over time with these improvements you've discussed today, or is it actually you're trying to increase the actual up to the contracted more because that probably relates more to demand, doesn't it?

ALEX KUMMANT : Yes, look, first, let me say there are a number of figures we've talked about in the past. One of them gets to about -- and I look to my team that theoretically we can get up to 300 or 308 **million**. And you have to recall that there is an overall **iron** in the ground type kind of look at that and then there's sort of a day of execution.

The other thing -- sorry, I'**m** winding up a little bit. I'll get to your question. The other point is that a network to some degree the way it operates is somewhat of a living animal. So, you cannot at any point in time necessarily say X is the capacity. That's always evolving depending on where the demand comes from, what the courts are doing.

So long story short, we continue to build the capability in order to expand day to day capacity and, in fact, reduce variability. We would argue that we essentially have in the ground a capacity that can handle today kind of easily the contracted tonnage. You can really go down a rabbit hole and have a long debates what the actual hard theoretical capacity is because the boundary conditions for that effectively change every day.

So, I'd invite anyone from my team or, Mike, you guys work this a lot as well how to give a more expansive answer. Clay, feel free to jump in as well, if we can get you a mic. Yes, Simon is our Vice President of **Commercial**.

CLAY MCDONALD: Thanks, Alex, and Simon for the question. So, as Alex says, the capacity in the network is a changing state of flux. But the way we value that capacity at the moment or analyze that capacity is we've got a high point expansion, which Pam spoke about earlier on of about 11 **million** tonnes coming online. There is a wicked expansion of 27 **million** tonnes, which is coming online. So, when that all comes online, we will have based on the way we currently work out our capacity, 308 **million** tonnes worth of capacity available.

The difference between the 255 **million** and the numbers you are seeing on the chart is largely because of contracts which have been put in place with access holders, but which have not -- which are still to start in terms of railing tonnes. And there is a chunk of those, for instance, with gate tonnes where we upgraded to the 50 **million** tonnes, and currently some of the excess holders don't start railing those tonnes until 2016, 2017 for example.

SIMON MITCHELL: And just a follow-up to that, under the regulated system, how does Aurizon network benefit from increased utilization apart from being a good network manager?

ALEX KUMMANT : Well, look, you know how the numbers stack up. We are under a fixed revenue sort of system. At the end of the day, my view is that we ultimately benefit by customers that want to do more and more business with us. That's going to mean other **commercial** opportunities. That's going to mean UT5 evolution. You can strictly say that on a year-to-year basis, when you have a fixed revenue available, yes, you could sit and do nothing, but that really doesn't make a whole lot of sense.

The other point is, is that the smoother the better we operate, you're going to see flow-through effects from above rail every time. There are just no-brainers that we will continue to do really from our North American background. I'll even answer the question before you ask it. You'll say, okay, APEX, advanced planning and scheduling pace. Why bother doing that if you get a 7% return on it?

Well, the real issue is, if we get well north of 15%, 20% returns on all of those on a flow-through basis. So, I think we will always benefit for it. In a very strict sense, if you say let's for the moment play the game exactly as it's designed, that means you have a four-year window. Moment the starting gun goes off, let's for a moment say we had an undertaking signed on exactly the right day, and we had all kinds of cost savings cued up that we very carefully managed and then immediately took a step function in cost savings, and in theory you could say you compete with the regulator to launch cost savings after they have made their maximum allowable revenue termination, and then for four years you get benefits, and then after four years, they sweep that off the table and you start it again.

That's not as crazy as it actually sounds if you have ever run a, say, an industrial products **company** where you essentially renew your entire product suite every four or five years and you are competing with an entire market, you sort of do that as well. But I think that our opportunities to continue driving performance go well beyond that.

MATT SPENCE, ANALYST, BOFA MERRILL LYNCH : Lance. It's Matt from Merrill's. High. Can I just take you to the EBA? So you're at the Fair Work Commission first two weeks of November. When do you think you'll get a ruling on that?

LANCE HOCKRIDGE: Steve, why don't you -- given how pretty you look today --?

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Thanks very much. Maybe you can hear me. In terms of the expectation of the timeline, it's at least a two-week hearing on evidence and submissions, and typically the Fair Work Commission will then take and opine for a couple of months before they register a decision based on all that material. So we wouldn't expect -- with the Christmas break, you wouldn't expect a decision from Fair Work until late January, February at the earliest.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: And, John, if I can follow up on that. So if we take that to the end of January whenever and the decision is not to sit aside the terms of the EEA, is there a formal arbitration? Is it mediation? What do you hope for from that?

