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AZJ.AX - Full Year 2018 Aurizon Holdings Ltd Earnings Presentation

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PRESENTATION

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Good morning and welcome to the results for financial year 2018 for Aurizon. It won't surprise you, but as usual, Pam and I will go through the presentation that we lodged with the ASX this morning, which is available on our website. We will take your questions with the rest of the executive team who are in the room with me here in Brisbane.

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

So starting with safety. As I have previously highlighted, we are now operating under a revised injury metric and that's expanded to include all contractors and restricted work injuries. While Aurizon's historic safety performance has improved markedly since listing, results have plateaued. We recognized the need to lift the bar on safety.

We've addressed the disappointing decline in our performance early in the financial year by focusing on a newly identified areas of improvement. To support the ongoing development of our strong safety culture, we commenced several improvement initiatives in the year, including streamlining and simplifying our safety management system, bolstering role specific training provided to frontline leaders, and improving organizational learning from safety, health and environmental incidents. A broader program of work is being implemented to continually enhance our safety systems and procedures and to drive improved safety leadership and culture. This work will continue through FY '19, and of course beyond that.

Turning now to Aurizon's vision, purpose and values. Before we get into FY '18 and the performance of the business, I just wanted to remind everyone of the strategy refresh that we presented to the market in June. This includes Aurizon's vision, purpose and values, as shown here again on the slide. As a reminder, the vision is the what -- the inspiration, the market we operate in, and our role. Being first choice is a clear statement to our customers and referring to transport solutions means we're ultimately more than just rail.

The purpose is the why and engages all our employees beyond the common -- behind the common cause and makes clear the importance of regional Australia, as this is where Aurizon operates. And of course, the values are the principles by which we operate, which were deliberately retained from those set a number of years ago. If we achieve this vision, we will be #1 in the market and we'll sustainably grow earnings well into the future.

So moving on to the strategic levers. The next slide again shows the levers available to help achieve this vision, optimize, excel and extend, noting that the majority of people's time, effort and resources are focused on the first 2. Any new idea, any new capital investment or strategic initiative at Aurizon is aligned to these levers to assure delivery of the strategy and achievement of the vision.

And with that we'll move on to the performance of the business in FY '18. But before I talk about FY '18 financial performance, I wanted to provide an update on the key priorities of the company as we've previously done. We are very pleased with the results of our capital management plan, over the last 18 months returning over $1 billion to our investors through dividends and execution of the $300 million buy back during the year. In addition, today we're declaring a final dividend for FY '18 of $0.131, representing a 47% increase compared to the final dividend last year. This is based on a payout ratio of 100% of underlying NPAT for the continuing operations, something that we have maintained for the last 3 years.

Today, we can also confirm that we've achieved our transformation target of $380 million of benefits delivered since FY '16, including the removal of Intermodal's FY '17 losses, which mostly relate to the Interstate business. Although, this represents the achievement of this specific Target, it is not the end of the journey as transformation moves towards the culture of continuous improvement, as emphasized previously in the strategic levers. This will be achieved through continuing to focus on labour and asset productivity and targeted investments in technology.

You'll recall at Investor Day, I outlined 2 major transformation initiatives in Precision Railroading and the restructure of TSP. Precision Railroading is focused on driving precision planning and disciplined delivery to improve our time -- our on-time performance of our services across CQCN. This project commenced in FY '18, with initiatives moving into execution, largely during the second half of the year. Momentum is increasing across the project, which is demonstrated by 17% year-on-year improvement in our on-time performance, which equates to a reduction of around 12 minutes. This value proposition is significant, and as I indicated in June, this initiative is targeted to deliver at least $50 million in financial benefits by FY '21.

The restructure of TSP will focus on reducing headcount, consolidation of our real estate footprint, and transferring functions to coal and bulk where it makes sense to do. It's expected that these initiatives will deliver around $20 million in cost reductions by FY '21. Finding a resolution for the last 2 key priorities of the Intermodal transactions and UT5 is critical and I will provide an update on each shortly.

Turning to the FY '18 highlights. The company delivered a strong financial performance in FY '18 with underlying EBIT of $941 million, comfortably within the guidelines range of $900 million to $960 million. As you can see from the chart, this was driven by a sharp improvement in Bulk earnings, due to benefits from lower net depreciation and the transformation program, which more than offset 6% lower volumes. Pam will go through this in more detail shortly.

In Above Rail volumes were up 7% to 212.4 million tonnes and Network volumes were up 9% to 229.6 million tonnes. Both numbers are a record. But it is worth noting that FY '18 Network volumes would have been an estimated 7 million to 8 million tonnes higher if Network did not have to align its maintenance and operating practices to the UT5 Draft Decision. For all stakeholders in the Queensland supply chain this has been a foregone economic opportunity and one which could have been avoided if the QCA had proposed a more realistic and commercially appropriate position in its Draft Decision. I'll speak more to this matter in my Network comments.

Statutory NPAT increased significantly to $560 million due to the Bulk impairments recorded in the previous year. ROIC improved to 1.6 percentage points to 10.9% and operating ratio was 69.8%. Free cash flow slightly decreased due to the recognition of $98 million of proceeds in the prior year for the sale of Moorebank, which more than offset a 3% increase in cash from operations.

And as already noted FY '18 was a strong year for shareholder returns with a completion of the $300 million buy back and dividends being paid based on a payout ratio of 100% of underlying NPAT for continuing operations. This also includes today's declaration of a final dividend of $0.131, which brings the total dividend for the year to $0.271, an increase of 20%

Turning to the coal business. You should all be familiar with the information here and market conditions have continued to be supportive. As detailed in June, we expect annual growth of around 2% for both thermal and met coal, driven by continued strong demand in Southeast Asia. Steel production in China and India, which are Australia's top met coal export destinations, continue to grow strongly, which in turn, is driving the increased demand for met coal. The average price of hard coking coal increased 7% over the year to USD 204 per tonnne.