LANCE HOCKRIDGE: Yes, it's a good question. It's likely that whether the Fair Work make a decision in our favor, then that would be implemented immediately by us. Alternatively, if it's not in our favor, we'd obviously canvas the decision very quickly to see what we'd would need to do to change and go back for a second application. But in the meantime, negotiations continue. In fact, they are continuing as we speak, and this application no doubt puts pressure on the unions to do what we think they should do. In other words, capitulate a number of those iconic conditions, like no force redundancy and so on. And there is no idea if this application is helping us in that cause.

MATT SPENCE: AMLs, just back on the capacity of the system, looking at it slightly differently, you've got **coal** loaders who have got natural constraints as well. Why are the miners happy to support you to do this and spend a fair bit of money on this upgrade if you can't actually get use out of those extra thousand parts that you're actually talking about?

MIKE FRANCZAK : Well, because they know that at the end of the day, the **iron** in the ground has to be there. It's a sine qua non. So you always do a lot of analysis upfront, and you try to consider all these issues. You go through a period of economics change, construction changes. But I still think that fundamentally they understand ultimately for a functioning wicket, you're going to need this capacity.

So you do it with the best precision you can. I mean, they vote on this. They agree to this. These are either regulatory processes where everyone has voted or they are **commercial** agreements where we have agreed with them, and a tremendous amount of work goes in upfront on doing the best you can to assess the **iron** in the ground capacity.

MATT SPENCE: You made comment in some of the presentations you've actually implemented some of the expansions and the products in the ground. Are you actually getting any revenue on those expansions and the widening sort of radial, or are you just sitting there and it's effectively -- existing operators are getting a bit of free run until the works or the SPXs are actually open up and running?

MIKE FRANCZAK : Well, it will ultimately roll into the RAB. I think there's truth to that, but I wouldn't call it necessarily a free run because it's good for everybody. When you look at the duplications in the Blackwater, Mike can tell you he's very happy to have that running, and any place you've got single track on your network that's a liability. We are all happy it's there, and actually everyone is benefiting from it. So I don't really think there is a notion of a free ride. Everyone's benefiting from increased fluidity, and with the market trying to pump every single tonne they can to the ports, I think they are just saying thank goodness it's there.

MATT SPENCE: Lance, you talked about Westfield borough. How much is the feasibility actually going to cost Aurizon? How much do you have to sort of capitalize to actually get that project to a final peak day as possibly as high as 15%?

LANCE HOCKRIDGE: Order of magnitude about $80 **million** there.

SCOTT RYALL, ANALYST, CLSA LIMITED: Scott Ryall, CLSA. John, this is probably going to be handed to you, but I think just from Lance's obvious frustration with industrial relations laws, I think mostly, as you would agree, Lance, that it comes down to the circuit breaker at the end of the day and the lack thereof. In this case, arbitration is the obvious circuit breaker, unless the Fair Work Commission comes through for you. How do you force it into arbitration?

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Again, that's a good question. Frankly, the obvious way to have this matter arbitrated is for either party -- and in this case the unions are the only party initially that can take industrial action. So if they take industrial action, we respond. Then, the Fair Work Commission have the authority both on behalf of the customer, an impacted customer or ourselves, to apply the fair work and have the matter arbitrated.

Now, that's not again a quick thing. However, to answer your question succinctly, industrial action is a key mechanism to have this matter arbitrated. Please remember, we have actually asked all parties, the Fair Work Commission and the unions, for this matter to be arbitrated a number of times, and we are willing to accept the umpire's decision in this course. But the unions have refused on each occasion.

Now, even with this matter going to the full bench, it may be they make a recommendation that both parties accept the decision again. So, we'll wait and see if they make any passing comments on that question at the time of the termination of the application.

SCOTT RYALL: Thanks. And a follow-up for Alex. With all the presentations around improving systems and improving performance of the network, can you foresee in call it three to five years that you guys are coordinating something not dissimilar to the Hunter Valley culture in the sense of end to end visibility around **coal** flows and everything that involves the mine or the port -- the above rail, below rail?