For thermal coal, the Newcastle benchmark coal price increased 24% in FY '18 to USD 99 per tonne, primarily driven by increased import demand from China, which is the largest importing nation of thermal coal. And demand remains strong in other Asian markets, including Japan, which is the largest destination for Australian thermal coal exports. The coal team has done a great job with contracting success rate this year, as you can see. Qcoal has already commenced railings, Baralaba and MACH Energy are expected to commence railings this half.

The focus and strategy for the coal business is clear, with an emphasis on improving reliability and investing in technology to safely and efficiently deliver for our customers. They're executing this strategy despite difficult circumstances due to Network's operating changes brought on by the QCA's Draft Decision. However, relationships with at operating level remain positive as the team is focusing on delivering in a strong demand conditions. All customers are currently making positive cash margins and we expect this to continue. The recent contracts we have signed provide the business with a great platform from which it can continue to execute on the strategy.

Turning now to the Network business. Our disappointment with the UT5 Draft Decision the QCA remains, as does our strategy of resolving this situation through multiple pathways. There's been a number of movements on the regulatory front including a paper published by the QCA on maintenance, which is a positive sign. Although we note, there's no actual change yet. However, there's yet to be any additional comments on WACC, which is a critical piece in ensuring Network is adequately compensated for the level of risk inherent in the operation of the asset. Despite what the QCA draft says, it is not the lowest regulated asset in the country. Therefore, we need to ensure the WACC is set appropriately.

Aside from the regulatory process, we're also pursuing commercial and legal paths and we note that the judicial review of the Draft Decision on the basis of apprehended bias has an initial court date of 22nd October. And finally, from an operational perspective, we took the steps of aligning our maintenance and operating practices to the draft given these draft revenue allowances are below where we were operating. This is not ideal, but we had no choice given the retrospective nature of the undertaking.

Turning now to Bulk. The Bulk business has had a great year, as they are seeing the benefits of the turnaround plan in action. You can see on the slide, some of the contracting success and the transformation benefits which is required to take this business to the next level. Success here sees significant rewards for Aurizon and for our customers.

However, the job is not done and there are still challenges, especially with the end of the Cliffs contract in June and the loss of the Graincorp contract which will end in late 2019. As previously noted, next year earnings will be impacted significantly from the end of the iron ore contracts for Cliffs and Mt. Gibson. However, we expect the benefits of the turnaround plan to partly offset some of the lost earnings and continue to grow EBIT in the years beyond.

Clearly, the business needs to focus on growth in the long run and from the Investor Day, you should have the sense that the team is well positioned to capture some of the opportunities that are presenting themselves across a range of commodities that are forecast to grow into the future.

Turning now to an update on the enterprise agreements. 2018 is a year where all Enterprise agreements have either commenced or concluded bargaining, including the Western Australian Rollingstock Maintenance agreement, which was concluded earlier in the year. Some EAs have expired, including the Queensland Staff agreement, and bargaining has been ongoing since August 2017, and where 2 ballots have been voted down by employees. There was some protected industrial action by a small subsection of employees under this agreement, which has now been suspended and bargaining resumed.

The 2 largest EAs in Queensland have commenced bargaining in July and we're proposing to split them into 3 business unit specific EAs, for Coal, Bulk, and Network infrastructure. The objective here is to align wage increases to the market, noting that the these EAs provided a 4% per annum uplift, which is not consistent with the current labour market. In addition, we will also be looking to remove the barriers to productivity and simplify and standardize processes to enable each business unit to be fully accountable for its operation.

And finally, before handing over to Pam, I wanted to make -- provide an update on Intermodal. We executed the closure of the Interstate business on time and ahead of expectations. This allowed the cascading of locomotives to support the growth in the Hunter Valley coal business. The remaining parts of Acacia Ridge and Queensland were to be sold subject to ACCC clearance. On the 19th of July, the ACCC blocked both transactions and commenced proceedings alleging that both transactions would have the effect of substantially lessening competition. The ACCC also alleges Aurizon and Pacific National came to a number of other understandings which the ACCC says, had an illegal anticompetitive purpose or effect.

The ACCC last week sought interlocutory orders from the court, compelling Aurizon to continue to operate the Queensland Intermodal business until the court makes the final determination on the matter. We oppose that, and I understand the court has just made a decision. I've not had the opportunity to review the decision or to discuss it with the general counsel. But when I do, I will update the market accordingly.

Aurizon's one and only objective in these transactions was to sell both businesses for the best commercial outcome within the bounds of the law, as our shareholders would expect. And as we've always said, if the ACCC blocked the transaction for the sale of Queensland Intermodal, we would exit that business, as that represented the next best alternative we currently had before us.

Again, this is what our shareholders would expect rather than continuing to operate a business that loses money. Accordingly, we have today terminated the business sale agreement for the Queensland Intermodal business. Subject to any orders of the court, our intention remains to exit the loss making Queensland Intermodal business as planned, clear the Acacia Ridge transaction and defend the allegations about illegal anticompetitive conduct. We will update the market when the conclusions are known.

And now I'll hand over to Pam.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Thank you, Andrew, and good morning to everyone on the call. As a reminder, the results I will cover today are based on the continuing operations and hence exclude Intermodal, which is classified as a discontinued. I'll provide an update on Intermodal a little later.

FY '18 is a year where we have delivered on our promises. We ended FY '18 with a strong EBIT result at the upper end of the guidance range. As Andrew has outlined, we have achieved our 3 year transformation target of $380 million, finished the year with an operating ratio of 69.8%, and achieved record volumes in both our Coal and Network businesses.

We demonstrated our disciplined approach to capital management with the CapEx spend for FY '18 of $490 million. And cash flow continues to be strong, with free cash flow of $669 million being generated by the continuing operation.

Moving to the detail. Underlying EBIT has increased 6% against prior year, with reduced operating costs and depreciation, offset in part by a reduction in revenue. Revenue decreased marginally by $30 million. A key driver of the performance against prior year is the UT4 one-off benefits not repeated in FY '18, and lower Bulk volumes. This is partly offset by increased volumes in coal from the prior period impact of Cyclone Debbie and new contract such as AGL, which commenced railing in July 2017.