ALEX KUMMANT : I'll answer it this way. I think we've actually demonstrated with the tonnages we've moved and, in fact, recent DBCT records -- and Clay, correct me if I'**m** wrong here -- that a lot of awfully good things are happening in that space already. We certainly think the challenges, particularly in the Goonyella, are a bit different than Hunter Valley. We think it's highly possible that through **commercial** structures -- and I alluded to this call it Lana's post-UT4 formulation -- are there ways we can drive variability out of the whole system, which, in fact, is also visibility going to the producers and saying, let's talk about your mind loadout processes. Going to the ports and saying, let's make constraints more visible here. It's not clear to me at all that we can't continue moving down the path that we are moving. Some of that can be **commercial**. Some of that can be how we all work. We need to remember, too, look, we are just four years out of float here. So we are still rapidly evolving and inventing this business. Relationships are still maturing on both sides of this. So I think the best is yet to come. I think there's a lot that can still happen in terms of overall fluidity.

ANTHONY MOULDER, ANALYST, CITIGROUP : Anthony Moulder, Citigroup . Just if I start with the network, is there still a process, the CRIMPing process that goes to the customers to get their engagement on the size of network going forward?

MIKE FRANCZAK : There is certainly a CRIMP process through UT3 that a number of the major projects went through, and I have to kind of look at Lana and Pam if UT4 is equally cramped or if I don't know if there is a CRIMP-like structure in UT4. Simon is leaping up to --.

SIMON SMART, VP, **COMMERCIAL** DEVELOPMENT, AURIZON HOLDINGS LIMITED: So under the current program, we use something similar, but it's not called CRIMP. So we have a network development plan process, which we rolled out last year and are enhancing that this year, and the intent of that process is to work through with all the stakeholders in the supply chain and identify likely growth and then likely opportunities to support that growth. One of the issues with the CRIMP process was it was a very infrastructure-focused, purely infrastructure focused, and as you've heard today, we are very much more on about these days just understanding what capacity is required and how most cost-effectively to deliver that, whether that involves investment in above rail or below rail infrastructure.

So, for example, if the best outcome to get further infrastructure -- further growth volumes through is to operate longer trains and invest in that capital rather than investing in the capital in the ground, the rail in the ground, then that's what that process tries to bring to bear. I'll hand over to Lana for part two.

LANA STOCKMAN: In UT3 there is a customer vote process. It hasn't been used utilized much. We worked quite extensively with QRC in recent months for changes for UT4, which will be included in the undertaking.

Just in terms of net rate development more generally, we've also improved the process around prefeasibility and feasibility in concept studies. So there's a lot more information available early on in the process. And the other fundamental change we've made, proposed to the UT4 is, we removed the queuing process and moving development to the most likely mine that we would support users or infrastructure development has got a higher chance of success rather than someone who's just been sitting in a queue for the longest period of time.

ANTHONY MOULDER: A follow-up to that. Does that give confidence in the outlook statements that you've given once? The commitment by the customers to the increased utilization of the infrastructure?

LANCE HOCKRIDGE: In terms of our outlook for 2015?

ANTHONY MOULDER: Well and beyond effectively.

LANCE HOCKRIDGE: Yes, yes.

ANTHONY MOULDER: If I switch to the quarterlies that you've released today, obviously lower growth in Queensland than what was going through the export terminals. Could you talk to whether or not that's an issue with domestic demand or some issues with stockpiling at the port?

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Come across anything specific?

LANCE HOCKRIDGE: You saw the comments about the Hail Creek and Wilkie Creek.

ANTHONY MOULDER: But if I combine yours and Pacific National's, it still looks like volumes that you both transported were lower than what went out through the ports.

LANCE HOCKRIDGE: I think there's always going to be that kind of swing from period to period. Simon where it goes to exactly the point that you make. It just depends on what's being stockpiled and what the ship schedule arrangements are. Our view would be and the evidence is that it's aligned, and it's purely a timing issue around those issues. In other words, we're not seeing anything that is of the nature that you described.

MIKE FRANCZAK : And if I may add again, from a CQCN point of view, we are 4 **million** tons ahead of last year's rate. So we certainly, from an overall network point of view in Queensland, see tremendous demand.

ANTHONY MOULDER: And lastly, if I could, could I get an update on the wicket tonnes? Obviously at 27 **million**, it looks a high watermark if I look at some of the comments coming from some of those listed customers.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: I guess there is both below and above our overall observation?

MIKE FRANCZAK : How should we answer that? Of the ramp up -- I don't know what we've said publicly on ramp up. Can you help?

LANCE HOCKRIDGE: It's okay.

MIKE FRANCZAK : It's okay? So I don't think we're at large variance. I think this story on Bandanna is being worked through. That's still viewed as a quality asset. Glencore has said they want to rail very hard. So even with the wicket delay, we think there may be some transitional issues we work through here in 2016 and 2017. But we are very comfortable and really quite bullish on the asset in the mid to longer-term. That's a bit of a vague answer, but we are happy we are there.

LANCE HOCKRIDGE: I don't know what you're taking away means that subject to those timing issues, our view is that the below-rail is secure from an above rail point of view. Anthony, I think it remains the case that there's 17 **million** -- is that the right number? 17 **million** contracted. So there still remains 10 **million** from an above rail point of view to be contracted.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: I'll follow-up on the issue of work. It's safe only half those 27 **million** tonnes materialize, what's the impact to network regulator return? Do we assume that the balance on unutilized tons gets socialized across the existing backorder of Mara users?

MIKE FRANCZAK : As Pam said, there's two components: the fee and the regulated tariff. The regulated tariff is fully-socialized. With the fee, we do have some securitization against that. Those are commercially

private structures, but we do have some securitization against those. But fundamentally, the regulated fee, the regulated tariff is socialized, and the fees have some recourse.

ANTHONY MOULDER: When you say socialized, it's across the whole Blackwater Mara system, isn't it?

MIKE FRANCZAK : Go ahead, Lana. For one thing, it's not fully decided yet. This is still before and part of UT4 at this point before the QCA. Go ahead, Lana.

LANA STOCKMAN: Yes, absolutely QCA. At the moment, it's been around about 60% of forecast tonnes that should be socialized. But there's another broader issue, which is going to be picked up in the pricing principles of UT4 around how investment has been either socialized or it has a specific standalone tariff.

One of the things that QCA is looking at and this isn't **firm** yet is the timeframe. So if that's just a ramp up issue, they may choose to socialize earlier, or if it's a longer duration, they may choose to have a specific reference tariff. So it's not just whether or not it's socialized isn't just from day one. There's a little bit of a timing aspect there as well. But the number we are looking at is I think it's [50%] is where you start, where socialization makes sense.

ANTHONY MOULDER: So just to clarify that. So existing users of Blackwater and Mara may actually see an increase in their tariffs, if not all the work tonnages materialize?

LANA STOCKMAN: It depends on the QCA. They are going through the analysis like at the very moment in time we've got quite a lot of engagement, and there's a lot of different modeling of different scenarios. And, also, it depends on what they want to do with pricing principles under UT4. So there is a broader issue at play as well. So I don't really want to deduce what the QCA may or may not do at this time.

MIKE FRANCZAK : Well, look, let me just say, there's no doubt we'll have to collectively figure out how to get through 2016 and 2017. It will be an imperfect world. Beyond that, socialization makes sense for everybody.

ANTHONY MOULDER: Just an aside, Mike for -- in terms of the -- you probably have an example of consolidating your railway, your wheels and the equivalent. You've got your competitor also going through a similar situation. Some of these things strike me as a pretty ubiquitous to both of you in that there's not really competitive advantages. It's a technology issue. Is there much conversation to actually where there isn't a difference to actually go and be smart and only have one in New South Wales and one in Queensland?

MIKE FRANCZAK : I guess I would refer to my old stomping grounds. We would call that **coal** production back in North America. So where there was -- there were operating efficiencies, but we could preserve the competitive environment. So we still had regulation there. Then, we would try to go after those opportunities.

Quite frankly, there are a few of those between ourselves and some of the other operators. Some we've been successful with. Others we haven't. And but ultimately the choice of a PN or other operators to invest capital is their decision and their returns. So we'll continue to do what we need to do to make sure we're driving competitive returns for our shareholders, and if we are able to do something smartly with the other guy that benefits our shareholders, we'll do that. But if they have no interest, then we'll move on and do our own thing.

SCOTT KELLY, ANALYST, MORGAN STANLEY : Scott Kelly, Morgan Stanley . Just wanted to talk about capital management. It's obviously something you've brought up in the past and again today. Where does that fit in timing wise in your heads at the moment? Do you believe that growth options like the Pilbara offer a better risk return profile than your own share price at the moment? Does it -- is it because you're going through a CapEx peak? You mentioned maintaining an investment grade credit rating. Are you prepared to let that slip around from where it is?