Operating cost reduced $44 million, largely driven by $86 million in transformation benefits across the business. This is partly offset by range of cost increases with the major ones being cost escalation, redundancy cost and cost from increased volumes in coal.

There was a large improvement in statutory EBIT of $842 million as we took $760 million of items below the line last year which was principally asset impairments in Bulk. There have been a few adjustments below the line this year and we'll provide -- we provide a reconciliation on Slide 38. The adjustments include, firstly, contract exit net benefit of $35 million. This represents the recognition of the Cliffs termination fee of $66 million, partly offset by asset impairments due to the contract cessation, redundancy and other closure costs totaling $32 million.

Western Australia CGU review of $32 million. A review of the West Australia CGU has resulted in a further impairment of assets due to Cliffs ceasing 3 years earlier than expected. And $23 million positive impact for the partial unwind of the FY '17 provision for train crew redundancy. Due to operational requirements and higher coal demand, the transition to a more flexible labour workforce in the Central Queensland Coal Network has not been implemented at this time.

Underlying net profit after tax has increased 10% with improved EBIT and lower net financing costs, offset in part by higher income tax expense. The board has declared a final dividend of $0.131 per share, franked to 60%. And this equates to a payout of 100% of underlying net profit after tax. This reflects an increase of 47% against the FY '17 final dividend and is a 20% increase on the total FY '17 dividend.

Moving to Coal. EBIT increased $9 million to $429 million. Volumes have increased both in the Central Queensland Coal Network and New South Wales, reflecting the prior year impact of Cyclone Debbie, the commencement of new contracts in FY '18, including AGL, and high levels of general customer demand, driven by continued strength in coal prices. This has been offset, in part, by lower availability in the CQCN in the second half due to Network implementing revised maintenance and operating practices to align with the UT5 Draft Decision, and some production issues experienced by specific customers in both New South Wales and Queensland. Revenue quality has reduced with improved contract utilization, which increased 4 percentage points, reflecting the impact of Cyclone Debbie in the prior year.

Coal delivered $47 million in transformation during the year. This was offset by cost to meet additional volumes of $32 million, wages and consumable escalation of $16 million, higher maintenance cost to improve fleet's reliability in CQCN of $6 million and redundancy and other cost of $16 million. As expected, depreciation increased in the second half with the transfer of Intermodal locomotives and the commissioning of new wagons in the Hunter Valley. As a result, we expect depreciation to increase in FY '19, in line with the increase in rolling stock.

So, overall, a positive result from Coal, from increased volumes and transformation, offset in part by higher costs from installing capacity for growth tonnes and reinstating rolling stock in CQCN. As we noted at the Investor Day in June, we expect maintenance cost to remain higher, both because of increased number of wagons and locos, but also due to the additional works required to restore older rolling stock into service. This will keep EBIT flat on higher volumes and revenue. However, we expect to see the benefits of this investment and transformation in FY '20 through an improved EBIT performance.

Moving to Bulk. Bulk's underlying EBIT improved $64 million to $50 million due to a combination of transformation, cost reductions and lower depreciation from the impairments in FY '17. This is partly offset by 6% lower volumes, 13% in NTK terms. In Bulk East, the Mt Isa Freighter ceased operations in January 2017 and there were lower grain volumes across Queensland and New South Wales in FY '18 due to dry weather conditions. In Western Australia, we have seen lower iron ore volumes primarily related to Cliffs.

Bulk revenue per NTK increased 10% with lower contract utilization and the commencement of new contracts in Bulk East. Transformation in Bulk total $32 million in the year. Depreciation decreased by $48 million with impairments from FY '17 which has been partly offset by a $10 million write-off of capital expenditure included in operating costs to give a net depreciation benefit of $38 million. Other, includes cost savings from the cessation of the Mt Isa Freighter of $15 million, offset by other cost increases including labor and consumables escalation and redundancy costs of $11 million.

So, overall, an excellent result for Bulk that demonstrates the work that Bulk team are executing on the turnaround. However, as we noted at the Investor Day, the cessation of Cliffs and Mt Gibson iron ore contracts will impact EBIT by approximately $50 million in FY '19. But transformation benefits are expected to deliver a small profit next year and continue to drive EBIT growth in the years beyond.

Turning to Network. The result is within guidance with transitional tariffs in place for FY '18. EBIT is flat against prior year at $481 million. Volumes were strong for the year at 229.6 million tonnes which is an increase of 9%. Total revenue has decreased $43 million. This is due to the UT4 one-off adjustments from the prior year of $90 million and also the $22 million revenue cap that was paid to customers in FY '18. This has been offset in part by $53 million volume uplift given Cyclone Debbie that occurred in FY '17 and the recovery of flood cost of $18 million.

Total costs, including depreciation, have improved by $43 million with reduced consumable costs of $45 million which were represents the prior period impact for the $26 million one of corporate cost adjustment for UT4 and reduced maintenance cost which were impacted by Cyclone Debbie in FY '17. Other expenses decreased $17 million mainly from prior period impacts of inventory obsolescence, asset disposals and write-offs. This was offset by an $11 million increase in labour and fuel and energy costs impacted by inflation and higher energy costs from rising wholesale prices, partly offset by lower connection expenses with the removal of 3 feeder stations.

Depreciation increased $8 million, mainly from increased ballast undercutting and the network asset management system commissioning. In relation to FY '19 Andrew will cover this in more detail shortly. But at this stage transitional tariffs have only been approved for the first half of '19, pending the final UT5 decision.

Moving to Intermodal, which as a reminder is treated as a discontinued operation. As I discussed at the half year, Intermodal Interstate was closed on time and ahead of expectations in December 2017. Against prior year, the EBIT loss has improved to $24 million which mainly reflects the closure of the Interstate business, but also lower operating costs and lower depreciation from the impairments in FY '17.

We've also recycled the locomotives from our Interstate business to the Hunter Valley, where they will be utilized for growth volumes, including the new MACH Energy contract. Queensland Intermodal lost $14 million EBIT in FY '17 and has improved principally due to lower depreciation from prior year impairments, but still recorded a loss in FY '18. Therefore, the returns remain negative and would only deteriorate further if the business is retained, given the need to invest further capital. Significant costs of $75 million have been recognized in FY '18 which relate to the closure of the Interstate business.

Moving to capital expenditure. Capital expenditure for FY '18 total $490 million within the guidance range we provided at Investor Day. Growth capital of $47 million, largely relates to the purchase of new coal wagons in support of growth tonnes in the Hunter Valley. As I highlighted at Investor Day, we expect capital for FY '19 to be in the range of $480 million to $520 million. Network capital has been reduced, and this is forecast to be offset by an increase in capital for the Coal business with the ramp up of overhaul programs, the further progression of technology programs and the upgrade of the wagon shop Jilalan. We are now starting work to look into detail around the capital spend for FY '20 noting that we will continue to review Network capital if UT5 still remains on resolved.

Cash flow. Free cash flow for the continuing operation has decreased by 5%, primarily due to the sale of Moorebank that took place in the prior year for $98 million. This has been offset in part by a 3% improvement in net cash from operations, largely due to lower taxes and interest paid. In terms of the first half of '19, we will see the benefit of the receipts of the Cliffs terminations fee of $66 million. This will be offset, in part, by the payment of the remainder of closure costs for the Intermodal Interstate business.

Finally, before I hand back to Andrew, a quick update on funding. The interest expense has reduced in FY '18 due to the replacement of maturing hedges at lower interest rates in June '17. The weighted average interest cost on group on drawn debt was 4.5% a 50 basis point improvement against the prior year. In November 2017, we repriced and extended an existing $525 million bank facility with maturity extended to FY '23 and tranche size reduced slightly to $500 million. In June, we also reduced the corporate bank debt facility size by $200 million, given the reduced funding requirements. The FY '20 and '21 revolving bank debt facility for Aurizon finance -- will be financed during FY '19.

On capital allocation, you will recall that Aurizon prioritizes capital firstly to non-growth capital, that is our sustaining and transformation projects. Secondly to dividends and thirdly surplus capital will be returned to shareholders or invested in growth projects only where these projects maximize shareholder value.

As we have discussed previously, under the UT5 Draft Decision, Network does not currently meet Moody's credit metrics, but S&P metrics are satisfied due to lower thresholds and differing views on coal risk.

On dividend, given the final UT5 decision is likely to see Aurizon's earnings reduced, we did discuss whether the dividend should be smoothed lower to reflect this future state. However, this would be inconsistent with previous circumstances such as Cyclone Debbie last year, where earnings fell and the dividend was not adjusted upwards, given the recovery of the lost revenue in the future.

In addition, we wanted to ensure shareholders were rewarded for the company's performance this year through higher dividend and it is consistent with our capital allocation strategy of prioritizing dividends after non-growth CapEx. Our policy is based on paying out a percentage of net profit after tax. Therefore, dividends will mirror the underlying earnings if there is volatility.

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

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Thanks Pam. Turning now to the financial outlook for FY '19. Providing earnings guidance is challenging given with no certainty at this point of the final UT5 outcome. As we said at the Investor Day, the potential range of Network EBIT is $130 million from the Draft Decision at the bottom to a full 12 months of transitional tariffs at the top. Therefore, today, we're providing EBIT guidance for the Above Rail business only.

For Above Rail, which is the total of Coal, Bulk and Other, we expect a range of $390 million to $430 million for underlying EBIT compared to $460 million in FY '18. And the key assumptions are as follows. For Coal, it assumes a volume of 215 million to 225 million tonnes. With this volume growth to be offset by increased maintenance and operating costs as we foreshadowed in June.

For Bulk, it includes the $50 million impact of the end of both Cliffs and Mt Gibson iron ore contracts in the year. We also assume no major weather impacts, the continued delivery of transformation benefits for the business and we exclude redundancy costs. We expect the Above Rail business to grow EBIT in FY '20 and beyond, principally from further volume growth and transformation benefits

And finally, before moving on to some questions, I wanted to provide you with a summary of what you heard and where Aurizon is. FY '18 has been a strong year where we have delivered 6% EBIT growth and delivered shareholder returns through a dividend and share buyback. We've achieved a our 3 year $380 million transformation target, which is a great result, but also sets us up for the future. There are earnings headwinds in FY '19 with the cessation of iron ore contracts in Bulk and the additional investment in Coal to enhanced fleet reliability. However, we expect coal volume growth and continuing transformation will enable earnings growth for Above Rail from FY '20.

On UT5, there was not going to be a quick fix and it will take time as we work through our strategy to achieve a better outcome than the Draft Decision across the regulatory, commercial and legal pathways.

With Intermodal we made a decision to exit this loss making business. We've successfully closed the Interstate business and executed sale transactions to sell Queensland Intermodal and Acacia Ridge Terminal, which were both subject to regulatory approval. Our intent was to close the Intermodal business if we did not receive ACCC approval. Subject to any orders of the court, our intention remains to exit the loss making Queensland Intermodal business as planned.

Over the past 18 months, we've demonstrated a clear pattern of behavior, identify the issue, develop the solution and then execute. This pattern will continue and the resolution of UT5 and Intermodal will enable us to execute on our plans under the new strategic framework I outlined at Investor Day.