CLAY MCDONALD: I think timing obviously plays a significant component of that decision-making process. It is something that we have under review all the time. There is a potentially a significant CapEx spend coming down the track. But as Lance has reiterated today, the investment in major growth projects will only happen when a final investment decision is made, and that will be taken at the appropriate point in time. There's no precommitment to any of the major growth projects.

In the absence of that, we maintain the commitment to a BBB plus credit rating in order to ensure that we have the appropriate access both to the size of funding we'll need but obviously the costs as well.

SCOTT KELLY: In short, does that mean capital management is on hold until that decision is made?

CLAY MCDONALD: No. It's actively considered at all times, and we have to try and weigh up those various components of that decision-making process. As we invest in the major growth project, it's anything up to a five-year program of work for us. It's not going to happen on a set day as we've seen with both of the Galilee and with Wiggins **Island**. So we just have to try and manage the best we can in terms of the timing of that.

SCOTT KELLY: Thank you.

CHRIS VAGG : No more questions? If anyone -- we've got no questions online, but if anyone on the line has another question, please do notify. Nathan?

NATHAN **LEAD**, ANALYST, MORGANS HOLDINGS PTY LIMITED: Just back on that question of capital management, you made the statement about maintaining investment grade credit rating. Do you consider dropping that from a BBB plus rating down to a BBB flat or BBB minus to fund some of these projects, or is it always targeting to maintain that BBB plus?

CHRIS VAGG : The current proposal in the current environment is we'll maintain BBB plus.

NATHAN **LEAD**: Just a follow-up question if I can. Could you just outline the differences between in terms of just accounting the differences between your statutory and regulatory accounting for the network businesses?

CHRIS VAGG : (laughter) How long have you got?

NATHAN **LEAD**: Is it quite a lot? I'**m** sort of thinking obviously you've got your ballasts undercutting; you've got the rerailing. Is there other major business?

MIKE FRANCZAK : Yes, Pam will field this one.

PAM BAINS: Sorry, the only difference to ballast undercutting is capitalized from an accounting perspective, not from a regulatory perspective. At the moment, rail renewals are consistent. We are just awaiting a decision from the CTA.

NATHAN **LEAD**: Sorry to ask one more question, but you know you made your workbench in Galilee, and I looked through the presentation and I don't think I see the word Galilee. Is that indicative of your view of where it's going?

LANCE HOCKRIDGE: No. Quite the reverse, in fact. It is more simply indicative of wanting to clarify some of those issues with respect to the West Pilbara. In relation to Galilee, we've completed our agreement with GVK Hancock. There are, as we've indicated at the full year, some conditions precedent before such an agreement can be executed. And those CPUs are being worked through at the moment, and one might -- you've heard of being between a rock and a hard place. In this case, we're between two **billionaires**. So the timing with respect to the clarification of some of those CPs is out of our hands.

There are, however, some **commercial** timings that will crystallize those arrangements likely before the end of the calendar year. So, we remain optimistic that those CPs will be resolved and that we will move forward with that agreement.

In terms of the timing, I think we've been pretty clear in our view that with where on the one hand thermal **coal** prices are at the moment. It's not likely to be any time in the next five minutes that that project proceeds. On the other hand, the fundamentals to go back to the observation that I was making in my presentation this morning is equally as good in that space. When you look at the quality of the **coal** and when you look at the ash, the calorific value, all of those things, there continues to be, as you would expect, a great deal of work around the -- particularly the mine costs and the mine gate costs.

But the reality is that in terms of timeframe, the go-ahead for the Galilee decision about going ahead will be some years down the track to coin a phrase.

Again, a reminder in that context that in terms of the deal that to which I refer with respect to rail and port, we don't need first **coal** through T3 until 2022, 2023 to still make our return profile.

So in summary, the deal is done as between ourselves and GVK. The CPs have to be resolved before that goes anywhere. The fundamentals of the project in terms of on the one hand demand, on the other hand the quality of the **coal**, we continue to be bullish about. But we don't believe that the current price environment is going to be a trigger.

CHRIS VAGG : There's no more questions. We'll wrap it up there. Thanks, everyone, for your attention. We've got lunch outside here. So everyone will still be around, all the EVPs and other senior managers, so

feel free to take the opportunity to ask questions. And for those heading to Rocky, we'll be leaving at 2:00 PM. The bus will be coming to get us at 2:00 PM, so thanks, again, for your time.

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