Thank you and I'll now hand over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from Simon Mitchell from UBS Investments Bank.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

Just couple of questions in the wake of the ACCC decision on Intermodal. Can you just go through what is actually required to exit the Queensland Intermodal business in terms of cost. And also just intentions with Acacia Ridge, given that asset doesn't really fit within the profile of a group any longer.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Okay. Simon I'll get Pam to run through that question and some of the numbers.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

So in terms of closure costs we highlighted about $30 million to $40 million in terms of closure. So it's not too dissimilar in terms of the process as we went through with the Interstate business. Sorry the first part of your question or the second part of your question.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

Okay. That was first part of the question. Second part was Acacia Ridge.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Acacia Ridge

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

So we've said that we're exiting the business and we've actually established the transactions and we'll continue to pursue those transactions to -- subject, obviously, to sort of orders of the court, and that's I think all I can say at this moment in time.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

So do I summarize that to be -- that you intend to divest Acacia Ridge?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

That's absolutely the case, yes. And that nothing has changed from that point of view.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

Okay. And then my second question relates to return on capital target. Just looking at the remuneration report, the target is return the business that used to be 10.5% to 11.5% and is now 9% to 10%, is that just reflective of where you see things given the UT5 situation.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Look, you've got it in one. I don't think I could actually make the response any longer by saying anything other than, yes, it primarily reflects our view, a UT5 impact.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

Okay. And just lastly from me, the Coal revenue in the second half, there was certainly an impact on revenue from quality. I think it was about $25 million dollars as a negative item in the second half and I think revenue per NTK, if you exclude access, was down about 4% in the second half. Can you just touch on that in bit more detail and if that's a trend that we should extrapolate into FY '19 given the new contracts that are ramping up.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Simon I will get Ed to answer those questions. Thanks Ed.

Ed McKeiver - *Aurizon Holdings Limited - Group Executive of Coal*

Hi, Simon. No, that's more related to the UT5 impact as Andrew had said. The Network's estimated impact is between 7 million and 8 million tonnes in the CQCN. Our share of that's about 2/3 or about 5 million tonnes. If you would -- if you were to work out our sort of average revenue per tonne based on dividing our total revenue by in our 4E report we report by total volume, we get about $6 per tonne and that's where you -- so the impact of those Network constraints is broadly in that sort of $20 million to $30 million range over the second half.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

So the impact is entirely coming through in the usage charge component of revenue?

Ed McKeiver - *Aurizon Holdings Limited - Group Executive of Coal*

Not entirely in the usage charge. There's other impacts in there as well.

Simon A. Mitchell - *UBS Investment Bank, Research Division - MD and Head of Research for Australia and New Zealand*

Okay. And just given the impact of the what has been dominant second half, should we be extrapolating something into FY '19?

Ed McKeiver - *Aurizon Holdings Limited - Group Executive of Coal*

Well, -- yes there is -- depending on the resolution of the UT5, yes that's right. So far we've had the constant supply chain constraints continue for the first quarter and remains to be seen how long they go for. We've also had, of course, increased contract utilization as well, Simon, as you picked up.

Operator: Your next question comes from the Anthony Moulder from CLSA.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Just following on from that question. That 3.7% decline in haulage revenue per NTK. So I hear earlier through Pam's comments that a lot of that is as a consequence of that revenue mix from Cyclone Debbie impact from the pcp. Is that a better way to think of that decline?

Ed McKeiver - *Aurizon Holdings Limited - Group Executive of Coal*

Yes, that's a good way to think of it Anthony. Obviously, we had we had the revenue flowing from the capacity charge during the Cyclone Debbie period. And...

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

So going forward, did obviously flat earnings coal expected through FY '19, that's more of a higher costs than necessarily ongoing impact from the revenue line.

Ed McKeiver - *Aurizon Holdings Limited - Group Executive of Coal*

Yes, a little bit of both. But, yes, not necessarily higher costs, but similar cost profile to we experienced in FY '18. We've got increased maintenance overhauls due -- cyclical overhauls due. We've still got some growth costs in the plan for FY '19 as we grow the volumes over the FY '18 and into the FY '19 year.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Right. Thank you. I guess staying on guidance, if you look at obviously Coal, flat; Bulk, down from $50 million from Cliffs and Mt Gibson. And then we get to -- there was a Bulk write-down of $10 million in fiscal '18, is it safe to assume that we're done with write-downs through the Bulk business into '19?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

So Pam I'll get you to answer those.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yes. So you're right. In terms of this year's numbers, so you've got Bulk of $50 million, $430 million Coal, less other of $20 million, which gives $460 million, that's the equivalent of the $430 million guidance we provide. And, yes, in terms of Bulk, we do we do not have any plan for further impairments.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

That's a good thing. And redundancies, obviously, excluded from guidance but were a $17 million the dollar drag in fiscal '18. I guess, too early to provide any guidance so to what levels of redundancy payments you would expect in '19?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yeah, at this stage it is and we do have a large transformation program working through into FY '19. And generally speaking, if the redundancy costs have been significant, we've put them below the line. Otherwise, we've taken them within the -- above the line within the numbers. So we'll provide further detail as we as we now work through the transformation.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Okay. Thank you. And I guess the unanswerable question UT5 timing. Obviously, transitional tariffs through the end of this calendar year. But given that there is this judicial review from late October, is it getting increasingly likely that an outcome or transitional tariffs will continue in the second half fiscal '19?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Anthony, I might get Michael to actually just talk through his thoughts in that area.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Thanks Andrew. I think it does depend on what the outcome of the judicial review proceedings are. I mean, we would otherwise expect a final decision before the end of the calendar year and then obviously that would apply for the first half of FY '19. But depending on what the outcome of those proceedings are, it could impact the continuation of transitional tariffs through the rest of FY '19, so little hard to tell.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Sure. And then sort of the judicial review could be fairly quick and making a determination would it not?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

We would expect so, but it depends on what the judge's decision happens to be as to the remedies that are available and what would happen post that decision as to whether you then have a final implementable -- final decision or you continue on with transitional tariffs because of some other remedy that is determined.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Okay. And lastly, I guess, we're seeing Commonwealth Bank changed its classification of the WICET debt in its latest result. Can you give us any update as to how you think about VRP, but also any plans for further restructuring of WICET results?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Pam, I might just get you to cover the WIRP question and I will deal with WICET.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yes. So in relation to WIRP, there's 2 components which is the regulatory component and then the WIRP fee. Obviously, as you well know the WIRP fee is before the court, so probably no further comments can be made at this stage. And with the regulatory component, the bulk -- in the QCA's Draft Decision, the bulk of the WIRP spend has gone back into the RAB. So assuming the final remains the same, there should be no impact there.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

And, look, as far as WICET goes -- considered there is a industry supply chain issue there that is still yet to be solved. That provides a broad opportunity. But I do note a lot of commentary and press about banks and amending and extending banking facilities, but I'm not really in any position to provide any insight into what's actually happening.

Operator

Your next question comes from Macquarie Group.

Ian Myles - *Macquarie Research - Analyst*

You mentioned in your other expenses the UT4 adjustment and I note it's also sitting in the Network business. Can you just run through what the impact was this year in the 2 different businesses? And what actually occurs next year or is it sort of like a one-off element?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Ian, you're correct, it's a one-off element. The $26 million was a wash-up similar to the $90 million for the corporate cost recovery which related to prior periods, and that was washed up. And so basically it affects the other segment as well as the Network segment. So that should disappear next year. So it's just a movement from this year to last year.

Ian Myles - *Macquarie Research - Analyst*

So is that $10 million in the Network business, about $15 million in the other segment?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

No, it's the $26 million of the corporate cost adjustment that I'm referring to.

Ian Myles - *Macquarie Research - Analyst*

Okay. Okay, then. The other one is, just on the Bulk, and the -- you took a $10 million hit in the expense line for CapEx which couldn't be depreciated. Do you have any more expenses or CapEx expenditure like that going forward or is it all now -- that would go -- be capitalized and depreciated?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Pam, could you answer that?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yes. So technically speaking, Bulk east is still loss making, obviously you look at Bulk as a whole. So it's been written down to fair value, therefore all sustaining capital will need to be expensed until the business is sufficiently profitable. And as Clay talked about at Investor Day, there's a variety of initiatives in progress to look at growing the top line in Bulk east.

Ian Myles - *Macquarie Research - Analyst*

So we should probably interpret that as east will be just expensing all CapEx going at the moment?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Correct.

Ian Myles - *Macquarie Research - Analyst*

Okay. That's great. The -- one final one is, the payment from Pacific National, which for the deposit, was that recorded this year -- FY '18 or is that recorded in FY '19.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

The $45 million we received, $35 million will be retained and it has been recorded in the year.

Ian Myles - *Macquarie Research - Analyst*

Okay. Already gone?

Operator

Your next question comes from Paul Butler from Credit Suisse.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

Can I just start with Network, obviously with UT5. You've said that in the half, the coal volumes were 7 million to 8 million lower due to the maintenance processes being changed. What do you anticipate for the current half? How much of an impact are those maintenance activities going to have for the current half?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Michael, I might get you to talk through that impact.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Yes, thanks Andrew. We would expect them to have a 10 million tonne impact for the half -- this half and we've anticipated 20 million tonnes per annum, so half year would be 10. The reason for this 7 million to 8 million, just to be clear, is that we didn't start the implementation of the change in operating practices until the middle of February this year, and therefore the 7 million to 8 million reflects 4.5 months.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

Okay. And how are your discussions going with customers in relation to UT5? Is there more headway being made there or are you waiting for the court case to be heard?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

No. We continue to have discussions with a variety of customers, looking for options to resolve the issues and to deliver an improved outcome for the whole of the supply chain. I expect those discussions will continue.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

And are they getting more progressive or no change or...?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

I can't really discuss that in detail. But, no real change. We continue to expect to align our practices with the Draft Decision at this stage.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

Okay. And if I could ask you about the Intermodal deal, and Acacia Ridge. Originally the sale price was $220 million, you've now terminated the sale agreement for the Intermodal business. How much are you getting for Acacia Ridge?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Pam, can I get you to go through that, please?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Sure. So that's $225 million, because we did have an additional $5 million with the number we talked through, Acacia Ridge is approximately $205 million of that, $35 million of which we have received and then Queensland Intermodal was $20 million, which we'll not receive.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

Okay. So the $35 million related to Acacia Ridge not to the Intermodal business?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

It was the amount we received upfront, the $45 million.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

Okay. And could I just ask, on the cost benefit that you had for the Network business of $43 million. Could you just run through what the key factors there?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Keep going Pam.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

No problem. So there's-- the $26 million are the UT4 corporate cost adjustment, which was a one-off in the prior year. We also had reduced maintenance cost, because in the prior year we had Cyclone Debbie. In the prior year we also had expensed -- sorry, written off some asset disposals, some write-offs and obsolescence of $17 million in other expenses, and offsetting against that we had higher labor CPI, fuel and energy costs, which were higher in this year. So those areas taken together net off to the $45 million.

Paul Butler - *Crédit Suisse AG, Research Division - Director*

Okay, thank you very much.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

No problem.

Operator

Your next question comes from Scott Ryall from Rimor Equity Research.

Scott Ryall

I was wondering maybe if Michael or maybe if Pam, if you can talk to any of the cost savings delivered by your change in operational process within the Network business please. There's - there's a few comments around how your operating cost went down in the last year, but I can't see any comments basically on that.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Okay. Scott, I will get Michael to run through those.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Yes, thanks Scott for the question. I guess, what I can say is that it's always hard to tell what the operating cost because of differences in scope between one half of the year and another half of the year. But what I can say is that we have now -- our maintenance costs are aligned to the Draft Decision allowances and the unit rates that we've achieved over our key components of maintenance are now lower than what they were before because of the changes in operating practices, the improved efficiency.

Scott Ryall

Okay, all right. And do you think your maintenance cost are in line with what the QCA have allowed, is that the same?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Yes.

Scott Ryall

Yes. Okay.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

And under the current operating practices, that's right.

Scott Ryall

Yes. All right. And then I had a question probably for Andrew on STIs. The first one is really -- hopefully really simple. You had a 75% increase in rail safety process, which was part of the safety STI. Is that an improvement or a decline sorry, the wording in the target is different to what the wording in the outcome is?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

I might actually get Tina to -- Tina Thomas is here and I might get Tina to answer that if that's okay.

Tina Thomas - *Group Executive Corporate*

So, I'm assuming the question is around rail process safety outcome, is that correct?

Scott Ryall

Yeah, rail process safety outcome, yes.

Tina Thomas - *Group Executive Corporate*

Yes, so unfortunately there's been a decline in our performance through FY '18.

Scott Ryall

Okay. And so 75% then sounds like a pretty big number to me, can you just describe what has caused that, is it signals passed at danger or it actual accident rate?

Tina Thomas - *Group Executive Corporate*

Yes, they're combination of -- there are 2 measures within rail process safety is SPAD, so Signals Passed At Dangers and then the derailment or collisions. The majority of that was SPADs throughout FY '18 and some of the things we're doing to improve our performance in SPADs is the coming -- throughout '18 and in the coming years has been to introduce a standard way of driving for our drivers so that across the nation it's consistent. We've refreshed training with our drivers to ensure there's clarity around those standards, and we're looking to see improvements during 2019.

Scott Ryall

Okay. Great. Thank you. And then maybe on the enterprise transformation number, you had target of $80 million, and an outcome of $86 million. Am I correct in terms of reconciling that with $133.6 million [inadudible], that the difference is the continuing operation versus total?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Pam, I might get you to answer that. Thanks.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yes. So the $86 million, if you recall, of the original $380 million target, $120 related to the year. And we highlighted last year that part of that would be achieved through the Interstate Intermodal closure, i.e. removal of losses of which Interstate was the major part of it. So that has been removed. And part of that $133 million relates to $86 million and the remainder being the removal of losses for the Interstate business.

Scott Ryall

So within what was actually measured as an STI, am I correct to say there is no inclusion of anything related to the discontinued businesses?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Correct. To the extent that the measure is on what we were targeting $80 million in the continuing business.

Scott Ryall

Yes. Okay. But none was to do with the sale process. And then on EBIT, you had a target of $931 million which is a $47 million increase relative to fiscal '17. Your delivery was obviously ahead of that $40 million which was reduced depreciation and amortization, mostly as Andrew said in his prepared remarks, mostly due to Bulk business and that $500 million write down taken last year. And is that obviously is up to the Remuneration Committee Chair I would have thought. But is that -- is the target for EBIT do you see that a decent target given most of the improvement is due to the impairment?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Scott, if you want to get into a discussion about that, you really -- it is really a matter for the board to have that discussion.

Scott Ryall

Okay. I'll leave it on that. And then you mentioned at Investor Day Andrew in terms of the reshaping of STI for '19 that it was heavy on EBIT because transformation would not be in existence for fiscal '19. Rightly so you've highlighted the uncertainty around what would be able to report on Network due to matters that are somewhat outside your control. And how would the board measure EBIT for the purpose of the STI or how have the targets been set so far?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Tina, do you want to give some insight into that discussion?

Tina Thomas - *Group Executive Corporate*

Yes, so to clarify the EBIT measures in our '19 scorecard would be at the enterprise level as well as the individual EBIT for Coal and Bulk business units. At this stage we're using an assumption around the Network business unit and then that flows through to the enterprise EBIT.

Scott Ryall

Okay. And presumably, the assumption would be just changed relative to what that outcome on UT5 is?

Tina Thomas - *Group Executive Corporate*

That is correct.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Thanks Scott.

Operator

Your next questions comes from Owen Birrell from Goldman Sachs.

Owen Birrell - *Goldman Sachs Group Inc., Research Division - Metals and Mining Company Analyst*

Look, I just wanted -- 2 questions on UT5. You made clear the commercial proposals that you're putting forward to customers and the QCA. Can you give us a bit of colour around those commercial proposals and how they differ materially from the QCA's view?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Okay. Michael, I might let you talk through whatever you can in response to that question.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Yes. I think, I mean we've talked to customers about a couple of options in relation to creating an opportunity to have discussions around a outcome for UT5 that is beneficial to the whole supply chain. One of those was to offer to cease our operating and maintenance practice changes for a 10 week period. We also looked at ceasing those practices over a longer period if we had some certainty of revenue around transitional tariffs. Neither of those options were accepted by industry. So we're still talking about ways we can actually create an environment where we can have more fulsome discussions around options to resolve the UT5 issue. That's probably about as far as I can go.

Owen Birrell - *Goldman Sachs Group Inc., Research Division - Metals and Mining Company Analyst*

It sounds like that that there's some sort of deal with the customers is likely to be the best possible outcome. But from what you saying it doesn't sound like that's likely at this point.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Look, I think, our approach has always been that is having an agreed solution with customers will deliver more than likely the best outcome for the whole of the supply chain which is what we're interested in. Whether we get there or not, will be something we'll see over time.

Owen Birrell - *Goldman Sachs Group Inc., Research Division - Metals and Mining Company Analyst*

If we do get an outcome with the customers and the QCA chooses to accept that, does that end the judicial review process or is it likely to continue?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Look, it will depend on what that outcome is and how it plays out, I think, timing wise and other.

Owen Birrell - *Goldman Sachs Group Inc., Research Division - Metals and Mining Company Analyst*

And can I ask on UT6, the QCA is obviously put the process there and made some pretty strong statements around delivery timeframes. I'm just wondering when your first submission is due and just to get a gauge of whether you've got sufficient internal resources to actually be able to deliver on that timeframe?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Well I think with UT6, I mean there hasn't been any initial undertaking notice or anything else issued to us, so timeframes are still uncertain. Obviously, you would hope that the process would complete before the start of the regulatory period, which is one of the issues that, I think, industry and ourselves have had. We certainly will always make sure that we've got all the resources we require internal and external to deliver the best outcome for the business, so I don't see that as being an issue whenever the UT6 process starts.

Operator

Your next question comes from Rob Koh from Morgan Stanley.

Robert Koh - *Morgan Stanley, Research Division - VP*

So I guess another couple of questions on Network and UT5. Can I just -- remind us the process for applying for transitional tariffs. Let's say if you weren't unable to get the resolution that you want by the end of the year, and then you apply to the QCA for transitional tariffs, is that largely a mechanistic or is there any argy-bargy over that?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Michael you are on a roll, keep going.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Thanks for the question. Look, it's -- transitional tariffs, we put a submission forward for transitional tariffs. The QCA then asks or go out to consultation on it. Traditionally those tariffs have been accepted by industry and we generally roll forward. But I wouldn't call it exactly mechanistic, but that's tended to be the approach that's been adopted.

Robert Koh - *Morgan Stanley, Research Division - VP*

Yes. Okay. Thank you. And then just dwelling into 2 of the issues that I guess are under discussion from Network. One of them is a request to consider a change of averaging period. So I guess we should be interpreting that as reprinting the risk free rate. Can you just kind of remind us on why you think that's a good idea for the QCA to approve that one.

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Yes, sure. Well, I think as you may be aware, generally regulators across the country have adopted a process of determining the risk free rate at a time close to their final decision when the final decision occurs past the start of the regulatory period. That's certainly what the AER have traditionally done. And so we would hope that the QCA adopt a practice that is consistent with regulatory practices adopted across Australia and that's why we put in that submission.

Robert Koh - *Morgan Stanley, Research Division - VP*

Yes, okay. That makes sense. And then finally on the on the maintenance practices which flows through to that volume reduction of 20 million tonnes a year. So the QCA's paper on that matter suggested that they were minded to accept the revised proposal. If they did accept just that one aspect does that mean that the Network capacity restrictions go away or is that more of the big picture question?

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Yes. No, it's a big picture question. I think as I indicated at the Investor Day, there is a very strong interdependency and into relationship between maintenance, the amount of capital you spend, operating expenses and the operating practices that you employ. And therefore, if we were to receive and there's no certainty around that, a higher maintenance allowance doesn't necessarily translate into an outcome which would be acceptable and reflect the costs across the business. And therefore we would obviously look to assess what we needed to do within the business to meet the overall maximum allowable revenue that we were receiving.

Robert Koh - *Morgan Stanley, Research Division - VP*

Okay, that's clear. Thank you. So last question and I guess it's a question for Andrew and/or Pam. So I know that the payout ratio is now set at kind of 70% to 100% -- and obviously it's a matter for the board at the end of the day. But are you able to give us some sense of what kind of drivers would take us down towards 70% or take us up to 100%.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Yes, sure. Pam, do you want to run through some of that.

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yes, I think, you're correct in your comment, it is a matter for board. But our policy is paying on -- paying out a percentage of net profit after tax. Obviously that may decrease, but we will assess that and the next time we'll review is post the UT5 decision, see what the response is from the rating agencies and think about it at that point in time.

Operator

Your next question comes from Jakob Cakarnis from Citi.

Jakob Cakarnis - *Citigroup Inc, Research Division - Associate*

I just wanted to get some clarity around the coal volume outlook. Can you just let me know whether or not that assumes rolling forward the current maintenance disruption? And if it does, are there any changes expected once the UT5 decisions is handed down. I just want to understand some of the variability around the volume please for the outlook.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Sure. Ed do you want to deal with that?

Ed McKeiver - *Aurizon Holdings Limited - Group Executive of Coal*

Yes, I presume, you're talking about the above rail volume outlook rather than -- for us that's the -- that certainly takes it into account that we've got a range on it and we think the impacts are going to be between that range so 215 tonnes to 225 tonnes. So a quick resolution to UT5, acknowledging we've had a quarter of impact, would lead us towards the upper end of the guidance and if it was protracted and stayed with -- throughout FY '19, would be at the lower end.

Jakob Cakarnis - *Citigroup Inc, Research Division - Associate*

Okay, thanks for that. Pam, just quickly, just picking up on the dividend again. I know that you said that you'll review once you take the UT5 decision is handed down. Can you just let me know whether or not you are still thinking about this 100% payout. So you said you've look forward or look through any short term disruption. Do you think that that would be the plan moving forward on a capital management basis?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

It is a matter for the board. So I can't really give you an answer one way or the other, but we will obviously review once we see the decision and the response from the rating agencies.

Operator

Your next question comes from Nathan Lead from Morgans Financial.

Nathan Lead - *CIMB Research - Analyst*

Just a couple of quick questions. So first is following on the capital allocation framework, I mean you're at 42% gearing now, targeting 40%. Should we be just expecting that all your free cash flow after dividends, it goes to debt pay down now. Just to try and improve those credit metrics?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Again, Nathan, I think as per our last response, we will review and provide further update once we know both of those responses. Obviously UT5 is a material impact on the business.

Nathan Lead - *CIMB Research - Analyst*

Okay. And just one quick one, just Forrestfield terminal, I remember when you first announced the sale of Intermodal and exit from Intermodal. That was one of the things you're going to sort of looked to sell down the track. Where is that at the moment?

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Mike, do you want to just take, dropping on...

Michael Robert Riches - *Aurizon Holdings Limited - Group Executive of Network*

Nathan, we ran a process in parallel with Intermodal and we're not comfortable with what the market was offering us, so we stopped the process at that point to explore with other parties, other options. We continue to explore that, to try and get the highest value outcome for the company as a whole and taking account of the Bulk business in the area.

Nathan Lead - *CIMB Research - Analyst*

What's the book value of that I remember you saying that [$25 million], does that sound about right?

Pam Bains - *Aurizon Holdings Limited - CFO & Group Executive of Strategy*

Yes, I think that if you just give me a moment. It's $23 million.

Operator

I'll now hand back to Andrew for closing remarks.

Andrew T. Harding - *Aurizon Holdings Limited - MD, CEO & Director*

Well, thank you all for joining us today at the results briefing. I appreciated your attendance and your insightful questions. Thank you very much.